

# Territorial Cohesion in Europe

For the 70<sup>th</sup> Anniversary of the  
Transdanubian Research Institute



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## FOREWORD

The book that you hold in your hand contains the papers of an International Scientific conference which was organised for the 70<sup>th</sup> anniversary of the Foundation of the Transdanubian Research Institute, the predecessor of what is now officially known as the Transdanubian Research Department. The “idea” of the conference was actually formulated decades ago, since in the Transdanubian Research Institute the celebration of anniversaries was and remains a tradition. The current anniversary, however, is crucial for several reasons. Both external and internal factors indicate that the conference in Pécs on the 27<sup>th</sup> and 28<sup>th</sup> of June 2013 will not simply be a statement of the state of art but also a milestone in the life of the organisation.

We are facing serious challenges. Historically speaking, the institute and its staff have always been managing transformations of a systemic and institutional nature. We are, in fact, a study in institutional complexity. TRI was for a number of years linked to the Centre for Regional Studies (CRS), a research organisation founded in response to the growing importance of the field within the Hungarian Academy of Sciences (HAS). Since the merger in 2012 of CRS with the Institute for Economic Research and Institute for World Economics, TRI has now become a department within the new HAS Centre for Economic and Regional Studies. We as yet do not know what the outcomes of this merger will mean for our work and internal responses to the new situation will be on the future agenda. In addition, the consequences of the global financial crisis that began in 2008 have deeply affected Hungary and those concerned with research and development, such as our institute and its staff. Models of R+D financing are changing while higher education and the financing of the Hungarian Academy of Sciences are being reformed. These changes will have serious impacts on the functioning of our department which obtains a full half of its resources from public funds.

The area where our institute is located, the region of South-Transdanubia, is one of the less prosperous in Hungary. Integrated within this region, TRI/TRD has a long history of collaborating with local actors and our work has been an important and sustained contribution to the development of South-Transdanubia. A number of our research projects have dealt directly with the problems and opportunities facing South-Transdanubia and defining strategies to address these issues.

For 70 years now our institute is situated in the city of Pécs, the relationship with which was also established by a Co-operation Agreement in 2012.

Presently, the Transdanubian Research Department hosts 22 researchers and 10 research assistants. More than half of the researchers are economists, but we can also find among them geographers, sociologists, scholars of law and political scientists. The institute has always paid special attention to the training of rising generations of researchers of regional science and most of our current researchers in fact started and developed their scientific careers in our Institute. Some research professors emeritus and other leading researchers have worked 40–50 years in our institute while more than two-thirds of the staff have been members of the institute for more than 20 years. The remaining third joined the team within the past five years. Since this year, 2013, we again have a member of the Academy amongst our ranks as well as five doctors of science and nine doctors of philosophy. Among the junior staff we gave seven PhD student colleagues, and a number of colleagues who participate as lecturers in the Hungarian and international higher education.

The research directions of the institute are fairly diverse, which in fact is not really surprising considering the age and professional profiles of the research staff and the fact that diversity is almost necessary in a workshop of regional research. A stable research directions for long time are: the exploration of reasons, opportunities and trends of regional development especially in Central-East-Europe and South-East-Europe; research on environment protection and sustainability, different aspects and scales of economic development, the exploration of the inter-connections of the settlement system and its development trends as well as research on governance and management.

The 50<sup>th</sup> anniversary of the foundation of TRI and the international conference titled “European Challenges and Hungarian Responses in Regional Policy” organised on the occasion of the anniversary were a turning point in the life of the institution, which was facing a generational change after the change of the regime in a country searching new directions of integration. Due to the new research directions formulated and evolved over the years, numerous international co-operations and research networks developed by the institute’s leading researchers and personal relationships have been established.

One proofs of this is the present volume and the international conference for which our invitations were accepted by our partners, contacts, friends from various countries of Europe. Our goal is not a secret: we would like to start a “new era” in the institute’s life – as it happened 20 years ago – with the help of this event and representatives of regional research groups. Besides the celebration of the 70<sup>th</sup> anniversary, laying the groundwork for this would be the aim of this conference.

Even the title of the conference, “Territorial Cohesion in Europe”, indicates that the basic research direction of our research organisation remains focused on the region and things regional. During the conference and in the volume composed of the selected presentations, we will to discuss the following issues: theoretical questions of regional science; regional development and regional policy in Europe in particular in the Central and Eastern European countries and the Balkans; factors of regional competitiveness; aspects, interpretations and measurement of territorial cohesion; trends and new methods of governance; European cohesion policy and its finance; the urban–rural relations and development.

These presentations also reflect the turn that is taking place today in the area of territorial cohesion. We should no longer think in terms of the East and West and new and old member countries. The geography and the content of European territorial cohesion can be interpreted in a more nuanced manner. We would like to contribute to a more differentiated and targeted European and national cohesion policy with our research revealing deeper and more complex interconnections.

The volume in your hand contains the presentations of various approaches and interpretations of territorial cohesion which often conflict with one another. However, there is a certain point in common, namely the linkage between the authors and the organizer, the celebrating Transdanubian Research Institute and its staff.

I am confident that this event will generate many meaningful debates and new research directions, and indicate research directions for the new generation. Through maintaining and extending institutional and personal relations we can contribute to forming a stronger research community of international regional studies. The Transdanubian Research Department would like to remain an esteemed member of this community. Thanks to all the organisers and participants for their personal activity in supporting the success of this effort.

Pécs, 4 June 2013

Cecília Mezei  
Head of department  
Transdanubian Research Department

# **THE TRANSDANUBIAN RESEARCH INSTITUTE: A CENTRE IN THE “PERIPHERY”**

*Ilona Pálné Kovács*

## **Introduction**

The aim of this paper is to discuss the relationship between spatial policy, science policy and the territorial division of power in Hungary in the context of the 70-year history of the Transdanubian Research Institute (TRI) founded 1943 in the city of Pécs. The history, the research activities and the mission of the institute have been shaped within this threefold context. TRI has always been highly responsive to different strands of scientific thought and trends in spatial development. At the same time, it has been exposed to the spatial and science policies of the respective governments.

The Institute has existed in the dimensions of centre and periphery, not only in a geographical but also in an abstract sense, having gone through specific development cycles, periods of flourishing and decline. At the beginning, under the heading of regional research, research activities focused on concrete geographical regions (Enyedi 1987). Since then the Institute (now officially a “research department”) has become a nationally and internationally acknowledged “atelier” for regional studies in the broadest of the term. In other words, it has moved from the geographic and research “periphery” to the “centre” of debate on regional transformations, regional policy and spatial planning in Europe.

## **The History of the Institute**

*The Foundation of the Institute: National and Regional Identity-building in the Shadow of Geopolitical Ambitions (1943)*

The history and the circumstances of the Institute’s foundation, the choice of name and the definition of its mission all have their special relevance (Horváth 1995). The choice of location and the shaping of TRI’s profile were symbolic within a context of interwar national consolidation and the promotion of national and regional identity. As a result, it was not development policy as such but much more national and foreign policy considerations and implications that dominated the

foundation of the Institute. German geopolitical and imperial aspirations were, of course, an overall political concern. But also local issues, such as the elimination of Pécs university in 1941 were important. The revoking of university status provoked protective reactions from local intellectuals and in general from the political opposition. Thus, the idea of founding the Institute was based on the objective reasoning that both the region and the development of science justified the creation of an independent research organisation. The official initiative for TRI's creation was submitted to the Upper House of Parliament by Baranya County Council. The drafters of the initiative identified the Institute's mission as historical research of the territory, society, economy of Transdanubia in order to contribute to the strengthening of its identity and to exploit future development potential. In 1942, a delegation from Pécs visited the Prime Minister and the Minister of Culture, but did not manage to win support for the initiative at that time (Babics 1968).

The Institute was ultimately founded by the new Minister of Culture in 1943, but it lacked sufficient financial resources for its operation from the very beginning. The resources provided were just enough for the founding director's salary and the monthly rent of a small room, "furnished" with useless furniture from an almshouse (Rúzsás 1964). Thus the first director, Pál Zoltán Szabó, visited the counties and towns of South-Transdanubia to invite them to assist in launching the Institute.

The Hungarian Academy of Sciences (HAS) was founded in 1825 when Count István Széchenyi offered his yearly income for this purpose, and his example was then followed by other aristocrats and commoners. Széchenyi did this in a remarkable parliamentary speech delivered in Hungarian, rather than German, which was highly unusual at the time. His motivation for this "unorthodox" gesture was to make a statement in favour of the cultivation of the Hungarian language and promotion of national identity. We can therefore state that the relationship of the progressive elite at the time to science was explicitly national, or at least based on a strong feeling of regional identity.

After 1945, this "identity protecting" role also assumed an policy assisting one; it was thus formulated in the first director's programme: "the economic reconstruction of Transdanubia requires scientific management" (Szabó 1945).

#### *Integration into the Institutional System of the HAS: Stabilisation and Imperatives of Adaptation (1955)*

The stabilisation of the Institute in 1955 took place when TRI joined the HAS research institute network, based on a centralised science policy approach, in effect the "Soviet model", although broader international scientific influences also impacted on this process.

Integrated into the Academy, the TRI could broaden its disciplinary scope, but the geographical focus remained the territory of Transdanubia. The former ambitions of supporting identity gradually diminished, since this was not a priority under the rule of a strongly centralised and authoritarian political regime. Researchers escaped from direct political influence, perhaps consciously, by moving towards natural sciences, physical geography, local history and ethnographic research. The Institute could not remain unaffected by the policy requirements of the time and the ideological pressures that accompanied them. Hence, research projects were launched dealing with the economy, the history of industry, mining and the settlement system in the region. As one of historians pointed out, the specialising theoretical and methodological knowledge of science was coupled with complex applied knowledge in the service of the particular region (Rúzsás 1964, p. 29).

The research profile of the small TRI team (the staff increased to 20 between 1943 and 1968 and included five geographers, six historians and one ethnographer) was shaped not only with regard to external requirements, but also by the researchers' various interests. These mosaic-like disciplinary approaches could not form a common profile. The presence of a number of disciplines (social and physical geography, ethnography, history) did not in itself create preconditions for true interdisciplinary research. Therefore, the Institute remained an organisational framework of individual performance rather than that of joint, collective research. The geographical framework of research was adjusted to the traditional public administrative borders of the county and within those borders to its geographic and ethnographic landscapes, since, as János Kolta argued, due to the country's small territory, the creation of Soviet-type large administrative/economic units was not possible (Rúzsás 1964, p. 25).

### *The Institute as the Workshop of a New Discipline (1973)*

The assignment of Ottó Bihari, professor of constitutional law, to director in 1973 launched a new era in the Institute's history. In the 1970s the spirit of reform efforts within State Socialism could be sensed in Hungary. Remaining within the limits of Marxist-Leninist ideology but softening the exclusiveness of the unified and centralised state and the command economy, demand materialised for territorial development policy in the interest of improving efficiency and spatial effectiveness. This of course entailed decentralisation. The relative independence of scientific life also contributed to a change of profile.

The new director wanted TRI to become the national basis of fundamental research in regional development, with increased staff and an interdisciplinary composition. Being a professor of law, he achieved that regional research would be

considered more than just an analysis of the region, and he integrated administrative, management and governance aspects too within an interdisciplinary research framework. The former disciplines supplemented by management science and sociology finally were linked with each other and thus common interdisciplinary research replaced the former parallel activities. This was a novelty in science methodology, but beyond this it also had science policy and political significance, namely that a provincial institute would assume a top position within a national ranking. Although the size of TRI did not reach the desired 30 researchers, it was still able to embed itself within national scientific life and to attract attention to a new research direction.

*Challenges of the Network Model and the Systemic Change (1983)*

Due to the early death of Ottó Bihari, György Enyedi was appointed as new director in 1983. As a representative of regional studies of European stature – which by then had been explicitly recognised – György Enyedi brought organisational innovation to the Institute by founding the Centre for Regional Studies (CRS) in 1984 and joining it with the the TRI and two further research units located in other towns. Although the aspect of “on the spot” research was preserved, research programmes started to pay more attention to the European mainstream. Alongside its own specific research, TRI contributed to a change of paradigm in spatial policy during the systemic transformation, in the course of which the Academy succeeded in preserving its network of research institutes (Glatz 2002).

Following the collapse of the State Socialist system at the beginning of the 1990s, both the central government and the local governments had to face challenges of unknown proportions and they had to perform completely new tasks. For this reason applied research issues became reinforced at the Institute which took part in assisting national legislation, planning and local strategy building. Released from the former ideological and philosophical constraints, research attention increasingly turned to western democracies and their scientific achievements. For many researchers this was the first opportunity to spend longer periods in western countries or attend conferences there.

Nevertheless, the operating conditions did not really support the expansion of working spaces and horizons. Following the retirement of director György Enyedi<sup>1</sup>, Iván Illés became the new director general in 1991. Due to cuts in resources provided by the Academy of Sciences, the Institute had to change its strategy again and started to launch vigorous fundraising activities. Beyond financial stability it

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<sup>1</sup> Fortunately, György Enyedi made good use of his domestic and international reputation for the benefit of the Institute until his death in 2012.

also wanted to ensure tight co-operation with its main “sponsors”, the central and local governments. These activities enabled it to enlarge its network to other towns (CRS had 9 departments during its heyday) and to deepen the spatial embeddedness of its research activities. CRS finally reached critical size needed to represent the ideas of regionalism and decentralisation, not only geographically by its network, but also in the principles of its functioning. TRI maintained its independence as part of the network, and collaboration with the other departments was advantageous in both professional and organisational terms. As a symbol of consolidation of the decentralised network model, TRI received again an independent and new director in the person of Gyula Horváth in 1992.

#### *European Accession and the Impact of European Cohesion Policy (1997)*

Stabilisation and researchers’ responsiveness to new scientific challenges allowed the Institute to take a crucial part in professionally preparing for European accession and in disseminating the principles of European Cohesion Policy. Convincing the political elite to accept the new spatial scale, i.e. the (NUTS2) region, proved to be especially important. These “Europeanisation” projects became a new characteristic and topics responding to challenges deriving from EU membership (regional decentralisation, innovation, competitiveness) featured prominently in the research profile. The establishment of educational frameworks for regional science was very successful: these ranged from educating regional development experts for postgraduate degrees, to launching bachelor and master training and to inaugurating doctoral programmes in regional science. As regional development started to become an increasingly fashionable public policy due to the possibility of acquiring European resources, the number of “regionalists” began to grow. The Hungarian Regional Studies Association was founded, the Regional Science Committee was set up within the HAS, and following the University of Pécs, other universities also established regional science departments and programmes, with different disciplinary emphasis. In the pluralising institutional context the TRI became competitive, especially in theoretical, public policy and institutional research. Technical advice for market based local development projects became less accentuated and the Institute joined several international research consortia (framework programmes, INTERREG, ESPON, etc.).

#### *Organisational Integration a New, Changing Science Policy Environment (2012)*

Having enjoyed greater demand for its research, the CRS and, within it, the TRI, was able to preserve their stable financial situation compared with other academic institutes for a relatively long time. The extended network with bigger staff was



mainly covered from own resources while subsidies from the Academy was decreasing continuously. However, dependence on project incomes finally undermined stability because the workload of the scientific staff unavoidably hindered their personal scientific career. Recently external intervention forced changes in the inner workings of the Institute. The entire network of research institutes of the Academy was reorganised into larger research centres in 2011–2012. The CRS network became a part of a larger one, and the TRI lost its status as an institute, and became a department (TRD).

The growing number of management tiers and the loss of independence cause inevitable difficulties and are sources of conflicts. The centralised organisational management model now being put in place seems rather alien to us and does not benefit a research institute dealing with regional studies. The management staff had to be changed. As a result, the dynamism of the Institute has been challenged, but this is not only due to the organisational and personal changes or the worsening budgetary conditions. Namely, the government in power since 2010 has centralised not only the institutional network of the Academy, but also the whole governance of the country. Regional science itself has been questioned in political circles and, to say the least, the positions of regionalism have significantly weakened.

The anniversary conference of the TRI, now demoted to TRD, has been organised amidst these organisational developments and concerns. The aim of the organisers is explicit: they wish to continue their activities in the conviction that regional science is a vital field of research. Regional studies is vital because it is clear that society, the economy, governance systems and in fact all human activities are embedded and function within space. Regional research of their interdependence is indispensable.

### **Spaces and Scientific Fashions as Reflected in Research Activities**

Analysing the topics of the Institute's research activities, we can identify a number of paradigmatic shifts, scientific vogues as well as policy imperatives concerning the role of space and time dimensions. At the beginning, "space" was rather the terrain of research while the dimension of analysis was "time" – as was identity, having just been released from the grip of German "scientific imperialism" after 1945 (Rúzsás 1964, p. 16). It is highly instructive to quote from the programme of the Institute's first director about the mission of TRI: "As a geographer I have presented papers on the development of Transdanubian towns and I could always display the determining role of Hungarians in the historical development of towns" (Szabó 1945, p. 5). Among the research carried out we can find topics relating to industrial history, regional ethnography and economic geography (Babics 1959). In the first decades the geographic framework of research activities was mainly the

landscape, as well as natural geographic and linguistic characteristics. In response to political expectations, research in geographical history and on settlement networks was gradually strengthened, assisting the delimitation of municipal districts and the development programmes in the mining district of the Mecsek Mountains (Babics 1968). Aspects of economic efficiency were considered and various disciplines jointly analysed different areas in a complex way, realising theoretical and methodological innovation within more complex regional research settings (Babics 1968, p. 79).

Cautious approaches involving market economy perspectives on regional dynamics resulted in a shift, or so to say a modernisation of regional research techniques and, more generally, in the perception of space. Agglomeration research in the region around Pécs began to question the then existing hierarchical and county-centred, uniform administrative model typical of state socialist practice (Bihari 1979). Attraction zones and interrelationships within settlement networks became a new focus of research interest as these were (and are) not primarily shaped by public administration, but much more by economic relations, services, infrastructure, transportation and of course human mobility (Farág – Hrubí 1985). Thinking in urban districts and central places was also stimulated by official regional policy alongside the National Settlement Development Concept adopted in 1971. The social and spatial inequalities deriving from concentrating development resources in the towns were not ignored either. The problems of peripheries and rural areas were analysed mainly by sociologists, admitting that there was no recipe for “catching up” and that mass migration could not really be stopped (Enyedi 1980, Hantó – Kárpáti 1982, Kovács 1985).

At the end of the 1970s, research programmes on economic spatial connections were launched. Quoting Friedmann, Gyula Horváth, then junior researcher, called attention to the significance of districts shaped by relationships of economic actors (Horváth 1981, p. 68); János Rechnitzer elaborated a special methodology (Balance of Sectoral Relationships, BSR) for the description of territorial economic structure (Rechnitzer 1981). It was paradoxical that simultaneously with these research activities spatial processes were still unfolding within the constraints of the planned economy and the spatial structure of public administration within the limits of the centralised one party-state.

The systemic change, and with it the market economic (moreover “wild capitalist”) circumstances, radically rearranged Hungarian space. Economic restructuring resulted in dramatic polarisation, areas of crisis emerged, not only in the traditional eastern rural regions, but also in the former industrial and urban districts. Managing industrial depression, understanding and influencing the spread of capital and innovation became basic research topics, as did the analysis of rural areas falling into deep poverty. “Crisis and the way out”, the title of the first village

conference organised by TRI in 1991, was very characteristic of this new research wave (Kovács 1991). Interest in cities and urban zones decreased somewhat, even though the Institute prepared one of the first complex urban development concepts for Pécs in 1996. The profile of the institutes of the CRS was strongly shaped by the regions they were located in. The institute in Budapest was concerned with the capital city and its agglomeration (industry, international functions etc.), the institute in Győr researched clusters and innovation, the departments in the Great-Plain turned their attention mainly towards rural and agricultural areas. The decline of South-Transdanubia, with Pécs as its centre, started at this time and the need for development policy intervention shifted the interest of researchers in TRI towards public development policy issues.

There was also a marked change of paradigm in spatial approach when European Union accession became a clear political reality. Aspiring to the "Europe of Regions", regionalisation developed into a kind of public policy trend in Hungary as well. European regional policy became an important research focus, and the conference entitled "European Challenges and Hungarian Responses", organised on the occasion of the 50th anniversary of TRI, was a symbolic overture in this regard (Hajdú – Horváth 1994). Several lecturers who participated then are present at this 70th anniversary conference.

The delimitation of NUTS 2 regions was based on a paradigm of modernisation and competitiveness. TRI participated in the conceptual development of Europeanisation and regionalisation through its strong research traditions in and thorough knowledge about South-Transdanubia. It is therefore understandable that in the Hungarian context South-Transdanubia was called the "cradle of regionalism"; here was elaborated the first regional development strategy based on notions of regional competitiveness (Farágó 1994, Horváth 2006). The geographical scale determined the research topic, though it might as well have happened the other way around. Competitiveness, adaptation to European Cohesion Policy and innovation became priority research areas, concluding that conditions for regionalisation were not yet ripe.

Due to EU enlargement, the western scientific community showed special interest in the new member states. As a result of this, the Institute joined a number of EU Framework Programme research projects dealing with learning and adaptation processes of the new member states (ADAPT, G-FORS, EUDIMENSIONS). However, the representation of the scientific mainstream proved inadequate for implementing domestic regionalisation successfully, despite the fact that a number of national strategic documents, concepts and even public administrative reform conceptions had advocated regionalism for almost two decades. Paradoxically, the dynamism of region-building slowed down after European accession and territorial and spatial processes did not lead to territorial cohesion. The first volumes of a

series (2003–2012, edited by Gyula Horváth) introducing the regions of the Carpathian Basin were published, including the volume on South-Transdanubia (Hajdú 2006), but the characteristics of NUTS 2 regions were reflected neither in the spatial structure nor in social identity (Pálné Kovács 2009).

Top-down regionalisation efforts generated some changes in other dimensions of spatial structures as well. The scale of urban attraction districts “returned” in the form of the so-called micro-regional movement, serving as a frame for municipal collaboration in local economic development (Mezei 2004, Finta 2004), and in providing public services (Somlyódyné Pfeil 2003). The role of cross-border relationships and frontier regions also became more accentuated. The Institute joined projects within the ESPON network, emphasising the necessity of research on urban networks, participated in research on European macro regions (Gál – Lux – Illés 2013) and started to expand its interest in the Balkans as well (Horváth – Hajdú 2011).

Thus the Institute’s spatial approach followed major regional scientific trends, while its empirical research in South-Transdanubia developed comparisons between European and domestic spatial processes. In this context the question arises why South-Transdanubia and Hungary has fallen behind western European trends in the past 20 years. This question can hardly be answered in this paper; the most we can deal with here is to investigate how far governance and Hungarian public policy have affected the shaping of spatial processes and the Institute’s research activities themselves.

### **Politics and Spatial Research**

Governance is an important and gradually upgrading interpretation framework for spatial processes. The “regionalist” aspect is how governance influences the development of regions.

A “developer” state intervening into regional processes must unavoidably tackle the optimisation of the spatial dimension. One of the important elements of European governmental reforms in the past decades was reorganisation of the spatial scale of public administrative units (municipal consolidation, regionalism), which was usually accompanied by some version of decentralisation. During the past two decades Hungary proved to be an excellent field for analysing questions like how space and governance correlate, what are the consequences of reforms of or interventions into territorial governance and what are the appropriate circumstances for achieving the reform targets.

As described above, similarly to other Central and Eastern-European countries, the Hungarian regional reform was mainly motivated by the aim of accessing European structural funds. Hungarian failure can be explained primarily by the

lack of real intention of the respective governments to decentralise, and therefore the development policy target and the political interest conflicted with each other. The Hungarian political elite having inherited centralised state traditions refuses to share its power, it is not at all convinced that decentralised governance could not only reinforce legitimacy but also strengthen the efficiency of the state. Basically only a narrow circle of regionalists has kept the issue of territorial decentralisation on the agenda.

We are going to describe here how this ambivalence appeared in the applied research of TRI or in other words in its relationship to power. As the history of the Institute showed collaboration with political actors was a necessity from the beginnings and not only for financial reasons. From the very start TRI had a mission of providing professional assistance for the local decision-makers (primarily by preparing development plans); moreover, in some epochs the Institute was also involved in central governmental decisions and legislation. Our professional conviction has ever been that decentralised governance is indispensable for efficient development policy and for dealing with territorial inequalities. Territorial development namely has to be based on the resources of the given territory. This approach has been inherited by generations of researchers, partly due to locally based research and "peripheral existence", and far preceding the now fashionable place-based approach.

The Institute took significant part in the elaboration of territorial administrative reforms, even if there was no full agreement in the optimal geographical scale of territorial decentralisation between researchers and politicians. The debate of "county versus region" unfolding in the middle of the 1990s was not really on the borders or the scale and it was not merely based on rational or scientific argumentation. The political elite at the time of legislation during the systemic change represented almost uniformly the opinion that the reinforcement of local independence was the primary task and so the counties were consciously weakened. The Institute sided with the county governments in this debate, and organised the so-called county-conferences every year, although researchers agreed that municipalities had received significant sphere of movement for the first time in their history. Our empirical and theoretical research supported both municipal public administration and planning (Csefkó – Pálné Kovács 1993).

On studying the European Cohesion Policy and preparing for European accession, it became evident that medium-tier governance has a basic significance from the aspect of both the decentralisation of power and development policy. For this reason, the necessity, or rather, the expedience of defining regions larger than the county, became evident within public policy. The Act on Regional Development passed in 1996 was largely based on the recommendations of the Institute and with its enactment the delimitation and later the institutionalisation of the NUTS 2

regions was accomplished. The new regions were seen as logical spatial contexts for addressing economic challenges of competitiveness, innovation and modernisation. In the minds of many Hungarian regionalists, the counties represented past traditions, paternalism and political narrow-mindedness.

In all honesty, we at TRI probably lacked a complex approach and objective distance necessary for interdisciplinary research at the time. Our research served rather a programmatic mission, while the precise analysis of social and economic contexts was not carried out as it should have been. Therefore, the top-down regionalisation processes could not rely on truly complex empirical argumentations. However, this is not the only explanation for the failure of regionalisation in Hungary, and it does not have much to do with regionalisation which with the new government itself has become an instrument of centralisation. We could cynically say that regional research has stopped being trendy and that this “Institute of the periphery” has been pushed to the periphery of political interest. Decentralisation has remained an unexploited governance instrument in Hungary for increasing trust, strengthening democracy and improving efficiency. Also it seems that politics shows no interest in the “services” of science in shaping governance models.

Recent changes in public policy and governance models are characterised by a complete ignorance of territoriality. The extreme loss of self-government positions, the nationalisation of the majority of local public services, the exaggerated growth and centralisation of bureaucratic state administration and the mayors’ exclusion from parliamentary decisions all indicate a serious deficit in the relationship of local society and the central government.

The Institute has not yet responded to these shocking changes with comprehensive research, but it has raised questions unavoidable for evaluating them. One of our research projects, for instance, financed by the National Scientific Research Fund, OTKA, seeks to answer the question whether the political, public guarantees of decentralised governance are still available in Hungary at all. In the framework of another project within the State Reform Operational Programme we are analysing the opportunities and chances of spatially optimising local government performance in their remaining public service functions.

### **Future Chances**

As a periphery of both Hungary and the EU, the South-Transdanubian region has been in a permanent crisis during the past two decades. Resulting from the closing down of mining operations and the crisis of heavy industry, the region has had to face the difficulties of restructuring. Its position was further worsened by the Yugoslav war and the lack of motorway. Unfortunately, neither pre-accession funds, EU regional operational programmes, the European Capital of Culture pro-

gramme, nor the meanwhile accomplished motorway have been able to bring about significant changes.

At the beginning of 2013, preparations for the next programming period were launched; therefore professional advice for local plans and ideas should be welcome. It is not really our aim to help in this regard with new forms of policy entrepreneurship, catchy project ideas or attractive slogans gleaned from the EU's new Cohesion Policy. Our most important task is that of evaluating regional development policy and its performance in the past and to identify local resources for sustainable development. It is also extremely important to assist in renewing development policy decision-making and its institutional system, identifying actors and partners, supporting and catalysing partnership regimes. This all the more as former local governance was not able to attract partners, local governments did not seek to reinforce their development and planning capacities, and project management left no scope for unfolding local creativity. As a result, Hungarian development actors are once again unprepared for a new programming period because organisational learning has failed.

TRI must first of all be able to preserve its professional and scientific integrity, and its fundamentally basic research profile in line with the international standards of regional science, which means we cannot renounce collaboration in basic research. Actually we can assist in shaping national regional policy on the basis of our basic research outcomes. Fortunately, the Institute's position in international scientific life, especially by serving as a bridge between eastern and western scholars in regional science, provides ideal opportunity for basic research, and the number and qualification of the research staff (20 researchers 75% of whom have scientific degrees) are guarantee for the continuation and also the renewal of traditions.

Furthermore, we shall establish a new type of partnership with the decision-makers of the region. It is not direct planning and programming, and not outsourced applied research that can contribute to developing the periphery, but much more the emergence of active "development regimes" which we can assist with our knowledge and networks. A "place-based" reform of the former paternalistic development policy, based on external public (EU) resources, would require a new partnership strategy of local governments even if the current government model leaves them only a narrow scope of action. Nevertheless, at the periphery of national power and regional development dynamics, only spatially and sectorally open knowledge-based networks have a chance to survive. Although the Transdanubian Research Institute recently lost its organisational independence and its original name, the Transdanubian Research Department still exists as a knowledge centre and its professional and intellectual traditions can serve as an example of successful decentralised development.

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# **THE CHALLENGES OF EU COHESION POLICY**



# RESCALING THE EUROPEAN STATE

*Michael Keating*

## **Scope of the Paper**

The paper summarize some arguments developed in my book *Rescaling the European State* (Oxford University Press, in press). It seeks to link arguments about spatial rescaling in social and political geography with political science approaches to territorial government. The chapters follow the thematic headings of: Theory; History; Function; Politics; Institutions; Interests; Policy; Norms; Dynamics.

## **The Territorial State**

Modernist social science relies heavily on the idea of the integrated territorial state but the reasoning on which this is founded is not always consistent. There is a recurrent argument that modernisation entails territory giving way to function as the dominant principle of social organisation; yet the end product is a rigidly defined territorial unit, the “nation state”. The division between International Relations (which has tended to reify the territorial state) and Comparative Politics (which has tended to downplay territory) has enabled scholars to avoid facing this contradiction. Another inconsistency concerns the term “nation-state”, used by some (notably in IR) to denote the sovereign state, while for others it refers to the coincidence of the nation (a cultural and sociological category) with the state (a juridical category). These contradictions are exposed as the state is under challenge, losing both functional capacity and its unquestioned normative supremacy.

## **The End of Territory?**

In the late twentieth century, another wave of modernist theory predicted the end of territory (Badie 1995) (along, in some versions, of time and of history). This was linked to ideas of space-time compression under the impact of new technology, of global economic integration, and to the triumph of one set of hegemonic values. In practice, what was happening was a re-territorialisation, the reconfiguration of

society, economy and polity at new territorial levels, sub-state<sup>1</sup>; supranational; and transnational (crossing states).

Geographers have recognized these processes but are divided on how to conceptualize territory (or, as they tend to say, space) (Pike 2007). One conception is a closed, topological (or “territorial”<sup>2</sup>) one, with fixed boundaries, which can be mapped. The other is the open or “relational” one, in which particular locations or activities are linked through global chains and thus detached from their immediate environment. The global city-region thesis draws on this type of thinking. Some scholars (of whom I am one) argue that this is a false dichotomy and the degree to which a territory is bounded or open is an empirical question. Territories are not merely topographic entities but sociological ones, given meaning by the activities that they enclose, which may be more or less territorially anchored and interdependent. The choice of the two perspectives on territory is also a conceptual one, depending on the question being asked.

### **Functional Change**

Rescaling is partly driven by functional change, notably in the economy, with economic change responding to new spatial logics at all levels, a phenomenon known as the “new regionalism” (Keating 1998).<sup>3</sup> Functional rescaling can also be seen in culture and welfare. There is also a rescaling of political community, drawing on new and revitalised territorial identities.

These functional changes influence but do not determine the configuration of new territorial institutions. The choice of the “right” level depends on what one wants out of territory, as we have seen, for example, in the arguments between consolidationists and public choice theorists about the optimal way of organising local government. Interests and power are also at stake.

### **Governance to Government**

There are, however, tendencies to institutionalise territories at new scales. On the one hand, states seek new spaces for regulating functions that have escaped their control. On the other hand, oppositions and social movements seek to politicise these new spaces, to democratise them and to broaden the political agenda. Key

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<sup>1</sup> We cannot say “sub-national” here as that begs the question of what level constitutes the nation (for example Spain or Catalonia).

<sup>2</sup> Here we encounter a familiar type of terminological confusion. Political scientists tend not to talk of space but of territory, but we can hardly talk of a non-territorial conception of territory.

<sup>3</sup> There is another, largely unrelated, new regionalism in International Relations.

levels here are the European one; the meso or regional one; and the metropolitan or city-region level.

The choice of level, the boundaries of territory and the institutional configuration of it are all subject to political and social contestation. There is a tendency to resolve these issues and produce legitimate outcomes through the political process and the constitution of governments. So we see a halting tendency towards European government; to elected regional governments; and to metropolitan institutions. If governance is seen as a system of non-hierarchical, plural and interacting institutions based on functional speciality, then what we are seeing at all these levels is a move from governance to government – and not for the first time in history (Goetz 2008). This contrasts with the more common proposition in social science that we are moving from government towards governance (Bellamy – Palumbo 2010). Yet, these spaces remain, in comparison with the classical nation-state, loosely bounded and contested. There is also internal contestation for control and advantage, a staple theme of political science but one often neglected in governance approaches.

### **Politics**

The nationalisation thesis holds that political alignments will deterritorialise within state boundaries, with competition spreading evenly throughout (Lipset – Rokkan 1967, Caramani 2004). This has held in many countries, but it may be because parties are able to make differentiated appeals. Elsewhere territorial parties have strengthened. The theme of inter-regional competition has encouraged politicians to make catch-all appeals to cross-class and inter-sectoral territorial interests. Demands for territorial autonomy have grown in many countries (Germany being an exception). Yet there is a consistent paradox in that electors often prefer uniform policies. Electors value national welfare states but seek territorial advantage where they can.

### **Interests**

In the 1980s, Italian scholars wrote of *regioni senza regionalismo* (Pastori 1981) and the “paradox of the regions” (Le Galès – Lequesne 1997) to refer to the fact that regional government had not been accompanied by a territorialisation of social and economic representation. I have conducted a study of peak interest groups in between two and four regions each in six countries (the UK, France, Italy, Spain, Germany and Belgium). These are business groups (large and small); trades unions; farmers; and environmentalists. The results are complex and many variables are at play, the main ones being economic interest; ideology; the strength

of regional government and the extent to which they can impose a territorial boundary on policy systems; and territorial identities, which may affect members of groups or provide legitimacy for territorial institutions. I examined the following dimensions:

- *organizational*, the extent to which groups have a regional structure and power relationships within it;
- *cognitive*, the territorial framework which groups use to articulate their demands and the extent to which territory itself is constituted as an interest;
- *relational*, the relationships with governments at all levels and among groups.

To summarise, big business appreciates the new importance of territory for development but fears capture by territorial interests (including environmental, separatist and left-wing interests) so prefers corporatist institutions in which it has a guaranteed role, focused on development in the narrow sense. Small business depends more on public goods produced by regional government and is often closer to popular sentiment. It tends to be more regionalist. Trades unions are cross-pressured. They look to new spatial levels for opportunities for influence, which they have lost in national corporatist exchanges or at the work place. They seek to expand the regional agenda and bring a stronger social dimension. Some are ideologically more centralist. Others support regional government but are cross-pressured by their simultaneous defence of the national welfare state. Unions are affected by strong identity sentiments and movements, which influence their members directly. Generally, unions have moved from preferring corporatist structures at the regional level to support for elected government.

Rescaling, together with CAP reform, has served to fragment agricultural interests. New interests, including ecological farmers and neo-ruralists, together with many small farmers, favour the regional level as a way of undermining corporatist management of the sector by large farmers and agri-businesses in partnership with the states and the European Commission. Ecologists tend to be close to territory, to support regionalism, and to value the European level, where they can obtain binding regulations applicable all the way down. They, and some farming interests, are also part of broader coalitions for the defence of traditional cultures and ways of life.

There are varying experiences of territorial social dialogue. It would be an exaggeration to talk of regional corporatism, since regions are loosely-bounded spaces and some groups have the ability to venue-shop among levels. There are, however, many instances of regional concentration. This is not just a matter of co-operation in addressing common problems but of political competition. Regional governments seek territorial social dialogue as a form of legitimation. There are,



however, tensions between these forms of functional representation and elected regional politicians.

Both conceptions of territory are useful here, to map the enclosure of space but also the capacity of some actors to escape it and venue-shop among levels. Much of regional politics hinges on this.

## **Policy**

I have mapped the extent of regional policy making along five dimensions: development; distribution; allocative efficiency; ecology; and polity-building. Regions are concerned with all five and all are contested (including the meaning of allocative efficiency). This cuts across traditional theories of federalism according to which allocative and development policies are/can be devolved, while distribution should be state-wide. There are significant variations in regional activity and priorities on all dimensions. Particularly important are differences in the way that public services are delivered, and the patterns of beneficiaries of public services. While welfare states remain essentially national, regional welfare regimes are growing up alongside them. It is often hypothesised that regional decentralisation will produce a “race to the bottom” as regions cut taxes, regulations and social overheads in order to compete. There is in practice little evidence of this but a complex pattern which includes a race to the top, a race to the middle, and policy learning and adaptation.

## **Norms**

New conceptualisations of territory open new ways to address two normative issues: that of self-government; and that of social solidarity. Territorial self-government has been regarded as difficult since groups so rarely correspond perfectly with territories. Modern understandings of group identities (or “ethnicity”) are predominantly constructivist, showing how boundaries are created and re-created. New understandings of territory also have a constructivist bent, focusing on the sociological content of territory and on territory- (region- or nation-) building. This provides new means for reconciling groups with spaces as they may become mutually constitutive. The open conception of territory also presents possibilities for partially-territorialised solutions to self-government claims.

Many people have feared that the erosion of the territorial state from above and below and the opening of boundaries will allow powerful groups to disengage from national welfare compromises, which, along with weakened affective identity at the state level, will entail a loss of social solidarity both within and between territories. The old territorial bargain, under which transfers to poorer regions came

back to wealthy ones in the form of orders for their products, no longer holds. A similar argument is made in relation to states within the European single market (Bartolini 2005). Yet even if there is a loss of solidarity at the state level, this does not necessarily entail an absolute loss of solidarity as emerging spaces may be more or less solidaristic. Inter-territorial solidarity has also largely survived because of its institutional entrenchment. Survey evidence shows continued support for state-level solidarity in principle but there is increasing resistance in wealthy regions (Henderson et al. 2013).

### Dynamics

Creation of new levels of government brings into being new actors and ensures that the structure of territorial government is always at issue. The territorial distribution of power is henceforth not an issue that can be settled once and for all, but a component of regular politics. Hence there are permanent debates about it, complicated by the multiplication of veto players.

One issue that has nowhere been resolved is that of inter-territorial distribution. Regional devolution has converted implicit territorial transfers<sup>4</sup> into more transparent, intergovernmental grants. States have sought to meet these pressures by sequential concessions, while rarely been able to bring them all together within a grand bargain.

The economic crisis has had asymmetrical effects on territorial politics and government. Some Spanish regions have sought refuge in the state, asking to give back powers (a phenomenon known, curiously, as *devolución*) while some Italian regional governments have effectively collapsed. Stronger, wealthier, or resource-rich regions, on the other hand, have sought more autonomy, especially where this is combined with distinct identities and successful region or nation-building projects over recent decades. Catalonia, the Basque Country, Flanders and Scotland are obvious examples. Nationalists in these territories have generally moved from demanding autonomy or asymmetric federalism, to putting independence explicitly on the agenda. Yet, when they define their independence projects, they all put them in a broader context, embracing European integration and seeking to maintain multiple functional links with the host state. These seem to represent demands, not for the proliferation of nation-states within Europe, but for a re-definition of the territorial state itself. There is no constitutional formula out there to encompass this, although there is a literature in legal and political theory about new forms of post-sovereign authority.

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<sup>4</sup> Which arise because of the uneven territorial impact of inter-personal transfers, or because of path-dependent spending commitments.

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# THE NEW EU REGIONAL POLICY: FOSTERING RESEARCH AND INNOVATION IN EUROPE<sup>1</sup>

*Wolfgang Streitenberger*

## **Introduction**

The strong public interest in the opportunities offered by EU structural funds for research and innovation is not surprising: These funds are the most important financial instruments of the EU's regional policy. The EU currently allocates 36% of its budget for it. But before dealing with the role of research and innovation in regional policy, it could be helpful to briefly recall how it works. Below it will be shown how its principles have entered into force over the years.

## **General Features and History of EU Regional Policy**

The goal of EU regional policy is to strengthen the economic, social and territorial cohesion of the EU. All other EU policies and all national and regional policies also have to contribute to territorial cohesion. Thus "cohesion" and "cohesion policy" are not exclusive tasks of the EU, but are the responsibilities of several political levels. At European level cohesion policy consists of the European Social Policy with the European Social Fund (ESF) and the European Regional Policy with its two "structural" funds, the European Fund for Regional Development (EFRD) and the Cohesion Fund. Thus regional policy is not identical with, a historical development which added layer to layer, policy to policy, and fund to fund. Already the EU founding fathers worded the vision for today's cohesion policy in the Treaty of Rome in 1957: "The Community shall aim at reducing the disparities between the levels of development of the various regions".

In the early days of the European regional policy, the Regional Fund financed only national projects prepared exclusively by member states which had to apply for European support at project level. Thus the European influence was little. New

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<sup>1</sup>This paper was submitted for publication on 4 April 2013, thus before any final decision about the future EU cohesion/regional policy (2014–2020) has been made by the EU Parliament and the EU Council. Thus it is based on the proposals made by the EU Commission when submitting the Legislative Package for Cohesion/Regional Policy in autumn 2011.

member states like Greece, Portugal and Spain came with increased regional disparities. In the 1980s EU funding was a key to catching up to EU average.

Regional policy was designed to offset the burden of the single market for the less-favoured regions in the EU and to make their economies more efficient. In 1988 four key principles were introduced which should be mentioned here because they are still characterising the EU's regional policy and also the next programming period:

- concentration: focusing on the poorest regions;
- partnership: involvement of regional and local partners;
- multi-annual programming, instead of the annual one;
- additionality: EU expenditure must not substitute national subsidies.

In the early 1990s standardised rules for regional policy spending were laid down, and the still valid principle of shared management of the supported projects was introduced, meaning that the tasks should be shared between Brussels officials and administrations in the member states. It was an important event when “priority objectives” for regional policy actions were introduced and the share of regional policy in the EU budget was increased from a mere 16% in 1988 to 31% in 1993. The reform in 1994 intensified European influence on regional policy by setting up a system of close co-operation between member states and the Commission in implementing a multi-annual regional policy funding programme. How does it work in its current version?

- (1) The Structural Funds budget and the rules for its use are decided by the European Council and the European Parliament on the basis of a proposal from the European Commission.
- (2) The Commission makes a proposal after having consulted closely with the member states over the “*Community strategic guidelines on cohesion*”. This pillar of the policy gives it a strategic dimension. The guidelines guarantee that the member states adjust their programming to the priorities of the Union.
- (3) Each member state prepares a *National Strategic Reference Framework* (NSRF), coherent with the Strategic Guidelines. That document defines the strategies to be chosen by the member states and proposes a list of operational programmes to be implemented.
- (4) The Commission validates each *operational programme* (OP) which gives the priorities of the member state (and/or regions) as well as the way in which it will manage its programming. For the current 2007–2013 period, 317 operational programmes were adopted by the EU Commission.

- (5) After the Commission has made a decision on the operational programmes, the member states and their regions have the task of implementing them, i.e. selecting the thousands of projects, monitoring and finally assessing them. All this work is done through the “management authorities” in each country and/or region, and not in Brussels.
- (6) Finally the Commission pays the certified expenditure and monitors each operational programme alongside the member states.

As it is clear from the above description, this system of co-operation harmonises all member states’ and the region’s interests and also realises European priorities at the same time.

In the programme period 2000–2006 regional policy was mainly focused on the preparation for enlargement, which brought a 20% increase in EU population, but only 5% increase in GDP. The funds were augmented and new pre-accession instruments were introduced.

Many regions developed well thanks to EU support. Just a snapshot of the cohesion policy’s main achievements in the last seven years (2000–2006):

- regional disparities were reduced. The index of disparity between the most and the least developed regions fell by a sixth thanks to sustained growth in the less developed regions;
- an estimated 1.4 million jobs were created, of which about 1 million in enterprises, mainly in SMEs;
- transport links were modernised, regional policy funded 4700 km of motorways, 1200 km of high speed rail and 7300 km of normal rail;
- development of small and medium-sized enterprises (SMEs) was supported, 230,000 SMEs received mainly grants, but also loans;
- and although research and innovation were not the main priority of the EU’s regional policy until 2007, investment in R&D intensified: nearly 38,000 R&D projects obtained support which created over 13,000 long-term research jobs.

These are quite impressive cohesion/regional policy achievements – but then why is European regional policy still necessary?

Let us remember that the EU generates 43% of its economic output in just 14% of its territory. So regional economic and social disparities in Europe are still substantial and they have significantly increased with recent enlargements. Enlargement took place some 9 years ago, but the EU still has to cope with its effects. Luxembourg, the wealthiest member state in terms of per-capita income, is still seven times richer than Romania, the poorest one. Thus despite the good results of the EU’s regional policy in 2000–2006 it has had to be continued. How does the current one look like? It continues to promote the economic, social and territorial

cohesion of the Union by reducing development disparities between regions and member states, and by striving for a spatially balanced economic development.

While doing this, cohesion policy also implements the goals of overarching EU strategies, like the EU 2020 focusing on competitiveness and employment by smart, inclusive and sustainable growth. The majority of the European Union's financial support has to be earmarked to achieve these overarching EU 2020 goals. There are three concrete objectives to be achieved by the current cohesion/regional policy:

The first objective is *convergence*, that is, the acceleration of the catching-up process in the least developed regions. It concerns 84 regions whose per capita GDP is less than 75% of the EU average. Convergence regions are concentrated in the Central and Eastern European new member states and in the Mediterranean area. Convergence is a dominant goal: 82% of the cohesion policy budget is allocated for that purpose. These investments are focusing on improving the infrastructures, modernising the economy and boosting employment.

The second objective is: improving *competitiveness and employment* in other, in the advanced regions. 16% of the total allocation is used for this objective, available for a total of 168 regions. In these advanced regions investments in innovation are in the foreground.

The third objective is *territorial co-operation*, namely, strengthening co-operation between European regions. 9 billion EUR or 2.5% of the total is available for this goal in the programme period.

The Europe 2020 strategy has put research and innovation at the forefront of the European Union's efforts to get out of the current economic crisis. Europe's competitiveness, its capacity to create new jobs, its social fabric and cohesion, and overall, its future standard of living clearly depend on how the EU is able to translate innovation into new or at least renewed products, services, businesses and organisations. As a consequence, the EU has dedicated 25% of the current cohesion policy budget – 86 billion Euros – to research and innovation, with a focus on research infrastructure, technology transfer and assistance to SMEs, networks and clusters.

The ways of achieving the EU 2020 goals – namely smart, sustainable and inclusive growth – will be determined to a large extent by decisions made by local and regional actors. Regional policy is, therefore, indispensable for mobilising the full innovative potential of EU regions.

## **New Cohesion Policy, Research and Innovation**

Consequently cohesion policy with regional policy as its main element has been identified as a key “delivery mechanism” for the Europe 2020 and the Innovation Union strategies. And this is why on drawing up the blueprint for a reformed regional policy for 2014–2020, the EU Commission chose research and innovation as the key elements.

The knowledge and innovation capacity of regions depends on many factors. To quote just a few: quality of research, education and training institutions; business culture; entrepreneurial climate; work force skills; innovation support services; access to financing; technology transfer mechanisms; ICT infrastructure and local creative potential; and, of course, good governance is crucial too.

However, there is no “one-size-fits-all” blueprint for the economic development of a region. Therefore regional policy focusing on integrated strategies can best help each region to create the specific policy mix. It will be tailor-made not only to strengthen the region’s innovation system in general, but also to capitalise on its assets and capabilities. By this, regions will be empowered to work towards excellence and carve out their niche specialisations in the globalising economic environment.

It is generally known that there are no shortcuts to economic growth. It is especially so if a region has to compete in high quality and innovation, and not in low price of products and services, as we all have to do in Europe. There is simply no other way than investing into a country’s and region’s competitive advantage. This is the only route to fiscally sound and sustainable economic stimulus.

The jobs which need to be created now and in the future to outgrow the effects of the crisis can only come from innovation and a relentless effort to become better, fitter and faster.

In today’s ICT-powered global economy, it is no longer enough to be “world class”, but one should be the best in the world, even if it is in a particular market niche or through a marginally differentiated strategy. This means that in terms of regional policy the EU will move beyond an era of ribbon cutting – beyond focusing on infrastructures – towards more innovation, more knowledge-based investments. Therefore the EU Commission proposes that for the next programming period of regional policy (2014–2020) at least 80% of future Structural Funds investment in the more developed regions or at least 50% in the less developed regions should go into three objectives, namely into (1) research and innovation, (2) SME competitiveness and (3) energy efficiency and renewables. Which concrete investment priorities will the EU support in research and innovation?

- (1) Investing in R&I infrastructure enabling capacities to move towards excellence.



- (2) R&I in businesses, technology transfer, networks and clusters, social innovation, public service applications and open innovation will be promoted.
- (3) The different stages from research to marketable products will be eligible for support, including “Key Enabling Technologies” and the diffusion of general purpose technologies.

But before the member states and regions can develop their future Operational Programmes and start investing Structural Funds allocations in research and innovation, the regions will have to set up an innovation strategy for smart specialisation. For the EU Commission “before” means an “ex-ante conditionality” – without that the EU will not support projects. But what does smart mean in smart regional specialisation?

First of all it is smart because it is knowledge based. So it asks regions to put knowledge and innovation into the centre of their development strategies. Being smart requests to make better use of the Structural Funds, to build regional research and innovation capacities.

Secondly, specialisation is smart if it is focused on a region’s greatest assets and opportunities, and if it sets clear priorities. Linking knowledge assets to economic potential is at the heart of this concept.

Thirdly, specialisation is smart if it is based on the notion of building successful innovation eco-systems in cities and regions. This can mean the following: stimulating entrepreneurship, university–business co-operation, innovation support services, access to financing for SMEs; upgrading education, skills and training schemes.

Fourthly, smart specialisation is achieved if it is process based. It needs to be developed in real partnership with the main regional innovation actors, especially with the business sector and the knowledge providers. This partnership should facilitate shared commitments in relation to a limited number of key priorities.

Fifth, smart specialisation looks to position the region in global value chains and establish co-operation with other relevant regions and clusters to add more critical mass and more diversity to a region’s structures and activities.

Smart specialisation strategies are essential for regions to advance in regional development and to improve their effectiveness in using EU Structural Funds. These strategies will also allow them to better leverage their spending and to increase synergies with other private and public funds.

This obviously includes research investments to be co-financed by the next EU research framework programme. Investments in the field of research and innovation supported by the Structural Funds should complement, and be mutually supportive of, actions co-financed by “Horizon 2020”.

There is a clear division of labour: Horizon 2020 is excellence based and is implemented through pan-European calls for project proposals. It focuses on tackling

major societal challenges; maximising the competitiveness impact of research and innovation; raising and spreading levels of excellence in the research base. Horizon 2020 will use open competitions to select the best projects implementing these objectives, regardless of geographical location and of the profile of the actors involved.

In contrast to that, the Structural Funds mainly address national/regional-level objectives, through integrated strategies for economic transformation and structural change. Promoting synergies between Horizon 2020 and cohesion policy requires the harmonisation of implementing rules, which is to be done by the EU Commission in the next period (2014–2020). Thus the same research/innovation project may receive support from different EU funds in the future, but only for different expenditure items. The EU Commission will introduce similar eligibility rules in order to simplify financial project management under both policies, that is, Horizon 2020 and cohesion policy. The much wider application of simplified cost options such as lump sums, flat rates and unit costs will further reduce the administrative burden on beneficiaries. After these technical, but important items let us make some remarks about a very important one of our objectives, namely supporting capacity building leading to excellence in research and innovation, the so-called “stairway to excellence”.

Regional Fund support for R&I should thus galvanise smart growth which nevertheless should be endogenous growth on the basis of local assets, capabilities and economic potentialities. To enable the less developed regions to participate in the European Research Area, the Regional Fund should finance primarily the basic preconditions and sufficient capacities for R&I, including infrastructure and human capital.

The European Social Fund (ESF) is an additional EU instrument available. It supports the development of human resources in R&I. Key actions would include the modernisation of tertiary education, the improvement of research capacities and skills of students and researchers, and the transfer of knowledge between research institutes and the business sector.

Research and innovation activities should follow the line of smart specialisation strategies by concentrating these activities on the specific strengths of regions and member states, identifying innovation niches, and helping to avoid overlaps and duplication of efforts.

How does the EU Commission see the relation between “stairways of excellence” and “smart specialisation”? Strengthening the capacities of researchers to successfully participate in research activities at EU level requires the existence of global excellence in the regions in specific thematic fields. But how do they get there? How does the EU Commission want to support this quest for excellence in a region? The answer is: by specialising in areas a region is already good at, or where

it has embedded capacities or a critical mass of actors and institutions to create a virtuous cycle. It is known from a variety of research that trying to build research and innovation capacity from scratch is a very risky business and mostly unsuccessful. On the other hand, it is obvious that a region cannot be excellent or attempting to be excellent in everything. Spreading its efforts too widely and thinly will only end in suboptimal outcomes and dilute impact.

It is a much better and safer route to build on a region's existing assets and clusters and to work through a thematic focus on areas of strength and real potential. This is also the way that generates most added values, especially for the region. Furthermore, it also helps to embed capacities in the region and stimulate entrepreneurial activity.

It should be mentioned here that the Regional Fund encourages project funding and not institution funding in terms of research. Research projects funded by it need to have a precise benefit for the region in respect of socio-economic development. This is not about blue skies research, but about applied research. However, the Regional Fund may finance the setting up of a research infrastructure, but it does not cover its running and operational costs.

As already indicated, regions will have to identify the knowledge specialisations best corresponding to their respective innovation potentials. This should happen through a process of entrepreneurial discovery involving stakeholders as well as the private sector.

Then the regions are asked to focus their Regional Fund investments on those areas that can best maximise a competitive edge in the international value chains. By this they can achieve a critical scale, scope and spill-over effect that are crucial for efficiency gains. In other words, this concept calls for singling out competitive advantages and rallying regional stakeholders and resources around a vision for the future.

The Regional Fund supports existing regional scientific excellence. While doing so, it will also insist on the diffusion of knowledge and innovation, including practice-based – i.e. “non-technological” – innovation like, for example, social and service innovations; innovation addressing societal challenges; new business models, etc. The efficiency gains through a more strategic use of the Regional Fund can only be achieved if they are not used in isolation. Using Structural Funds therefore should aim at an optimal co-ordination of different existing policies. As a consequence, it is a strong intention of the EU Commission to create synergies between different EU policies.

The regional innovation strategies of the past received criticism sometimes for their inability to provide choices. They have shown lack of engagement of stakeholders in the conception, lack of outward orientation and the absence of peer

review mechanisms. These weaknesses are to be eliminated under smart specialisation.

While the concept of smart specialisation has been taken up by DG REGIO, the Directorate General for Regional Policy and Urban Development, it is also strongly supported by DG Research and Innovation as well as by the research community because of its potential to deliver synergies between research and regional policy. A quite recent report from the Synergies Expert Group (SEG) underlines the need to ensure co-ordination and networking between the different innovative regions and also with other national or European policies in order to avoid the “irrelevant duplication” of efforts. The SEG therefore welcomed the current work on establishing the Smart Specialisation Platform which should also provide useful guidance to those Managing Authorities that need it in the development of strategies. This platform was launched in June 2011. Máire Geoghegan-Quinn, Commissioner for Research, Innovation and Science welcomed the Smart Specialisation Platform, saying that it demonstrates the Commission’s determination to bring regional policy and research & innovation policy closer together in order to achieve the best results in terms of growth and employment.

Indeed, R&I excellence and regional innovation are two complementary policies with a common objective: maximising knowledge-based economic potential throughout the Union.

While only a few of the EU regions are ready now to fully embrace excellence, all of them are entitled to pursue regional innovation that can lead to future excellence. That is what the EU Commission wants them to do. And that is what smart specialisation and the new cohesion/regional policy should enable them to do.

In addition, the important role universities play in both an efficient regional and research & innovation policy has to be underlined. “University–business co-operation” is a key agent for exploiting research results and for promoting innovation. Universities have to play a pivotal role in the social and economic development of their regions. They are a critical “asset” of the region; even more so in the less favoured regions where the private sector may be weak or relatively small, with low levels of research and development activity. The successful mobilisation of the resources of a university can have an extremely positive effect on its regional economy and on the achievement of comprehensive regional strategies. This is also a reason why university–business co-operation should be particularly considered by regions when devising smart specialisation strategies. The co-operation between universities and business/industry can also lead to the setting up of “centres of excellence” or “competence centres”. These are interpreted in many different ways, but typically they are collaborative entities often established by industry and aiming for global excellence in specific specialisation niches. They are resourced by highly qualified researchers associated with research institutions

who are empowered to undertake different types of research, but tend to engage frequently in market focussed strategic R&I for the benefit of industry. As soon as there have been concrete outputs achieved and new technologies developed through research, the diffusion and application of these results in the region can be funded by the Structural Funds. The EU Commission wants to set a virtual cycle into motion which leads to increased technology transfer particularly to regional SMEs. By this, innovation actors can be enabled as well as the SMEs in the regions to participate in the EU's research framework programme and to lay the foundations for regional excellence in specific areas.

# REFLECTIONS ON THE PERFORMANCE OF COHESION POLICY

*John Bachtler – Carlos Mendez – Stefan Kah*

*“The state of the empirical evidence on the performance of cohesion policy is very unsatisfactory. ...[due to] ...the lack of any systematic attempt at EU and national/regional levels to assess whether specific interventions ‘work’ through the use of advanced methods of impact evaluation, and a very poor use of the system of outcome indicators and targets formally built by the policy.” (Barca Report 2009, p. xv)*

*“Public resources cannot be spent without setting in a transparent and clear way what we want to achieve with those resources. ...we should not hesitate about the need to respond clearly to the EU taxpayer if asked: What is this money for? What do you want to achieve? How will things improve thanks to cohesion programmes?” (Johannes Hahn 2011)*

*“At a time when member states are under pressure to consolidate their budgetary positions, and when resources for public investment are scarce, it is essential – more than ever – to ensure the efficient and effective use of available resources and to maximise the added value of cohesion policy.” (Informal Meeting of Regional Policy Ministers 2012)*

## Introduction

Over the past decade, the performance of cohesion policy has come under increasing political scrutiny. In part, this is associated with the debate on the EU budget: following the difficult 2005 negotiations on the Multiannual Financial Framework for 2007–13, it was clear that continuing to allocate a substantial part of the EU budgetary resources to Structural and Cohesion Funds would need more robust evidence on what the policy was achieving. This was reinforced by the conclusions to emerge from the Barca Report, which itself was synthesising the results of academic and policy research that was critical of the lack of evidence at national and EU levels on the efficiency and effectiveness of the policy (Barca 2009). The Barca Report also criticised the lack of public accountability, notably the absence of a public debate on the results of the policy in Council or Parliament, other than the annual discussion (and criticism) of the error rate by the European Parliament’s budget committee.

This concern about the performance of the policy prompted a political commitment by the European Commission to place a stronger focus on results and to move towards evidence-based policy making to improve the impact and value added of cohesion policy, as well as a stronger monitoring and evaluation culture, a commitment to learning within partnerships and incentives and conditionality to encourage quality (Hübner 2009). This was subsequently developed first in the Fifth Cohesion Report (EC 2010) and then in Commission's legislative proposals for the future of the policy.

The cohesion policy regulations for 2014–20 contain a range of new measures to strengthen the strategic orientation of programming and incentivise better performance. Programmes have to specify objectives, intervention logics and results targets more clearly. Conditionality provisions are intended to ensure that the pre-conditions for effective implementation of the Funds are put into place. A new performance framework, review and reserve seek to incentivise the achievement of targets and sanction serious under-achievement. Simplified financial management geared towards results is encouraged through so-called Joint Action Plans for parts of programmes. Monitoring and evaluation is expected to place more emphasis on achievements and impact (Mendez et al. 2012).

In theory, this “performance turn” provides a promising opportunity to enhance the quality of strategic thinking and management of the Funds and programmes. In practice, it poses important challenges for the Commission, member states and regions in terms of methodological design, management capacity and cultural change.

This chapter assesses the debate on the performance of cohesion policy and the implications of changes being introduced for the 2014–20 period.<sup>1</sup> It begins by examining the contested evidence for the performance of cohesion policy and then reviews the rationale and substance of new performance obligations proposed by the Commission. The final section considers whether the objectives of the reforms can be achieved.

### **The Contested Evidence for the Performance of Cohesion Policy**

The context for the debate on the performance of cohesion policy is the difficulty that regional policymakers have had in demonstrating that EU funded interventions through Structural and Cohesion Funds have been effective.

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<sup>1</sup> At time of writing (May 2013), the negotiations on the legislative framework for the 2014–20 period were not yet concluded. Many aspects were the subject of “partial general agreement” but the regulations were not expected to be approved until October 2013.

A first problem is that monitoring and evaluation practices have not been able to provide a convincing picture of how (well) Structural and Cohesion Funds are being spent, despite efforts dating back 25 years. Before the 1988 reforms, the evaluation of the Structural Funds was accorded low priority and the monitoring and control of expenditure was widely acknowledged as inadequate. The landmark reforms of 1988 introduced the first systematic obligations to monitor and evaluate the Structural Funds, but implementation was poor. Evaluations were generally of low quality and were considered to lack methodological rigour. The inadequacies of monitoring systems included a widespread lack of monitoring data, particularly on physical implementation, and the absence of standardised indicators that would allow aggregate assessment of performance at Community level.

Subsequent reforms in 1993, 1999 and 2006 progressively strengthened the regulatory framework (Polverari et al. 2007): the member states and the Commission became co-responsible for appraisal and evaluation of the Structural Funds; the types and stages of evaluation were specified; targets for financial and physical indicators were made obligatory; the role and powers of Monitoring Committees were enhanced; and reporting requirements became more prescriptive. In 1999, incentives were introduced to reward good performance (in the form of the performance reserve) and sanctions for poor financial absorption (through the decommitment rule, n+2). The 2006 reforms also included a requirement for member states to produce strategic reports on the performance of all programmes at two stages during the 2007–13 period.

These regulatory pressures led to significant investment in reporting, monitoring and evaluation systems that sought to capture both financial and physical outcomes. Programme documents incorporated monitoring indicators, with benchmarks, targets and milestones. Extensive evaluation has been conducted at ex-ante, interim and ex-post stages of programme implementation. However, the quality of data has often been poor, target-setting has been unrealistic, monitoring systems have not always worked, and evaluations have tended to prioritise the assessment of implementation processes over the analysis of outcomes.

As the conclusions of the most extensive ex-post evaluation exercise conducted to date observed, the fundamental problem is that programmes have been designed and implemented without sufficient regard for achievements. Specifically, at programme level (Applica et al. 2010, p. 11):

*“There was... a lack, in many cases, of a clear indication in concrete terms of the objectives of the policy implemented in a form which would enable the success or failure of the measures taken to be properly assessed. Often the aims of the policy were expressed in terms so general (e.g. an improvement in regional competitiveness) to make it difficult, if not impossible, to judge after the event whether they were achieved or not. Though quantitative*



*targets were often set and an indicator system established, as required by the Structural Fund regulations, in many cases neither were linked in a meaningful way to ultimate policy objectives.*

*Where targets were set, they were often not taken seriously in the sense of being carefully determined in relation to the funding made available and what it could plausibly achieve... In most cases, they did not play a central role either in the design or in the monitoring of policy and rarely featured in the policy debate. No authorities were held accountable for not meeting the targets set and few questions were asked when the targets were easily achieved... Though systems for monitoring expenditure were established over the period in all member states together with a set of indicators for assessing the outcome of spending, they were not a central part of the decision-making process."*

Research on the 2007–13 programmes indicates continuing problems with assessing outcomes due to deficiencies in the information in Member States Annual Implementation Reports and Strategic Reports in 2009 and 2012, uncertain reliability of data on indicators and errors in the data recorded. Evaluations are examining achievements: fewer than a fifth of studies conducted on the current period have focused on outcomes and effects (Ward 2013). This was reiterated in the Commission's 2013 strategic report which, while providing aggregate data for some core indicators for the first time, expressed concerns about the uneven availability and quality of data (EC 2013).

Apart from the difficulties with monitoring and evaluation, the second major problem is that the evaluation evidence on the performance of cohesion policy is contested. Research shows that regional disparities have narrowed across the EU, both across regions and across member states over the long-term, albeit with significant differences between groups of countries and within countries. There is little consensus on what influence cohesion policy has had on regional growth and convergence, with results varying according to the method, time period or territorial unit used (Bachtler – Gorzelak 2007). Much of the modelling work, and some econometric analyses and other studies, have concluded that cohesion policy has had a considerable impact on the output and income of the lagging regions and countries of the EU (e.g. Bradley – Morgenroth 2004; Varga – in't Veld 2010 and 2011) and that Structural and Cohesion Funds have contributed to a reduction in regional disparities (Cappelen et al. 2003, Dall'Erba – Le Gallo 2003, ECOTEC 2003, Puigcerver-Peñalver 2007). However, other economic studies have found cohesion policy to have had a neutral or even negative impacts on regional convergence (Ederveen et al. 2003, Villaverde – Maza 2010), or that it has very limited consequences for growth (Boldrin – Canova 2001, Puga 2002).

Clearly, there are severe methodological difficulties in analysing the effects of a policy implemented in different national and regional contexts, through thousands of different interventions, co-financed with other funding and whose outcomes may not be readily measurable, especially in countries or for programmes where EU funding is relatively small. As Applica et al. (2010) noted, establishing direct causal links is challenging: “[t]he context in which cohesion policy was implemented, the often small scale of the funding in relation to the forces it was intended to counteract and the many other factors at work [means that] it is unrealistic in most cases to expect to be able to trace a direct link between policy and regional developments” (p. 10).

Alternative methods for analysing achievements have sought to aggregate project-level data collected through monitoring systems and survey research. The ex-post evaluations conducted on the 1989–93, 1994–99 and 2000–06 programme periods have variously estimated employment creation associated with Structural Funds intervention to involve upwards of a million additional jobs in each period (Ernst & Young 1997, CSES 2003, ECOTEC 2003, Applica et al. 2010). These estimates are, however, affected by the shortcomings noted above – reliance on incomplete or inaccurate data-sets, questionable definitions (such as the meaning of “jobs safeguarded”), and problems with aggregation across programmes, funds and objectives. Figures for employment creation have often been expressed as gross jobs because of difficulties in taking account of displacement and deadweight effects in calculating net job creation.

Lastly, research on the performance of cohesion policy has tried to assess the qualitative effects, or added value, of cohesion policy (Bachtler – Taylor 2003, Mairate 2006, Bachtler et al. 2009). These studies have found that the regulatory obligations for programming and implementation of Structural Funds programmes have had certain administrative, learning and spillover effect on domestic systems and, in some cases, are associated with innovation and greater efficiency. Thus, multi-annual planning requirements are said to have encouraged the adoption of more long-term and strategic approaches to economic development by different tiers of government. The monitoring, evaluation, reporting and control requirements are considered to have contributed to the improvement of public administration processes and cultures. The requirement to involve different types of partners in the design and implementation of programmes has encouraged more inclusive policy-making and delivery and has contributed to broader decentralisation trends across Europe. From a financial perspective, it is reported that additional resources for economic development have been leveraged through the additionality principle and co-funding requirements.

However, assessments of the added value of cohesion policy management and implementation are not conclusive. They have been strongly disputed by some

government authorities and commentators, not least in member states which have argued for less money to be spent on cohesion policy (Bachtler et al. 2013). It has also been noted that, an assessment of “net” added value needs to consider the additional costs associated with the administration of cohesion policy in terms of bureaucratic time and procedures (SWECO, 2009).

### **Improving the Performance of Cohesion Policy**

Against a background of contested effectiveness, and a political imperative to justify EU spending, the regulatory framework for cohesion policy in 2014–20 is giving a high priority to performance issues. This is not new: arguably performance has always been embedded in the policy’s design. Since 1988 in particular, the programming principle has required the setting of multi-annual objectives and targets informed by strategic analysis, debate and negotiations with key partners and stakeholders. Monitoring, reporting and evaluation are well-institutionalised, providing accountability over the use of the Funds and supporting programme decision-making processes. Disciplined financial management has been encouraged since the late 1990s, as has the use of programme-level incentives to reward performance. Throughout the policy’s history, the “added value” of cohesion policy expenditure has been high on the agenda of policy debates and reviews (Bachtler – Taylor 2003). In its explanatory memorandum to the 2004 reform proposals, the Commission stated that “a stronger accent on performance and quality” would be a hallmark of the 2007–13 policy regime and called for (EC 2004, p. 11):

*“a greater focus on impact and performance, and for a better definition of the results to be achieved. Overall, the efficiency of cohesion policy would be improved by the establishment of an annual dialogue with the European Institutions to discuss... the progress and results of national and regional programmes, so to enhance transparency and accountability towards the institutions and the citizens.*

*Evaluation before, during and after the end of the programmes would remain essential to the overall effort to maintain quality. In addition, the Commission proposes to set up a Community performance reserve whose main objective would be to reward the member states and regions which show the most significant progress towards the agreed objectives.”*

Nevertheless, the experience of the 2007–13 period indicates that systemic weaknesses remain (Barca 2009). As noted above, at the programming stage, strategies often have very broad priorities covering a wide range of interventions and have been found to lack clear-cut objectives and a justification of how planned interventions should achieve them (Applica et al. 2010). Outcome indicators and

targets often play a marginal role in programming and do not incentivise good performance at the implementation stage (Casavola 2009).

Monitoring and reporting of programme delivery in Annual Implementation Reports is considered to be “wholly inadequate to enable progress to be meaningfully assessed” due to excessive focus on inputs (financial resources spent), a failure to link indicators to intervention or policy objectives, and inconsistent definitions which do not allow comparisons over time or across regions (Applica et al. 2010). The reports often do not explain why outcomes have fallen short of targets or exceeded them, nor do they put outcomes into context or relate the co-financed interventions/projects to national and regional policies.

A further criticism is that performance conditionality is weak (Barca 2009). Programmes are often designed and delivered to prioritise financial absorption and meet spending deadlines rather than policy objectives, and they do not provide adequate incentives to use resources effectively; it notable that only two member states, Italy and Poland, used the voluntary option to create an ERDF performance reserve in the 2007–13 period. Commitments to address institutional and strategic pre-requisites and conditions for effective use of the Funds are also inadequate.

Lastly, EU institutions place little emphasis on performance considerations. The Commission has been criticised for focusing on administrative issues and a perceived “mechanistic” enforcement of rules, particularly concerning financial management, audit and control. High-level political debate in the Council of Ministers and the European Parliament gives insufficient attention to the policy’s achievement (Barca 2009).

In response to these weaknesses and pressures, the Commission has proposed a range of new measures to strengthen the strategic content of programming and incentivise better performance in 2014–20.

First, programmes should have more clearly specified objectives and a stronger focus should be placed on “result” indicators and targets. Each investment priority should identify one or a limited number of result indicators that best express the intended change, the direction of the desired change, a quantified target or a range, and a baseline. Underpinning this shift in emphasis towards outcomes is a new “intervention logic” for programming, monitoring and evaluation. The key difference from the past is that the distinction between result and impact indicators has been dropped (Gaffey 2012). Impact is now understood as the contribution of the policy to changes in the result indicator, thus placing less emphasis on longer-term effects on the wider economy (such as GDP). The aim is also to focus attention on the identification of needs, objectives, results and corresponding indicators at the start of the programming process – rather than the allocation of resources (Figure 1).

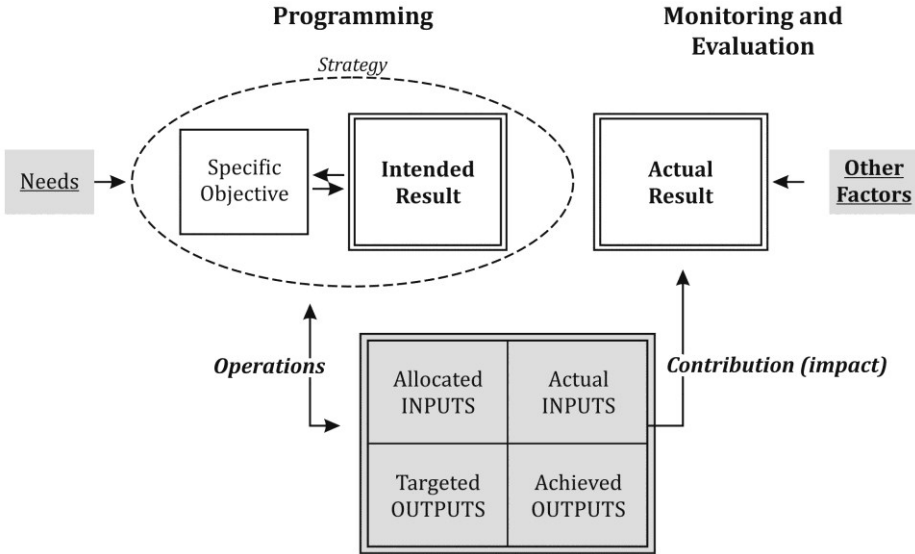


Figure 1. The new intervention logic  
Source: European Commission (2011, p. 5).

Second, conditionality provisions aim to ensure that the pre-conditions for effective implementation of the Funds are put into place. To ensure that the strategic, institutional and administrative conditions for effective cohesion policy investments are put into place, a structured system of ex-ante conditionality requirements is introduced for 2014–20. The regulation distinguishes two types. *Thematic conditionalities* are specific to each thematic objective and relate mainly to the pre-existence of domestic strategies (e.g. on smart specialisation), the transposition and implementation of EU Directives (e.g. on water or waste), addressing EU guidelines (e.g. employment and social policy) and capacity-building activities (e.g. sufficient project pipelines in the transport sector). *General conditionalities* mainly relate to compliance with EU law (e.g. strategic environmental assessment, State aid rules etc.) and capacity-building to support compliance as well as a conditionality to strengthen the statistical systems and data for programme monitoring and evaluation.

Third, a new performance framework, review and reserve should encourage better measurement, provide incentives to reward the achievement of targets and sanctions for serious under-achievement. Intermediate targets (or “milestones”) will be set out for each Priority in the Partnership Agreement and Operational Programmes (OPs) for the year 2018. This would include financial output and, “where appropriate”, result indicator targets. The Commission and member states will be

required to undertake a performance review of programmes in 2019 to examine the achievement of the intermediate targets of programme priorities. A performance reserve would be set aside at the start of the period (5% of national allocations for each Fund and category of region) and allocated in 2019 following the performance review. Simplified financial management geared towards results is encouraged through so-called Joint Action Plans for parts of programmes (Table 1).

Lastly, monitoring and evaluation should place more emphasis on achievements and impact. The OPs should contain for each Priority axis common (EU wide) and programme-specific output and result indicators, with a baseline value and a quantified target value “where appropriate”.

Table 1. *Ex-ante conditionalities*

Type of conditionality	Domestic strategy	EU regulation	EU priority / guideline	Capacity
<i>Thematic</i>				
1. RTDI	x			
2. ICT	x			
3. SME competitiveness		x	x	
4. Low-carbon economy		x	x	
5. Climate change	x			
6. Sustainable resources	x	x		
7. Sustainable transport	x	x	x	x
8. Employment & labour mobility	x		x	x
9. Skills, education, learning	x		x	
10. Poverty and inclusion	x		x	
11. Institutional capacity	x			x
<i>General</i>				
Anti-discrimination		x		x
Gender equality	x			
Disability			x	x
Public procurement		x		x
State aid		x		x
Environment		x		x
Statistical systems & indicators				x

Source: Authors' compilation.

### **Will Performance Improve?**

In justifying the continuation of a well-funded cohesion policy, the European Commission has made ambitious commitments for the ability of Structural and Cohesion Funds (now termed European Structural and Investment Funds) to implement the Europe 2020 objectives and to demonstrate that it is making effective use of the EU budget. The proposals to improve performance are based on more extensive consultation among European institutions, member states and other interests than ever before, and they are built on substantial research and evaluation evidence. As noted at the outset of this chapter, this “performance turn” provides a promising opportunity to enhance the quality of strategic thinking and management of the Funds and programmes. However, putting the proposals into practice, and achieving visible change to the performance of the Funds, faces some formidable obstacles.

Previous reforms of cohesion policy have shown that there is generally a disjuncture between political objectives and practical implementation when it comes to performance issues. Member states may agree in principle to goals such as greater effectiveness and efficiency, but they resist any measures, such as controls or sanctions, that may give the Commission greater influence over Member State spending decisions (Bachtler et al. 2013). Thus, the proposals for 2014–20 put forward by the Commission in 2010 have been progressively diluted in the course of the negotiations on the regulations: Partnership Contracts have been renamed as Partnership Agreements; the scope for the Commission to enforce conditionalities has been restricted; the proposal to have two performance reviews in 2014–20 has been reduced to one; the power of the Commission to suspend intermediate payments and make financial corrections has been limited; and the wording of originally strict rules has been made more flexible by allowing reference to “national rules and practice” or only being applicable “where appropriate” (Mendez et al. 2013). The danger of such piecemeal modification of a coherent set of proposals is that new administrative obligations are introduced but with a weakened potential influence on performance.

A second challenge is the interpretation of the new regulations by managing authorities at the programme level. Again, previous experience demonstrates that member state authorities have found ways to avoid complying with the intention of policy reforms; in negotiating programmes with the Commission, they have the advantage of greater knowledge and are aware that there are limits on what the Commission can insist. A survey of managing authorities conducted in late 2012 found that the reaction to the new performance requirements was less than might have been expected (Mendez et al. 2012). While some managing authorities are seeking to adopt the intervention logic, many claimed not to be anticipating major

changes to their programming and programme management procedures. Refinement and relatively minor adaptation of systems were more common, with a view to minimising the impact of administrative changes on implementing bodies and beneficiaries. It is striking that the high-minded statements made at the political level about the need to improve the quality of spending and improve the performance and results of cohesion policy – as for example at the recent Informal Ministerial Meeting and Directors-General Meeting under the Cyprus Presidency – had not found an echo at the level of managing authorities.

Member state compliance with performance obligations in the regulations is conditioned by the incentives and sanctions that are put in place and specifically whether there are financial or political penalties that might be incurred. The experience of the past decade is that measures related to financial management (that involved the suspension or recovery of funding) or the decommitment rule (which led to the loss of money that was not spent within two years of being committed) had a significant effect on the seriousness with which member state authorities took financial controls and absorption. By contrast, measures such as the performance reserve in 2000–06, whose incentivising and sanctioning effects were largely neutralised in the regulatory negotiations, had limited impact on performance in many member states.

Lastly, a more fundamental question is whether there is the requisite administrative capacity and culture to meet the Commission's objectives. Previous research has attributed the poor effectiveness of cohesion policy in some countries – especially strategic decision-making on the allocation of resources – to weaknesses in administrative capacity (Bachtler – Gorzelak 2007, Milio 2007). There is considerable evidence that the priority for many programme managers is ensuring timely financial absorption rather than maximising the strategic impact of programmes (Bachtler et al. 2009). The new performance framework is intended to shift the focus of attention and effort towards the achievements of interventions, supported by investment in institutional capacity and resources at Commission level to promote knowledge exchange and learning on effective policy management. However, whether it succeeds will depend on managing authorities and implementing bodies subscribing to these objectives, using new tools and procedures (for project generation and selection, monitoring and evaluation) to prioritise achievement, and for monitoring committees to be regularly debating what is working well, the progress in achieving strategic objectives, and the effectiveness of delivery arrangements. Perhaps most importantly, the Council and Parliament need to drive a change in culture by regularly debating the progress being made in achieving policy goals in each member state, and giving a political profile to the effectiveness and efficiency of spending.



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# **CHALLENGES FOR REGIONAL POLICY – OLD DILEMMA, NEW PERSPECTIVES AND THE IMPORTANCE OF INSTITUTIONS**

*Michael Steiner*

## **Introduction**

What are relevant goals for regional policy? What kind of institutions are necessary to achieve desired objectives? Does the convergence goal lead to more justice? What are the consequences of new theoretical insights into innovation and growth?

The aim of this paper is to discuss these questions in the context of a revived debate on the institutional bases of economic policy in general and on the role of space for economic development in specific.

In the following we will describe the ongoing shift in paradigm of regional policy and the underlying factors and motivations; we then outline the importance of an institutional approach referring to elements of “old” and “new” institutionalism; new perspectives on regional innovation and growth will be derived from three recent interpretations; this leads to an excursion to the debate on justice in order to evaluate the objectives and finally to potential consequences for regional policy including some “caveats”.

## **Shift in Paradigm**

Regional policy has undergone substantial changes in the last decades: a change in primary objectives, extension of instruments, increase of institutions and agents as well as new theoretical foundations and legitimisation of their policy orientation. At the same time the regional dimension of economic activities has gained importance, and hence regional policy in general as well (Bachtler – Brown 2004, Cooke 2002). On the one hand, a stronger regionalisation and decentralisation of economic policy, mainly its technology and research orientation, took place; on the other hand, the spatial aspect of many sectoral policies was recognised and emphasised.

Examples of reform are paramount – at least on paper, but nevertheless as a clear expression of change.

A prominent example is the “Europe 2020 Agenda”, the European Union’s ten-year growth strategy (2010), soon extended by a “Territorial Agenda of the European Union 2020” (2011). Its basic aim is to address the shortcomings of the “standard” growth model and to create conditions for a different type of growth that is smarter, more sustainable and more inclusive. As such it relies heavily on institutional change and on new governance structures and processes and emphasises the diversity of regions.

In a similar direction OECD’s “Growth Strategy” calls for stronger, cleaner and fairer growth. In its regional perspective (2009) it has as an explicit new paradigmatic objective: the tapping of underutilised potential in all regions for enhancing regional competitiveness and proposes as tools a mix of soft and hard capital (capital stock, labour market, business environment, social capital and networks).

More specifically “regional” reform of the EU cohesion policy emphasises a “place-based” territorial approach; it concentrates on a limited menu of priorities, reveals increased urban emphasis, is oriented towards results and performance and with its thematic concentration stays in line with the Europe 2020 objectives (McCann 2012).

The US government’s regional growth policy documents – not as explicit as the European ones – nevertheless also point to sustainable communities, innovation clusters and revitalising neighbourhoods (McCann 2012).

The World Bank’s Strategy (2009) – although spatially neutral and hence more in the tradition of “people-based (as opposed to place-based) policies” – targets people by improving their social and human capital (Partridge 2012).

There are three main factors and motivations underlying this shift in paradigm of regional policy, having strong implications especially for the objectives and the allocation of competences for strategy development and application of (new) instruments.

- Knowledge has been recognised as a major source of competitive advantage in an increasingly integrated world economy. The most successful regions are perceived to be those whose firms display innovative capacity, being able to adapt to a rapidly changing marketplace and stay one step ahead of competitors. This is connected with the changing character of knowledge leading to new forms of organisations where the dichotomy between market and hierarchy is challenged by hybrids in the form of networks.
- Another factor is the growing interest in the role of institutions as a factor shaping economic performance in general, and of knowledge creation in specific. The complexity of co-operation (Axelrod 1997) is a phenomenon that cannot be explained solely by individual decision-making: strong rationality is not sufficient for relatively effective economic behaviour.
- Both these factors together lead to a third element: the role of space for knowledge generation and the specific institutional background within given

territories. The focus here is on the necessity, and forms, of proximity for knowledge exchange. The key argument is that the collaborative nature of innovation processes has reinforced tendencies toward geographical clustering because of the advantages of locating in close proximity to other firms in specialised and related industries.

These strands of thinking – relatively new in kind and especially their combination – have nevertheless a longer tradition: the influence of institutions on human (economic) behaviour, the role played by knowledge in the creation of wealth, the influence of space and distance on economic decision-making as well as the problem of co-ordination of individual decision-making units, are topics which have long attracted discussion. Yet, in outlining the necessity of a new approach in regional policy, both elements – the emphasis on the need for guiding institutions and the role played by space for knowledge generation – deserve new attention and interpretation.

### **To Learn from Institutional Economics – Old and New**

The recent renaissance of interest in institutions as a factor shaping economic performance has implications also for the objectives, implementation of strategies and instruments of a new regional policy focused on knowledge and contributing to smart growth. Knowledge creation and technology management is not an automatic outcome of individually rational behaviour but needs “guiding” institutions. These guiding institutions have to be seen from “the perspective that technology and institutions should be understood as co-evolving” (Nelson 2001, p. 19). Development processes do not take place in a vacuum, but rather have profound institutional and cultural roots: “The central issue of economic history and of economic development is to account for the evolution of political and economic institutions that create an economic environment that induces increasing productivity” (North 1991, p. 98). To what extent can regional policy contribute to and be regarded part of this co-evolutionary process which is the driving force behind economic growth?

Several general ideas of institutional economics (both “old” and “new”) seem to be of relevance and help in understanding the institutional dimensions of regional policy in the process of technological development. They also help to answer the “why” – question posed by Arrow (1987, p. 734) as the essential perspective of the New Institutional Economics: “...it does not consist of giving new answers to the traditional question of economics – resource allocation and the degree of utilization. Rather, it consists of answering new questions, why economic institutions emerged the way they did...”

Starting with the proposition that “institutions do matter” (Matthews 1986; Williamson 2000) it follows that individual behaviour is moulded by – and in turn constitutive of – social institutions. This was the basic idea developed by Veblen (1899): institutions act upon individuals by changing their habits. This habit-formation becomes the more important, the more co-operation – instead of competition – is needed. Innovation and productivity gains are based on subtle forms of co-operation, where the creation of new knowledge implies an intense process of interaction which cannot be explained solely in terms of individual decision-making.

Innovation processes in developed economies have essentially been marked by differing forms of innovative milieu and their supporting institutions. Evolutionary economics – as a special interpretation of the institutional perspective – sees these institutions as a moulding device for the technologies used by a society. In this context, drawing on Nelson and Sampat (2001) and Nelson (2001), institutions can be regarded as “social technologies”. Whereas “physical technologies” refer to the technical forms of commodities and services, and the ways in which they are produced using particular divisions of labour, “social technologies” are the specific mode of co-ordination once there is a division of labour. Social technologies involving “patterned human interaction” become institutions as soon as they are regarded by the relevant social group as standard and become accepted ways to get things done. In Nelson’s view this concept encompasses ways of structuring activity not only within particular organisations, but also across organisational borders: institutions are not so much constraints on behaviour, but rather an effective support as soon as human co-operation is needed (Nelson 2001, p. 24).

A central fact about the modern process of innovation is that it is based on a division of labour, as clearly foreseen by Adam Smith. He early recognised what is now called the social nature of the innovation process. This division-of-labour induced social process produces efficiency gains from both specialisation and professionalisation, but also requires a framework to connect the component contributions of the different agents. As far as knowledge and skills are concerned, this aspect of connectivity, or technology transfer, cannot be effectively co-ordinated by conventional markets: we are in need of specific institutional arrangements.

Yet – as has been outlined by Helmstädter (2003) – the idea of connectivity transcends the usual problems of “division of labour”, there are additional and non-trivial problems of “knowledge sharing” thus far not properly appreciated by the New Institutional Economics. The main line of arguments runs as follows (Brödner – Helmstädter – Widmaier 1999; Helmstädter 2003):

- The pure transaction cost approach misses fundamentally the essence of knowledge as an economic resource. “The new institutional economics deals with institutions that govern the interactions taking place under the division

- of labour, but leaves aside the division of knowledge activities that go with it" (Helmstädter 2003, p. 14). Once the object of interaction between participating actors is knowledge, the character of interaction changes; the institutional conditions for an efficient division of knowledge are different.
- The main differences reside in the form and the impact of interaction. Under division of labour the transaction of goods and services is paramount, and subject to the rules of competition and to exclusivity of use and consumption. Under knowledge sharing it is knowledge and skills that are paramount, and these are subject to co-operation and the increase of knowledge for all (inclusivity). Whereas division of labour involves differentiation and separation of method, mode and product, knowledge sharing involves internalisation and recontextualisation.
  - The most important "institutional" consequence is that "co-operation is the basic institution of the process of the division of knowledge" (Helmstädter 2003, p. 32). But the degree of co-operation depends again on the type of knowledge use: application has stronger competitive elements whereas the creation and the transfer are dominated by non-economic competition (status, acceptance) and co-operation. The interest lies here in the institutions that make knowledge sharing efficient.

These strands of "new" institutional thinking in the context of knowledge creation and sharing emphasise that connectivity and the desired efficiency cannot be effectively co-ordinated by conventional markets, but require non-market institutional arrangements for the generation of knowledge. This has implications also for strands of new thinking about regional growth and innovation.

### **New Perspectives on Regional Innovation and Growth Dynamics**

The topic of innovation and growth in a spatial context is wide and long-lasting having led and still leading to treatment in handbooks, books covering advances in spatial science and of course in textbooks. To make it – in the context of this paper – focused and short, three examples coming from each type of "standardisation" of new knowledge will be cited and interpreted in order to derive consequences for regional policy.

The first one is the "cognitive" approach to innovation and local/regional growth as summarised in a handbook-contribution by Capello (2011). Innovation – in Capello's terms "the smart use of advanced knowledge" – is regarded as the result of the presence of collective learning processes where territory becomes a "cognitive engine" enhancing co-operation and interaction.

The specificity of the cognitive approach consists of the role played by space. Whereas space has in the two other approaches a rather passive role or is treated in a widely abstract, indirect and stylised way, the cognitive approach sees

knowledge flows and information channels clearly “embedded in the territorial structure of an area” (Capello 2011, p. 112). This happens both through the huge mobility of professionals and skilled labour and through the intense co-operative relations among local actors. This alters the character of space: “Space becomes real territory” where economic and social interactions are embedded into geographical space, a substrate which is able to incorporate collective learning processes. Its cognitive proximity is based on shared behavioural codes, common culture, mutual trust and sense of belonging – clearly “institutional” elements of a regional economic landscape.

As a special “advance in regional science” Crescenzi and Rodriguez-Pose (2011) propose a “territorial integrated approach” to innovation and the genesis of regional growth. The core of their analysis is not the individual firm, the sector, the “cluster”, or “milieu” but – also – the “territory” where all these factors interact.

To integrate all these factors they combine three different approaches to the process of innovation in a coherent framework:

- The analysis of the link between investment in R&D, patents, and economic growth in order to understand the mechanisms through which knowledge is created and translated into growth;
- The study of the existence and efficiency of regional innovation systems where they take a broader view on the process of innovation and emphasise the role played by institutions in order to translate available knowledge into economic growth;
- The examination of the geographical diffusion of regional knowledge spillovers in order to demonstrate how institutional factors and global networks shape the spatiality of knowledge flows.

This approach – making use of a cross-fertilisation of different theoretical approaches to the process of innovation and setting them in the context of socio-economic contextual factors – enables them to offer an integrated empirical framework, a “growth diagnostics approach” leading to a model of a modified knowledge production function in an “integrated” territorial framework, which serves as a common platform for top-down and bottom-up policies (Crescenzi – Rodriguez-Pose 2011, p. 176). Again: “territory” has turned into a sophisticated system combining several keystones of regional and local economic development.

The last example for “standardising” new perspectives of innovation and growth is a recent textbook on “Ökonomische Geographie” (Bröcker – Fritsch 2012) where all sophistications and complexities have to be reduced to the capacities of undergraduates and the essentials made clear:

- The source of growth is an increase in capital and knowledge – only the interaction of both elements creates growth; hence we have to learn how this interaction produces growth.



- Investment in knowledge combined with complementary capital is – as the endogenous growth theory tells us – not subject to the law of diminishing returns; continuous growth is therefore possible.
- This does not imply convergence in a world with many regions; realistically assuming different efficiency of regional innovation systems, less innovative regions would lose against more innovative ones; yet the possibility of and the potential for imitation impedes complete relative pauperisation.
- The efficiency of innovation systems differs in respect to both the level and the quality of innovative activities. Public research infrastructure is a necessary condition, yet what is decisive are the network relations between different actors of the system.
- Regional innovation systems differ not so much in knowledge infrastructure, but in the quality of co-operation among different elements of the system; improving this quality takes time.

The main messages of these “new perspectives” are clear: regional growth is endogenous, innovation (“smart use of advanced knowledge”) has a strongly differentiated impact depending on the openness of regions, the efficiency of the innovation system, and on the quality of the institutional interaction of various elements where informal relations play an ever increasing role – it is “territory” that counts. Do these perspectives lead to new objectives of and for regional policy? What consequences do they have for strategies and instruments of regional policy?

### **Objectives: From Old Dilemmas to New Philosophical Dimensions of Justice**

Let us turn first to the question of objectives taking a look from a broader philosophical perspective. For students being trained in the 1970s (and also for the ones teaching in those times and after) regional policy had a primary goal – reducing regional disparities. Although it was pointed out that regional policy may have many objectives, they were – in the simplest model – reduced to two (Richardson 1978, p. 226): efficiency (the maximisation of growth in the national economy) and equity (the reduction of interregional disparities in indices of income, welfare and growth). And still today the case for regional policy is – not exclusively but strongly – discussed in this dilemma of efficiency versus equity (for a prominent textbook example see Armstrong – Taylor 2000).

Equity is hereby interpreted as striving for more justice for poorer and underdeveloped regions. And it is basically the core of a European regional policy favouring lagging regions. Understood as “cohesion policy” leading to more convergence it is based on the assumption that the process of convergence makes a “Europe of regions” a better – and more just – place. A small excursion into recent philosophically based discussions on the term justice may help to illustrate the

complexity of this equity versus efficiency trade-off and contribute to a potential “paradigm shift” in regional policy objectives.

Does convergence lead to more justice? The answer depends on what one means by the term justice. Only very naïve believers in the ideals of justice would expect the term to refer exclusively to an increase in equality of income. In fact, it means much more than this. In his book *A Theory of Justice*, John Rawls (1971) pointed out that a distinction must be made between several different levels. At one level, for example, that of individual liberty, which forms the basis of modern liberalism, primacy is given to personal rights and to establishing fair “rules of the game”. The essential focus here lies on developing equitable institutional procedures and not on the provision of equitable outcomes. Another level concerns itself with questions relating to “the good life”, and the search for the ultimate goals to be achieved when organising a society. At this level, justice becomes one of many possible goals.

The Indian economist and philosopher (and winner of the Nobel Prize in Economics), Amartya Sen, has pointed out that even when the pursuit of justice is given pride of place among all possible objectives, the question still remains as to what exactly needs to be distributed in a just manner. A fair distribution of freedom is just as much implied as a fair distribution of income (Sen 2009). Furthermore, following all the above, a decision still has to be made concerning the basis upon which social inequalities are to be judged. According to Rawls’ “difference principle” a move towards greater social equality is achieved when a society accepts that strengthening the position of its weakest members is an essential assessment criterion. This places the emphasis not on social equality as such, but on establishing a social order in which it is possible for the poorest to benefit from the total wealth of society.

This is not to imply that basic individual freedoms and liberties may be ignored. Quite the contrary. Liberalism is still essential since we, as individuals, will never achieve unity of purpose. However, in full knowledge of this, we must nonetheless strive to achieve a practical and reasonable answer to the question of how we should live together in a manner acceptable to all. In an exact and careful analysis, Rawls proposed that a solution lay in his principle of “justice as fairness”, and demanded a form of social contract for fair play.

Increasingly, social justice is taken to infer justice in exchange. Otfried Höffe (2004) in particular, has emphasised that the debate on matters of inequality involves an implicit bias in that the main focus tends to be on questions of distribution (here he explicitly includes John Rawls’ work which he sees as belonging to the “dogma of justice” debate). The resources available for distribution do not arise spontaneously – they must first be produced. In order that products may become available for distribution at all, basic patterns of co-operation are first necessary,

i.e. institutional arrangements in order to organise the giving and receiving, in other words, justice as exchange.

The expression of self-interest in the form of market exchange derives not only from an acceptance of individual freedom, but also from the realisation that our desire to engage in acts of solidarity is not unlimited [a view found in particular in the work of Peter Koslowski (Kettner – Koslowski 2011)]. From this perspective, solidarity is itself a scarce resource, and thus occupies a central place in the development of free markets and the exercise of self-interest. Since resources are scarce, and since our good intentions alone will not enable us to love others sufficiently so as to produce for them, self-interest leads to market exchange arising as a form of “second best” arrangement. Scarcity of the resource solidarity calls for the release of self-interest, which in turn needs to be tamed by the discipline of competition – an important function of market exchange. However, it is only the presence of both factors which allows for a relatively efficient and fair provision of goods for distribution.

This implies a paradigm shift with respect to our considerations of justice. Instead of viewing distribution as starting point in the discussion, we need to focus on exchange processes, whereby not only exchange in an economic and material sense is implied, but also the exchange of intangible ideals and concepts such as security, power, respect, freedom, and opportunities for personal development. The inclusion of such concepts in the term justice lends it a much wider, “trans-economic” character.

### **Imperatives for Regional Policy**

Three important factors influencing and causing a “shift in paradigm” of regional policy have so far been identified: (1) the renaissance of institutional economics revived with insights of “new” institutionalism; (2) new perspectives in the interpretation of innovation and regional growth based on a vast literature of at least one decade of research focussing on the link between endogenous growth and the various dimensions of knowledge leading to precise condensations in hand- and textbooks; and (3) starting with familiar conflicts of goal setting of regional policy in order to do justice to regions, an ongoing debate in meta fields to regional science about interpretations of justice.

Taking again the methodological approach to focus on and interpreting recent advances as to policy consequences of these new perspectives, four new imperatives emerge.

The first is about objectives. It concerns the thematic concentration and priorities, the strategic orientation and form of implementation of regional policy in a European context with the underlying but adaptive concept of cohesion. Under-

lining and selecting various elements of an ongoing debate on the reform of EU cohesion policy (McCann 2012, Barca – McCann 2011), the following points are of special importance:

- Regional policy is an investment policy. This main statement in support of the delivery of the Europe 2020 strategy implies a move away from the convergence criteria to focus on adjustment and transformation criteria.
- This includes the consideration of broader issues relating to well-being and the necessary extension of indicators to get a better sense how to design, implement and assess policies aimed at improving social progress (Stiglitz – Sen – Fitoussi 2009).
- There is a strong need for contractual arrangements for promoting the institutional changes appropriate to localities; this includes the consideration of local regional capabilities and regional untapped potentials.
- The switch from financial/input to the use of results/outcome indicators is more than a technicality, but is designed to change behaviour and to foster policy-learning and policy-innovation.

The second imperative derives from both the institutional and philosophical background as well as from the specific interpretation of territory – there is a need for basic patterns of co-operation. The cognitive approach emphasises collective learning processes and socialisation to the risk of innovation and therefore calls for “the existence of rules, codes and norms of behaviour which: (1) facilitate co-operation among actors and therefore the socialization of knowledge; and (2) assist economic actors (individual people, firms and local institutions) to develop organisational forms which support interactive learning processes” (Capello 2011, p. 107). For territory to become a “cognitive engine” interaction and co-operation must be enhanced, uncertainty, information asymmetries and the probability of opportunistic behaviour reduced – all typical forms of market failure which only well-developed and institutionalised forms of co-operation can overcome; only then does space become a source of knowledge creation.

Taking the importance of a territorial approach to innovation policies for granted a new approach to regional innovation policy underlines the collective nature of the learning processes with their main ideas of specialisation, embeddedness and connectedness. Yet: formal knowledge is not the only source of innovation, there is a large variability of forms of territory and of regional paths towards innovation (Camagni – Capello 2012). This leads to a differentiation of smart innovation policies according to the specific territorial patterns of innovation with distinct policy actions for local knowledge generation (concentrating on embeddedness) and policy actions for exploitation of knowledge spillovers (connectedness).

Third imperative: combine top-down and bottom-up policies for new trade-offs between different factors for growth, but also between efficiency and equity. The

territorial “integrated” framework with its cross fertilisation of different theoretical approaches to the process of innovation and its joint empirical model can serve as a common platform to overcome the separation of top-down and bottom-up policies. The translation of this combination of a macro “growth diagnostic” approach and a diagnosis of local economic conditions into a diagnostic/policy tool proposes pragmatism and eclecticism (Crescenzi – Rodriguez-Pose 2011, p. 169):

- Innovative effort does not produce the same effect in all regions – a variety of local factors have an influence on this process.
- There are trade-offs between different factors, some factors work in order to compensate for the weakness of others – the reduced exposition to knowledge flows can be compensated by a more efficient exploitation of existing knowledge. There is no one-dimensional concept for efficiency; not all constraints bind equally.
- The combination of bottom-up and top-down policies allow a new balance between efficiency and equity issues: top-down regional policies have been mostly concerned with a mixture of aggregate efficiency and territorial equity, bottom-up approaches more with local efficiency – co-ordination between different policy actions become increasingly relevant and are able to mitigate the traditional conflict and surpass the old dilemma.
- Socio-economic contextual factors – the “social filter” – are fundamental for the process of innovation. This also applies to accessibility – it is not only physical, the position of the local economy in global networks can be influenced by the capability of local actors to develop organisational, institutional and social proximity relations with other agents.

Fourthly: There is a need for new allocation of competences between different levels of policy.

- There is a potential mismatch between policy objectives and beneficiaries of (EU) funding – “the sources of disadvantage are more spatially concentrated than the funds devoted to compensating such disadvantages” (Crescenzi – Rodriguez-Pose 2011, p. 171). This may account for the limited impact of EU regional policy.
- EU policies have to be place-based for local design, control, and legitimacy. The onus of responsibility should be transferred to local stakeholders and policy-designers to identify bottlenecks, market failures and missing links (McCann 2012).
- Place-based competition (“*Standortwettbewerb*”) between regions can promote (under the conditions that the reach of competence coincides with costs and benefits of allocated goods and existing control of subsidies) both efficiency and development as well as democratic control. Under present conditions there is a legitimate economic need for reform in the allocation of competences at a European level (Karl 2012, p. 300).

**Caveats**

Do we have clear answers to the challenges for regional policy?

Yes, on first sight:

The choice of objectives should be guided by new weights to be given to distributional equality on the one hand and overall enhancement supported by co-operation on the other.

This should lead to a thematic concentration of goals with a newly balanced menu of priorities.

Institutional reform must be aimed at supporting co-operation as the basic institution for generating and sharing knowledge and as precondition for territory to become a “cognitive engine”.

A pragmatic implementation should respect trade-offs and allocation of competences.

Yes, but on second sight:

Mary Douglas suggested that social institutions may be regarded as codified information. Yet, according to her view, it is highly improbable that institutions arise continuously as a clustering of congruent ideas and a mixture of force and convention (Douglas 1986, p. 179). Also North (1991) has pointed to the possibility of “institutional obstruction” and to the potential failure of economies because of the lack of new institutions capable of adopting available productive technologies.

According to Emile Durkheim the elementary social bond only emerges if a model of social order becomes rooted in the thinking of individuals. And Williamson (2000, p. 595) conceded not only that all forms of institutions are flawed, but that we are still very ignorant about institutions and should therefore be accepting of pluralism.

Amartya Sen (2009, pp. 7 and 10) mentions the dichotomy between an arrangement-focused view (what are the right institutions and rules) of justice, and a realisation-focused (what can be actual realisations and accomplishments) understanding of justice. Instead of a transcendental agreement on the institutional arrangements for the best of worlds we should take a comparative approach that is concerned with social realisations (resulting from actual institutions, actual behaviour and other influences). “Debates about justice – if they are going to relate to practicalities – cannot but be about comparisons” (Sen 2009, p. 400).

Let us be practical – let us look not for the best, but for a comparatively better regional policy.

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# **TERRITORIAL COHESION, CROSS-BORDER CO-OPERATION AND THE EU'S POLITICAL IDENTITY: A BRIEF OBSERVATION**

*James W. Scott*

## **Introduction**

The European Union has in large part been a project of transcending borders and national divisions and thus creating conditions for durable peace, prosperity and more effective interstate co-operation. In doing this, the development of the EU has gone hand in hand with the emergence of shared policy agendas and policy instruments that have created new links between member states. At the same time, the EU has sought to create a supranational community based on a shared sense of political, social and cultural identity. As a result, processes of “Europeanisation” – defined in terms of a gradual diffusion of transnational understandings of citizenship, identity and governance – are closely related to changing political understandings and uses of Europe’s many state borders (Radaelli – Pasquier 2006, Scott – Liikanen 2011).

Since the end of the 1980s, cross-border co-operation (CBC) has been firmly embedded within EU structural policies, cohesion policy in particular. It is also an important element of the new European Neighbourhood Programme operating at the EU’s external borders. Consequently, questions of territoriality, regional policy and cross-border co-operation have been central to the emergence of the European Union as a political community. According to Manzini and Mendez (2009, p. 9), regional policy has been “perceived as a crucial instrument for the identity of a European model of society, and for the legitimacy and viability of the whole political process of integration.” However, in order to signify something more than the sum of national concerns, the EU has needed an *exceptionalist and idealist* narrative that goes beyond state-centred political thinking and that is open-ended – territorially and conceptually. I thus argue that a major element of the EU’s political identity lies precisely in reconciling flexible “idealist” with more fixed “realist” territorial perspectives. EU cohesion policy has thus emerged concurrently with paradigms of cross-border co-operation and notions of territory based on spatial relationships, cross-border and transnational networks and supranational geo-strategies rather than exclusively on administrative and legalistic frameworks.

A central aspect here is the recasting of national spaces as integral elements of an international political community; from this also emerges the attempt to create a common set of discourses in which various political and social issues can be negotiated.

Cross-border co-operation has been promoted by the EU on the assumption that national and local identities can be complemented (perhaps partly transcended) and goals of co-development realised within a broader – a European – vision of community. As such, borders have been used as explicit symbols of European integration, political community, shared values and, hence, identity by very different actors (Lepik 2009, Perkmann 2005, Popescu 2008). Consequently, the Euroregion concept has proved a powerful tool with which to transport European values and objectives (see Bojar 2008). The popularity of the Euroregion concept is undeniable. These associations are now a ubiquitous feature along the EU's external borders as well in many non-EU European contexts. Euroregions, cross-border city partnerships and similar co-operation vehicles have also come into being (Lepik 2012, Popescu 2008, Zhurzhenko 2010). Thus, a significant degree of “de-bordering” through CBC appears to have taken root within the enlarged and wider European Union context.<sup>1</sup>

CBC is an area where Europeanisation has exerted considerable adaptational pressure in countries such as Hungary, Poland, Slovakia and the Czech Republic, resulting, for example, in a flurry of cross-border regional development initiatives and “Euroregions”. At the same time, however, it is more than evident that processes of Europeanisation are not straightforward or uncontested. Local adaptation rather than direct “convergence” to European norms is the rule, not the exception (Brusis 2005). Furthermore, the development of a European political community is also often subject to entrenched national political interests as well as a lack of agreement as to what constitutes “common” European values (Augenstein 2012). More than two decades after the end of the Cold War, borders themselves often remain an obstacle to greater political and social interaction, even if the defensive character of European borders has virtually disappeared.

Given these apparently contradictory experiences what can be said about the trajectory of CBC as an element of EU political identity and within the context of cohesion policy? Recently conducted research reflects tensions between “realist” regional policy concerns related to national development and more “idealistic” policy imperatives that seek to create alternative, border-transcending territorial

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<sup>1</sup> See, for example, Scott and Liikanen (2011); the special issue of *Regional Studies*, Volume 33. No. 7, 1999, edited by Anderson, O'Dowd and Scott (2006), as well as *European Research in Regional Science*, Volume 10.

contexts for regional policy.<sup>2</sup> Idealistic notions of cohesion as exemplified by CBC (territorial co-operation in EU parlance) co-exist in a parallel policy level driven by geostrategic thinking (e.g. spatial planning) but that only partially interpenetrates the realist policy environment. At the level of EU cohesion policy, the direct coupling of CBC with regional development goals appears to be shifting towards more territorially flexible arrangements and a focus on “place-based strategies” and “integrated territorial investments” which can be potentially implemented in cross-border and transnational contexts. Nevertheless, the overall resources available for genuinely border- transcending regional development are but a small fraction of the overall EU structural funds budget which is – targeted largely at newer and “poorer” member states.

In terms of the significance of CBC as a regional development instrument we can detect highly differentiated patterns. Admittedly, there has been a general shift away from prioritising CBC in cohesion policy. However, while CBC has become routinised and even independent of structural fund support in Western European contexts, it is seen more in instrumental, even opportunistic, terms in Central and Eastern European countries.

### **Cross-border Co-operation as “Europeanisation”**

Formally introduced by the Single Act of 1985, partly in response to the regional challenges posed by southern enlargement, the notion of “economic and social cohesion” has become a central unifying idea legitimising an EU role in territorial development. Furthermore, territorial co-operation (TC) within the European Union is understood as a form of local and regional promotion of Cohesion that transcends state borders. In academic debate, territorial co-operation is most generally known as “cross-border co-operation” but, basically speaking, both terms have equivalent meanings. More pointedly, CBC/TC can be defined in terms of political projects carried out by private, state and, to an extent, third sector actors with the express goal of extracting benefit from joint initiatives in various economic, social, environmental and political fields. This has been associated with state-society paradigms that suggest that new forms of politically relevant action can (or must) increasingly take place “beyond the state” and beyond the seemingly inflexible territoriality of the state. Through new forms of political and economic interaction – both institutional and informal – it has been suggested that greater

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<sup>2</sup> Among other sources, reference is made to research funded by the EU’s 7th Framework Programme for Research and Innovation (EUBORDERREGIONS, contract 266920) the ESPON TERCO project ([www.esponterco.eu](http://www.esponterco.eu)) and research carried out by the author within the framework of the Distinguished Visiting Scientist Programme of the Hungarian Academy of Sciences (2012–2013).

cost-effectiveness in public investment can be achieved, economic complementarities exploited, the scope for strategic planning widened and environmental problems more directly and effectively addressed.

The concept of CBC in the European context is not new; it began as a number of subnational political projects already in the 1950s between Dutch and German communities. However, it is the context of post-Cold War change that has elevated CBC to the paradigmatic status it has enjoyed in EU policy. As such, CBC has been appropriated by the European Union as a unique social innovation and as part of the EU's new and progressive political identity (Scott 2009). CBC is thus an element of "Europeanisation" – which can be understood as a diffusion of supranational notions of post-national stateness and a hybrid, multi-level sense of governance, citizenship and identity (Scott – Liikanen 2011). Through its support of CBC, the European Union has promoted a self-image of role model for intercultural dialogue and local/regional development.<sup>3</sup>

During the 1990s and early 2000s, the EU was in fact busy promoting spaces for new forms of cross-border "multi-level governance". Within this context, border regions were explicitly understood to be important elements within European integration policies by representing potentially flexible vehicles with which to manage conflict and facilitate collective action in the management of social, economic and environmental issues (Bufon – Markelj 2010, Perkmann 2002). In retrospect, it is clear that normative notions of Europeanisation through CBC were largely influenced by formal, structural understandings of transnational governance (see Blatter 1997 and 2004). In prescriptive policy terms this translated into an imperative of institutionalisation in which prospects for successful CBC were defined by the outcomes of a gradual and complex process of institutional innovation and capacity-building at national, state and local levels. At the same time, intercultural dialogue, together with adequate strategies with which to reconcile and co-ordinate diverse interests, were seen to offer considerable promise for developing cross-border alliances between cities and their regions (van Geenhuizen et al. 1996, Leibenath et al. 2008). One further normative aspect in all of this were highly optimistic assumptions of new synergy effects and greater mutual benefits to the actors and localities that engage in CBC.

This governance focus on CBC has had a direct impact on cohesion policy through the emphasis of networked – territorially flexible and border-transcending relationships between stakeholders in local and regional development. Cross-border co-operation involves attempts to exploit borderlands situations, using

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<sup>3</sup>This is reflected, for example, in the EU's Green Paper on Territorial Cohesion (subtitled "Turning Territorial Diversity into Strength") in which the need to develop strong cross-border linkages as well as more robust forms of regional and local co-operation with neighbouring states is emphasised (see EC 2008).

borders as a resource for economic and cultural exchange as well as for building political coalitions for regional development purposes (Popescu 2008). With specific regard to “Europeanisation” and its role in the construction of cross-border co-operation contexts, European policies have been aimed at networking cities and regions within a theoretically borderless European space (but without excluding the formal space of administrative regulation). This is evidenced by a proliferation of initiatives aimed at promoting transnational networking, including the European Spatial Development Perspective (ESDP), Visions and Strategies for the Baltic Sea Region VASAB, INTERREG, and the ESPON (European Spatial Planning Observatory Network) programme. One principal strategy pursued by the EU has been to couple the development of cross-border local and regional co-operation structures with more general regional development policies. This has also gone hand in hand with the promotion of institution-building, generally, but not exclusively, in the form of so-called Euroregions or other cross-border associations. The main goal of Euroregions and similar organisations has been to promote a sense of “EU-Europeanness” through mutual learning and co-operative initiatives across borders and, at the same time, address specific regional economic, environmental, social and institutional problems. These associations have served as instruments of EU policy in sharing roles (not always as equal partners) with regional and national governments in the channelling of European regional development support into border regions.

Euroregions were pioneered and developed as locally based co-operation initiatives in Dutch–German border regions as early as the 1960s (Perkmann 2007). Since then, Euroregions have become part of complex policy networks at the European and national levels and have contributed to in cross-border regional development, particularly in Western European contexts. Indeed, the Dutch–German EUREGIO, a Euroregion with its own local council and close ties to German and Dutch state agencies, has served as a model of sorts for the development of border region associations within the European Union. In its different phases of development CBC been characterised by the adaptation of existing institutional structures to new opportunities and problems set by recent geopolitical changes. Given the long track record of cross-border co-operation in Western Europe it is not surprising that co-operation stakeholders in Central and Eastern Europe have emulated many of the institutions and projects pioneered within the EU.

Furthermore, at the pan-European level, *spatial planning* promotes a decidedly post-national perspective within the larger post-1990 geopolitical context of European development. Indeed, one of the principal assumptions underlying cross-border planning exercises is that symbolism guides collective action by creating a sense of common understanding and “language”. Alternative European geographies have been defined, among others, through symbolic planning concepts, the

transnationalisation of space through networks and flexible regionalisation, and network-like forms of governance (Faludi 2010). These initiatives are reflected in the ESDP, first elaborated in 1999. Although not a community level policy in the sense of agriculture or regional development, ESDP, together with the ESPON programme of creating a Europe-wide planning database, has provided a policy framework of an advisory nature agreed by the European Ministers of Spatial Planning and that pursues sustainable economic development and socio-economic cohesion.<sup>4</sup> Since 1990, European spatial development visions have also been conspicuously cartographic in nature; blue bananas, the mesoregional zones of INTERREG, Euroregions, programme regions, networks and trans-European urban and regional hierarchies have emerged as elements in the definition of an integrating European economic and political space (Scott 2002).

### **CBC – Between Multi-level Governance and “Filling in the Gaps”?**

Despite the above, there is no doubt that since the historic turn of events of 1989/1991 and the heady days of a “new European order” there has been a shift in the EU’s focus on CBC. EU rhetoric about the benefits of CBC is today a far cry from the prosaic language of the 1990s. In the now archived EU regional policy website we can read that in fact “cross-border co-operation is essentially about filling the gaps [between national development].”<sup>5</sup> Most recently, CBC has been subsumed within the more inclusive notion of TC and its main aim remains “to reduce the negative effects of borders as administrative, legal and physical barriers, tackle common problems and exploit untapped potential.”<sup>6</sup> It is clear from recent debate on European Cohesion that the EU stakes much of its political capital in more traditional instruments of redistribution that are nationally oriented even if subject to supranational guidelines. Indeed, the 2007–2013 budget of €8.7 billion for territorial co-operation amounts to a mere 2.5% of the total cohesion policy budget. Furthermore, a major overall share of cohesion funds are targeted to Central and Eastern European countries where there appears to be less enthusiasm for CBC as a regional development resource.

Arguably, we see a strong dose of political realism creeping into European discussion of borders and cross-border co-operation. As some observers have pointed

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<sup>4</sup> Central to ESDP is a focus on regional urban systems, urban-rural relationships, access to development opportunity structures and a concern for a diverse natural and cultural heritage. These spatial strategies cross-cut traditional nationally-oriented development practice; in effect, nothing less than an “EU-Europeanisation” of regional and local political spaces is being attempted (see Jensen – Richardson 2004).

<sup>5</sup> [http://ec.europa.eu/regional\\_policy/archive/cooperation/crossborder/index\\_en.htm](http://ec.europa.eu/regional_policy/archive/cooperation/crossborder/index_en.htm)

<sup>6</sup> [http://ec.europa.eu/regional\\_policy/cooperate/cooperation/crossborder/index\\_en.cfm](http://ec.europa.eu/regional_policy/cooperate/cooperation/crossborder/index_en.cfm)

out, hardening external borders (Vitale 2011) and an increasing EU emphasis on territoriality of political community (Fritsch 2009, Scott 2011) as well as more specifically *national* orientations in cohesion policy have relegated CBC to the status of a regional policy appendage. By the same token, the fact that CBC has been rhetorically delegated to the interstitial spaces between integrating national economies is partly understandable given the mixed results of past CBC initiatives. Although the promotion of territorial co-operation and as sense of cross-border "regionness" through common institutions has been intensive in theory, in practice institutionalisation patterns have been uneven – both in terms of governance capacities and their performance in terms of actual co-operation.<sup>7</sup> Despite undeniable successes, Euroregions have clearly not automatically guaranteed the establishment of new public and private sector alliances to address regional and local development issues. In less successful cases, for example, cross-border projects have merely served to enhance local budgets without stimulating true co-operation. Generally speaking, it has also been very difficult to stimulate private sector participation in cross-border regional development. European experience would also seem to indicate that, ironically, co-operation practices have maintained an administrative, technocratic and "official" character that as yet has not sufficiently encouraged citizen action and public-sector participation.

Perhaps as a result of these sobering experiences, the direct coupling of CBC with EU Cohesion goals appears to be shifting towards more territorially flexible arrangements and a focus on "place-based strategies" and "integrated territorial investments" which can be potentially implemented in cross-border and transnational contexts. Partly in response to the institutional limitations of CBC organisations, the EU also introduced in 2006 the formal-legal option of the European Grouping of Territorial Co-operation. The concept of cross-border and transnational co-operation also remains an important aspect of European spatial planning which continues to influence the definition of cohesion policy's core tenets, such as: sustainable economic development, regional equity, urban-rural integration and polynucleated (and thus balanced) urban development. Although not a community level policy, spatial planning is a framework for structural transnational co-operation within the EU based on macro and meso-regionalisation processes, multi-level governance partnerships and agenda-setting in spatial development issues.

CBC thus remains an important EU principle but in policy terms it has become an opportunity structure that is much more targeted at regions with a high degree of institutional capacity for formal CBC co-operation on the one hand, and periph-

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<sup>7</sup> Early critical observations of cross-border co-operation are provided, for example, in: European Parliament (1997), Mønnesland (1999), Notre Europe (2001) as well as in evaluations of EU structural policies such as INTERREG ([http://europa.eu.int/comm/regional\\_policy/sources/docoffic/official/reports/p3226\\_en.htm](http://europa.eu.int/comm/regional_policy/sources/docoffic/official/reports/p3226_en.htm)).

eral border regions on the other. As the ESPON TERCO project has indicated, the distribution of functioning EGTCs remains heavily weighted in favour of Western European countries and functional urban regions in “Core Europe”.<sup>8</sup> Additionally, the overall resources available for CBC make up a small fraction of the overall EU structural funds budget and in the new programming period from 2014 will be targeted largely at newer and “poorer” member states.

### **CBC as Differential Europeanisation**

The European Union has had an important impact on the nature of cross-border relations in Central and Eastern Europe (Zhurzhenko 2010, Scott 2006). In preparing Central and East European countries for membership, the EU adopted a strategy based on institutionalised CBC and aimed at a gradual lessening of the barrier function of national borders. These policies have also been aimed at integrating previously divided border regions in order to build a more cohesive European space. Nevertheless, Gabriel Popescu (2011) has argued that this normative political language of Europeanisation (e.g. as a process of de-bordering regional development) often contrasts with local realities where cross-border co-operation (CBC) reflects competing territorial logics at the EU, national, regional and, local levels and conflicting attitudes towards more open borders. As a result, cross-border co-operation is not uncontested. A partial resurgence of national rivalries and historical animosities has taken place in several EU member states and has, for example, affected local co-operation between Hungary, Slovakia and Romania. Different regional interpretations of CBC thus indicate a highly variable appropriation of Europeanisation policies. Concretely, there is a notable East-West divide in the acceptance and adaptation of CBC as a set of regional development practices.

The post-1989 de-bordering of Europe provided yet another historical and dramatic backdrop for promoting CBC and goals of European cohesion within a process of interstate integration. The German–Polish border after 1989 is an excellent example of the attempt of the EU to appropriate CBC as a multilayered exercise in regional development and historical de-bordering of post-Cold War Europe. Through the use of symbolisms of the border as a bridge between neighbours, the German–Polish relationship was recast in a wider European context of overcoming the “scars of history”.<sup>9</sup> Political co-operation, and most certainly cross-border co-operation, were closely intertwined with rapprochement and desire to

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<sup>8</sup>The ESPON-TERCO final report is available at: <http://www.esponterco.eu/en/news,terco-final-report>.

<sup>9</sup>Robert Schuman’s pronouncement that national borders in Europe represented scars of history (“*Les cicatrices de l’histoire*”) has become an avocative political discourse in the processes of European integration and enlargement.



develop a culture of mutual goodwill. Conversely, the 1990s reflected a “drive for convergence” of Central and East European countries to European standards and the universal adoption of overall cohesion policy goals as a means to secure EU membership.

However, since 2004 the situation has changed markedly. Rather than reflect conformism to “Core Europe”, CECs (e.g. Hungary, Poland and Slovakia) now strive to actively construct Europe through a redoubled focus on national development priorities. In the case of Hungarian national development strategies of 1998 and 2007 we in fact see a marked change. While in the first document Hungarian border areas and regional development issues related to co-operation with neighbouring states received generous coverage, the 2007 National Development Strategy (National Development Agency 2007) only gives very brief mention of CBC. In practical terms, CBC remains as a minimalist exercise – national strategic plans generally take it into consideration as an extension of national development.

The minimalist, instrumental approach of CECs indicates a relative lack of policy mainstreaming as well as a focus on national consolidation. Reasons for difficult CBC contexts in CECs also include: lack of local capacity to promote co-operation, cumbersome EU regulations and project management rules, interstate tensions and ethnolinguistic conflict, as well as local orientations to national centres and European core regions rather than to neighbouring states (see, for example, Baranyi 2008, Hajdú et al. 2009, Hardi 2010, Mezei 2008). Furthermore, as Popescu (2006 and 2008) has suggested, EU inspired strategies of institutionalised CBC in Central and Eastern Europe – an area of complex social, economic and political diversity – have tended to be “co-opted” by specific nationally defined interests: Euroregions emerging in Central and Eastern Europe are generally “top-down” creations, inhibiting processes of region-building through local initiative. At the same time, institutional legacies, such as strong central control, have contributed to variegated Europeanisation processes (Pálné Kovács 2009). Hence, CBC in the Carpathian basin (which involved Hungary, Romania and Slovakia) is not a self-evident phenomenon and appears to have lost momentum since the days of PHARE-INTERREG. In the case of Hungary, CBC is certainly understood in terms of European Cohesion but is heavily influenced by overlying political goals of “nation-building” and improving the living conditions of ethnic Hungarian communities in neighbouring states. However, this also engenders the distrust of Hungary’s neighbours who at times have interpreted CBC as a means to extend Hungarian extra-territorial sovereignty claims.

In stark contrast to these developments in CECs, CBC in Western Europe is no longer as dependent on external funding as it once was. Here, we see a routinisation of local and regional cross-border co-operation that is generally embedded within multi-level governance structures. It is therefore no coincidence, as the

ESPON-TERCO project has shown, that EGTCs are concentrated in western areas of the EU. In the most “successful” – that is, the most well-organised – border regions (e.g. the Dutch–German Euroregions), public-sector and NGO co-operation has been productive in many areas, especially in questions of environmental protection, local services and cultural activities. Additionally, successful cases (e.g. German–Dutch) seem to involve a process of pragmatic incrementalism, with “learning-by-doing” procedures and a gradual process of institutionalisation. As working relationships have solidified, experience in joint project development has accumulated and expertise in promoting regional interests increased, as has the capacity of regional actors to take on large-scale problems and projects.

## Conclusions

Transcending boundaries – at least rhetorically – remains a “leitmotif” of European Union policies. However, put in William James’ terms, what is the “cash value” of the idea of CBC in the development of EU political identity and with regard to the overall objectives of cohesion? Similarly to the idea of a “Europe of Regions”, it is certainly important in terms of conceptual change in the political framing of EU-Europe (Scott 2009). CBC has been a constant element in Europeanisation discourses and within the context of European cohesion. However, it is clearly subordinated to the core “national” goals of cohesion. There is, furthermore, a notable East–West divide in the acceptance of CBC as a set of regional development practices.

This reflection on CBC thus takes into consideration the possibility rather than inevitability of a “post-national” Europe and the longue durée nature of creating cross-border political practices at the local and regional level. Indeed, CBC has rarely produced rapid results in terms of economic growth and regional development. Furthermore, local and regional actors develop co-operation mechanisms situationally and in ways that reflect both political opportunities and social and structural constraints. Despite all the shortcomings of the EU’s model of institutionalised CBC, institutional change elicited by EU policies and funding mechanisms has led to a degree of “Europeanisation” of co-operation contexts and thus of spatial planning and development dialogue. This is evident in the discourses, agendas and practices of cross-border actors; they very often legitimise their activities by referring to the wider political, economic and spatial contexts within which their own region must develop. Nevertheless, actual patterns of CBC practices indicate a rather disjointed and complex reality. The European Union itself cannot provide a central template for de-bordering Europe. This will rather depend on how a post-national Europe is interpreted, negotiated and constructed “at the margins”.

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# **ECONOMIC IMPACT EVALUATION CHALLENGES POSED BY THE NEW EUROPEAN UNION COHESION POLICY: A RATIONALE FOR THE GEOGRAPHIC MACRO AND REGIONAL POLICY IMPACT MODELLING APPROACH**

*Attila Varga*

## **Introduction**

Economic impact evaluation is an essential component of the overall assessment of the European Union cohesion policy (Batterbury 2006). It estimates the aggregate influence of policy interventions on selected variables such as GDP, employment or wages. Considering that cohesion policy is the most significant area of Community policy in budgetary terms, which increases the pressure for more accountability in spending (Bachtler – Wren 2006), knowledge on its contribution to the supported countries' economies has become particularly relevant.

Economic impact assessment substantially differs from micro-level evaluations that aim at assessing the immediate impacts of individual projects via cost–benefit analysis or alternative methodologies. Input–output linkages, Keynesian income multipliers and technological spillovers are the main mechanisms by which initial project level impacts propagate and affect the entire economy. Macroeconomic models are the most frequently applied instruments to estimate the economic impacts of cohesion policy interventions (Bradley 2006). It is argued in this paper that the different principles on which the new EU cohesion policy is built necessitate the reconsideration of traditionally followed modelling approaches in policy evaluation.

Disappointment in the effectiveness of traditional economic development policies (e.g., financial transfers for physical infrastructure investments, or subsidies and tax credits to attract new firms to lagging regions) to combat interregional disparities motivates the recent emergence of a new wave of “modern” policy thinking. Policies suggested by the new streams focus on macroeconomic growth stimulation and treat cross-regional balancing of economic development either by separate interventions (Barca 2009) or parallel with growth enhancement (World Bank 2009). The current debate is centred on two dominant approaches. The first one grounds policy prescriptions on new economic geography models and recom-

mends the type of interventions that reap the growth benefits of agglomeration via dominantly “space-neutral” instruments (World Bank 2009). The second approach is based on policy experiences of recently emerged high technology clusters on the one hand and the geography of innovation literature on the other, and suggests that growth potentials exist in every region and the role of mainly “place-based” policies is to help lagging regions realise these potentials (OECD 2009).

Perhaps the most notable conceptual development common in both approaches is the strong awareness of the key role of geography in policies targeting aggregate economic growth. A clear message of this newfangled geography-awareness is that regional policy ought to be treated as an integral part of a national-level structural policy package (Garcilazo – Oliveira Martins – Tompson 2010). It became thus clear in the new policy thinking that the impact of countries’ structural policies largely depends not only on the specific instruments applied (such as investment in transportation infrastructure, education or R&D), but also on the concrete geographic patterns in which these instruments are deployed regionally. The same development policy budget may in principle finance different alternative sets of projects, each involving a certain combination of instruments implemented in a distinct distribution across regions. Properly designed economic models could be helpful in the policy planning process in selecting that set of projects for support which is expected to yield the highest impact on economic growth.

The issue of evaluation is particularly relevant for the EU’s new cohesion policy which will apply modern development policies to spur macro- and regional level economic growth. Integrated regional projects eligible for support will be centrally selected by the European Commission and by member state governments. Considering the substantial size of the cohesion policy budget and its potential to generate meaningful impacts, it is extremely important to use the funds effectively in order to boost aggregate (EU and national) growth to the highest possible level. Barca (2009) also underlines the key function of ex-ante impact evaluation as an instrument in the design of the new EU regional policy. However, the suggested control-group methodology is best applied in ex-post policy evaluation and as such it is not especially helpful in the policy design stage.

Specially constructed economic models could help policy-makers to select a particular geographic and instrumental combination of projects that seem to utilise most efficiently the available structural policy budget according to the knowledge available at the time of decision. Macroeconomic models widely applied for development policy impact analysis have only limited relevance in this respect. This paper suggests that with substantial efforts and careful, professional and enduring work it is possible to develop those models that can usefully support modern development policy-making. Economic theory on the one hand and em-

pirical techniques on the other have already reached the critical intellectual mass to support such a challenging endeavour.

Increasing activity of different research groups aiming at developing “new generation” economic impact models indicates that the problem has already been realised and the search for suitable model constructions is ongoing. These research directions include for example the MASST model (Capello 2007), the Geographic Macro and Regional (GMR)-approach followed in the GMR-Hungary (Varga 2007), GMR-Europe (Varga – Járosi – Sebestyén 2011), the European Commission’s RHOMOLO model (Brandsma – Ivanova – Kancs 2013), and a regional innovation policy system dynamics impact model (Fratesi 2012).

The following structure is chosen for this paper. The second section situates economic impact modelling challenges in the context of the debate on modern development policy. In the third section the most important technical issues reflected in new generation economic models are introduced. The fourth section is devoted to a concise description of the GMR-Europe model as an illustration of new generation economic modelling. Summary concludes the paper.

### **The Debate on Modern Development Policy and the Economic Modelling Challenge**

The new EU cohesion policy reflects on the critiques raised in the recent policy literature against “traditional” regional development approaches (Barca 2009). Starting in the post-war period the mainstream of regional policy in Europe and North America employed top-down organised redistributive systems to subsidise lagging places by means of providing funds for investments in infrastructure and public services. In the first period until about the 1970s the emphasis was on attracting new firms or retaining existing ones in particular sectors via increased physical accessibility resulting from transportation infrastructure investments as well as via direct subsidies, or tax reductions. The limits of this approach led to the second wave of interventions, which started to increase its popularity in the 1980s. In this approach the emphasis moved towards building indigenous capacities of a knowledge-intensive economy via education and R&D support, promotion of university–industry linkages or encouragement of regional entrepreneurial activities.

The literature reports limited success of development policies in reducing regional disparities. For instance the contribution of cohesion policy to regional convergence in the EU is only weakly positive (Hagen – Mohl 2009) despite positive impacts on national GDP (e.g., Bradley 2006, Schalk – Varga 2004, Varga – in’t Veld 2010). Limited success in combatting regional inequalities might be associated with the heavy emphasis placed on transportation infrastructure invest-

ments, which can easily result in strengthening the positions of existing agglomerations with wasted resources to support declining industries in lagging regions (Barca – McCann – Rodríguez-Pose 2012), with the dominantly top-down philosophy (Barca 2009) or with little integration and co-ordination among different programmes organised by different central government agencies. Criticism against traditional regional development approaches caused by disappointments in policy effectiveness is further strengthened by some negative side effects of centrally administered redistributive systems such as the culture of dependency from external financial support, or rent seeking behaviour (Farole – Rodríguez-Pose – Storper 2011).

Disappointment in traditional approaches has stimulated policy thinking to reconsider the old instruments in order to suggest the kinds of interventions that are expected to enhance economic development more successfully. Two streams of policy thinking emerged recently. The first one does not trust in regionally targeted interventions in general and favours “space-neutral” policies with universal coverage in every territory, while the second one would continue supporting region-specific interventions and argues that properly designed “place-based” policies are still appropriate means of economic development. In these “modern” approaches the focus has moved towards policies that strengthen aggregate economic growth. Equity issues are either addressed as part of the growth package in space-neutral policies (World Bank 2009) or by means of separately designed parallel policies as suggested by the proponents of place-based interventions (Barca 2009).

The debate between the two dominant modern approaches to development does not seem to be much on the set of instruments, but more on the weight each instrument gets in the desirable policy mix (Garcilazo – Oliveira Martins – Tompson 2010). While the first approach targets economic integration with mainly space-neutral instruments to reinforce agglomeration effects and the second one puts emphasis on place-based innovation policies to stimulate growth in lagging regions, it is clear from the debate that a space-neutral focus does not disclose the validity of place-based innovation policies (World Bank 2009) and a place-based focus also endorses the significance of agglomeration and space-blind policies (OECD 2009, Farole – Rodríguez-Pose – Storper 2011).

Given the divergence of assumptions behind the two approaches on the main geographical sources of growth, the question arises naturally as to whether the debate on the most appropriate modern economic development policy can at all be resolved theoretically. Considering that each approach refers to those instruments that are central in the other’s policy set as generally not effective and applicable only in certain circumstances (which is a statement itself that can only be judged in concrete situations), it seems that we reached the limits of solving the debate at



the theoretical level. In one specific country strengthening agglomeration by either space-blind or place-based policies could be more effective for aggregate growth than promoting innovation in lagging areas, while in another country the reverse might be more efficient. However, when less developed areas and not the economic core are the desired targets of policies, the question still remains as to which particular instrument set should be applied in any of the regions and what is the most desirable distribution of the financial resources among the regions being supported.

Thus without a serious comparative analysis of costs (at the regional level) and benefits (at the macro- and regional levels) of potential intervention plans, each referring to different geographical and instrumental distributions of the same development policy budget of the country, it is not possible to come up with an accurate development policy decision (Farole – Rodríguez-Pose – Storper 2011). Such an investigation can be correctly done with the backing of properly designed empirical economic models run for the analysis of macro- and regional impacts of each concrete overall policy plan.

### **New Generation Development Policy Impact Modelling**

Economic impact evaluation of the “traditional” cohesion policy also posed challenges to macroeconomic modelling when these models were first applied in this area in the mid-1980s. These challenges included the implementation of the supply side and endogenous growth mechanisms in the then dominantly Keynesian demand-side models (Bradley 2006). The resulted macroeconomic models most frequently applied in EU cohesion policy impact analysis such as the HERMIN (Bradley 2006) or the QUEST (Varga – in’t Veld 2010) model families successfully managed to meet these challenges.

The current challenge of incorporating geography in impact modelling raised by the new cohesion policy is different, and macroeconomic models presently available for policy evaluation have only limited relevance in this respect. The new type of models should incorporate those various dimensions of geography that affect the overall impact of modern development policies.

These policies involve a range of instruments implemented in selected regions (place-based instruments) or everywhere in the country with no geographic preferences applied (space-neutral instruments). It is suggested by policy experience that place-based instruments targeting well-specified locally dominant economic sectors need to be integrated with each other at the regional level to mutually enhance their impacts (McCann – Ortega-Argilés 2013). Instruments of this kind might include private or public R&D support, human capital and entrepreneurship development, public infrastructure investments or promotion of intra- and inter-

regional collaborations among firms and public research institutions. Space-neutral policies like R&D tax regulations or laws governing intellectual property rights might also be part of the package (Farole – Rodríguez-Pose – Storper 2011).

Impact models need to incorporate the most important geographical dimensions that may crucially determine the growth effects of development policies. These include the following aspects.

- Regional development programmes are built on important *local specificities* (industrial structure, research strengths of the region, size and specialisation of human capital etc.) that need to be reflected in model structures.
- Models have to capture the effects of policies on *local sources of economic growth*, such as technological progress, investment and employment.
- The models also need to be able to follow those cumulative *agglomeration impacts*, such as intensifying localised knowledge spillovers and their feedback mechanisms, that may arise as a consequence of policies.
- There are certain additional impacts on the regional economy instrumented by *Keynesian demand side* effects or *Leontief-type intersectoral* linkages.
- Most of the infrastructural programmes target better physical *accessibility*. Impacts of these policies on regions that are (directly or indirectly) affected also have to be reflected in the models.
- There are different mechanisms through which policies implemented in certain regions affect other territories such as *interregional knowledge spillovers and trade linkages*, and as such these effects also need to be incorporated in model structures.
- Resulting from the above considerations, alternative national plans for development involving different regions to be supported, even if overall budgets are the same, will most probably result in *different macroeconomic impacts*. As such these new generation impact models could serve as a useful tool both in planning and ex-post evaluations of national development policies.

Below we are going to detail key economic modelling challenges that should be addressed in the impact models. These include modelling the impact of policies on technological progress, formulating the transmission of innovation impacts to economic variables, modelling spatiotemporal dynamics of growth and incorporating the macro-dimension. These challenges will be described in four steps of model building.

#### *Step 1: Modelling Policy Impact on Technological Progress*

The first question in model design is related to the way the impacts of policy instruments on innovation are represented in an economic model. A rich empirical

literature has mapped several geographical aspects of innovation and collected important information for model builders (Varga – Horváth 2013). The observed positive association of innovation with research, human capital, physical proximity, agglomeration, entrepreneurship and knowledge networks at different spatial scales suggests that integrated policies proposed by modern development approaches aiming at stimulating R&D, education, entrepreneurial culture, transportation infrastructure investments and collaborations in research are indeed realistically expected to positively influence innovation. The question still remains though as to how these elements of innovation are integrated into a coherent empirical modelling framework. Possibilities in this respect might range from the application of geographic knowledge production function and regional computable general equilibrium approaches to dynamic evolutionary modelling techniques.

*Step 2: Modelling the Transmission of the Technology Impact to Economic Variables*

The choice of how to empirically model the transmission of policy impacts on innovation to changes in economic variables such as output, employment or inflation is not an obvious one. Innovation may contribute to aggregate growth in two (not necessarily independent) ways. Technological progress either increases the production of already existing goods (a productivity impact) or results in the introduction of new products (a variety impact). Modelling the productivity and variety effects in a common framework is a real challenge. Nevertheless it is a common experience for any theoretical solution that their translation to empirical models becomes indeed difficult because of the appearance of several technical issues. Among them data availability is a really serious problem especially at sub-national regional levels.

*Step 3: Modelling Spatiotemporal Dynamics of Economic Growth*

The technical challenge of modelling spatiotemporal dynamics could be addressed by modelling both policy-induced expansion of indigenous resources and their migration at the level of regions. Consistency with the neoclassical growth framework then implies to derive saving and investment behaviour from intertemporal optimisation of households and firms in all locations. Development of models in this direction is slow and solutions are rare due to substantial analytical and computational difficulties involved. Alternatives include the introduction of some ad-hoc investment and saving behaviour in regional models or separately modelling intertemporal optimisation of investment and saving behaviour at the macro-level, and migration and dynamic agglomeration effects at the regional level in an integrated model system.

#### *Step 4: Macro-impact Integration*

The macroeconomic framework such as the exchange rate of the national currency, government deficit and debt, the monetary policy regime or the interest rate could be important factors behind the impact of development policies. In a carefully designed macroeconomic policy, economic development is indeed aligned with other macro-framework conditions. Since the derivation of these conditions from the regional level is not understood theoretically (and most probably regional to macro-aggregation is not even possible in this respect) integration of the macro-dimension into modelling seems to be a desirable solution. This is an open area of research and examples are rare in the literature (Varga – Járosi – Sebestyén 2011).

### **The GMR-approach**

The GMR approach is an economic development policy impact modelling framework. GMR models provide ex-ante and ex-post evaluation of development policies such as promotion of R&D activities, human capital advancement or improved physical accessibility. The models simulate macro- and regional economic impacts while taking into account geography effects such as regional innovation system features, agglomeration, migration and costs of transportation. The intention of the GMR research programme is to develop efficient and relatively simple model structures which fit to the generally weak quality of regional data.

The GMR framework is rooted in different traditions of economics (Varga 2007). Knowledge generation modelling is significantly influenced by the Romerian endogenous growth theory (Romer 1990). Spatial patterns of knowledge flows and the role of agglomeration in knowledge transfers are formulated with insights and methodologies learned from the geography of innovation field. Inter-regional trade and migration linkages and dynamic agglomeration effects are formed with an empirical general equilibrium model in the tradition of the new economic geography (Krugman 1991). Specific macroeconomic theories are followed while modelling macro-level impacts.

The first realisation of the GMR approach was the EcoRET model built for the Hungarian government for ex-ante and ex-post evaluation of the cohesion policy (Schalk – Varga 2004). This was followed by the GMR-Hungary model, which is currently used by the Hungarian government for cohesion policy impact analyses (Varga 2007). GMR-Europe was built into the IAREG FP7 project (Varga – Járosi – Sebestyén 2011) and was recently extended and applied for policy simulations for DG Regional Policy (LSE 2011). The GMR approach reflects the modelling challenges outlined in the previous section by structuring its system around the mutual interactions of three sub-models such as the Total Factor Productivity (TFP), the Spatial Computable General Equilibrium (SCGE) and the macroeconomic (MACRO)

sub-models. To illustrate the challenges involved in modelling economic impacts of the new EU cohesion policy following the four modelling steps we provide here a concise introduction to the structure of the GMR-Europe model.

### *The GMR-Europe Model*

The model system uses data from various sources. Some of them are publicly available on the EUROSTAT web page (such as the New Cronos database for regional patents, R&D, technology employment and data for most of the macro-level variables) and some others are developed for the European Commission (such as the regional FP5 and FP 6 databases and the regional publication database). The model system includes 163 EU NUTS 2 regions. Estimation of the equations in the TFP sub-model is carried out in SpaceStat on the 1998–2002 data panel of EU NUTS 2 regions, and parameters in the SCGE sub-model are calibrated for 2002 data. The GMR-system is programmed and run in Matlab.

#### *Step 1: Modelling Policy Impact on Technological Progress*

Policy impact on innovation is formulated in the TFP sub-model. Following Romer (1990) development of ideas for new technologies is explained by the amount of research inputs and the stock of accumulated scientific–technological knowledge. The assumption behind this formulation is that even the same research inputs (e.g., number of researchers) can result in a larger number of new technologies if the level of knowledge already accumulated over time is higher.

#### *Step 2: Modelling the Transmission of the Technology Impact to Economic Variables*

Many of the new technological ideas become introduced in production, but many of them remain unexploited. The development of concrete technologies on the basis of technological ideas is formulated in the Total Factor Productivity equation. Therefore innovation policy impact on economic variables is transmitted through an increase in TFP. Policy induced change in TFP may increase output even if capital and labour stays the same. Increased output might result from new varieties and/or from growing productivity.

The system of equations in the TFP block is estimated econometrically in Varga, Pontikakis, Chorafakis (2013) and Varga, Járosi, Sebestyén (2011). In order to fit the equations to the data of each individual region, parameters then are calibrated regionally. Figure 1 depicts the system of mutual connections for each region in the sample. Policy variables are R&D, interregional research networking, human capital, social capital and physical accessibility.

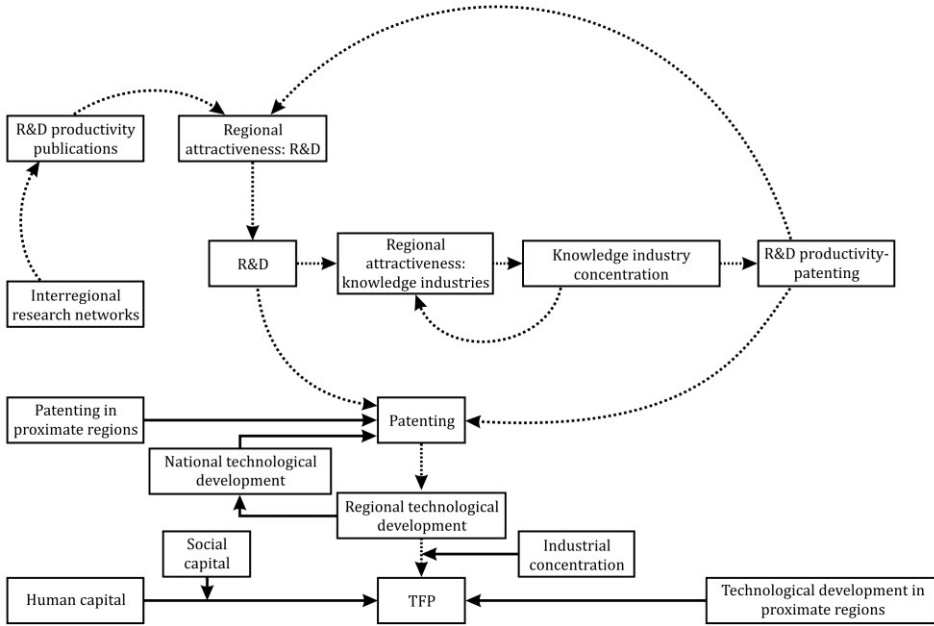


Figure 1. The estimated regional dynamics of innovation policies in the TFP block of the GMR-Europe model  
 Source: Author's elaboration.

*Steps 3 and 4: Modelling Spatiotemporal Dynamics of Economic Growth and Macro-impact Integration*

A higher level of TFP resulting from innovation policy interventions may affect production partly via increased regional employment and investment and partly via labour and capital migration from other regions. Increased concentration of economic activities might strengthen dynamic agglomeration economies that could initiate a cumulative process towards further concentration. Therefore, increased capital and labour on the one hand and additional expansion in TFP sparked by agglomeration on the other drive policy-induced regional growth. In modelling spatiotemporal dynamics this complex process is separated into three parts, which at the end result in a coherent macro-regional impact via mutual alignments.

That is why spatiotemporal dynamics is modelled in three steps. The first two steps reflect spatial dynamics. In their design the solution frequently applied in many of the new economic geography models is followed. In the first step, the short run impact of a change in TFP on the values of economic variables (e.g., output, capital and labour demand, prices, wages) for each region is calculated, assuming that aggregate supply of capital and labour as well as their regional dis-

tribution remain constant. In the second step, utility differences across regions motivate labour migration, which is followed by the migration of capital. The first and second steps are modelled in the SCGE model block. So far aggregate labour and capital supply have been assumed constant. Their dynamics is modelled in the third step with the MACRO model block.

*Step 3a: Short-run Effects*

At the EU NUTS 2 regional level only aggregate R&D data are available. Therefore with no information on industrial sectors or scientific fields of research activities it is not possible to relate R&D expenditures to particular industries. This explains the choice of an aggregate SCGE model for regional policy impact analysis. The applied SCGE model is a simplified version of the Dutch spatial general equilibrium model RAEM adapted to the framework of the GMR system. An increase in regional TFP as a result of a policy intervention decreases unit costs, which affects demand for labor (L) and capital (K) negatively. However, decreasing prices increase demand in each territory where the region exports, which in turn raises the demand for L and K via increased supply. In a short-run equilibrium, a region's production equals interregional product demand, while regional labour and capital supply, taken fixed in the short run, equals their respective demands.

*Step 3b: Spatial Dynamics with Constant Aggregate K and L*

Innovation policy interventions resulting in an increase of regional TFP affects prices and wages, which determine consumption. A change in consumption affects utilities as well. Labour migration reacts to cross-regional utility differences. Both positive and negative impacts of agglomeration are modelled. The balance between positive and negative agglomeration effects determines the extent of migration, which will change the distribution of labour, initiating a cumulative causation process that affects several variables in the system of regions over time.

*Step 3c: Dynamic Regional and Macro-impacts*

The applied SCGE model is static and as such it does not account for temporal changes in labour, capital and technology in an endogenous manner. What it does is that for any given aggregate level of labour, capital and technology it calculates their equilibrium spatial distributions. Dynamism in technology is modelled in the TFP model block, while dynamic effects of interventions on labour and capital are simulated in the MACRO model block. With this block QUEST III, the DSGE<sup>1</sup> sub-model for the Euro zone, is incorporated into the system (Ratto – Roeger – int'l Veld 2009).

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<sup>1</sup> DSGE (Dynamic Stochastic General Equilibrium) models represent the dynamic aspects of economic activity explicitly capturing the dynamic behaviour of agents: they operate with forward-looking decisions of households and firms.

Changes in regional TFP as calculated in Step 3b are weighted-averaged for each time period and inputted into the MACRO model where the impacts on several macro-variables (GDP, employment, investment, inflation etc.) are calculated. Aggregate changes in K and L are then distributed across regions following the patterns of initial policy interventions. This way the indigenous change in regional K and L is simulated. To estimate the effects of agglomeration, Step 3b above is initiated again. The three model blocks are interconnected and run subsequently until the aggregate regional impacts in the regional sub-models converge to EU-level impacts estimated in the macroeconomic model. The impacts of policy interventions in the GMR model system are illustrated in Figure 2.

With the GMR-Europe model and its QUEST III macro sub-model it is also possible to investigate the likely impacts of innovation policies assuming different macroeconomic policy regimes. Macro-level policies simulated in the MACRO model could then run through the GMR system as illustrated in Figure 2 and may affect the effectiveness of innovation policies targeting economic development.

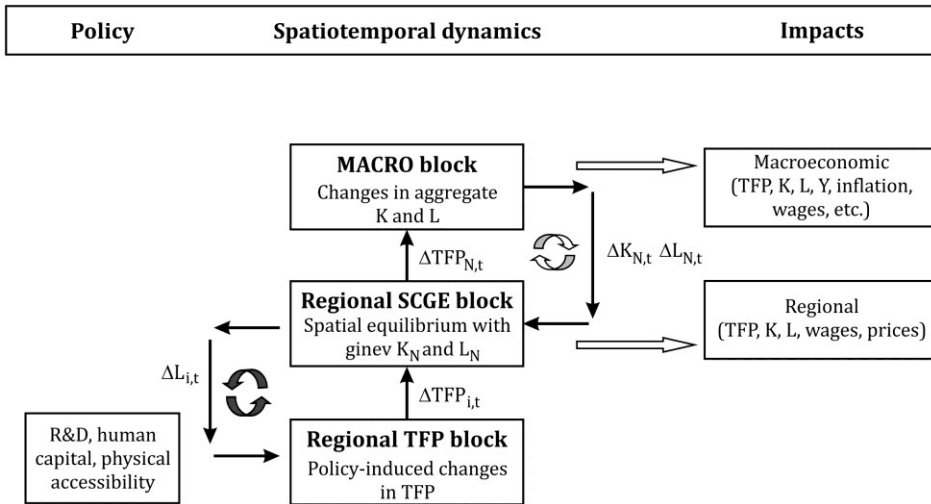


Figure 2. Regional and macro-impacts of regionally implemented innovation policies in the GMR-Europe model

Source: Author's elaboration.



## Summary

Disappointment in traditional economic development approaches stimulated policy thinking to reconsider old instruments in order to design the kinds of interventions that are expected to enhance economic development more successfully. Contrary to earlier approaches, the new development policy thinking, which is reflected in the new EU cohesion policy, correctly understands the key role of economic geography in the success of policy interventions.

It is not possible to design optimal policies on the grounds of pure theoretical considerations. Instead, correctly constructed empirical economic models, which we call “new generation policy impact models”, are needed in the planning and implementation phases of economic development policies. In this study the most important modelling challenges raised by modern economic development were surveyed. To illustrate how economic models can respond to these challenges the GMR approach was briefly introduced along the lines of the challenges. A policy analysis application of the GMR-Europe model shows the capabilities that can realistically be expected from the new models in their current stage of development.

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# METHODOLOGIES TO MEASURE THE IMPACTS OF TERRITORIAL COHESION POLICIES – WHAT’S NEW IN BRUSSELS?<sup>1</sup>

*Zsuzsanna Márkusné Zsibók*

## **Introduction**

Territorial cohesion is a complex concept referring to the sustainable, balanced and harmonious development from a territorial perspective. Heterogeneous spatial structures and regional disparities have always existed, even in the developed part of the European Union (see e.g. EC 1999, Cotella 2011 and Horváth 2012). For this reason, cohesion policy aims at strengthening economic, social and territorial cohesion by reducing disparities between the levels of development of regions and countries of the EU and at promoting further economic integration. This policy contributes to the overall economic performance of the EU and is an important expression of solidarity (Barca 2009).

After the accession of the 12 new, Central and Eastern European (CEE) member states, territorial disparities have become significantly deeper (doubled),<sup>2</sup> while within-country inequalities are also higher in the new members. The economic recession has affected the countries and regions of Europe seriously, the developed and underdeveloped ones alike. However, vulnerability to economic shocks is not the same among the different regions. Those regions where the export-oriented manufacturing sector has dominated suffered a sudden economic contraction after 2008, but they have been able to recover relatively rapidly. Initially, underdeveloped regions were not affected badly by the first waves of the recession, but later their growth potential decreased largely. As a consequence, interregional disparities diminished a little in the initial phase of the crisis, but later started to increase again.

The contrasting spatial dynamics described above are even more apparent in those countries where economic growth is concentrated in a strong capital region,

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<sup>1</sup> The research underlying this study was ordered by the National Development Agency of Hungary and the author hereby acknowledges the provided support.

<sup>2</sup> In terms of per capita GDP, the most developed region (Inner London) reached 328% of the EU27 average, while the most backward region (Severozapaden, Bulgaria) reached only 26% in 2010 (EuroStat).

while the peripheral regions are constantly losing economic power. In countries characterised by an uneven, monocentric spatial structure, the global crisis did not have a severe impact on the economic performance of the capital regions. This tendency suggests that capital city regions have been able to extract purchasing power, human capital and financial capital from the peripheral hinterlands. As a result, interregional spatial inequalities deepened during the crisis and cause serious challenge for EU cohesion policy and national spatial policies. These trends suggest that (national) competitiveness and (interregional) cohesion remain to be regarded as conflicting policy goals in the CEE countries, especially during the recovery from the crisis. However, in the long term, the economic potential of all the regions of the EU can only be utilised through a more balanced spatial structure (EC 1999).

It is accepted that free, competitive market forces fail to deliver territorially balanced economic and social development (Dühr – Colomb – Nadin 2010). Consequently, a redistribution system is needed to reach the spatial policy objectives through investing public money in the least developed regions. The supports awarded under the cohesion policy are not compensatory (income) payments, but support for development, and their success depends to a large extent on the capacity and preparedness of those at whom the support is targeted to make the best possible use out of it (including the building of good governance and administrative capacity) (Ahner 2009). It is in the interest of all stakeholders (both contributors and recipients) to evaluate whether the support was allocated and used efficiently and if it helped to reach the spatial policy objectives.

## **Evaluation of the Territorial Impacts of Cohesion Policy Interventions**

### *New Philosophies in the Evaluation of Cohesion Policies in the EU*

EU policies may have diverse direct and indirect (or short term and long-term) effects from spatial aspects, which may be either intended or unintended. In order to enhance the efficiency of structural and cohesion policies, a proper evaluation system and culture is needed. For this reason, the European Commission shifts the focus of evaluation from physical and financial implementation and absorption to *result orientation* in close connection with evidence-based policy-making. In addition, the Commission promotes the use of clear outcome and result indicators which help judge whether or not objectives of a policy or programme have been met (EC 2012b, c).

Another new element of EU regional policy is the *place-based approach* which has to be reflected in the evaluation system as well. The objective of this “new paradigm” is to “reduce persistent inefficiency (underutilisation of resources re-

sulting in income below potential in both the short and long-run) and persistent social exclusion (primarily, an excessive number of people below a given standard in terms of income and other features of well-being) in specific places” (Barca 2009, p. xi). A place-based development policy focuses on “the place-specificity of natural and institutional resources and of individual preferences and knowledge; the role played by the (material and immaterial) linkages between places; and the resulting need for interventions to be tailored to places” (Barca 2009, p. 4). The three main characteristics of a place-based policy are the flexible conceptualisation of different geographical scales and boundaries; cross-sectoral co-operation and multi-level governance (Bachtler 2011). For this reason, place-based policy is often mentioned in the context of “flexible geography” which notion focuses on functional areas rather than existing administrative territorial units and concerns the interactions of the functional centres and their peripheral hinterlands. Depending on the issue, the appropriate geographical dimension may range from a macro-region to metropolitan and cross-border regions or a group of rural areas and market towns (EC 2010). Although the main task of the evaluation is to reveal the actual, detectable territorial impacts of policy interventions, in practice, the relevant methodologies are constrained by the limited available territorial data bases in terms of quantity and quality. The notion of territorial cohesion gradually emerged in European policy discourses, but the assessment methodologies still lag behind the needs in the field of this complex process.

### *The General Framework of Impact Assessment*

A central element of impact assessment is the “theory of change” or “programme theory” which is a “chain of results, and the assumptions behind why the intervention is expected to work are plausible, sound, informed by existing research and literature and supported by key stakeholders” (Mayne 2012, p. 272). The theory of change investigates the causal relationship between a certain intervention and the objective of the policy-maker. Many of the current evaluation practices regard this process a “black box”, since there are too many idiosyncratic, disturbing circumstances on the theoretical way from a development policy action towards the desired outcome. Therefore, it is a great challenge to create a general assessment method being not dependent on the context of use.

According to the traditional approach (Figure 1), the inputs of a policy action (e.g. money spent) result in certain short-term consequences called outcomes, and long-term, real consequences called impacts. The direct outcomes and the real, indirect impacts may differ a lot due to the presence of externalities, which may be reflected in the different results shown by micro-oriented and macro-oriented evaluations (see e.g. Wren 2007).

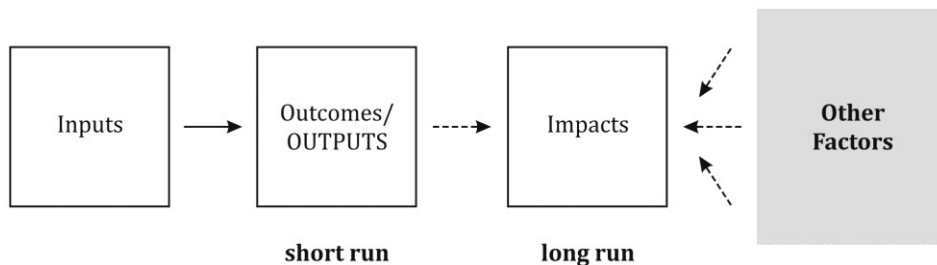


Figure 1. The basic logic of policy evaluation in the traditional approach

Source: Author's elaboration.

The European Commission assumes a more complex system of evaluation and uses a somewhat renewed terminology. Figure 2 shows two points where the evaluators have to face uncertainty: first, it is not sure that the allocated inputs will lead to the targeted outputs. Second, it also emphasises the role of externalities which may be as important as policy actions in shaping the actual results in both short and long run. According to EU terminology, *outputs* are the direct products of programmes intended to contribute to results. In the literature, the terms *impacts* and *results* are used interchangeably, while the European Commission makes a distinction between them. *Impact* is the change that can be credibly attributed to an intervention (“the effect of an intervention”, “the contribution of an intervention”), while *result* is the specific dimension of well-being and progress for people that motivates policy action. This means that a change in the result indicator can be attributed to the contribution of intervention and/or the contribution of other factors.<sup>3</sup>

#### *The Methodological Framework of Territorial Impact Evaluation*

Nowadays we can see a continuous development of novel techniques in the field of cohesion policy evaluation, yet, there is a lack of common standardised methodology at EU level. As the new programming period of 2014–2020 is getting underway, these kinds of research got a new impetus.

The European Commission often refers to two broad evaluation categories: the theory-based impact evaluation, shortly mentioned above, and the counterfactual impact assessment. These are not alternatives, but rather complement each other, since they help us answer two distinctive questions. First, counterfactual impact evaluation allows to reveal whether a public intervention has an effect on the

<sup>3</sup>In a similar vein, Mayne (2012) describes the “contribution analysis” developed in the 2000s as an analysis looking at the theory of change, the risks to it and the available evidence that support or challenge the “contribution story”.

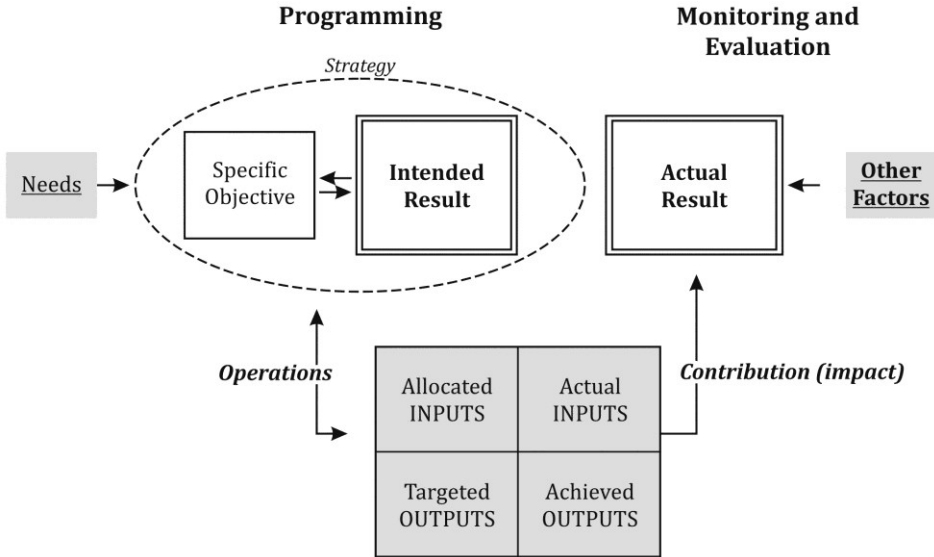


Figure 2. Outputs, results and impacts in relation to programming, monitoring and evaluation Source: European Commission (2012a, p. 5).

selected indicator: “Does it work?” Second, theory-based impact assessment investigates why an intervention produces certain effects, i.e. “How and why it works?” (EC 2012a).

Territorial impact assessments may use two different approaches. *Bottom-up approaches* are based on individual, programme or project level data obtained from surveys and case studies, thus, mainly rely on micro-oriented, qualitative techniques in their analysis. They are vital elements of theory-driven evaluation. However, the concept of territorial cohesion rather assumes a macro-oriented approach which may capture the effects of a policy programme by applying *top-down methodologies*.

According to the EU rules, evaluations have to be carried out before, during and after the programming period. *Ex-ante*, top-down analyses are only able to predict the upper limit of an intervention’s effect, while the actual effects may be much more below it. According to current practices, the phenomenon of territorial cohesion is captured indirectly, in a two-step procedure: first the (economic, social etc.) development paths are determined separately for all territorial units, and in the second step, the dynamics of territorial disparities are analysed with the help of some common inequality measures such as dispersion measures (cross-sectional standard deviation, coefficient of variation etc.), Gini-coefficient or Theil-index, and more sophisticated convergence analysis tools.

More realistic results can be obtained from econometric analyses applied *ex-post*, therefore they may detect the actual effects of policy interventions, not just the potential ones. Econometric methods often use regressions to identify the causal relationship between EU supports and other external variables, and the development of certain territorial units. The use of this method is constrained by the availability of appropriate long enough regional-level time series.

There is a very limited number of methods which allow to assess territorial cohesion in a direct manner. Usually, they utilise specific territorial indicators, models based on expert estimations (e.g. ESPON's TEQUILA model, Camagni 2009), and aggregate, dynamic territorial cohesion indices such as the ESPON's European Territorial Cohesion Index (ESPON 2006). Unfortunately, current tools are not mature enough concerning their methodological background or data base, therefore they are not widely used. An advantage of these indices and models is that they are able to capture environmental, social, spatial structure indicators beyond the usual economic indicators.

A possible categorisation of the available evaluation methodologies is shown in Table 1.

Models usually follow a counterfactual approach and investigate the quantitative effects of cohesion policy, while the results are given in absolute numbers or, more frequently, in differences. It poses a challenge on these methods to determine

Table 1. Major methods of policy impact evaluation

Top-down methods	Bottom-up methods
<i>models</i>	theory-based assessments
econometric methods	beneficiary surveys
macroeconomic models (e.g. DSGE models)	case studies, interviews, workshops
sectoral models (e.g. E3ME, TRANS-TOOLS)	realist evaluation
computable general equilibrium (CGE) models, spatial CGE models (SCGE)	participatory evaluation
input-output models	<i>evaluating alternatives</i>
<i>TEQUILA</i>	cost-benefit analysis
<i>multivariate methods, indices</i> (e.g. ETCI)	cost effectiveness analysis
<i>counterfactual analysis</i>	multi-criteria analysis
difference-in-difference	contingent evaluation
discontinuity analysis	<i>evaluations with indicator systems</i>
matching methods	
instrumental variables	
randomised controlled trials	

Source: Author's elaboration based on European Commission (2012b).



the realistic causal relationship between the policy action and the impacts. For this reason, these models have to rely on empirical, theory-based assessments and other bottom-up tools to look into the “black box”. Such a complex approach may help estimating a broader range of effects including the catalysing, spillover or crowding-out effects of supports at the regional level. It is commonly observed that the ex-post econometric models usually attribute much less impact for the interventions than the “optimistic” ex-ante models, which implies that a huge part of supply-side effects disappears from the economy.

Ex-post counterfactual analyses may be carried out in two ways: one may compare the states before and after the intervention or compare beneficiaries with similar non-beneficiaries. This latter is used primarily in micro-oriented analyses. Ex-ante macro and regional models determine a so-called baseline scenario for the selected economic or social variables which represent e.g. their path without policy intervention, then different alternative policy scenarios are computed and compared to this baseline.

### **A General Methodology Mix to Evaluate Territorial Cohesion**

Since the phenomenon of territorial cohesion is complex, no single method is able to capture the exact effect of cohesion policy. First of all, it is important to determine the optimal territorial scale of evaluation in line with the aims of the policy-maker, which, as mentioned before, may differ from the existing administrative units. Possible territorial scales may include the national level (regarding the convergence of countries towards the average EU-level development), macro-regions (e.g. NUTS1 level), NUTS2 or 3 regions and LAU 1 regions and even certain functional urban areas (agglomerations).

Concerning the 2014–2020 programming period, the European Commission aims to streamline the administrative burdens of policy implementation including evaluations. For this reason, recommendations emphasise that there is no need to develop radical new methodologies, instead, territorial aspects have to be integrated in existing sectoral evaluation tools.

An optimal methodology mix has to include almost all of the elements listed in Table 1. Just to give some examples, a few good practices will be mentioned in the following paragraphs highlighting some Hungarian specificities. Cross-country convergence is often estimated with the help of DSGE models, e.g. QUEST II and III models for the euro area (e.g. Varga and in't Veld 2010) or the Hungarian ECOTREND model (Cserhádi – Keresztély – Takács 2003), but these are not able to capture convergence at a disaggregated level. Spatial dynamics are often estimated with the help of a macroeconometric model called HERMIN (Bradley 2006) which was developed in numerous EU countries including Hungary (see Gács 2006) and

aims to evaluate the economic effects of EU supports in peripheral countries. An important feature of this model is that it can be regionalised in case the appropriate regional data are available.

An ideal tool to capture spatial interactions is SCGE modelling which is able to control for positive and negative spatial agglomeration effects. The EU's best practice in this field is the RHOMOLO model (Regional Holistic Model) (Ferrara – Ivanova – Kancs 2010) which is currently being developed and tested for DG REGIO. RHOMOLO consists of not only economic, but also social and environmental variables, and it has a regional (NUTS 2 level) and a sectoral (potentially 23 sectors) dimension, too. It can be used for both ex-ante and ex-post impact assessment. A Hungarian example is the GMR-Hungary model (Varga 2008) which is a model system consisting of a macroeconomic, an SCGE and a TFP (Total Factor Productivity) sub-model. This model was developed for the ex-ante evaluation of the Hungarian National Strategic Reference Framework (2007–2013), and provides a flexible tool with its regional scenario analysis framework.

Macro-models have to be supplemented with econometric methods which are used in ex-post analyses. Nevertheless, due to the great flexibility of these types of models, one cannot select a generally recommended best practice. The features of these models depend on the available disaggregate data base and the aims of the evaluator.

For the evaluation of territorial impacts at a highly disaggregated level (micro-regions, functional urban areas etc.), complex methods are available which integrate qualitative and quantitative tools. Best practices include the above-mentioned territorial cohesion indices (ETCI) and the TEQUILA model which can be used to identify the territorial impacts of policy interventions, since these methods aim to quantify the multi-faceted aspects of territorial cohesion. An essential element of these evaluations is the use of subjective expert assessments.

As a conclusion, we argue that even the most recent evaluation approaches only partially let us understand the transmission process of cohesion policy interventions, therefore an appropriate methodology mix should be applied. In this respect, national evaluation systems concerning interregional cohesion seem to be fragmented, since the integrated use of the full range of best methodological practices is lacking in most member states. In sum: what is new in Brussels? For 2014–2020 the European Commission is moving towards a stronger focus on results (instead of implementation), a much stronger emphasis on intervention logic and concentration, and encourages more evaluation. The evaluation of impact has been introduced into the role of evaluation. Also, there is a major emphasis on reducing the number of indicators to be evaluated, which is linked to a need to concentrate resources.

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# EVALUATION OF EU FUND DEPENDENCY – DEAD WEIGHT LOSS AND SUBSTITUTION EFFECT<sup>1</sup>

*Sándor Gyula Nagy – Balázs Lóránd*

## **Introduction**

SMEs provide the majority of jobs in the economy and the wealth of millions of families owning and running small companies. Decision-makers, politicians, many economists and sectoral lobby groups are convinced that helping SMEs with applications grants is an essential and the best (and sometimes the only available) way of using EU's Structural Funds' "development aid". The problem with this approach is double: it is not efficient at a national economic level and it creates a certain degree of sectorial dependency on EU funds to maintain the existing level of functioning, instead of boosting the economy to reach the "European" level of competitiveness in the single market (without state aid).

## *State Aid and Competition*

State aids to enterprises are basically forbidden in the European Union by Article 87.1 of the Treaty of Rome. At the same time, 87.2–3 legitimates the existence of "de minimis" and the regional development aids (from the Structural Funds).

However, market failure is a necessary but not sufficient condition for state intervention. Where the market does not lead to optimum decisions, it is absolutely not sure that state intervention will lead to its correction (Stiglitz 2000)

"Economic development" aids are often criticised for several reasons: it has a market distorting effect, the efficiency of using the gained support is dubious, and every project has some alternative cost (e.g. extra administration) (Lóránd 2010).

We are highlighting here the inefficiency of the non-refundable state aids by using two special concepts: the "dead weight loss" effect and the "substitution effect". The "dead weight loss" effect means the lack of incentive, namely, some enterprises funded through publicly supported measures would have obtained finance with the same terms even in the absence of state aid (EC 2006). The

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“substitution effect” (in our case) is when an investment does not improve the output either at national economic or at European level, because demand for the produced product or service is limited at state level, so the improvement in its production “crowds out” national competition, which is thus a nearly “zero sum” game (Béres 2008). The only exceptions are when the supported company produces for export or creates new demand for its products (which is less common).

Our research and analyses having targeted the efficiency of EU subsidy (or state aid) to the SME sector (Béres 2008, NFÜ 2011) were financed by the National Development Agency. The objective of the research has been to try measuring the dead weight loss and the substitution effect of EU funds to the SME sector in Hungary.

### **Conceptual Framework**

The National Development Plan aims at improving competitiveness by supporting SMEs to help them in acquiring new technology, employing new staff, improving working conditions, training (including vocational training of workers and executives), and in introducing new IT solutions (also in quality management and control systems), as well as by FDI-attracting measures for large Hungarian and multinational companies.

KPMG (2006) carried out a mid-term analysis of the Economic Development Operational Program (EDOP) of the first National Development Plan of Hungary. They investigated the share of projects supported by EDOP:

- which would not have been realised without the help of EU funds (the inverse of the “dead weight loss” effect), and
- which are increasing the output of the national economy (the inverse of the “substitution effect”).

The evaluators concluded that the examined SMEs would not have implemented 18% of their projects without the EU funds, and this value was 51% in sectors competing in the international market, whereas 9% of all projects fulfilled both criteria. This means that 91% of the projects had dead weight loss or substitution effect. Regarding the subsidies given to multinational and/or large Hungarian companies, they measured 89% dead weight loss and 9% substitution effect.

Regarding the first National Development Plan of Hungary 2004–2006, Attila Béres (2008) carried out a comparison with regression analysis between the investments of the “supported” target group and those of different control groups, based on tax declaration databases. He stated in the analysis that

- the supported enterprises invested significantly more than an average Hungarian company, however,
- there were no significant differences between their investment activities and those of the enterprises which applied for subsidy but did not win.

## Data and Methods

Our survey contained specific questions on the topic of our research, but it followed the logic of the SME Yearbook survey (Table 1 shows the variables used in our analysis), however, with a different methodology and distribution strategy. The questionnaire was sent to all the enterprises registered at the regional chambers of commerce and industry in Hungary. (It is nearly 90% of the ca. 600,000 Hungarian operating companies.) The data collection was made between 5th of January and 13th of February 2013. We received 1351 responses, which shows a very low level of interest on the part of the Hungarian enterprises. Nearly 19% of the responses had to be eliminated due to uninterpretable or meaningless answers, so the final sample size was 1098, which contains some partially useful answers (10.5%) as well.

The first dependent variable was the share of companies *having won grants co-financed by EU funds*. We tried to gain some information on the type and *relative size of their development projects* (“the kind of development grant” and “the ratio of EU funds in their yearly turnover”). The last dependent variable was *whether the company owes “subsidised loan”, and if yes, which type*.

The most important variable of our survey was *the “dead weight loss” effect*: the size of the investment the company would have made without the EU subsidy (in ratio of the total investment made). We tried to measure, or rather, to estimate the “dead weight loss” effect of the EU-subsidies in the SME sector.

We attempted to measure the *effects of the EU funds*: the change in the company’s life as a result of the EU funded investment or project.

For differentiating between micro-, small and medium-sized enterprises we used the official definition of the European Commission’s Recommendation (2003/361/EC).

The *ownership* of a company could be a determining factor in winning and using EU funds, so we differentiated between companies with Hungarian and those with foreign majority ownership. Regarding the geographical situation (*region* where the SME is situated), we followed the results of previous researches which made a clear difference (in competitiveness, value added, productivity etc.) between SMEs situated in the central region (including the capital city of Budapest) and the rest of Hungary. We presumed similar differences in our research.

Table 1. Definition of variables

	Variable	Description	Possible values
Dependent variables	Winning a grant from EU funds	In this question we asked them whether they intended to apply or not and whether they won once or more times	1: more than once 2: once 3: applied but did not win 4: never applied
	The ratio of EU-funds won by the final beneficiary in its 2012 turnover	We tried to gain some information on the type and <i>relative size of the development projects</i> of the enterprises (“the kind of development grant” and “the ratio of EU-funds in its yearly turnover”).	1: 0–5% 2: 5–10% 3: 10–15% .. 10: 45–50% 11: 50–75% 12. more than 75%
Independent variables	The kind of “subsidised loan”, the company owes	We listed all the existing subsidised loans available in Hungary	1: Széchenyi-card 2: Széchenyi credit programme 3: New Széchenyi credit programme 4: Subsidised loan guarantee 5: Hungarian Development Bank loan construction 6: Other
	The size of investment the company would have made without the subsidy from the EU-funds (in ratio of the total investment made)	We tried to measure, or rather, to estimate the “dead weight loss” effect of the EU-subsidies in the SME sector. This data collection is based on self-assessment	1: All investments would have been made (100%) 2: High share of the investments or developments would have been made (around 75%) 3: Half of the investments or developments (around 50%) 4: Smaller share of the investments or developments (around 25%) 5: There would have been no development without the EU-funds.



Table 1 (continued)

	Variable	Description	Possible values
Independent variables	<p>The change in the company related to the EU-funded investment or project:</p> <ul style="list-style-type: none"> <li>- the company's position as supplier,</li> <li>- market share of the company,</li> <li>- profit of the company,</li> <li>- number of employees,</li> <li>- working conditions for employees</li> </ul>	<p>We tried to measure the change in the company's life related to the EU-funded investment or project (using a 5-point scale)</p>	<p>5: very much improved                      4: improved a little                      3: had no effect                      2: worsened a bit                      1: worsened a lot</p>
	<p>The reason the company is using subsidised loans</p>	<p>We did not just try to measure the ratio of companies using some kind of subsidised loans, we also wanted to find out the reasons why they used or did <i>not</i> use such loans. We made preliminary interviews with experts to find out the most common potential reasons, to ask "closed" questions, in order to facilitate the analysis of the survey results.</p>	<p>1: Securing the daily functioning                      2: Realising development projects                      3: We hardly use it, it is just a safety net                      4: We have other reasons                      5: We do not have any</p>
Control variables	<p>The reason the company is NOT using subsidised loans</p>	<p>1: Lacking sufficient guarantees                      2: Lacking co-financing                      3: The company is not fulfilling some or one of the conditions                      4: Not needed for the company</p>	<p>1: micro-enterprise                      2: small enterprise                      3: medium-sized enterprise</p>
Size of the company	<p>We used the official definition of the European Commission's Recommendation (2003/361/EC) for micro-, small and medium-sized enterprises</p>		

Table 1 (continued)

	Variable	Description	Possible values
Control variables	The ownership of the enterprise	The <i>ownership</i> of a company could be determinative in winning and using EU funds, so we differentiated between companies with Hungarian and those with foreign majority ownership	1: Hungarian majority ownership if not, where is the seat of the majority owner: 2: Germany 3: Austria 4: France 5: other
	Geographical situation (region where it is situated)	As earlier researches show there is a clear difference (in competitiveness, value added, productivity etc.) between SMEs situated in the central region (including the capital city of Budapest) and the rest of Hungary	Northern Hungary Northern Great Plain Southern Great Plain Central Hungary Central Transdanubia Western Transdanubia Southern Transdanubia
	Export activity (the share of export in total turnover)	The existence and the intensity of <i>export activity</i> are key factors in investigating the “substitution effect” of EU funds, so we also included this factor in our research	1: none 2: minimal (0–5%) 3: low (5–25%) 4: medium (25–50%) 5: important (50–75%) 6: very important (75–100%)
	Supplier activity (ratio of income from multinational companies in total turnover)	We regarded the <i>supplier activity</i> of an SME to multinational firms situated in Hungary as a kind of indirect export, since the majority of the multinational companies in Hungary are producing for export markets	1: none 2: minimal (0–5%) 3: low (5–25%) 4: medium (25–50%) 5: important (50–75%) 6: very important (75–100%)

Source: Authors' compilation.

The existence and the intensity of *export activity* (share of export in turnover) are key factors in investigating the “substitution effect” of EU funds, so we also included this factor in our research.

We regarded the *supplier activity* of an SME to multinational firms situated in Hungary as a kind of indirect export, since the majority of the multinational companies in Hungary are producing for export markets.

The distribution of the survey is a crucial point of every research. Due to data-protection legislation, we are not allowed to store databases of companies, so we had two possibilities. We could have used the “snowball” model, asking our personal and university contacts to forward the questionnaire and to ask their contacts to do the same. The other alternative was to ask our contacts in the Ministry of National Economy and the Hungarian Chamber of Commerce and Industry to ask the regional and local chambers to send the questionnaire to their members. We applied mainly the second method, although we also tried to apply the first one, including all former students, friends and colleagues, online social media, and some “application writers”.

The online survey programme used for our research (Survey Gizmo) allowed us to run unlimited number of automated analyses with different filters (for control variables) and to compare these, searching for significant differences in the results relating to the size, the geographical situation etc. of the responding enterprises. (We could also refine the results by closing out double or multiple replies from the same company identified by the same computer IP address.)

## Results

We can clearly see from the results of the survey that the small and medium-sized enterprises are overrepresented in the sample group of EU fund-winners (just like in the survey) compared to their share in the economy. This is confirming the results of previous researches and evaluations (e.g. Béres 2008) that the majority of the winners of EU funds are from among the most competitive enterprises (which are not the micro-enterprises). The data show that 46% of the winners have received some kind of subsidy from EU funds more than once in the last 9 years (EU funds are available from January 2004) and this confirms the research results mentioned above.

We found a very interesting relation between the *share of subsidy in turnover* and the “dead weight effect”. The average “dead weight effect” of the winners is 46%, while that of the companies which won (between 2004 and 2012) more than 40% subsidies as a percentage of their yearly turnover in 2012, this effect is just 24%. There might be various explanations for this. Either they are continuously applying for subsidies to “survive”, because otherwise they would not be competi-

tive and would disappear from the market; or they made one big or several small but sequential investments, which they would not have made without EU-subsidies. It is also possible that both explanations are (partially) valid.

The relationship between the ratio of EU funds in yearly turnover and the “dead weight loss” was further analysed by correlations. The Pearson correlation was  $-0.236$  (significant at 0.01 level), which means a weak negative relation between the ratio in turnover and the “dead weight loss”.

We analysed the relationship between different variables to highlight how company features affect “dead weight loss” with the ANOVA<sup>2</sup> method. There is practically no difference among the winners and non-winners as regards the SMEs’ geographical location. However, we have found a significant relationship between the *size* of the company and the “*dead weight loss*” effect. At micro-enterprises the average “dead weight loss” is 41.00%, at small enterprises 46.98%, while among medium-sized companies it is 58.33%.

We have also found significant correlation between the *ownership* of the company and “*dead weight loss*”. Foreign owned enterprises generated an average of 63.89% “dead weight loss”, while enterprises with Hungarian majority ownership only 44.72%. However, the reason for this might also be the low number of foreign firms in the sample (8%).

It is another significant result that *the number of times of winning from EU funds* is also correlated with the value of “dead weight loss”: 42.47% in the case of companies winning only once, whereas it is 51.38% at enterprises winning more than once.

It is interesting to note that while only about 1% of the Hungarian SMEs carry out export activity, this is more than 41% in the case of EU-subsidised companies. If we also include enterprises supplying for multinationals, we find that more than 39% of the winners have *significant* (more than 10% of their turnover) export activity. Furthermore, *export activity* (substitution effect) has a very significant relationship with “dead weight loss”: companies with more than 10% export in their turnover produced a significantly higher “dead weight loss” average (53.70), than those with less than 10% export in the turnover (41.97). 61% of the EU-subsidised companies compete exclusively in the Hungarian market, but at the same time the share of export activity among the winners is very high, which decreases the substitution effect of the EU funds and concurrently increases the dead weight effect. This is very controversial and highlights the negative correlation between “dead weight loss” and the substitution effect.

The average share of EU funds won in the last 9 years (2004–2012) in the 2012 turnover of the companies examined is below 10% (and it is about 1% if we

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<sup>2</sup> Proper method to analyse the relationship between categorical variables.

calculate with the yearly EU-subsidies), which is very low. However, there is a group of winners (around 10% of the respondents) that won more than once and the share of their EU-subsidies in their 2012 turnover is quite high (20.2%). Furthermore, the 2011 data of the Hungarian Statistical Office show that both the gross value added and the share of the SME sector in export activity have significantly surpassed the pre-crisis level (Table 2).

On the basis of our survey results it seems that EU fund-winners use some kind of subsidised (16.8) and non-subsidised loans as well (40.5%), while this value is only 3.2% in the whole Hungarian SME sector. This highlights strong connection between the two types of government programmes (refundable and non-refundable subsidies) and the EU fund-winners' willingness and/or need to exploit all accessible possibilities to finance their investment. As our survey revealed, the majority

Table 2. Analysing the means of "dead weight loss" among different groups of companies (results from ANOVA)

Feature/variable	Categories	Means	Significance level
Size of the company	Micro-enterprise	41.00	0.009
	Small enterprise	46.98	
	Medium-sized enterprise	58.33	
The ownership of the enterprise	Foreign owners	63.89	0.007
	Hungarian majority ownership	44.72	
Geographical location	Central Hungary	41.67	0.632*
	Central Transdanubia	51.56	
	Northern Great Plain	44.12	
	Northern Hungary	38.71	
	Southern Great Plain	49.43	
	Southern Transdanubia	53.26	
Széchenyi-card	Yes	47.28	0.888*
	No	46.48	
Subsidised loan	Yes	45.72	0.731*
	No	47.22	
Winning grant from EU funds	Once	42.47	0.038
	More than once	51.38	
Export activity	Less than 10% in the turnover	41.97	0.007
	More than 10% in the turnover	53.70	

\*No significant correlation.

Source: Authors' calculation.

(52%) of the companies without loans would be willing to participate in access-to-finance programmes, but they do not fulfil the conditions to do so. The total share of subsidised loans in the total loan-stock in Hungary is around 11%.

According to our survey results EU grants had a good effect on the enterprises (in 80% subsidies had a positive effect on the company's life), mostly by increasing employment (62%), and/or by improving working conditions (78%), its market positions (57%), its position as a supplier to multinationals (55%), and its profitability (70%). There was no significant difference among the various control variables (size, region or ownership etc.).

We asked the enterprises which effects they would prioritise in connection with EU-subsidies, and they ranked with slight differences "increasing employment" 1st, "increasing turnover" 2nd, "introducing green technologies" 3rd, and far behind these "increasing export" 4th, which shows a lack of confidence in expanding towards foreign markets.

## **Conclusion**

From our results we can conclude that companies with larger size, foreign ownership, winning more than once from EU funds and having more than 10% of export in their turnover tend to cause higher "dead weight loss". This is very controversial and highlights the negative correlation between "dead weight loss" and the substitution effect. Our research reveals that the majority of SMEs do not depend on EU-subsidies, while the high dead weight effect shows low efficiency of using the EU funds in the SME sector through non-refundable grants. Unfortunately we lack the international (at least EU level) comparison to assess the relative importance of this result.

The research results do not give explanation for the cause of the negative correlation between "dead weight loss" and the substitution effect. This could be a possible topic of further research and investigations. Furthermore it would also be interesting to look deeper into the access-to-finance programmes, the reasons of the non-participating enterprises and how could more SMEs be involved in these programs. Another possible topic could be a comparative international research, which could help in understanding the causes and possible ways of mitigating the adverse effects of EU funds on the SME sector.

Preparing for the new planning period, decision makers should be provided with possible ways of allocating EU funds more efficiently and of producing higher added value at national (macro) level.

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**THEORIES, METHODOLOGIES,  
INSTITUTIONAL FRAMES IN REGIONAL  
SCIENCE**



# TERRITORY, AS IN TERRITORIAL COHESION

*Andreas Faludi*

*Territory ... should not be understood as the static backdrop or container of political actions. Nor is it the passive object of political struggle. It is something shaped by, and a shaper of, continual processes of transformation, regulation and governance. (Elden 2013, p. 13)*

Social theorists are questioning territories-as-containers and so do practitioners. Thus, Nauwelaers (2012, p. 24) warns against "...myopic approaches, confined to regional boundaries and overlooking potential cross-border synergies." Politicians defer to their electorates, so one must demonstrate the opportunity costs of overlooking potential benefits to be gained through co-operation, as Nauwelaers says. Meijers, Hoogerbrugge and Hollander (2012, p. 142) comment likewise that politicians being under pressure "...leads to an emphasis on short-term, locally coloured political agendas. Without hard evidence on how decisions taken for 'the regional good' trickledown locally, and how regional performance affects local performance, also on the long run, it is hard to overcome this gap between regional issues and local administration." The underlying principle is territorial constituencies electing representatives which "...has become so habitual that it is almost never questioned, despite the fact that the 'communities' supposedly involved have changed radically in their stability, size and composition" (Schmitter 2009, pp. 487–488). However, relevant territories are not fixed. They depend on the issue and policies concerned. This is also true for territorial cohesion policy. Conventionally it is assumed that the territories concerned are jurisdictions. These containers are thought as layered stacks. Territorial cohesion is thought of in terms of how well activities within and also between the stacked containers harmonise with each other. The other view of territories is one of *ad-hoc* constructs, dynamic and depending on who is concerned. Such territories may overlap and do not fit into a "Russian Doll", as constitutional thinking – including much thinking about the EU – would have it. The view is one of a dynamic network with fuzzy internal as well as external boundaries. Territorial cohesion refers to how well this network reflects existing complexity, at the same time ameliorating inefficiencies and outright conflict.

## Territorial Cohesion

During consultations on the “Green Paper on Territorial Cohesion” (EC 2008, see Faludi 2010, pp. 162–167, Sykes 2011) one criticism was the lack of a clear definition of the concept. From the beginning it had been a container for different meanings and intentions, an “unidentified political objective” (Faludi 2005). This allowed governments and EU institutions to interpret territorial cohesion according to their own interests, preferences and development challenges, reminding Evers (2012) of the “garbage can model”. Indeed, Commissioner for regional policy Michael Barnier (2004) gave a long list. He emphasised first of all that EU policy already embraced aspects of territorial cohesion such as the support for regions lagging behind. He then outlined new directions aiming to improve the response to the EU’s territorial imbalances:

- exploiting opportunities, and not just addressing problems;
- encouraging co-operation and networking;
- building on existing strengths so as to improve the targeting of cohesion policy;
- ensuring the incorporation of the sustainability agenda, including addressing the issue of natural risks;
- more coherence and co-ordination between regional and sectoral policies.

It has become common since to talk about different territorial cohesion “storylines” like “Europe in Balance”, “Competitive Europe” and “Clean and Green Europe” (Waterhout 2008). However, as Martin and Schmeitz (2012, p. 120) argue: “...greater policy coherence and governance changes are needed.” A further storyline thus concerns the packaging of policies with territorial impacts, in the terms of the Barca Report (2009) of integrating territorial development; the “Coherent EU Policy” storyline.

Van Well (2012) follows up on the storylines relating them to the arenas in which territorial cohesion is discussed: the “ESPO pillar” so called after the European Spatial Planning Observation Network; the “Territorial Agenda pillar” so called after the “Territorial Agenda of the European Union” (TA 2007) and its update, the “Territorial Agenda 2020” (TA 2011); the “Green Paper pillar” and finally the “European Territorial Co-operation pillar” referring to the EU cohesion policy objective under this name. Then Van Well turns her attention to “Cohesion Policy Storylines in OPs 2007–2013”, identifying storylines not unlike Waterhout’s: reduction of regional/spatial imbalances; regional co-operation; exploiting regional potential; horizontal (multi-level) principles.

So there are different meanings to territorial cohesion, but Faludi (2010, p. 170) argues that integrated territorial development policy is its unique selling point. “Coherent EU Policy” refers to the co-ordination of regional, environmental,

agricultural, transport and so forth policies, ensuring that such policies acquire added value by forming coherent packages, taking account of where they take effect, the specific opportunities and constraints there, now and in the future. Indeed, the post-2013 proposals for cohesion policy signal a strengthening, Mendez (2012, p. 2) says, of “...territorial and integrated principles and the reassertion of Commission control over programming”, a return to the founding ethos of the 1988 reform. He, too, presents this “place-based” narrative as a key driver in the ascendancy of a territorial cohesion discourse and traces the development of the “place-based” narrative from the OECD to Barca. Concerning the “place-based” narrative in Commission policy he concludes that its “...tenets of spatial balance, integrated development and inclusive governance... resonated with the well-established multi-level governance and territorial cohesion concepts, which had gained increased attention through the EU's constitutional reform initiatives” (Mendez 2012, p. 10).

The salience of the “Coherent EU Policy” territorial cohesion storyline is clear. At the same time sector reluctance is problematic. This is the more the case since it is unclear whether member states or the EU should be responsible: the competence issue concerning European spatial planning (Faludi – Waterhout 2002, Janin Rivolin 2010). As an objective of the “Union”, as the EU is called in the Lisbon Treaty, one might be excused for thinking that this is no issue with territorial cohesion. Be that as it may, this paper is not about competence, but about territory which tends to be taken for granted, and well in the sense of territory being a container.

### **Territory, as in Subsidiarity and Multi-level Governance**

The Green Paper on Territorial Cohesion asks for a shared understanding of the concept which should improve the governance of cohesion policy “...in conformity with the principle of subsidiarity” (EC 2008, p. 4). What it seems to want to allay are fears that pursuing territorial cohesion could weaken the position of member states and their regions. The backdrop is that of the existing governmental hierarchy: the stack of containers. What the concept of subsidiarity invoked means that the EU should get involved only where they cannot cope. Commission proposals to effectuate any shared competence require the approval of the Council of Ministers and also the European Parliament. For instance, the Council could reject a common soil protection policy. Much as the counterarguments, the unsuccessful Commission proposal was couched in terms of subsidiarity. In light of attitudes expressed during the consultations on the Green Paper on Territorial Cohesion, Faludi (2012a) surmises that proposal concerning territorial cohesion would share the same fate.

Even where reactions to the Green Paper are positive, the frame of reference is the existing government hierarchy. For instance, the Committee of the Regions in its reaction to the Green Paper and also in its White Paper on Multi-level Governance (CoR 2009) states that

“...the principle of subsidiarity... prevents decisions from being restricted to a single tier of government and which guarantees that policies are conceived and applied at the most appropriate level. Respect for the principle of subsidiarity and multi-level governance are indissociable: one indicates the responsibilities of the different tiers of government, whilst the other emphasises their interaction”.

Because of the presumed relation with multi-level governance, Faludi also discusses that concept. The view above is of course prefaced upon the existence of a government hierarchy. However, according to Hooghe and Marks (2010) there is also type II multi-level governance relating to specialised jurisdictions assuming a potentially endless field of intersecting spatial relations. Here, subsidiarity makes no sense which leads him to exploring underlying notions of space and territory: Dangschat (2006) arguing that our understanding of space needs to move to conceiving of it as a jumble of overlapping networks; Davoudi and Strange (2009) advocating a relational conception of space, one that depends on the processes and substances that make it up; and Healey (2010, p. 32) pointing out that “...those with a ‘stake’ in what happens in a place are not only local residents, or citizens, of a specific administrative-political jurisdiction”. Subsidiarity takes no account of this multiplicity of arenas and identities. In working to maintain the existing nested hierarchy, it is a conservative principle prefaced upon a view of governance in boxes. Faludi asks whether the production of democratic legitimacy as a monopoly for territorial representatives is equally problematic.

Faludi (2012b) sharpens the analysis of multi-level governance. The concept is ambiguous. It often refers to vertical relations between bodies of government within a multi-level polity, but sometimes also to the more comprehensive process called governance. A related and for the purposes of this paper more important point reflecting the critique also of subsidiarity is that the multi-level governance literature fails to problematise the underlying “territorialist” metageography. Territory is seen as a container with fixed boundaries. Invoking a term of Murphy (2008), what is underlying is a particular metageography shaped by the map of sovereign states.

Without actually invoking the term, Scholte (2000, p. 47), too, castigates this metageography as “territorialism” according to which “...macro social space is wholly organized in terms of units such as districts, towns, provinces, countries and regions. In times of statist territorialism more particularly, countries have held

pride of place above the other kinds of territorial realms..." However, connections exist that are at least partly detached from this territorial logic. Thus, in global transactions, "place" is not territorially fixed, territorial distance is covered in effectively no time, and territorial boundaries present no particular impediment. In the terms of the famous work by Castells (1996), the "space of flows" overgrows the "space of places". Social space cannot, therefore, be understood in terms of territorial geography alone.

Murphy points out also that the current "cartography of social life" – Scholte's territorialism – is the outcome of historic choices, "...of efforts to achieve particular ends with concrete implications for how things are organized and how people think about the world around them". He continues by claiming that the "...territoriality of the European state system helped to produce a geographical imagination that privileges the 'nation-states' over river basins, vegetation zones, population concentrations, or other possible regionalizations..." As a historic phenomenon, territorialism is thus subject to change. Indeed, Scholte (2000, p. 57) says that "...we need to develop an alternative, non-territorialist cartography of social life", one that does not treat jurisdictions with their fixed borders as the inevitable building blocks, the metageography that Murphy criticises.

Faludi continues to show that the original inspiration of authors dealing with multi-level governance was not as "territorialist" as its invocation, for instance in the Committee of the Regions "White Paper on Multi-level Governance" (2009), and discusses also the programmatic article "Regions Unbound: Towards a New Politics of Place" by Amin (2004). The butt of Amin's criticism is a "new regionalism". The latter is based on the mainstream view of cities and regions as territorial entities. However, "cosmopolitan forces" produce a world of cities and regions without prescribed or proscribed boundaries, so Amin is proposing a relationally imagined regionalism freed from the constraints of territorial jurisdiction.

Some of the authors discussed invoke another concept, territoriality, according to a classic, by Sack (1986), spatial strategy of controlling resources and people by controlling area. This is often equated with state territoriality, but government control is diminishing. Also, Hajer (2009) diagnoses a waning of the "territorial synchrony", discrepancies between geographical reach of the scale of problems. Much policy work takes place next to or across established orders. This shifts policy-making to an "institutional void".

If states no longer have a monopoly on territoriality, does this mean that territoriality as such is no longer a useful concept? Burgess and Vollar (2006) deny this, but unbundling territoriality may mean non-territorial forms of organisation. Faludi relates this to arguments about soft spaces. The emphasis is on scales other than those of the statutory planning system and on planners co-operating with others actors. Allmendinger and Haughton (2009, p. 3) reviewing literature on

rescaling argue that this reflects “...an apparent predilection for promoting new policy scales, initially at least through the device of fuzzy boundaries”.

Drawing on more literature from the field of human geography, Faludi (forthcoming) pursues the themes of territorialism and territoriality. The studies discussed are innovative in conceptualising new territories criss-crossing existing jurisdictions leading to an “unusual regionalism”, the term coined by Deas and Lord (2006, p. 1850). New imaginative configurations straddle national and regional boundaries challenging territorialism and state territoriality.

Indeed, there is much “soft” planning at cross-border and transnational scales implying a new understanding of territory and of territoriality. The Commission promotes this and under the authority of the European Council co-ordinates its relevant policies and brokers agreements on concrete actions under the Macro-regional Strategy for the Baltic Sea Area, an example of “spatial rescaling” (Stead 2011, p. 163) and of soft spatial planning. If Metzger and Schmitt (2012) signal a tendency to veer back towards hard planning, then this only goes to reiterate that there is a complicated interplay between the two forms of planning.

From all this, Faludi concludes that territory is not necessarily a fixed entity enveloping all major aspects of social and political life. Rather, it is the object of negotiation and compromise, open to multiple interpretations. He points out its exciting aspect. In his work on “European Union and the Deconstruction of the Rhineland Frontier”, Loriaux (2008, p. 2) says “...that the terms we use so casually are rooted not in ‘nature’, but in the poetic imagination...”, adding that this “...has the effect of freeing deliberation and debate from a vocabulary of obfuscation and reveals... the contours of a Europe that is... about deconstructing frontiers so as to bring to light a civilizational space that is... intensely urban, cosmopolitan, multi-lingual, and less hierarchical than in the past”. The challenge that flows from this is to visualise networks and flows through the use of “scenarios” and “fuzzy maps” (Davoudi – Strange 2009, p. 38) representing untidy and complicated situations prevalent in the twenty-first century. At the same time, hard spaces are entrenched. They are the bases for the organisation in wards, constituencies, electoral districts and so forth, of democratic decision making. For as long as there are no convincing alternatives, hard spaces will remain building blocks for territorial organisation, the forthcoming paper concludes.

### **Two Worlds Coming Together?**

The first 2013 issue of *Regional Studies* is about “Regional World(s): Advancing the Geography of Regions”. The editorial states: “Traditional views of regions as bounded, homogeneous units have been mostly rejected... [T]he 1990s witnessed new relational tunes in the deliberations on regions” (Jones – Paasi 2013, p. 2).



Above, the paper has already alluded to such “relational tunes”. This section elaborates on the theme, discussing the papers by Varró and Legendijk (2013) and Harrison (2013). First, though, the introductory paper makes a point that is true not only of regions but of all territorial entities: “[R]egions of whatever scale or definition are neither immediately self-evident as geographic designations nor meaningful outside the historical context and theoretical frame in which they are used” (Agnew 2013, p. 7). It distinguishes between various modes of usages of regions: macro-regions, functional regions, aggregates of lower-level units without much regard to national boundaries (geographical areas of similarity), regions as entities involved in the “hollowing out” of national economies and regions as the vehicles articulating sub-national identities. Agnew identifies seven disputes over regions and several “regional logics” and warns against swapping the nation-state for the region as another one-size-fits-all alternative geographical unit of account.

Varró and Legendijk (2013) cast light on the “relational turn” alluded to above by invoking the influential example of England’s “regional problem” and regional governance. The “relational versus territorial debate” opposed “radicals” to “moderates”. The debate gained poignancy under New Labour. To the disappointment of “radicals” its regional policy was based on a container-view of socio-economic processes prompting Amin and others to sharpen their critique of new regional and urban policies based on the assumption that, quoting Amin (2004, p. 36) in the paper already referred to, a defined geographical territory exists out there over which local actors have control. Referring to the pamphlet “Decentering the Nation: A Radical Approach to Regional Inequality” (Amin – Massey – Thrift 2003), Varró and Legendijk (2013, p. 21) point out that instead of “...the misleading celebration of self-reliant regions that actually remain entangled in centrally orchestrated policy frameworks, radicals have called for a more radical revision of the UK’s territorial management. [They – A. F.] have asked more specifically – and evoking traditional, that is, Keynesian regional policy measures – for a dispersal of state investments, including public sector institutions”. Whilst sympathising, “moderates” as against this “...have pointed out the need to be aware of the persisting relevance of the territorial dimension of socio-spatial processes” (Varró – Legendijk 2013, p. 21) which amounts to a combination of territorial and relational readings. They conclude: “‘Territorially embedded’ and ‘relational and unbounded’ conceptions of regions are complementary alternatives, and actually existing regions are a product of a struggle and tension between territorializing and de-territorializing processes” (Varró – Legendijk 2013, p. 21).

However, “radicals” do not absolutely deny this point and so the critique levelled against them by “moderates” is not wholly justified. The gap between the camps is narrower than it seems. Both see regions as social constructs. Making a point that will not be explored further, Varró and Legendijk identify differences

between the respective meta-theoretical frameworks. This is of more general importance, and the way forward "...is to think of regions, and by extension, of all – thus also national – spaces as constituted relationally through agonistic struggles" (Varró – Lagendijk 2013, p. 27).

Harrison (2013), too, discusses how concepts of regions have been invoked in UK regional planning. Having outlined the controversy between "territorially embedded" and "relational and unbounded" conceptions, he states the purpose of the paper which is to demonstrate how the required "key diagrams" employed in the UK Labour Government's "new regional policy" reflect the move from a one-dimensional to a polymorphic view of regions. He notes globalisation's challenge to existing national arrangements and also the identification by Jessop, Brenner and Jones (2008) of the dimensions of the "polymorphy" of social enquiry, territory, space, scale and network.

All this concerns North West England being at the object of endeavours to build more networked regional governance influenced, as it has been, by academic thinking. Indeed, after the failure at the hands of voters of regional devolution, the draft strategy was couched in terms of networks based on the premise of a "space of flows", this being reflected in the priority given to networks over Jessop et al.'s other dimensions of socio-spatiality. Thus, most lines on the map refer to connectivity; the focus is on growth corridors; prominence is given to international gateways; city-regions are presented as pivotal points; and the key diagram disregards political or administrative units. Even the regional boundary is inaccurately defined as enveloping areas not part of the administrative region.

When it came to the official strategy, the weighting had shifted. The regional boundary was prominently – and accurately – represented, and boundaries around political and administrative units forming part of the city regions were hard. Flows were less prominently illustrated, and so were gateways: the airports and ports linking the region to the world. "[N]etworks and their institutional forms have clearly been unable to escape the existing territorial mosaic of politico-administrative units and their boundaries in the way that relationists argue they can" (Harrison 2013, p. 68).

This was not the end of the story because another key diagram for the 2010 Integrated Regional Strategy appeared. Referring to the Jessop et al. paper, Harrison (2013, p. 69) claims that it is "...configured around the four first-order dimensions of socio-spatial relations". Thus, the territorial boundary of the region remains evident, but the three areas not formally part of it are once again included; scale has been brought back into the equation in that sub-regions are made visible, but in a way that makes them compatible with the existing territorial mosaic; networks remain evident, but loose more of their power. Notions of virtual flows disappear; connections beyond the region are no longer to city regions but to cities

and regions; flows are truncated at the regional boundary and only lip service is being paid to international connectivity. Harrison diagnoses this as simultaneously less relational and less territorial.

All of which leads to an important question. To what extent are emerging configurations conducive to producing more effective spatial policies? For in the North West, if the emphasis on networks in 2006 and then on territory and networks in 2008 was driven by a clear rationale and certainty amongst key actors as to why it was necessary to adopt this approach, the move to less territory and less networks in 2010 appears to be driven by a politics of increased uncertainty over the economic, political, and institutional future of regions (Harrison 2013, p. 71).

What the study shows is how and why the dimensions of socio-spatial relations as identified – territory, space, scale and network – were dominant, emerging or residual at each moment. The conclusion to be drawn is that what is needed are “...ever-more-complex configurations in order to make emergent strategies compatible with inherited landscapes of socio-political organization, and for new conceptual frameworks capable of theorizing the ‘inherently polymorphic and multi-dimensional’ nature of social relations” (Harrison 2013, pp. 71–72), a reference to Jessop, Paasi and Jones.

Harrison does not elaborate on these “ever-more-complex configurations”, but his diagnosis chimes well with the observation of territorial governance, of which territorial cohesion policy is, or would be, an example becoming complex. Speaking to spatial planning, Allmendinger and his various co-authors writing on soft spaces and the equivalent kind of planning are sure to concur, and so are elected representatives having a hard time dealing with opaque arrangements mirroring the “polymorphic and multidimensional” social relations addressed above. How can they give an account of their dealings to their constituencies? Political representatives and the whole bureaucratic apparatus of states and their sub-units are firmly embedded in – and dependent on – the “territorial mosaic”.

## **Conclusions**

Faludi (2012a) broaches the issue of territorial representation in relation to concepts of deliberate democracy. The fundamentals of representative democracy: voting in territorial constituencies, come into focus. As Schmitter has been quoted in the introduction, there is little discussion of this in the relevant literature. Rehfeld (2008, 1st ed. 2005, p. ii) is an exception in asking: “Why do democratic governments define political representation in this way? Are territorial electoral constituencies commensurate with basic principles of democratic legitimacy?” Referring to US congressional districts, he argues that “...the use of territory for representation has never been explained or justified... In never having been contested...

territorial constituencies qualify as an arbitrary institution..." (Rehfeld 2008, 1st ed. 2005, p. xv). It gives arbitrary preference to territorial interests. His alternative is large random constituencies.

This has received some commentary. Urbanati and Warren (2008) confirm that the concept of constituency is an underdeveloped subject. Like Rehfeld they note that "...the idea that constituencies should be defined by territorial districts has been all but unquestioned until very recently" (Urbanati – Warren 2008, p. 396). They concur also that "...when represented geographically, the people are only a 'demos' insofar as their primary interests and identities are geographical in nature. Non-geographical constituencies... are represented only insofar as they intersect with the circumstances of location, producing only an accidental relationship between democratic autonomy... and forms of representation" (Urbanati – Warren 2008, pp. 396–397). Examples of constituencies underrepresented are racial, class, and gender groups. So "...geography-based constituency definition introduces an arbitrary criterion... Exclusion works not on people... but rather on issues, since residence-based constituencies define residency-based interests as most worthy of political conversation and decision..." (Urbanati – Warren 2008, p. 397). Action groups and NGOs that play a role in notions or deliberate democracy articulate such interests of underrepresented constituencies.

All this does not mean to say that Rehfeld's proposal, worked out in his book in some detail in the form of a scenario of what US politics would be like with randomly assigned rather than territorial constituencies, has found broad acceptance amongst constitutional theorists. Thus, Schmitter (2009, pp. 487–488) agrees that the "...territorial base of representation has become so habitual that it is almost never questioned". He also concurs with his asking: unless citizens "...are choosing within collective units that are meaningful to them, why should the winning representatives be regarded as legitimate... Territory may have seemed the 'natural' and logistically effective solution in the past, but why continue to rely so exclusively upon it in the present" (Schmitter 2009, p. 488). However, he says he finds the inferences concerning the positive effects of Rehfeld's proposals of random constituencies implausible. In his summary, he states: "Territorial constituencies are still considered the most appropriate and reliable political units within which interests and passions should be aggregated, despite evidence that these units have changed considerably due to greater mobility and that citizens identify strongly with functional or ideational constituencies" (Schmitter 2009, p. 489).

The above shows that issues that have agitated participants in the relational vs. territorial debate have at least been raised by constitutional theorists. If the relational/territorial debate has resulted in something like a draw, that is less true of the discussion around representation in terms of territorial constituencies. However, at least the existence of critics shows that, when faced with the limitations

which decision-making in fixed territorial units imposes, one need not raise one's hands in desperation. Merely bemoaning the short-sightedness of politicians and their constituencies, and at the same time questioning the virtues of representative democracy behind closed doors for failure to deal with the complex territorial reality seen by experts, is not the only alternative. It is appropriate to question arrangements for articulating the "will of the people".

A last point is to reiterate that arrangements to deal with "polymorphic and multidimensional" social relations in a territorial-cum-relational reality are sure to remain opaque. Requesting simplification for simplification's sake is illusionary. Manipulating scale alone through government reform, increasing or decreasing territorial decision-making units does not solve much either. Territory is a multiple. Fixed territories are like islands in a sea of malleable ones, with its wave patterns incessantly re-modelling the islands' shorelines. To remain within this metaphor, territorial cohesion may thus refer to how well activities on islands harmonise with each other, but it may equally refer to how well their inhabitants manage their relations with the seas surrounding them. The pursuit of territorial cohesion, so conceived, means conceptualising, and re-conceptualising relations, amounting to ever-new images, not in lieu of territories as islands but as counter-points obviating their apparent isolation.

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# THINKING THE SPACE(S) OF EUROPE BEYOND THE “SPACES OF FLOWS”/ “SPACES OF PLACES” DIVIDE: A VIEW FROM THE EUREGIO MEUSE–RHINE

*Krisztina Varró*

## Introduction

Today it appears commonsense that European Union (EU) integration has always been “inescapably spatial” (Richardson 2006, p. 203). However, this spatial dimension remained for a long time rather neglected by scholars. It was only from the late 1990s, parallel to the forming of a more explicit (although informal) European spatial policy, that attention turned to “[t]he spatial novelty of Europe” (Rumford 2006, p. 127). Several scholars became inspired by Castells’ (1996) twin concepts of “spaces of flows” and “spaces of places”, and proposed to think European<sup>1</sup> space in terms of these two “spatial logics”. Furthermore, many have noted that EU integration and EU spatial policies more specifically promote “spaces of flows” at the expense of “spaces of places”. As it has been argued, this bias is problematic because it will enhance uneven development; dealing with questions of redistribution would necessitate a territorial approach.

Such arguments sound plausible given the fact that EU integration has enhanced mobilities of various sorts, i.e. the “spaces of flows”, but has not brought about a corresponding regulatory spatial policy at the scale of the EU concerning the “spaces of places”. The aim of this paper is to show, however, that these at first sight insightful metaphors are not helpful for problematising spatial development in Europe. Flows, networks, territories and places are not distinct “kinds” of spaces; they are all constituted by (institutionalised) relations. Accordingly, we should focus on how EU policies shape such relations, and how resulting governance practices help constitute new spaces.

In order to develop this argument, first the paper briefly discusses the “spatial turn” in studying Europe, and how thinking in terms of “spaces of flows” and “spaces of places” has gained ground in the literature. In a second step, this view is put under critical scrutiny and will be substituted by a relational perspective on space. Subsequently, the usefulness of this approach is illustrated at the example of

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<sup>1</sup> In discussing scholarly views, this paper aligns with the common practice of equating the EU with “Europe”; in fact, it is “EUrope” that is meant.



the Dutch–Belgian–German Euregio Meuse-Rhine. The paper concludes by arguing that the key task for scholarship concerned with European space(s) remains to study the inherently political processes through which space-constituting institutional relations are being transformed “in” Europe.

### **Studying European Space: “Spaces of Flows” and “Spaces of Places”**

Initially, given the dominance of political scientists and International Relations scholars in the field, the focus of much EU-related research was on the changing role of the nation-state, and the conceptualisation of the EU as a polity, federal system or supranational state (Rumford – Murray 2003). Later, the forming of EU spatial policy in the 1990s generated more and more scholarly interest in the spatial dimension of European integration. From the 2000s, scholars from various disciplines, including geography, sociology, and spatial planning started to problematise the spatiality of Europe. This gradual “spatial turn” challenged the dominant view of EU space as the aggregation of pre-existing national territories and drew attention to transnational aspects of Europeanisation (Rumford 2004, 2006).

Arguably, one of the most influential sources of inspiration for conceptualising the space(s) of Europe became Castells’ work, which by then had already had great impact in the social sciences. Briefly, Castells (1996) proposed to theorise urban transformation in the context of the global “information age” through the concepts of “spaces of flows” and “spaces of places”. For Castells, “spaces of flow” captures the translocal connectedness brought about by the revolution in information technology. Given that capitalism came to be driven entirely by information, the metaphor of flows is the “expression of processes dominating our economic, political, and symbolic life” (Castells 1996, p. 412). “Spaces of places” are in turn the local spaces of every-day experience. Ultimately, Castells argues that contemporary cities are shaped by the articulations of these two competing spatial logics.

Castells’ perspective (or its re-interpretation) became introduced to the emerging scholarship on European spatial development and policy in the early 2000s, through a number of discourse-analytic studies. The key proposition of these studies was that EU spatial policies attempt to create shared meanings of European space which then inform policy-making at different levels, become institutionalised, and actually come to shape European spatial reality. Hajer’s (2000) analysis of Common Transport Policy and of the trans-European Transport Network (TEN-T) programme<sup>2</sup> was one of these studies, and perhaps one of the first

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<sup>2</sup> The TEN-T programme, introduced under the Treaty of Maastricht and further defined by the European Commission in 1996, set the aim to guarantee optimum mobility and coherence between the various modes of transport in the Union.

to use the metaphor of “flows”.<sup>3</sup> Hajer’s key argument is that the conceptual language used by policy-makers in the case of the TEN-T programme, which he characterises as the “Europe of Flows” discourse, frames in fundamental ways in which European space is conceived (and acted upon). The key supposition of this discourse is, amongst others, that “enhanced *mobility* and *connectivity* are both ways to strengthen the global competitiveness of Europe and ease out uneven geographical development within Europe” (Hajer 2000, p. 138, emphasis original). Similarly, Richardson and Jensen’s (2000) analysis of the European Spatial Development Perspective (ESDP) – which actually does refer to Castells, but not to his twin concepts – notes that polycentricity, efficiency and accessibility are central to the ESDP’s vocabulary and its competition-oriented understanding of European space.

In their subsequent writings (Jensen – Richardson 2001; Richardson – Jensen 2003), and finally in their seminal *Making European Space: Mobility, Power and Territorial Identity* (Jensen – Richardson 2004), Jensen and Richardson explicitly suggest that Castells’ ideas concerning “spaces of places” and “spaces of flows” can be usefully transposed to the study of European spatiality. In particular, they remark that “the EU spatial policy discourse, with its twin key issues of polycentricity and infrastructure networks, is a classic manifestation of the embedded tensions between mobility/flow versus nodes/places” (Jensen – Richardson 2004, p. 218). Furthermore, Jensen and Richardson note that the “Europe of flows discourse” legitimises the notion of multi-speed Europe which in turn contradicts the idea that infrastructure enables balanced development. On the whole, they argue that the hegemonic discourse of a “monotopic” European space implies a neglect of places, in particular in rural peripheries.

The normative message of *Making European Space* was further elaborated by Richardson’s (2006) article on the spatial policy knowledge advanced by the ESDP and operationalised by the European Spatial Planning Observation Network (ESPON). Richardson argues that the idea of a single European space, made possible by “seamless networks enabling frictionless mobility” (p. 204), is a thin simplification with potentially dangerous consequences. In particular, he argues that this idea privileges economy-oriented, networked forms of strategy making outside (or neglecting) the realm of territorial government. These worries are echoed by Herrschel (2009), who notes that the emphasis on networked urban (metropolitan) spaces implies a lack of concern with the connectivity and economic opportunities of spaces “in-between” these networks.

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<sup>3</sup> While Hajer (2000) makes neither mention of Castells nor of “spaces of places”, given the clear impact of Castells’ network society thesis among (Dutch) planners at the time (see e.g. Hajer – Zonneveld 2000), it seems plausible to assume that he was inspired by Castells.

More recently, the analysis of EU spatial governance in terms of flows/places was elaborated on further by Holder and Layard's (2011) study focusing on the evolution of territorial cohesion policy. Holder and Layard argue that the tension between a "Europe of flows" and a "Europe of places" that characterised the trajectory of European spatial planning in the 1990s (as described by Jensen and Richardson) has been observable in the case of evolving territorial cohesion policy. However, they suggest that the development of the territorial cohesion concept and the funding attached to it has potentially opened up the way for "spaces of places" to become more relevant. To back this argument, the authors refer to intensifying "place-making activities" across the EU as exemplified by the establishment of macro-regions and European Groupings on Territorial Co-operation (EGTC).

### **Towards a Relational View of European Space(s)**

Although certainly not exhaustive, the previous section's overview allows us to make some conclusions on how the notions of "spaces of flows"/ "spaces of places" have tended to be applied in studies on EU spatial governance. "Spaces of places" have been understood as territories and as the repository of (some of) the following: identity, self-empowerment, democracy, redistribution. In contrast, "spaces of flows" have been regarded as networked/non-territorial spaces at a higher-scale, geared towards efficiency and competitiveness. Furthermore, scholars converged not only on seeing these spaces to be in tension; they have also tended to normatively favour the former over the latter.

Even though at first sight compelling, the understanding of European space as shaped by the conflicting logics of flows and places is problematic as it suggests that flows (networks) and places (territories) are distinct "kinds" of places. However, as Massey aptly noted, "territory and flow do not exist in pure form, nor are they static. Moreover, each is involved in the formation of the other" (Massey 2008, p. 328). This is obvious if we consider that the implementation of the TEN-T programme relied on a Council Directive<sup>4</sup> that required member states to harmonise their high-speed rail systems in order to create an interoperable European network. Flows thus cannot be promoted in isolation from territorially framed interventions. Similarly, places and territories can be understood as the effects and the outcomes of networks between actors (Painter 2008). On the whole, all spaces are constituted by social relations (see e.g. Allen et al. 1998, Massey 2005).

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<sup>4</sup> Council Directive 96/48/EC of 23 July 1996 on the interoperability of the trans-European high-speed rail system.

This relational view has been surprisingly absent from scholarship on European spatiality (although see Clark – Jones 2009), partly because it has tended to be mistaken for an approach that claims that “everything is fluid” and that neglects aspects of power. However, a relational perspective on space recognises that social relations always imply power relations and stresses that social relations can solidify (institutionalise) into more-or-less stable practices. In fact, it is by “forgetting” the underlying, relational processes of institutionalisation that we tend to think in terms of distinct spaces. Importantly, a relational view also entails that we should not (cannot) assume straight away that any spatial form is “good” or “bad” (Massey 2008). Instead, the task is to expose the power-laden, political processes in which particular relations are forged and not others.

In the next section, the usefulness of this perspective is demonstrated through a brief account of the development of the Euregio Meuse-Rhine. As a cross-border region that has commonly been labelled as a “laboratory of European integration”, the case of this Euregio is a good entry point to reconsider the way we think about European space(s).

### **The Euroregio Meuse-Rhine: Badly Connected Places in the Shadow of Flows?**

The Euregio Meuse–Rhine (EMR)<sup>5</sup>, established in 1976 as one of the first Euregions, includes regions from three countries: from the Netherlands, the Southern part of the Province of Limburg; from Germany, the “Regio Aachen”; and from Belgium, the Provinces of Limburg and Liège, and the German-speaking Community. For most of history until the nineteenth-century emergence of nation-states, the area of the EMR was politically fragmented. Later, the threefold division by national borders was reinforced by homogenising nation-state interventions that increasingly separated border region populations (Knippenberg 2004). The underlying motivation for setting up the EMR was to dismantle the hindrances represented by state borders, in order to more effectively address the challenges of structural change that the whole area faced following the decline of coal-mining from the 1970s (Figure 1).

European Union policies have clearly played a great role in the development of the EMR. Following the launch of the Community Initiative INTERREG in 1990, the Euregio acquired the formal juridical status of a foundation (under Dutch law), in

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<sup>5</sup>The discussion in this section draws on the study of policy documents and on interviews conducted (between February 2009 and October 2012) in the Netherlands, Germany and Belgium with policy-officials, with staff members of a consulting company involved in cross-border projects, and with the staff of a transport company.



Figure 1. The administrative composition of the Euregio Meuse-Rhine  
 Source: <http://www.euregio-mr.com/nl/euregiomr>

order to comply with funding requirements. In the course of successive programming periods, cross-border co-operation has become more structured and intensive, leading to investments in various fields that have greatly contributed to tackling unwanted border effects. Today, the region likes to present itself as lying “at the heart of Europe”. This characterisation seems fitting given that the EMR is located amidst the core urban areas of North-Western Europe and has good transport connections to them via high speed services from Liège and Aachen, through the Liège and Maastricht–Aachen international airports, and through highways.

However, the development potential stemming from this favourable location could still not be fully exploited because the region lacks internal coherence. Public transport connections at a lower scale within the immediate tri-border area are far from satisfactory; cities of the border region tend to be better connected to their national hinterlands than to adjacent cities across the border. Furthermore, discrepancies between national fiscal and juridical regulations, pension schemes and health insurance systems persist, just as language barriers. These factors explain the low percentage of cross-border commuters; in 2004, only 1.3% (22,000 people) of the EMR's population worked across the border (EMR n.d.).

At first sight, the EMR's development trajectory seems to fit well the previously discussed perspectives on European space. The emphasis on flows in EU spatial policies has manifested itself in the region through the advent of high-speed train services that connect the two major cities to main metropolitan areas of Europe. However, these transnational connections seem to have left the "rest" of the region "in the shadows" (Richardson 2006, p. 212). Furthermore, although INTERREG funding has undoubtedly contributed to reduce the negative effects of borders, the programme has tended – just as across the EU more generally (see Dühr et al. 2010) – to favour co-operation networks that are scarcely transparent, and projects that have increasingly focused on economic objectives and barely (if at all) on spatial integration.

Yet as indicated above, thinking in terms of a tension between networked "spaces of flows" and territorial "spaces of places" does not allow for a sufficiently nuanced and dynamic account of the EMR's spatial development. In particular, such a view is ill-equipped to fully acknowledge the related aspects of politics and scale. Also, as the case of the EMR shows, we cannot label flows as "bad"; rather, the (political) question is which flows are desirable at what scale, and which institutional relations would facilitate that? In order to address this question (amongst others), we should attend to how actors entangled in constantly evolving, power-laden scalar relations negotiate their spatial agendas, and how this inherently political process brings about new governance practices with what spatial effects. The following brief discussion of recent developments in the EMR will illustrate the added value of this perspective.

To begin with, such a perspective would allow recognising how actors "speaking for" territories and places at different scales have played a key role in improving the regional public transport system, and the cross-border railway network in particular, in order to facilitate intra-regional mobility in the EMR. The apparent sluggishness of this process has been certainly due to the fact that the EU and national authorities have remained more in the background, leaving the initiative to local and regional actors. In the Netherlands, for example, governmental rescaling shifted the responsibility for regional public transport, including cross-

border regional railway connections, to provinces and city-regions; the Ministry of Transport has seen itself as a mere facilitator. It has taken a while for local and regional actors to come to terms with these responsibilities and especially to bundle efforts and negotiate with local and regional partners across the borders over how to overcome physical, conceptual, commercial and institutional hindrances. In the second half of the 2000s such efforts gained momentum and there is wide consensus that the INTERREG programme has played a great role in this by stimulating contacts across borders and by helping to build trust.

However, as one respondent formulated, while “anyone understands that you have to connect two cities through rail”, it is much more difficult to agree on an integral (spatial) development of the region, or even to put it on the agenda. Efforts in this direction have been done by the EMR Foundation that proposed a strategic vision for a faster pace and closer co-operation in the EMR in 2007 (EMR 2007). This vision has been further elaborated under the heading of “EMR 2020” (clearly aiming to connect to “Europe 2020”); parallel to that, the possibilities of establishing an EGTC have been explored. As to the latter, one of its appeals has been that it allows national (federal) governments to become members which allows for more flexible solutions to cross-border problems. However, these higher-level authorities have shown little appetite for becoming involved in such a construct. As to the EMR 2020 initiative that has resulted, following lengthy negotiations involving the partner regions and higher authorities, in a strategic document containing the development objectives for the EMR. The document (EMR, 2013) presents an ambitious strategy focusing on five “core themes” (economy and innovation; labour market, education and training; culture and tourism; health care; safety) and four “transversal themes” (mobility and infrastructure; sustainable development; territorial analysis; representation of interests and region-marketing). However, it remains to be seen how the strategic objectives will be realised, especially given the fact that the EMR 2020 strategy has been elaborated separately from the (“INTERREG V”) Operational Programme for the 2014–2020 programming period. A key explanation for this is that the INTERREG programme area is not coterminous with (it is bigger than) the territory of the EMR Foundation, and the Monitoring Committee of the INTERREG programme and the Executive Committee of the EMR (which acts as the Managing Authority for INTERREG) are, in spite of their partly overlap, two bodies with different agendas. While under the auspices of EMR 2020 actors were (more) concerned with the integrated development of the region, the Operational Programme has been “filled in” strategically, without little or no such concerns.

Considering the European Commission’s Draft Legal Framework for the cohesion policy of 2014–2020, and the proposals concerning cross-border co-operation in particular (EC 2012), it appears that efforts aiming at the integrated develop-

ment of the EMR will not be able to count on a more straightforward EU backing either. While the requirement of concentrating co-operation efforts on a limited number of themes and corresponding investment priorities might help to prevent the fragmentation of funding (and is welcome by local actors), it is not likely to facilitate an integrated approach, rather the contrary. Furthermore, the Commission has put the emphasis on economic growth and has refrained from stipulating that cross-border regions should (at least partly) focus on themes for which additional investment priorities (for example concerning cross-border labour mobility or co-operation in the field of education) have been defined for cross-border regions. As a result, it is to be expected that just as in the period 2007–2013, the EMR Operational Programme for 2014–2020 will prioritise the stimulation of innovation in the region's key economic sectors and the support of small and medium enterprises. On the other hand, there are also signs that the ambition of the EMR 2020 strategy to make cross-border co-operation less dependent on EU funding is not just wishful thinking: for example, recently an information point for cross-border workers was set up by Dutch and German local and regional authorities without EU funding.

On the whole, this brief discussion showed that the development of the Euregio Meuse-Rhine cannot simply be explained by the distinct “spatial logics” of EU policies. Instead, we have to examine how EU policies have contributed to reconfiguring (or forging new) scalar-institutional *relations*, and how this has simultaneously had various “flow-”, “network-”, “territory-”, “place-” (and other spatial) effects “in” the region. This approach will result in a more nuanced account of the EMR than that simply picturing it as a group of “badly connected places in the shadow of flows”.

### **Concluding Remarks**

The aim of this paper was to contribute to discussions about the conceptualisation of European space(s). While the “spatial turn” in EU studies has resulted in valuable insights on how to think the spatiality of Europe, it was argued here that (some of) its conceptual vocabulary has been problematic. In particular, conceptualisations of European space(s) in terms of a tension between “spaces of flows” and “spaces of places” have suggested that space takes distinct forms. As the case of the Euregio Meuse-Rhine showed, however, we should not uncritically rely on common-sense concepts of “flow”, “network”, “territory” or “place”. Rather, we should regard these as imaginaries that are mobilised (explicitly or implicitly) and enacted by actors involved in different relational practices. By taking relational practices as our objects of analysis we can arrive at a more nuanced critical perspective on the making of European space(s) than scholars initiating the “spatial turn”. In



particular, we can better highlight the multiple tensions inherent in different actors' spatial agendas. Furthermore and significantly, such a relational view allows acknowledging learning processes and self-empowerment, and the creative space-constitutive potential of local and regional initiatives. Europeanisation is thus regarded less in terms of "impact" and more as an open-ended process (see Clarke – Jones 2009). This open-ended perspective is crucial for being able to conceive of a serious notion of European spatial politics and of spatial change. Or to adapt Massey's remark on space (2005, pp. 11–12) to Europe: "For the future of Europe to be open, European space must be open too".

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# REGION BUILDING AND STRATEGIC PLANNING IN A WORLD OF RELATIONAL COMPLEXITY

*Anssi Paasi*

## **Introduction: Regions as “Social Constructs”**

It is common to underline in the current social science literature how the “region” is back on the agenda. Comments on the importance of regions have been burgeoning and new interpretations on the meanings of this concept are constantly put forward (Entrikin 2008, Paasi 2011, Jones – Paasi 2013). The concept of “region” has been understood in these writings in many ways and, contrary to the rather straightforward empirical understandings in terms of regional governance, traditional planning practice or regional statistics, it is not always clear what the “region” means in contemporary academic debates. In general, researchers seem to perceive regions currently not as given, neutral backdrops for social processes and relations (as the region was understood in the traditional regional studies), but rather as social constructs that exist in and through such social processes and relations and that have relatively “soft” borders. Also, as social constructs they are seen as processes that are perpetually becoming rather than being fixed end products. Hence, regions are seen as historically contingent entities that are perpetually in the making and may become institutionalised (and de-institutionalised) as part of wider social and material practices, relations and frameworks of power.

This paper will examine the ongoing debate on the nature of regions as an example of the perpetual tendency to rethink spatial categories. It serves as a conceptual introduction to the paper that will be presented by the author in the Pécs conference in June 2013. This introduction will particularly look at the rise and “practical” limits of so-called relational thinking that has been significant in human geography since the 1990s and that has become significant in planning theory during the last 10–15 years. Therefore, “practical” refers here above all to strategic regional planning activities. This paper firstly tries to interpret why spatial concepts seem to be in a perpetual transformation and scrutinises as an example how the conceptual basis of geography has developed in the long run. It will then look at the rise of so-called relational thinking in geography and the spread of such ideas into planning circles. This contribution to the Pécs conference will scrutinise how such thinking manifests itself in concrete strategic regional planning carried

out by Regional Councils in Finnish provinces. A further aim of the conference presentation is to study how the planners responsible for writing and/or co-ordinating the making of these plans understand the character of regions and their boundedness.

### **“Rethinking the Region”: A Never Ending Road?**

The ideas of region and regional transformation have recently become significant in political science and International Relations studies (often in the case of supra-state regions), but geographers in particular have for a long time struggled to develop new theoretical tools for understanding what the region is and how it can be best conceptualised for various academic and empirical purposes.

Figure 1 displays the complexity of this theoretical enterprise (Paasi 2011). New conceptualisations of region presented by scholars seem to be constantly competing with old ones in what I have labeled here as the space of keywords. This is of course partly related to the fundamental premise of scientific research that is the efforts to develop novel and innovative ideas to make sense of the world. The space of keywords is continually related to wider academic and societal contexts and contains simultaneously currently established and accepted core concepts and interpretations, older residual concepts that have lost their power in academic markets and new emerging concepts that may some day become part of the core. Similarly the concepts of region always resonate with wider philosophical ideas of space, social practices, interests of knowledge and even broader geohistorical events, think-tanks and institutions. In the discursive space of keywords some categories dominate the debate and conceptual perspectives in research, while some other categories become gradually residual. At the same time new conceptual solutions are pushed onto the agenda by scholars. It thus seems that David Harvey's comment presented in the context of the rise of neoliberalism also illustrates in broader terms the struggle to redefine the conceptual basis of regional studies: “For any way of thought to become dominant, a conceptual apparatus has to be advanced that appeals to our intuitions and instincts, to our values and to our desires, as well as to the possibilities inherent in the social world we inhabit” (Harvey 2005, p. 5).

### **Why are Regions Back on the Agenda?**

The key context for region-building and regionalisation processes has typically been the modern state. New interest in regions reflects the transformations and re-scaling of the state that is occurring because state authorities strive to trim state spaces into a more competitive shape in the globalising world (Zimmerbauer –

S p a c e	Residual	1900	1920	1940	1960	1980	2000
	Dominant (Core)	Regional geographies		Spatial analysis/systematic geographies		Space, region & social practice	
o f k e y w o r d s	Emergent	Circulation Space-Politics	Location Space economy	Functional organization of regions Place Territory Site-situation	Place Production of space Scale ThirdSpace Mobility Site TPSN	Locality	
	Philosophy-methodology	Neo-Kantianism Empiricism	Positivism	Behavioralism Feminism	Marxism Phenomenology Post-modernism Realism Structuration theory Social constructionism	Post-structuralism	
R e g i o n	Concept of space	Absolute space Coexisting order/Container	Relative-Functional Space	"Region as Given" Statistical regions	Social space Relational space	Relational-topological space	
	Pre-scientific					Regions as settings for economic activity	
D i s c i p l i n e - c e n t r e d	Discipline-centred	Natural region Human/Geographic region Formal/homogeneous region	Functional region	Cultural region	Perceptual region		
	Critical					Regions as Result of capital accumulation social constructs: Part of life-world entity Historically contingent process Institutionalization process	
'B o u n d e d n e s ' o f t h e r e g i o n	Key social practice	Distinct 'real/unit or mental category or a unit with no precise limits' Nationalist/national identity Colonialism	Geopolitics Regionalism	Instrument for classifying phenomena in space National/regional planning and policy		Region as social practice and discourse: 'boundedness' is context bound New spatial divisions of labour Globalization Rescaling of the state	
	Interest of knowledge	Practical-instrumental	Technical	Emanicipatory			
E v e n t s , t h i n k - t a n k s , i n s t i t u t i o n s	Events, think-tanks, institutions	World War I	World War II OECC	Marshall Plan OECD	EU/ European Research Area Research Assessment		

Figure 1. The space of keywords in geography and some theoretical and institutional contexts related to it  
Source: Paasi (2011)

Paasi 2013, Moisio – Paasi 2013). State governments have not simply downscaled/upscaled regulatory power, but have rather tried to “institutionalise competitive relations between major subnational units as a means to position local and regional economies strategically within supranational (European and global) circuits of capital” (Brenner 2004). As an expression of this process we have witnessed both efforts to devolve power but also to amalgamate administrative regions in the name of effectiveness and saving costs.

As a much used term, “new regionalism” summarises these tendencies and suggests that the new roles of the region are based on its institutional position in the broader field of political, cultural, economic and administrative processes. It also implies that the territorialities of the present capitalism are best regulated and governed in/through the decentralisation of socio-economic decision-making and associated policy implementation to regional institutions, frameworks and supports. New regionalism and its claims for devolution have been underpinned by three interrelated concepts that interpret the region as a focus for (1) the formation of common economic strategies in the context of globalization, (2) new forms of cultural identification, and (3) the mediation co-present in social interactions (Raco 2006). Accordingly new regionalism is characterised by multidimensionality, complexity and fluidity. It involves a variety of state and non-state actors, who often come together in rather informal multi-actor coalitions (Söderbaum 2003). Such tendencies are also clear in coalition based strategic planning processes that have become typical in the EU, for example.

Regions are thus not fixed entities. Rather they are constructed and reconstructed in uneven ways that defy assumptions of hierarchical scalar neatness and often reflect struggle around such key themes as what are the identities and boundaries of such units (Paasi 2013). While regions have become significant around the world they have remained *vague* and *contested* categories in research. In addition, a gap between relatively fuzzy concepts and empirical research can be noted. There are many obvious backgrounds for such a gap. Firstly, region-building processes have been studied in many fields (for instance, geography and IR studies) and scholars more often than not tend to *reproduce* existing concepts by simply bringing them into new research contexts. Secondly, scholars have looked at many scales which implies partly diverging views on the regional impacts of globalisation, partly disciplinary practices. For geographers the region is normally a unit between the national and local scale whereas IR scholars typically link it with supra-state regions (Paasi 2009 and 2012). One group of scholars looks at *networks* of global city regions or polycentric urban regions and see them as primary nodes and motors of global economy. Further, some scholars are interested in the development trajectories of “old” regions that have become institutionalised along with history and may be important for regional identities. However, increas-

ing attention is paid to “new” regions (e.g. cross-border regions, development zones) that are typically created via regionalisation for certain purposes and may be rapid products of political decision-making. Such regions are often examples of active efforts towards regionalisation.

### **The Rise of Relational Thinking**

The 1990s witnessed a rapid rise of relational views on spatiality and the concept of relational, open region quickly become crucial among the core spatial concepts. Geographers inspired by such approaches suggested that rather than separate spatial entities – bounded regions, places or territories – it is networks and relations that matter in contemporary globalising world characterised by flows, interactions and cultural hybridity. Massey (1993, p. 66), the key figure in the rise of relational thinking, proposed that “instead of thinking of places as areas with boundaries around them, they can be imagined as articulated moments in networks of social relations and understanding”. Allen et al. (1998, p. 17) pushed this idea further in their analysis and argued how “regions are, after all, constituted by their place within a wide constellation of forces and events, some of which may come out of long-running shifts in the structure of the region or society more generally, whilst others take their shape from a particular historical moments”.

Relational thinking is a fitting example of the power of concepts and ideas to create “truth effects” that is of their potential to create “facts”, their own objects and realities as part of their articulation. This was obvious in the fact that relational views soon became significant also in planning theory that became now less pre-occupied with land-use issues and more interested in different conceptualisations of space and place. Respectively Healey (2006), for example, suggested that a “relational complexity” approach to regional governance means eschewing notions of inherent territorial coherence or integration, as well as univocal concepts of territorial identity. Graham and Healey (1999, p. 625) criticised the practice of planners to consider places and cities in an unproblematic way “as single, integrated unitary, material *objects*, to be addressed by planning instruments”. In their discussion about the city, Graham and Healey suggested how it is often depicted as a “jigsaw” of adjacent, contiguous land use parcels, tied together with infrastructure networks and laid out within a bounded, Euclidean, gridded plain. They cited Massey who suggest that places are “articulated moments in networks of social relations and understandings”, rather than “areas with boundaries around”.

Discussions on the features of relational, open spaces and bounded territorial spaces often occurs on a general, ontological level and may be far away from social *practice* where the absolute, relative and relational dimensions of space become fused in material practices (e.g. boundary-making for some specific purposes),

representations (e.g. mapping) and lived meanings (e.g. affective loyalties, regional identities) (cf. Harvey 1973, 2009).

### **Relational and Territorial Perspectives on Region: Boundedness as a Problem**

An increasing number of researchers have noted that it is unhelpful to look at the spatialities of the contemporary world as an either/or issue, i.e. either as relational or territorial bounded units and suggest that we should recognise the contextuality of such boundedness and the inherent relations of power. They remind us that both regional and state borders can sometimes be insignificant and sometimes more persistent. Yet relational thinkers do not argue that borders will *never* adequately define a region or that they can be assumed not to be important. Rather they mean that borders should never be taken *unquestionably* as adequate definitions (Allen et al. 1998, p. 137). Indeed, Massey (1995) has a long time ago made some reservations on the nature of borders and proposed e.g. that borders do not embody “any eternal truth of places” but rather are drawn by society to serve particular purposes. Further, “borders are socially constructed”, i.e. they are as much the products of society as are other social relations which constitute social space. Also, borders cut across some other social relations that constitute social space (e.g. gender, ethnicity). They matter in that the place where people live may determine potential services, tax levels, or indeed, which boundaries they are allowed to cross. Finally, borders are an exercise of power and can be constructed as protection by the relative weak (i.e. as a form of resistance identity) or by the strong to protect the privileged position they have.

The recent resurgence of the region and the rise of the so-called “new regionalism” have clearly displayed this (Paasi 2009). Many regions are *territories* deployed within processes of governance, and hence are made socially meaningful entities. Many geographers and planners have rejected essentialist understandings of societal phenomena, but the state is still partly operating as if the world consists of essences. Regions and territories show how absolute, relative and relational aspects of space became fused in material practices (boundary-making), representations (mapping) and lived meanings (affective loyalties to territorial units) (Harvey 2009, p. 174). Regional borders may also have a constitutive role not only in the governance and control of social action, but also for social identities and spatial ideologies. The importance of identity narratives produced and reproduced by regional activists and advocates, the media and governmental bodies force us to study such politics of distinction rather than denying their existence. Such politics of distinction can be seen in the significance of regions and boundaries as catalysts for regionalist movements, ethno-territorial groups and planning strategies.



The whole issue of borders and boundedness seems to be partly on a wrong track. Why should regional borders be understood as fixed and prohibiting (which may often be the case with state borders)? Why are they not seen as institutions and symbols that may or may not have a role to play? This view is not in conflict with the basic elements of relational thinking which conceptualises spaces as open, multiple, and relational, unfinished and always becoming. Similar ideas were put forward 20 years ago when scholars accentuated the perpetual becoming of regions and wider spatial divisions of labor in which the institutionalisation of regions occurs (Paasi 2011). Researchers have later asked what is actually changing in the world of interaction and networks, is it “borders” or “social institutions” that are constitutive of the institutionalisation of the regions (Paasi 2009). Actually the ideas of border and boundedness represented by many relational thinkers have implied the rather old fashioned and stereotypic ideas of borders as strict lines between socio-spatial entities. In new regional geography as well as in political geography borders are increasingly understood as institutions and symbols that are spread widely in societies and even outside of them, i.e. they are not located merely on “borders” (Paasi 2012). Respectively, rather than automatically denying the importance of borders (whether this is done on normative political or ontological grounds), it is crucial to study how boundedness, borders and bounded entities “exist”, are narrated to exist and how such units are used in social practices and discourse and, further, what kind of power relations ground this use.

It may therefore be suggested that both the recognition and rejection of the importance of borders, and more generally boundedness, should not be seen one-sidedly as a theoretical *or* empirical question but both at the same time. Further, both the social context and the social practice in question make a difference. Therefore the theorizing of relational thinking, borders and bounded spaces should be done contextually and in relation to specific social practices. I will end this intro with two citations based on the interviews that I carried out among the planners operating in Finnish Regional Councils. They show that relational thinking and boundedness of the regions may exist concomitantly.

“Well, of course, in the administrative sense we are forced to think (regions) as very bounded... And as you mentioned networks, so networks cannot be restricted to any administrative border. But in some bureaucratic figures, I take as an example the issue of structural funds, so we have to stay in certain prescriptions. But I see the future absolutely so that borders will lose something of their meanings” (Male planner). “When we do not at all operate with those behind the border and they have their own systems and like that, so always when such administrative regional divisions and all kind of divisions are made, this begins to limit terribly the ideas on what is our sphere of operations. So that they are doing *their* own things in that region, so let’s do *our* things here because we do not belong together.

Our “sandboxes” do not actually come across anywhere. Thus these, sort of narrow interpretations disturb me a lot, i.e. where we do put into practice some programmes and what is the area of structural changes or what is the area of co-operation. You can’t draw this on a map and say that this is now your area of co-operation” (Female planner).

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# BASIC PRINCIPLES OF THE CONSTRUCTIVIST THEORY OF SPACE AND THE CREATION OF REGIONS

*László Faragó*

## **Introduction: Constructivism and Space**

Space is not a concrete physical *element of reality* which can be completely known and described by natural scientific methods. Space is essentially an “eternal and infinite non-entity” (to paraphrase Kant), a condition of possibility that can only be observed in the multiple forms of appearance of other beings, from aspects adjusted to their nature. Interpretations of space – which can be understood as organising principles and “historical *a priori*” derived from society and its various knowledge constructions – evolve in space and time with the accumulation of experience (practice, communication) and the transformation of knowledge. *Interpretations and concepts of space, approaches and cognitive methods determine day-to-day practices*, influence the discourse on space (politics and public speech as well) and contribute to engendering and shaping spaces.

The constructivist creation of space resembles the Marxist “production of space” (Lefebvre 1991) since both share the belief that space is a “complex social product”, a socially constituted historical system of relations. However, our relationship to reality, the extent to which it can be known, is different in the constructivist approach. This is clearly expressed in Heidegger’s ground-breaking theory of space (2001) as being-in-the-world (*Dasein*), according to which everything exists *ab ovo* in the world (in space) to which we humans also belong. Each sense of space, each reception of spatial information is an interpretation at the same time. Each (spatial) community organises information, creates its spatial images, describes its situation and defines its vision according to its own views (existence, perspective).

The application of new interpretive frameworks/models with which to understand space is thus more than justifiable. This does not indicate replacing old theories with new ones but an extension of our choices. Relatively new results are available in epistemology and other fields such as neurobiology, knowledge sociology, cybernetics, which allow for a novel interpretation of space and spatial systems. Radical constructivist ideology has permitted the exploration of space from new/different aspects. In philosophy and psychology, constructivism is first

and foremost an epistemological and cognitive theory of knowledge and learning. Its philosophical roots can be traced back to the Antiquity. Put in concise terms, the epistemological debate is focused on an opposition between materialist and idealist ideas, empiricism and rationalism, and more recently, realism and constructivism. According to materialists, realists and empiricists, the criteria of truth and scientificity are based on the objective world which implies that only one true representation, one objective statement, one "truth" applies to a given thing (correspondency theory). According to these (world)views, there is a fundamental distinction between *objective and subjective, the subject and object of cognition*.

What follows in this paper is a brief discussion of major theses of constructivism with a view to their application in spatial theory. Space will thus be interpreted as a social product constructed by various relations (structures) during the process of observation. Furthermore, the concept of autopoiesis will be suggested as an appropriate means for distinguishing and explaining the functioning of spatial systems. In the final section of this paper, I will provide examples of practical application of constructivist ideology with regard to Hungarian regionalism and to the construction of regions in Hungary.

### **Cognitive Processes and Autopoeisis**

According to the representatives of constructivism, *thinking and reason play an active role in the process of cognition*. This does not imply a negation of external reality, but acknowledges the thesis articulated by many thinkers throughout centuries (antique sophists, Edmund Husserl, Niklas Luhmann, Thomas Luckmann, Michael Polányi, etc.) that there is no knowing without a knower. Our perception and comprehension (depth, extent) of reality is correlated to our ability to ask questions about it.

In the constructivist model (Figure 1) the knower and the object of cognition constitute a unified whole in their environment, but the actor (knower) has the initiating role. The observer constructs – to paraphrase Max Weber – orders reality. The perceived reality is grounded in the existence of the knower who is its sole measure (Cassirer 2000). The interpretive framework developed in a historical-cultural context plays an active role in the process of cognition. On the basis of a certain presumption, we select the object of our observation and the means and tools through which we observe it impact our self-constructed knowledge. The cognitive process means *cognitive adaptation to the environment*. Due to our internal structural determination, we hear and comprehend only what is adjusted to our cognitive and emotive reality (Maturana 1978). In general, we accept the things we find useful (plausible and viable) and which serve the fulfilment of our objectives and constitute the basis of our actions.

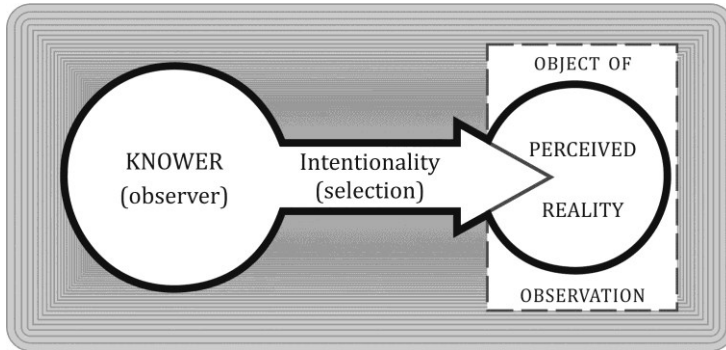


Figure 1. The constructivist deductive model of the cognitive process  
Source: Author's elaboration.

Constructivism is methodologically empiricist in the sense that it contrasts its knowledge constructions with the external environment, while constantly testing those in the experiential (perceived) world. Therefore, the veracity of the theories is “justified” by their coherence with experienced lifeworlds, their capacity of problem resolution and through their comparison with other experiences. The popular statement of Paul Karl Feyerabend (2002) is interpreted in a specific way: “anything goes” that works. In our day-to-day lives, the only reality (necessity) is the Self and our common world which our knowledge must reflect. Man constantly tests his knowledge construction in the experiential and the communication world, and in case he does not find it useful or suitable, he modifies it.

*Autopoiesis*<sup>1</sup> (self-organisation, self-construction) and *structural coupling (drift)* form the basic hypotheses of constructivism. Life is a self-sustaining, self-organising process which reproduces itself through its own operations, its dependence upon its environment is only relative and indirect, filtered through its own structure. Social units (e.g. local society) can also be regarded as autopoietic self-organisations (Luhmann 2006), as self-modifying functional systems which have their own historically evolving operational order and may develop structures that are *compatible with* their environment and only perform programmes and actions which their environment allows.<sup>2</sup> The structural connectedness of closed systems does not imply insensitivity towards the environment, it is a *selection*

<sup>1</sup>To generalise the statement made by Humberto R. Maturana (1981) concerning living organisms, self-referential, closed systems are called autopoietic. The elements constituting such systems shape and construct themselves (poiesis). Unity stems from the system. They are able to observe and describe their self-identity.

<sup>2</sup>The relationship between the EU and its member states may be interpreted this way. Most member states filter and adapt the impacts of the EU according to their historically evolving identity, their own internal operational order.

*mechanism* through which certain effects enter, while others are rejected in order to permit the system to interpret only those opportunities which are vital for its functioning. The external effects/connections influence the internal development and behaviour of structurally connected closed systems and do not induce direct changes (Figure 2).

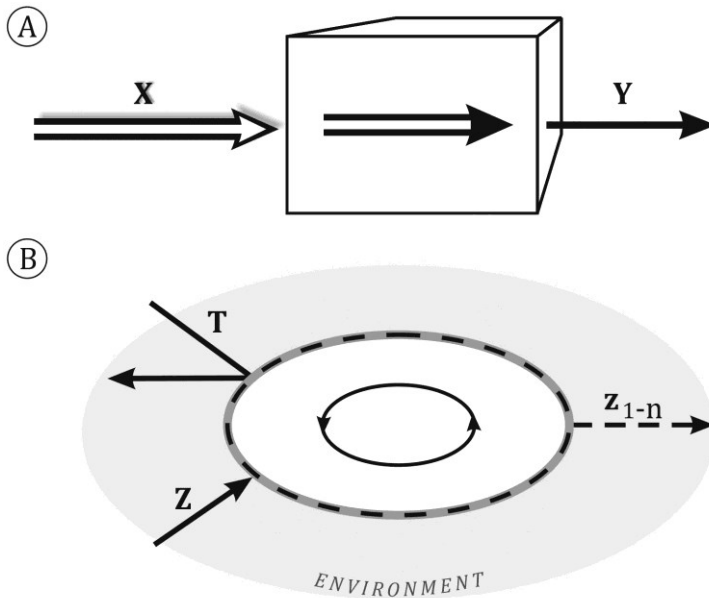


Figure 2. The functioning of the deterministic open system (A) and the autopoietic closed system (B)

*Legend:* Input X will always be transformed into Output Y, if the aim is not self-reproduction. If Effect T is compensated, the system rejects it. If Effect Z is adapted and transformed by the system this may result in various changes ( $z_{1-n}$ ) according to the prevailing situation.

*Source:* Author's elaboration.

### **The World is What You Pour into it<sup>3</sup>: The Spatial Constructions of Experiencing the World**

What is space? How is it formed? What and how do we investigate in spatial research? In light of the above, my response is that the object of our investigations (observations) is not an absolute (physical) space which exists independently from us, but the *spatiality of our approach to things* and the *process through which society constructs space*, the way we conceive and cope with our spatial existence. We interpret space as a *construction of various linkages and relations, their structure, system and architecture which we are determined to shape*. While sociologists observe the behaviour of society, its groups, institutions, organisations, economists investigate the production, allocation and consumption of economic goods, etc., spatial sciences investigate the *formal/spatial manifestation and structure of these social constructions, and planners-developers attempt to transform these according to their perception of space*. They basically investigate the object of the mother sciences from a different approach, from another cognitive subject's perspective. The specific professional sciences and sectors operate on the basis of self-constructed paradigms, laws, operational principles. From a territorial approach, the intentionality of the cognitive agent is different, his attention is focused on other objects, and on the other hand, we investigate the same phenomena through the collective historical consciousness of spatially separated population groups (participation), and from their perspective (on the basis of their practical utility and the functions fulfilled in their lifeworlds), the interventions always take place in the concrete lifeworld, in a given place.

The nature of the existence of space is not physical; space is always *constructed in the existence of other things, during the process of observation*. It is not that space which also serves as an external efficient cause impacts the experienced and cognoscible space, on the contrary, we humans are active parts and constructors of it. Through our actions (as we move from one place to another, as a company produces a new product, as the state organises public administration, etc.) we construct spaces that become the object of cognition and during the cognitive process, we create new constructions with our space-oriented thinking, our ideas and interpretations of space. *A circular causation, a dialectical interaction exists between existence and cognition*.

Relational space composed of linkages, interactions, interrelations – along with the possibility of the spatial manifestation of the relations – is generated by the linkages as *we experience and interpret them* (Faragó 2005). As Doreen Massey (1995, p. 1) has argued “...space as relational means both that it should not be conceptualised as some absolute (that is to say, pre-existing) dimension and also this

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<sup>3</sup>Taken from a Dreher (Hungarian beer brand) commercial of 2011.

it is actually *constructed out of*, is a product of, the relations between social phenomena. We actively create space (time-space, time-spaces) in the organisation and living of life". Due to this cognitive situation and interpretation we refer to these as *social spaces or spaces of reason*.<sup>4</sup> The action situation, the actor's status and orientation determine the space which manifests itself to him/her. The various spatial structures are dimensions which embody the human intellect and the collective praxis. The meaning, the sense of this constructed space can be deciphered in light of the intention of the constructor. Our interpretations of space become collective interpretations during the process of communication. Our thoughts or conversations about space concern the spatial constructions of our society, the spatial order of our reality. On one hand, space constitutes the dimension of our existence, the manner and framework in which we and the things around us exist, on the other hand, it is an order, a structure which permits us to comprehend the world, in light of which we organise our knowledge and our lives. The spatial world manifests itself to us according to our experiences of a reality in whose construction we actively participate. We construct our own lifeworlds, we decide *what constitutes reality for us*, and we attribute certain values to the "facts" that we are willing to accept.

Our knowledge about a given entity (an object, an event) contributes to our knowledge of the manifestation of space. Space is a *prerequisite* for existence, shared understanding (historical *a priori* perspective) and orientation in the world. This order (system, structure) does not exist the way physical entities do, it constitutes the *possibility condition of existence*, the manifestation of the content. There is no "single valid" knowledge of space; the detected relations are but attributed meanings which evolve in history and with culture and to which the knower intentionally "adds" something (through interpretation) in a concrete context. We are able to comprehend the order of the world through the structures inherent in thinking.

A concrete spatial unit (e.g. settlement, region, civil community, company in a given approach) is a self-constructed and self-created entity. The various elements may either form a coherent whole (due to their concrete relationships, common functions or operation) – and thus constitute a common space –, or, in the opposite case, they do not constitute an individual spatial unit. The operation of each unit/system is (spatially) distinct and unique, and it remains an autonomous entity

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<sup>4</sup>The term "space of meaning" has been identified by Husserl in various ways ranging from the "field of phenomenological immanence to transcendental consciousness. For Heidegger, it is simply the world opened up by Being. For Husserl, (...) "idealism refers to the fact that the 'space of meaning', the intelligibility that is presupposed in all logical enquiry, can be clarified only by recourse to the intentional structure of conscious experience." (Crowell 2001, p. 173)



until its existence (operation, activities) does not conflict with the environment to such an extent that abolishes the relations and functions which assure their co-existence (cohesion).

A spatial construction operates as an autopoietic system provided that it is capable of self-construction, self-sustainment and adapting external effects for the sake of its own replication and development. For instance, self-organised/cohesive social groups or economic units centred on culture, identity, communication, common problems or objectives select external effects according to their own (emergent) needs and possibilities. Self-reference and self-development is of primary importance, serving for them as the basis for the evaluation of environmental impacts. Social systems do not have a direct causal, deterministic relationship with their environment, nevertheless, their functioning must be compatible with it.

Empty, unmarked space is just a *set of possibilities*, a *possibility condition*. The cognitive subject, the observing individual (or group of planners) recognises the relationships between elemental units and performs the division of space (existence/the world) constructed by these units. When we denote something, it becomes spatially differentiated. Spatial segregation, differentiation is the primary factor which precedes identity, through demarcation, we separate a thing from other things which we exclude (Luhmann 2006). The interpretation of space is always related to a set of elements, things which are being experienced, imagined and distinguished.

The world is too complex for us to fully comprehend and explore it. The multiple relations constituting space cannot all be taken into account at the same time, nor examined during a research project, therefore we create subsystems on the basis of their functions and internal relationships, we disrupt the interdependence. On the basis of the observed disparities, space can contain a large variety of places, sets, fields, categories of existence. To distinguish these from one another, human beings (local society, group of planners) select (create) the distinctive caesuras and frames of reference which also change in time.

A critical question is how to distinguish the various types and levels of space (fields, sets, systems) and how to interpret their relations and linkages. The boundaries of the distinct units are spatial mental boundaries created through their separation from the environment (internal coherence). The basic spatial units/components are constructed by the relations (cohesion) and functions (operation, approach) which compose them. They cannot be divided any further on the basis of the old criteria, the functioning of the border-creating internal attributes ceases on the border, and the relations external to this system will be of a totally different nature.

According to Luhmann's "thesis of operational closure" (Luhmann 2006, chapter 3) systems establish their boundaries via their own operations, and this is the

only way for us to observe them as a system. The functional differentiation and specialisation of modern societies (Durkheim) produces functional and localisable spaces (whose existence is characterised by geographical specifics). They have a structural outward connection with their environment and to other autopoietic systems within it. On the basis of their functions, individual elements constitute a specific/unique closed system of relations. These may be considered functionally autopoietic subsystems distinct from their environment due to their internal cohesion, logic and their own functioning which provide the basis for their differentiation. The intensity and frequency of internal relations is always higher than in the case of external ones. Internal relations are relatively more concrete, while external ones are so-called framework relations which are adapted in function of the system's internal operation. The planes or fields of interaction between the various spaces fulfil an important role from the aspect of differentiation and prevent external determination. If the system serving as the object of our cognition disposes of multiple external determining factors, it will not constitute an autonomous spatial unit from the given perspective. Complex spaces become differentiated themselves. For instance, a local social space may be comprised of political, economic and other spaces depending on how subsystems establish their own boundaries or how it is perceived by an external (secondary) observer. The individual appearance or visualisation of a spatial entity (e.g. a concrete place or industrial cluster) depends on its internal closure. If the internal relations and operations are not strong and there is a lack of individual priorities and objectives, the result will be their dissolution in a larger spatial unit or system.

As Heraclitus proclaimed, *panta rhei* – one can never inhabit the same space twice. The world is always unfinished, to contradict the statement of Fukuyama (1994), history has no ending. One is not born into a finished, unchanging world (space) waiting to be explored. Through being born into the world and through our later actions we ourselves contribute to shaping the world, since we do not live in an external space, we live and act as a part of space. The world is what we make of it, space manifests itself to us as we experience and occupy it.

All of us organise our own world, create our real and virtual spaces, through which we may contribute to the creation and shaping of space. Through our actions and inventions, we occupy places in space and we create relations, i.e. we create space. Inevitable relationships and interactions exist between the elementary places and events due to their simultaneous occurrence. These are constantly changing, emerge and decay, which transforms the intelligible space which is manifest in the relations. More permanent subsystems exist as well which take a material form or become institutionalised. The resulting realities will be experienced, comprehended and evaluated by each individual in a different manner, and this unique interpretation will affect our future actions and spatial constructions.

The differing operations, various types of relations and functions provide the basis for the differentiation between natural/physical, economic, social and other spaces, which leads to closure and the possibility of structural connectedness. Effects from the outside world, the system's environment (irritations) may either be regarded as neutral or else, they need to be rejected and adapted.

### **The Example of “Creating” Regions**

Based on examples of “region-building”, I will suggest a practical application of the theory of constructivism and the way in which it differs from traditional approaches. Generally speaking, in a simplified form, there are two approaches to the interpretation of the region and regionalisation:

- Ontological, scientific, empiricist approach: The objective of realists, materialists, Marxists is to institutionalise regions on the basis of an assumed „objective” reality, an existing, cognoscible, describable entity such as the geographical space of economic co-operation.
- Epistemological, idealist approach: From a rationalist, constructivist, sociological-anthropological, linguistic-constructivist perspective, the existence of regions cannot be *directly* linked to experiential factors, they are the product of human intellect and our use of space – they are social constructions, interpreted entities. They are a product of human differentiation, a construction of the observer, which become a part of the collective consciousness or institutional system through communication.

According to the first interpretation, the region is an *ab ovo* entity (it “exists” in nature, in the economy, etc.), therefore, it can be explored, and on the basis of the accumulated experiences (cause), institutional regions have to be created (effect). The representatives of this approach tend to regard the natural environment (e.g. geographical landscapes) or in a Marxist perspective, socio-economic processes (e.g. the area of inter-firm co-operation) as an appropriate basis of regionalisation. The logic of this empiricist-analytic region making is the following: exploring first of all the substance of a region, theory organisation, demarcation of borders which reflect reality (the explored regularities) and finally, institutionalisation. This case clearly shows that the existing knowledge, values or interests provide the basis of selection between the possible facts. Therefore, even if a certain “element of reality” (e.g. cultural identity, economic cluster) is selected as the basis of regionalism through empirical analysis, this will still reflect the value choice of the cognitive subject, and the resulting region will be a social construct.

Contrary to the scientist-empiricist analytic approach, regions are not existing entities, they are not something “out there”, they are social constructions (Allen et

al. 1998, Paasi 2001). Regions are not mental images or abstractions of reality, but an interpretation of space, a sense-giving endeavour, the realisation of a symbolic idea of space. *The objective of regionalism is the transformation of space-perception, the creation and legitimisation of the idea of the region*, regionalisation is the process of the construction of concrete spaces (territory) and institutions which are coherent with this cognitive image. The process of regionalisation is not based on direct experience, the endeavours and intentionality of the actor (state, local community, network of subcontractors) play the primary role. The intent, preferences (faith), objectives, orientations are determining factors eliminating a cause-and-effect relationship. Regionalism and regionalisation are functioning on the basis of teleology and not causality. The adequate territorial level and unit of the provision of functions and tasks (self-governance, organisation of public administration, economic competitiveness) is selected on the basis of symbolic (consciously developed/manipulated) space-perceptions. Geographical localisation, the demarcation of borders and institutionalisation come only afterwards. Our space-perception coherent with our intention is the first to differentiate, this is followed by the creation of the concrete element of reality. If society's members and economic stakeholders accept and use the newly created structure, if it functions in day-to-day life, it means that practice justifies the original intent and space-perspective. But even if it does function in reality, if it does satisfy practical needs, that still does not mean that other spatial divisions would not work, maybe in a more efficient way even. The pertinence of a new regional spatial construction is confirmed if the created vision takes into consideration our images of reality and the existing limits as well, and is able to integrate various fields of knowledge and social reflections. Popper's falsification and the circular learning process guarantee the objectivity of social science.

Keating's dual concept of space is based on an interaction between physical space (territory) and social constructions. "Regions are seen... as social constructions, within territorial boundaries. The territorial element... is fundamental; the social economic and political content of regionalism varies according to the outcomes of political process" (Keating 1998, p. 13). In Keating's view, regions are *open* political social systems and not "self-contained societies". In a constructivist approach, regions and their borders are created on the basis of ideas, functions and operations which are generated and shaped by society, the physical, geographical environment gains relevance only in this context. In the absence of these factors it is impossible to talk about regions as autonomous spatial units.

Several regions may function as closed autopoietic systems. This requires the existence of a certain degree of autonomy (capacity for action and self-sustainability) and self-reference (identity). The region must not be in a deterministic relationship with its environment, it has to be capable of selecting and adapting the

external effects. Autonomous cultural regions or functional districts (e.g. automotive industry cluster) are such systems. In the absence of these conditions, regions may still be social/political constructions but no longer autopoietic. Hungarian regions are political constructions which do not function as autopoietic systems, but are mere spatial tools of higher-level power games (systems).

### **Ideologies, Ideas and Political Efforts in Hungarian Regionalism**

During the 20<sup>th</sup> century, the Hungarian system of public administration was basically transformed on three occasions: following the two World Wars and during the régime change of the 1990s. The first occasion meant a radical transformation of the spatial structure, while during the latter two periods, ideological, political changes played the major role. In addition to the reforms related to these major breaking points, ideas about the modernisation of the spatial structure and the creation of regions emerged continuously in Hungary, however, no major changes occurred in practice, since the created regions had only narrow functions.

The regionalisation efforts post-World War II and during the 1990s were motivated by *ideologies with similar roots imported from abroad*. European new regionalism is not a far cry from Marxist views, nor does it differ from the Soviet theories of “rayoning”. Both are based on the hypothesis according to which the nature of the economy has changed and the new mode of production is characterised by a different spatial structure, and the adjustment of the spatial institutional system (superstructure) to this structure will contribute to socio-economic development. In the Soviet Union, attempts at the methodical establishment of production complexes resembling the current spatial clusters were visible already in the 1920s and the role of natural assets was emphasised. According to the definition of Kolosovskij (1969), production complexes are co-operations between firms of various sectors which are concentrated within a limited territorial unit. A multi-level planning and economic system (in harmony with the current principles of regionalisation) was elaborated in the Soviet Union (macro regions, oblasts, federal republics), and to ensure a balanced territorial development, these were intensely developed in order to facilitate the integration of less developed (unexploited) regions into production (Krajko 1987). The co-ordination of inter-sectoral developments was regarded as an important function of territorial management (Sjamuskin 1977).

Following the genesis of the idea of the “Europe of regions” in the 1980s, the question of the internal spatial division of European countries was partially transferred to the arena of international discourse. European new regionalism as an EU policy was not simply a level of statistical analysis, but normative regulation (regulative idea), a perspectival requirement (sollen) and a political strategy for

the countries aspiring for accession. Regionalisation was considered by many as a neoliberal policy instrument which contributed to the restructuring of member states and the weakening of national governments. A degree of uncertainty arose due to the fact that the European Union did not dispose of an unambiguous model for the region, as a matter of fact, the ideal image underwent constant evolution, and national practice tended to deviate from the prevailing ideal according to each given context. Regions developed in the process of Europeanisation “...exist at first perhaps in the namings, strategic definitions and proclamations of politicians, foreign policy experts and researchers, and may then be gradually transformed into representations on maps and texts... and into sets of social... institutions, practices and discourses” (Paasi 2001, p. 13).

As in other countries, the territorial restructuring (regionalisation) of the system of power encountered several obstacles in Hungary. The governments' loss of power due to supranationalism and regionalism was compensated by their increased role in the establishment of regional institutions (financing, delegating officials) which enabled them to maintain their leadership and power positions. The new NUTS2 regions were not the result of a natural evolution and a bottom-up building process, but were created due to external pressure (coming from the EU) and governmental intervention, and they only served the fulfilment of minimal functions required by the EU. It is idle to talk about regional identity in Hungary, the existing regional relations constitute heterogeneous spaces. The NUTS2 planning/development regions created in 2004 had only one common objective: how to acquire as much external funding (support) as possible. However, the allocation of the obtained funds among counties, microregions and settlements put an end even to this community of interests.

In the 1990s, science and higher education played the major role in the adaptation of the idea of regionalism and the region and its introduction into the institutional world in Hungary. Initially, utopias and positive symbolisms were attached to new regionalism and examples of the direct association of decentralisation with regionalism are present even in our days. The various actors of the discourse tended to associate the concept of the region with meaning and functions coherent with their own concepts of space. Regions have not become new factors of power, previous stakeholders (governments, sectors, counties, political parties, etc.) have used them as new arenas for the articulation of their private interests. The established regional institutions were in fact “nationalised” by the government, they have never enjoyed even a relative autonomy. The EU Commission has not considered them to be effective partners either.

Similarly to other countries of Europe, the high hopes surrounding regionalism have not been justified in Hungary either. The internal structure of the enlarged European Union contains nation states and interest groups that represent indi-

vidual member states, furthermore, the administrative division of the various countries has been largely re-relegated to the realm of internal national issues. Faith in regionalism has decreased in the European Union following the turn of the millennium, due to which the main driving force of Hungarian regionalisation has also waned. NUTS2 regions have even been deprived of their formal role associated with EU funding, their institutional functions are gradually being eliminated. In harmony with the current European trends, counties with historical traditions (NUTS3) and metropolitan areas have been granted once more the leading role in spatial development.

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# TRENDS AND POLICIES IN STRATEGIC SPATIAL PLANNING AND REGIONAL GOVERNANCE IN EUROPE<sup>1</sup>

*Louis Albrechts*

## **Introduction: Setting the Context**

Europe is facing major developments, challenges, and opportunities which are affecting its cities and regions, either directly or indirectly. They include: growing complexity (rise of new technologies; changes in production processes; the crisis of representative democracy; diversity; globalisation of culture and the economy; rising costs of energy); the financial crisis and the subsequent economic crisis; persistently uneven development; the problems of fragmentation; the aging population; and the increasing interest (at all scales, from local to global) in environmental issues (e.g. global warming, etc.) (Albrechts 2001, 2004). Moreover, the need for governments to adopt a more entrepreneurial style of planning in order to enhance regional, city-region, and urban competitiveness; the growing awareness that some planning concepts (i.e. learning regions, knowledge communities, industrial districts, compact cities, livable cities, creative cities, multi-cultural cities, fair cities) cannot be achieved solely through hard physical planning; and the fact that – in addition to traditional land use regulation, urban maintenance, production, and management of services – governments are being called upon to respond to new demands, which imply the abandonment of bureaucratic approaches and the involvement of skills and resources that are external to the traditional administrative apparatus, all serve to expand the agenda. So, in many places in Europe, a shift appears to be taking place from a more regulative, bureaucratic approach towards a more strategic, implementation-led, and development-led approach. Indeed, a growing literature and an increasing number of practices, all over the world, seem to suggest that strategic spatial planning may be looked upon as a possible approach able to cope with the challenges and to embed structural change.

As there is no “one best or one single European way” to do strategic planning, the purpose of this chapter is to add a new dimension in terms of values, approach and process. It therefore (re)examines strategic (spatial) planning by using views

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<sup>1</sup> For a more elaborated version with full references see Albrechts (2011, 2012).



from the planning literature, from the European practices of strategic thinking at different scale levels, and from shifts in the overall planning approach. This is done by combining theory with practical experience.

### **The Re-Emergence of Strategic Spatial Planning**

In a number of European countries, spatial planning evolved in the 1960s and 1970s towards a system of comprehensive planning – i.e. the integration of nearly every aspect of planning – at different administrative levels. In the 1980s, when the neo-liberal paradigm replaced Keynesian–Fordist logics and when public intervention retrenched in all domains, a retreat from strategic planning can be witnessed fueled not only by the neo-liberal disdain for planning, but also by post-modernist skepticism, both of which tend to view progress as something which, if it happens, cannot be planned (Healey 1997a). Within the architectural/urbanism discipline, a new approach emerged to land use regulation and urban projects, especially for the revival of rundown parts of cities and regions. A new generation of strategic (mainly urban) projects, such as the French “Projet urbain” has been trying to develop a more inclusive approach informed by insights in policy analysis and strategic planning. From these practices, a whole body of knowledge is developing, which could be described as “theorising practice” (Masbouni – De Gravelaine 2002). However, a more theoretical framework within which these concrete practices could be framed and evaluated has not yet been developed, and the gaps remain open. Planning and urbanism seem highly complementary in their approach, as well as in their strengths and weaknesses. There is a need for cross-fertilisation between the more model-based and top-down planning views, with the more casuistic, bottom-up experiences, to construct an integrated approach. Other discourses to be integrated concern the social, cultural, social, political, ecological and economic aspects.

In conclusion, in both the public and private sector, the need emerged to develop more strategic approaches, frameworks, and perspectives for cities, city-regions, and regions. In this chapter, I focus on a planning approach that provides a critical interpretation of the structural challenges and problems and thinks creatively about possible answers and how to get there. I deal with new strategic planning by elaborating three interrelated questions: a what? a how? and a why?

## Strategic Spatial Planning

### *What?*

Strategic spatial planning is a transformative and integrative, public-sector-led but co-productive, socio-spatial process through which visions/frames of reference, justification for coherent actions, and means for their implementation are produced. Taken together, these forms of agency shape and frame what a place is and what it might become (Albrechts 2004, 2012). The term “spatial” brings the “where of things” into focus, whether static or dynamic; the creation and management of special “places” and sites; the interrelations between different activities and networks in an area; and significant intersections and nodes in an area which are physically co-located (Healey 2004b, p. 46). Cities, city-regions, and regions possess a distinctive spatiality as agglomerations of heterogeneity locked into a multitude of relational networks of varying geographical reach (Amin 2004, p. 43). Strategic spatial planning processes with an appreciation of “relational complexity” demand a capacity to “hear”, “see”, “feel”, and “read” the multiple dynamics of a place in a way that can identify those key issues which require collective attention through a focus on place qualities (see Healey 2005). As a consequence, strategic spatial planning evolves continuously in formulation (see Healey 2007a). The focus on the spatial relations of places allows for a more effective way of integrating different agendas (economic, environmental, cultural, social, and policy agendas) as these agendas affect places. As these agendas have a variable reach, they also carry a potential for “rescaling” down from the national or state level and up from the municipal and neighborhood level. The search for new scales of policy articulation and concepts is also linked to attempts to widen the range of actors involved in policy processes and with new alliances, actor partnerships, and consultative processes (Albrechts et al. 2003).

### *How?*

Strategic spatial planning focuses on a limited number of key issues. It takes a “collective” critical view of the environment in terms of determining strengths and weaknesses in the context of opportunities and threats. Strategic spatial planning focuses on place-specific qualities and assets (the social, cultural, and spatial qualities of the urban/regional tissue) within a global context. It is therefore impossible to understand material places and social nodes such as “the city”, “the city-region”, “the region”, positioned in a one-dimensional hierarchy of scales (Healey 2007a, p. 267). Strategic spatial planning studies the external trends, forces and resources available. It identifies and gathers major actors (public and private) in a coproduction process (Albrechts 2012); it allows for a broad (multi-level governance) and

diverse (public, economic, civil society) involvement during the planning, decision-making, and implementation processes. It creates realistic long-term visions/perspectives and strategies at different levels, taking into account the power structures (political, economic, gender, cultural), uncertainties, and competing values. Strategic spatial planning designs plan-making structures and develops content, images, and decision frameworks for influencing and managing spatial change. It provides a frame of reference that gives direction and justifies specific action. It is about building new ideas and processes that can carry them forward, thus generating ways of understanding, ways of building agreements, and methods of organizing and mobilising for the purpose of exerting influence in different arenas. Finally, strategic spatial planning, both in the short and the long term, focuses on framing decisions, actions, projects, results, and implementation, incorporating monitoring, evaluation, feedback, adjustment, and revision.

### *Why?*

The “why” question deals with values and meanings, with “what ought to be”. Without a normative perspective, we risk adopting a pernicious relativism where anything goes. In a conscious, purposive, contextual, creative, and continuous process, strategic planning aims to enable openness to new ideas and to understand and accept the need and opportunity for (structural) change. Strategic spatial planning opposes the blind operation of the market forces and involves constructing “desired” answers to the structural problems of our society. Normativity indicates the relations with place-specific values, desires, wishes or needs for the future that transcend mere feasibility and are the result of judgments and choices formed, in the first place, with reference to the idea of “desirability”, to the idea of “betterment” (Ozbekhan 1969) and to the practice of the good society (Friedmann 1982). To influence particular future states is an act of choice involving valuation, judgment, the decision-making that relates to human-determined ends and to the selection of the most appropriate means for coping with such ends. The “future” must symbolize some qualities, and virtues that the present lacks (diversity, sustainability, equity, spatial quality, inclusiveness, and accountability). This is opposite to the future as an extension of the present.

### **Governance<sup>2</sup>**

Just as there are many traditions and collective practices, there are also many images of what regions, city-regions, and cities want to achieve. The power constellation in a place determines what the problems and challenges of a place are

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<sup>2</sup> See the bulk of material generated through the ESPON program ([www.espon.eu](http://www.espon.eu)).

and how they should be addressed. Some actors (individuals, groups, institutions) have more resources and power, which allows them to pursue their ideas and policies. Therefore, power relations must be built into the conceptual framework of planning (Forester 1989) and looked at in a given context of place, time and scale regarding specific issues and particular combinations of actors.

Strategic spatial planning processes challenge established divisions of government and the cultures embedded in them. They also bring different models of governance and governance change into encounter with one another (Healey 2006). It is argued that a feasible and efficient planning process should be centered on the elaboration of a mutually beneficial dialectic between top-down structural policies and bottom-up local uniqueness. Besides a bottom-up approach, rooted in conditions and potentialities of diversity (interpreted in their broadest sense), a complementary multi-level top-down policy aimed at introducing fundamental and structural changes is indispensable. Indeed, a mere top-down and centrally organised approach runs the danger of overshooting the local, historically evolved and accumulated knowledge and qualification potential, while a one-dimensional emphasis on a bottom-up approach tends to deny – or at least to underestimate – the importance of linking local differences to structural macro tendencies (Albrechts – Swyngedouw 1989). This dialectic constitutes the bare essence of multi-level governance.

Place policymaking is embedded in multiple institutional domains and interaction arenas. This blurs the meaning of traditional administrative boundaries and hierarchical settings in the development and implementation of policies (see the European INTERREG program). Initiatives to overcome fragmentation due to entrenched tiers of government and sectoral policy communities typically require a major institutional effort to achieve long-term effects (Albrechts et al. 2003). Moreover, the demand to transform the state in ways that will serve all relevant actors, especially the least powerful, the emerging partnerships between governments and the private sector are provoking a shift towards more hybrid forms of democracy in a number of places in Europe.

### **Pluralist and Inter-Culturalist Place**

As spatial planning has almost no potential for concretising strategies, it is necessary to involve relevant actors (public and private) needed for their substantive contribution, their procedural competences, and the role they might play in acceptance, in getting basic support and in providing (a kind of) legitimacy. In Europe, some politicians, as well as planners, seem reluctant to involve these actors in decision-making, because it involves giving up some control, and people

who hold power are usually not inclined to give it up or share it. In other places, there is a tendency to involve major actors in the process.

Some actors have the knowledge, skills, power, and networks through which they are able to influence or even steer planning proposals and policy decisions. Others lack the means and the cultural codes to participate in the system. Class, gender, race, and religion do matter in terms of whether citizens are included in the process (Young 1990). Any change has to deal with structural constraints, with issues of power and resistance, and with the irreconcilability of certain forms of interests. This requires a democratic polity that can encompass the realities of difference, inequality, and so on. The core is a democratic struggle for inclusiveness in democratic procedures; for transparency in government transactions; for accountability of the state and planners to the citizens for whom they work; for the right of citizens to be heard and to have a creative input in matters affecting their interests and concerns at different scale levels; and for reducing or eliminating unequal power structures between social groups and classes (Friedmann – Douglass 1998).

Out of a shift towards a more hybrid democracy in some places, a type of governance has emerged that expands practical democratic deliberations rather than restricts them; that encourages diverse citizens' voices rather than stifles them; that directs resources to basic needs rather than to narrow private gain. This type of approach uses public involvement to present real political opportunities, learning from action not only what works but also what matters. Through the involvement of citizens (and especially weak groups) in socially and politically relevant actions, some degree of empowerment, ownership, or acceptance is sought for these citizens (Friedmann 1992).

In Europe, increased personal mobility has made places more diversified. This can be seen either as a threat or as an opportunity. On one hand, it can destabilise a place as migrants bring in habits, attitudes, and skills different from the original society. On the other hand, it can enrich and stimulate possibilities by creating hybrids, crossovers, and boundary blurring (Landry 2000, p. 264). Places must be creative with mutual understanding between cultures and ideas of equity (this is nothing less than a claim to full citizenship) (Sandercock 2003, p. 98). Inter-culturalism builds bridges, helps foster cohesion and conciliation, and produces new ideas out of the multi-cultural patchwork of places. This gives a voice to the minority groups or the otherwise socially excluded, so that their ideas are taken into account and their ideas are brought into the process that influences the realms of change as well in planning, political decision-making as in implementation (Landry 2000).

Planning has the potential to have an impact and to connect a very wide range of issues (from all kinds of actors with interests in a place to nature). These inter-

ests are potentially very diverse and conflicting. Spatial planners capitalise on the “locus” using the characteristics of space and place; the natural as well as the build environment; the socio-spatial structure; the flows and the tissue (both spatial and social). To overcome a commodified representation, also nature must find a voice to reveal its intrinsic values (i.e. natural stability in ecosystems, biodiversity) as well as the more intangible cultural (i.e. aesthetic, symbolic) values (Sachs – Esteva 2003, Hillier 1999). In this sense, space gets its own relative autonomy. It serves as a medium and as an integration frame for human activities.

### *Institutionalisation*

Government systems for development, control, and regulation have often been fixed for a long time; however, they are not fundamentally reviewed to adapt to changing circumstances. There are many examples to illustrate how difficult it is for an institution to change. The life of an institution often seems to be more important than what it does. Hence the need to view governance institutions not as a set of formal organizations and procedures established in law and “followed through”, but rather as referring to the norms, standards, and morals of a society or social group, which shape both the formal and the informal ways of thinking and acting (Healey 2004a, p. 92). In some places, the process of “discourse structuration” and its subsequent “institutionalisation” become perhaps more important than the plan as such (Hajer 1995, Albrechts 1999). In this way, new discourses may become institutionalised and embedded in the norms, methods, attitudes, and practices, thus providing a basis for structural change. From there, a shared stock of values, knowledge, information, sensitivity, and mutual understanding may spread and travel through an array of regional, provincial, and local government arenas, sector departments, and consultants. Gradually, new approaches and new concepts can be sustainably embedded via institutionalisation (Healey 1997a, Gualini 2001). Governments may call upon this intellectual capital when using its control function to reframe ways of thinking (Innes et al. 1994).

### *Multi-level Governance*

A multi-level governance approach would offer the potential to tease out causal linkages between global, national, regional, metropolitan, and local change, while also taking account of the highly diverse outcomes of such interactions. The dialectic between shifts in institutional sovereignty towards supranational regulatory systems (e.g. the possible impact of European directives for deregulation of public transport) and the principle of subsidiarity, which entails the rooting of policy action in local initiatives and abilities, illustrates the embeddedness of place policy-

making in multiple institutional domains and interaction arenas which blur the meaning of hierarchical settings in the development of policies (Gualini 2001). Tensions may occur between the well-known scale and related government structure of a nested hierarchy from large to small or from top to bottom and scale in terms of the reach of relationships in time and space (Healey 2004b, Albrechts – Liévois 2004).

In a new governance culture, the construction of arenas (who has to be involved, what is fixed and what is open in these arenas and which issues must be discussed), their timing (links to the strategic momentum), and the awareness that “fixed” may be a relative concept in some contexts, all need careful reflection and full attention.

## **Epilogue**

In Europe, planning is diverting from the idea of government as the sole provider of solutions to problems towards an idea of governance as the capacity to substantiate the search for creative and territorially differentiated solutions to problems, challenges, and opportunities. It implies a move towards a more desirable future through the mobilisation of a plurality of actors with different and even competing interests, goals, and strategies (Balducci – Fareri 1996). Strategic spatial planning as presented in this chapter is conceived of as a democratic, open, selective, and dynamic process of coproduction. It produces a vision which leads to a framework within which the problems and challenges can be understood and provides a justification for short-term actions within a revised democratic tradition. A dissection of the process reveals the key elements that underlie this strategic planning: content and process; the static and the dynamic; constraint and aspiration; the cognitive and the collective; the planned and the learned; the socio-economic and the political; the public and the private; vision and action; the local and the global; legitimacy and a revised democratic tradition; values and facts; selectivity and “integrativity”; equality and power; the long term and the short term.

I have applied the “lenses” of a reflective practitioner and of the (strategic) planning literature in an effort to broaden the concept and provide an alternative to address the structural challenges of our postmodern world in a constructive and progressive way. Strategic planning case studies illustrate innovative practices. I see a need for inquiring into the epistemology of these practices, for making sense of what has been learned in action in relation to a wider context and for testing the depth and comprehensiveness of these practices (Schön 1984). This should help efforts to evaluate and make sense of these practices in relation to a wider (theoretical) context. Abstract conceptualisation and generalisation of the accumulated knowledge of learning in action may help theorists to see some of what can be

learned from practice. Strategic spatial planners, on the other hand, can be inspired and guided by new emerging theories.

The critical question of the leverage that the European strategic spatial planning exercises will achieve over time must be raised. Do they have the persuasive power to shift territorial development trajectories or – as some argue (Kunzmann 2001) – are they little more than a cosmetic veil to hide the growing disparities evolving within Europe? A number of European experiences provide a fertile laboratory for advancing the understanding of the nature and potential of strategic spatial frameworks and strategies for twenty-first century conditions.

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# RETHINKING CONSTRUCTIONS OF SPATIAL JUSTICE IN REGIONAL POLICY

*Gordon Dabinett*

## **Introduction**

This paper attempts to provide insights into the normative constructions of spatial justice that underpin regional policy as recently articulated within discourses that have shaped the EU territorial cohesion agenda. The conceptualisations that underlie this analysis assume that regional policies can be regarded and studied as social constructs, as they give meaning and expressions to rationalities, ideas, political behaviours and power relations (Fischer 2003). The approach follows arguments predicated on the belief that the values behind concepts of EU spatial policies have largely remained hidden, both in policy processes and in related research (Bohme et al. 2004).

The paper seeks to apply a critical analysis by presenting discussions within three key areas: understanding territorial cohesion as an EU project, as a co-operative process and as a change in governance; interpreting contested meanings of territorial cohesion through new geographies and outcomes; and reflecting on the possible opportunities to further understanding of territorial cohesion through constructs of spatial justice.

Uneven spatial development between regions has been regarded as a legitimate concern of governments for a considerable period of time. Most commonly this was expressed through policies of national state governments that had an explicit or implicit objective to influence the distribution of economic development or growth. For example, any major imbalance in the regional distribution of wealth creation would commonly be perceived by governments to potentially pose threats to economic, social and political stability. Such concerns were also subject to EU measures within regional policy and the Structural Funds after the 1980s. The nature of uneven development and the purpose of EU policy came under scrutiny again as a consequence of the ascension of new nation states (Hudson 2003), persistent spatial disparities within the original member states (EC 2004), and an attempt to re-conceptualise territorial development, or “cohesion” (Faludi 2010).

Since 1986, the object of EU cohesion policy has been to strengthen economic and social conditions, and the Lisbon Treaty and EU high level Europe 2020 strategy

introduced a third dimension of “European fairness”, that of territorial cohesion, which became an integral element of EU policies from 2013. The construction and meaning of spatiality and fairness within territorial cohesion are clearly contestable and contested, and despite the publication of a Green Paper (EC 2008), the policy needs to be conceptualised beyond the implementation of a single core policy document.

The EU member states adopted the new “Territorial Agenda” in Leipzig in May 2007. The notion of territorial cohesion imbedded within this agenda built on the priorities of economic and social cohesion enshrined in the 1992 Maastricht Treaty, and the broad aim of the Agenda was to contribute to the harmonious and balanced development of the Union as a whole in support of the 2000 Lisbon and 2001 Gothenburg Agendas. The Agenda outlined a desire to promote regional identities and a place-based approach and for sector policies of the EU that have spatial impacts to also consider territorial cohesion. This gave expression to a European spatiality more aligned with the content of the European Spatial Development Perspective (EC 2009), by seeking to cast Europe’s urban areas as motors of development; to strengthen urban-rural partnerships for balanced development; to promote trans-national regional development; to strengthen trans-European networks; to promote trans-European technological and natural risk management; and to strengthen the trans-European ecosystems and cultural resources and heritage. This focus shifted spatial analyses to the cities and metropolitan growth areas of Europe, and cohesion was seen as a way to achieve the balanced spatial development of a largely polycentric EU territory, realising indigenous potential through vertical and horizontal co-ordination of EU policies. Further elaborations of territorial cohesion were made in Europe2020 which made a link with the goal of “inclusive growth”, by fostering a high-employment economy delivering social and territorial cohesion. This latest EU strategy sees a need to spread the benefits of economic growth to all parts of the Union as essential, including its outermost regions, thus strengthening territorial cohesion by ensuring access and opportunities for all (EC 2010).

From this perspective, the emergence of any attempt to build a common EU approach to spatial policy might be regarded as part of a concerted attempt to impose some vision and co-ordination across the wide range of policies, regulations and other instruments which seek to implement EU political, economic and social objectives. ESPON research has revealed that territorial capital and opportunities for development are inherent in the regional diversity that is a characteristic of Europe (ESPON 2010). Consequently, different types of territories are endowed with diverse combinations of resources, putting them into different positions for contributing at this moment of time to the achievement of the goals set by Europe 2020 (EC 2010). Thus a critical and discursive view on justice in this

European spatial policy making demands that complex relations between values and diversity need to be taken into account. As a result, critical analysis pursuing this agenda must be inherently spatialised, but has to avoid a conception of space simply as a container in which things happen, where spatial justice is simply shorthand for social justice in space. Space needs to be conceptualised as something itself constructed, rather than given, and that certain aspects of space themselves sustain the production and reproduction of injustice. Such problems as inequality, exclusion, segregation and social polarisation are manifested spatially and reproduced spatially through spatial development.

### **Territorial Cohesion as an EU Project**

Territorial cohesion is a construct that is not found outside the documents and discourses that constitute the worlds of EU spatial policy makers. Well evidenced accounts have illustrated the centrality of cohesion policy to the European project (Molle 2007) and the emergence of territorial cohesion as a key link between the economic and social goals of EU wide solidarity and spatial policy thought (Adams – Cotella – Nunes 2011, Waterhout 2007). The Green Paper (EC 2008), and subsequent policy formulation processes, extended this discussion beyond a community of planning experts to a wider discourse involving broader stakeholders, and the future still remains open (Faludi 2010). It has been suggested that at the heart of these discourses were attempts to secure strategic positions by stakeholders around four key elements inherent to territorial cohesion (Servillo 2010): policy principles that seek to define a range of general values and institutional aims in regard to balanced spatial growth and development; territorial dimensions that allow the concept to be applied at several geographical scales; strategic policy options largely formulated within imaginaries and options of place-based outcomes, realising local assets within polycentric models of urban development; and territorial governance expressed through procedural and processes aspects.

Broadly the territorial cohesion “project” constituted an agenda to shape dialogue – a political project; a set of principles to guide action – a co-operative process; and action through practices – a change in governance. Specifically much is made of the EU as being incredibly rich in its territorial diversity, and thus European territorial solidarity in the face of this is about “ensuring a balanced development of all these places and about making sure that our citizens are able to make most of inherent features of their territories – to transform diversity into an asset that contributes to sustainable development of the entire EU” (EC DG Regional Policy Conference December 2009). The goals for future spatial development are encapsulated within notions of sustainable development that can marry European polycentric settlements and economic concentration inherent in agglomeration

processes, and place emphasis on achieving connectivity through infrastructure and access to services of general interest. Great emphasis is placed on potential territorial impact synergies that can arise from the co-ordination of EU sector policies. Finally the rescaling of the state alongside changes in social, economic and environmental spatialities create new challenges for functional co-operation across borders between neighbouring regions, trans-nationally in emergent mega-regions such as the Baltic Sea, Danube and Alpine areas, and inter-regionally between non-neighbouring regions in different countries.

Territorial cohesion as an EU project thus seeks to: achieve greater outcome *effectiveness* of EU social, economic and environmental interventions; achieve greater resource *efficiencies* in EU social, economic and environmental interventions; promote changes in *governance* to address changing EU wide spatial forms of economic, social and environmental developments; achieve territorial *outcomes* that go beyond those achievable through EU social, economic and environmental interventions alone; address EU wide *inequalities* that underlie territorial diversity and differences; and provide a rationale for a future EU “integrated place-based” *cohesion policy*. The discourses that arise from these intents go to the heart of two fundamental questions: what additional outcomes in regards to European wide spatial development are aspired to, and how will strategic institutional relationships achieve such outcomes through essentially new multi-level intergovernmental behaviours based on voluntary co-operation?

### **Contested Meanings of Territorial Cohesion**

The Assembly of European Regions (2009) called upon territorial cohesion to be seen as: “Territories developing harmoniously and in synergy with each other, heading to common priorities and objectives, by implementing strategies with means and tools adapted to their territorial capital, providing an equal access to services and opportunities for all European citizens”. Such aspirations demand an agreement on the common objectives of the EU that can underpin the practical achievement of potentially contested outcomes, in light of a founding principle of cohesion policy that favours a development approach rather than one based on compensation or redistribution (Jouen 2008). Camagni (2007) thus argues that territorial cohesion efforts can enhance attempts to improve social and economic cohesion through increasing territorial quality, territorial efficiency and territorial identities, whilst Fabbro and Mesoella (2010) provide evidence that policy makers can view it as either an existing system of territorial qualities to be defended and protected from the impacts of external causes; or the outcome of a process of territorial rebalancing between metropolitan concentrations and the rest of the

region; or as a way of pursuing regional competitiveness through the definition of new regional space.

Whilst some interpretations might seemingly depoliticise the underpinning values inherent in such debates and simply seek to reframe current socio-economic problems, a more substantive set of challenges arise around the contested meaning of territorial cohesion that contrast it as a means to achieve competitiveness and globalisation, or as a way to re-inscribe welfare problems and policies in spatial terms (Davoudi 2007, Vanolo 2010). Such a variety of perspectives are also reflected in polycentricity and TENS, core elements in the imagined visions of territorial cohesion. As Faludi (2010) reminds us: “the use of words thus depends on context and intentions”, and territorial cohesion becomes “a catalytic concept around which several (spatial and non-spatial) discourses and policy practices have been generated...” (Servillo 2010).

Territorial cohesion in the context of current debates about the future of post-2013 cohesion policy in an enlarged Europe during times of economic austerity and potential environmental crisis might be seen to offer varied spatial-economic outcomes (Adams – Cotella – Nunes 2011): smart growth in a competitive and polycentric Europe; inclusive, balanced development and fair access to services; recognition of territorial diversity and importance of local development conditions; and the protection of geographical specificities.

Territorial cohesion might be seen to contribute to economic growth in order to achieve the aims of Europe 2020 and boost EU competitiveness. Such an outcome would see a strong focus on the potential of Europe’s major inter-connected economic centres to support smart growth and act as engines for development of larger areas that surround them – a territorial vision that builds on a polycentric Europe but with a greater number of nodes in the global economic networks. Such an objective has a theoretical background in new economic geography and growth pole theories with the spatial dimension of economic development policies based on economies of agglomeration. Positive externalities are expected to trigger higher growth with diffusion effects later achieving more balanced territorial development.

A strong and counter perspective sees territorial cohesion as being about a balanced development that focuses on European solidarity and stresses inclusive growth and fair access to infrastructure services. Within such a view there is a strong idea of strengthening potentials outside the main growth poles, where future growth is instead based on distinct territorial assets and comparative advantage. Such a vision tends to support fair or equal development, not least through access to services of general interest, based largely on examples of areas that thrive despite their size or relative isolation through the development of local innovative milieu, industrial districts and local productive systems. Thus territorial

cohesion could be seen to be about place-based policy making, that pays particular attention to local development conditions, below the regional level. In such an approach particular attention is given to the specificities of places and their comparative advantages, often based on tacit knowledge and local networks, focussing on the processes that allow local actors to identify and exploit economic potentials based on natural resources, cultural heritage etc.

The desire to achieve outcomes beyond those delivered by economic and social cohesion requires territorial cohesion to address geographical specificities. Particular types of region with permanent features require recognition in such a view. Article 174 of the Lisbon Treaty states that: "In order to promote its overall harmonious development, the Union shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. In particular, the Union shall aim at reducing disparities between the levels of development of the various regions and backwardness of the least favoured regions. Among the regions concerned, particular attention shall be paid to rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions". This suggests that geographical handicaps for regional development exist, and require measures and regulatory exceptions that can compensate for additional costs of infrastructure and service provision.

### **European Space, Regions and Justice**

A critical and discursive view on justice in this European spatial policy making demands that complex relations between values and diversity need to be taken into account. Research pursuing this agenda must be inherently spatialised in its analysis. But this spatialisation has to avoid a conception of space as absolute, as a container in which things happen, where spatial justice is simply shorthand for social justice in space. A fixed conception of space would point towards a partial view that would simply look at distributional aspects. Instead space can be given different meanings. It might be seen as a single geographical unit – defined by common rules for trade, market behaviours, legal processes, financial exchanges, and political representations. In other contexts it is seen as a collection of nation states – based on boundaries that have become fixed over time as a result of contested geo-political processes, with sub-divisions constructed around administrative and political units or the application of statistical techniques to assist in the management and targeting of policies. Space is also seen to be a construction of institutional networks – based on shared trust or reciprocity, but unequal power and influence. It is also possible to see forms of multi-scalar territorial capitalisms

– combining the legacies of past uneven development and emerging differentiated competitiveness and economic performances. Thus space should be conceptualised as something itself constructed, rather than given, and that certain aspects of space themselves sustain the production and reproduction of injustice (Graham – Healey 1999). Such problems as inequality, exclusion, segregation and social polarisation are manifested spatially and reproduced spatially through spatial development.

These reassessments of the values underpinning the notion of “fairness” within EU spatial policy lead to further questions about equality of what – employment opportunities, mobility, housing, water, income, health, expression of identity and culture, the right of participation and representation, and notions of governance. The injustice of spatiality becomes expressed through needs, commonly given meaning through the design of criteria for spatial targeting and intervention; through rights, often associated with markets, access to services and specific conditions attached to property and development; or through rewards, suggesting choices are made about legitimacy in the allocation of resources or power. Finally, whilst the goal of balanced urban development might suggestively argue that people should neither be advantaged nor disadvantaged because they happen to reside within the boundaries of a particular locality, the notion of competitive fairness and the diverse spatial conditions that underpin the wider goals of cohesion policy, both support a view that there is a paradigmatic policy transition from a unitary and substantive rationale of spatial fairness towards a pluralist and procedural one (Giannakourou 1996). The later largely resides in a multi-level pluralist model of policy-making, invoking principles of partnership and shared responsibility.

Over the last fifteen years, arguments have been advanced that suggest there has been paradigmatic shift in spatial policy in Europe, in its aims and goals, but also in its values, analyses and implementation. Giannakourou (1996) in a reflection on Structural Funds has argued that “the traditional universal and legally formal approach of spatial justice, that is, the right to equal treatment of all territories, is actually replaced by a novel rationale... in the face of a more complex and unpredictable world” (p. 604). A new European style of “competitive spatial fairness” has emerged, which is very different to the previous national state welfarism that promised the redistribution of resources, services and incomes among the different areas of the national territory and, thus the equalisation of their development conditions.

Thus whilst the goals of balanced urban development might suggestively argue that people should neither be advantaged nor disadvantaged because they happen to reside within the boundaries of a particular locality (EC 2004), the notion of competitive fairness supports the view that the nature of spatial justice within



territorial cohesion and economic integration needs to be examined with respect to its basic norms and values, and within specific and situated territories. Justice might be based on a number of fundamental and very different normative outcomes in terms of intervening in spatial development: a need to improve the welfare of the worst-off areas, by prioritising the more urgent or greater claim, constructing a scale of privilege; the redistribution of resources to areas based on an utilitarian value, on what will afford the greatest good to the most people, rather than prioritising minorities; regarded as fairness based on the idea that everyone has an equal right to the most basic liberties – an equality of opportunity; an equality achieved by respecting and acknowledging difference, that requires a rejection of universalism and the assumptions of dominant group.

Spatial justice is concerned not simply with the (uneven) spatial distribution of welfare, but also with the qualities of the constructed space through which processes affecting welfare are mediated. The injustice of spatiality may also be expressed through needs, commonly expressed through the design of criteria for spatial targeting and intervention; through rights, often associated with markets, access to services and specific conditions attached to property and development; or through rewards, Boyne and Powell (1983) and Fainstein (2001) have argued that there have not been many attempts to apply these complex arguments to an empirical context, and a great deal of vagueness often surrounds these basic concepts, and real problems arise in showing how any of them could be used as a practical guide. It has also been suggested that it is likely that policymakers' preferences are both volatile and ill-defined, thus greatly reducing the chances of there being a coherent and consistent policy towards spatial justice. Furthermore, the equity effects of spatial policy and planning cannot simply be inferred from instruments and measures but also need empirical assessment of individual outcomes (Dabinett 2010) – who benefits?

### **Final Reflections**

Regional policy in Europe is no longer simply the practices of individual member states but instead might be seen as an instrumental construction of wider geopolitical forces that constitute diverse and varied forms of spatial development. The past underlying assumptions of regional policy: that regions “are” functional spatial economies; that economic imbalance has both resource efficiency and welfare implications; and that economic imbalance can distort state policy aims and objectives, require critical re-examination. Regional policy can have different normative purposes and outcomes. It might be assumed that economic growth will always be unbalanced, an inevitable outcome of increasing globalisation, but development can still be inclusive. Alternatively, uneven development might be

seen to reflect territorial diversity, and policy should promote place-based cohesion and assets through reforms in governance. A further construct might regard uneven spatial development as not primarily or uniquely a regional problem, and interventions should promote place-based initiatives for worst-off areas, or specific social groups and classes. Similarly, spatial development might be constructed as not the problem but a symptom of national competitiveness and spatial power relationships, and any measures should promote nation-wide infrastructure investment, innovation, skills training, and employment alongside political devolution. Finally, to address these “normative” questions and constructs of regions and policy, spatial justice might offer a conceptual framework to critically assess alternatives. It might offer a set of measures that can extend beyond territorial justice, incorporating notions of social and environmental justice within explicitly spatialised and distributive outcomes.

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# REGIONAL GRAVITY AXES AS VECTORS OF TERRITORIAL DEVELOPMENT

*Pompei Cocean*

In order to achieve the expected success, territorial planning operation requires, as an *a priori* condition, the rigorous setting of the analytical and interpretative framework in the form of concepts, theories and paradigms. They will not only enable a proper argumentation for the various solutions and proposals to optimise the functions of the territory, to mitigate the existent dysfunctions, and support its sustainable development, but also to formulate a coherent, well-articulated strategic vision.

In recent scientific debates, centred on regional development issues, the focus lies on growth poles, considered by many researchers and by institutions involved in the planning process as spatial elements where innovation emerges and from where its dissipation into the spatial system begins.

In addition to growth poles, a concept introduced in the practice of regional development by Perroux (1955), regional gravity axes provide a different, much more complex logistic support due to their structures and functions, a contribution emphasised in a series of previous interventions (Cocean 2010b and 2011). If polarising centres (mostly synonymous with growth poles) are at the origin of polarising regions, analysed in their complexity by numerous geographers from Johann Heinrich von Thünen (1826) until today, gravity axes are at the origin of anisotropic regions described by Dauphiné (1979) and his followers. In Romania, we should mention Pop's (2003) and Conțiu's (2010) contributions on the topic of gravity axes and anisotropic regions.

## **Methodology**

The phenomena within gravity axes will be approached in line with the concepts specific to *functional system regions* as described by Dauphiné (1979), Nir (1990), Claval (1993), Vallega (1995), Wackermann (2002), Cocean (2002), etc. Gravity axes generate an anisotropic spatial entity, within which a particular set of relations between the component elements and between them and their exterior are

born and develop. The difference between growth poles and gravity axes lies, from the very beginning, in their own area of influence, starting from a punctual element in the first case up to a line (a summation of points) in the second case, as was suggestively outlined in the *chorem methodology* proposed by Brunet and Dolffus (1990), where the point and the line become basic figurative signs.

Factor analysis, synthesis, comparison, ranking and classification are also essential tools for highlighting and explaining the complex phenomena inside the gravity axes and in the strips of interface between them and the rest of the territory. All this must be used in the context of a rigorous implementation of the *regional method* (Cocean 2002), namely the integrated approach of the whole spatial issue regardless of its complexity.

### **Individualisation of the Gravity Axes through Interspecific Competition**

Besides growth poles, represented by major urban agglomerations and considered as focal points of territorial regularisation by the European Union, regional gravity axes play an equally important role in the spatial development of Romania, just like in other countries. If growth poles exert their influence from the centre towards the periphery, in a radial-divergent manner, in line with the principle of gradual dissipation of mass and energy, in the case of gravity axes, dissipation takes place within an ellipsoidal type of spatial matrix, thus affecting larger areas and more diverse territories.

The phenomenon of individualising regional gravity axes is much more complex than that of poles or centres of attraction, thus requiring a longer period for shaping the spatial system and a more convulsive evolution.

Initially, they took shape in all the regions with heterogeneous relief, according to *the pre-existing morpho-hydrographical matrix*, the morphological corridors or river valleys, characterised by better accessibility, being preferred to their neighbouring territories less favourable from this point of view. In the plain areas, without important morphological, hydrographical or other type of obstruction, the route of axes developed where the distance between two or more polarising habitats was the shortest.

The spatial selection that led to their individualisation was performed in line with the principle of *main drains* in the endokarst hydraulic systems, where the most active, most intensely utilised and most efficient circulation corridor in terms of water flow amount has imposed itself in relation to the others, ultimately generating the groundwater flow network, with a main drain to which secondary drains are connected as ramifications, consisting of the initial drain lines which have lost the interspecific competition (Mangin 1974).

When applying this hydrodynamic principle to the territory, so varied in structure and function, a series of organisation models and forms result, dictated by the diversity of the natural or anthropogenic factors involved in their coagulation. Of the natural factors, morphology and hydrography have a visible mark, generating, according to the physical principles of flow, *natural models of gravity axes*, namely, morphological corridors (the depression corridor at the contact of the Transylvanian Depression with the mountain range), hydrographical ones (the Danube, the Mureş or the Siret corridors) or morpho-hydrographical ones (e.g. Timiș-Cerna). The natural gravity was closely followed by the anthropogenic one, the affirmation of the human settlements and, hence, of the nucleation centres (Cocean 2010a), and the configuration of the communication route system practically followed the natural gravity lines.

With the establishment of rural and urban habitats in their area and the intensification of the flows of people, goods and products, their development received a *strong inertial character* which has maintained these axes topical, although currently the initial conditionings can be easily overcome by means of technology.

According to the same hydraulic principle invoked by Mangin, *the main gravity axis* will overlap the most intensely circulated corridor, with various and efficient transport networks, the territory of utmost affluence of resources, characterised by economic and social effervescence. The efficiency of raw material, goods, product or interest flows in the respective corridor is conditioned by the presence of an open gravity axis (Cocean 2011) having charging (absorption) and discharging (dissipation) funnels optimally configured. On the other hand, the semi-open gravity axes or, even more so, the closed ones will lose the competition with the main drain, becoming territorial vectors of lower order.

An illustrative example of spatial selection in the case of gravity axes is offered by Transylvania, a geographical-historical province located in the centre of Romania, where the initial natural conditioning has imposed the genesis of two types of corridors, morphological and morpho-hydrographical.

Figure 1 illustrates a system composed of three parallel gravity axes which polarise the southern and central part of Transylvania. The Sebeș–Sibiu–Brașov axis (A) overlaps some morphological corridors developed at the contact of the Transylvanian Plateau with the Southern Carpathians, while the Târnava Mare (B) and Târnava Mică (C) axes overlap the homonym valleys.

These *simple gravity axes* branch out from a *complex joint axis* (D), developed on the morpho-hydrographical corridor of the Mureș River, between its confluence with the Tisa River at Szeged (Hungary) and the village of Izvorul Mureșului, in the Giurgeu Depression (Romania).

The figure above reveals the existence of three neighbouring parallel gravity axes, of different order, the southern one: Sebeș–Brașov (A) playing the role of the

main axis; Târnava Mare (B), Blaj–Sighișoara, being a second-order axis; and the northern one, Târnava Mică (C), Târnăveni–Sovata, being a third-order one. In a study focused solely on the gravity axes of the Târnava Rivers, Conțiu (2010) identifies here a *forked gravity axis* which joints axes B and C.

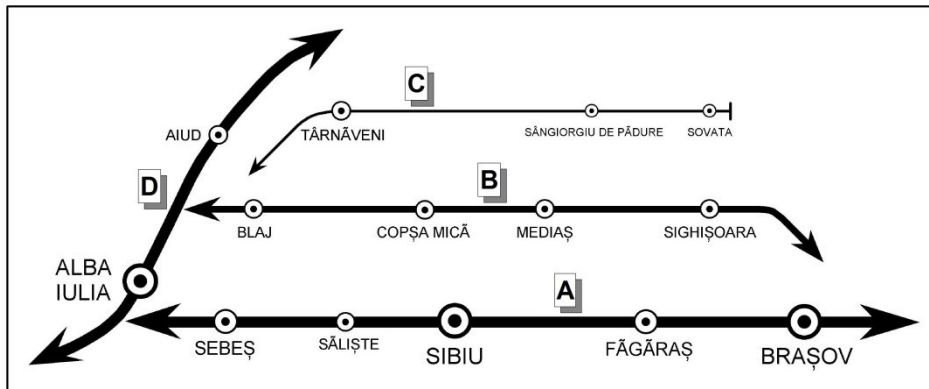


Figure 1. Spatial selection of gravity axes in the central-southern part of Transylvania

Legend: A – Main axis (first-order axis); B – Second-order axis; C – Third-order axis; D – Joint axis.

Source: Author's elaboration.

The question is how did such a selection, or ranking, emerge in a context where the major axis Sebeș–Brașov is located in the southern periphery of the historical province of Transylvania, while the Târnava Mică axis lies right in its geographical centre? Moreover, the favourability index of natural factors is not higher for the first axis than for the second, and thus a central and basically advantaged position has been eclipsed by a marginal one. The explanation lies in the higher *connectivity* attributes of the southern, peripheral axis in relation to the others, attributes manifested in historical times, from the early Middle Ages until 1918, when Transylvania was separated from Wallachia, having been two different geopolitical entities. In these conditions, the Sebeș–Brașov corridor concentrated flows of goods and persons superior to the other “inner” corridors, due to its cross-border discharge. The fortification of the urban centres of Sebeș, Sibiu and Brașov (three of the seven historical cities of Transylvania) generated positive inertia in the gravity axis, amplified fluxes, activities and infrastructures, connecting it at both ends, through the Mureș and the Prahova axes, with the international transport corridors. This status has been preserved up to the present day when the Pan-European Transport Corridor IV is inserted partially into its thalweg (the Sebeș–Sibiu section). The gap between it and the axes located to the north is obvious, even if we compare only the rank of the main cities having developed as growth poles inside

them: Braşov and Sibiu belong to the greatest cities of Romania, with complex economic, administrative and cultural functions, while Mediaş and Sighişoara are ranked among the country's middle-sized cities and Târnăveni among the small-sized ones.

On the other hand, despite its central position in Transylvania, the Târnava Mică axis has lost the competition mainly because of its attributes of closed axis (Cocean 2011), the volcanic mountain range of Gurghiu and Harghita hindering its easy discharge at one end.

### **Gravity Axes – Sustainable Spatial Entities**

In the case of both growth poles and regional gravity axes, the question arises how sustainable such spatial constructions can be so that the role they have in territorial organisation and good governance be fulfilled. There are different answers to this question because, although growth poles and axes have some common features, they also have numerous striking differences.

Growth poles as strictly individualised structures, with a rigorously delineated area of influence and with systemic relations dependent on their function and rank, have their sustainability ensured as long as their own spatial organism functions optimally. When a crisis emerges in the process of its development and affirmation, it will resist through resilience or will decline on its own (many cities having disappeared over time is an illustrative example in this respect).

Within regional gravity axes, especially within *the main axis*, geographical phenomena receive a much more prominent dissipative development (Ianoş – Humeau 2000), starting with the settlement system that establishes itself along them and continuing with the infrastructure network, whose diversification, amplification and functioning are strictly dependent on the inputs and outputs within the axes. According to the same authors (p. 80) “processes of aggregation – disaggregation, concentration – deconcentration, imbalance – functional rebalance are individualised within them [author's note: within the settlement systems, well defined in such spatial entities], processes that determine a temporary optimization of the relations between their main structures”, thus ensuring the viability and the development of the axis itself. The presence within a gravity axis of several growth poles that generated spatial subsystems in their area of influence (Dauphiné 1979) complicates the territorial architecture considerably. Nevertheless, it provides a wide range of possibilities for spatial development, based on the utilisation of the potential specific to each centre of attraction, as well as its hinterland.

In the case of development axes, sustainability is much more significant and long-lasting, being provided by *complementarity*. The existence of several interre-



lated local growth poles and the fluxes that constantly animate the axis corridor transfer the development principles throughout its route. Therefore, if for whatever reason a systemic component of the axis goes adrift, the repercussions are much more alleviated than the effects of the same negative action on a city outside the axis. This is because the negative effects are redistributed (e.g. the laid-off labour force from a bankrupt company can move to similar neighbouring units within the axis; or the relocation of some activities from other centres to the infrastructure that has become available, etc.).

In a previous study (Cocean 2011) it was demonstrated how the focalisation of development policies on the territories at the head of axes positively influences the entire activity conducted within the axis. When becoming economically effervescent spaces, these territories play the role of attraction fields in which the bi-univocal fluxes between them animate the entire axis by continuous processes of charge and discharge, having beneficial effects on all the elements that structure the anisotropic region thus formed.

### **Spatial Occultation Phenomena Generated by Gravity Axes**

The affirmation of gravity axes, with massive concentration of the development principles within an anisotropic type of area, can generate major differences in the economic and/or social affirmation of the neighbouring territories they overshadow through the superior level of their own affirmation. It is a phenomenon similar to that described by Gabriela Cocean (2011) in the case of neighbouring tourist attractions characterised by a different attractive potential. The ones with more numerous and more substantial attractive attributes gain greater importance in the tourists' perception, while the others remain in an undeserved obscurity.

Such an occultation phenomenon can also be noticed in the case of gravity axes, for example in the southern part of Transylvania, between the Sebeş–Braşov (A) and the Blaj–Sighişoara (B) gravity axes. Here, due to the major polarisation effect caused by the two axes concentrating the majority of activities and mass, energy and interest flows in the region, a *no man's land* type of territory has emerged, overlaying the Hârtibaciu and the Secaş plateaus (Figure 2). The level of territorial development, expressed by the quasi-generalised extension of the profound rural environment, the weak affirmation of the settlement system (there is only one small-sized town, Agnita, in the Hârtibaciu Plateau, with less than 10,000 inhabitants, and no town in the Secaş Plateau), and the underdeveloped technical infrastructures emphasise a striking disparity in relation to the other two adjacent axes.

The situation is even more obvious when we compare the urban centres in the three units: Mediaş, Agnita and Făgăraş. The demographic potential of Mediaş in relation to Agnita is 4.6/1 and of Făgăraş is 3/1. The economic potential and the

facilities of the three urban centres show a similar picture, the polarising centre of the occulted region having a clear disadvantage. And it is so despite the fact that this territory is located right in the geographical centre of Romania (geodesically set in the village of Dealu Frumos, in the proximity of Agnita). Therefore, the attribute of “central place”, as elaborated in the model by Christaller (1933), that it is a favourable factor in the structuring and functioning of the territory by increasing polarisation, does not exist in this case.

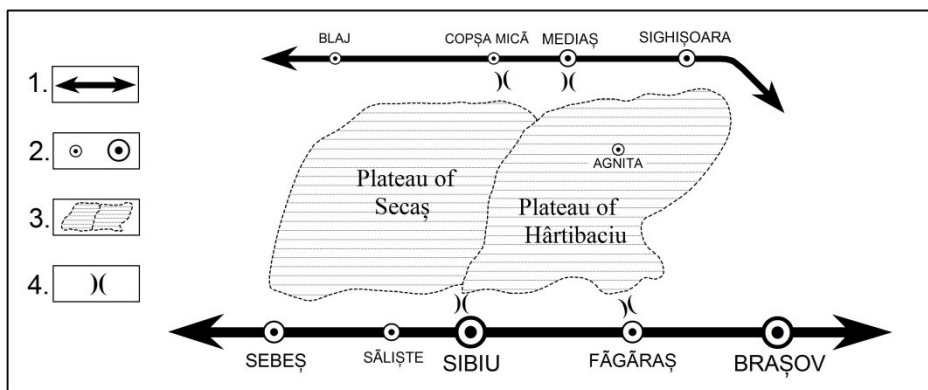


Figure 2. Occultation phenomenon generated by the regional gravity axes  
 Legend: 1 – Gravity axes; 2 – Urban centres; 3 – Occulted territories; 4 – Synapses.  
 Source: Author's elaboration.

In conclusion, by massively concentrating technical, administrative, economic and social infrastructures, habitats, goods and people in narrow spatial strips but with notable lengths, regional gravity axes give rise to a rapid pace and a high level of territorial development. At the same time they induce, at least in the early stages of development, notable disparities in relation to the surrounding regions which thus often become *occulted territories* and therefore repulsive.

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# THE REGIONAL STRUCTURE AND DECENTRALISATION OF SCIENCE IN CENTRAL AND EASTERN EUROPE

*Gyula Horváth*

## **Introduction**

One reason for Europe's diminishing role in the world economy is its development of research capacity and of the human factor lagging behind those of their US counterparts. There was a programme established in the European Union's Lisbon Strategy aiming to correct these deficiencies.

Europe's further development depends on how growth factors are spread across its regions, and one reason for the lower level of competitiveness is the major regional differences in R&D. Weak regional cohesion and an exaggerated spatial concentration of modern regional development factors have a clearly negative effect on European competitiveness today. Activities with high value added are concentrated within the London-Paris-Milan-Berlin-Amsterdam pentagon, but the distribution of innovative industries differs even within developed countries. The existence of national core areas is vital to R&D capacity, high-technology industries and to advanced services – but the situation is very similar in the Central and Eastern European countries, where the level of concentration, in fact, increased after the change of regime in 1989/1990.

The first aim of this paper is to identify regional differences in the R&D structure of six large and medium-sized EU member states in Central and Eastern Europe (Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia). The basic hypothesis is that exaggerated intellectual polarisation hampers the strengthening of regional cohesion and that R&D must be given a priority role in economic development strategies. This notion has not yet been realised in the operative programmes of National Development Plans. The strengthening of R&D featured prominently among the Lisbon criteria, but only a few words were devoted to the regional dissemination of intellectual potential, R&D capacity and the knowledge-intensive fields of activity. Conditions suitable for innovative development are simply not yet available in most European regions.

The second one is to evaluate the regional research capacities in the countries of the former socialist block. We are going to provide a picture of the historical antecedents of spatial research, the specifics of regional tasks to be resolved, the

characteristics of the institutionalisation of regional science and its publication forums. As a conclusion, we will summarise what criteria of regional science exist or are lacking in the individual countries.

### **The Organisation of Science in Central and Eastern Europe, 1950–1990**

The different levels of development of the two sides of Europe are particularly evident in relation to science, and the roots of this reach back several centuries. The university foundation period of the Middle Ages affected only a very small part of Eastern Europe. Higher education appeared here several centuries later. For example, Bulgaria's first university was founded in Sofia in 1888 (after many years of Turkish rule), but newer universities appeared in the country only after 1970. The first universities of Romania were founded in Bucharest in the 1850s and in Iași (Moldavia) in the 1860s. In some major cities – primarily in Transylvania – a university network developed between the two World Wars, and in the communist era many new universities were founded in major cities or industrial centres, including the underdeveloped parts of the country.

Developments were relatively uniform in many Eastern European countries. The basis of higher education and research appeared only after the Second World War and the number of institutions was very small. Due to regional development issues, and from the viewpoint of sectoral education, few adjustments were made after the Second World War.

The foundation of *national academies of sciences* was crucial for the scientific systems of the Central and Eastern European countries, and all of them had organised their academies by the beginning of the 1950s. The academies did not only co-ordinate science in these countries, but had an extensive research network, typically embracing some 40–70 institutions. It was the consequence of centralised governance that these academic research institutions were, with few exceptions, established in the capital cities (Horváth 2010).

Although the Communist Parties' science policy had different characteristics in the individual countries – as in other spheres of the economy and society – we can detect some common characteristics:

- Science enjoyed a privileged position in the socialist era – a typical feature of the Soviet model. The favoured groups of people in the sciences (academicians, principal researchers) received high incomes and enjoyed a variety of social benefits.
- Intensive state intervention and government control were accompanied by continuous and adequate budgetary resources, although these varied in the different branches of science. Two per cent of the national income was spent

- on R&D in the Central and Eastern European countries in the 1970s–80s. This high rate was due partly to research in the armaments industry, and partly because many industrial products (in telecommunications and computer technology) were produced on the basis of domestic research on account of the boycott on exports of Western European technology.
- The state established research institutes in technology and the natural sciences in the 1950s, a period of extensive development and promotion of science, but the social sciences remained in an inferior position for decades, due to the dominance of Marxist ideology. The new branches of science (sociology, political and regional sciences) started to develop relatively late, and they were only embedded in the higher educational system with difficulty. The ratio of researchers employed in the social sciences amounted to less than one-fifth of those in the natural sciences in several countries.
  - Academic research networks, sectoral research institutes controlled by the ministries and corporate research units were dominant in the institutional structure of research. For example, in Hungary in 1985, corporate research units absorbed 48% of all R&D expenditure. Universities were primarily institutions of education, and research expenditure in universities was marginal. In 1985, higher educational institutions accounted for no more than 12% in Hungary.

### **How did the Change of Regime Affect the Regional Structure of Central and Eastern European R&D?**

The change of regime at the beginning of the 1990s entailed a significant restructuring of the scientific potential in the Central and Eastern European countries. One characteristic common to all was a considerable reduction in scientific capacity which shrank dramatically in two areas, one of these having been the sectoral research institute network (Meske 2000 and 2004, Mitter 1996) where the majority of research institutes funded by national bodies (such as ministries) were closed down. Simultaneously the number of employees in academic research institutes also declined dramatically. As a consequence, the percentage of GDP allocated to R&D declined significantly – to one-third or even one-fifth. In Table 1 we show this in terms of GERD/GDP (Gross expenditure on research and development as a percentage of Gross domestic product).

In Central and Eastern Europe the capitals and the metropolitan regions are the strongholds of research and science, the weight of the metropolitan region being greatest in Bulgaria. Four-fifths of the country's research potential is concentrated in Sofia and its vicinity, and two-thirds of Hungary's GERD is spent in the Central Hungary (NUTS 2 – development) region which consists of Budapest and Pest

County. The distribution of research capacities in the Czech Republic, Poland, and Slovakia reveals a slightly more balanced picture – the metropolitan proportion in these countries being under 50% (Table 2).

Table 1. Changes in main R&D indicators in Central and Eastern Europe, 1980–2010

Name	Bulgaria		Czechoslovakia		Poland		Hungary		Romania	
	1980	2010	1980	2010	1980	2010	1980	2010	1980	2010
GERD/GDP	2.5	0.6	3.9	1.6 <sup>1</sup> 0.6 <sup>2</sup>	2.2	0.7	3.2	1.2	–	0.5
Number of researchers, in thousands	31.6	14.1	39.6	43.4 <sup>1</sup> 24.0 <sup>2</sup>	96.3	100.0	31.4	35.7	71.1	30.7

Note: 1 – Czech Republic; 2– Slovakia.

Source: Author, based on national statistical databases for 1980, and Eurostat Yearbook 2010.

Table 2. Weight of capital/capital-city regions in national R&D, 2010

Country	Core region	Percentage share in R&D expenditure	Percentage share in R&D employees
Bulgaria	South-west	82.8	71.6
Czech Republic	Prague	38.1	40.4
Hungary	Central Hungary	68.8	63.4
Poland	Mazowieckie	42.5	32.6
Romania	Bucharest–Ilfov	59.3	60.9
Slovakia	Bratislava district	47.6	49.8

Source: Author, based on <http://epp.eurostat.ec.europa.eu>.

Most of the important R&D indicators in the core areas of the CEE countries are below the EU average, and in no more than two (Czech) regions of the 49 NUTS 2 regions of the six CEE countries exceed the EU average relating to the GERD/GDP ratio. In eight regions the GERD/GDP level is between 1.0 and 1.9%, and in 39 it does not reach one per cent. In 20 regions it is even below 0.3% (Figure 1).

If we look at the regional distribution of R&D activity, we would draw a similar conclusion. In the majority of the CEE countries the most highly concentrated R&D activity is corporate-financed, and the foreign joint ventures' target locations for establishing R&D units were almost solely the capital cities.

There were great expectations following the change of regime in terms of modernisation of the regional structure of higher education. And although the total number of students tripled or quadrupled in these countries, this increase has remained spatially unbalanced (Müller 1995, Sterlacchini 2008). The dynamic of

higher education in the capitals was the same as that outside them. The developments were discursive in that no regional policy concepts were applied and, moreover, spatial development planning was undeveloped. Thus the unfavourable spatial structure of higher education has been preserved, with some 30–40% of students still concentrated in the capital cities. However, there has been a slight decrease in the differences as to the regional distribution of R&D generated by the fact that research and development started to assume a more important role in universities. There is no large number of other type of research organisation outside higher education to be seen in any CEE country under observation: the role of corporate research is well nigh invisible, and regional development planning institutions and research centres, like in some Western European countries, can rarely be found.

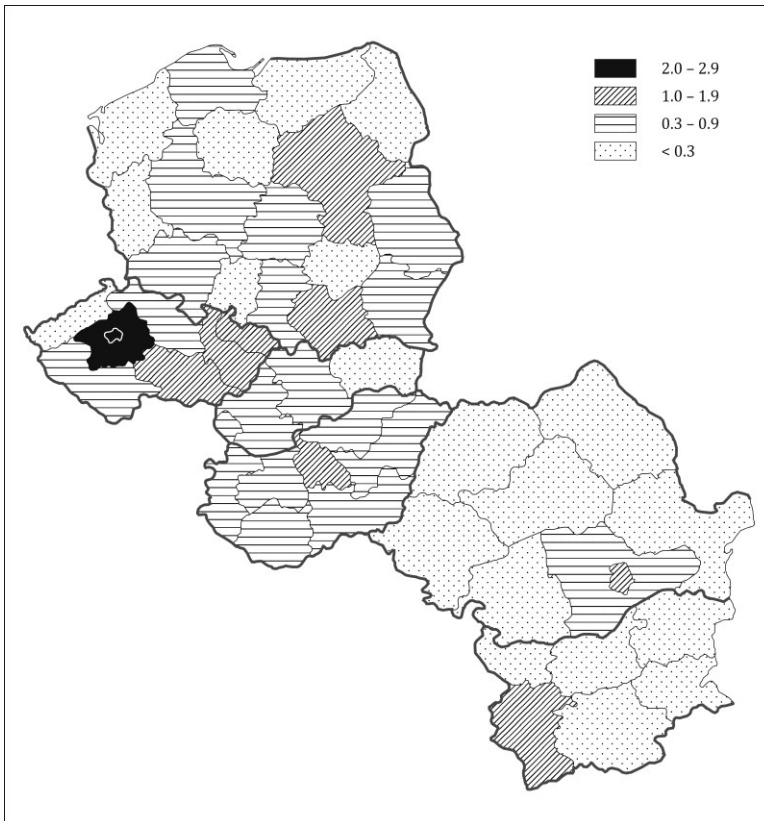


Figure 1. GERD as a percentage of GDP in CEE regions, 2010

Source: Author, based on data from <http://epp.eurostat.ec.europa.eu>



## **Decentralised Regional Science in Central and Eastern Europe**

### *Regional Research in the Planned Economy*

Due to the specific development paths of Central and Eastern Europe, research in the field of social and economic space shows quite a few unique features. Socialist science policy, following the guiding principles of the power structure, did not consider spatial research as a priority issue. This was mainly because not one tier of the strictly centralised state administration was interested in the analysis of local–regional specifics. Political practice aimed at homogenisation and considered spatial aspects only to the extent needed for central planning.

Even though the era between 1948 and 1990 was characterised by multidisciplinary challenges related to research of the socio-economic space, the demands of the commissioners were neither complex nor requiring thematic co-operation among scientific disciplines from the aspect of social management. The traditional scientific disciplines investigating spatial relations (economic geography, settlement and public administration sciences, economics to a certain degree) could all pursue their activities at academic institutes or universities independently of each other. The scientific bases of spatial development research were established primarily in public institutions, national planning offices and urban planning institutes.

The catalytic effect of the investigation of spatial processes can also be detected in the process of the differentiation of Eastern European social sciences. The research results related to the detection of inter-settlement disparities in the structure of society served as an important driving force for the greater autonomy of sociology in terms of both theory and methodology, whilst the investigations of the spatial-settlement components of public administrative-power relations contributed to the legitimisation of political science (Bihari 1983, Kulcsár 1986, Musil 1977).

The results of the development of regional science in Western Europe and the USA were summarised in several studies and books (Florax – Plane 2004, Isard 2003, Isserman 1993 and 1995). Several works were published about the publication forums of regional science and the activities of its international organisations during the past decade. In these works we find only a couple of references to Central and Eastern European spatial research. The modest amount of references may be explained by the fact that the examination of the spatial evolution of the economy and society and the organisation of spatial research into an autonomous discipline were not reflected in Eastern European research programmes.

The major scientific branch involved in the examination of spatial processes was social and economic geography. Almost every scientific academy had their own geographic institutions whose results in applied geographical research had a

significant impact on spatial development decisions of the era. Poland was also prominent in the area of institutional innovations, the name of the geographical institute of Polish Academy of Sciences was changed to Institute of Geography and Spatial Economics at the beginning of the 1970s. In Hungary, the Centre for Regional Studies, functioning in the form of a network, was established in 1984 with the South Transdanubian Research Institute of the Hungarian Academy Sciences, performing territorial basic research, serving as its base. In 1988 the research centre in collaboration with the Faculty of Economics of the University of Pécs launched a post-graduate training programme in spatial development. The scientific capacities of the geographical departments and institutes of the university were quite significant despite this discipline having been more oriented towards teacher training in socialist higher education. Departments of urbanism at technological universities were also acknowledged research groups in several countries.

A significant factor in the permanent development of Polish and Hungarian spatial research was the reformist spirit in the political systems of the two countries (Enyedi 2004, Frank – Mironowicz 2009). Consequently, relations between the scientific workshops of the two countries and Western European research units were maintained, joint research programmes were launched, and the national, regional and local political elite expressed interest in their research results. In fact, it is not too bold to state that regional research played an active role in preparing the regime change (Maurel 2002). Research results called attention to the need of a substantial transformation of the spatial structure as a consequence of the modernising economy, as well as of the reconceptualisation of objectives, principles and institutions of spatial development policy. The co-operation and development coalition between the central state, the local-territorial communities, and the public and private sectors was to become the basis of the new model of social management. Hungarian research analysing the spatial structural transformation of planned economies highlighted the fact that Central and Eastern European economic structure and urbanisation did not constitute an independent model, but was rather a copying of Western type urbanisation and development cycles with a significant delay. The disparities in spatial development are attributed to the belated development on one hand, and the functioning of the system of state socialism, on the other (Enyedi 1989).

EU membership, institutional changes and expanding financial opportunities have created favourable conditions in the field of spatial research as well. To be able to apply the Structural Policy of the European Union and elaborate regional development programmes and concepts, new knowledge about the practices of Western European spatial development policy, and an increased economic and human resources potential of the regions figuring in national development plans were required.

*Establishment of Regional Science*

The demand for a better comprehension of spatial processes significantly increased after the change of regime. The institutional structure of spatial research has also undergone major transformations. Academic research institutions have found themselves in a difficult financial situation in several countries. The Czech Institute of Geography was closed down, whereas in Bulgaria a research centre of earth sciences was established in which the role of social geography was quite peripheral. Large public urban planning institutes with remarkable intellectual capacities were closed down which had played a significant role in elaborating and executing spatial and settlement development tasks of the socialist era. There have been centralising institutional changes within the Hungarian Academy of Sciences recently, and the leading institution of regional science, having a nation-wide research network in seven towns, the Centre for Regional Studies has been deprived of its managing functions, and by this the national network has become weaker. The new research centre's seat is in Budapest, and with this the positive experiences gained in decentralised management of science have assumably become unavailing.

On the other hand, the weight of regional scientific capacities of universities has increased. Research has once more become a priority task of universities, and the structure of training has also been transformed. In geography training, applied geography masters programmes have been launched which also specialise in training spatial and settlement development experts. The organisation of a masters programme in spatial economics and regional policy has been a significant result of the comprehensive reform in the economics curriculum.

Based on internet data collection relating to research institutes and university workshops in the six examined Central and Eastern European countries, the number of employees engaged in spatial research exceeds 900. The distribution of student numbers is quite uneven both within and between the respective countries (Table 3, Figure 2).

Among the countries investigated in depth, Poland has the largest capacity in regional scientific research and training. Poznań, Łódź, Warsaw, Krakow and Wrocław are the country's most significant centres of regional scientific research. Hungary ranks second (the most important workshop centres being Pécs and Budapest), with its spatial distribution of research units in nine cities and towns, which is more than in Romania, the next country on the list, where regional scientific workshops can be found in four cities. In the Czech Republic, only the three largest cities can be regarded as centres of regional scientific research. Slovakia is tri-polar from the aspect of regional science, whereas in Bulgaria only the academic and university geographical institutes of the capital city are engaged in

regional scientific research. Approximately 60 scientific workshops with regional research as their main profile have been organised in 30 cities of Central and Eastern Europe since the beginning of the 2000s. These workshops have multi-annual research programmes, they publish their results on a regular basis, their participants frequently attend international scientific forums and conferences, and publish their own works.

In addition to research institutions, *scientific associations* constitute another important base for spatial research. Besides researchers engaged in the field, *scientific associations* assemble both practising professionals interested in the application of scientific results and intellectuals interested in regional development. Their forums for intellectuals function as autonomous institutions or national divisions of international regional science associations. The first group contains e.g. the Hungarian and Romanian Regional Science Associations. The Romanian Regional Science Association was founded in 2000. Currently it has 140 members. At its annual thematic conferences it presents the results of Romanian spatial research. It publishes a journal with two issues a year, titled the "Romanian Journal of Regional Science". The Hungarian Regional Science Association was established in 2002, currently it has 430 members. Its annual general assemblies are joined by thematic conferences. In the rest of the countries the organisations of regional scientific researchers are the national divisions of either the European Regional Science Association or the Regional Studies Association. In Poland, the Committee for Spatial Economy of the Polish Academy of Sciences (Komitet Przestrzennego

Table 3. The number of regional science researchers in Central and Eastern European countries, 2012

Country	The number of scientific researchers, person	Distribution, %	The rate of researchers employed in research units in capital cities, %
Bulgaria	30	3.3	100.0
Czech Republic	115	12.6	34.8
Hungary	150	16.5	20.0
Poland	425	46.7	17.5
Romania	130	14.3	31.9
Slovakia	60	6.6	50.0
Total	910	100.0	21.4

Source: Author's estimations based on internet data collection. Contains university and research institute workshops whose name, research programmes and publications contain reference to regional science topics.

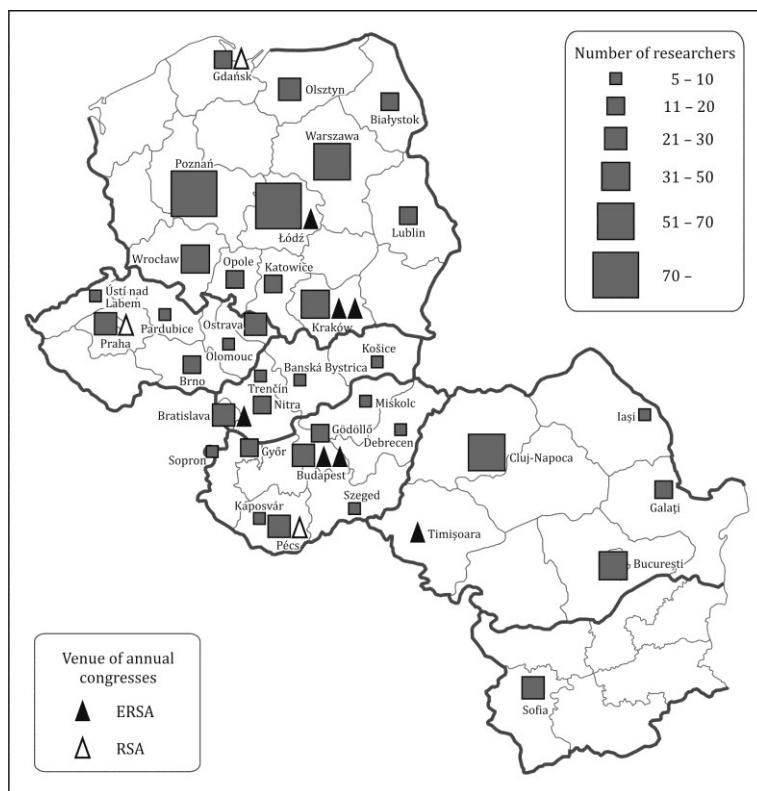


Figure 2. Spatial research workshops in Central and Eastern Europe, 2012  
Source: Author, based on internet data sources.

Zagospodarowania Kraju, PAN) can be regarded as the integration centre of regional scientific research. The committee, operating six working groups, publishes three series annually. The 115 members of the Regional Scientific Committee of the Hungarian Academy of Sciences are working in five subcommittees.

## Conclusions

If we examine the spatial location of R&D activity, which should be one of the factors supporting the dynamics of European regional development, we can see that the change of regime and the transition that followed it have preserved the “*status quo ante*” in the new member states coming from Central and Eastern Europe. Major regional inequalities still persist in the regional structure of the innovation institutions, with the core areas and capital cities maintaining their privileged position. The regional and structural policies based on EU norms have

not stimulated the development of R&D in the new member states, as the operational programmes for 2007–2013 demonstrate. In none of the Central or Eastern European countries can we find a regional or competitiveness-related operational programme targeting the comprehensive transformation of human resource development in the field of research.

The spatial distribution of regional scientific research units is somewhat more decentralised than in the case of other scientific disciplines. In Poland, Hungary and Romania, the weight of capital cities in terms of the number of employees in regional science is one half to one third compared to other scientific disciplines. Regional science could be a symbol and model for the decentralisation of social activities. This discipline has accumulated valuable experiences in the operation of its decentralised and network based organisational system, and its methods may be efficiently utilised in other economic and social sectors as well.

The decentralisation of science and R&D has a number of positive effects on regions. The formation of research-intensive sectors increases the number of quality jobs and the business development effects of the spin-off companies are clearly evident. Innovative businesses develop the region's export capacity and help the region in integrating into the European and international research area. Companies demanding or relying on research contribute to the re-industrialisation of the region and to the spread of modern services. All of these improve the income-generating ability of the regions and enhance regional cohesion. The Lisbon criteria cannot be met without decentralisation.

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# **FUTURE CHALLENGES TO REGIONAL SCIENCE. HIGHLIGHTS FOR RESEARCH IN CENTRAL AND EASTERN EUROPEAN COUNTRIES**

*Daniela-Luminita Constantin*

## **Introduction**

The institutional roots of regional science date back to the mid-twentieth century, when the pioneering work of Walter Isard resulted in the establishment of the Regional Science Association International (RSAI) in 1954. Subsequently, as the association developed it created – under its “umbrella” – supranational associations which included national regional science associations in North America, Europe, the Pacific region, Latin America, etc. As regional science has a well-defined interdisciplinary character, the members of these associations come from diverse fields such as economics, geography, urban planning, architecture, sociology, public policy, etc., being interested in spatial economics, spatial planning, regional and local development and other related issues (Boyce 2004).

The First European Congress took place in The Hague in August 1961, whereas the European Regional Science Association (ERSA) was created later, in 1979, after the ERSA Congress in London. At present it counts 17 active associations (usually named “sections”) established either at country level or as linguistic groups covering more than one country (e.g. German and French speaking sections) (ERSA 2013).

After the “iron curtain” disappeared many sections were created or revitalised in Central and Eastern Europe. Their successful activity made RSAI and ERSA entrust them with organising important regional science events such as the World Congress of RSAI (Timisoara, Romania, 2012), the ERSA Congress (e.g. Lodz, Poland, 2009 or Bratislava, Slovakia, 2012), ERSA Summer Schools (Budapest, Bratislava), etc. The participation of Central and East European regional scientists in international regional science meetings brought with it, inter alia, the approach of classical topics from the perspective of transition countries as well as the emergence of new issues following from the tremendous tasks they had to face in the course of transformation. Even at present, when many of these countries have already become EU members, there are many issues that reflect phenomena and concerns specific to regional development in Central and Eastern Europe.



Based on these overall considerations this paper proposes an inquiry into the current and future challenges to regional science, aiming to reveal issues of particular interest to research undertaken in Central and East European Countries (CEECs) and to recommend new directions of investigation. It may open the door for further debates on this subject, able to create synergic effects for regional science related research in this part of Europe.

### **Sub-periods in the Evolution of Regional Science**

The post-World War II reconstruction efforts boosted regional science, based on the increasing demand of planners and managers recruited from the spatial scientists community (Bailly – Gibson 2004). For three decades – 1950s, 1960s and 1970s – the development vision was deeply influenced by the post-war regional adjustments, characterised by “think regionally” and a strong emphasis on location issues.

Then, in the 1980s and the first half of the 1990s, the globalisation trends entailed new orientations, focused on flexible space, liberal policies and “think globally”. In this period regional science underwent a significant decline, scientists even talking about a crisis in “mainstream” regional science in terms of relevance and perspective (Bailly – Coffey 1996). Based on a realistic approach to this situation, desirable directions for future orientation in this field were proposed. Moreover, the optimists thought that this was a time when regional science was in a stage of reflection and evaluation from various perspectives, and they identified the following three major themes as sources of “new combinations”: (1) “progress in theory, research tools and techniques”, (2) “major changes in the economy” and (3) “the rise of new spatial policy questions” (van Geenhuizen – Nijkamp 1996, p. 224).

GIS (Geographic Information Systems) modelling, neural network analysis, spatio-temporal autocorrelation, the new way of approaching and developing spatial planning activities were considered the cornerstones for progress in research tools and techniques, to mention just a few.

Major changes in the economy have led to new achievements in classical subjects like regional growth, location patterns, regional labour markets, transportation and mobility etc., as a result of addressing questions raised by the emergence of the knowledge-driven economy, developments in ICT and transition to a service economy.

From among the new spatial policy questions we would choose here some of the extremely challenging issues triggered by the EU enlargement process. These have assumed increasing importance to research focusing on regions with emphasis on (Constantin 2007):

- the regional profile, potential and specialisation;
- the quality of regional/local business environment and, at the same time, the social and cultural influences on the creation of regional networks;
- the way these specific patterns are reflected in the regional competition and competitiveness dynamics;
- new perspectives for convergence/divergence in regional growth in connection with the new wave of EU enlargement, etc.

Transition itself raised specific questions at the beginning of the 1990s that were gradually answered. They focused on:

- the need for theory and policy concepts of transformation processes such as those of the establishment of an institutional and legal framework for market economy;
- strategies for economic restructuring, macrostabilisation, privatisation;
- solutions for meeting the criteria of a functioning market economy as a basic condition for accession to the EU;
- and, at a regional level:
  - problems of economic restructuring in the old industrial regions;
  - ways of opening the formerly closed economic systems and finding a role for them in global competition;
  - relationship between Eastern and Western Europe in terms of competition, dependency, polarisation, integration;
  - strategic trans-border co-operation;
  - defining and establishing territorial organisation structures compatible with those existing in the EU;
  - ensuring high absorption capacity of EU financial supports via structural-type instruments, etc.

These new orientations led to effervescence reinvigorating regional research. As a result new upward trends were noticed at the beginning of the 2000s. They relate to environmental and social sustainability, defined by “think sustainable”, continental co-operation and financial power (Bailly – Gibson 2004). Successful endeavours can be found in the conceptualisation and operationalisation of regional endogenous growth theory: it is placed in a space–time environment in which traditional regional growth theories meet new economic geography and modern innovation models. Linking entrepreneurship, leadership and institutional reform to regional growth analysis has also been successful (Coccosis – Nijkamp 2007).

To put it in a nutshell, Figure 1 presents the three periods of regional science with their main characteristics.

1950	1980	2010
Post war regional adjustments	Globalisation	Environmental and Social Sustainability
"Thinking regionally" "Location matters" "Cold war programmes"	"Thinking globally" "Flexible space" "Liberalism"	"Thinking sustainable" "Continental cooperation" "Financial power"



Figure 1. Three periods in regional science evolution  
 Source: Simplified version of Bailly and Gibson (2004, p. 131).

**Current and Future Challenges to Regional Science**

In today’s globalised world the dynamic forces of technological and institutional change bring about rapid transitions in space, impacting on regional development, technological innovation, knowledge, people and firms. Intense debates focus on development and urbanisation, territorial development and international integration, pointing out specific issues relating to various spatial scales. Thus, on a local spatial scale the emphasis is put on integrating rural and urban areas and managing urbanisation. On a national spatial scale the main question is about the integration of lagging and leading regions, whereas on an international spatial scale the integration of isolated and well-connected countries is the basic concern (Gill – Goh 2010).

As a result, the international research agendas are driven by new policy issues that challenge the established theories and analytical instruments. A complex policy analysis framework has emerged aiming to integrate sustainable development, territorial cohesion, competitiveness and growth at supra-national, inter-regional, intra-regional and intra-urban levels (Coccosis – Nijkamp 2007). Deriving from this framework, there is a major need to address more practical, concrete issues affecting large geographical areas and numerous communities. Among these three will be discussed here: the ones that have already emerged, those included in worldwide policy agendas, and finally those concepts and methods which have shown considerable progress and now particular efforts should be made to link them to empirical work.

The first issue refers to the role that regional science can play in approaching sustainable development and environmental sustainability from the aspects of global environmental changes and human security. Within this context there will

be strong need for research regarding the operationalisation of critical indicators and for conceiving models and scenarios for disaster management. At the same time, the constant emergence of local and regional sources of conflict, challenging not only local or regional but also global security, also requires specific methods of conflict management in a multi-actor spatial system able to contribute to both local and global sustainability (Constantin 2007, Coccossis – Nijkamp 2007).

The second issue – partly related to the first one – addresses the increasing worry about international migration. At present no country in the world can avoid international migration flows and this phenomenon is a special concern in the enlarged EU where the free movement of persons is a basic freedom. There are serious debates in the political arena – and regional science has to approach them with its specific tools – on the East–West migration flows, temporary (work) migration versus permanent migration, the question of remigration, issues concerning losses/gains for the country of origin as well as for the destination country, the question of remittances and their influence on macroeconomic indicators, and – from a sociological viewpoint – the problem of migrants’ integration into the host country’s society. Migration from the countries outside the EU borders – which themselves are moving – especially immigration from Asian countries is also a major concern. Asia is considered the largest source of migration in the 21st century. Another topic connected with the first issue – global environmental changes – is the question of population displacement, of large-scale population flows caused by natural, environmental disasters. This also has to find its place in regional research with focus on migration (Constantin 1999 and 2007; Constantin et al. 2004).

The third issue envisages research on urban phenomena: policies for urban revitalisation and urban renewal, the issues of urban unemployment, poverty, housing problems, etc. There are interesting parallel developments which refer to urban revitalisation, the rise of mega-cities and the urbanisation of rural areas. Such developments may generate big changes in classical location models and creative research on learning systems, entrepreneurship, interaction, clustering and networking in open economies, spatial lifestyles in the e-economy, etc. (Constantin 2007, Coccossis – Nijkamp 2007). Urban policy and international migration are also interrelated as large cities witness huge immigration flows.

To summarise: without neglecting the great contribution of regional science to understanding contemporary space-economy, tremendous efforts are expected to be made to keep pace with the unprecedented increase in its complexity. The new situations require adequate solutions for including space in the new economic models, envisaging the cross-fertilisation among location theory, development theory and macroeconomic growth theory, clarifying at the same time the territorial micro-foundations of macroeconomic models (Capello 2007).

### **Subjects of Particular Interest to CEECs**

Since the 1990s regional science in the CEECs has incorporated specific issues resulting from their transition to market economy and from their EU accession. As a consequence, regional analysis and regional policy are being reshaped at EU level, discussing subjects investigated for all EU countries but requiring differentiated approaches related to the new EU members. Three topics have been selected and are proposed for discussion in this paper.

First, the EU convergence process, representing the core of cohesion policy, has been reconsidered, displaying new dimensions after the expansion of the EU by 12 accession countries in 2004 and 2007. The latest enlargement deeply increased disparities within EU: thus, while the population increased by 33%, GDP rose by only 5% (EC 2001). At the same time, the regional policy context changed. Due to the unprecedentedly great interregional disparities in the enlarged EU, the regions of the CEECs have become the main beneficiaries of the renewed cohesion policy: 51 out of 55 NUTS 2 regions in the new member states (NMS) are funded under the Convergence Objective and all NMS receive allocations from the Cohesion Fund.

The 2007–2013 programme period is the first one in EU history when cohesion policy expenditures surpass those of agriculture in the EU budget (Leonardi 2006). In the total budget of approximately € 862.4 billion, Cohesion Policy accounts for € 307.6 billion (35.6%), an average annual expenditure of € 44 billion, compared with € 41.8 billion allocated to market-related expenditure and direct payments to agriculture. This requires a sound financial base and efficient use of resources, as cohesion policy is fundamentally a development policy, a policy for wealth creation rather than for redistribution (Barca 2009, Constantin – Goschin – McCann 2012).

From the start of cohesion policy the CEECs has had big challenges with regard to their capability of efficiently using the great amount of allocated funds and promoting adequate economic policies and economic behaviour to generate high rates of their endogenous growth. The first issue relates to the so-called “absorption capacity”, the degree to which a country is able to effectively and efficiently spend the financial resources allocated from European Funds. In other words, it expresses whether a member state is able to “digest and consume” the funds so as to foster its development and thus improve its economic and social performance (NEI 2002, Horvat 2005). Unfortunately, except for Poland and Hungary, the other CEECs recorded absorption rates below 40% in December 2012 (Insideurope 2013), indicating a series of “absorption problems”. Beyond drawbacks in ensuring institutional capacity and observing the technical rules related to the implementation and monitoring of the EU funded programmes, research undertaken in this field has also identified problems regarding the impact of the EU funds. In this field there is still much room for research dedicated to finding the most appropriate

solutions to problems such as: administrative absorption, rent-seeking, use of funds for consumption instead of investment, timing related problems, information disadvantage of the transfer generating authority/"principal agent" problems, multiple priorities leading to sub-optimal choice, or problems resulting from relative price changes induced by transfers (Kalman 2002, pp. 5–9). These issues emphasise a very important idea, namely that absorption capacity matters but, at the same time, the qualitative aspects of the impact of structural assistance is also important. The NMS should learn from the experiences of the countries having successfully used structural assistance: they have open economies, solid internal public policies and administrations able to implement it.

Second, when it comes to the most attracting regional development directions supported by cohesion policy, clusters are definitely among the most cited ones. Although regional clusters development is encouraged by special measures in the EU, cluster policy in CEECs should consider that cluster development here is still behind expectations in many cases and thus different support policies should be applied. In other words, there is no single recipe for less developed regions to follow to meet the needs of all clusters; on the contrary, successful cluster policies have to take into account the specific regional contexts (Rosenfeld 2002, Hospers – Beugelsdijk 2002, Leick 2010). A classification proposed by Torre (2008) combining the cluster groups based on the localisation of inter-firm relations with those resulted from the organisation of inter-firm relations, has drawn attention to the fact that besides the clustering case revealed by Porter and characterised by an important degree of localisation and organisation of inter-firm relationships, in practice there are also other clustering cases resulting from these combined viewpoints. More specifically, there are cases characterised by strong inter-firm relationships but weak local embeddedness, which correspond to the clusters analysed at national and regional levels in a broad sense, as well as to the clusters with strong spatial concentration but weak internal local bonds. The latter category is specific to many production systems not included in the initial Porter's definition but presently targeted by innovation policies aiming to create synergies at local level (e.g. competitiveness poles). This category also applies to many of the "clusters" identified in various emerging markets (Torre 2008).

The results of analyses of the clustering phenomenon in less developed regions, in line with with the reflections formulated by studies in the same field (e.g. Leick 2010, Constantin et al. 2011), suggest that for these regions the promotion of cluster policies specific to local production systems of an industrial district type would be recommended, as described by Becattini (1990). Such policies seem to be the most appropriate organisational form for cluster development still in its incipient stage. An emphasis on "soft" measures able to strengthen the local networks and to ensure cluster identity would be recommended.

Third, considering that many regional scientists are not only researchers but also academics at the same time lecturing at their universities, there is much room for creating network-based collaboration at European level. Its aim would be to increase regional science-related subjects in the academic curricula and, consequently, to contribute to a coherent, correlated and updated content of syllabi, able to reflect objectively the big progress and changes in many fields, in many disciplines of regional science (e.g. regional and urban economics, regional and urban planning, etc.).

There are many universities and research institutes in Western Europe with great achievements in academic activities in regional science, but there are not so many in Eastern Europe and networking could contribute to a real knowledge transfer and synergy between the West and the East. The consolidation of partnerships established in the course of noteworthy international projects could be an important contribution in this respect. Such projects were, for example, "Growth – Innovation – Competitiveness: Fostering Cohesion in Central and Eastern Europe" (GRINCOH) – FP7 Research Programme, Lead Partner: EUROREG, University of Warsaw; "Indicators and Perspectives for Services of General Interest in Territorial Cohesion and Development" (SeGI) – ESPON project, Lead Partner: Royal Institute of Technology, Stockholm; "Adaptability and Change: The Regional Dimensions in Central and Eastern Europe" – World Bank financed project, Lead Partner: EUROREG, University of Warsaw; "Adriatic Danubian Clustering" (ADC) – project under the South-East Europe Transnational Co-operation Programme, Lead Partner: Veneto Region; and so on. In all these projects both universities and research institutes from CEECs and from Western Europe have been engaged with substantial positive effects. This practice should be preserved and extended towards new universities and research institutes to stimulate new attractive joint projects in the future.

Journals and books in regional science published in CEECs may also stimulate networking via increasing the number of articles authored by scholars from these countries, possibly in collaboration with West European authors, as well as by exchanging members in their international advisory boards. Journals like *Romanian Journal of Regional Science*, the journal of the Romanian Regional Science Association; *Europa XXI*, the journal of the Warsaw Institute of Geography and Spatial Organization, Polish Academy of Sciences; the "Discussion Papers" series of the Pécs Research Centre for Regional Studies, Hungarian Academy of Sciences; "The Hungarian Labour Market" series of the Budapest Research Centre for Economic and Regional Studies, Hungarian Academy of Sciences, etc. are relevant examples, to mention just a few.

The above-mentioned issues gain particular significance in relation to the "new configuration" of the EU: the new Central and East European members need a new

generation of regional policy-makers, regional planners, and the universities should direct their students' attention to regional science subjects and attract them to their MSc and PhD programmes in these fields (Constantin 2007). Eventually, this could contribute to the development of networks bringing together regional scientists, regional planners, representatives of governmental institutions at national and regional levels, business and consultancy firms. This could contribute to making regional policies the result of a large partnership, with substantial benefits for economic practice.

### Concluding remarks

For more than fifty years regional science has proved its viability and usefulness in both theory and practice. Its future is closely related to progress in theory and improvement in research tools and techniques, going in parallel with structural changes in the economy and the rise of new spatial policy questions. At European level, the CEECs bring about their own "landscape", derived from the overall orientation of cohesion policy. Consequently, specific responses are required and it is strongly recommended to outline these responses in a favourable, synergic, networking-based environment.

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# RESEARCH FUNDING UNDER FISCAL RESTRICTIONS

*Dalina Dumitrescu*

## **Introduction**

Scientific research, technological development, and innovation are the basic pillars of knowledge-based economy, the engine of development, competitiveness and welfare. More and more, research, development and innovation (RDI) expenses are viewed as ones having significant and long-term positive effects on the economy and society as a whole.

Confronted with the financial crisis, in 2009 Romania adopted an austerity package based on a dramatic cut of public resources, affecting RDI spending as well. Our paper will try to give an overview of the Romanian RDI funding system between 2007 and 2013. We aim to answer the following questions:

- What decisions did the Romanian authorities make regarding RDI policy faced with dramatically reduced resources?
- Which elements changed in the funding mechanism and based on what criteria?
- What were the effects of these changes?

The answers are closely linked to the implementation of the Romanian National System of Research, Development and Innovation between 2007 and 2013, and are related to the future challenges of the RDI system in Romania, too.

Literature supports our approach. The current RDI institutional landscape in the Central and Eastern European countries (CEEs) is seen as “fragments of the old R&D systems, which are trying to adjust through a set of diverse survival strategies and new pockets of innovation activities” (Radosevic 1999), or as a policy mix of survival and restructuring (Radosevic 2003). In these countries RDI is affected also by the shortage of demand, being isolated from enterprises, which, therefore, are unable to become flagships of innovation (Radosevic 2003). Some authors (Dumitrescu 2010) acknowledge the fact that a permanently changing allocation system may lead to unintended negative consequences especially in the field of basic research outputs. The importance of a sound funding mechanism has been underlined also by the European Commission (EC 2010a, p. 20) in the claim that the economic relevance of research requires, among other things, “increased and more effective public expenditure” – a view shared by a large number of member states (EC 2010b).

**The Mission, Vision and the Instruments of the National Strategy 2007–2013**

The National Strategy 2007–2013 has been the fundamental pillar of Romanian RDI policy for almost a decade: its first steps date back to 2005–2006, when as a part of the foresight exercise over 5000 people were asked to respond to online surveys, and more than 800 persons from relevant research institutions and representatives of the public administration participated at workshops. The involvement of the main stakeholders in the field resulted in 25 RDI development priorities. At the same time a study was prepared, too, dealing with the strengths, weaknesses, opportunities and risks of the Romanian research system related to the current national social and economic context, globalisation and the integration into the European Union. Two fundamental documents could be considered as the main outputs of this process: (a) the National Strategy 2007–2013; and (b) the National Plan II (NP II). The NP II was approved by the Romanian Government by its Decision no. 475/2007 (Ohler et al. 2012). In 2005, the Romanian Research Area (RRA) was defined, and identified as the sum of all Romanian entities involved in research, development and innovation, and also as a space of co-operation, collaboration and synergies between research entities and institutions, often competing for scarce resources (Anton 2006).

The transition to a mechanism based on financing through competition has determined on the one hand a need that researchers adapt to a new philosophy in the preparation of applications aligned to the competitive funding process and, on the other hand, a more results-oriented approach, given the fact that expected outputs should become visible (ISI articles, patents, new products, new technologies) (Dumitrescu 2010).

As regards the available funds for research, characteristic trends can be identified: after the sharp increase in 2006 – when they doubled – the volume of resources continued to grow until 2008 according to the provisions of the National Research Plan. This trend was in line with the annual levels agreed with the Romanian Ministry of Finance in order that available public resources for research reach 1% of the GDP by 2010. However, in 2009 and 2010, research resources were dramatically cut, and a slow growth in funds restarted only with 2011 (Prisecaru 2012) (Figure 1).

In the first two years of NP II implementation, good results verified the vision of the Strategy: the allocated resources were close to the provisions, the calls for tenders were launched every year for all domains, the number of Romanian journals indexed in the ISI Thomson–Reuters database increased (together with the corresponding number of cited articles), new technological transfer centres were set up, the transparency of the funded projects improved, the transfer of obtained results to business intensified (Ohler et al. 2012, Talpes 2012).

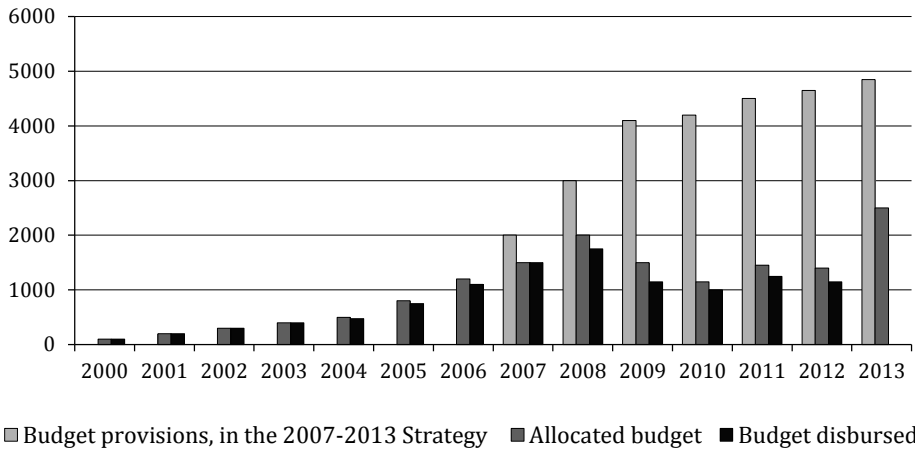


Figure 1. Funds allocated for research, development and innovation in 2000–2012 (million lei)  
Source: 2012 ANSC report.

### Research Funding under Fiscal Restrictions

The main changes in the RDI funding mechanism under fiscal restrictions could be identified as follows:

- (a) considerable reduction in public funds;
- (b) misalignments contradictions between public declarations and facts regarding RDI as a national priority;
- (c) the discontinuity of calls,
- (d) the number of criteria used in the funding decisions;
- (e) frequent changes in evaluation criteria and information packages;
- (f) the use of international experts in the evaluation process;
- (g) discriminative rules.

(a) Starting with 2009 the economic crisis hit the Romanian economy sharply, well reflected in some macro-economic indicators (Appendix 1). The consequences for the RDI system were severe: important reductions of public funds allocated to RDI compared with the Strategy provisions (–63% in 2009, –73% in 2010, –68% in 2011, and –70% in 2012), cutbacks of the already contracted project budgets (2008, 2009, 2010), changes in the rules of participation in tenders (2011, 2012), changes in eligibility and evaluation criteria (2010, 2011, 2012), mergers at the level of certain funding agencies, new roles of advisory bodies and new membership (2010, 2011, 2012). Neither the National Council for Science and Technology

Policy (CNPST) – identified as a necessary institution by the National Strategy 2007–2013 – could fulfil its task (Curaj 2012).

(b) Government decisions on funds were not in line with the public declarations regarding RDI activity as a national priority. Other European countries considered investments in research as one of the most effective methods to cope with the impacts of the crisis, turning this idea into practice by an increased percentage of GDP dedicated to RDI financing during the crisis period 2008–2010. Romania was among the few countries which experienced a decrease in the GDP percentage allocated to RDI (Figure 2).

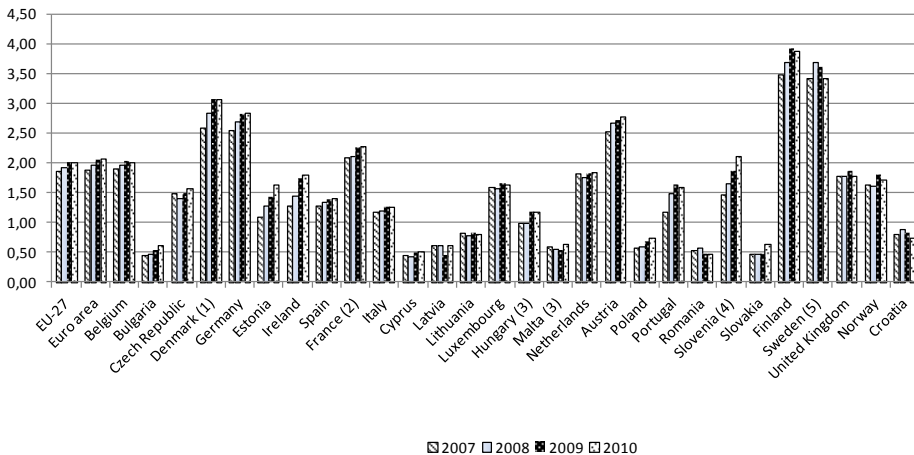


Figure 2. Expenditure on RDI between 2007 and 2010 as a percentage of GDP  
 Source: Eurostat (Document code: t2020\_20).

As already mentioned above, expenditure on RDI in Romania had a slow growing trend between 2000 and 2008, and a reversed one between 2008 and 2010 (Figure 3).

At the same time, in Romania the percentage share of RDI expenditure in GDP is more than four times lower than the corresponding ratios in the EU27 and the Euro zone (Figure 4).

Based on the data presented in Appendix 2 about the expenditure on RDI by source of funds in 2010, the percentage of expenditure on RDI by business enterprises represents only 32.2% in Romania (exceeding in the ranking only Cyprus, Lithuania, Poland and Bulgaria). In the same year, the percentage of government spending on RDI was 54.4% compared to the Euro area average of 35.4% [with only Cyprus (69%), Poland (60.9%) and Bulgaria (60.5%) having higher ratios].

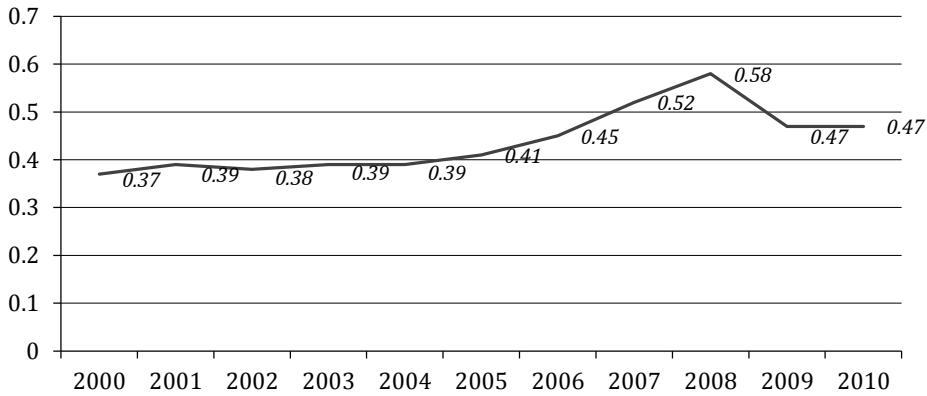


Figure 3. Romania's expenditure on RDI, 2000–2010 (% share of GDP)

Source: Eurostat (Document code: t2020\_20).

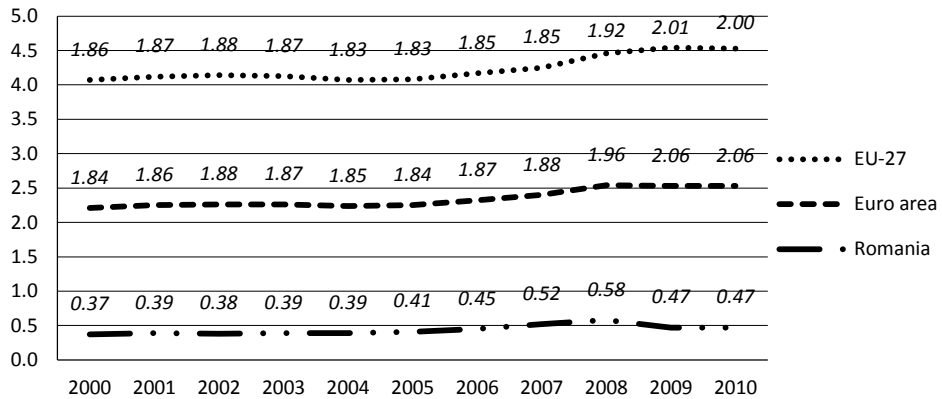


Figure 4. Romania versus the EU27 and the euro zone: expenditure on RDI as a percentage of GDP in 2000–2010

Source: Eurostat (Document code: t2020\_20).

Expenditure on RDI by sector in 2005 and 2010 expressed as a percentage of GDP (Appendix 3) reflects an increase in the period for all three sectors. However, the 2010 RDI expenditure level of the Romanian higher education sector is the smallest in Europe (0.12% of GDP), contrasted by the highest levels in Sweden (0.90%) and Finland (0.79), and by the euro-zone average (0.48%).

(c) The launch of calls related to RDI activity was a discontinuous process. The calls for the projects were not launched yearly as assumed in the national Strategy and, in 2010, no call for proposals was announced (Table 1).

Table 1. Calls with public information packages per type of programme

Type of projects	Calls					
	2007	2008	2009	2010	2011	2012
<i>Programme ideas</i>						
Exploratory research projects	x	x			x	x
Exploratory complex research projects		x			x	
Exploratory workshops		x			x	x
School of Advanced Studies					x	x
<i>Partnerships programmes in priority areas</i>						
Collaborative applied research projects					x	
Thematically oriented RDI projects	x	x				
<i>Human resources</i>						
Post-doctoral research projects			x		x	x
Research projects to stimulate the formation of young independent research teams			x		x	x
Research projects for stimulating reinstatement for Romanian scientists	x	x	x			
Complex projects for the reintegration of researchers	x					
Research projects for young PhD graduates	x	x	x			
Mobility of PhD projects						
Mobility of researchers project						
<i>Awards for outstanding research outcomes</i>						
Awards for the scientists getting the "habilitation" degree					x	on going
Rewarding scientific and technical innovation and artistic creativity	x					
Research fellowships "Stefan Odobleja"	x					
<i>Capacities</i>						
Module I – CD investments in infrastructure projects						x
Module II – Projects supporting CDI activities						
Module III – Projects to support Romania's participation in international research projects					x	x

Table 1 (continued)

Type of projects	Calls					
	2007	2008	2009	2010	2011	2012
<i>Innovation</i>						
Product development – Systems – Technology	x	x				on going
Stimulation of high-tech export						on going
Infrastructure development of innovation and technology transfer						
Innovation support services						x
EUREKA European Cop-EUROSTARS		x			x	x

Source: Strategia Nationala de CDI 2007–2013.

(d) For funding decisions, both eligibility and evaluation criteria were in use. The applicants submitted proposals expected to comply with the two sets of criteria as much as possible. The two sets were not always consistent, neither the number of criteria was well based. On average, more than 20 criteria were in use for each programme. For example, for the Partnership programmes the number of criteria was 24 in total, while for the Human resource programme – as part of the “post-doctoral research projects” – there were 27. The numerous criteria had some overlaps and biases, too, in a number of cases. Certain aspects of the proposals were assessed by more than one criterion [e.g. novelty four times, the request for “clarity” in different forms, the track record of the director of research ice (*post-doctoral research projects*), etc.] (Prisecaru 2012).

Both for an expert filling in scores or verbal notes and for the evaluators who meet to discuss a proposal and reach a consensus, it is difficult to handle such complex systems. Thus evaluators tended to simplify the judgement and to follow their own criteria.

The selected criteria were highly restrictive for the managers of projects, and sometimes were not adjusted to their expectable capabilities (Table 2).

Besides, also the misalignments between the national criteria for promotion at the universities and research institutes and the eligibility criteria set for the managers of projects induced confusion, resulting in the lack of motivation of people involved in research on the one side, and in worsening conditions for researchers in some domains to get access to funds on the other.



Table 2. Eligibility criteria for the mentor of the project (social sciences)

Minimum eligibility criteria for the mentor of the project (social sciences) – Call 2011	Minimum eligibility criteria for the mentor of the project (social sciences) – Call 2012
<p>A stated minimum number of points obtained based on the following intellectual contributions published starting with 1 January 2001:</p> <p>(1) books (2) chapters in books (3) articles</p> <p>Regarding points (1)–(2), only those books were taken into account which were available in at least 3 such libraries of universities of EU member states or OECD member states that are indexed in the World Cat catalogue.</p> <p>As for point (3), articles should be published by the author as main author in journals with a relative influence score of at least 0.25 in the Web of Science, strictly in the categories (document type) <i>article</i>, <i>review</i> or <i>proceedings paper</i>.</p>	<p>A stated minimum number of points obtained based on the following intellectual contributions published 2002–2012:</p> <p>(1) books (2) chapters in books (3) articles</p> <p>Regarding points (1)–(2), only those books were taken into account which were available in at least 12 such libraries of universities of EU member states or OECD member states that are indexed in Karlsruhe Virtually Catalog (KVK)</p> <p>As for point (3), articles should be published by the author as main author in journals with a relative influence score of at least 0.25 in Web of Science, strictly in the categories (document type) <i>article</i>, <i>review</i> or <i>proceedings paper</i>.</p>

Source: Strategia Nationala de CDI 2007–2013.

### Some Effects of the Adjustment in RDI funding

The experiences presented above lead us to conclude that the adaptation of RDI funding mechanisms to budget cuts affected the performance of the RDI sector as a whole, and put a severe pressure on the researcher community in terms of compliance with the changes in the criteria and the rules.

The effects of these changes can be judged by *the strengths and weaknesses of Romanian RDI compared with the EU member states* and with a reference group of comparable countries (Foray – David – Hall 2009).

In 2010, both the number of new graduates in science and engineering per thousand population, and EU Framework Program funding per thousand GERD exceeded the EU average, but some other indicators show that Romania has a lot to do in increasing the number of highly cited articles in scientific publications worldwide, in the funding of private research activity, and the application of patents (Figure 5). Thus the budget cuts and the subsequent adjustments deeply affected the potential of innovation, the research infrastructure, as well as the transfer and application of innovation and patents.

As for *economic competitiveness*, in the *Global Competitiveness Report 2012–2013* Romania is classified among the “Stage 2 – efficiency-driven economies”. The Innovation pillar is in line with the average of the group, however, it is well below the average indicator for countries classified as “Stage 3 – Innovation-driven economies” (Figure 6).

Sub-indices of the Innovation pillar show that Romania lost valuable positions in the world ranking concerning government procurement of advanced technological products and university–industry collaboration in RDI, but it is in the first half of the classification regarding “Patents, applications/million population”. Nonetheless, except for this last element all the sub-indices of this pillar place Romania in the second, inferior part of the world ranking (Figure 7).

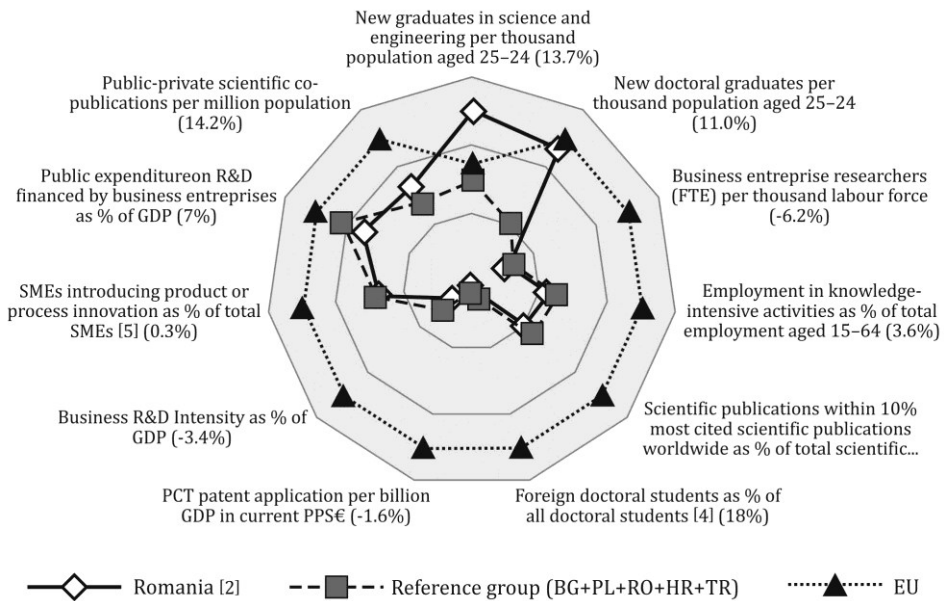


Figure 5. Strengths and weaknesses of the Romanian RDI system in 2010 [1]

Notes:

[1] The value refer to 2010 or to the latest available year.

[2] In brackets: average annual growth for Romania 2000–2010; Growth rates which do not refer to 2000–2010 refer to growth between the earliest available year and the latest available year for which comparable data are available over the period 2000–2010.

[3] Fractional counting method.

[4] EU does not include DE, IE, EL, NL.

[5] TR is not included in the reference group.

Source: DG Research and Innovation Data: DG Research and Innovation. Eurostat. OECD. Science Metrix/Scopus (Elsevier). Innovtion Union Scoreboard.

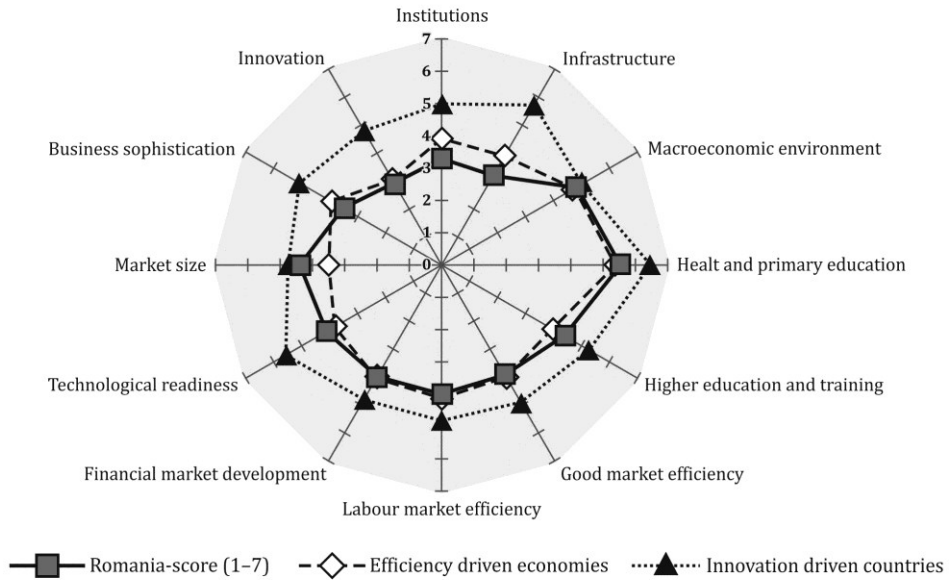


Figure 6. Global Competitiveness Index: Romania – Stage of development  
 Source: World Economic Forum, Global Competitiveness Report 2012–2013.

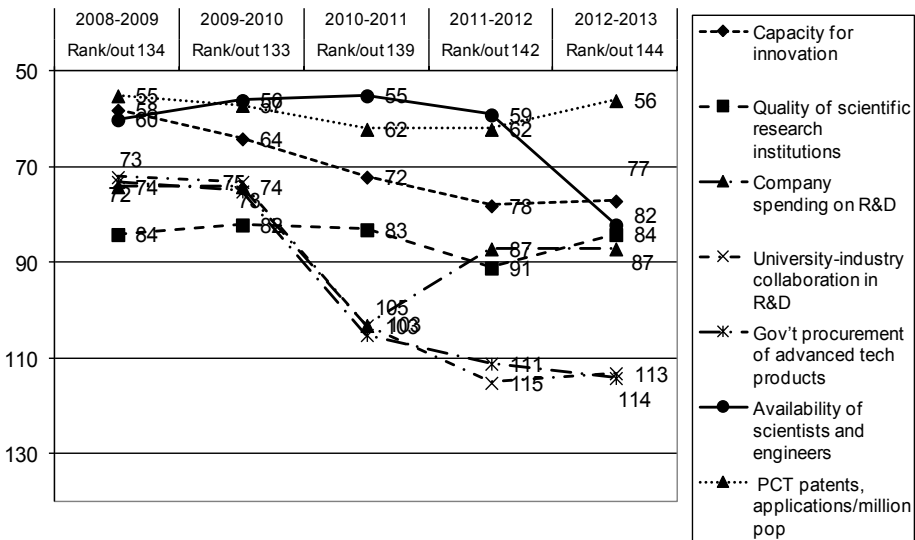


Figure 7. The changing position of Romania in the world ranking of the GCI Innovation pillar  
 Source: World Economic Forum, Global Competitiveness Reports (2008–2009; 2009–2010; 2010–2011; 2011–2012; 2012–2013).

The dramatic drop in research funding has its effects with an expected delay in time: the decrease in the number of scientific papers published by Romanian authors in journals indexed in the ISI Thomson-Reuters database is clearly visible (Figure 8). Similarly, the number of Romanian journals indexed in the same database stagnated between 2008 and 2012 after a spectacular growth in 2007–2008 (Figure 9).

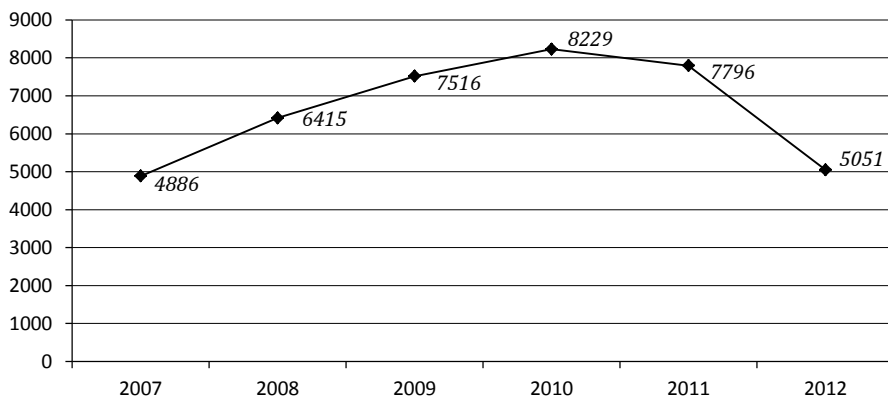


Figure 8. Number of scientific papers published by Romanian authors in the ISI Thomson-Reuters database

Source: 2012 ANSC report.

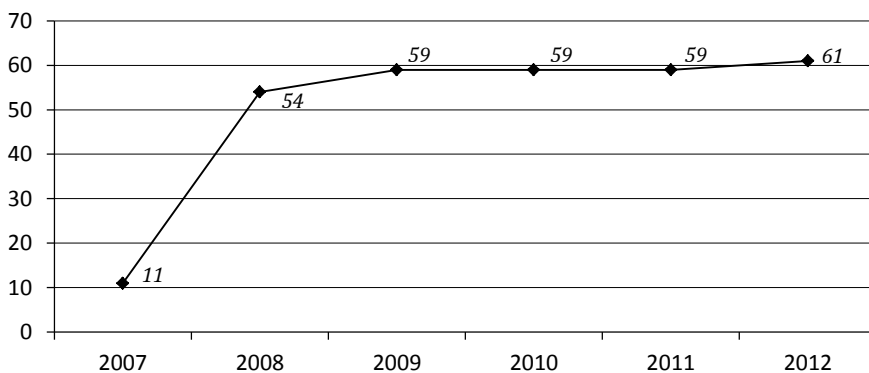


Figure 9. Romanian Journals in the ISI Thomson-Reuters database

Source: 2012 ANSC report.

### The Future of the RDI System in Romania

Leaving the present level of GERD and BERD unchanged, Romania runs the risk of falling further behind in competitiveness, with a serious lag in building a knowledge-based economy. The RDI intensity target fixed at 2% of the GDP by 2020 is very ambitious, and difficult to reach if the country does not give priority to RDI in the context of smart fiscal consolidation, while implementing some key reforms without delay. The main challenges in the sector could be summarised as follows (Mărcuș 2012):

(1) The Europe 2020 strategy sets a 3% RDI intensity objective, and most member states have set their national target values accordingly. Romania projected a similar trend to that of the EU, but with a target of only 2% of GDP for the RDI expenditure (Figure 10).

Romania and other member states (Bulgaria, Latvia, Lithuania, Luxembourg, Poland and Spain) need to significantly raise their rate of increase in RDI intensity to reach *their* target values. This, in the case of Romania needs extra efforts (Figure 11), based on further structural changes (Erawatch 2013).

(2) Rising funds for RDI must be accompanied by decreasing fluctuation in the level of public funding. In spite of attempts to realise multi-annual planning in the National Strategy 2007–2013, annual funding was kept in practice, thus unexpected and deep budget cuts affected the continuity of research projects, the quality of outputs, the trust and the morale of the researcher community.

(3) A valuable lesson learned in the last ten years was that fragmentation is a fundamental weakness of the Romanian RDI system (with a large number of actors and the lack of a critical mass of results) (EC 2011). This should be taken into account in improving the efficiency and effectiveness of public RDI spending. On the other hand, the literature identified a new pillar and a new approach for improving RDI spending. Namely that Eastern European (EE) countries have lower levels of productivity than might be expected by their R&D capacities and production capabilities, which points to possible inefficiencies in the application of their research results (Hicks 2012). That is, a better transfer of knowledge to business would be required. A recent research (Kravtsova – Radosevic 2012) revealed that a shift of the current exclusive focus of EE R&D systems on knowledge generation to knowledge diffusion and absorption could lead to considerable improvements. *At regional level*, the standard deviation of annual changes in productivity of EE countries showed big cross-country differences. But from the early 1990s to 2007, the standard deviation of the yearly growth rates between countries have been falling continuously, which is a bad sign, as for the EE much higher rates of productivity growth and differentiation among individual countries would be needed to catch up with the EU average.

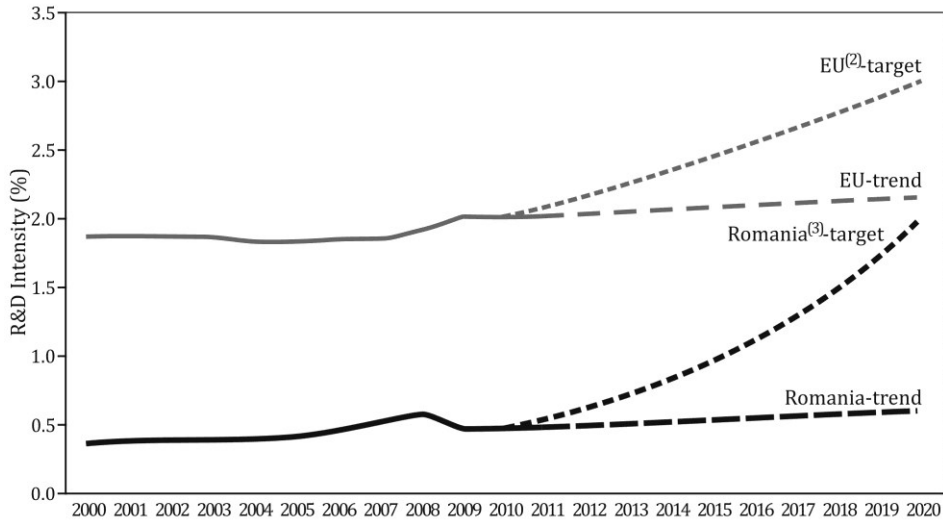


Figure 10. Trend projections for RDI intensity in Romania and the EU <sup>(1)</sup>

Data: DG Research and Innovation, Eurostat, Member State.

Notes:

- (1) The R&D Intensity projections based on trends are derived from the average annual growth in R&D Intensity for 2000–2010.
- (2) EU: This projection is based on the R&D Intensity target of 3.0% for 2020.
- (3) RO: This projection is based on a tentative R&D Intensity target of 2.0% for 2020.

Source: DG Research and Innovation – Economic Analysis unit.

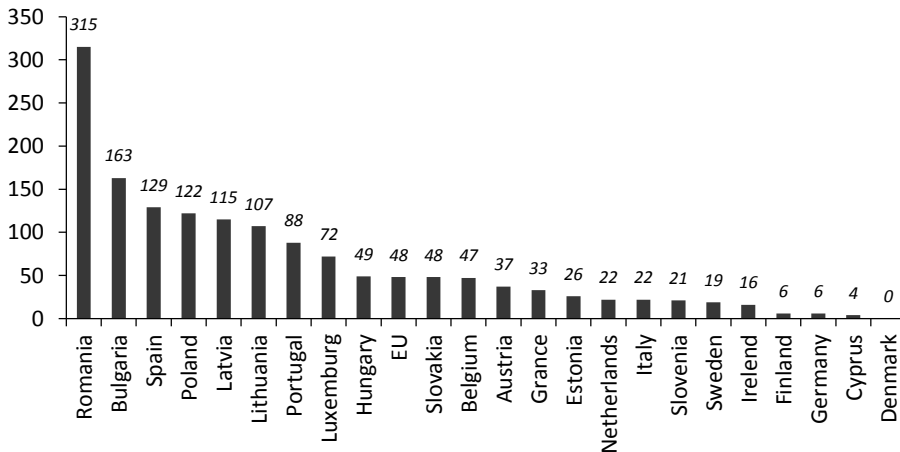


Figure 11. Progress required to meet Europe 2020 R&D targets

Source: Europe 2020 Targets.

(4) The continuously low level of financial resources allocated to RDI purposes reflects the insufficient political awareness of the added value of RDI activities to growth and competitiveness. The governance of RDI policies should be strengthened, together with the policy instruments of stakeholder ministries, whose involvement in the selection of RDI priorities would be a basic criterion of policy planning. There have been attempts to set up institutions co-ordination of the RDI policy, but they never functioned as real mediators – let us just mention the Inter-ministerial Council that exists on paper since 2002, but has never functioned.

(5) The vulnerability of intellectual property rights legal framework provisions and doubts related to their application demotivated the development of private RDI, mainly related to the uncertainties of ownership rights and profit sharing of research results. Considerable steps are to be taken in the future also to improve access to private loans for local small and medium-sized enterprises specialised in RDI, and especially for start-ups (Strategia Nationala de CDI 2007–2013).

The implementation of *The National Research, Development and Innovation Strategy 2007–2013* developed and consolidated the RDI funding system. In 2013, Romania needs a proper and efficient set of policies, instruments and mechanisms to transfer RDI results to the benefit of the economy and society. The future *RDI Strategy 2014–2020* will be based on the European Smart Specialisation research and innovation strategy, an approach to economic development through targeted support to RDI, a process of developing a vision, identifying competitive advantage, setting strategic priorities and making use of smart policies to maximise the knowledge-based development potential of any region (strong or weak, high-tech or low-tech) (Resiga 2012).

In sum, to reach the objectives of the Smart strategy, strong political commitment will be needed to build and to implement a right and realistic RDI Strategy that could be a fundamental driver of sustainable and competitive development of the socio-economic system in Romania.

## Appendix 1. Romania – Key economic indicators

	2008	2009	2010	2011	2012
Real GDP growth (%)	7.3	-6.6	-1.6	2.5	0.9
Domestic demand (%)	8.3	-13.5	-1.6	3.2	0.6
Consumer price index (% average)	7.8	5.6	6.1	5.8	3.0
Fiscal balance (% of GDP)	-4.8	-7.4	-6.4	-4.1	-2.2
Structural fiscal balance (% of GDP)	-7.5	-6.8	-4.9	-3.0	-0.9
Current account balance (% of GDP)	-11.6	-4.2	-4.4	-4.4	-3.7
Foreign direct investment balance (% of GDP)	6.7	3.0	1.8	1.4	0.9
Gross external debt (% of GDP)	51.8	68.6	74.5	72.1	70.2

Source: IMF, August 2012.

## Appendix 2. Gross domestic expenditure on R&amp;D source of funds, 2005 and 2010 (% of total gross expenditure on R&amp;D)

	Business enterprises		Government		Abroad	
	2005	2010	2005	2010	2005	2010
EU 27(1)	54.1	54.1	34.5	34.9	9.0	8.4
Euro area (1)	56.1	55.7	35.4	35.4	7.0	7.0
Belgium (1)	59.7	58.6	24.7	25.3	12.4	12.1
Bulgaria (1)	27.8	30.2	63.9	60.5	7.6	8.4
Czech Republic	53.2	48.9	40.9	39.9	4.9	10.4
Denmark	59.5	60.3	27.6	27.7	10.1	8.8
Germany (1)	67.6	66.1	28.4	29.7	3.7	3.8
Estonia	38.5	43.4	43.5	44.3	17.1	11.5
Ireland (1)	57.4	51.2	32.0	31.3	8.6	15.6
Greece	31.1	:	46.8	:	19.0	:
Spain (1)	46.3	43.4	43.0	47.1	5.7	:
France	51.9	51.0	38.6	39.7	7.5	7.3
Italy (1)	39.7	44.2	50.7	42.1	8.0	9.4
Cyprus (1)	16.8	15.7	67.0	69.0	10.9	12.1
Latvia	34.3	38.8	46.0	26.4	18.5	33.4
Lithuania	20.8	24.1	62.7	47.5	10.5	20.0
Luxembourg	79.7	65.9	16.6	29.7	3.6	4.3
Hungary	39.4	47.4	49.4	39.3	10.7	12.4
Malta	46.8	51.5	25.9	30.5	26.9	18.0
Netherlands (1)	46.3	45.1	38.8	40.9	12.0	10.8
Austria	45.6	44.3	35.9	38.9	18.0	16.4
Poland	33.4	24.4	57.7	60.9	5.7	11.8
Portugal (1)	36.3	44.0	55.2	45.3	4.7	4.1
Romania	37.2	32.3	53.5	54.4	5.3	11.1
Slovenia (3)	54.8	58.4	37.2	35.3	7.3	6.0



## Appendix 2 (continued)

	Business enterprises		Government		Abroad	
	2005	2010	2005	2010	2005	2010
Slovakia	36.6	35.1	57.0	49.6	6.0	14.7
Finland (4)	66.9	66.1	25.7	25.7	6.3	6.9
Sweden (1)(5)	63.9	58.8	24.5	27.5	8.1	10.4
United Kingdom	42.1	45.1	32.7	32.1	19.3	16.4
Iceland (1)	48.0	48.5	40.5	41.4	11.2	9.9
Norway (1)	46.8	43.6	43.6	46.8	8.1	8.2
Switzerland (6)	:	68.2	:	22.8	:	6.0
Croatia	34.3	38.8	58.1	49.2	2.6	9.9
Turkey (1)(7)	43.3	41.0	50.1	34.0	0.8	1.1
Japan (3)(6)	76.1	78.2	16.8	15.6	0.3	0.4
United States (6)	64.3	67.3	30.2	27.1	:	:

## Notes:

(1) 2009 instead of 2010.

(2) Break in series, 2007.

(3) Break in series, 2008.

(4) Break in series, abroad, 2005.

(5) Break in series, 2005.

(6) 2008 instead of 2010.

(7) Break in series, business enterprises and government, 2008.

Source: Eurostat (online data code: tsc0031), OECD.

## Appendix 3. Gross domestic expenditure on R&amp;D by sector, 2005 and 2010 ( % share of GDP)

	Business enterprises sector		Government sector		Higher education sector	
	2005	2010	2005	2010	2005	2010
EU27	1.15	1.23	0.25	0.27	0.41	0.49
Euro area	1.16	1.27	0.27	0.30	0.40	0.48
Belgium	1.24	1.32	0.15	0.19	0.41	0.46
Bulgaria	0.10	0.30	0.31	0.22	0.05	0.07
Czech Republic	0.86	0.97	0.27	0.30	0.22	0.28
Denmark (1)	1.68	2.08	0.16	0.06	0.60	0.90
Germany	1.74	1.90	0.35	0.41	0.41	0.51
Estonia	0.42	0.81	0.11	0.17	0.39	0.62
Ireland	0.81	1.22	0.09	0.06	0.34	0.51
Greece	0.19	:	0.12	:	0.28	:
Spain (2)	0.60	0.71	0.19	0.28	0.33	0.39
France (3)	1.31	1.38	0.37	0.37	0.40	0.48
Italy (4)	0.55	0.67	0.19	0.18	0.33	0.36

## Appendix 3 (continued)

	Business enterprises sector		Government sector		Higher education sector	
	2005	2010	2005	2010	2005	2010
Cyprus	0.09	0.09	0.13	0.10	0.16	0.25
Latvia	0.23	0.22	0.11	0.14	0.23	0.24
Lithuania	0.15	0.23	0.19	0.14	0.41	0.42
Luxembourg (5)	1.35	1.16	0.19	0.29	0.02	0.19
Hungary	0.41	0.69	0.26	0.21	0.24	0.23
Malta	0.38	0.37	0.03	0.02	0.16	0.23
Netherlands	1.01	0.87	0.24	0.22	0.66	0.75
Austria	1.72	1.88	0.13	0.15	0.61	0.72
Poland	0.18	0.20	0.21	0.26	0.18	0.27
Portugal	0.30	0.72	0.11	0.11	0.28	0.59
Romania	0.20	0.18	0.14	0.17	0.06	0.12
Slovenia (2)	0.85	1.43	0.35	0.38	0.24	0.29
Slovakia	0.25	0.27	0.15	0.19	0.10	0.17
Finland	2.46	2.69	0.33	0.36	0.66	0.79
Sweden (6)	2.59	2.35	0.18	0.17	0.78	0.90
United Kingdom	1.06	1.08	0.18	0.17	0.44	0.48
Iceland (7)	1.43	1.64	0.65	0.62	0.61	0.77
Norway (8)	0.81	0.88	0.24	0.28	0.47	0.55
Switzerland (9)	:	:	0.02	:	0.66	:
Croatia	0.36	0.32	0.21	0.20	0.30	0.21
Turkey (7)	0.20	0.34	0.07	0.11	0.32	0.40
Japan (10)(11)	2.54	2.70	0.28	0.29	0.45	0.40
United States (11)	1.79	2.02	0.31	0.30	0.36	0.36

## Notes:

(1) Break in series, 2007.

(2) Break in series, business enterprise sector, 2008.

(3) Break in series, business enterprise sector, 2006.

(4) Break in series, higher education sector, 2005.

(5) Break in series, government sector, 2009.

(6) Break in series, business enterprise sector and government sector, 2005.

(7) 2009 instead of 2010.

(8) Break in series, government sector and higher education sector, 2007.

(9) 2006 instead of 2005.

(10) Break in series, higher education sector, 2008.

(11) 2008 instead of 2010.

Source: Eurostat (online data code: tsc00001), OECD.

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**REGIONAL COMPETITIVENESS,  
TERRITORIAL CAPITAL,  
SUSTAINABILITY**



# THE INNOVATION AND COMPETITIVENESS OF REGIONS AND THE ROLE OF UNIVERSITIES

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## **The State and Conditions of Innovation in Europe**

The EU is lagging behind in innovation compared to its most important competitors, including the United States and China (Sonderman 2012). Within the EU, the new member countries of Central and Eastern Europe and an important part of the old members are moderate innovators, i.e. well below the EU average, whereas the leaders are all in Northern Europe (EU 2012). The same observation refers to innovation at regional level: all regions in the new member countries (with the only exception of Prague) (Hollanders – Tarantola – Loschky 2009) and an important part of the regions in old member states are well below the EU average in innovation. Hence, the stronger innovating regions are in Northern Europe.

The consequence is that the situation of an institutionally incomplete European Union, missing also a common government of the economy, is not sustainable in an open and integrated world, one in which living standards – at least in the long run – depend upon innovation as the basis of competitiveness. The doomed Lisbon Strategy took its inspiration from this fact, and the new Europe 2020 Strategy also tries to direct the Union and its member countries towards sustainability in a highly competitive world partly by means of innovation. Given the territorial agglomeration of innovation and therefore of competitiveness, the revival of innovation requires a more active role played by territories. However, this is a problematic perspective for the Union.

Why is it so? In our interpretation the different economic stakeholders (enterprises, governments, and the producers of knowledge, particularly universities) find it hard to co-operate and to co-ordinate their activity in most of Europe. This aspect has been magnified by the European adaptation to the international financial and economic crisis, with severe cuts in financing also the institutions that produce knowledge and innovation in most of the member countries. In the following we shall concentrate on the role universities can have in promoting innovation in general and at local and regional level in particular.

In the next section the role of knowledge, innovation, and competitiveness is discussed by looking at who and how produces them. Section three goes down to

the local level and considers that producing knowledge is not enough, absorption capacity is necessary, too. The concept of learning regions aims to stress this relationship. Section four deals with the localisation aspects of innovation and considers how the supply of university competences enters the picture. This issue is continued in the fifth section that looks at the role of universities in fostering innovation, while section six is devoted to illustrating the contribution of universities to economic development. Section seven concludes.

### **Knowledge and Innovation as Production Processes**

The starting assumption of our paper is that in a globalised world and given the EU objectives as defined in the Lisbon Strategy and the Europe 2020 Strategy, a sustainable, prosperous, and competitive EU requires strong, developing, and competitive regions. This may be verified on different grounds. One verification is grounded in institutions, related to the institutional architecture of the European Union. One of the basic principles that characterise the European Union is the principle of subsidiarity as defined in Article 5 of the Treaty on the European Union. This principle ensures that decisions be taken as closely as possible to the citizen. Accordingly, the Union does not take action, except in cases that fall within its exclusive competence, unless it is more effective than the action taken at national, regional or local levels. The same reasoning holds for the sub-national level. This level indeed has gained great importance in European affairs and policies as testified by the idea of a “Europe of the Regions” and related policies including the growing importance of Structural Funds within the EU budget.

The principle of subsidiarity is closely linked to the principle of proportionality which requires that any action by the Union should not go beyond what is necessary to achieve the objectives of the Treaty. This opens wide room particularly for the action of sub-national governments and constituencies, including co-operation and co-ordination of actions with their peers elsewhere.

There are also theoretical and practical reasons why the sub-national level should receive a particularly important role in the management of economies and in policies and development. The most important such reasons point to

- the dispersed nature of knowledge as highlighted by Hayek, the role of tacit knowledge also in innovation (Polanyi), which is particularly effective at the local level, and the circulation of ideas;
- the nature of innovation processes, which are largely concentrated at the local level (Audretsch, Feldman, Acs) and may take the form of local systems of innovation (Freeman, Matcalfe, Montresor, Leoncini);



- the economic and social importance of incentives and their greater effectiveness when they are close to where the activity takes place (social innovation); and
- the issue of control and accountability, which may both be particularly effective when the contact between the governing body and the governed constituency is particularly close.

Knowledge and innovation as production processes have a demand and a supply side. The capabilities of regions and their constituencies (particularly governments, organisations, civic society) to demand, absorb, transform and adapt to the knowledge and innovation that universities produce constitute the demand side of innovation. Reaching these goals requires an approach according to which regional innovation and competitiveness play a central role and this is so if regions are learning regions. The demand side refers particularly to the role of learning and the related absorption capacity of firms and regions. Absorption capacity refers to “...the capacity to absorb and to adapt external knowledge to the local entrepreneurial context and thus transform it into higher productivity and innovation” (Asheim – Parrilli 2012b, p. 10). This process often consists of acquiring, metabolising and adapting codified knowledge that universities and research centres generate, and also knowledge that flows from other enterprises and territories (Langlois 2003, Jensen et al. 2007).

Knowledge and innovation have a central role in the competitiveness and consequently the performance of regions. Universities are known to be fundamental in the production, transmission, and circulation of knowledge and in innovation through teaching, research, and different forms of transmission of their results, including consultancy and other forms of co-operation with firms. This forms the supply side of the knowledge production and innovation.

Learning processes thus represent the “software” that puts the two “hardware” components of firms and universities into contact, make them understand each other, and finally co-operate in successful production. Such learning requires individual and organisational efforts, institutional support frameworks, organisational and workplace co-operation, incentives to change and innovation, ability to interpret and contextualise, sufficiently long time horizons, and also a common language of communication or at least a good translation from one language, that of researchers, into the other languages, those of entrepreneurs, technicians and workers. The greater the gap between the two hardware components, the more important the process of learning is. Successful learning can be helped by means of different devices, including various forms of university–firm co-operation.

The concept of the “learning organisation” has been worked out recently to highlight the fundamental features of operation that an organisation needs in

order to successfully manage the learning process. This refers primarily to "...new forms to organizing work within a firm, such as self-determined and auto-organized work targets and work pace, continuous on-the-job training, and multi-function and multidisciplinary team work" (Asheim – Parrilli 2012b, p. 14). Learning organisations master different types of knowledge. Along with traditional knowledge that results from R&D, interactive and tacit forms of knowledge exchange have particularly great importance.

The development of learning organisations is a particularly demanding process. Indeed, it requires a proper structure of the production and work process within the firm; proper incentives to the employees combining support to commitment and change, organisational flexibility, but also job and income security for those who may take up risks for pushing an innovation through and may run the risk of failure. This requires a system of organisational and social welfare in line with "flexible security" that various successful northern European countries have adopted. A new approach to education is important, too, giving significance to the students' interactive and networking abilities. At the basis of this build-up there has to be organisational and social trust.

Universities are important components of the supply side since they provide some of the fundamental ingredients, including education, research, expertise, and advice. This role requires that universities, based on their academic autonomy and intellectual freedom, be in tune with and open to contribute to local processes and problems. This aspect of university activity has also been termed as the "economic relevance" of the university. The features and problems of the territories surrounding universities should provide the starting points for designing problem-solving processes and represent the testing ground for solutions in which universities should have the intellectually and scientifically leading role.

Demand and supply in the process of innovation and building the competitiveness of territories involve the society at large, institutions and organisations, and individuals. It is important to appreciate that this matrix form of the problem provides opportunities for and require multi-level and multi-direction interrelations: between demand and supply and between different constituencies at different levels both on the same side (demand or supply) and between the different sides. The outstanding relevance the context of the matrix has should be noted. The context is made up of the global (international, national and inter-local) interactions, the basis of which is what happens at the local level.

However, looking at the present European situation two challenges must be pointed out. Although the reasons of the present crisis in Europe could be found in the institutional asymmetry and incompleteness of the process of integration, its roots are in the loss of competitiveness and the unsatisfactory innovation strength

of Europe. The Lisbon Strategy was called to solve this structural problem, but its outcomes are disappointing.

Within Europe two main strategies are being implemented. One is prevalent in Southern Europe and is based on a cost-cutting strategy as envisaged in the European Competitiveness Pact of 2011. The stabilisation policies that the European Union imposed upon financially unbalanced countries such as Greece, Spain, Portugal, and Italy strengthen this approach. While competition through lower tax rates must wait for happier times, this strategy lives with the assumption that states and regions gain competitiveness by decreasing wages and weakening welfare. Regions may add additional support to this strategy in the form of looser regulation and easier access to land and natural resources for potential investors. This strategy can hardly be defined as innovative and expects the specialisation of countries from mature and traditional industries where cost competitiveness may compensate for the lack of innovation up to a point.

Consequently the role of universities is closer to that of an advisor in cost cutting and farther away from that of a producer of knowledge or even an educator. Cheaper labour means indeed lower demand for highly educated people and lower return on human capital.

The Lisbon Strategy offered, perhaps in a naïve form, a different, much better and sustainable strategy based on the investment in knowledge infrastructure and human resources. The strategy set the goal of offering high quality services, too, that are considered to support investment and attract resources. This strategy appears much sounder and sustainable than the former, both because it is more in line with the level of income and quality of life that European countries have and because it directs attention to and puts the priority on assets of relatively lower mobility, better linked to territories. Thus it offers a stable and socially sustainable strategy, although not an easy one, that relies on positive incentives and the mobilisation of the most productive resources of a society: knowledge and participation. The disadvantage of this strategy is that it is slower in bringing results and may be difficult to implement in macro-economically unbalanced countries without the support of the European Union. Yet its consequences are permanent and sound. Northern European countries, including Germany, have relied primarily on this strategy and the results speak for themselves.

This strategy is the only one that favours the territories, at the same time taking advantage of their characteristics. The fundamental reason lies with the nature of the knowledge that is important for economic activity. Science-based knowledge is certainly important and necessary, but is far from being sufficient. A further fundamental condition is high-level education that “produces” the actors (persons and organisations) who are called to absorb, make use of, adapt to and improve that knowledge. It is also worth stressing that even science-based knowledge is linked

to the territories for two reasons. First, it is produced by universities, research centres and enterprises which also make use of the particular conditions of the territories where they are located. Secondly, science-based knowledge is never self-sufficient for production, it must be adapted to local features and to the demand of specific enterprises.

Success in competition requires that science-based knowledge be complemented by other, tacit types of knowledge, that is, learning by doing, using, and interacting. This type of knowledge is embedded in social and economic contexts, rooted in organisations and in people who are linked to particular local relations. Case-based studies provide ample evidence for the importance of the context and the insufficiency of science in itself to lead innovation. Moreover, simple observation is enough to see that territories having higher costs may be more competitive than those having lower costs, and consequently provide better conditions and opportunities for firms. This fact can be explained by the favourable interaction of science-based knowledge, tacit knowledge, and the social features of territories and organisations.

### **Localised Knowledge and Learning Regions**

The role of the local base of universities in economic and social development is analysed from several aspects in the literature. Traditional perspectives include the concept of national and regional systems of innovation; the triple helix of industry, government, and university; and finally the entrepreneurial university. Although there are various and substantial differences among these three perspectives, all share the view that universities are fundamental components of a broader economic and social system and they are necessary for that system to be successful. Universities should be suppliers of important functions for the success and competitiveness of territories and should be at the same time recipients of demands, needs, and problems coming from industry, governments and society that they try to answer and solve.

Recent literature on learning regions (Asheim – Parrilli 2012a) seems to be more apt to understand the challenge that European regions are faced with. In fact, it highlights the conditions for and forms of necessary interaction among governments (governance), firms and organisations (production), and universities and research centres (knowledge) in creating and supporting innovation, competitiveness and the welfare of regions. This approach sees innovation as the outcome of processes and interactions that go beyond the three actors constituting the triple helix (universities, governments and enterprises), and also considers the context in which they operate and interact.

According to the literature on learning regions, while the national and international levels are important in promoting/hampering economic dynamism and growth, those innovative forms of economic action that make economies expand and thrive emerge particularly at the regional level. In this frame regional advantage has to be based on the endogenous capabilities of regions and their governments, firms and universities rather than solely on largely exogenous R&D efforts. The aim of regional innovation policies should consequently be the fostering of creative knowledge and learning environment which contribute to establishing the necessary social and regional economic system. The latter forms the context in which security and flexibility as the necessary bases for knowledge production and learning could be established.

The central role of localised knowledge in the learning regions approach stems from three factors (Lundvall 2012, Lundvall – Lorenz 2012):

- Knowledge resides in individuals in the form of tacit knowledge and thus it is rather sticky. The stickiness of knowledge can only be decreased, but not overcome through the mobility of individuals with scarce talents and skills.
- Knowledge is also embedded in organisations and plays an important role in attracting firms via the transfer and diffusion of knowledge at local level. However, the effect depends upon the absorption capacity of the local innovation system.
- Such absorption capacity is made of knowledge embedded in the relationships between individuals and organisations. It includes shared specialised codes of communication and shared norms and common understandings of how to do business, which is often industry- and cluster-specific, and reflects the specialisation of a region.

According to this view of knowledge-led local development “[b]uilding regional competitive advantage... requires a twofold strategy. To promote learning and adaptability it is rational to encourage close interaction and a common understanding among regional agents. But the regional system also needs mechanisms that help it to move away from its own routines when it reaches maturity and is threatened by stagnation. This is why a certain degree of openness, diversity, and even internal contradiction is required for retaining a sustainable regional advantage” (Lundvall 2012, p. xii). In particular, investing extensively in human skills and delegating responsibility to employees should complement attracting top-level scientists and experts.

In this perspective, innovation policies need to foster regional innovation systems based on infrastructure for knowledge production, interpretation, and diffusion, able to link persons and organisations to different economic and social roles.

Learning regions require partnership among governments, business and universities aiming at learning-based processes of innovation and change.

There is agreement among scholars and experts that rich countries can proceed only along the way of innovation. Indeed, this is the only strategy compatible with their level of development, their level of personal incomes and human capital. However, there is much less agreement on concretely how that strategy should be followed. The traditional view of promoting R&D-intensive industries has not passed the test of time, having led to uncountable failures besides the examples of success. Applied research and case studies have revealed that this strategy requires much more and different ingredients, particularly at regional level. Especially important additional elements are the activation and utilisation of the capabilities of the very region in question.

As a consequence, the strategy cannot be translated into a unique path to development and competitiveness. Rather, this strategy consists of bundles of different steps, each bundle based on and in accordance with the region's capabilities. Since each region and its enterprises have unique capabilities, different bundles of steps and particular solutions can be successful and lead to increasing regional competitiveness. Each regional strategy will represent a variant of the fundamental strategy, each region will set up a different, successful structure and will find a particular niche in the national and international division of labour. The highly differentiated structure of modern production and the prevalence of intra-industrial trade offer the background for the success of bundled strategies while they require differentiated knowledge and specialisation: "...knowledge creation and innovation can take place in all kind of industries but take place in different ways, need different kinds of knowledge and skilled people and require different kinds of innovation support" (Asheim – Parrilli 2012b, p. 5). Consequently, no type of knowledge should be considered *a priori* as superior to others in fostering and supporting economic growth and development. The effectiveness of a strategy of economic development and competitiveness depends to a great extent upon the advantages of a region stemming from its industrial and knowledge profile which is strongly linked to the already existing knowledge and industrial bases.

It is important to notice that the R&D basis and its strict connection to universities are not sufficient for a strategy to promote innovation and competitiveness. Indeed, the organisation of the work and production process and incentives are of utmost importance. Beyond better and more qualified jobs, organisations are required to provide the conditions for learning and innovation as well, together with fostering and supporting patents. A wide access to sources of knowledge reduces the cognitive distance between actors of the regional innovation systems and increases the absorption capacity of firms and the economic system.

Looking at the role of universities and science-based industries, it should be noted, following Asheim and Parrilli (2012b), that an excessive focus on their role has important disadvantages and cannot serve as a basis for a complex regional strategy of innovation. Indeed, this approach tends to concentrate on emerging industries to the disadvantage of other fields of innovation, e.g. engineering-based industries where innovation tends to be incremental, and the important field of cultural industries. Secondly, the success rate of emerging science-based industries is quite low and related policies to support these kinds of industries favour large cities and regions, and highly educated people disproportionately, to the disadvantage of the bulk of regions, industries and people. Although important, a strategy based on emerging science-based industries cannot work as a general strategy for the development of regions. And in any case, regional industry should look for participation in national and international knowledge networks, and not be linked only to regional universities. The influence and dominant contacts of these universities are not spread all over the world, neither at continental level, but are limited to a usually sub-national area.

Relevant literature on the importance of the role of universities in innovation tends to stress the role of proximity as an explanation for universities' contribution. Proximity supports the development of interdependence among university, firm and government, and institutional changes that come along with this interdependence and within each of these actors. These are key aspects at the centre of the "triple helix" explanation (Etzkowitz 2003, Etzkowitz – Leydesdorff 1997). This was not always so. Industries now considered mature, such as the steel or automobile industry, had no particular relation to universities. Also the success of a number of high-tech industries and their localisation owes to military and other forms of public expenditure and research establishments. The upsurge in universities-industry relation since the 1980s is rather strictly linked to the new high-tech industries, including information technology and biotechnologies. Universities are thus increasingly seen as catalysts of local development even if they are not directly involved in that development.

Proximity promotes the efficiency of the innovation process because it promotes the convergence in missions at different levels: local, regional and national (Charles 2003). Clusters represent the most powerful form of proximity, particularly when they include a university or other organisation producing knowledge. As Porter (1990 and 1998) stresses, local linkages are key factors in economic competitiveness. However, subsequent research has challenged this view: "...the impact of universities, many of which will be at regional or local scale, will vary considerably over time, over space between sectors, between firms of different sizes..." (Lawton Smith 2006, p. 2). Moreover, as the European Commission has stressed (EC 2003), another important component along with the university-

industry interaction is the reconfiguration and defragmentation of EU public research, including universities and other parts of the European public research system.

### **Localisation Aspects of Innovation and the Supply of University Competences**

The territorial nature of innovation derives from the fact that innovation is increasingly distributed among different organisations. There are different reasons why this is so, related to technological, economic and social processes (Lawton Smith 2006). All recall the central importance of proximity.

From a technological point of view, locating firms close to universities is important for gaining access faster and more easily to the latest research findings. The effect is particularly strong if there is close match between researchers at the universities and engineers at firms; this is an advantage for large multi-national firms over small- and medium-sized enterprises. It is for this very reason that multi-national companies tend to locate their research laboratories in the proximity of research universities. Mature industries also have extensive links with universities, but these tend to be short-term connections.

Economic explanations look primarily at agglomeration and economies of scale. Agglomeration tendencies derive from the fact that the cost each firm has to dedicate to co-operation with a university is lowered if other firms follow the same approach, too, since this allows the firms to share the costs. Agglomeration and thus proximity create important spillovers in the form of flows of knowledge that accrue to organisations and individuals. Such spillovers, as a rule differing by industries and being often transitory, are from universities to firms, but may also happen among firms located in the same territory. Economies of scale derive from the increasing returns to scale that urbanisation makes possible. However, other studies found that the location of industrial innovation depends largely upon internal linkages in firms between production and R&D, while the role of universities is marginal (Tecu 2013).

Social explanations are mostly based on the role of tacit knowledge and social interaction that localisation enables. The importance of tacit knowledge in innovation processes requires that producers and utilisers of knowledge in different organisations have direct and stable personal contacts. These contacts build up networks that Granovetter (1973) named "weak ties". Their main advantage over stronger ties lies exactly in the support they give to the flow of information and knowledge. Weak, multiple ties among experts in different aspects of innovation and active in different organisations – universities and firms – are embedded within particular locations.



The role of universities in innovation processes has become important with the globalisation of the world economy. World-wide competition makes it more difficult for firms to control the outcome of their investment in R&D and requires risk diversification. Adaptation to such a change in the structural context includes strengthening the international institutional framework for the protection of investment (particularly the role of the WTO and other UN institutions, and patents), and the “outsourcing” of research activity to external agencies, among which universities are particularly important.

It is therefore important to understand how universities can play this critical role (which type of academic strategy and policy should be implemented), how they should structure themselves, and what type of relation they should have with firms. The external (social, economic) role of universities should not be limited to their relation to firms though. Indeed, a system perspective is increasingly important in a globalised economy for countries and territories alike.

In this new context it has been stressed that universities have a “third mission” (Aranguren – Larrea – Wilson 2012). The first mission is education and the development of human capital. The second one is research, including both the generation of knowledge and its diffusion. The third mission concerns the role of universities in, and their contribution to, economic and social development.

All these aspects concern both the universities as organisations and the situation of individual researchers and scholars within them, including freedom of research and the allocation of property rights of inventions. While the contribution and the role of some universities are certainly important in the case of development at world level, those of most universities are important rather for local and regional development. This is so not only because of the limited strength, resources and capabilities of most universities. Indeed, it is the very nature of knowledge and development, and the importance of tacit and idiosyncratic components and features that make the local and regional role of universities so important. In parallel with what has been defined as the de-territorialisation of economic and social relations and processes at the global level, the importance of proximity in economic and social relations and processes has definitely increased. This is particularly important at the local and regional levels.

### **The Role of Universities in Fostering Innovation**

The role of universities is particularly delicate in this new context. Universities have seen their nature deeply transformed in recent decades, particularly in latecomer countries, but also in European and other rich countries. Universities used to be places where later economic and social elites were educated. Professors enjoyed high prestige, education was the main mission and research had a basi-

cally theoretical character. Applied and experimental research, although present, was mostly the mission of laboratories and research institutes, with the partial exception of the United States.

Things have changed rapidly under the push of democratisation, increasing mobility, and the growing opportunities in the first two or three post-war decades, and later on in the course of globalisation. Democratisation and mobility created a boom in demand for higher education by the new generations, and education became an important vehicle of upward mobility. Growing opportunities dramatically increased the demand for higher level human capital that universities were to educate, and for applied research outcomes and consultancy as well. Both became critical factors in industrial innovation, a must of growing importance in an increasingly open and competitive international economy.

Both processes introduced deep and far-reaching changes: the number of students expanded dramatically, and the flow of financial resources also increased, both from governments and international organisations, and from industry. At the same time universities found themselves in a totally new context: competition for financial resources and students and, consequently, a comparative evaluation of their performance.

The role of universities in fostering innovation is related to their economic and social activity in general and to industry in particular. Universities can contribute to innovation in three fundamental ways:

- by educating the persons who will manage institutions and organisations, work in laboratories and at the operational level;
- by working on research topics that generate new technical and social solutions; and
- by working with institutions and industry in order to generate new solutions or provide consultancy and advice, including setting up joint structures and programmes.

By their different functions in teaching, research and collaboration, universities play a crucial role in society as well as in producing and interpreting knowledge and fostering learning, with particular concern for the territories where they are located. Considering in particular the perspective of learning regions, it is necessary to look not only at the role of universities within the given context (a locality, a region), but also at how universities are structured and governed and how their relation with the other major actors of local and regional development (governments, institutions and organisations, and society) influences the general outcome of promoting competitiveness and development.

This role of universities is particularly important in the present crisis, since crisis management needs their support in helping regions regain innovativity and

competitiveness. This entails that universities should reconfigure their governance, research and teaching, and develop their relation to the territory. At the same time, it is necessary to avoid the present danger of simply cutting their budgets for either national or regional financial reasons. What is apparently needed is updating governance and incentives also through a different budget structure and allocation.

A particularly important issue in considering the challenges that universities are faced with is to find proper balance between the new mission of contributing to the development of regions and the traditional academic autonomy. The latter is a critical factor in the success of universities and its very *raison d'être* as it has been proved from time to time by the history of universities. As a consequence, the former goal should be reached in no way to the detriment of the latter.

Therefore, the challenge ahead for autonomous and self-governing universities is to take on new roles in the learning region where they are located, while strengthening their traditional academic roles to respond to increased international competition among universities. Indeed, these two apparently contradictory goals represent two sides of the same process and show important complementarities.

Another important issue to consider is that this new role of universities opens a potential conflict between the public mission of universities and the private nature of their involvement in innovation and economic development. Successful universities must be able to use the latter to strengthen the former, e.g. by using a part of the funds obtained from applied research and consultancy in public education and research.

A good way of understanding how this works is to take a look at what has happened in countries such as the United States, where this multiple mission of universities has a longer history.

### **The Contribution of Universities to Economic Development**

The contribution of universities to economic development is not a new issue. As Pavitt (2003) stressed, the economic and political role that research universities are expected to play in the 20th and 21st centuries is a return to the 19th-century paradigm of social usefulness. In recent years, various other paradigms have complemented and made more convincing and sophisticated the usefulness paradigm. Lawton Smith (2006) mentions eight different paradigms that consider "...the current expectations on universities as to their contribution to innovation and economic development" (p. 12).

Taken together, these eight paradigms can be summarised as follows:

- universities fulfil an increasingly central role in following changes in the organisation of the innovation process;
- the features of particular systems of governance (supra-national, national, and sub-national) influence the degree to which their roles become central;
- academic eminence has benefits also from a utilitarian point of view;
- biotechnology replaced defence industry in gaining the central place in university–industry relations;
- the accountability of universities is manifold;
- human capital development rather than technology transfer is the primary contribution of universities to economic development;
- universities are increasingly entrepreneurial; and
- co-operation of the parties, both at national and sub-national levels takes place in their participation in systems of governance.

Since the 1980s, first in the US and the UK, later on in many other countries including European ones, universities started to be considered fundamental players in the innovation and development processes, and in improving the competitiveness of countries and regions. Although it is difficult to quantify the contribution of university research and education to economic development, scholars and international agencies have found that their contribution is important. However, it has also been shown that this contribution depends upon various important factors.

Universities in many countries and among different circumstances have been engaged with increasing determination and effort in turning their contribution to the benefit of economic and social development. In doing so they have also improved their own financial situation and social importance, sometimes to a considerable extent. This has provided them with resources for advancing research also in fields not directly related to their economic and social role. However, this role has been mostly concentrated in a relatively small number of world-level research universities, and within them in the activities and hands of a relatively small number of world-level professors and researchers (Geiger – Sá 2008).

Research universities have to follow a dual goal: to generate inventions and make sure that those are transferred to developers, let them be private firms, public institutions, or other kinds of organisations. This may include a host of activities from patenting and licensing to spin-offs and commissioned research, from advising to promoting and developing academic fields and subjects that contribute to knowledge and technological progress. Clearly, these diverse goals require different academic policies and internal organisational setups. They also require different public policies, be they at national and even international or at local level.

Another important aspect to consider is that the public and private concern with innovation, and the important contribution of research and universities to it, has led not only to increased, substantial amounts of public and private resources to that end, but also to the establishment of systems controlling and evaluating the outcome of the use of those resources. This, in turn, has generated considerable transaction costs and criticism linked to the use of those resources in the favour of a low number of large, well-organised and rich universities and a relatively low number of specialised top researchers to the detriment of other universities and researchers. Although this may have to do with the advantages of economies of scale and spillovers in research activity, it has also disadvantages in terms of variety. Given low numbers and the fact that, although competing, these researchers are mostly in strict contact among themselves, conveys the danger of limiting the pool of ideas and approaches, ending up in scientific conformism. In addition, most of the research funds and inventions are concentrated in a restricted scope of so-called strategic sciences and science-based technologies, particularly biotechnology and molecular biology, nanotechnology, and pharmaceuticals.

One further important problem concerns the approach of public and private sponsors and their relation to universities. The problem with private sponsors is that they may restrict the academic freedom of researchers and thus the development of alternative fields and paths of scientific development by convincing researchers and their universities to go where the money is. However, according to many observers and scholars who analysed the problem, this is not a real risk, and perhaps the opposite is true. Commissioned research or a highly competitive field of research provide enough incentive and resources to research in unrelated fields and basic research, too. Universities acquiring additional resources from the industry may allocate a greater part of their other resources to fields that increase the prestige of the university and its scientific standard – both necessary conditions to obtain private financing. But again, even if debated, this may be an issue only for a few large world-class universities, and not for the majority.

The danger of a rent-seeking attitude by universities is nevertheless a serious and perhaps relevant issue. It is not only that universities and researchers may be prone to serve the desires of sponsors, but there is a risk in the allocation of public financing, too, large influential universities being more successful in convincing agencies and governments to allocate funds to the fields and subjects where these universities are strong. This could reduce the contestability of research subjects and lead to a decreasing variety of research innovation.

Indeed, behind the economic contribution of research and science there are various dangers that depend to a great extent on the quality of governments' science policies and the incentives that governments, particularly local and regional governments, have in designing and implementing them. In general, national and

international agencies and national governments have contributed positively to the development of frontier sciences and science-based technologies (Geiger – Sá 2008).

The landscape is quite different if sub-national governments are considered. Policies are often poorly designed, their knowledge and view of scientific and technological issues are approximate and not up-to-date, including the questionability of economic assumptions that underlie policies. These problems may stem from the unpreparedness of these governments and their weak technical and scientific/intellectual basis. Moreover, sub-national governments must keep the geographical spillovers of their scientific and technological policies under control. Indeed, they must be sure that their policies favour their region, an issue of no or less relevance for national governments and irrelevant for international agencies.

Four aspects are important in connection with the consequences of science-based technologies for the internal structure and public role of universities. The first is the relation between universities' participation in the development of science-based technologies and the universities' traditional mission. The former is clearly a private goal and limited to few fields of science (although these aspects may be less important when the promoter and supporter is a public agency), while the latter is undoubtedly public.

Secondly, this new role of universities has required a transformation of their internal organisation. In particular, universities had to set up new offices and structures, and hire qualified personnel to promote co-operation with the industry and with public institutions, as well as to market the outcome of research, including results of spin-offs. The integration of these offices into the structure of universities has often created problems. The majority of such offices deal with small and medium-sized initiatives and enterprises.

Thirdly, science-based technologies are interdisciplinary while the traditional structure of universities is based on distinct disciplines. Participation in science-based technologies driven by the economic relevance of research requires that structures and programmes be set up for integrating different disciplines and fields of research. Other important issues are hiring and, if necessary, training specialised personnel, formulate new strategies for hiring faculty, and set up research institutes with external support, in certain cases with the participation of the external sponsors' representatives in the governance of these institutes. One further aspect is that much of frontier research takes place within the laboratories of large corporations by researchers who are employees of the corporation, and these research activities convey many company-specific idiosyncrasies. Universities are perhaps ill-equipped for the most applied aspects of research and for marketing-focused innovation. For this reason the prevalent relations between universities and the industry are long-term co-operations on the elaboration of

background topics, to which the commercialisation of research findings through university spillovers offer an important complementarity.

Fourthly, the secrecy of findings and inventions is often a precondition of participation in the development of science-based technologies, particularly when the promoter and sponsor is a private organisation. This is contrary to the universities' mission and the professors' and researchers' view that research should lead to public results. The public character of research within universities finds strong correspondence with the way university careers are managed, i.e. through publications, conferences, and other means of circulating the findings of research.

The bottom line is mixed. The adaptation to economic needs and opportunities, and participating in science-based technologies have made their way through universities and have had important consequences all over the world, although with different intensity in different countries and regions. They have transformed universities and helped the development of economies and societies. Yet the contribution of universities still appears rather modest and underdeveloped compared to the existing possibilities and needs.

## **Conclusions**

Looking at the university–industry relationships, in the last three decades a clearly visible change in approach took place in the United States and in a major part of Europe alike, namely a gradual replacement of more general, upstream approaches by more specific, downstream ones. The former is basically in tune with what is still considered the traditional public and general role of universities, while the latter can be interpreted as a characteristic of the initial stage of the new university model where the university appears both as a social and economic player, and as an institution following a path towards commercialisation.

This shift is simultaneous with and complementary to the one in the dominant relationship between universities and industry, from large transnational companies and few large and prestigious universities to mostly small and medium-sized enterprises and regional universities. From another aspect this is a shift from arms-length relations to relations based on proximity. This transition is not complete, but it is clearly visible in many countries and industries.

It may be beneficial for economies in general and local development in particular, but hides the danger that universities are increasingly seen as local factors of production and as contexts in which professors and researchers can pursue financial benefits at the expense of their public duties. The new model of co-operation based on proximity and common interests can make it even worse. Another risk is that universities may try to use their local-government contacts to their own advantage and local governments and main industrial actors may try to interfere in

the life of regional enterprises. However, all these risks appear together with opportunities and it is in the interest of the parties to assess and try to manage them properly.

What comes out of the experiences reviewed above can be summarised in the following five points.

- Research and the education of high-quality human capital continue to be fundamental missions of any university.
- The spread of access to higher education has led to the proliferation of universities, most of them with an important regional role. This, together with the increasing cost of research and the difficult financial situation of most governments, make it perhaps inevitable that universities look for additional external resources by engagement in activities of economic relevance.
- Large corporations are more interested in incremental innovation and rely extensively on their internal laboratories, complementing their activity with extensive networks of universities and research laboratories to acquire general knowledge. At the same time, small and medium-sized enterprises are increasingly active in frontier, risky innovation and are more and more interested in co-operating with universities.
- National governments and supranational institutions just like the EU are keen to help their countries compete successfully in the international arena through accelerated and widespread innovation by promoting and supporting, among others, closer co-operation among universities and industry.
- Local governments have more power and more responsibilities than in the past related to economic activity under their jurisdiction and are interested in promoting similar goals as those of national governments but with the intent to have localised returns.

On the basis of these conclusions it is important to find solutions that keep and possibly improve the quality of universities and their ability to fulfil their classical roles. However, it is also important to find new and more stable ways by which universities can follow their economic interests and, above all, contribute to the regional economies without jeopardising their traditional role. This requires, among other things, that universities co-operate with governments and the industry.

Still, all this may be insufficient. Most universities are pre-eminent at the regional level where they may have or try to have a nearly monopolistic role, particularly in certain contexts, e.g. where mobility of students is low and research contacts are limited, or when both students and business actors would face high costs of opting against co-operation with the university. This may have negative



consequences for academic quality, consequences that go well beyond, and perhaps are independent of, the economic interests of universities, being unfavourable also for governments and the industry and, above all, for the perspectives of local development.

Nonetheless, various solutions could counteract these risks and provide universities with additional resources, contacts and flows of information and knowledge coming from interactions with industry, and allowing them to play the socially important role related to activities of economic relevance. At the same time, these solutions could help governments and the industry to avoid the danger of closed localism and to upgrade their capacities and opportunities. We limit ourselves to a few hints, since a proper consideration of the issue would require a serious study.

Regional universities are often too small to be competitive in different fields and have to specialise if they want to emerge in the broader context. This may cause other disadvantages and dangers for universities and also for the local economy. Setting up and entering interregional and also international networks of universities may strengthen them, their role and the returns for the regional economy. It is very important to choose the partners carefully, based on their features, e.g. partially complementary features and specialisations, and not remaining limited to proximity. Networks may be stable and involve the whole of each university, but may also concern particular projects. Hiring external professors and researchers, particularly at international level, may usefully complement networking.

One basic condition is certainly the transparency and broad base of competition for academic positions and for research calls. This would contribute to the creation of high-level, sound and resilient institutional culture and operation that would help universities attracting good students. As to co-operation between universities and the industry, although it is true that it should be based primarily on proximity and stability, in the case of applied research and innovation it could be made open and contestable. For instance, in many cases local governments could support the setting up of an alternative network which could also produce synergies with and spillovers to the benefit of the former. Obviously, this can be done if the cost of the investment is not excessively high.

Governments at any level, including the EU, could play an important role in pushing universities and the industry towards the right direction. In particular the support that governments may provide in different forms should be conditional upon the universities' and industrial actors' willingness to go along the lines exposed above of fulfilling their public mission and complying with the requirements of openness, transparency and contestability. At any stage, however, the non-bureaucratic assessment of the accountability of universities and the industry is fundamental.

The present state of play shaped first by globalisation and then by the crisis makes it clear that only those universities, industrial activities, and governments prosper that are up to fulfil their classical missions in better ways, and are also up to the challenge that the new conditions of innovation and competition set. Only these kinds of partnerships can lead to sustainable local development and to the prosperity of their stakeholders and constituencies alike.

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# CITIES AND SERVICES IN THE KNOWLEDGE ECONOMY

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## **Introduction**

National economic growth and urbanisation are interdependent processes, and the growth of cities is a major component and driver of national growth (Eurostat 2008, Citalia 2009a and 2009b, McKinsey Global Institute 2011, Milken Institute 2011, The Brookings Institution 2012, Centre for Cities 2012). In China, for example, where the urban population increased from 20% in 1980 to 50% in 2011 and is expected to increase from 636 million in 2010 to 905 million by 2030, the process of urbanisation has led to huge investments in cities, in the housing, transport, and energy infrastructures, and it has driven industrial production and contributed to national economic growth to a greater extent than the exports of manufactured goods. This indicates that internal demand, which is mainly concentrated within cities, can be a powerful driver of national growth, both in developing and in highly developed countries. Moreover, cities are hubs not only regarding the commercial transactions of goods but also in the flow of information and in the generation of new knowledge, which plays a crucial role in the productivity and growth of the economy.

This study highlights the difference between the growth model of modern post-industrial cities, such as the large metropolitan areas, and that of industrial cities, such as many smaller urban centres in developed countries. It builds on recent economic literature in three related fields, namely the “endogenous development” of industrial clusters (Cappellin 2003, Simmie 2005, Capello 2007), the regional development of knowledge-intensive business services (Muller – Doloreux 2009, Cappellin 2009), and the regional factors of innovation and knowledge creation (Lundvall – Johnson 1994, Fagerberg 2005, Tidd – Bessant – Pavitt 2005, Asheim – Boschma – Cooke 2007, Cappellin – Wink 2009).

The study first analyses the process of innovation according to a “cognitive-systemic” model, which focuses on the process of interactive learning. In particular, it illustrates an “endogenous model” of economic growth in large modern cities, according to which the continuous changes in internal demand play a leading role in the creation of new firms and employment. Internal demand and internal supply are tightly linked by not only monetary but also knowledge flows,

unlike in smaller urban centres where the growth of industrial exports is the driving factor of the economy, according to the typical Keynesian multiplier model.

Then we shall analyse the intensifying interaction between users and producers in the development of new services within cities, focusing on the increasing importance of special cases of “public goods”, such as “club goods” and “relational goods”, as drivers of the individual demand, the aggregate consumption, and the investment decisions in a modern urban economy.

In a policy perspective, the study indicates the need for a change in economic policy in modern cities. The importance of planning new residential and office buildings, attracting foreign investments, and stimulating industrial exports is decreasing in modern cities together with a growing need for developing many private and public services that meet local demand. These services have a considerable contribution also to the overall employment and GDP of large cities. Policies promoting private and public investments should enhance the continuous renewal of economic activities within urban economies, aiming to satisfy the new emerging needs of their citizens.

### **The Growth and Evolution of Cities: A Network Approach**

The shift in modern economies towards services and the increasing concentration of these in cities explain why the process of the globalisation of firms, markets, and knowledge occurs together with the growing preference for cities by most of the innovative firms and qualified workers.

In an industrial economy production was concentrated either in “industrial clusters” based on the interdependence of many small and medium-sized firms, or in “company towns” organised around a large “Fordist” or vertically integrated company. The industrial city (1900–1970) was characterised by commuting, large physical structures such as production plants, machinery, and housing, and by the importance of the exploitation of economies of scale and of modern technologies. Thus, medium-sized and large industrial cities, such as Milan and Turin in Italy, have seen an intensive concentration of industrial activity till the end of the 1960s. Later, during the 1970s, industrial activity started to be decentralised to less congested areas. This process contributed to the creation of the well-known “industrial districts” (Simmie 2005, Capello – Faggian 2005, Cooke 2006) in neighbouring rural areas and it explained the increasing specialisation of the large and medium-sized cities in services.

In a modern economy, however, the increasing role of cities is closely related to the growing importance of information and knowledge, and to continuous changes related to new technologies, new production and organisational forms. Cities are now at the heart of the long-term transformation process of the national and inter-

national economy towards knowledge economy. New types of services for firms and for people are all concentrated in the cities.

The difference between the post-industrial city and a traditional industrial city is not represented by the skyscrapers and the large office developments which, especially in newly industrialised countries, are promoted by a city-marketing policy or by famous architects, and are considered as the landmarks of recently achieved industrial strength. The key characteristics of modern cities rather seem to be the increase in the flow of and the need to have access to information, as indicated by:

- (a) mobility during working time for business meetings and also during free time for shopping and for social purposes,
- (b) the tight interactions between people needed for the creation of new knowledge both by the firms and by the individual workers, and
- (c) the increasing need for socialisation among citizens.

A second related characteristic of modern cities is the diversity of people, firms, and actors, coming from different sectors, cultures, and countries.

Thus, in a knowledge economy, the economic and social system of a metropolitan city looks like a “puzzle” of diverse information, knowledge, structures, people, and also of different policy agendas. As in the story of the city of Babel, the confusion of languages divides the various groups and may make them unable to understand each other. However, this seeming disorder of various material, human, and immaterial elements that make up a modern city creates a stimulating environment and pushes local actors towards the continuous search for harmony, a design of a formal order within the city. The creation of a new order or the intelligent solution of this “puzzle” requires, on the one hand, the production of new knowledge. On the other hand, it gets policy-makers to search for a common identity or for some forms of governance, and for co-operation among the various, often conflicting actors in the urban community in order to achieve greater social cohesion, security, and well-being.

Interactive learning, knowledge creation, and innovation are dynamic and interlinked processes in urban, regional, or national innovation systems, and also across regions and countries. Knowledge is a special good which does not get exhausted with use, while it can develop gradually through the combination of its old and new components. This process of knowledge creation is enhanced by the spatial proximity of various actors. In this respect, cities enjoy a competitive advantage over rural areas. The large size of the urban economy allows a greater number of consumers and producers, and a great variety of consumer preferences, as well as of labour competencies. Cities have a large and diversified market, and a

strong demand for new activities. Many workers and firms are located in a city that allows the utilisation of a large pool of knowledge or competencies.

Moreover, cities are more open to the external world and are more accessible to distant customers or suppliers. This leads to an easier access for cities to complementary knowledge and accelerates the process of innovation.

It has to be pointed out that knowledge affects not only the structure of the “production function” of the firms but also the “utility function” of people, influencing both the labour demand of firms and the demand for goods by the consumers (Cappellin 2012), as indicated in the model in Figure 1.

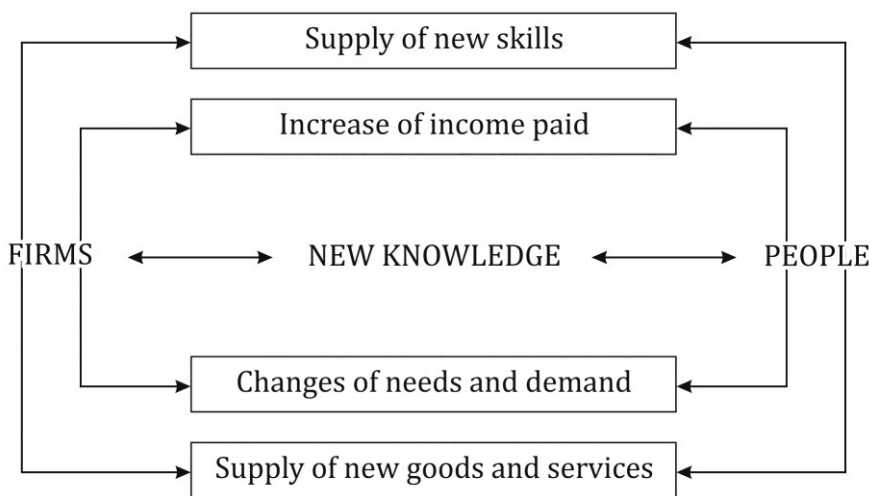


Figure 1. The process of urban growth and the creation of new needs and new skills  
 Source: Author’s elaboration.

First, greater knowledge has an impact on the demand and supply of labour in the labour market. Firms exploit the new individual competencies of the workers and combine them in order to adopt new technologies needed in the production of new goods or services, but also in order to increase the productivity of traditional sectors.

New knowledge gets firms to increase the demand for qualified employees and motivates households to supply more educated workers to the firms. The greater productivity of workers leads to an increase in wages which, at the same time, is crucial for creating additional demand for firms to sell new products and services.

Secondly, greater knowledge has an impact also on the demand and supply of goods and services. It generates new needs by people and an increase in the demand for more sophisticated and innovative goods and services.

Firms are thus stimulated to replace traditional production and services by the specialised production of innovative products and services. The interaction between firms, the availability of qualified labour force within cities, and the combination of their competencies encourage the birth of new firms, often created as spin-offs from existing companies.

Thus, the process of development in urban areas is based on the one hand on the increasing differentiation of local consumption and the new needs by households and by firms, while on the other hand it forces the firms and the labour force into a gradual transition from traditional services to modern ones.

This process of increasing specialisation is very similar to the creation of variety and the increasing division of labour through the birth of new firms as illustrated by Marshall in the case of the “industrial districts” based on many small industrial firms, or by the modern evolutionary approach highlighting variety creation and market selection.

This continuous differentiation of labour supply and of production capabilities of the firms together with the differentiation of the pattern of demand by the urban citizens may be defined as a process of “endogenous growth” (Cappellin 2003, Cappellin – Wink 2009), since it does not depend on external demand and on the attraction of investments from other regions and countries. This makes the economic development in modern metropolitan areas different from the export-led urban development of highly specialised “company towns” during the early industrialisation phase of the national economy, and also from many small and medium-sized cities which base their growth on the attraction of external investments and employers.

### **The Role of Consumption within the City Economy**

The traditional economic approach relates the growth of urban economy to the growth of large industrial firms and the exports of industrial products, like in the case of automobile productions in Turin, Detroit, or Paris. However, as indicated above, economic growth in a city may have an endogenous character, and internal demand generated by local investments and local consumption of services and goods may become its driver.

The growth of many cities, especially in their phase of urbanisation, was driven by a boost of population, massive immigration, and by huge investments in construction both in housing and in public transport, energy, and other infrastructures. In fact, the growth of the construction sector is determined by demographic expansion, and it has been a major demand stimulus not only for the local but also for the national economy, as we have seen it in the case of China or India. The construction sector has low import content, and has a considerable multiplier



effect on the volume of aggregate urban product. Thus, the growth of a city in developed economies may be pulled by massive investments related to the organisation of major events, such as Olympic Games or a large World Expo.

As we have said above, cities are national and global market hubs that allow producers greater access to different groups of customers, and citizens get access to a wide scope of goods or services to be purchased. On the other hand, cities are not only centres of production, but also places of residence, since in all countries a growing ratio of inhabitants live in cities.

This demand makes us consider a new dimension of the knowledge economy. Knowledge, as indicated above, affects not only the structure of the “production function” of firms, but also the “utility function” of people. In fact, the knowledge economy is characterised by the development of new needs and lifestyles leading to the development of demand for new products and services.

Knowledge thus affects consumer behaviour. While a “linear model” focuses on the adoption of new technologies, an evolutionary perspective and the network model of innovation focus on the process of interactive learning between the consumer or the user on the one hand and the producer on the other. Traditional aggregate growth models do not consider the role of interaction between the various actors as a factor leading to demand for new products. However, recent economic literature highlights five different forms of close producer–user interaction (Cappellin 2011).

The first case is “demand-led” innovation (Fagerberg 2005, Tidd – Bessant – Pavitt 2005), when “specialised suppliers”, e.g. in the machine tool industry, adjust their products to the specific needs of their customers.

The second important case of close producer–user interaction is related to the field of services (Howells 2002, Strambach 2008, Cappellin 2009, Muller – Doloreux 2009), as they require an active role of the user in their production. Services, such as management consulting or education, are “co-produced” by the supplier and the user, since there is no separation between the production and the consumption of a service, as there is in the case of goods.

The third case is that of “user innovation” (von Hippel 1994 and 2001), typical examples of which are when new, specialised medical equipment is designed by the doctors themselves, or when specific sports equipment by the champions in certain sports. In fact, the user may have such important, specialised personal needs and may have accumulated such experience or competence in a specific field that enable him/her to design, experiment, and produce a specific good or service, with or without the help of a technologist or a specialised firm. Later this equipment or service may be produced by industrial or service firms, too.

A fourth case of tight interaction between consumers and producers is related to “club goods” (Buchanan 1965), that is, to activities of specific communities

voluntarily organised by a group of people in order to use specific goods or services jointly. A "club good" is a type of "public good" from the consumption of which it is possible to exclude people who do not share the costs of the service, but where use is collective and there is no rivalry in consumption up to a given limit where demand exceeds supply. In general, consumers are members of specific communities characterised by similar consumption behaviours. In this interpretation many consumer goods may be defined as "club goods". Specific examples are the co-operatives of consumers or the sport and cultural associations. Consumption in these cases is a social activity, just as in the case of housing where the measurement unit is the household and not the individual.

The case of "club goods" also has a geographical aspect, since people in a club should live close to each other to share the same good. Club goods are very important in cities, but even cities and other territorial communities themselves may be defined as "club goods". In fact, people who live in a city are willing to pay the higher costs (e.g. higher rents) because superior goods and services are available there compared to rural areas. Moreover, citizens choose to live in a given ethnic community or in communities with similar preferences, and they are willing to move in search for a community closer to their preferences.

In fact, knowledge, too, can be considered as a "club good" rather than a "public good". Knowledge on the one hand allows non-rival consumption, but on the other hand there are barriers limiting the access to specialised knowledge for those who do not have the necessary educational background. The access to specialised knowledge requires previous tacit knowledge shared within specific communities. Thus, consumers and producers sharing common knowledge within specialised communities can be considered as sharing the same "club good".

Finally, the fifth case of significant user-producer interaction in cities is that of the consumption of "relational goods" (Becchetti - Pelloni - Rossetti 2008, Gui 2005), where the use of the good or service by a person implies the parallel use of the same good or service by another person. Relational goods are produced and consumed at the same time through participation in some social activity. They respond to the need for socialisation and the pleasure given by sharing common experiences with others.

Common consumption as a social activity increases individual well-being. Emerging needs of people and firms have an interactive or collective character. This corresponds to the simple observation that it gives more pleasure to eat and drink with others than alone. Various new services may be defined as "relational goods" where the actor takes pleasure in the interaction with others, like in the case of certain sports, cultural and scientific activities. Here the benefit for the consumer is not just and not primarily the use of a specific good, but rather the access

to immaterial goods, such as positive social feedback or reputation within the specific community.

Thus, the consumption of relational goods is not only related to a monetary exchange between the individual consumer and the individual producer, but rather to the complex and changing distribution of individual roles within communities interested in the use or production of the considered goods or services. Belonging to a specific community and the adoption of its consumption patterns explain the similarities in the preferences of individuals, whether we take the cases of food and clothes consumption or choosing the housing location or the forms of passing leisure time.

Within communities the actors share not only goods, services, and knowledge, but also emotions, a sense of common belonging, collective identity, various forms of solidarity, which bind them together. The sense of belonging is a typical characteristic of human nature, and also of other living species, in response to their need for security. In fact, cities had first been created in order to defend their inhabitants from external dangers, and even today the mass immigration to large cities in developing countries is explained by the belief in the opportunity to have better access to basic goods and services such as food, modern houses, health care and education.

These five cases indicate that cities host frequent user–producer interactions. These may stimulate the production of new goods and services that go together with the creation of new jobs fairly important for urban governance aiming to increase overall employment within metropolitan areas characterised by large social groups with high structural unemployment.

A policy agenda for the economic development of urban areas can be based on many new investment initiatives such as material and immaterial investments in innovation; investment in research and innovation; launching large strategic investments organised by networks of firms; investments in tertiary education and continuous learning; investments in the employment of young, highly qualified workers; enhancement of back-to-work programmes for retired people; energy saving investments in urban buildings and in the production and use of renewable energy; protection from natural disasters and improvement of the natural environment within cities; development of healthy nutrition and of agro-food production close to urban areas; investments in tourism, cultural activities, and other activities related to free time, socialisation needs, and sports; investments in health and wellness services; the development of social services for groups in need; investments in metropolitan and suburban rail links for commuters and investments in international freight transport by air or by rail; enhancement of social services provided by non-profit organisations; new housing for low-income households; improvement of the efficiency and quality of the public services; investments in the

fight against organised crime and in the control of corruption in public and private organisations, etc. All these are compatible with the “Europe 2020” development strategy of the European Union (EC 2010).

However, a change in policy actions should be accompanied by changes in the forms of public governance and by an enhancement of the initiatives of private actors. The traditional approach to public investment is not a viable solution any more due to the need to reduce public debt. On the other hand, the traditional free-market approach is clearly ineffective in promoting urban growth, since urban areas are characterised by the pervasive effect of external economies and, instead of greater competition, higher co-operation is needed in order to promote investment in many innovative fields. Moreover, the free-market approach leads to an oligopolistic concentration due to the existence of natural monopolies in the provision of many services in a specific urban area, and this widens the disparities in income and wealth. A third alternative in a knowledge economy is the multi-level governance approach (Hall – Soskice 2001, Kaiser – Prange 2004, Cappellin 2010), which is based on negotiation and consensus, the diffusion of information, interactive learning and various forms of co-ordination among the different local actors.

## Conclusions

Transition to a knowledge economy brings changes for modern metropolitan areas in four interrelated fields: the labour market, the pattern of consumption, the physical structure of the city, and the forms of governance. In brief the changes could be described by the increasing share of “knowledge workers”, the growing need for new services, “club goods” and “relational goods”, the greater mobility and diversity of people, and the need for new governance approaches facilitating the co-ordination of an increasing number of different stakeholders.

In a modern knowledge economy, policy strategies for promoting urban competitiveness and growth in large metropolitan areas should be different from the traditional “export-led” strategies usually followed in smaller industrial cities. The growth of a city does not depend solely on competition for external investment. On the contrary, the process of economic growth in a city may have an endogenous character. Internal demand generated by local investments and the local consumption of services and goods may become the drivers of economic growth of a city.

Our study has illustrated an “endogenous model” of economic growth in large modern cities, according to which new services develop because of the increasing differentiation of the needs of customers, satisfied by the utilisation of specialised knowledge within firms in providing new services. We have demonstrated that urban growth can be driven by the development of internal demand instead of

attracting external investment, and that the main drivers of the economy in a modern city are the emerging needs of citizens rather than exports.

However, the creation of new markets requires co-ordination at the local level. Cities and regions are closer to people and to firms, so they can react to local needs and utilise the capabilities of people and firms more efficiently, by stimulating private consumption and investments. The development of knowledge economy needs greater involvement of cities and regions, and cannot be left only to national governments.

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# **BUSINESS & FINANCIAL SERVICES OFFSHORING IN CENTRAL AND EASTERN EUROPE**

*Zoltán Gál*

## **Introduction**

The rapid surge of globalisation, opening up formerly isolated regions such as Eastern Europe, Russia and China to global trade, has substantially boosted task trade and service related cross-border investments. After and parallel to outsourcing/offshoring the low and medium-skilled production processes in manufacturing from developed to low-cost developing countries, similar processes have emerged in services (Bryson 2007). Central and Eastern Europe (CEE) have played a considerable part in both processes. Relocation of these activities have grown rapidly, particularly after 2000, especially the new EU member states (NMS) of the region have begun to act as host for this type of investment (Gál – Sass 2009).

The significance of offshoring is often overestimated because still only a small proportion of services are transferred abroad (Amiti – Wei 2004 and 2005). In fact, offshoring by no means generates as drastic effects as one might expect from the ongoing political debate on job losses (Mankiw – Swagel, 2006). The literature concentrates mainly on home country impacts, especially in terms of job losses, relative wage decreases for unskilled workers and welfare implications (Hansen – Schaumburg-Müller – Potter 2007). However, host country impacts have hardly been researched though these may be wide-ranging. Even research on the job-creating impact in home countries is missing (Jensen – Kirkegaard – Laugesen 2006, Ekholm – Hakkala 2006). Offshoring skill-intensive activities to Central and Eastern Europe has contributed to relative wage decrease for skilled workers in some sender countries and increased productivity in host countries<sup>1</sup> (Protsenko 2003, Marin 2010).

Service offshoring-related impacts – such as outputs, value added, employment, foreign direct investments and exports in services – have grown rapidly, particularly in the NMS after 2000. Most of the papers are still dealing with the consequences of offshoring to low-wage countries for the labour markets in the West

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<sup>1</sup> Protsenko (2003) finds that German vertical FDI in the Czech Republic has positive effects on the productivity of local firms, while horizontal FDI does not have such effects.

(Amiti – Wei 2005, Kirkegaard 2005). Fragmentation and “trade in task” theorems developed by Jones and Kierzkowski (1990) and Grossman and Rossi-Hansberg (2006) examine the new role of services in international trade. Advances in this process have made it easier for companies to disaggregate their value chains around the globe, and to disperse service production among numerous supplier firms even in distant locations.

The relocation of services also conceptualises the types and impacts of foreign direct investments in business services within the Global Production Network (Fernandez-Stark – Bamber – Gereffi 2011) A bulk of research examines offshoring as a part of worldwide structural shift towards service-based foreign direct investment (Bryson 2007, Grote – Täube 2006, Bevan – Estrin, 2004, Hardy 2007). However, current economic statistics do not provide reliable indicators for the scale and characteristics of offshoring, therefore our knowledge of the developments in services outsourcing/offshoring is limited because of data and measurement problems. Due to problems of collecting data on business service investments, statistics have been supplemented with qualitative research in recent studies (Hardy 2006, Capik 2008, Fifekova – Hardy 2010, Sass – Fifekova 2011).

This paper attempts to examine the scale and sectoral characteristics of services offshoring in six NMS<sup>2</sup> (hereafter NMS6) by means of using trade data in order to partially overcome the scarcity of consistent empirical contributions in measuring the actual significance of NMS in offshoring services. Despite the deficiencies of reliable and consistent data sources, balance of payments statistics including the exports of services are still the most closely related to offshoring/outsourcing. The paper is divided into three sections. Following the introduction, the first section gives an overview of the service offshoring position of CEE and discusses the measurement problems of service offshoring. It examines the service trade trends in various business and ICT (information and computer technology) services, and BoP<sup>3</sup> trade data in order to find evidence of offshoring-related service intensity in the NMS. The second part explores the reasons for the comparative advantages of the CEE region as an offshoring hub.

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<sup>2</sup> Bulgaria, Czech Republic, Hungary, Poland, Romania and Slovakia.

<sup>3</sup> Balance of Payment.



## **Central and Eastern Europe as an Emerging Offshoring Hub – Evidence From Trade Statistics**

### *The Increasing Role of NMS in the Global Offshoring Market*

The tradability revolution in services has resulted in a rapid surge of locational transfers in service activities. Within Central and Eastern Europe the NMS of the EU have achieved the most enormous progress in modernising their service industries and following the turn of the millennium they have witnessed a rapid shift towards services. Countries of the region have gained importance as offshoring locations. The extent of relocation, however, was much smaller than perceived on the basis of information from the media (Hunya – Sass 2005). In 2003, CEE with its \$1 billion share in the global offshoring market (which is worth an estimated \$40 billion) lagged far behind the more prominent locations (McKinsey 2005). The share of Visegrad countries in the global business services FDI was less than 1% in 2008. Nevertheless, the share of CEE has been rapidly growing. In 2003, only 5% of service-related global FDI projects were realised there, while in 2006, 22% went to regions in these countries. However, the number of current projects in Western Europe continues to exceed CEE projects – 1600 and 220 respectively (Sass 2008, Gál – Sass 2009).

CEE is still an attractive supplier for mainly continental European corporations, albeit a growing number of outsourcing service seekers from Western Europe have found Bangalores in their own backyard. Major companies after having targeted India and its Asian companions as the prime destinations for offshoring services sector jobs, are now looking towards Eastern Europe to meet their nearshoring requirements. During the first stage of service offshoring, captives in the form of shared service centres were the main service providers, while recently independent global vendors are also opening their new offshore outsourcing centres in CEE to serve their European clients (Gál – Sass 2009).

### *Measurement Problems of Offshoring Services*

The main driving forces of offshoring to CEE are closely related to the FDI inflows as the region became an increasingly popular destination for foreign investors seeking to expand their market and to gain access to cheap resources. The NMS particularly benefited from the worldwide structural shift towards (business) service-based FDI. Fifeikova and Hardy (2010) calculated that service-based FDI that flew into the Visegrad 4<sup>4</sup> countries between 2001 and 2008 reached more than 60% of total FDI.

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<sup>4</sup> Czech Republic, Hungary, Poland, Slovakia.

Analysing the patterns of service sector investment and trade, indicators derived from FDI, trade and employment statistics would be optimal for measuring the extent of service offshoring activities in CEE and the relative positions of the countries in this process. However, we are facing various measurement and data problems (Chakrabarty 2006, Sass 2008). FDI data in services can be problematic and vary to large extent depending on the source of the statistics.<sup>5</sup> FDI plays an important role in offshoring, but it is more difficult to quantify it, instead, services trade data provide a more reliable source of measurement. First of all, one has to make a distinction between FDI serving the foreign market, offshoring and off-shore outsourcing. Offshoring is usually connected to FDI, though not all FDI is offshoring (Kirkegaard 2005). Sass (2008) discloses that constraints of FDI data lie not only in their unreliability, but also in their limited size in services compared to manufacturing investments.<sup>6</sup> Detailed data on employees involved in different types of service activities would provide a good proxy, although these are not available in most cases.<sup>7</sup>

Considering the shortcomings in different statistical sources, the indecisive evidence of the consultancy reports and the lack of a commonly accepted definition of offshoring, this paper uses trade data derived from the Balance of Payments statistics. This gives a good approximation to identify the trends in those sections of service trade which can be regarded as offshorable, helps to identify the geographical direction of contemporary relocalisation processes within the region, and it also highlights the shifts in county level performances in attracting offshored services. In the case of vertical investment, where the motivation is primarily to take advantage of the local resources and not to serve the local market, the majority of the services produced are immediately exported. These service activities are highly export oriented and their export intensity is also very high (around 100%). That is why trade data give the relatively most relevant proxy for calculating the extent of offshoring and outsourcing these services. The growth of vertical

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<sup>5</sup> It is mainly due to definition problems of the service sector in general, and the lack of generally accepted and standardised classification of services, which particularly applies to the breakdown of subdivisions (e.g. classification of business services). Moreover, various names are used for describing the same and similar subgroups (e.g. other business services, knowledge-intensive business services, computer and business services etc.).

<sup>6</sup> The invested amount of capital and the costs of setting up service centres (renting office space, training and recruiting employees) are negligible to manufacturing investments, therefore the volume of services FDI does not reflect the real extent of service sector investment. In sum, offshore outsourcing is usually less connected to FDI than to trade.

<sup>7</sup> Labour data can also be misleading due to the problem of differentiating among the relevant jobs according to the ownership of companies involved (e.g. independent domestic providers are also included in the data) and between service and manufacturing activities.

investments in the service sector therefore also leads to increased exports in services. The majority of exports from the NMS is directed towards the EU (export from Visegrad 4 countries to EU reached 70%), which illustrates that service centres provide services mainly for customers and subsidiaries within Europe (Fifekova – Hardy 2010).<sup>8</sup>

### *Services Offshoring Market in NMS – Evidence from Trade Statistics*

Services trade data, due to their statistical shortcomings, would be indicative only and allows us to measure the extent of offshoring and offshore outsourcing in an indirect way. Following the international methodology (UNCTAD 2005, Amiti – Wei 2005, Ghibutiu – Poladian 2008, Sass 2010) two service categories are suitable for approximating the size of trade in offshorable services.<sup>9</sup> ICT services and other business services (OBS) are the most inclusive categories that can be regarded as potentially offshorable services.<sup>10</sup> Eurostat data make international comparisons possible at a more detailed level.

Export services data in the case of the six new EU member states (NMS6) included in this study provide an approximate method to define the extent of offshoring services.<sup>11</sup> Exports in services in NMS6 have been expanding from a very low base, amounting to 63 billion Euro by 2007, which is almost 3 times higher than that in 1996. The share of NMS6 in the global service exports is modest (2.8%), illustrating the still low service export capabilities of the region, although its growth rate is higher than the global or the EU15 average. In absolute terms, shown in Figure 1, Poland, the Czech Republic and Hungary are the leaders in this field.

It is widely accepted that offshoring services mean the global sourcing of business and IT services from abroad. Therefore to find further evidence of offshoring-related service development, export data on the so-called “offshorable services”,

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<sup>8</sup> Between 1992 and 2005 the increase in global imports of CIS (computer and information services) and OBS (other business services) by EU15 accounted for 9.5%, while their imports from CEE over the same period increased by 13.5%. By comparison, the total service imports rose just 6.7% (Meyer 2006).

<sup>9</sup> Sass (2010) explores several methodological problems related to the exact quantification of offshoring services, and stresses the difficulties in grouping those particular service categories which are affected by offshoring, partially because the NACE classification packs together offshorable and non-offshorable service categories.

<sup>10</sup> As Ghibutiu and Poladian (2008) pointed out, it is difficult to distinguish between offshorable and offshored service parts because not all service trade is related to offshoring, nor is it possible to distinguish between affiliated and unaffiliated trade, or to differentiate between captive and independent providers, respectively.

<sup>11</sup> Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovakia. The share of NMS6 in the total service export of NMS10 is 85%.

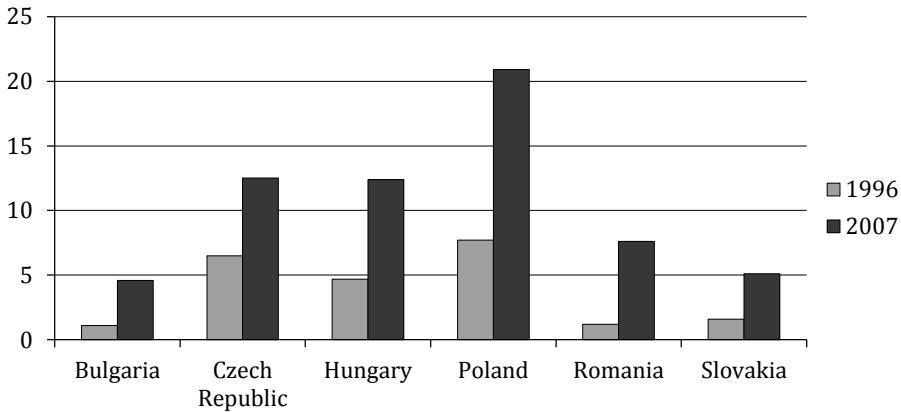


Figure 1. Exports of services in NMS6 in 1996 and 2007 (EUR Bn)

Source: Author's calculation based on Eurostat and IMF BoP data.

namely on the other business and ICT services, have to be collected for NMS6 using the Eurostat database. The increased tradability of these subcategories is more visible in the patterns of services trade, and their export/sales intensity is the largest among services (Sass 2008). The share of offshorable services within total service exports steadily grew from 16% to 24.2% between 1997 and 2007.<sup>12</sup> The total value of offshorable services in NMS6 was equal to 15.3 billion Euro in 2007 and within this aggregate the overwhelming dominance of business services (85% on average) is striking. In absolute terms, Poland and Hungary are the largest traders followed by the Czech Republic and Romania (Figure 2).

The export of services has grown significantly in the region. In comparison to 1996, the level of service exports tripled in the Visegrad countries by 2007. Within the service sector the growth rate of offshorable service export increased the most dynamically (by an average of 20%) and Romania, Poland and Hungary experienced the highest growth between 2002 and 2007 (Figure 3). This could be explained by the rapid growth of export oriented vertical investments in the form of shared services-centres.

Due to the rapid growth of offshorable service exports over the period of 2002–2007, in combination with the slower expansion of imports, the deficits decreased steadily and this resulted in net trade gains amounting to 800 million Euros (2007) in NMS6. Hungary reached an export surplus by 2004, earlier than the neigh-

<sup>12</sup> At country level some offshorable export shares increased even more between 2002 and 2007: Hungary from 20% to 32%, Romania from 24% to 30% and Poland from 13% to 21%.

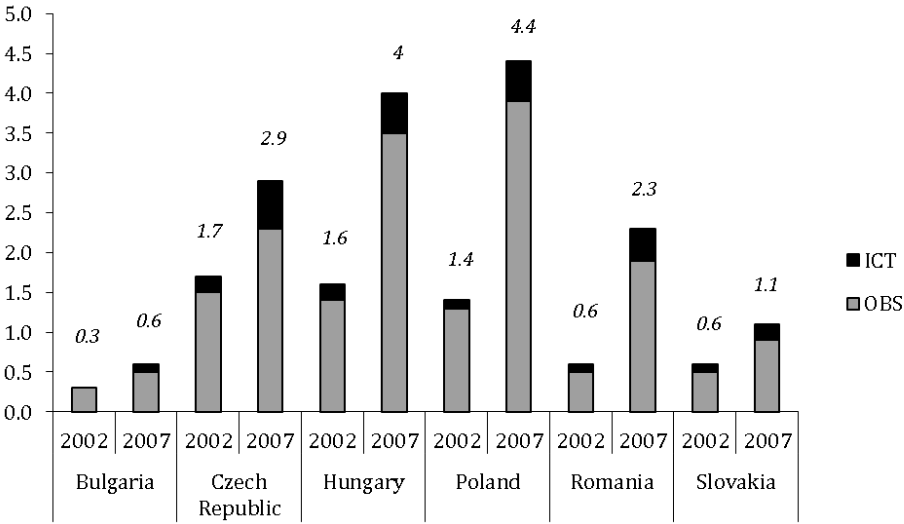


Figure 2. Exports of offshorable services and their sectoral composition in 2002-07 (€ Bn)  
 Legend: ICT – Information and Communication Technology Services; OBS – Other Business Services.

Source: Author’s calculation based on Eurostat BoP data.

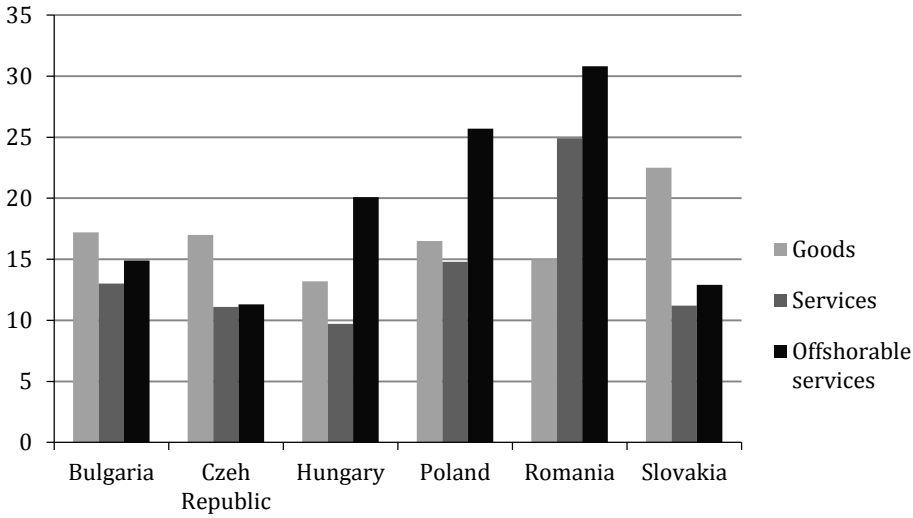


Figure 3. Average annual growth rates of different export sectors in NMS6, 2002-07 (%)

Source: Author’s calculation based on Eurostat BoP data.

bouring countries. Poland reduced its trade deficits more rapidly, and turned it into a small surplus, while Romania achieved the highest surplus by 2007 within the shortest time (Figure 4).

Service trade statistics are supportive of the preliminary assumption that offshoring generated expanding exports in particular service categories and a large proportion of business export services in the NMS has been associated with offshoring. However, it is obvious that not all this kind of trade is provided by offshored services.<sup>13</sup>

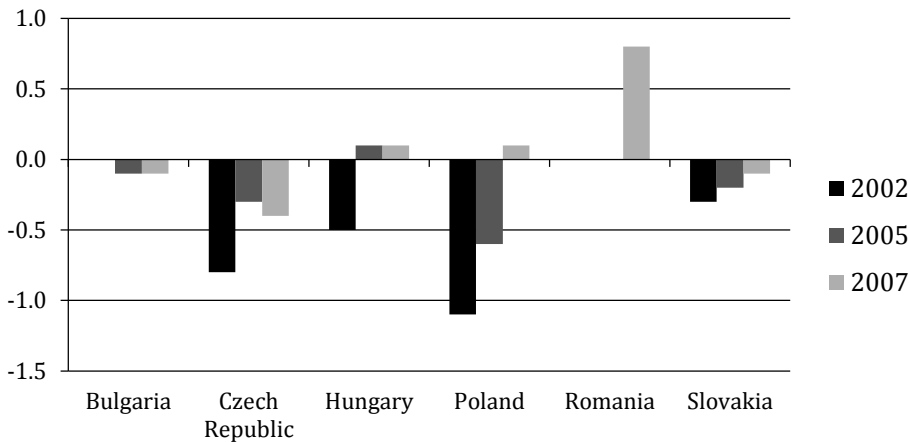


Figure 4. Net trade in offshorable services in NMS6 in 2007 versus 2005 and 2002 (EUR Bn)

Source: Author's calculation based on Eurostat and IMF BoP data.

## Future Bangalores? – Offshoring Advantages and Disadvantages of the NMS

### *Comparative Advantages of Nearshoring Services in CEE countries*

Due to the methodological constraints, quantitative data alone are not suitable for revealing the complexity of offshoring services. Besides findings based on statistical data there are qualitative approaches to identify the main motives of companies relocating service activities in the NMS and to define the comparative advantages of regions which arise from the combination of geographical, organisational and cultural proximity to Western Europe.

<sup>13</sup> These data do not show how much of the offshorable service exports are really provided by offshored service centres, neither do they distinguish between the different organisational forms of offshore outsourcing and captive offshoring.

On the demand side, growth and new business strategic directions are encouraging more and more European companies to establish service centres in locations with strategic geographical position in the CEE region. Strategic locations provide good accessibility to potential customers and also indicate the geographical direction of future market expansion of companies. Another driver is the rise of the global service delivery model which creates a pool of global service centres around the world incorporating CEE as part of a global system (Gál 2009). The “closer to home” strategies of MNCs are applied when investors prefer the establishment of services-centres in close proximity to the home country. “Nearshoring” means relocating service activities to a foreign, lower-wage country that is relatively close in distance and within the same continent or time zone<sup>14</sup> (Jahns – Hatmann – Bals 2006, Bryson 2007). Jensen, Kirkegaard and Laugesen (2006) show that the importance of nearshoring in many cases overwrites cost considerations. Carmel and Abbott (2007) emphasise the importance of time zone and distance, which make the selection of service centre locations a very important issue. The distance just like different time zones will also increase the costs of face-to-face interactions (Rao 2004). The preference for nearshoring partly explains the growing particular attraction of the NMS in business services offshoring/outsourcing.

Another important driver of the relocation of services to CEE is the insufficient number of qualified labour in home countries. Marin (2010) found that indeed the high-skilled jobs are moving to the east due to the scarcity of human capital in the sender (home) countries.

On the supply side, locational advantages determine which countries are chosen as hosts for new or relocated service centres. These advantages are similar to those of efficiency seeking investments. The most important of these is the availability of those factors of production that are used intensively in the production of the service in question at a lower cost. It can also be argued that the attractiveness of CEE is based on talented, highly skilled labour and geography too, rather than simply on low wages and a vast labour pool. Three groups of apparently important capabilities drive the nearshoring advantages of CEE.

First, these countries have close geographical, political and cultural ties with Western Europe. The advantages of EU membership not only diminished the external risks, but dramatically simplified the administration cost as well. CEE as a nearshoring location scores high marks because of its lower cost for communication between the customer and the service provider. Nearshoring locations not only reduce costs and risks of working with distant foreign companies, but also

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<sup>14</sup> Some companies have special operation requirements within a time zone to provide 24-hour services for other than EMEA (Europe, Middle East and Africa) region (Fifekova – Hardy, 2010).

simplify personal contacts. Besides close proximity that may improve the efficiency of day-to-day information exchange to a service provider, nearshoring allows companies to facilitate control and smooth operation (Abott – Jones 2002). Being in the same time zone is a huge advantage, especially if projects require frequent travelling, and also CEE is particularly interesting for companies that require voice and customer-facing services in their mother languages<sup>15</sup> (Meyer 2006).

Secondly, the comparative advantages of CEE still lie to a large extent in the wage differences, as cost savings are still one of the most important motives for offshoring. In CEE labour costs are 40 to 60% lower than in Western Europe, although it varies largely within the region. Comparative advantages in wages between countries and regions can change relatively fast, although CEE will remain relatively cheap in the near future. Ultimately, no low-cost country can remain low-cost forever. Most of the CEE countries are not among the cheapest locations and outpace those of the low-cost Asian and Eastern European countries. However, the recent depreciation of the local currencies as a consequence of financial crisis sustains the cost competitiveness of the region for a longer period. Other than labour costs are also relevant factors for the selection of service centre locations. Costs of infrastructure, operating costs and taxes were the most frequently mentioned factors by the interviewed companies (Fifekova – Hardy 2010).

Thirdly, much has been said about the quality of labour in the region, which consists of a highly educated, well-trained and motivated workforce, achieving a high degree of productivity and flexibility. However, the nature of the skill requirement of the activities has some subtle characteristics. CEE countries do not only have factor price advantages compared to more developed countries, but they also have a “knowledge advantage” in some submarkets compared to other lower priced countries in terms of the knowledge of “smaller” languages and the supply of well-educated university graduates. In total, CEE produces a much lower number of university graduates than its large Asian counterparts. However, the CEE graduates turn out to be far more suitable to work for TNCs. According to the McKinsey survey, job candidates from CEE had higher suitability rate (around 50% on average, whereas 80% in developed countries) across all occupations than their Asian or Latin American counterparts (McKinsey 2005).

Fourthly, other non-cost related factors should be considered as well when choosing offshore locations. Good quality telecommunication infrastructure is also an important locational factor and the quality of this infrastructure is now high and can be used at reasonable prices in these countries. This is also true for office

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<sup>15</sup> In Eastern Europe, the share of German speaking graduates can be as high as the number of English speaking ones. (Nearly 30% of schoolchildren learn German, while 70% of them English.) Romania is a particularly interesting destination for French companies, as 85% of schoolchildren learn French there.



space. In order to ensure smooth functioning of the service plant, certain other services (e.g. financial, other business services) must be available. Moreover, a good legal and regulatory environment with effective enforcement is important. These conditions are now present in the required quality in those NMS countries where general levels of legal compliance are high. In some cases protection of intellectual property is indispensable, which lends a competitive edge to these countries over China or Russia. EU membership also encourages high “trust” in business relationships (Gál – Sass 2009).

### **Conclusion**

Offshoring has been a stimulus to develop CEE as an important destination for resources seeking services investment. New member states invigorated by EU enlargement became important locations for shared service centres. The growth of vertical investments in the service sector results in increased exports in services. Trade statistics support the assumption that an expanding export in other business and ICT services has been associated with offshoring services in the NMS. The service export data adopted from the Balance of Payments statistics give a good approximation to identify those sections of service trade that can be regarded as offshorable.

The improving net trade position of NMS in offshorable services has moved from deficits to growing surpluses, illustrating the shift towards the higher value added KIBS (Knowledge Intensive Business Services). The paper also argues that due to the discussed measurement problems, calculations based on BoP trade data are only indicative and an indirect way of measuring the accelerated pace of this process. Determining the actual extent and patterns of service sector investment requires a combination of quantitative and qualitative research.

Besides findings based on statistical data, there are qualitative approaches to identify the main motives of companies relocating business and ICT service activities in the NMS and to define the comparative advantages of the CEE region as a whole. Building on the region’s nearshoring advantages such as geographical-cultural proximity and on its multilingual graduate supply, CEE is likely to utilise more value added and quality-driven services.

Despite the fact that the service industry is the most promising opportunity for the CEE economies, there are a few threats concerning the region’s future prospects as a major offshoring hub. It is not just the steadily raising costs. The size of the talent pool is still limited in CEE and, compared to India, the majority of the workforce still consists of young and inexperienced graduates. Another aspect of the problem is based simply on size. The population of the six largest Central European metropolitan areas is only equal to the population of the single Indian

city of Mumbai. On the corporate side, local providers in CEE failed to establish their global presence on the map, because of their smaller size and fragmentation, and they are attached to the local market instead of seeking out the global one. Another problem is the bureaucratic environment and the lack of assessment of the direct consequences of the financial crisis. However, the pressure to stay competitive is forcing both the companies and the host countries to exploit the further advantages of services offshoring and outsourcing.

The steady growth of services exports during the last decade have exerted a positive impact not only on companies' productivity, but on the host countries' economic performance as well. Services offshoring also generates increased pressures on the NMS to adjust their economies and manage the challenges raised by the rapidly changing global offshoring landscape by continuous upgrading of their comparative advantages.

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# **TERRITORIAL GOVERNANCE IN THE CONTEXT OF RIS3 SMART SPECIALISATION STRATEGIES**

*Jaime del Castillo – Belen Barroeta – Jonatan Paton*

## **Introduction**

In the current new competitive environment, “Smart Specialisation” has emerged as a territorial development model to increase the efficiency and effectiveness of economic systems. Smart Specialisation differs from previous models in its special emphasis on governance. Within this context, new RIS3 (Research and Innovations Strategies) Smart Specialisation strategies represent an opportunity to lay the foundations of a new governance approach to promote better co-ordinated, efficient and effective innovation systems. But all this raises a number of important and sophisticated questions from the point of view of the system and the process. The aim of this paper is to analyse the concept of governance in the RIS3 context, offering not only a critical view of the opportunities, but also the challenges and threats that arise.

The paper seeks to go beyond theoretical definitions of governance and presents a set of issues dealing with difficulties as well as recommendations arising from the implementation of Smart Specialisation. The paper then draws some conclusions to be considered by current practices to move towards regional Smart Specialisation. This process requires more sophisticated governance that is able to respond to theoretical and practical challenges. In the last section we also seek to open the door for future research that is unquestionably needed to develop this recently born field of research.

## **The Competitive Context**

Regions now face an uncertain environment with complex challenges, characterised by globalisation and economic, social and environmental problems. In this context, competitiveness has become a central topic of academic, business and political debates, related to the ability of the economies to improve the living standards and widen employment (Ketels 2006). In developed countries this leads to a continuously developing self-positioning through differentiation. Besides, as innovation has become the main tool for differentiation, it has also become the key

driver of competitiveness (Porter – Stern – Furman 2000). Many studies have shown the close relationship between efforts to generate knowledge and innovation and the level of economic prosperity (Romer 1986, Lucas 1988, Freeman – Soete 1997, Porter 2003).

The determinant factors of the current competitive environment can be classified roughly into four interconnected and interdependent dimensions (Figure 1). These can be interpreted along two axes, one of them referring to the logic and operation of the new economy (context-related challenges and competitive mechanisms) and at the other representing the territorial aspect (globalisation *versus* localisation) (Paton – Garatea 2012, Del Castillo – Paton 2012).

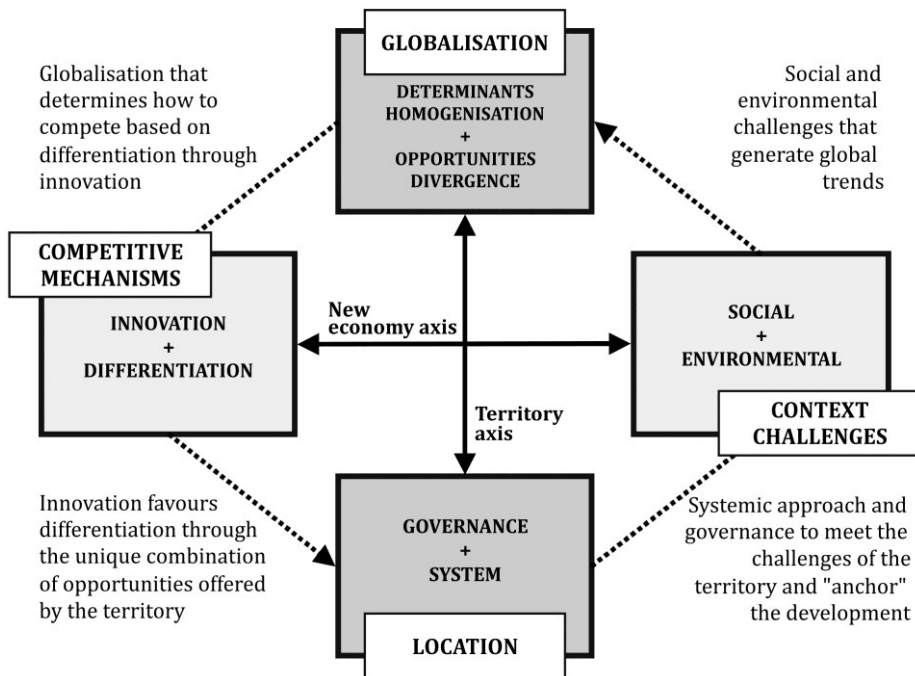


Figure 1. Major determinants of the current competitive context

Source: Compiled from Paton – Garatea (2012) and Del Castillo – Paton (2012).

Thus, along the first axis, the increase in the number of competitors has made differentiation and innovation the basis of competitiveness in responding to social and environmental challenges. Along the second axis, globalisation has increased the uniformity of the rules of the game [see Friedman’s (2007) “flat world”]. But it has indirectly enlarged the territorial differences, too, owing to unequal starting positions (Bhagwati 2010). It is this “glocal” approach (Beck 2004), which seeks to

put the territories into a global context, that has led to the idea of Smart Specialisation and the importance given to efficiency and effectiveness in the performance of the territorial systems (McCann – Ortega-Argilés 2011). The heterogeneity in the quality of governance has contributed much to uneven territorial development, so Smart Specialisation strategies aim to improve the capacity of each country to manage local and territorial processes better (Landabaso 2011).

### **Governance in the Framework of Smart Specialisation**

As Williamson (1985) points it out, the objective of governance is to respond to the limitations and barriers to optimal co-ordination that exist due to limited rationality, behavioural uncertainty and opportunism of parties in any given setting. However, all these elements vary with the changes observed in socio-economic contexts. At present, the constraints of the context force governance to follow a model of Smart Specialisation that, as noted in the introduction, implies greater sophistication and effort in its definition and articulation.

#### *The New Model of Smart Specialisation*

The concept of Smart Specialisation comes from the realisation of the fact that the structural “gap” between Europe and the USA (Pontikakis – Kiryakou – van Bavel 2009) is the result of lower economic and technological specialisation and less ability to prioritise and to dedicate consistent efforts at the regional level. This line of thought has been transferred to the new approaches of European regional policy in the context of Europe 2020, and has also established itself as one of the conditions for accessing the European Regional Development Fund (ERDF) in the 2014–2020 programming period (EC 2011a, b). Smart Specialisation is still a developing concept, initiated mainly by authors who currently advise the Commission itself (Foray – David – Hall 2009, Foray 2009, McCann – Ortega-Argilés 2011). We can say that *Smart Specialisation is based on the determination of priorities by territory, in the field of economic activities or scientific and technological domains that are potential generators of new market opportunities in a global context* (Del Castillo – Barroeta – Paton 2012a).

In sum, the concept can be broken down into three main points:

- (1) Determining the priorities of specialisation in technology, science, and economic activities in which the region is competitive and can concentrate its efforts and a critical mass of resources with a high potential return.
- (2) Exploiting the diversity emerging from the relationships between different domains and sectors, maximising positive externalities and generating new activities with the utilisation of knowledge.

- (3) Maintaining the consistency of processes by which specialisation takes place in that part of the global value chain where the region is a leader and has comparative advantage.

The conclusion by del Castillo, Barroeta and Paton (2012b) is that a good model of territorial development must be based on strategic governance capable of securing comparative and competitive advantages of the territory's (tangible and intangible) assets in a global context. In addition, it must be completed with the invention of new economic activities that change the regional economy through successive “waves of innovation” (Figure 2).

The way these principles are put into practice regarding the system (the role of components and the structure of their relationships) or the strategic process (definition, implementation, and monitoring) can and should vary according to the characteristics and conditions of each region.

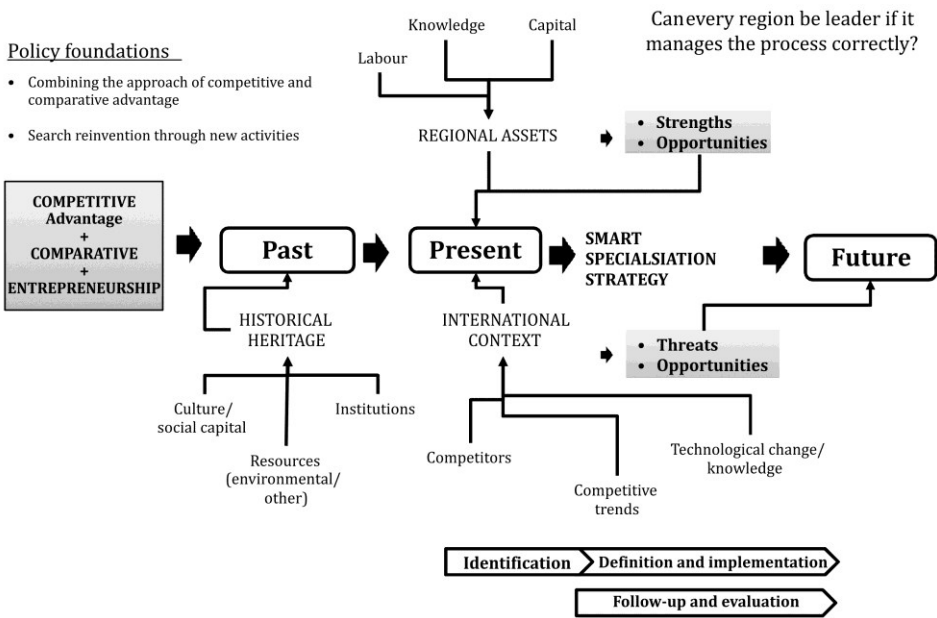


Figure 2. Conceptual structure and logic of the model of Smart Specialisation

Source: Del Castillo – Barroeta – Paton (2012b).

*Smart Specialisation as a Complex System*

The concept of specialisation is not new in economic theory, the novelty is only its application in the field of the regional development policies linked to the new European cohesion policy legislation (Del Castillo – Barroeta – Paton 2012b). This



explains why there are certain gaps between the different approaches related to the specific aspects of the policy to be covered, especially when it comes to the tools, the role of the agents in the innovation system, and governance in general. Up to now, the only references to this field can be found in the guide published by the IPTS (2012), in complementary thematic documents (EC 2012a, b, c) and contributions made by certain experts (Del Castillo – Barroeta – Paton 2013a, 2013b, EURADA 2012). A key factor of success in the governance of Smart Specialisation is how the involvement of the different actors and elements of the innovation system is managed, mobilising all its relationships in order to achieve greater efficiency/effectiveness. To do this, the need to move towards more participation in governance linked to the quadruple helix is emphasised (EURADA 2012, Landabaso 2011).

While participative governance was a key element already in the previous RIS, in practice it was not always subordinated to a bottom-up approach involving all the agents, and at that time the concept of the quadruple helix was not being used yet. Therefore, a critical task in Smart Specialisation strategies will be to identify those components of the system in each regional case that might play a leading role as well as to identify the (formal and informal) relationships and the social capital that shape and operate the system. According to del Castillo, Barroeta and Paton (2013b) it is important to involve:

- private-sector representatives related to those economic, technological, and scientific specialisation niches which are important in the region;
- regional R&D agents related to niches of technological and knowledge specialisation; and
- various public administration institutions applying a multi-level (state, regions, local administrations) and a multi-departmental approach as these institutions should provide the basis for good governance, they should define and manage the policies supporting the different actors while monitoring the progress of the governance process;
- other agents, entities, bodies and civic representatives, that is, all direct or indirect stakeholders in the process of regional Smart Specialisation.

Table 1 presents a summary of the role and possible contribution of these agents. In any case, the role of each agent in the system and the relationships established between them can vary depending on the nature of social capital as well as on the actual economic, technological and scientific conditions of the territory. As part of the strategy, a consistent differentiation of roles must take place, distinguishing merely collaborative roles from those that lead the processes and from those executing them.

Table 1. Components of an innovation system related to Smart Specialisation

Component	Role/Contribution
<i>R&amp;D subsystem</i> Universities R&D centres OPIs	Main generators of basic knowledge that subsequently leads to the development of key technologies. They are responsible also for the training of high-level researchers. They can give background to entrepreneurial discoveries, but to fulfil this task they must adjust their activity to the demands of the economy of the territory in question.
<i>Technological subsystem</i> Technology centres Training centres Business R&D units	Agents that generate knowledge according to market needs, close to the production network. They can be important mediators between science and business while having a clear field of expertise.
<i>Business fabric</i> Leading companies Micro & SME Entrepreneurs	Main actors of competition and generators of wealth and employment. No company can survive without a dynamic environment. Hence the need to rely on all links of the system to maintain and increase competitiveness. To improve the competitiveness of a territory an increasing number of innovative companies (“hidden innovators”) are needed, and entrepreneurial innovations have to be commercialised.
<i>Support Infrastructure</i> S&T Parks Incubators Cluster associations Advanced services Finance companies	Infrastructure is the <i>sine qua non</i> of the relations between subsystems (science–business–administration–users). Different stages of the innovation process (e.g. the transfer of knowledge or innovation in existing companies) need different types of infrastructure. In the framework of Smart Specialisation its role varies depending on the strategic approach, the field and level of specialisation of each territory.
<i>Regional administration</i> Government Development agencies	They play a key role in overcoming system failures related to R&D and innovation, and they guarantee the institutional framework of governance. In Smart Specialisation they should supply institutional and strategic resources for the territory and ensure that governance is ready to meet the arising economic, social, and environmental challenges.
<i>Communities of users and society</i>	Traditionally, and in spite of being the final “loops” in the value chain, users and society in general were the least involved actors in governance. In the framework of Smart Specialisation we should seek their involvement to reduce the distance between the generation of knowledge and its application to meet specific territorial challenges.

Source: Authors' elaboration.

*The Strategic Approach to Regional Smart Specialisation Strategies  
(Regional Strategies of Smart Specialisation, RIS3)*

As mentioned in the section above, the process of governance proposed by the Commission for the period 2014–2020 is not new but an updated and improved methodology used in the development of Regional Innovation Strategies in the previous period. Currently we are facing a paradigm shift (Del Castillo – Barroeta – Paton 2012a) that will affect both the orientation of the strategy and the instruments and, therefore, governance processes will differ from those in the 1990s.

This rethinking of the methodology must respond to the difficulties and bottlenecks encountered in previous strategic processes, and especially to the new challenges. So it will contribute, from a regional-policy perspective, to the new objectives of Europe 2020 (Landabaso 2011). This new approach includes the cornerstones of the Smart Specialisation model (specialisation, economic change, and globalisation) to maximise the development potential of each region. Also the “ex-ante” conditionalities required by the Commission as parts of the national and regional strategies must be considered. Among them appears the need to develop a SWOT, the definition of priorities and actions agreed, the identification of resources, and the monitoring and following of the strategy (EC 2011c). Table 2 is a summary of these issues in the context of Smart Specialisation.

*Table 2. Elements of an RIS3 strategy*

Elements	Implications in terms of RIS3
Reflection and definition	In this stage of the process there must be a strategic reflection regarding <ul style="list-style-type: none"> <li>- the priority areas in economic, scientific and technological terms;</li> <li>- the kind of governance that will assure entrepreneurial innovation across the process (quadruple helix);</li> <li>- the implementation tools; and finally</li> <li>- the mechanisms to guarantee the revision of the strategy and the improvement of governance with time.</li> </ul>
Implementation	The key is to maintain – based on the tools and procedures developed in the first stage – a governance mechanism that identifies entrepreneurial innovation and initiatives that generate wealth and employment. During the implementation stage, participative governance must allow to redefine the strategy according to the changing context – although with less intensity than in the reflection and definition phase.
Monitoring and evaluation	The monitoring of the strategy ensures continuous improvement, efficiency and effectiveness. Responsible monitoring needs indicators that provide the necessary information so that there be a periodically repeated refocusing of the strategy.

*Source:* Based on del Castillo – Barroeta – Paton (2012b).

Governance under these conditions is a much more complex issue than previously considered. In the new logic of cohesion policy, RIS3 could play a pivotal role in linking regional policy to policies at other institutional levels. It could increase the participation of regions in European programmes such as the Horizon 2020 and COSME (“*upstream*”), as well as improve the absorption capacity (“*downstream*”). In other words, the RIS3 could be an interface between the funds allocated at the regional level (cohesion policy) and other European policy mechanisms (Horizon 2020, COSME, etc.).

### **Key Aspects to be Considered for an RIS3 Governance**

The Smart Specialisation approach was born in response to the realisation of the fact that Europe lacks the critical mass and “excellence” of R&D innovation, as well as business networks capable of utilising it (Pontikakis et al. 2009). But its transfer to the field of regional policy includes a number of nuances that make the process of definition, implementation and evaluation of the strategy more complex. In the initial postulates of the European group of experts “*Knowledge for Growth*” (K4G)<sup>1</sup>, Smart Specialisation represented a theoretical model of governance that seemed logical and straightforward, but it required taking into account important implications for its matching with the logic of regional policy (Paton – Barroeta 2012). Below there is a description of the main opportunities related to RIS3 structures and the potential risks to keep in mind when considering governance within the frames of regional Smart Specialisation (Table 3).

### **Conclusions**

Searching for the opportunities of regional Smart Specialisation can contribute much to building competitive advantages that improve the positions of a country or a region in the world economy, and help finding a path of increasing wealth and widening employment in a context determined by the processes of globalisation. However, there are a number of risks that can turn opportunities into threats if there is no appropriate model of governance and the process of specialisation lacks coherence in its structure. The most important issue is how to develop this new model of governance so that it be able to involve the different actors and elements of the innovation system. At the same time, it must follow the priority areas selected in the process of specialisation and allow them to reinvent themselves from time to time. In short, it should be a new governance model that responds to

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<sup>1</sup> [http://ipts.jrc.ec.europa.eu/atagance/knowledge\\_for\\_growth.cfm](http://ipts.jrc.ec.europa.eu/atagance/knowledge_for_growth.cfm)

Table 3. Key aspects to be considered in RIS3 governance: opportunities and risks related to the process

RIS3 elements	Opportunities	Risks
<p><i>Prioritisation</i> Selection of priorities through specialisation patterns</p>	<ul style="list-style-type: none"> <li>- Allocating resources and efforts to a limited number of areas can help creating a critical mass in R&amp;D to achieve excellence.</li> <li>- Prioritising the demands of the business network facilitates the alignment of regional capabilities of R&amp;D with market opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>- Not all regions start from the same level in terms of entrepreneurial capability, sometimes resulting in the creation of bigger gaps between regions.</li> <li>- Reaching a critical mass and sufficient excellence in R&amp;D to match supply and demand is complicated when preferences in both fields vary.</li> <li>- The intermediary infrastructure must play a proactive role and be committed to the strategy, although practice does not always allow this.</li> </ul>
<p><i>Specialised diversification</i> Exploitation of regional related variety</p>	<ul style="list-style-type: none"> <li>- Taking into account that horizontal specialisation contributes to the rest of the economy (knock-on effects).</li> <li>- Exploiting the possibilities of regional diversity can lead to radical innovation and “rethinking” of the economic processes.</li> </ul>	<ul style="list-style-type: none"> <li>- A high degree of specialisation also brings further weakness in case of a crisis, a technological change or related to product/technology cycles.</li> <li>- It is difficult to clearly identify the scope of being “diversity-related”, and due to the novelty of the concept there are still no clear methodologies to clarify this.</li> <li>- If there is no entrepreneurial critical mass, little social capital, little experience of the regional administration, the governance of the process may not work.</li> </ul>

Table 3. (continued)

RIS3 elements	Opportunities	Risks
<i>Global context</i> Coherence of priorities and the process within the frames of an open economy	<ul style="list-style-type: none"> <li>- A “global” dimension of governance will allow for the prioritised specialisation to be consistent in the global context.</li> <li>- To define specialisation in terms of a global value chain multiplies its chances of success.</li> </ul>	<ul style="list-style-type: none"> <li>- Certain types of knowledge can be developed only together with a number of advanced regions and, therefore, the co-inventor and follower regions and may experience an uneven distribution of benefits, or even a “trade-off”.</li> <li>- The final results of Smart Specialisation are influenced by many internal and external dimensions that are not always possible to be kept under control.</li> <li>- This approach of governance is still not widespread albeit the success of the model depends on its ability to reach co-operation in a framework of regions, countries and Europe.</li> </ul>

Source: Based on Paton – Barroeta (2012).

current problems of the evolution of regional innovation systems in an open economy and, simultaneously, it has to meet challenges related to competition and international co-operation.

There are great differences among European regions, mainly in terms of their economic and technological structure, but also regarding cultural features and administrative capacity. Thus a commitment to “*laissez-faire*” governance, as proposed by neoclassical orthodoxy, would generate further disparities among regions. Therefore, one of the main roles of regional administration is to help mitigating inequality between territorial units.

There are at least two aspects that a Smart Specialisation strategy should reflect upon. First, the issue of participative governance, that is, involving key actors in the region (companies, organisations of the innovation system, etc.), and not only at sectoral level but also across sectors. On the other hand, it should also consider the differences between regions, because the process of planning and implementation cannot be uniform.

Finally, the concept of Smart Specialisation conveys a novelty in the approach that governance no longer follows the regional logic only, but is inserted in the global context. This makes the process even more complex, because it is not enough to identify fields of regional specialisation and to get innovation-system agents involved. There may be similar processes in other regions, which imply potential competition, but could offer opportunities for co-operation as well. In this sense it seems crucial to establish good governance to specialisation, considering that the regional system is intertwined with the national and international levels, so that micro-, meso-, or macro-level actors, institutions and their relationships should all contribute to specialisation in a global context. As history has shown, competitive leadership is not so much the matter of resource allocation and exogenous capabilities, but of a process based on the comparative advantages aiming to “build” competitive advantages. Hence the importance of a governance that guides this process, continuously adapting to changing circumstances. With such a governance, any region can achieve a leading role in certain domains or sectors in the medium and long term.

However, this competitive-comparative advantage approach has to expand the scope of the strategy beyond a simple network of structures to support the innovation-demand of enterprises. It is necessary to consider various policy areas that contribute to the development of an environment favourable for competitive companies. On the other hand, elements of this environment influence regional governance, too. For this reason, it is essential to include the regional quadruple helix model in the broadest sense, as an active part of the Regional Smart Specialisation Strategy (RIS3) and its governance, while maintaining a co-operative approach towards other territories in the context of globalisation.

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# TERRITORIAL CAPITAL, ATTRACTIVENESS AND THE PLACE-BASED APPROACH: THE POTENTIAL IMPLICATIONS FOR TERRITORIAL DEVELOPMENT

*Rob Atkinson*

## **Introduction**

This paper selectively draws on research carried out as part of the ESPON ATTREG project<sup>1</sup> on “The Attractiveness of European Regions and Cities for Residents and Visitors” (ATTREG 2012). Drawing on this research the paper considers the links between territorial capital, attractiveness and the place-based approach in terms of how forms of territorial capital (or assets) can be mobilised through a place based approach to improve regional and urban attractiveness. The ability, or the failure, of regions and cities to utilise territorial capital has implications for the wider territorial development of Europe and the EU’s aims of achieving “balance development” across the European space, the associated notion of “strength through diversity” (EC 2007, 2008), the Europe 2020 aims of smart, sustainable and inclusive development (EC 2010).

The EU recognises across Europe the existence of a range of imbalances at different spatial scales; particularly at European level related to the continued dominance of the Pentagon and within countries in relation to capital cities and growing urban areas. The response has been to propose a more “balanced form of development” to reduce these disparities and ensure greater economic, social and territorial cohesion (e.g. ESDP 1999, EC 2010). Moreover, cities have increasingly been seen as “engines of regional development” and the main competitive hubs within a global web of economic, knowledge and physical flows (e.g. EC 2005). Central to these processes is the issue of mobility and the attraction and retention of different populations, no longer understood as simply determined by production structures and accessibility, but also by the *quality of places*, reflecting place-specific factors such as inclusiveness, cultural vitality, public service provision and “good governance”.

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<sup>1</sup> It goes without saying that the views presented in this paper represent those of the author and do not reflect the views of the rest of the ATTREG project team or ESPON.

ATTREG sought to investigate these issues to gain a better understanding of how mobility and its drivers influenced territorial development and thereby contribute to the development of a new dimension of EU territorial cohesion policy. It did this by analysing the role territorial assets play in structuring the “pathways” of regional and local development, by attracting different human flows into regions that have important local effects, because they become embedded, in different ways, in regional development processes: as citizens, workers, taxpayers, consumers, or just visitors.

However, the relationship between regional territorial capital and mobilities is not deterministic and the importance of different elements varies from place to place (reflecting diversity and the different mobilisation strategies employed to develop and deploy local assets). ATTREG also assumed that the policy capacity to mobilise local assets through governance processes played an important role in these processes. Thus the analysis of mobilisation strategies was an important part of the project. This in turn is related to the notion of a place-based approach as advocated in the Barca Report (Barca 2009).

It is important to acknowledge that attractiveness is a complex and ambiguous notion (see Servillo et al. 2012, for a discussion) and its relationship to both territorial capital and territorial development is by no means straightforward. For instance, notions of attractiveness, reflecting the influence of Florida’s work (2002, 2003), increasingly stress “quality of life” factors and the role of culture as a “...’soft’ locational factor in attracting knowledge workers” (EC 2005, p. 12). This relationship is further complicated by the association with the notion of “competitiveness” which has increasingly become the goal of a range of European, national and sub-national policies. More recently this has been attenuated by a recognition that “competitiveness” can have negative consequences; not all regions and cities can be “winners” and “growth per se” may have a downside (e.g. social exclusion, declining social cohesion) if the benefits are not more widely distributed, thus cohesion in its various forms has become increasingly important. Thus “competitiveness” has become associated with various forms of co-operation/collaboration related to notions such as polycentricity and collaborative planning which function both as mechanisms of development and inclusion. In a wider, European sense, this approach has become linked with notions of social and territorial diversity and the need to balance regional and urban development. In this context the notion of “territorial capital” and a place-based approach have become increasingly important as a way of improving a place’s attractiveness, competitiveness and cohesion within a European framework of “balanced and harmonious” territorial development.

### **ATTREG – Basic Approach**

ATTREG demonstrated to some extent that territorial assets matter, that they can, when utilised in place-related ways, exercise an influence over regional and local development, attracting different human flows (or “audiences” as we called them) to regions. These are distinguished by the character of their movement (ranging from permanent or long-term, i.e. immigration, to short-term, i.e. tourism) and by their nature or motivation, generally defined in terms of a work–leisure binary.

This investigation of territorial attractiveness was situated within a conceptual “model” (see also Servillo et al. 2012) that links the three main components of this complex interaction, as illustrated in Figure 1:

- A set of “audiences” (either targeted explicitly or defined in terms of their mobility characteristics) that can be attracted and for which there is a set of expectations, each with a different profile in terms of the development processes that it is expected to engender locally and in surrounding areas;
- A set of “endowment” factors or territorial assets that potentially determine attractiveness (conceptualised as territorial capital) in either a general sense or for one particular audience;
- A set of processes by which territorial assets may be mobilised to enhance attractiveness either for all or for a specific “audience”.

Within this perspective, territorial capital is a crucial dimension of the attractiveness of places. It is intended as a complex system of natural and socio-economic elements, defining the distinctiveness of local assets (Deas – Giordano 2001, Camagni 2002, Camagni – Capello 2009). A place’s attractiveness derives from the combination of different assets and the way(s) they are mobilised by the governance system. This approach offers a dynamic perspective on territorial capital, since the relationship between assets and attractiveness is contingent, albeit potentially mutually reinforcing through an on-going process of mobilisation that seeks to enhance the existing stock of assets. Governance is crucial to the mobilisation and use of assets and requires the existence of links, often articulated through organisational arrangements (e.g. partnerships) between stakeholders, local authorities, agencies and citizens in order to identify, create and mobilise assets and develop policies to achieve specific strategies.

### **Mobilisation, Policy and Attractiveness**

The notion of attractiveness in policy making and in the literature is largely related to economic development strategies. However, our analysis of attractiveness, with its focus on the wider aim of territorial cohesion, implies the need for a somewhat

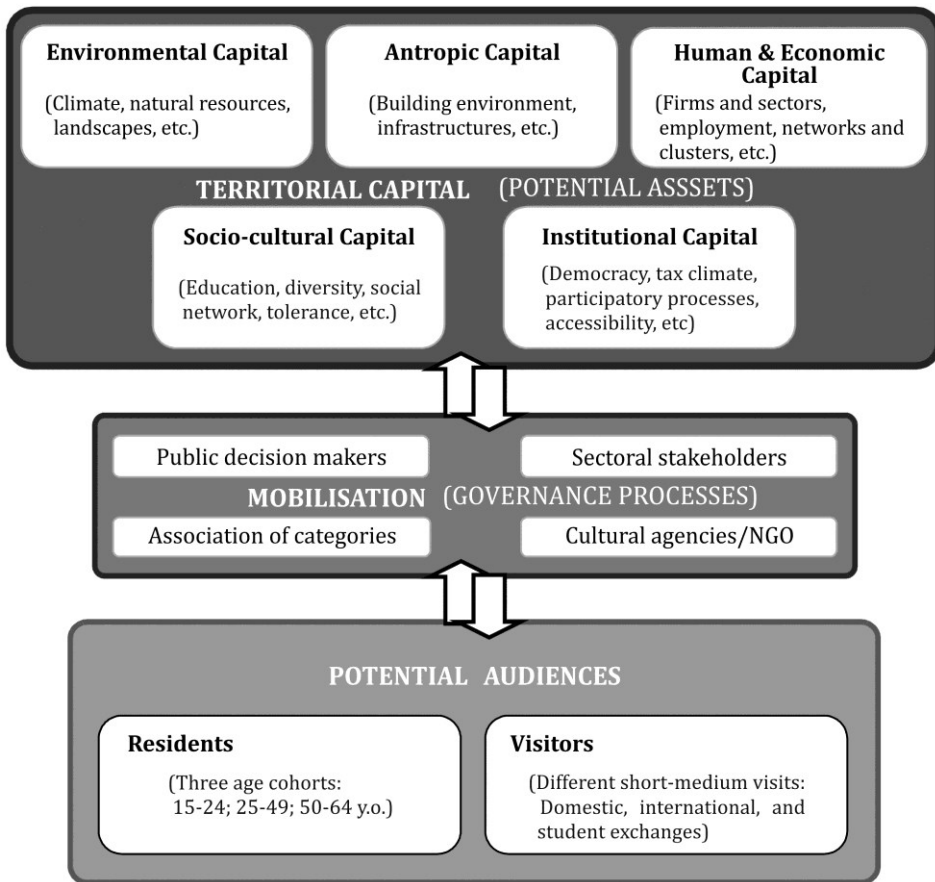


Figure 1. ATTREG – Model of territorial attractiveness

Source: Author's elaboration.

broader approach. This requires the introduction of attractiveness into both the analysis and strategy of territory as an explicit factor affecting mobility of populations, suggesting a need to think differently, and more holistically, about a region's territorial assets and their mobilisation through specific policies (or combinations of policies that we termed policy bundles).

In addition to the statistical analysis (see ATTREG 2012 for more detail), we carried out case studies from which it is possible to derive insights into the policy making process and the capacity to mobilise territorial assets to address territorial attractiveness in a more coherent and explicit way – i.e. one having long-term balanced territorial development as its aim.

However, there is a question as to what extent many of the policy approaches that influence attractiveness explicitly recognise the significance of territorial capital and/or develop an explicit “mobilisation strategy” directed at it. This “deficit”, which we found in some case studies, may reflect a wider tendency across Europe suggesting a lack of understanding of territorial capital and its potential significance in terms of urban and regional development.

Policy makers and other stakeholders in the case studies had various opportunities to invest in the attractiveness of regions and cities for residents and visitors. However, there were a relatively limited number of “policy levers” for cities and regions to affect/deploy vis-à-vis attractiveness policy and mobilisation of assets. In some cases particular audiences were identified and addressed. In terms of the transition to a global knowledge-based economy particular importance has been attached to attracting the so-called creative class, which has become the mainstream target in recent decades, especially for urban areas, within the framework of the EU smart-growth strategy. Some metropolitan areas have succeeded in building a critical mass of the creative class to support greater competitiveness in the knowledge economy. However, the success of creative-oriented and smart strategies cannot be guaranteed simply by attracting members of the creative class, attraction policy needs to be developed as part of a wider regional or urban strategy related to local potentials and the place-based approach. It is essential not to adopt a “scatter-gun” approach, but a more targeted one that relates to the potentials and territorial capital of a city/region.

Where the focus is on younger workforce and the knowledge-based economy, the key is access to (higher) educational institutions, particularly in declining and/or peripheral regions. This was the case, for example, in Cornwall. Supported by Objective 1 and Convergence Funding, a long term strategy was developed to bring about a switch from a low-wage, high unemployment regional economy largely dependent on tourism and decline industries (e.g. fishing, agriculture, mining) towards a knowledge-based economy building on the specific strengths of the region (e.g. high-tech environmental developments). One of the key deficiencies of the regional economy identified was a lack of adequately qualified young people caused by the lack of adequate higher educational institutions in the region. This was part of the long-term strategy associated with EU funding; investments were made in higher education provision – specifically the Combined Universities in Cornwall (CUC) project. This project not only aims to attract and retain students, but also to stimulate the development of a regional knowledge-based economy (e.g. through a Research Knowledge Transfer Team and the establishment of Innovation Centres). Even though its peripheral location and poor access to other parts of the UK (and Europe) are still significant factors explaining the underperformance of the Cornish economy, it is reasonable to argue that this represents a

long-term place-specific attempt to build relevant forms of territorial capital that will support the region's development.

However, evidence indicates that it is not only work-related mobility that produces positive outcomes in regions. ATTREG identified the "silver migration" of more (northern) affluent groups to certain southern regions (e.g. the Algarve) or certain coastal areas in northern countries. This led to the development of an economy which goes beyond the traditional forms of tourism ("sun and sand") that arguably is more sustainable and adds higher value to the regional economy. In such situations, the provision of appropriate and adequate levels of services and the influence of the housing sector are important factors that policies need to address to ensure that the needs of new migrant populations are satisfied in ways that support retention and the attraction of additional migrants.

In terms of tourism the activity that regions and cities were most frequently engaged in was a place-marketing strategy. However, it was rarely targeted and related to the "promotion" of particular forms of territorial capital or directed at particular audiences. While a few regions were more selective, targeting specific groups, most regions had no explicit (targeted) policies to attract particular audiences. Some of our case studies indicate that the targeting of a specific audience is feasible; but, rather than being the outcome of a specific analysis, this often results from an ex-post recognition of a trend that then became a policy objective. In the Algarve, for instance, the case study provided evidence of the presence of a "silver migrant" group, but the region had been slow to recognise this and its marketing strategy failed to address this group. It could improve the ways in which this audience's needs are addressed, e.g. through the provision of dedicated services to attract and retain this group. Moreover, it appeared that local authorities were unaware of the significance of their actions (e.g. on social provision) for this audience and did not take them into account when deciding on service provision. This emphasises the importance of integrating local authorities into wider strategies.

It was clear from our case studies that there is little explicit recognition among policy makers of the importance of territorial capital. This requires cities and regions to assess their position in terms of assets, identify positive and negative factors and then develop policies to bring about change. Regional and city authorities can take actions related to forms of territorial capital through planning policies which may address traditional topics (e.g. protection and valorisation of environmental assets), investment in appropriate forms of infrastructure (e.g. health care and transport), the creation of more efficient administrative systems (enhancement of institutional capital) as well as investments in human capital such as education for particular audiences.

However, as Cornwall illustrates this must be part of a long-term strategy related to a clear vision of where the region is going. It is also likely to require the

injection of significant additional funds from the national level and where relevant (e.g. areas qualifying for Structural Funds) from the EU. This also suggests the importance of a system of multi-level governance that is able to integrate and coordinate the actions of different levels of governance. Cornwall provides an example of how the long term availability of significant EU funds combined with national and regional resources facilitated the development of a long term regional strategy aiming to bring about fundamental change in the region's economic base. Here the EU was able to act as a catalyst that allowed the region to develop its strategy; without such support it is unlikely that CUC or the wider strategy would have come into existence.

Some of the other ATTREG case studies highlight the potential problems that may be encountered when engaging in forms of mobilisation. For instance the Lille–Kortrijk–Tournai euro-metropole (LKT) case study highlighted some of the difficulties in developing appropriate governance structures, particularly in cross-border regions, and the need for European and national support to facilitate development. At the same time it also points to the role of local leadership in driving this process. The Algarve case study on the other hand suggests that while change can take place without a strong governance system and associated regional policy, more could be achieved with a clearer regional focus and better regional governance that engaged with relevant stakeholders.

EU policies can play an important role in making regions attractive for particular audiences; this was the case, to a greater or less extent, in the cases of Cornwall and LKT. However, these examples also made it clear that regions need to develop appropriate governance structures that involve a wide range of stakeholders to mobilise the resources of different sectors (e.g. the private sector and civil society) in pursuit of long-term goals.

In general terms the case studies highlighted two main factors in facilitating mobilisation of assets. First the role of *public authorities and their capacity to strategically instigate and direct the mobilisation processes*. This necessitates a governance system able to identify the existing strengths and weaknesses of an area's territorial capital and develop an appropriate strategy to enhance/develop the different forms of territorial capital through a mobilisation strategy. Second, the identification and integration of *relevant stakeholders/actors* that provide the necessary inputs and knowledge.

Overall the capacity to mobilise assets in a multi-level governance framework is an important factor determining the ability of mobilisation strategies to achieve their goals. Thus governance and the local networks through which mobilisation is possible are central to the process. Without these it is unlikely that long-term change can be brought about.

In this framework, two important dimensions of mobilisation strategies can be identified: a *demand-led* and *supply-led approach*. In the demand-led approach local and regional authorities support an integrated strategy for the development of territorial capital and its mobilisation to retain the resident population and attract short and mid-term migrants. The scheme on the left of Figure 2. shows how stakeholders mobilise territorial capital; this can be done in a variety of ways which are not mutually exclusive and which need to be combined in an integrated strategy developed in relation to particular places (i.e. a place-based approach).

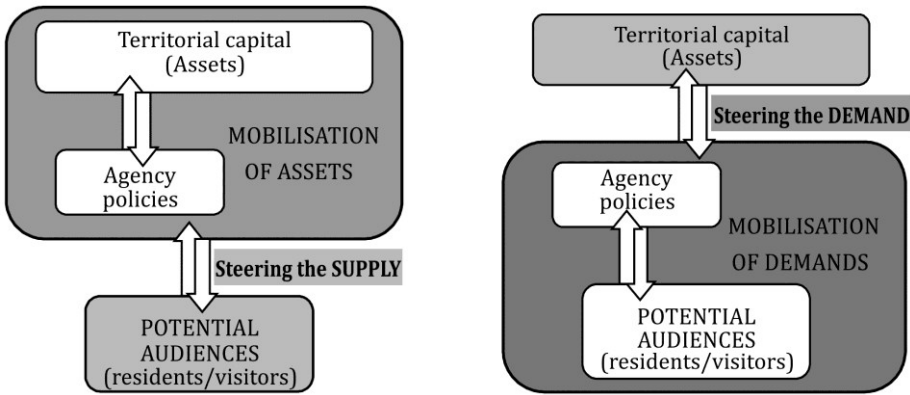


Figure 2. Determination of attractiveness (left) and of attraction (right)  
Source: Author’s elaboration.

One approach is to emphasise what exists (for instance through the identification and valorisation of certain qualities of a territory such as an area’s historical heritage). Another is that of taking deliberate actions to develop/enhance an area’s territorial capital. This can take the form of investment in physical assets, what might be termed “hardware interventions”, such as increasing accessibility through investment in a new airport. Another approach relates to what are termed “soft factors” (e.g. enhancing the perception of the tolerance of a place) that are increasingly recognised as contributing to the quality of a place. However, again it is important to stress the need to combine a range of different approaches within an integrated strategy related to a place. In this way, public authorities and stakeholders have the capacity to develop and articulate the “offer” by identifying elements of the territory that could be used as factors of attractiveness.

The scheme on the right of Figure 2. represents the capacity of stakeholders to target specific users (or audiences) by implementing a particular vision of the territory and its future development. It may concern specific actions such as territorial marketing and/or branding targeted at presenting a particular image



aimed at specific audiences. This may also be supported by accompanying actions (e.g. environmental schemes/legislation or social provision related to health care) designed to “preserve” and “enhance” that image.

These two schemes indicate two processes that are most of the time, albeit at times unconsciously, articulated and integrated with one another, the coherence of which may vary. This is determined by the capacity of a place’s governance system to develop a shared strategic vision and an associated set of integrated measures and policy bundles. In what might be termed “best cases” there will be a clear strategy, while in other cases the strategy will be implicit and the aims uncoordinated, leading to potential disagreements among stakeholders – which in turn may produce divergent measures and contradictory policies.

In terms of policy, the combination of these two schemes represents the capacity over the short term to steer the attractiveness and attraction process. This is represented in Figure 3. as the synchronic dimension (left side) of the mobilisation processes, which illustrates the combination processes that steer the offer (attractiveness) and the demand (attraction).

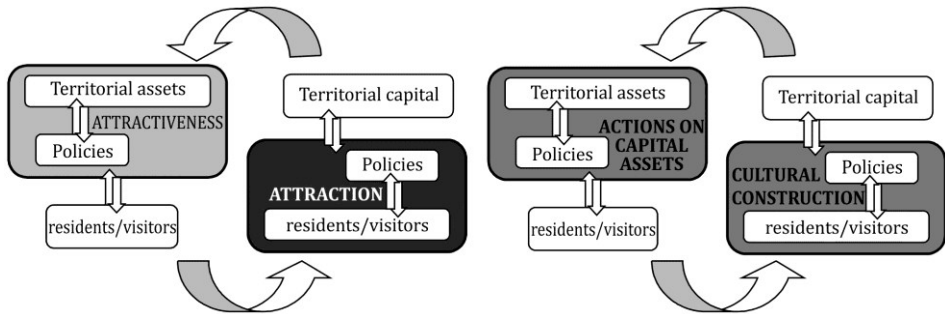


Figure 3. Synchronic (left) and diachronic (right) dimension of mobilisation processes  
Source: Author’s elaboration.

However, in diachronic terms these processes are related to the development of territorial capital through actions on the capital assets as well as the cultural construction of places (the right side in Figure 3). It is this dimension of the mobilisation process that occurs over the longer term. It represents the process through which on the one hand territorial capital increases or decreases, and on the other particular fashions, myths, tendencies that become “hegemonic” at a particular point in time (e.g. the Barcelona “leisurescape” model). However, there is a need for the two sides to be integrated so that short term actions are part of, and designed to achieve, a longer term strategy.

To conclude, in terms of the mobilisation of territorial capital and strategic governance processes, three key issues can be highlighted.

First, the importance of a multi-level governance system given that it is unlikely regions and cities will have the necessary powers and resources to activate integrated attractive policies themselves. Thus, regions need to secure national and where possible European support and co-ordination. Some regions are able to take greater control of their own development (e.g. Trento), while other regions are much more dependent on state-led policies, often implemented by Regional Bodies (e.g. Algarve). In general the mobilisation of regional attractiveness is a combination of top-down EU and state policies and bottom-up initiatives of local and regional stakeholders such as municipalities, universities and businesses. This suggests the importance of a system of multi-level governance that is able to integrate and co-ordinate the actions of different levels of governance.

Secondly, EU policies play an important role in making regions attractive for particular audiences by providing resources and creating the opportunity to create overarching, long-term strategic partnership. Especially the role of cohesion policy, by focusing on particular places, is important given its longer term nature. However, we did not find evidence of a capacity to integrate other EU sectoral policies into a place-based approach and this must be considered a genuine policy dilemma that needs to be addressed at EU and national levels alike.

Thirdly, policymakers need to bear in mind that mobilisation strategies targeting the development or enhancement of capital assets as well as the construction of place brands can only be successful in the medium-long term. This requires the combination of specific policy measures, related to a clear territorial strategy that addresses the mobility and retention of population; this is what we have termed policy bundle(s) that are part of a place-based approach. Such a strategy must combine a 'nested' and integrated set of policies aimed at achieving short-, medium- and long-term goals supported by appropriate monitoring and evaluation systems to allow for any necessary reorientations.

## **Conclusion**

The discussion of the nature of the relationships between place-based assets and their influence on the location decisions of particular interests/stakeholders suggests three main variables need to be taken into account: (1) the different factors that constitute attractiveness, (2) the audiences related to them, and (3) the different scales at which they are considered. For instance, the audiences which are the focus of attention or the particular scale at which the analysis is conducted will produce different results both in terms of our understanding of how "attractiveness" functions vis-à-vis a particular group(s) or with reference to the "attractiveness" of a given territory (e.g. neighbourhood as against city-region). This in turn will (or should) influence the territorial assets that need to be mobilised by

governance systems deploying particular policy bundles in order to enhance attractiveness vis-à-vis particular audiences.

The concept of territorial attractiveness provides important insights into, and understanding of, the (endogenous) development potentials (in a spatially specific sense) of places. It is the complex relations (interactions) between different forms of territorial capital that explain the differential ability of places to attract and retain different mobile populations. However, the mere presence of the necessary territorial capital does not automatically lead to attraction and retention of population. Of major importance is the capacity of local governance systems to mobilise these assets, both with regard to existing residents and potential future residents, and various types of visitors. This approach is based on both the identification of what brings about changes in how a place is perceived and the trends in population mobility, as well as the consideration of the different ways in which assets can be utilised to make places “different” and “unique”. This requires the identification (and definition) of problems and opportunities and the development of longer term strategic and integrated policies that simultaneously address a number of different issues and audiences in order to enhance the attractiveness of a place through the creation of new development paths and visions.

It is important to recognise that governance processes have a crucial role to play through the *mobilisation process*. Governance is important because by bringing together the different stakeholders in a place, a strategic and action dimension can be developed which is necessary to mobilise the assets that constitute territorial capital, with the exception of course of those assets that are related to un-modifiable aspects of the areas (climate, natural resources, etc.). This requires more flexible and inclusive modes of governance and leadership that focus on a range of issues including the identification of “deficiencies” (in assets) and what exists (in terms of assets) and how these can be developed to enhance the quality of place without sacrificing particular (e.g. marginal) groups to the perceived need to enhance competitiveness or generating spatial and social conflicts. It also introduces a time-perspective issue, because the mobilisation processes imply a variety of time-scales (from the short-term, e.g. changing environmental legislation on the protection of environmental resources, to the long-term, e.g. creation of institutional assets).

A final, general point, relates to the role of mobility and the need to develop policies that facilitate the conditions for supporting territorial attractiveness at EU level. The uneven development of EU regions and the associated mobility patterns taking place in relation to changes in perceptions and regional opportunities should reinforce the idea of creating an agenda dedicated to supporting mobility in its various forms, thereby helping make effective the EU aim of creating a framework for the free circulation of *both* goods and people. Under the banner of social

and territorial cohesion the EU should place a greater emphasis on the social dimension, addressing population mobility through the deployment of wider and more innovative approaches.

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# TRANSFERRING TERRITORIAL GOVERNANCE PRACTICES IN THE EUROPEAN UNION

*Giancarlo Cotella – Umberto Janin Rivolin – Marco Santangelo*

## Introduction

The Treaty on the Functioning of the European Union (EU) (Art. 174) mentions that, in order to promote its overall harmonious development, the EU shall develop and pursue its actions leading to the strengthening of its economic, social and territorial cohesion. The recent establishment of the aim to strengthen territorial cohesion as a shared competence with the member states has reinforced the ongoing political debate on how policies of different administrative levels can be co-ordinated. The organisation of territorial development is rather complex as decisions related to territories are made at different administrative levels, for different sectoral policies, and by different types of public and private actors. The concept of territorial governance would describe the political ambition to co-ordinate policies, programmes, and projects in the interest of territorial development. Thus, especially at the time of restricted public budgets, policy-makers in the field of territorial development feel a strong need to understand how policy actions can become more effective in their daily practice and how synergies can be exploited through vertical and horizontal co-ordination of public policies, programmes and projects. In particular in complex policy-making contexts where different levels and sectors are involved, practical advice and good examples providing inspiration for decision-makers, policy-makers and practitioners are needed.

Aiming at providing an insight into the matter, our contribution presents a part of the interim results of the ESPON project “*TANGO – Territorial Approaches for New Governance*”<sup>1</sup>, in particular those related to the identification of peculiar elements of good territorial governance and their transferability. In doing so, we first briefly give an overview of the ESPON TANGO approach, presenting the

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<sup>1</sup>The ESPON TANGO project is pursued by a consortium led by Nordregio, involving the following partners: Delft University of Technology, University of Newcastle upon Tyne, Politecnico di Torino, Centre for Economic and Regional Studies (Hungarian Academy of Sciences); University of Ljubljana. See more at: [http://www.espon.eu/main/Menu\\_Projects/Menu\\_AppliedResearch/tango.html](http://www.espon.eu/main/Menu_Projects/Menu_AppliedResearch/tango.html)

working definition of territorial governance adopted by the project, and the evidence base the latter is built upon. We then introduce an analytical model framing the process of policy transfer in the domain of EU territorial governance. More in detail, building on the evidence collected through the analysis of case studies, the authors discuss a number of “features” of good territorial governance, reflecting upon the main modes of transfer, too. The final section presents some interim conclusions on the basis of discussed results, and provides some ideas on future research perspectives.

### **Unpacking Territorial Governance – The ESPON TANGO Approach**

Studies on governance and in particular on multi-level governance abound in political science and the theory of spatial planning. The majority of these studies are based on methods such as constructing narratives around particular cases and components of governance. While these inductive approaches confirm that “governance does matter” and contributes to a deeper understanding of the role it plays in achieving a certain outcome, there seems to prevail a need for “generating hypotheses about how, why and under which circumstances it matters a little, a lot or not at all” (ESPON 2012, p. 6). Aiming to provide a contribution to this line of thought, the ESPON TANGO project is pivoted, among others, on two main objectives, both of which are further reflected upon in the subsections below: on the one hand, it delves deeply into the conceptualisation of territorial governance while, on the other hand, it provides empirical evidence to support future territorial development policies in the EU.

#### *Territorial Governance – a Working Definition*

A very wide scope of research aims to explore the general notion of governance (e.g.: Pierre – Peters 2000, Stoker 1998), mainly focussing on various “models” of governance based on empirical observation and showing how the shift from government to governance has shaped decision-making and planning processes with the inclusion of many new types of actors and institutional frameworks. Moreover, the European integration literature went deeply into the discussion of multi-level governance in terms of the allocation of responsibilities and competencies, as it follows from Hooghe and Mark’s distinction between Type I and Type II governance systems, whereby Type I has a limited number of non-overlapping multi-issue jurisdictions and Type II is composed of many flexible, sometimes overlapping jurisdictions that are often task-specific (Hooghe – Marks 2001 and 2003).

The concept of *territorial governance* is more recent in origin compared to *governance* and *multi-level governance*, and theory focuses more on how the concept has infiltrated into and been interpreted in the territorial debate (Janin Rivolin 2010, Faludi 2012). Territorial governance has become an increasingly important aspect of policy actions in Europe, related to the concept of territorial cohesion, together forming an integrated policy goal and a political and planning process including the means to achieve efficient, equitable and sustainable development in all types of territories in the EU. In spite of recent achievements, however, the debate on territorial governance continues to build on traditional governance discourses. For instance, when defining territorial governance as “[...] *the process of organisation and coordination of actors to develop territorial capital in a non-destructive way in order to improve territorial cohesion at different levels*”, Davoudi et al. (2008, p. 37) conceptualise the term largely on the basis of “regular” governance theories, at the same time making a call for the development of a theory of territorial governance to be tested through new empirical analysis.

In order to partially provide an answer to this need, and to develop a working definition of territorial governance upon which various research activities could be built, the ESPON TANGO consortium collected the cornerstones from literature with regard to what is perceived as being most essential and inherent in the notion of territorial governance. The starting point was the argument by Davoudi et al. (2008, pp. 352–353) who, building on the results of the ESPON 2.3.2 project (ESPON 2007), claim that territorial governance implies both horizontal and vertical co-ordination and can be analysed by looking at three main types of factors: (1) the structural context, (2) the policies delivered by the institutions, and (3) the results and processes of actions, programmes, and projects for territorial cohesion. This leads to consider territorial governance as the organisation of new “constellations of actors, institutions and interests” (Gualini 2008, p. 16) both between units of government and between governmental and non-governmental actors and, in turn, it raises the questions related to the *integration of relevant policy sectors* and to the *co-ordination of such actors, in particular in a multi-level perspective*.

In addition, the consortium addressed the recent debate about the concept of resilience of social systems and their *adaptability to changing contexts* (e.g. economic crisis, natural disasters), building on the idea of Gupta et al. (2010) about “adaptive institutions”, i.e. institutions that encourage learning among actors by questioning the socially embedded ideologies, frames, assumptions, roles, rules and procedures that dominate problem-solving efforts.

Another key dimension of territorial governance has been emphasised by the spatial planning literature since the late 1980s (cf. Healey 1997), namely the importance of *enhancing stakeholder participation*, thus activating their specific

knowledge and concerns in the formation and implementation of territorial development policies, programmes and projects. Similarly, being sensitive to Jordan's argument about the lack of geographical specificity in the contemporary conceptualisations of governance (2008, p. 21), the consortium devoted particular attention to the extent to which *place-based/territorial specificities and characteristics* are addressed in the frame of territorial governance practices.

Based on the above elements, the ESPON TANGO working definition of territorial governance has been formulated as follows:

*Territorial governance is the formulation and implementation of public policies, programmes and projects for the development<sup>2</sup> of a place/territory<sup>3</sup> by: (i) integrating relevant policy sectors, (ii) co-ordinating the actions of relevant actors and institutions, particularly considering multi-level interplay, (iii) mobilising stakeholder participation, (iv) being adaptive to changing contexts, (v) addressing the place-based/ territorial specificities and characteristics (ESPON 2012, p. 11).*

### *The Evidence Base of the Project*

The evidence base for the research questions the ESPON TANGO project attempts to answer is constituted by twelve case studies from various parts of Europe (see Table 1). The case studies have been selected by a number of criteria, including geographical distribution, scope of governance, diversity in the sectoral policies studied, and the way they address particular territorial challenges.

In helping to elaborate and concretise the applied notion of territorial governance, the twelve case studies explore the concept in a diversity of European contexts. Geographically, they include cases from Southern Europe with a focus on the Western Mediterranean and the Southern Alps. Central and Eastern Europe is represented by studies on Pécs (Hungary) and Ljubljana (Slovenia), in addition to a broader study on the Management of Structural Funds in Hungary, Poland, Slovakia and Romania. The Baltic Sea Region (BSR) case study, dealing with climate change governance, covers parts of Eastern, Central and Northern Europe. The study on Stockholm also represents the North, while two other studies target English cities and other two the Netherlands and a part of Germany.

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<sup>2</sup>Development is defined here as the improvement in the efficiency, equality and environmental quality of a place/territory, in line with the Europe 2020 strategy.

<sup>3</sup>Territory/place means here a social construct, not necessarily limited by legally determined boundaries.



Table 1. ESPON TANGO case studies

Case studies	Geographical coverage	Short name
Territorial Climate Change Governance in the Baltic Sea Region	Baltic Sea Region	BSR
Territorial Governance as a Way to Resource Efficiency in Urban Development	Stockholm (SE)	Stockholm
Co-ordination of Land-use and Transport (StedenbaanPlus)	Southern Randstad (NL)	Stedenbaan
Cross-border River Management: Rhine River Basin	NL, DE	RhineBasin
Target-based Tripartite Agreement between the European Commission, the Italian Government and the Lomardy region	Italian Government, Lombardy Region (IT)	TRIP
Innovative Economic Development Strategies in Saint Étienne within the South Loire SCOT Framework	Saint Etienne (FR)	SCOT
Greater Manchester City Region Governance	Manchester, England	Manchester
North Shields Fish Quay: Neighbourhood Planning in the UK	Newcastle, England	Newcastle
Management of Structural Funds in Central and Eastern European Countries	H, PL, SK, RO	ERDF
European Capital of Culture	Pécs, (H – EU comparison)	Pécs
Formulation and Implementation of Spatial Planning Strategies and Regional Development Policies in Ljubljana Urban Region	Slovenia, Ljubljana Urban Region	Ljubljana
Governance of Natural Areas in the Alpine-Adriatic Area	SI, IT, AT, HU, HR	AlpAdria

Source: Authors' elaboration on ESPON 2012.

As far as their territorial scope is concerned, the case studies range from the intra-municipal level through the municipal, to inter-municipal and metropolitan levels. Cross-border processes are explored through the Rhine Basin case on cross-border river management and the case dealing with the governance of natural spaces in the Alpine-Adriatic Area. The regional and national levels are represented by the TRIP case and the one concerning Structural Funds management, while the BSR case offers an example of macro-regional territorial governance.

Furthermore, nearly all of the cases address some aspect of “bottom-up” territorial governance, where the impetus of territorial development was born at local and/or regional level.

Finally, territorial governance challenges dealt with in the case studies include developing territorial strategies involving different governance levels and various

sectors; horizontal governance, with a focus on co-operation and competition; promoting engagement among a range of actors, particularly in promoting bottom-up initiatives; co-ordinating the regulation of issues in fields such as transportation and water management; and vertical and horizontal policy integration.

### **Promoters and Inhibitors of Good Territorial Governance**

Through the analysis of case studies it was possible to identify “good” territorial governance principles and criteria, keeping in mind the main question of how they become operational (or not) and thus how they contribute to the success of the development of a place or territory. The research questions for the analysis were driven by the “five dimensions” constituting the working definition of territorial governance presented above, looking for answers to e.g. how the barriers to cross-sectoral integrations are being overcome, how gaps in multi-level co-ordination are being addressed, how stakeholders are mobilised and how their input is used in decision-making, etc.

Below we present the results of the analysis, finding a number of generalisable features of good territorial governance. Building on the assumption that each case would include practical characteristics of territorial governance and thus could help define what features may contribute to “good” governance and what may undermine it, each analyst was required to identify a set of territorial governance *promoters* that emerged from his/her case study, and classify them into one of the five listed dimensions of territorial governance. Similarly, they were required to identify one or more *inhibitors*, i.e. specific negative features that hamper the proper working of territorial governance.

To simplify the interpretation of the many promoters and inhibitors gathered in the course of analysing the twelve case studies, the authors aggregated their information contents in more abstract promoters and inhibitors that may be considered to affect good territorial governance in a specific context, leading to a smaller number of factors to be classified (see Tables 2 and 3).

While the territorial governance *inhibitors* constitute a set of “warnings” for the different stakeholders active in the field of territorial development and cohesion, representing a “to-be-avoided” list of elements that may undermine good territorial governance, *promoters* represent features the adoption of which may contribute to successful territorial governance processes. However, the issue of their effective transferability from one context to another, as well as the possible modes through which their transfer may take place, is a particularly complex issue that will be addressed in detail in the rest of the paper.

Table 2. List of territorial governance promoters

TG Promoter	Case studies
<i>1. Integrating policy sectors</i>	
Acknowledgement of, and integration with, a multi-level policy framework	Stedenbaan, RhineBasin, TRIP, AlpAdria
Political support to policy integration at the appropriate territorial scale	RhineBasin, Manchester, Ljubljana
Spatial tool favouring sectoral integration	ERDF, Pécs, Ljubljana
Rationale catalysing integration	Stockholm
Involvement of relevant public and private stakeholders	Stockholm, Stedenbaan, RhineBasin, Manchester
Organisational routines favouring cross-sector "fertilisation"	SCOT, ERDF, Ljubljana, AlpAdria
Strong political commitment towards a shared territorial vision	BSR, Stockholm, SCOT, Newcastle
Balance between flexibility and legal certainty	RhineBasin
<i>2. Co-ordinating actions of actors and institutions</i>	
Stability of co-operative experiences	Stockholm, RhineBasin, Manchester, AlpAdria
Pro-active public organisation	Stedenbaan, RhineBasin, Pécs
Motivation	RhineBasin, TRIP
Capacity of negotiation	Newcastle, Ljubljana
Clear and uncontested leadership	Stockholm, Stedenbaan, SCOT, Manchester, Ljubljana, AlpAdria
Self-committed leadership	BSR, RhineBasin
Effective strategic framework	RhineBasin
Political commitment	ERDF, Ljubljana, AlpAdria
Framework flexibility enhancing subsidiarity	Stockholm, RhineBasin
Vertical division of responsibilities	BSR, RhineBasin, Manchester
<i>3. Mobilising stakeholder participation</i>	
Involvement of local actors	RhineBasin, ERDF, Pécs
Political commitment	Stockholm, RhineBasin
Usage of various mechanisms of participation	Newcastle, AlpAdria
Mix of indirect and direct democratic legitimacy	Stedenbaan, Ljubljana
Mechanisms allowing for broad stakeholders' involvement	BSR, Stockholm, Ljubljana
Information flow ensured	ERDF, Manchester

Table 2 (continued)

TG Promoter	Case studies
Effective means of communication/dissemination of information	Stockholm, Stedenbaan, RhineBasin, SCOT, Pécs, Ljubljana
High level of accountability	Stockholm
<i>4. Being adaptive to changing contexts</i>	
Co-production of knowledge, knowledge transfer	RhineBasin, ERDF, Ljubljana, AlpAdria
Institutional mechanisms that favour learning	Stockholm, Manchester, Pécs
Feedback procedures	BSR, Stockholm, Stedenbaan
Shared understanding of problems	RhineBasin, Pécs
Institutional mechanisms supporting adaptivity	SCOT, Manchester
Role of people in charge of responsibility	Stockholm
Flexibility of governance structure	Stedenbaan
Experience in complex programming	Ljubljana
<i>5. Realising place-based/territorial specificities and impacts</i>	
Awareness of territory	Manchester, Newcastle, Pécs
Involvement of different levels of government	Stedenbaan, AlpAdria
Spatial tool for co-ordination	Stockholm, RhineBasin
Acknowledgement of, and integration with, a spatial context	Stockholm
Acknowledgement and use of territorial potentials	Stockholm, Stedenbaan
Co-production of knowledge, knowledge transfer	RhineBasin, Ljubljana
Existing shared territorial knowledge	Manchester, AlpAdria

Source: Authors' elaboration.

Table 3. List of territorial governance inhibitors

TG Inhibitor	Case studies
<i>1. Integrating policy sectors</i>	
Lacking or inappropriate mechanisms of co-ordination	TRIP, ERDF, Pécs, Ljubljana
Sectoral rationale dominating	BSR, Stockholm, RhineBasin, AlpAdria
Lack of institutional capacity/stability	ERDF
Scarce cohesion among actors	Newcastle, Stedenbaan, Manchester, Pécs
Lack/inefficiency of integrating spatial tools	RhineBasin, ERDF, Ljubljana

Table 3 (continued)

TG Inhibitor	Case studies
<i>2. Co-ordinating actions of actors and institutions</i>	
Lack of institutional capacity/stability	Stockholm, RhineBasin, SCOT, Newcastle, ERDF, AlpAdria
Scarce co-operation between public authorities	SCOT, Ljubljana
Lack of financial autonomy	ERDF
Power struggles	RhineBasin, Pécs, Ljubljana
Unclear assignation of responsibilities	TRIP, SCOT, Stockholm, Stedenbaan, Newcastle
Scarce capacity of partnership-making	ERDF
Centralisation	ERDF, Pécs, Ljubljana
Lack of shared motivation	SCOT
<i>3. Mobilising stakeholder participation</i>	
Late or no involvement of stakeholders	Stockholm, Pecs
Involvement of non-co-operative stakeholders	SCOT, Newcastle
Exclusion/limited involvement of certain stakeholders	SCOT
Hegemony of politicians over the process	Stockholm, Pécs, Ljubljana
Limited communication among stakeholders	SCOT, Pécs, Ljubljana
Limited communication towards the outside world	Stockholm
Weak involvement of civic actors	ERDF
<i>4. Being adaptive to changing contexts</i>	
Absence of feedback procedures	Stockholm
Lack of institutional capacity/stability	Pécs, ERDF, Pécs
Prejudice or limited strategic thinking	Stockholm, Newcastle
Uncertain/blurred strategy	BSR
Rigidity of the governance structure	Newcastle, ERDF
Negative influence by people in charge of responsibilities	ERDF
<i>5. Realising place-based/territorial specificities and impacts</i>	
Territorial scope disputed	BSR, TRIP, SCOT, Stockholm, Pécs
Lack of structured institutional framework	ERDF, AlpAdria
Time constrains	Ljubljana
Limited use of existing territorial knowledge	BSR, Stockholm, SCOT, Pécs
Excessive complexity of programming tools	AlpAdria

Source: Authors' elaboration.

### Transferring Territorial Governance Practices: a Conceptual Framework

The transferability of good territorial governance practices is a field characterised by a high degree of complexity and risk of failure, among others due to:

- the lack of verified and tested universal models for policy transfer, because of the significant number of variables at stake (Dolowitz – Marsh 2000);
- doubts related to the reproducibility of best practices, especially where different institutional contexts are concerned (James – Lodge 2003, Vettoretto 2009, Stead 2012);
- the nature of territorial governance, which is not a policy *per se*, but rather the result of a complex process integrating several policies.

In the light of all this, the present section aims at framing the institutional context for policy transfer in the domain of territorial governance in the EU, with the purpose of reducing conceptual complexity as far as possible. Types and typologies of territorial governance, as well as the complexity of factors inherent in their definitions, are witnesses to the “institutional nature” of this subject. According to a proficient debate concerning institutions in/for spatial planning (Bolan 1991, Healey 1999 and 2006, Gualini 2001, Moulaert 2005, Hohn – Neuer 2006, Verma 2007), territorial governance as an institutional phenomenon can be described as the end-product of a creative selection process of trial and error based on “(i) the generation of variety (in particular, a variety of practices and rules); (ii) competition and reduction of the variety (of rules) via selection; (iii) propagation and some persistence of the solution (the system of rules) selected” (Moroni 2010, p. 279).

These inputs have recently been applied by the authors for the purpose of conceptualisation in comparative analysis. This led to the development of a conceptual framework composed of four analytical dimensions – namely practices, discourse, structure and tools. These describe the operation of territorial governance in any institutional context as occurring through cyclical processes representing stages of social experience, political sharing and institutional codification, in which the aforementioned dimensions are in interaction (Figure 1).<sup>4</sup>

A tentative application of the above analytical model in the wider context of EU territorial governance (see Figure 2) has served to cast some light on the process of the “Europeanization” of territorial governance (Knill – Lehmkuhl 1999, Radaelli 2004, Lenschow 2006, Böhme – Waterhout 2008). Whereas the mechanisms that lie behind the “Europeanisation” of territorial governance are not

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<sup>4</sup>The diagram does not aim to present a detailed picture of territorial governance operations, since they are results of an infinite variety of factors, circumstances and individual behaviours. It rather proposes a consistent analytical approach to discuss territorial governance as an institutional phenomenon subject to permanent social evolution.

addressed by the ESPON TANGO project, their connections with the processes of policy transfer are rather clear (Radaelli 2000, Wislade – Yuill – Mendez 2003, Holzinger – Knill 2005). Namely, they are both framed by two interrelated and shared processes: one based on a selective (and thus voluntary) recognition of common problems and possible solutions, usually known as “lesson drawing” (Rose 1991 and 1993); and another based on the more or less coercive transfer of rules, methods and ideas from one place or institutional context to others (Dolowitz – Marsh 2000).

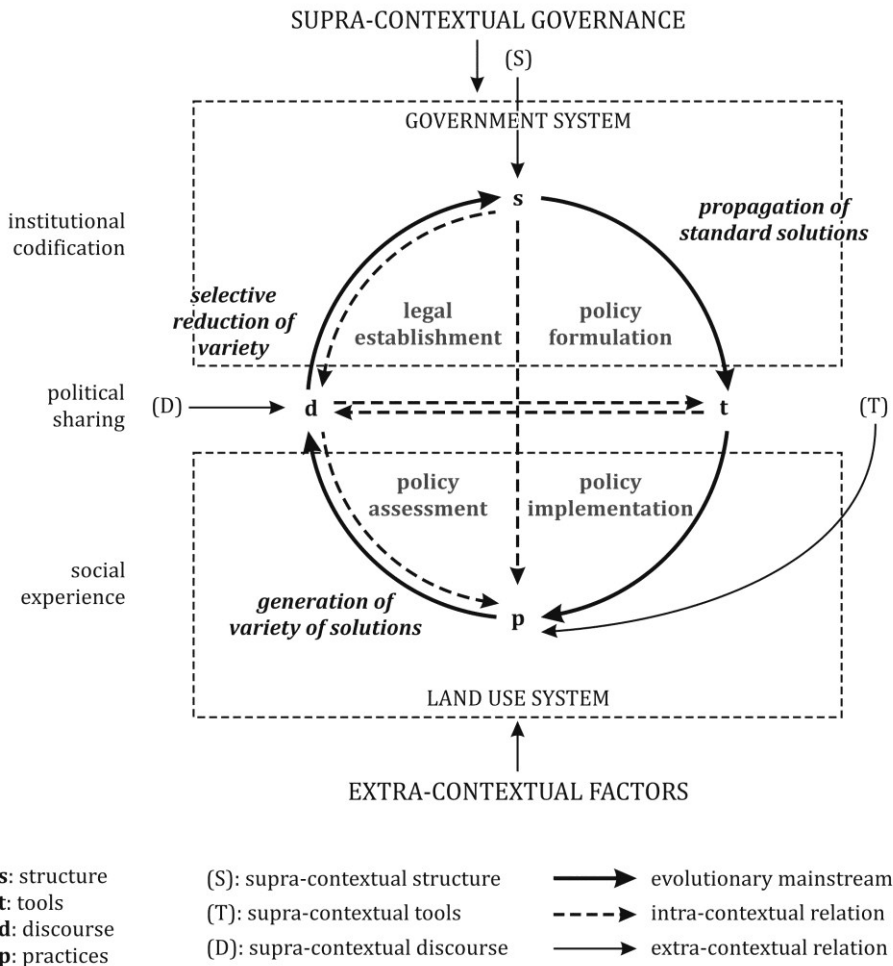


Figure 1. Stylised pattern of territorial governance  
 Source: ESPON 2012, based on Janin Rivolin (2012).

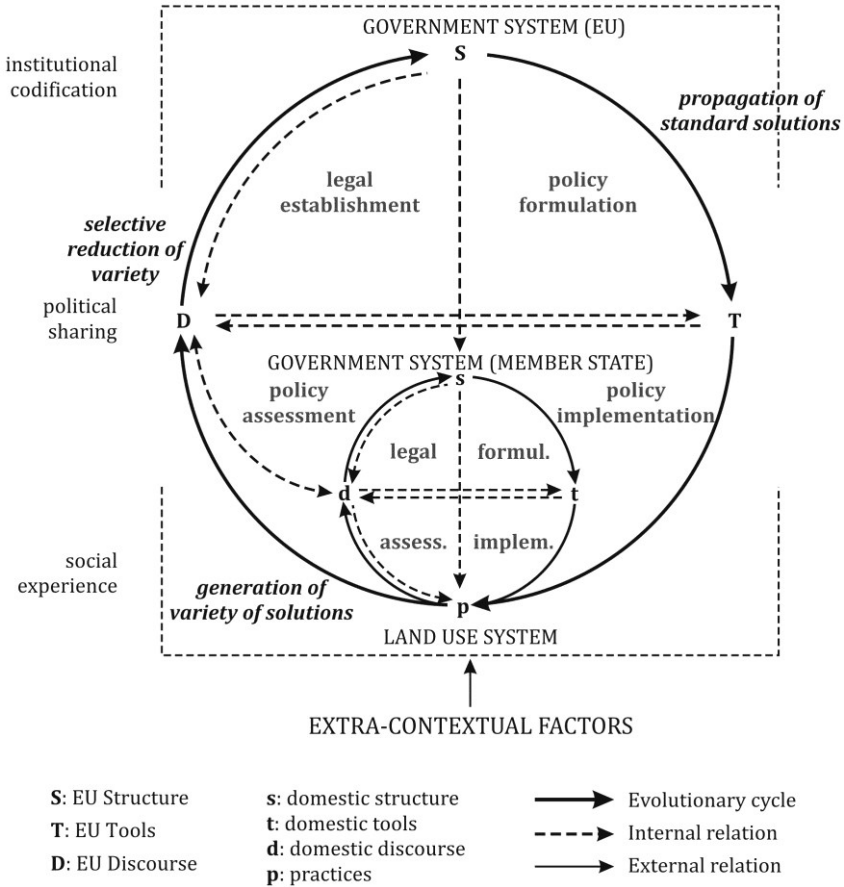


Figure 2. Stylised pattern of EU territorial governance  
Source: ESPON 2012 on Cotella – Janin Rivolin (2010; 2012).

Basically, the hypothesis addressed here is that the EU territorial governance context offers a wider range of opportunities for policy transfer than “multinational” contexts in general. More explicitly, problems of policy transfer in the case of EU territorial governance concern an institutional context in which “the apparatus of policy diffusion and development has been transnationalised in such a profound and irreversible way as to render anachronistic the notion of independent, ‘domestic’ decision-making” (Peck 2011, p. 774). If so, the proposed model may help in conceptualising possible paths of transferring good practices from certain contexts to others, also indicating which modes of policy transfer should be



applied in principle for operational purposes. The identification of these modes is based on the assumption that the ESPON TANGO project plays an active role in the discourse about the formation of EU territorial governance, namely engaging in a “policy assessment” of the practices emerging from the case studies, to identify their “promoters” and the useful ways of transferring them to different domestic contexts.

First, a *direct mode* of transferring good territorial governance practices from one context to another is related to the dimension of practices (p) and is mainly open to practitioners involved in territorial development activities. It concerns the possibility to translate features of good territorial governance, retrieved from the case studies as identified in the third section, through e.g. practices, joint projects, or interaction that may stimulate the potential interest of practitioners operating in diverse institutional contexts.

Then, the *discursive mode* of transferring good territorial governance practices in the EU context is linked – as a “target dimension” – to various domestic discourses (d), where the word “discourse” refers to the complex activity of territorial knowledge communities in reducing the variety of solutions to a few “hegemonic concepts” (Adams – Cotella – Nunes 2011, Servillo 2010). This concerns the opportunity to translate features of good territorial governance retrieved from the case studies through ideas, principles, or philosophy that match the interest of domestic actors operating in diverse institutional contexts. In both the direct and the discursive modes, transfer depends on social learning mechanisms, and may happen easier when the match between voluntary motivations for change and potential solutions triggers an immediate “peer to peer” process of policy transfer.

A *technical mode* of transferring good territorial governance in the EU may be used by policy-makers at both domestic and EU level, and concerns the opportunity to translate the features of good territorial governance retrieved from the case studies via e.g. methods, techniques, and know-how. These can be extended to both domestic and EU-level policies, programmes and projects. When this takes place at the EU level, many territories could be affected through mechanisms of fiscal conditionality for the potential borrowers.

Finally, the *institutional mode* of transferring good territorial governance practices is a set of tools for both domestic and EU-level decision-makers and concerns the opportunity to translate features of good territorial governance retrieved from the assessment of case studies as different kinds of rules, codes, and laws that could be codified either at the level of the member state or at that of the EU. When this takes place at the EU level, a wide range of territories and domestic relations could be affected through legal conditionalities within the Community.

### **Modes and Components of Transferring Territorial Governance Practices**

The above discussion showed that the transfer of good practices in territorial governance is not merely a matter of copying or imitation. It is still in question at what conditions may good practices trigger learning in other contexts, how they could be transferred and by what means.

In order to summarise what has been learnt from the individual ESPON TANGO case studies, that may be relevant to different groups of stakeholders within the various domestic contexts, an additional step was made, focusing on the various modes (and components) of experience exchange.<sup>5</sup> Each case study analyst was required to link the identified promoters of good territorial governance to one of the transfer modes that have been introduced in the section above, namely:

- the direct mode (with components of practices, joint projects, and interaction);
- the discursive mode (with components of ideas, principles, and philosophy);
- the technical mode (with components of methods, techniques, and know-how); and
- the institutional mode (with components of rules, codes, and laws).

More in detail, they were asked to identify which component(s) might potentially be helpful to transfer each of the promoters from one context to another. In this way, aggregating the obtained information following the same logic as the one adopted in the third section for the abstraction of the territorial governance promoters, it was possible to link each of them to a specific set of components of experience exchange and, therefore, to a specific mode of transfer (see Table 4).

It may be stated that the aforementioned institutional and technical modes represent more “coercive” types of policy transfer (Dolowitz – Marsh 2000), while the discursive and direct modes are framed by more voluntary “lesson drawing” processes (Rose 1991 and 1993). Furthermore, as previously indicated, each of the identified modes of transfer may be directly, albeit not exclusively, related to a main target audience. The institutional mode implies the capacity to transfer features of good territorial governance into rules, codes, and laws, addressing decision-makers. Conversely, the technical mode of transfer implies the opportunity to translate features of good territorial governance in terms of methods, techniques, and know-how primarily addressing policy-makers. On the other hand, the discursive mode of lesson drawing is particularly concerned with the identify-

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<sup>5</sup> For additional information on the adopted transferability components (ideas, principles for action, philosophy, methods, techniques, know-how, operating rules, programmes, institutions, modes of organisation, practitioners, joint projects) please refer to OECD (2001, p. 35) and ESPON (2012, p. 37).

*Table 4. Territorial governance promoters organised by transfer modes*

Direct mode	Discursive mode	Technical mode	Institutional mode
Organisational routines favouring cross-sector “fertilisation”	Political commitment	Effective strategic framework – strategies	Political support to policy integration at the appropriate territorial scale
Involvement of relevant public and private stakeholders	Win-win situation – interest	Institutional capacity – qualified staff	Spatial tool favouring sectoral integration
Common goals, common history	Compatible policy sectors	Follow-up – monitoring	Balance between flexibility and legal certainty
Motivation	Rationale catalysing integration	Stability of co-operative experiences	Code of conduct – guidelines
Capacity of negotiation	Acknowledgement of, and integration with, a multi-level policy framework	Pro-active public organisation	Leadership at the right level
Effective means of communication/dissemination of information	Quality of motivation	Mechanisms allowing for broad stakeholders’ involvement	High level of accountability
How to motivate stakeholder (vision, benchmarking, learning)	Clear and uncontested leadership	Information flow ensured	Multi-annual programming
Usage of various mechanisms of participation	Self-committed leadership	Feedback procedures	Power to decide change at the right level
Exchanging best practices to understand the right amount of adaptation	Ownership of questions	Structure/No structure	Role of people in charge of responsibility
Involvement, participation, commitment	Adaptive management (small steps, flexibility, room to change direction)	Methods for attracting change	Institutional mechanisms that favour learning
Co-production of knowledge and knowledge transfer	Integrative holistic	Territorial impact assessment	Institutional mechanisms supporting adaptivity

Table 4 (continued)

Direct mode	Discursive mode	Technical mode	Institutional mode
Experience in complex programming	Being conscious and being inspired		Involvement of different levels of government
Existing shared territorial knowledge	Evidence of larger territorial context		Functional regions
Acknowledgement and use of territorial potentials	Territorial challenges		Eliminate barriers to co-operation
Building trust – permanent co-operation	Awareness of territory		Spatially differentiated policies

Source: Authors' elaboration.

cation of specific features of good territorial governance that may constitute ideas, principles and philosophy to be taken on board by the territorial knowledge communities active in a specific context. Finally, the direct mode of transfer requires the consolidation of practices, joint projects and interaction through which practitioners involved in various domestic contexts may learn from each other.

### Concluding Remarks and Future Research Perspectives

In this paper we have presented some of the preliminary results of the ESPON TANGO project. Trying to understand how practices and institutions of territorial governance can contribute to achieving territorial cohesion, the project gathered relevant “good practices” from all around Europe. Having been given the mandate to address specific questions like how territorial governance is linked to territorial development outcomes or to a larger policy goal such as territorial cohesion, the project team not only had to consider territorial governance from an analytical perspective, but also had to integrate a normative approach, in terms of what constitutes “good” territorial governance, related to the working definition adopted as a pivotal basis of the research. On the basis of the experiences collected via case study analysis, we were able to identify some generalisable lessons on “what to do” and “what not to do” in territorial governance. This resulted in a list of general *promoters* and *inhibitors* of good territorial governance that may potentially provide fuel for the policy debate on the matter.

However, when it comes to policy-relevant implications, it is important to stress that the various case studies constituting the evidence base of the project dealt with policies, programmes, and projects of various governance levels, located

within different institutional and geographical contexts. Therefore, particular attention must be paid to reveal “for whom” the identified territorial governance promoters and inhibitors are considered to be “good” or “bad”. This raises challenges in any in-depth discussion concerning the extent of their transferability into other contexts. Whereas our paper presented a preliminary classification of these territorial governance promoters by the main modes of transfer and, in turn, by the potentially addressed target audience, such a classification is by no means exhaustive and requires further empirical research.

More in detail, as various critiques of theories of policy transfer and lesson drawing (James – Lodge 2003, Bulkeley 2006, Vettoretto 2009, Peck 2011, Stead 2012) clearly remark, the “filtering out” process of transferring various features of good territorial governance from one context to another is a complex one that implies different degrees of adaptation. Similarly, the “filtering in” process through which specific territorial governance features may be taken on board in a certain domestic context appears to be related to two intertwined dimensions, namely a process of adoption that gives birth to policies/actions according to changes in the context, and a degree of territorialisation, that is, the relationship between these possible policies/actions and specific place-based issues.

Finally, the authors would like to stress that neither this contribution, nor the ESPON TANGO project aim at searching for “one-size-fits-all” solutions concerning the transferability of territorial governance, but rather at building an evidence-based set of opportunities for innovation in territorial governance practices at different levels/in different contexts, from which various stakeholders may draw lessons according to their own peculiar needs and will.

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# ENVIRONMENTAL ETHICS – WHAT IS THE DRIVE FOR URBAN SUSTAINABILITY?

*Andrea Suvák*

## **Introduction**

Urban areas are focal points of environmental pollution resulting from current production-consumption practices and lifestyles. Cities are furthermore both generators and victims of natural degradation. Urban environmental sustainability is a complex problem, with interlinked lines of causality (both in time and in space), ambiguous delimitations of responsibility bearers and beneficiaries, and different and conflicting levels of interests. Sustainability and sustainable urban development have been suggested as paradigmatic solutions to urban environmental problems, however it has become evident that these terms are too broad and that they conceal certain conflicts inherent in their realisation. The main problem with the vast majority of urban sustainability definitions, theories, premises or practices is that the underlying value set of the concept in question is hidden, and in most cases not referred to even implicitly (Davoudi 2000, Blowers 1997a).

The aim of this study is to come to a manageable number of ethical concepts that are well delimited from each other, consistent and cover the full array of possible ethical attitudes. It is hoped that this delimitation can help provide an insight into the environment-related value sets and underlying ethics of urban decision makers. Based on the works of philosophers of environmental ethics, three groups of ethics will be defined: ethical egoism, humanism and holism. Whatever the hidden or semi-revealed value sets might be, the concepts seem to be anchored in the common understanding that urban sustainability covers three main concerns: economic, social and environmental. Some of the explanations state that there is a hierarchy among these interests, others insist that they should be regarded as equally important. This paper focuses on the environmental concern of urbanised life however it is inevitable to make reflections to the other two as well.

The paper departs from the notion that the question “how” should be preceded by the question “why”. Many of the practical or even theoretical writings about urban environmental sustainability try to provide solutions to certain problems – either within cities, or in urban areas, or within some aspects of urban life (e.g. transport, energy, green areas, biodiversity, etc.), or embracing the environmental



problems caused by urbanisation globally. Still, many of these concepts trace back along lines of causality in order to discover the “real” causes of what they see as problems. However, without raising ethical question of what is “good” or “wrong” at the most elemental level of values, proposed solutions can become inconsistent and in conflict with other solutions and interests.

This study aims to reveal the possible underlying values behind the question as to: “why is it important to consider environmental issues in urban development”. It echoes the findings of Frankena (1979) that state that it is not a single ethics that drives environmentally conscious actions but that every ethics has its own consequence on the way people act towards the natural environment. Based on the works of critical thinkers and commentators of the 1970’s and on, this paper distinguishes between three lines of ethics that are tested for their appropriateness in representing different attitudes towards the natural environment.

### **Environmental Ethics**

Environmental ethics is a line of philosophy that surged forth in the 1970’s. It developed in an era when dissatisfaction and disenchantment with the workings of consumer society – mainly because of its social and environmental consequences – first manifested itself on a large scale in North America, Western Europe and Australia. The initial thrust of these environmentalist discourses was the question whether there exists an ethic that can be drawn from nature (and in this case can indeed be called “environmental” ethics), or whether human attitudes towards nature should be deducted from classical ethical lines. More precisely, the question was raised whether a new ethics should be created in order to foster better attitudes towards nature.

Retrospective interpretations of these contemplations blur the discussions of environmentally proper ethics with the advocacy of a new ethics, referring to them collectively as “environmental ethics”. In one such interpretation, all philosophies are included that study human attitudes toward nature. Another approach refers to theories according to which there exists an ethics drawn from the principles of nature. The present paper supports the claim – without challenging the possibility of a purely environmental ethics – that every kind of ethics has some environmental consequences. It uses the term environmental ethics in the broader sense, i.e. referring to all ethics that deal with human attitudes towards nature. The most widespread and referenced typology of environmental ethics is provided by Frankena (1979), but before coming to his ethical typologies and grouping methods, let us first deal briefly with key concepts and dilemmas of environmental ethic discourse and theories of early thinkers of human attitudes towards nature.

*Classical Ethics and the Environment*

The reason for the existence of environmental ethics has its roots in the is-ought problem, which interrogates the ethical or essential content that bridges a present state and a desired future state, – the values according to which an “is” requires an “ought”. Rolston III (1975) claims that information about the state of the natural environment (“is”) stems from the natural sciences, however, science itself is unable to point out desirable states and ends. The basis of labelling something good or bad, desirable or better to be avoided is always related to ethics.

Theories about human attitudes towards nature regard the anthropocentric approach of Western civilisation an original evil, and blame ancient Greek philosophy and the Judeo-Christian traditions for its formation and prevalence. Strong anthropocentrism holds that humans alone have intrinsic values, and non-human things do not. Weak anthropocentrism states that non-human things can also have intrinsic values, but prioritising human interests to non-human interests is admissible, justified. The intrinsic value of humans is higher than that of non-human beings. Intrinsic and instrumental values are closely related to anthropocentrism and the whole debate about values behind attitudes towards nature. The different branches of environmental ethics can be distinguished along the things (human or non-human) they attribute intrinsic values and along the priority they make among the importance of human and non-human beings. The distinction between intrinsic and instrumental values also presumes that the things that do not hold intrinsic values are to be used as means for the benefit of things with intrinsic values.

There are multiple classical explanations for the origin of intrinsic value. Humanist philosophy regards will and corresponding action as attributes that raise a person or an entity to the pedestal of being intrinsically valuable. Other approaches consider the ability to suffer and the ability for joy as key motives for self-value. According to Feinberg (1974), those persons or entities have self-value that have interests and that are able to represent their own interests or are able to be represented. This concept has evoked criticism (see for example Golding, M. P. – Golding, H. 1979, Goodpaster 1980). However, its impact can be detected in the arguments of environment-sceptics who insist that non-living things (e.g. landscapes) or collective categories of living creatures (e.g. species) have no interests, therefore there is no rational ground of their protection.

During the evolution of notions and conceptions, the sphere of beings to which Western civilisation attributes intrinsic value has continuously widened, first embracing barbarians and slaves, then infants, women, imbeciles, people of colour and nowadays foetuses. Such an extension, according to Goodpaster and Sayre (1979), will not change the basic logic of thinking. He argues that that this exten-

sion is a mere projection of human egoism to other persons or non-human beings, which does not resolve the inherently individualistic approach in which only beneficiaries and “not relevant” things exist, and the interests of the former. This approach, which regards each thing independently from its environment, is the strongest barrier that inhibits environmental protection to receive a logically approved explanation and to become a “normative ethical behaviour” (Goodpaster 1979, p. 30).

### *“New” Environmental Ethics*

A typical feature of new theories in environmental ethics is that they presume a “golden age” in which man lived in perfect harmony with himself, his fellow-beings and Nature. (This approach has roots in ancient philosophies, myths and traditions.) The consequence (or cause?) of the dropping out of this idealistic state is man’s secession from Nature, defining himself as an individual entity not as a part of Nature any more. As for the intrinsic value of human and non-human beings, the new theories also distinguish between the intrinsic value of individual beings and systems. The most general branch of the new ethics, called Holism, holds that it is not only the elements of the ecosystem that bear intrinsic value, but the system as a whole, and this whole is more than the mere sum of its parts. The Holism branch developed from the 1970’s in Northern America, Australia and North-West-Europe.

It is also important to mention here “shallow- and deep ecology”, a concept attributed to the Norwegian philosopher (and mountaineer) Arne Næss (1973). In the beginning of the 1970’s he collected and formulated the main attributes and principles of the then evolving deep ecology movement, and defined its distinguishing motives in opposition to “shallow” ecology. At the same time, he reflected on the moral roots and basic values of nature protection activities. He pictured shallow ecology as an environmental protection direction that corresponds to the anthropocentric paradigm, which: “fights against pollution and resource depletion, with the central objective [to ensure] the health and affluence of people in the developed countries” (Næss 1973, p. 1).

In contrast, Næss (1973) characterised deep ecology as a holistic approach that considers every living thing as an interdependent part of a coherent whole. Næss distinguished between seven different principles of deep ecology: rejection of the man-in-environment image in favour of the “relational, total-field image”; bio-spherical egalitarianism (in principle); diversity and symbiosis; a non class-based posture; the fight against pollution and resource depletion; complexity instead of compilation (holism); local autonomy and decentralisation. He affirms that these principles were not drawn directly from, but inspired by science (ecology).

*Frankena and Rolston*

A conclusion about the types of ethics that can be used in this study as underlying attitudes towards the natural environment is reached through the analysis and comparison of the theory of two dominant thinkers, Frankena and Rolston. The widely cited work of Frankena (1979) does not embrace all big dilemmas of nature-related ethical theorisations, however, the approaches and viewpoints of the above concepts fit in his categorisation. He does not harmonise with the views that disapprove the traditional (“western”) types of ethic and call for a new one to support a proper treatment with nature. He holds that exploitive and irresponsible treatment with nature is not a consequence of the absence of an ethics for responsible attitudes, but the misuse of existing ones. It is not new ethics but new morals that are needed, ones that respect existing ethics.

Frankena categorises and analyses different strands of ethics and intends to define the ones that are capable of serving as the basis of an environmentally proper attitude.

[...] every ethics that is at all complete is or includes an ethics of the environment, since every such ethics, new or old, tells us, at least indirectly, what we may or may not, should or should not do about plants, lakes, minerals, etc.; and, therefore, the main question is not which are old and which are new, but which is the most satisfactory (Frankena 1979, p. 4).

Frankena uses the “agent-patient” moral philosophical categories to support his distinction. In Frankena’s approach it is rational creatures that are the actors of all actions of ethical relevance, i.e. they are the moral agents in all case. What makes a difference between the types of ethics is the moral patient, i.e. the creatures that are subject of the rational creatures’ actions or value judgements; the beings that the rational creatures have duties to. In the understanding of Feinberg, it is not only that rational creatures have duties in connection with patients, but patients must be capable of vindicating their rights, to make agents account for their duties. Enforcement of rights is not regarded as a determining factor in Frankena’s classification. However, he stresses that:

there are certain sorts of facts about certain sorts of things that are the ultimate considerations in determining what is morally good or bad, right or wrong, and the question now is: what sorts of things are such that certain sorts of facts about them are the final determinants, directly or indirectly, of moral rightness or virtue? (Frankena 1979, p. 4.)

Thus Frankena searches for the patient in all types of ethics, and distinguishes between eight “families” of ethics based on it:

- (1) Ethical egoism: The patient and the agent is the same being, that is an action is right if it is good for the actor itself.
- (2) Humanism or personalism: What matters morally is what happens to human being or persons. In judging the moral consequence of an action all human beings or persons should be taken into account, but only humans. This attribute distinguishes this principle from egoist ethics (and fuels an accusation of being humanist chauvinist).
- (3) The third type of ethics holds that all consciously sentient beings are to be regarded patients. Being sentient is approximated by the capacity to suffer.
- (4) The next family extends the class of moral patients to include everything that is alive. This entails that every manifestation of life (flora and fauna) should be respected and should be harmed by human interference to the least possible extent, independently of their capability for sentiments and the value they hold to the agent. This view holds that life as such is sacred.
- (5) The fifth type extends moral “patience” for not only things that are human, conscious or alive, but to everything. There are two branches of this group: one that assigns intrinsic value to existing things on their own right distributively, and another that contends that all existing things are elements of an all-embracing entity or system, and this whole has intrinsic value, it is the patient of actions (holism). Frankena expresses that this latter group is most commonly envisioned in terms of a “new” ethics.
- (6) According to theist ethics, the ultimate value standard is God, and certain facts about God define the rightness or wrongness of an action (independently of God believed to be transcendent or immanent in the given religion). The only moral patient in this ethic is God.
- (7) Frankena takes notice of the combination of various ethics as an individual group. For example, he cites a basic moral of the Bible: “love the Lord Thy God with all thy heart and love thy neighbour as thyself”.
- (8) Frankena names his last group “Naturam sequere”, an ethic that follows the rules of nature. According to the ethic of this group, humans should not interfere with the processes of nature, they should obey its laws, and imitate its workings to be in harmony with it. Following the mechanisms and rules of nature is a base of not only ecological but also general morals.

Frankena emphasises these eight families in his quest for environmentally “satisfactory” ethics. However, he quickly concludes that only two ones are apt for a more thorough consideration: the third family (in which consciously sentient beings are the patients) and the holist branch of the fifth family. To reject the holist approach Frankena applies the statement of Rolston III, who claims that since

there is no strict boundary between the self and the whole, human “interests” coincide with the “interests” of the whole. However, while in Rolston’s interpretation this is the coincidence of egoism and altruism, in Frankena’s view this attitude is purely egoistic. He insists that the self only regards the interests of the whole if he is either identical with the whole or a part of it, and thus the interest of the self are not lost in the interest of the whole. At the same time Frankena disregards that in Rolston’s concept the coincidence of the interest of the individual self with the interest of the whole is not a precondition of the (this way only seemingly) altruist behaviour, but is automatically fulfilled if the individual regards the ecosystem laws as underlying values. Rolston argues that it does not entail any sacrifice, since the elemental interests of the individual are fulfilled. Humans’ elemental state is to be a part of nature and to have nature as a part of their existence. Their elemental interest is to come closer to this state. Man can only get to this state if he attributes intrinsic value to nature and obeys its laws.

At this point it is necessary to elaborate on the contradiction of the two otherwise consistent approaches. Frankena comes to the conclusion that the application of classical humanist ethics is sufficient in our goal to reach a satisfactory attitude towards nature. His starting point is that only humans are capable of defining what is “good”. The value statement evolves according to the types of ethics: in egoist ethics good is what is for the benefit of the self, in humanist ethics something is good if it is good for the humankind. Since “goodness” can only be defined along human interpretations and human-made value sets, this line of thought cannot get further than the second (humanist) family.<sup>1</sup>

The notion that goodness is defined by human judgment entails two suppositions. Firstly, that it is decided by human judgment what is good for humankind, secondly, that it is decided by human judgment what is good in general. That is, there is no “ultimate good”, independently from human judgment. However, there is such in Rolston’s conception (likewise in theist ethics<sup>2</sup>). The ultimate good, according to Rolston, is derived from the laws of nature. What is elementally good for humans is determined upon the “value judgment” of nature. This value judgment is approximated in most of the holist approaches by the working laws of the ecosystem. The contradiction of Rolston’s and Frankena’s approach therefore roots back to the acceptance or denial of the existence of absolute good. Furthermore,

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<sup>1</sup> It should be mentioned here that the third group of Frankena is basically the same as the second, since it supposes that those beings are rationally sentient whose expression of feelings is similar to that of humans. However, it is not proven that other beings are incapable of suffering.

<sup>2</sup> The common features with theist ethics is the reason why Frankena sees the holistic branch as problematic and does not express a real concern for it.

the two approaches are different in their suppositions about what is good for humans. Based on these arguments, this paper rejects the accusation of Frankena that the holistic approach is nothing else but a veiled version of a humanistic if not egoistic approach. Considering the fundamental differences discussed above, it can be stated that in the holistic approach the moral patient is effectively the ecosystem and not humankind or the actor itself.

### **Ethics and Urban Sustainability**

The distinction of different urban environmental sustainability approaches based on ethics is not very commonly made. However, there are a few analyses that theorise urban sustainability motivations based on specific kinds of values. For example, Blowers (1997a/b) and Davoudi (2000) use a distinction in which technology-based (industrial) modernism intertwined with current production-consumption practices represent one course for environmental sustainability solutions (“ecological modernisation” theory), while the other direction calls for a radical shift from the market-based approach to ecosystem priority (“risk society”). Both authors characterise the ecological modernism approach as utilitarian and risk society as one with strong linkages to morality. Davoudi describes ecological modernisation as optimistic, technocratic, utilitarian, market-based, in line with consumer society and economy, elitist and neoliberal. She sees the risk society thesis as raising skepticism about technological solutions and emphasising irreconcilable conflicts between current production-consumption practices and environmental interests. Instead of a merely enabling state it calls for interventionism while, at the same time, it champions greater participation in policy-making at the local level. Partly using the aspects of comparison used by Davoudi, the different characteristics of urban sustainability as understood within the three types of ethics are summarised in Table 1.

### **Conclusions**

There has been increasing global concern about the state of the environment during the last four decades. Urban areas are focal points of environmental degradation – they are large polluters and sufferers at the same time. There are a large array of theories and practices about solutions, however, many approaches risk being inconsistent and detached from other urban development concerns. The quest for the underlying value set of different environmentally conscious approaches leads to an evaluation of ethical perspectives. Based on debates within the field of environmental ethics, the paper has distinguished between three types of ethics that influence our attitude toward nature: ethical egoism, humanist ethics

Table 1. Characteristics of urban environmental sustainability within different types of ethics

	Egoistic ethics	Humanistic ethics	Holistic ethics
Patient of ethical behaviour	The city or some groups of inhabitants of the city	Humankind	Ecosystem
Motor of value definition	Rationality	Fairness/equity	Transcendence
Government model	Techno-corporatist government, enabling state	Norm-based governance, interventionist state, emerging role of local communities	Visionary leadership, charismatic leader, autonomous communities
Economic relations	Embeddedness in global economy	Acceptance of dual economy: parallel existence of global competitiveness sectors and social economy	Independence from global economy
Consumer society	Acceptance	Acceptance	Rejection
Relation to modern (industrial) technology	Absolute acceptance	Acceptance with caveats	Rejection
Environmental goals	Resilience, livability, efficiency gains for urban management	Remaining within the carrying capacity of Earth/ecosystem	Subsumption to ecosystem-principles
Practical spheres of intervention for urban environmental sustainability	Development of green infrastructure, air quality and urban climate improvement, utilisation of blue infrastructure for climate and aesthetic ends, non-car based and/or non-motorised means of transportation, waste management, rainwater management, climate change adaptation	All the former ones, plus: land use planning, promotion of multifunctional, compact urban design, climate change mitigation	All the former ones, plus: emphasising urban-rural co-operation, circular economy

Source: Author's compilation.



and holism. These three ethics result in divergent interpretations of urban environmental sustainability. However, it is not only eventual modes of intervention but the relation to the global market economy, modern technology and consumer society that are fundamentally different in the three approaches. Understanding these contrasts is step towards their reconciliation.

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# ENVIRONMENTAL POLICY INTEGRATION – A NEED FOR A COMPLEX UNDERSTANDING OF “ENVIRONMENTAL COHESION”

*Viktor Varjú*

## **Introduction**

The concept of “sustainable development” in the 1980s and 1990s emerged as a central element, but the environmental sector alone would not be able to secure environmental objectives, therefore each sector would have to take on board environmental policy objectives (Lafferty – Hovden 2003, p. 1).

Taking into consideration the interaction between regional policy/territorial cohesion and environmental policy, EU has made several attempts to integrate environmental policy into cohesion actions. While, for example, strategic environmental assessment (SEA) integrates environmental interests into regional development, on the other side, based on financial activities, EU forces environmental related investments to be financed by the Cohesion Fund (former ISPA) (e.g. investment in sewage systems or waste management). Implicitly these different types of tools can improve the integration of environmental cohesion into the territorial one, however, in order to achieve greater environmental justice, we have to take into consideration the differences in the institutional settings of the implementation. The will of the member states to equalise social and territorial injustice is common. However, its implementation and success are different, depending on cultural, social differences and on the path-dependency of their socio-cultural entity.

This paper, via two overall cases, is looking for the most important peculiarities of institutional settings that determine the success, the efficiency of cohesion and the implementation of environmental efforts. In order to achieve explicit environmental cohesion, complex understanding is needed.

Under the umbrella of the 6th research framework programme called G-FORS<sup>1</sup> we analysed the operational programmes of the National Strategic Reference Framework (NSRF) 2007–2013 of Hungary, focusing on the South-Transdanubian

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<sup>1</sup>G-FORS – Governance for Sustainability – EU 6th Framework Programme (2006–09) Research Coordinator: Metropolitan Region of Hannover, Regional and European Affairs.

Regional Operational Programme, in a case study. In the research project interviews were made with the stakeholders and important documents were analysed concerning legislation, planning and the SEA process.

The (country) report of the ex-post evaluation of Cohesion Fund (CF)<sup>2</sup> presents an overview and summary evaluation of the management and implementation of the ISPA and CF in Hungary from 2000 to 2011. The report is based on research conducted (mainly by the author) at national level, comprising a review of documents and data, interviews with stakeholders whose collective experience spanned the period of the evaluation, and a workshop where all levels of Hungary's Cohesion Fund delivery system were represented.

### **Environmental Policy and Cohesion**

In this section the most important notions, expectations and connections of the relevant policy forms will be defined.

With the strengthening and far-reaching effect of environmental policy, the idea of Environmental Policy Integration (EPI) came to the forefront in the last decades (Lenschow 1997). The reforms of Structural Funds, the extension of cohesion priorities and the need for a paradigm change in environmental sustainability resulted in environmental policy having become not a standing alone policy, but an integrated one. It is taken into account by sectoral, development and cohesion policies alike.

#### *Environmental Policy in Territorial Development*

Besides the 5th Environmental Action Programme, the development of the ex-ante evaluation and the rising crescendo of environmental policy (e.g. the Cardiff process, see Feldmann and Vanderhaegen 2001) brought forth the need for a separate evaluation tool for integrating environmental interests more deeply, hence EU introduced the SEA in its Directive (2001/42/EC). The goal of this initiative was also to integrate environmental policy in an earlier phase of the programming-planning procedure.

Determining whether an environmental policy initiative and integration is "effective" is problematic. The reason for this is that there are different types of effectiveness to consider (Theophilou – Bond – Cashmore 2010). Sadler (1996) distinguishes three types of effectiveness:

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<sup>2</sup> Ex-post Evaluation of Cohesion Fund (including ISPA) – Work Package D: Management & Implementation. Research leader: University of Strathclyde with the contribution of Fraser Associate. Reports, including Hungarian Report, available at: [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/expost2006/wpd\\_en.htm](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/expost2006/wpd_en.htm)

“Procedural – Does the environmental assessment (EA) process conform to established provisions and principles?

Substantive – Does the EA process achieve the objectives set, e.g. support well-informed decision-making and result in environmental protection?

Transactive – Does the EA process deliver these outcome(s) at least cost in the minimum time possible, i.e. is it effective and efficient?” (Sadler 1996, p. 39.)

Evidently, the complexity of the environmental system should be reflected in the substantive planning approach. Besides substantive, procedural planning issues need to be considered, too (Partidário – Voogd 2004, p. 287).

In order to consider substantive integration in planning by means of SEA, Partidário and Voogd (2004) defined four types of integration. In *full integration*, “environmental factors and concerns are an intrinsic element in the formulation of actions amenable to strategic decisions”. In *environmental shape*, assessment of the importance and magnitude of potential positive and negative effects on the environment is missing. In *concurrent assessment* and “*staple*” *integration*, iterativity is totally missing. “Full integration is the most desirable means by which sustainable development can be achieved” (Partidário – Voogd 2004, pp. 291–292).

### *Territorial Cohesion*

Territorial cohesion, as a complement for economic and social cohesion, is supposed to moderate imbalances by decreasing centre–periphery disparities, and it aims at the equal dispersion of goods and services for all EU citizens with equal accessibility (Faludi 2007).

In a reappraisal of the performance of the Structural Funds, Bachtler and Gorzelak (2007) suggested to reconsider the concept of cohesion, understanding it in functional terms as a dynamic entity. They argued that cohesion would involve a policy focus on three elements: economic cohesion, social cohesion and territorial cohesion (that was new in the official EU language, and had not been approved in treaty form at that time (2006–2007) (Bachtler – Gorzelak 2007, p. 321).

In 2007–2008 the German and French Presidency attached central importance to developing the idea of territorial cohesion (TC). TC added a new dimension to the European Social Model. It means “that individuals life chances are not only shaped by the extent to which individuals are subjected to and protected from typical biographical risks (unemployment, disability, poverty, illness, old age) throughout their life course” (Martin – Ross 2004, p. 12). “They are also shaped by where they live and work; in other words, by the location and quality of places and territories” (Davoudi 2009, p. 273).

The gist of the paradigm of New Regionalism is the approach where political actions (e.g. regional development, cohesion) are “beyond the state” and this ap-

proach is “based on a ‘spatial relationship of territories’ rather than on administrative and legalistic frameworks” (Scott 2009, p. 3). The focus is on regions as a spatial scale of governance and economic development. The accomplishment of the place-based approach can be expected during the EU programming period of 2014–20. The integrated territorial investment (ITI) and the community-led local development (CLLD) are the new tools for including bottom-up participation and wide-range local co-operation in the mentioned new approach and cohesion policy, which can facilitate the emergence of new forms of governance.

### *Environmental Cohesion*

Layard and Holder (2010) argue that environmental cohesion (as a new EU paradigm for a place-based interpretation of environmental justice) has a clear connection to territorial cohesion. In their new approach they suggest that advantages for people “could include not only advantages of greater economic development and growth, including equal opportunities to engage in entrepreneurial activity and to receive services, but also a concern for an equitable distribution of environmental protection and access to environmental services... While environmental justice has conventionally been conceptualised as a human-centred harm, it is fundamentally a collective concern, premised on location” (Layard – Holder 2010, p. 10).

In non-EU countries regional environmental cohesion is used as an instrument to accelerate accession to the EU and it may be manifested as a declaration of environmental diplomacy. The reason for environmental cohesion is the pollution of the environment caused by the destruction of industrial installations, military<sup>3</sup> and other waste (Mihajlov 2008, Nagy 2011).

Based on the above, we argue that the fulfilment of environmental cohesion needs a proper management structure not only in a procedural, substantive, but also in a place-based sense. It means that bottom-up approach, local knowledge and local actors are essential in achieving environmental cohesion. Having come to that we return to the well-known slogan: “Think globally, act locally”.

### **Results of Case Studies**

The mentioned G-FORS project aimed to assess how different governance arrangements in different countries may be enabled to generate, transfer different knowledge forms (e.g. institutional, expert, steering, milieu etc.), accompanied by a certain KnowledgeScape (cf. Heinelt et al. 2006, Matthiesen 2005).

Hungary is a strongly centralised, unitary country where, especially subsequent to the systemic change, medium tier governance became the weak point. Planning

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<sup>3</sup> On the territory of former Yugoslavia.

at regional level, the elaboration of regional operational programmes (ROP) met the legal and personal requirements of the EU and the Hungarian central governmental orders. The newer and newer versions of the OPs “pursued” the continuously changing central expectations. The ROPs were made according to the “residual principle”, and their content was determined at the National Development Agency (NDA). The Government has concentrated on the planning and implementation work at the NDA, the ROPs were prepared in similar linear processes, even though the local organisations played a significant role in the preparatory phase (Pálné Kovács – Varjú 2009).

Regarding the modes of interaction, in the planning process of the SEA preparations were carried out in a sorely formalised way. Here a hierarchical, multi-level governance model was detected which nevertheless had to be supplemented by elements of networking (partnership).

During the SEA public participation process, the NDA provided a multi-channel option for partner’s comments: partly on the website of the NDA and partly through a web interface. The planner, however, did not seek stronger co-operation with the SEA makers and the consultation partners, instead concentrated only on the proper “ready made report”.

If we take a look beyond the formal procedures, we can see that the desirable philosophy of SEA has been injured from several aspects. First, the SEA makers were not authorised to conduct direct negotiations with the different planner units, only through the NDA (Figure 1). On the other hand, the SEA report was prepared after finishing the public debate on the ROP and therefore its own debate was also delayed. Hence centralisation and the lack of integrated planning were the main crucial points of the process, which have major influence on efficiency. Also, time management was not feasible in a proper way; for the environmental assessment itself (including public participation) the time was very short.

The mentioned ex-post evaluation analysed the management and implementation of ISPA/CF. Beside the need of integrating environmental policy into regional development, an effective way to improve environmental quality is to continue the implementation of cohesion funds, as it resulted in 828 environmental projects in the planning period of 2000–2006. In the period 2007–2013 an allocated budget of 133 million euros to “green economy” included environmental protection projects as well (Layard and Holder 2010).

Having regarded the baseline position of ISPA/CF implementation in the environmental sector, the Ministry of Environment was responsible for infrastructure project management and implementation. Project implementation was performed by the local level government departments and companies. Here, experience and competence in organising and managing projects were lacking, learning was simultaneous with the implementation.

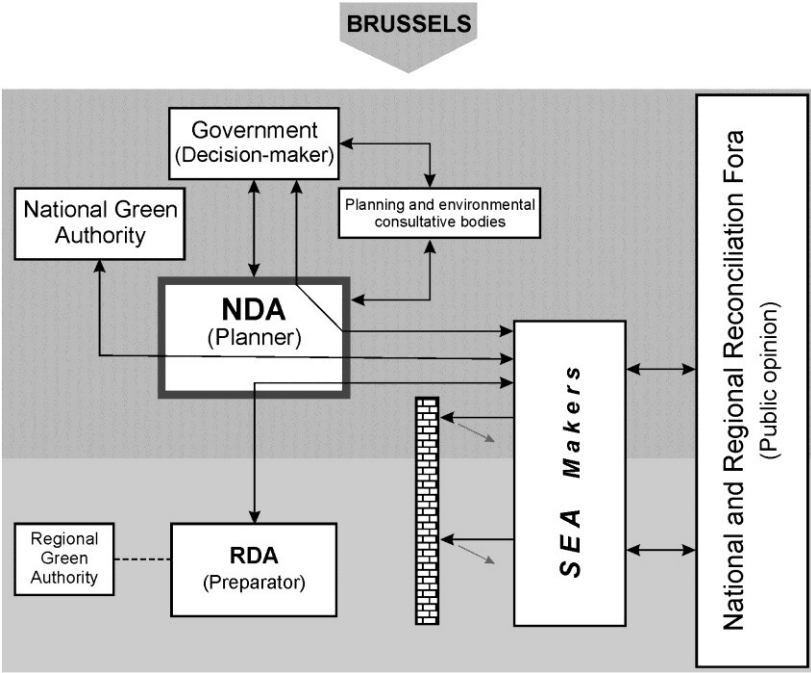


Figure 1. The SEA procedure and the interaction between players of the action arena  
Source: Author's compilation.

Since project management experience was missing in the environmental sector, technical assistance (TA) and foreign external experts were involved, although their lack of local knowledge could be problematic. This discrepancy existed at intermediate body level as well.

At the level of beneficiaries there were three typical project implementation arrangements regarding the management and implementation architecture. In those projects where several local governments were involved in implementation, a new organisation was created for implementing the project. There were projects where a representative of the local government co-operated with the supplier in implementation, in other projects implementation and management were outsourced to a third party.

The most serious cause of significant deviation in project implementation was the weakness of the preparatory stage, especially at the beginning of the period, and this had a significant effect on implementation. The effects appeared in delays and the fact that gaps had to be bridged during the implementation phase. Inexperienced project managers (especially in the environmental sector) inherited problems arising from weak project development.

Especially at the beginning of the period there were significant deviations from financial plans. Usually the solution was not the extension of the budget but the mitigation of the technological content. Inflation, changes in the euro exchange rate and the cost of archaeological excavations were among the main underlying reasons.

By the end of 2011 almost all of the major projects had been physically finished, however, financial settlement was expected after that. The reasons for the delays and other discrepancies are manifold and include:

- Archaeological excavations could cause half a year or more delay.
- Civil protests. For instance, in the waste-management project of North-East Pest finally the 14th location was chosen because of the different local political interests and local civil protests.
- The process of getting permits from different public utility companies (electricity, gas providers) and authorities (e.g. Green Authority). For instance, the enlargement of a transformer together with the process of getting permit for it caused 13 months delay in one case.
- Lacking human capacity (in both qualitative and quantitative sense) to carry out the construction. This is the consequence of the failure of public procurement to consider “value for money”. The cheapest bidder can win the tender, however, they do not have the capacity to carry it out.
- Overall national sectoral strategies were being made simultaneously with the project development/preparation, or in some cases after the project preparation/development had taken place.
- Issues relating to the late start of the projects, and overrunning the budget having resulted in reduced outputs, suggest that the quality of project preparation was not appropriate, at least in relation to the time horizon of project implementation. There was no effective project pipeline in the early stages.
- Involvement and co-ordination of local governments. As most of the environmental projects affected local levels, there were some leadership related issues during implementation, as a number of municipalities were not motivated to take responsibility for project implementation. Co-ordination and difficulties in territorial orientation caused difficulties in delivery.

The regulatory environment for infrastructure, planning and implementation and its changes also caused deviation in projects. The change of regulations necessitated new technological requirements, which added new costs in the implementation phase.



## **Discussion and Conclusion**

A case cannot be understood without the concrete physical, social, cultural environment (attributes of a community) and the general model of governance, the evolution and characterisation of institutional arrangements (Ostrom 2005). A key aspect of addressing sustainability is simultaneously a problem of the co-ordination/integration of actions at different levels of governance (Atkinson – Klausen 2011).

SEA is a novelty for the Hungarian land use planning system requiring decentralised governance, partnership of non-public actors, networks for arguing, measurement of the quality and efficiency of decisions, and respecting the normative value of sustainability. The implementation of CF (former ISPA) has a longer tradition, however, the lessons to be learned are similar to those of SEA.

Although there was already some experience in SEA, the volume of the recent one was much higher. As follows from the examples, bad time management and the hierarchical and centralised way of communication led to SEA and ISPA/CF implementation having been separately tailored. Although the available expert knowledge was enough, the dominant knowledge form was the institutional knowledge of the central actors. What we have just said relates to territorial level, local respect and milieu knowledge have been dominantly missing.

Experience shows that EPI not only depends on legislation and planning method, but also on the decision mechanism of actors. Apparently this planning period (2007–2013) was the first when SEA was made on a mass scale (NSRF, its Operational Programmes and their Action Plans). Therefore the reasons for the negative aspects were the lack of experience, the bureaucratic institutional setting, and the fact that although environmental policy brainstorming and plan preparations were going on at the same time (concurrently or when the priorities in the plan had already been defined), the procedures were going on separately, and not in an iterative way.

In ISPA/CF implementation strategic planning was underdeveloped and adjustment was needed to meet the requirements of ISPA/CF. In general it can be confirmed<sup>4</sup> that the process was sometimes too complicated, the scope of responsibility was not unambiguous, and the continuous changes in the institutional and functioning framework caused significant delays.

Overall fund management and governance, though requiring development especially at the beginning, was not found to be a significant obstacle to delivery. The areas with greatest impact on the performance of the system were strategic planning in the early stage, project development and procurement.

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<sup>4</sup> Also stated by KözOP (2009).

The above-described research revealed that in the field of effectiveness there were several deficiencies. For example, iterativity, a principle of SEA, was unsuccessful in the course of procedures. In a substantive sense the implementation of the CF project achieved the objectives, but in its procedures it was deficient.

Assessing the substance of the process, on the basis of our research results we can say that bureaucratic difficulties (hierarchical institutional setting, the dominance of institutional knowledge) resulted in making “concurrent assessment” or “staple integration” (in the sense of Partidário – Voogd 2004) instead of the preferable “full integration” in the course of SEA. It occurred that after the planning period had been finished, the environmental assessment was still going on. In such a situation there is no chance to reflect on the plan from an environmental aspect.

Wider participation of society and the socio-economic partners in the main phase of CF planning, procurement and implementation would help to increase the quality of decision-making. Although legally financial responsibility belongs to the implementer of the project, it would be useful to share the responsibility in practice, as a major investment implementation depends not only on the beneficiary, but on other actors of the delivery system as well. It can also be noted that there were too many actors in the system and it would be useful to decrease their number.

Environmental policy has been integrated into territorial cohesion, however, in a general sense the actual appearance of environmental cohesion is rare. Although the notion is new, it is becoming strong in an implicit manner. However, EU cohesion policy should deal with environmental cohesion explicitly. The primary reason for this is that a certain level of environmental protection, the application of EU environmental standards and guidelines are preconditions of accession. However, as our research has shown, within the EU – and not only in Hungary, as other Central and Eastern European Countries have similar problems<sup>5</sup> – there are crucial management problems. Not in connection with environmental protection but in the implementation of the environmental policy initiatives.

In order to achieve the full integration of environmental policy, its effective implementation, and the convergence of the institutional settings of its implementation, there is a need for environmental cohesion to appear explicitly.

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**REGIONAL STRUCTURES AND  
POLICIES IN CENTRAL AND EASTERN  
EUROPEAN AND BALKAN COUNTRIES**



# INGREDIENTS FOR THE DRAWING OF EAST-CENTRAL EUROPE'S SPATIAL STRUCTURE

*János Rechnitzer*

This paper has a daring title. It was chosen based partly on the research project we are now completing<sup>1</sup> and partly on the research we have been conducting for decades on spatial policy. The referenced research project's goal is not fully connected to the topic in the title, given that it concerned the vehicular industry situation of two Hungarian regions – Western Transdanubia and Central Transdanubia. The research team conducted analyses of various combinations of East-Central European countries and their regions (NUTS 2), comparing economic and social situations primarily to interpret the service conditions for hosting economic organisations and also the given territorial-level classification. As leaders of the research project we had the opportunity to overview the analytical methods and to review the results, allowing us to gain knowledge of and to investigate East-Central Europe and its complex and rather interesting regional structure.

Another aspect of our interest in regions motivated us to write a monograph on the theory, application and methodological framework of territorial policy (Rechnitzer – Smahó 2011). This nearly five-hundred-page summary book reviews several concepts used in territorial research, looking for how different interpretations affect various communal and private interventions in spatial processes. In this way we encountered the concept of spatial structure, which is often used and interpreted in several ways. The same holds for theories related to the concept. We ourselves attempted to define and describe this concept as used in systemisation, analysis and development interventions. Furthermore, the review of territorial policy led us to the acknowledgment of the numerous specificities and divergences observable in the territorial structures of the countries of East-Central Europe. To a degree some of these have already appeared or have played out in the western half of Europe, while others are characteristic of the given macro-region, and can only be observed and interpreted here.

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<sup>1</sup>In this research project we relied on the results of the project entitled "TÁMOP-4.2.1./B-09/1/KONV-2010-0003 Mobility and Environment: Vehicular, Energy and Environmental Research Projects in Central and Western Transdanubia".

This paper connects two dimensions, i.e., two research projects, and harmonises the results thereof to allow us to attempt to describe the spatial structure of East-Central Europe.

### **The Region under Examination**

What exactly is East-Central Europe? Attempts to define this region of Europe have given rise to several theories (Szűcs – Hanák 1986), and thoughtful analyses attempting to record the characteristics of this group of countries have been written. Valuable analyses of the development of social and economic structures after the regime changes are available (Ehrlich – Révész – Tamási 1994). Some studies have tried to describe territorial characteristics (Horváth 2000, Illés 2002) or the system of municipal networks and the characteristics of their definitive centres (Csapó – Balogh 2012, Csomós 2011, Enyedi 2010, Tagai 2010). Publications have appeared on the development of structural policies (Fábián 2011), the territorial policies of specific countries, their tools (Mezei 2006, Rechnitzer – Smahó 2011), the modelling and transformation of economic and industrial structures (Kuttor 2012, Lux 2009, Molnár 2012) and the definition of regional competitiveness (Lengyel 2012). The past few years have seen a dramatic increase in the number of Hungarian and international investigations and studies on East-Central Europe, indicating that this group of countries has become a focus for professional researchers.

A review of publications reveals that there are differences and divergences in drawing the borders of the region. One group of researchers focuses on the countries of the Visegrad Co-operation initiative established in 1991 (Czech Republic, Hungary, Poland, Slovakia), while many researchers add Austria and call the region Central Europe. Other analyses attach the eastern counties of Germany, or Bavaria, and also include western Balkan countries (Horváth – Hajdú 2010) like Slovenia and Romania and thus speak of East-Central Europe.

We prefer this more encompassing approach, given that the countries all joined the European Union at about the same time, or are about to join (Croatia in 2013, while Serbia's accession date remains uncertain). From a Hungarian point of view this group of countries has a number of historical similarities, while in the 20th century the given countries and by extension the region formed millions of economic, trade and historical-cultural threads that entwined them. Furthermore, the countries of the region experienced similar political systems, and the collapse of these regimes occurred at roughly the same time throughout the region, giving rise to similarities in regime transformation. Last but not least a unique geopolitical situation characterises these countries.



As such, our study incorporates a bigger, and in our view more intensive, collection of countries that is similar in terms of development and catalysts thereof. We thus view East-Central Europe as the southern and eastern counties of Germany, Poland, the Czech Republic, Slovakia, Hungary, Slovenia and Romania. It is within this group of countries<sup>2</sup> that we attempt to describe a spatial structure and its changes.

### **On Spatial Structure**

In his outstanding study (Szabó 2009) and later habilitation (2012) Pál Szabó summarises Hungarian interpretations of spatial structure. He provides three approaches to the use of the term. In the first instance the elements (creation factors) and their spatial arrangement are viewed as the foundation of the definition, while a second interpretive approach categorises based on statements emphasising spatial component elements. Finally, the third approach is found in investigations where the relation of spatial elements to one another, i.e., the divergences in structures and analysis of their spatial distribution are focal points.

Spatial structure is thus the defining of territorial units based on groups or combinations of distinguishable development paths independent of a country or group of countries' spatial position, and further based on groups of primarily economic, social, settlement-network factors (Rechnitzer – Smahó 2011). Its characteristics, e.g., differentiated structural, organisational units, form unique combinations that can be characterised and evaluated according to given criteria. These characteristics define the economic, social and settlement-network factors in one or several time periods. The units of spatial structure thus can be described as the state of a developmental path, evaluated according to expectations (e.g., development, separation), and defined in order to achieve changes according to territorial policy goals (desired future development directions, transformation of situations and states, means and modes of intervention).

Spatial structure units are the concentrated appearance of similar or seemingly similar (interconnected), determining economic, social and settlement-network factors. Space has several layers and fields which pile on top of one another and which can strengthen or weaken one another (Rechnitzer – Smahó 2011). The specificities and differences of spatial fields depend on the geographical characteristics of various territories, their economic, social and political evaluation, or

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<sup>2</sup>We considered the inclusion of Croatia and Serbia, given that these Western Balkan countries have strong and reinforcing historical, economic, infrastructure-related and cultural connections to the other countries in the study. However, access to data was problematic. This situation should improve with Croatia's accession to the EU (2013), while in Serbia's case its candidate country status will make data better available.

their level of support. In this way their role in the transformation of spatial structure can vary. One of the goals of spatial policy is to influence and contribute to the transformation of these spatial fields.

The various fields are layered upon one another in space, but their effect and strength in given spatial points (settlements) can vary. Some intensify and become concentrated, while the presence of others wanes. Meanwhile the fields affect, build, destroy and weaken one another. The relations and destinations between fields change over time. Within a given span of time some gain in value, others become dormant or lose their previous significance and role. In the next span of time they can reappear in a new light or correlation, establish a relation with a further field and affecting those create new synergies. Change in the entirety of the spatial structure follows transformation of the fields or the appearance of new points of view and interrelations in the valuation of fields.

The goal of analysing spatial structure is thus to determine the composition of the examined territorial unit – be it a country or group/association of countries that displays common characteristics as regards units and unifying criteria in space – in terms of definable composite elements, with an eye to the future direction of their change and development. A further goal is the orientation of development and the review of what possible interventions are necessary to change or modify the described states. Such spatial structure analyses can encompass the registration of current states, the description of a desired future state, or the establishment/prediction of a developmental level. These analyses can be viewed as tools of territorial policy used to define the direction of interventions. It follows that spatial structure analysis can be viewed as an analytical tool of horizontal developmental policy. Given the above, spatial structure types can be defined as developmental levels, or differentiable spatial characteristics. We can move from states seen as developed toward undeveloped or – in terms of given conditions – designate them as lagging or peripheral. The degrees, or the placement of demarcated territorial units on a ladder of development, can change according to analyses and in light of territorial policy goals.

Finally, a definitive question is that of the mode or methodological foundation for designating spatial structure units or development types. Numerous analytical methods for qualifying territorial levels, registering their states or comparing them to one another are known or are being developed. To simplify, there are two paths we can take.

The first path is classification according to indicators of development. In such cases we utilise one or more well known indicators (these are usually indicators of territorial economic potential, e.g., GDP per person), separate the territorial units, and then using our further gathered knowledge refine and increase the precision of our picture. The other solution is to collect various economic, social and municipi-

pal indicators characterising territorial units – essentially the field characteristics – and analyse them using complex evaluation methods (e.g., multivariable analyses, projection methods, simulation techniques, etc.).

Both approaches can be used successfully, while the combination of the two can also be a solution. We should not forget that the goal of spatial structure analysis is the orientation of development and the establishment of its possible directions. Hence, territorial analysis requires experience in synthesising, creative problem solving and knowledge of the given territorial units. The method of presenting results is map diagrams, but this only helps envision observations in spatial terms. These – as spatial structure units – must be described with great precision and based on development-supporting relations.

### **East-Central Europe in European Spatial Structure**

Spatial structure models of Europe appeared in the eighties and nineties of the previous centuries, with the goal of illustrating the developmental direction of European space. Illustrations and grandiose spatial demarcations were based on the classic principles of the centre–periphery model. Central spaces – whose nodes were the large centres of Western Europe – housed concentrated economic resources as well as all institutions of political decision-making, and this well-defined space was the starting point of economic renewal and the concentration of innovation. This is how the Blue Banana<sup>3</sup> came to be, as Europe's economic – and historically interpretable – belt, which contained Western Europe's dominant centres and their spheres of influence (Brunet 1989). Rethinking of the models results in the expansion of this belt through the inclusion of agglomerations and new centres. The forming developmental zone now stretches from London and Paris through the Ruhr area to Milan, encompassing Europe's definitive centres and their areas of influence (Kunzmann 1992).

The outlining of developmental zones continued in the 1990s. The South European developmental zone appeared, encompassing the centres of Barcelona, Lyon, Marseille, Genoa, Milan, Venice and Rome, along with their agglomeration zones. This developmental axis – having unique functions (service orientation, tourist, strengthening local economies, new type production systems and regional connections) – was named the North of the South, Europe's Sunbelt or the Second Banana (Lever 1995).

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<sup>3</sup> Pál Szabó (2009) impressively reviewed models of European spatial structure, including their various variables (polygons, shapes), labels, and the possibilities of their change and variation.

In addition to these was the outline of Europe's high-tech ring, which began in Glasgow, went through Barcelona and Milan to Vienna, broke in Central Europe, and then closed the circle from Malmo to the original starting point. This is where Vienna first appears, then as Europe's last stop, beyond which peripheral areas like East-Central Europe – which are unknown and undocumented – are to be found (Figure 1).

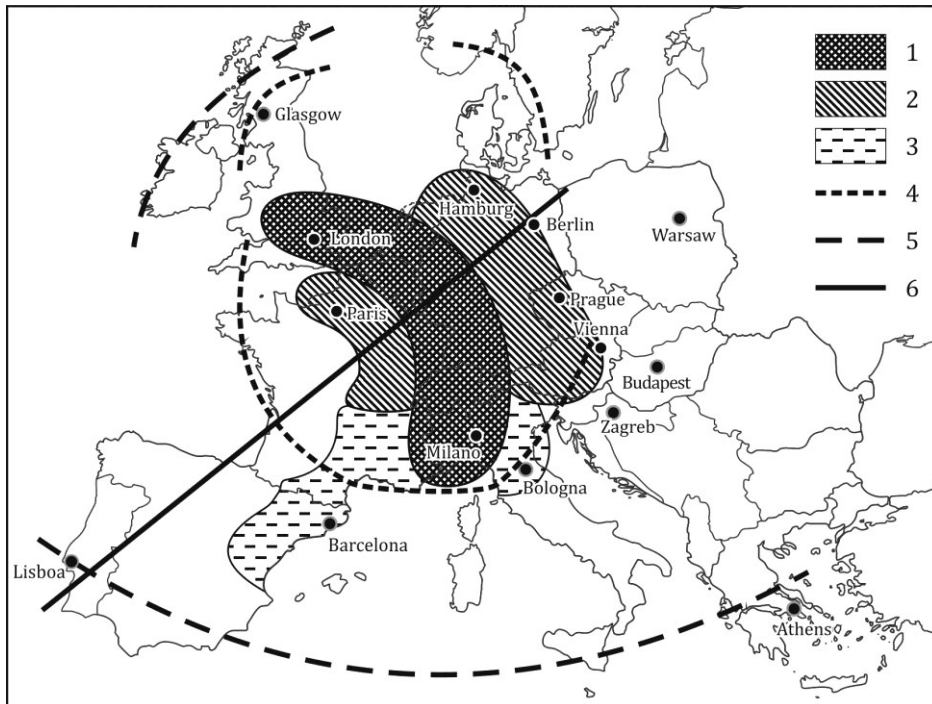


Figure 1. The spatial structure model of Europe in the 1990s

Legend: 1 – Blue Banana; 2 – The expansion of the Blue Banana, inducted zones; 3 – North of the South (Sunbelt); 4 – High-tech ring; 5 – Undeveloped regions ring; 6 – Problem region.

Source: Rechnitzer (1998 p. 67).

At the beginning of the 1990s regional processes clearly showed that the economic integration of East-Central European countries would inevitably give rise to a regional integration form (Enyedi 1996). The established Visegrad Co-operation initiative, the countries of which had economic and institutional principles that made economic integration possible, could have initiated a concurrent territorial integration process not just with neighboring countries in what was then the European Community, but with eastern, post-socialist neighbour countries as well. Some signs of such an integration process were recognisable in the emerging

macro-regional structure of East-Central European countries<sup>4</sup> (Gorzela 1996, Rechnitzer 1998), which displayed several particularities and at the same time certain directions of development (Figure 2).

In the mechanism of macro-regions it is urban regions that embody connections. In Hungary this means the Budapest agglomeration; the agglomerations of Prague and Brno in the Czech Republic; Warsaw, Poznań, Wrocław, Gdansk and Krakow in Poland; and the Bratislava area and the Kosice region in Slovakia. The west-east developmental slope in these countries was already present at the time, although approaching the eastern borders this continuity was broken and we experience a sharp drop to another level of development that is markedly unfavourable compared to the previous one. Therefore the studies viewed the countries of the East-Central Europe region as the border zone of the west, which could lay a foundation for macro-regional and cross-border co-operation, whereas the eastern regions were the true periphery, with little chance for catching up.

The western developmental zone of East-Central Europe, which encompasses the major cities of Gdansk, Poznań, Wrocław, Prague, Brno, Bratislava, Vienna and Budapest, was seen in analyses as the "Central European Banana" (or boomerang). This zone has a high concentration of capital cities and significant industrial and administrative centres. Their organisations are directly connected to the Austrian and German economies. Major and mid-sized investors have settled in these regions. Furthermore, these centres were able to absorb services and shopping tourism from the west in the middle of the 1990s. It is another unique aspect that in this zone the relatively developed areas of East-Central Europe – which largely had industrial potential and advantageous infrastructure – merged with the relatively underdeveloped Austrian and German regions (which showed significant transformations). As a result, a natural situation of competition arose among the areas. This not only covered Austrian-German relations, but also affected intraregional relations in the given countries. By this we mean that as a result of the inflow of western capital into these western-located or capital city-based regions the transformation of the economy was quicker – i.e., more successful – and hence the west-east or capital city-country-side division increased instead of diminishing.

The Central European banana (or boomerang) can launch two potential development zones or expansions. One of the zones begins in Prague and includes the large industrial cities of former East Germany (Berlin, Leipzig), connecting to Berlin, and then turns to Poznań and back to the Czech capital. The Berlin-Warsaw

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<sup>4</sup>In this model it is too early to speak of East-Central Europe. The countries mentioned above are not present or are present only tangentially. However, the hope for and necessity of expansion in spatial structure analyses is clear.

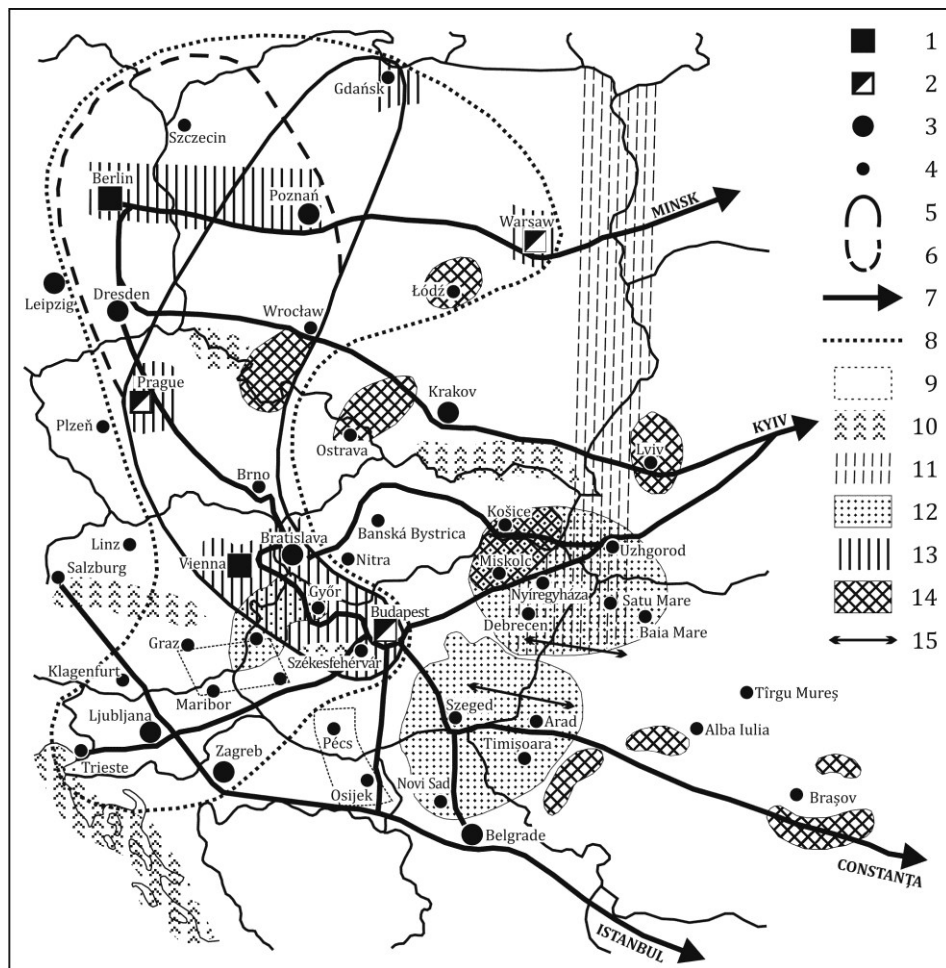


Figure 2. The spatial structure model of East-Central Europe in the 1990s

Legend: 1 - Internationally significant city; 2 - Potential internationally significant city; 3 - Transnational significant city; 4 - Regional centre with international significance; 5 - Current development zone; 6 - Potential development zone; 7 - European transportation corridor; 8 - North-South future co-operation region with development opportunities; 9 - Potential multiregional co-operation; 10 - Tourism region; 11 - Peripheral area; 12 - Multi-regional co-operation; 13 - Development core area; 14 - Traditional industrial area; 15 - Co-operation direction.

Source: Rechnitzer - Smahó (2011. p. 55).

axis is forming at a spectacular rate, not only as a new transportation and communications corridor (Pan-European Transport Corridor No. 2) in the near future – opening toward Minsk and Moscow – but as a new innovation axis as well. This may result in a shift in the centre of gravity in the spatial structure of East-Central Europe, as much of the transportation of goods can be “lured” here and new economic directions can be established that devalue and diminish earlier spatial connections. The entire spatial structure could be transformed as a result.

Another potential expansion of the Central European banana (or boomerang) is along a north–south axis that can connect the coast of the Adriatic Sea with the North Sea. This possible expansion can emphasise the Berlin–Warsaw axis, and can also activate Slovenia, Croatia and the eastern and southern counties of Austria. Due to the unique aspects of spatial structure it can be assumed that the future fusion of East-Central Europe's northern and southeastern development areas will take place along the Prague–Brno–Vienna–Bratislava–Győr–Budapest axis. An economic and spatial structure turntable can form here (East-Central European mushroom) which can fuse East-Central Europe's future renewal zones with Eastern Europe (mainly eastern Slovakia and the Ukraine) and the Balkans (largely Romania, Serbia and Bulgaria), transferring capital, knowledge and innovation to the latter two areas and their centres.

Beyond current and potential future development zones, transitional areas with various characteristics were also present in East-Central Europe in the 1990s. Some of these were traditional industrial districts, transformational agricultural districts, mountainous zones with active tourism or large cities or peripheries hoping to utilise cross-border co-operation. One could draw an “eastern wall” that broke the developmental slope and encompassed the peripheral border areas – those touching Belorussia and the Ukraine – of the eastern part of the group of countries. Characteristically most of these areas were provincial, based on agriculture, contained a village and small-city settlement network, were unfavourably developed, and had poorer infrastructure than the national average. In other provincial cities the inner resources for renewal were lacking, there was scant interest on the part of foreign capital, and tensions in employment and society were sharp. Beyond the numerous disadvantages of being on the periphery, the fact that the post-Soviet areas bordered so-called “western” regions made it possible for them to activate various elements of resources and to establish new areas for relations. The dismantling of the “eastern wall”, however, was obstructed by dilapidated and narrowly cross-sectioned transportation (and border crossing) infrastructure, by the slow development of post-Soviet state institutions, by the increased defense of the eastern borders of the European Union, by the flowering of the black market, and by markedly poor public safety.

### **The Competitiveness of the Regions of East-Central Europe**

We conducted research on the regions (NUTS2) of East-Central Europe by analysing competitiveness. Our aim was to locate – economic, social and institutional – factors that strongly determined the whole of the examined region and its inner structure (which would determine its relations to other regions). Furthermore, by ranking regions we could make recommendations to improve their position and strengthen their competitiveness.

Readings of theoretical models of competitiveness and related studies contributed to our research by allowing us to build new elements into our existing model (Lengyel 2000 and 2012). Classic labour force productivity and employment categories were refined, and as a result we moved beyond the factors of research and development, of human capital and operating capital to also incorporate parameters related to factors like social capital and the trading sector (branches producing for exports).

We compared the NUTS 2 units of eight countries for a total of 93 regions. We used 25 variables as a starting point, which we examined by various mathematical-statistical methods.

Analysing factors underlying competitiveness like labour productivity and employment allow us to state that the East-Central Europe area is strongly differentiated and includes a well-defined cleavage. The separation can generally be described as a division between the developed western market economies (Germany, Austria) on the one hand and the developing regions of East-Central Europe on the other. These areas diverge from one another in an unambiguous way. The former is characterised by a pairing of high employment with high productivity, while regions in the other group are the opposite, where low employment goes hand in hand with lower productivity.

That this area is deeply divided is made visible by clear west–east differences. The former socialist countries have a concentration of resources in their capital cities and marked differences between their own regions. Thus there are just a small number of recognisable developmental zones (series of regions with continuous development), whereas poorly developed and largely peripheral regions are present in large blocks (Figure 3).

In comparison to the regions of other post-socialist countries the regions of Hungary are not in an advantageous situation. Only the Central Hungary and West Transdanubia regions display measurable competitiveness, while the other regions are lagging behind significantly and fall into the weak competitiveness category. This is further confirmed if the key components of competitiveness – as concentrated expressions of the analysed factors – are compared with GDP per person; these relations are systematised in a two-dimensional diagram (Figure 4).



The division in the region is even more pronounced and evident when we observe that significant developmental differences have appeared in East-Central Europe. Beyond the above-mentioned German and Austrian regions, the cleavage was only transgressed by the regions of Prague and Bratislava (among all the regions of the post-socialist states).<sup>5</sup> The Hungarian capital's competitiveness is at a moderate borderline level and has an advantageous specific GDP. The West Transdanubia and Central Transdanubia regions have GDPs that approach the average, but with low competitiveness. This holds even more true for the rest of the Hungarian regions, which are ranked more in the middle than in the lower end of the underdeveloped sector.

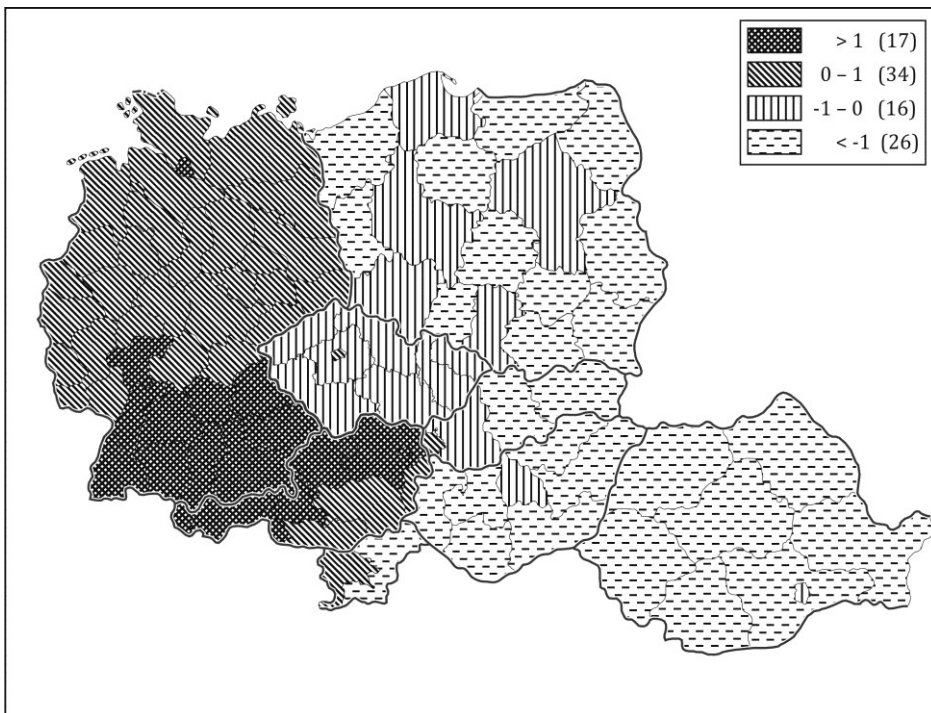


Figure 3. The competitiveness of the regions of East-Central Europe  
Source: Lengyel (2012, p. 214).

<sup>5</sup>The latest regional-level GDP data confirm this result. Of the European Union's 20 most developed regions the Bratislava region (Bratislavský kraj) is at 178% of the EU average and ranks fifth, while the Prague regions (Praha) reached 175% of the EU average in 2009 and ranked seventh.



Czech but also the Polish regions. The analysis confirms the Hungarian – but also East-Central European – specificity whereby the capital city is markedly different from the rest of the regions – in our case Budapest's situation is clear – and values here are closer to those of the Western European region, or to the “head” of the mushroom. The “stem” is a lagging group in which we find a block of Hungarian regions, signifying that their research potential is disadvantageous and as such their competitiveness in East-Central Europe is markedly weak.

### **Summary of the Experiment**

Researchers' interest in East-Central Europe has grown over the past few years. The reason for this is that the majority of countries in this region has joined or will soon join the European Union, and as such have become members of the European economic space and political community. Transition in the economy has been completed – though we encounter numerous corrections, new solutions and experiments – in these countries, but the spatial structure transformation has been slow to be initiated. Existing differences and anomalies are yet to be dismantled. An increasing number of signs point to the fact that territorial processes have not sped up. We cannot register cohesion and equalisation which are European political expectations.

We can observe a development level split between western and eastern regions within the countries in question. Generally the capital cities and wider agglomeration regions have high concentration of resources and stand out in terms of their country's income generation and human potential. Beyond the capital cities only some large cities and regional centres are able to produce faster dynamic, largely those in which progressive branches capable of producing for the world market (e.g., vehicular, electronics industries) have undergone renewal, or where such branches recently took root, and where transportation processes are multifaceted. Among provincial regions built around smaller centres only those able to utilise or transform tourism advantages or unique agricultural cultures have seen convergence beginning. These regions can successfully participate in integration processes. We can further observe the gathering momentum of border-area relations and manifestations of forms thereof [e.g., macro-regional development strategies (Danube Strategy), construction of organisational systems (Euroregions), creation of new institutional frameworks (EGTC)] and the spread of spheres of influence and the attraction of large cities located near national borders to cross-border areas. This trend is getting more and more pronounced.

The region as a whole is deeply divided. It is clear that the spatial structure manifestations of the processes mentioned above affect specific countries in different ways. There are some where territorial development is more even, while

others have long-term and divisive structures having been developed. Competition between the countries and regions of East-Central Europe is increasingly visible and is actually further fuelled by the drawn out economic crisis and its effects, along with the diverging reactions to it.

Research on the geopolitical situation, the economic and social structure, the institutional systems and most importantly the spatial structure (settlement network) of East-Central Europe is necessary and indispensable. This study ought to be seen as a way to increase interest and spark debate.

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# DIFFERENTIATED FORMS OF EUROPEAN TERRITORIAL CO-OPERATION: A CASE OF THE EUROPEAN UNION STRATEGY FOR THE DANUBE REGION

*Tamás Kaiser*

## **Introduction**

Cohesion policy, as always, has once again proved to be an “experimental laboratory” for developing and testing the future public policy system of the EU, even if its relations with the prevailing competitiveness strategy, the so-called “Lisbon Decade” and the following Europe 2020 (thereafter EU 2020) are analysed. The preparation process for the next programming period (2014–2020) was linked to the harmonisation of territorial development policies, an exclusive competence exercised by member states, and to a strong intention to form common principles, priorities and actions for establishing the post-2013 cohesion policy in the framework of the Territorial Agenda 2020 (thereafter TA 2020) as one of the key strategic development policy documents. Answers to challenges in a changing environment and new paradigms can be traced back to the necessity of rescaling territory usage and, as a consequence, to a growing demand for cross-border, international and macro-regional co-operation initiatives. Thus, thanks to the Lisbon Treaty, the *acquis* on the concept of territorial cohesion meant the most essential pillar of this new place-based development paradigm and the most significant intersection of competitiveness and solidarity (Ágh et al. 2013, Ágh et al. 2011, Mendez et al. 2011, Notre Europe 2011).

Debates on the meaning of territorial cohesion defined vigorously the preparation process of the post-2013 cohesion policy. However, the issue of the influence of territorial dimension in the EU 2020 has remained open as it has also been equivocal whether the “benevolent negligence” of the first half of the “Lisbon Decade” would dominate without taking account of its well-known consequences and correction mechanisms (Ágh – Vértés 2010, Ágh 2011, Copeland – Papadimitriou 2012). Although, according to the starting point of this paper, post-2013 cohesion policy planning made flying start in the first half of 2007 and was linked closely to the steady improvement of the review of strategic orientations for European territorial development, it was not able to have a significant impact on the preparation process of the EU 2020. In addition, territorial dimension has ap-

peared in differentiated forms in the draft legislative package on cohesion policy issued on 6 October 2011, especially within one of its core objectives, the relatively low-budget and “top-down driven” European Territorial Co-operation (ETC). Functional macro-regions (FMRs), partly emerging due to this objective, represent several elements of the overall but differentiated concept of territorial cohesion, while establishing distinct co-ordinative and co-operative forms of multi-level governance (MLG) through the process of implementation that broadens the scope of practical understanding of territorial governance.<sup>1</sup>

### **The EU 2020 and the Territorial Dimension: The “Lisbon Paradox” Repeats Itself?**

The preparation of the TA 2020 and the post-2013 cohesion policy went hand in hand from 2007 to 2009, so a favourable environment was created in order to develop the post-Lisbon (EU 2020) strategy trying to address some of the main shortcomings of its predecessor. However, the problem to be solved cannot be regarded as a brand-new one. Already in 2005, policy papers and debates generated by the re-launch of the Lisbon Strategy made it clear that one of the main bottlenecks – the so-called “Lisbon paradox” – was the extreme neglect of the territorial dimension in spite of the fact that regions and cities participated in almost each and every policy field of the Lisbon Strategy. However they hardly experienced that the strategy would contribute to regional or local development. It is underlined that in the EU27 average, more than 66% of regional and local stakeholders take part in the realisation of public investments (Committee of the Regions 2008). Overcoming this paradox is one of the main preconditions of reaching the Lisbon targets, not to mention that it has a great chance of being a key element in defining the framework of the post-2013 cohesion policy as well.

Nevertheless, the end of the “Lisbon Decade” was quickly approaching and that called for urgent action, with a consequence that the first version of the EU 2020 came before the European Council on 3 March 2010, after a relatively short consultation period. Thus, the decision of the informal meeting of General Directors participating in the European Territorial Agenda held in Seville on May 10 emphasised the importance of strengthening the common goals of growth policy and those of territorial development (“Territory matters” 2010). Interestingly, reforms of the TA 2020 slowed down in this period, as the European Commission, following the adopted legislative calendar of the EU, was to prepare the Fifth Report on Eco-

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conomic, Social and Territorial Cohesion in connection with the post-2013 cohesion policy (EC 2010).

The final approval of the TA 2020 under the Hungarian Presidency happened in a period characterised by a significant progress in negotiations regarding cohesion policy and the Multiannual Financial Framework 2014–2020. In order to clarify the correspondence between growth and cohesion, the Polish Presidency published a detailed analysis based on the TA 2020 concerning the possibilities of strengthening the territorial dimension of the EU 2020 and other EU and national policies. The report clearly indicates that no serious attempt has so far been made to link them effectively, so it is a real possibility that the “Lisbon paradox” will repeat itself in the new programming period. To avoid this, six priorities of the TA 2020 were compared with the three objectives of the EU 2020 in a double-entry matrix (Böhme et al. 2011, p. 6). The final outcome indicates that synergic effects can be anticipated in the case of smart growth with almost all TA 2020 priorities, while sustainable and inclusive growth do not show direct correspondence with territorial strategy in five cases. The report consequentially lists the linking issues of the EU 2020 and the TA 2020 strategies, which form the following five groups, termed territorial keys: accessibility, services of general economic interests, territorial capacities/endowments/assets, city networking, and functional regions.

In the light of these factors, the report formulated three main proposals for strengthening the territorial dimension. Firstly, the concept of territorial cohesion should be applied in the definition of the objectives of the Structural Funds and in the implementation criteria as well. Secondly, ex-ante conditionality should be secured especially in order to examine and properly outline the EU 2020 strategy-strengthening specific characteristics of a given territory. And thirdly, it should be essential to mainstream a specific principle called “strengthening territorial dimension” among the thematic priorities of cohesion policy, which could replace the assistance for geographically disadvantaged territories with a place-based paradigm grounded on the regional differences in the accessibility of specific resources, growth potential and vulnerability even within the same country.

All in all, the formal recognition of the territorial dimension brought about the precondition for providing better complementarity and synergy between various EU policies. It was likely to happen between 2007 and 2009 when cohesion policy planning and the review of the European territorial development strategy went hand in hand. However, it is still a real danger that the current economic and financial crisis will result in the continuing of the Lisbon paradox that inevitably deepens the inequalities between the regions. Further, reducing investments in developing competitiveness and innovation may result in a vicious circle: growth will not be able to increase cohesion and measures of crisis-management to maintain cohesion will limit sources available for competitiveness.



In order to estimate how many of the preliminary proposals made in the preparation process of the post-2013 cohesion policy have been realised, it is worth examining the appearance of territorial dimension in practice within the framework of the draft legislative package.

### **The Appearance of the Territorial Dimension in the post-2013 Cohesion Policy**

The above-mentioned debates and working documents significantly contributed to the fact that thematic priorities of the EU 2020 strategy became strongly highlighted in the draft legislative package within the scope of the two core objectives: (1) Investment for Growth and Jobs (IGJ); and (2) European Territorial Co-operation (ETC). On the contrary, many questions arise regarding the interpretation of territorial dimension, and respecting the operational elements of its planning and implementation.<sup>2</sup>

Community-led Local Development (CLLD) is based on integrated, multi-sectorial, area-based, and sub-regional (cities, districts, urban-rural territories, and cross-border functional areas) strategies supported by a co-ordinated assistance of several funds and led by local action groups similar to those of the LEADER methodology. Integrated Territorial Investments (ITI) allow to bundle funding from several priority axes of one or more operative programmes for the purposes of urban development and other local intervention.

However, concerns have been raised about these new programming tools (Mendez et al. 2011). Many fear that the thematic objectives of the EU 2020 will significantly overwrite territorial dimension and blur the basic elements of the catching-up which could result in sectorial OPs suppressing regional ones. Besides, the compulsory application of CLLD or ITI tools and their “top-down” approach have not much in common with the original sense of cohesion policy, which could thus become more and more fragmented by a stronger presence of the so-called “earmarking”. Sustainable Urban Development, funded by the European Regional Development Fund (ERDF), doubts that cities listed in the Partnership Contracts have sufficient institutional and administrative capacity to manage ITI or any other integrated initiatives. CLLD programmes seem to be rather deficient from the angle of territorial claims, selection criteria, and implementation timetables; furthermore, it is also improbable that using the methodology of LEADER contributes to the EU 2020 goals.

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<sup>2</sup> The main findings of this sub-chapter builds on the draft legislative package on post-2013 cohesion policy.

The role of cohesion policy in the support of territorial co-operations as a main pillar of territorial cohesion is first of all the construction of energy and transport networks, immigration management, the defence of the outer borders, environmental security and the stimulation of economic relations. A model experimental programme of such formations is unfolding under the emerging FMRs, namely the European Union Strategy for the Baltic Sea Region (EUSBR) and the European Union Strategy for the Danube Region (EUSDR).

In the first programme planning phase it turned out that the geographical dimensions and the development priorities of the macro-regions mostly overlapped traditional macro-regional co-operation projects; like the cases of EUSBR, some objectives of the Baltic Sea Region Programme 2007–2013 (environmental protection, supporting business environment), and its flagship initiatives show. Ongoing programmes of the aforementioned strategies are realised mostly by sources from the Structural Funds. However, the utilisation of these funds cannot be considered untroubled as they – especially the European Social Fund (ESF) – are not suitable for specific macro-regional development initiatives. Adapting the multi-criteria system and the proceedings of cohesion policy to macro-regional strategies is also problematic, particularly on the subject of thematic priorities, entitlement and the extent of allocation. Nevertheless, not only mobilising and involving external sources of finance, donor organisations, international monetary institutions, and individual capital, but also securing essential institutional and administrative capacities seem to be the greatest challenges.

The guidelines of the draft post-2013 cohesion policy bottlenecks the proper funding of macro-regional strategies since even ETC regulations mention macro-regions only in the context of transnational co-operation. Although the Commission would increase the ETC support from 2.5% to 3.5%, this apparently restricts the opportunities of macro-regions as this is still the lowest budget objective in the system of cohesion policy. If there are strong intentions for implementing macro-regional strategies by means of growing cohesion sources, then naming macro-regional priorities in ERDF regulation should be considered, or earmarked resources should be separated via a more radical solution.

This problem arises regarding thematic concentration as well. According to draft guidelines, transnational and cross-border initiatives have to focus on only four thematic priorities of the EU 2020 strategy. This concept not only disregards the special situation of co-operation programmes that are based on at least two national approaches, but also makes it almost impossible to finance several macro-regional objectives, leaving these latter ones to donor organisations. Thus, a “patchwork financing” may evolve that encumbers the realisation of the priorities of macro-regional strategies in a common framework. The ETC interpreting macro-regional priorities as a horizontal approach to the four thematic objectives, or

ensuring more flexible conditions during the selection process of thematic objectives may be possible solutions. On 26 July 2012, the General Affairs Council agreed on a proposal advising that 80% of the programme expenditure should cover the four thematic objectives, and the 20% remainder could be used *à la carte* as participants wish. This recommendation can anticipate a remarkable achievement in harmonising macro-regional strategies throughout planning the Instrument for Pre-Accession Assistance (IPA) and European Neighbourhood and Partnership Instrument (ENPI).

The concept of the FMR clearly shows that territorial co-operation is a major tool to achieve territorial cohesion, not only in the form of co-ordinating planning, but also by co-ordinating development in various public policy sectors. Nevertheless, it is important to raise the question whether the integrated approach brings a truly innovative and effective method with respect to the new place-based paradigm. In this case emphasis falls on the introduction of the practice of MLG which has been present in EU literature for over a decade and a half, with a decisive role.

### **New Forms of Governance in the Making: Enhanced Co-ordination in the EUSDR Process**

The EUSDR was confirmed by the GAC on 13 April 2011. The formal decision of support took place in the European Council on 24 June 2011. This made it step into the implementation phase, which raised the necessity of creating a special type of governance. The institutional structure based on the Action Plan clearly follows the pattern of the EUSBR (EC 2009). However, at this point it is useful to remind ourselves that the practical functioning of governance is the co-ordination and steering of co-operating sectorial policies. Co-ordination includes capacity-building and mobilisation, various forms of problem solving and conflict management; adaptation and learning may also be mentioned here. As a result, governance exercised in a perpetually changing environment exists in the innovative forms of co-ordination and capacity-building under the conditions of a necessary “institutional consensus”.

Practically it leads to the emergence of the vertical and horizontal dimensions of the MLG built on the relation systems of “geographical space” and “functional spaces”. The latter ones are built on the interdependences and relations of actors – e.g. in the case of the business sphere or the civil sector – whose scope of action does not necessarily coincide with geographically delineated areas. In addition, a number of empirical analyses have shown that territorial embeddedness and geographical proximity may be regarded as important catalysts with respect to reaching the optimal “institutional thickness” in an area (Sykes – Show 2008, Koller 2012). So the most important distinguishing feature of MLG from governance in

general lies in the territorial nature of its functioning and, through this, its integration of a large number of stakeholders. It may basically be grasped as territorial governance that allows for more task-specific jurisdictions, with tailored membership and a flexible design, more likely to be found in cross-border regions and widespread on the local level (Marks – Hooghe 2004, p. 29).

When discussing perspectives for 2013/2014 at the overall level of the EUSDR, it should be considered that further implementation requires both an evaluation of a “state of play” of the current governance structure as well as the established “next steps” towards an enhanced territorial/regional development co-operation in the area.<sup>3</sup>

Strategic, policy-level co-ordination is done by the experts of Priority Area Co-ordinators (PACs), National Contact Points (NCPs), and the European Council.<sup>4</sup> The task of the NCPs is the co-ordination of national level civic administration organisations involved in the implementation; they also provide advice and information. National partners do play an important role in embedding the EUSDR into the domestic context, but mutual exchange between NCPs about good practice and “failures” would be also very useful. Two important elements of strategy co-ordination are reporting and evaluation. Responsibility for these is mainly held by the Commission, in partnership with PACs and other stakeholders.

In order to promote the efficiency of implementation and vertical co-ordination, Steering Groups are organised under all 11 PACs on the principle of wide-range stakeholder involvement and partnership. The Steering Groups also make up a platform for the definition of common priorities and targets and the related debates. The point of departure is clearly the pinpointing of actors and projects relevant for the EUSDR. The biggest task, however, is the ranking of the submitted projects, which serves as a “letter of recommendation” for the donor organisations. This of course does not guarantee the outcome of the decision; all projects must undergo the evaluation process set up by the donor organisation. This also means that PACs do not run selection and evaluation mechanisms parallel to funding bodies, but provide professional assistance to applicants so that they are able to meet conditions prescribed by the Structural Funds and National Financial Institutions. So both PACs and Steering Groups do play a crucial role during the implementation phase, in particular in providing platforms for debate/co-operation among “multiplayers” and stimulating co-ordination/co-operation on key issues/actions.

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<sup>3</sup> In this sub-chapter I heavily relied on Priority Area Co-ordinators’ annual reports for 2012.

<sup>4</sup> An important milestone in the implementation of the EUSDR was the first joint meeting of PACs, NCPs and the European Commission, held in Gödöllő during the Hungarian Presidency in May 2011.

Flexibility for PACs to adapt their work to the specific context of the given priority area and of the partners involved has to be ensured. In addition, the scope and possibilities to co-operate on single projects differ among priority areas. Flagship project leaders are the major actors in implementation, monitoring and feedback on the one hand and on the other hand they actively contribute to the search for co-operation partners and funding opportunities together with the NCPs and the Steering Groups. As a result, member states that are involved in the implementation of the particular project, non-EU member states and regions are mainly responsible for the implementation. This ensures high levels of ownership in the course of implementation, which is complemented by the policy-level facilitator and co-ordination role of the European Commission.

Horizontal and at the same time operative co-ordination is performed by the LabGroup (set up in March 2011) jointly with the INTERACT programme. Their activities are centred around the facilitation, co-ordination and creation of the required communication surfaces. The task of the LabGroup as an informal think tank is to be the “missing link” between the PACs, the Steering Groups, and potential funding bodies (Structural Funds, IPA and ENPI programmes, International Financing Institutions) (Novello 2011, p. 4). Their activity is largely built on the experience of the ETC and the EUSBR. The most important point here is that the Action Plan must be translated into operative measures, determining the contents of the various phases of the policy-making process on the one hand and ensuring access to different funding sources on the other.

Last but not least, the “roof” of the High Level Group, consisting of high-ranking officials of member states, is placed over vertical and horizontal co-ordination as territorial governance. An imaginary horizontal counterpoint, an Annual Forum is organised by the Commission (similarly to the EUSBR) to discuss and evaluate planned or implemented actions.

Looking at the emerging EUSDR-governance arrangements, it seems to be still a transition period when modalities of specific governance are currently invented and tested. This process requires time, and a high sense of pragmatism should be important in this respect. In any case, implementation arrangements have to remain flexibly adaptable to contexts, must not be too rigidly pre-defined and could not be organised along the logic of funding programmes only.

### **Concluding Remarks**

A clear paradigm-shift has occurred in cohesion policy since 2007: in addition to traditional convergence priorities, targets of competitiveness have emerged. This has led to many distortions in the present (2007–2013) programming period while original Lisbon objectives have been realised to minimal levels. In the light of this,

it is doubtful or at least uncertain if the planning and implementation of cohesion policy, as a tool for the EU 2020 strategy that replaces the Lisbon strategy, may be completed free of the errors of the former period: mostly the phenomenon that competitiveness programmes are too sector-specific and do not give proper consideration to their territorial dimensions.

At the same time it is a major lesson learned in the past decade that the co-ordination of cohesion and growth targets requires great efforts. Economic and social cohesion are specific EU targets; it is therefore unwise to create the impression that in a new global context only growth has ways of improving cohesion and forget that cohesion may also usher in growth.

Despite the fact that preliminary professional materials and the TA 2020 strategy place heavy emphasis on the importance of the territorial approach, not much is mentioned in the proposals for EU 2020 and cohesion policy about how the territorial approach should be carried out in practice. There is also an existing danger that the thematic priorities for the implementation of EU 2020 may push the territorial dimension and cohesion into the background. The Commission, the member states and regions must make it clear how to apply the integrated approach of territorial development in planning and execution. It must also be clarified how the territorial approach is put into practice in a system still dominated by EU 2020 objectives. Without this, territorial policy strategy approaches may well be pushed into the background and emphasis might fall on public policies mixed with sub-regional and local developments.

It is yet unclear whether macro-regional strategies embodying several aspects of specified integration truly represent a more effective organisational form than pre-existing inter-governmental institutions in the given region or they only supplement the tools of cohesion policy. The third case may be that of a quite conscious duplication where projects supported by cohesion policy and other national resources in fact co-finance developments based on macro-region strategies. Macro-regions in this latter approach may be interpreted as partially overlapping interregional networks of functional units. This in turn clearly indicates the importance of an institutional framework that can handle co-ordination and conflict management, is able to co-ordinate efforts and to manage conflicts arising from the nature of public policies and stakeholders' special interests.

The creation of macro-regions is an organic part of the new territorial paradigm, an important element of which is an integrated and functional approach that intersects public administrative borders. A new, bottom-down integrated place-based form of MLG may be named territorial governance, to use previously existing terminology. Territorial governance in this sense is a tool for the realisation of territorial cohesion in which highly institutionalised, hierarchical and looser, network-based co-ordination forms of governance coexist. In sum, macro-

regions as a new form of territorial governance have already come into existence, but all is changing with respect to post-2013 cohesion policy and everyone is looking for its place in the system. Nevertheless, it should be by the end of this year.

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# INDUSTRIAL RESTRUCTURING IN CENTRAL AND SOUTH-EASTERN EUROPE: DIFFERENCE OF DEGREE OR KIND?

*Gábor Lux*

## **Introduction**

The territory of post-socialist Europe is a space fragmented by old (historical) and recent (post-socialist) divisions. The frameworks of integration and directions of orientation have changed multiple times within one century, but there are also long-running differences which continue to affect development processes. Like all macro-regions of Europe, overall development trends are characterised by strong path-dependency, and are formed by socio-economic as well as political conditions.

The first decade of post-socialist transformation was characterised by a sharp increase in territorial disparities at both national and sub-national levels. Some catching-up has taken place in the Visegrad countries and Slovenia, while the process has been more protracted in Romania and Bulgaria, and especially in some Western Balkan states where transformation-related recession was coupled with the destruction and other economic consequences of the war, leading to accelerated de-industrialisation in states involved in long conflicts (Vojnić 1994). Of the increase in national and sub-national differences, the first one has proven to be the more significant.

In reviews of the post-socialist transition process, the question of the region's peripheral situation in Europe is often discussed: Sokol (2001) places the whole of post-socialist Europe on a geographical and economic "super-periphery", but, in respect of its internal division, considers the Western Balkans as favourably placed (next to Central Europe) in comparison with the Soviet successor states. Both Sokol and Petrakos (2002) emphasise that the "creative destruction" of production systems was not always followed by substantial recovery. Bartlett (2009) suggests that Slovenia and, to some extent, Croatia have successfully integrated into the European economic order as peripheral actors, whilst other Western Balkan states have remained on the super-periphery. Similar questions are raised with respect to Romania and Bulgaria as well.

In this paper, I examine the industrial development of South-Eastern Europe from a comparative perspective, in contrast with the development processes seen in the Visegrad states. De-industrialisation and disintegration, as well as reindustrialisation and reintegration processes will be studied. My main question concerns the *nature* of development: if we consider both Central and South-Eastern Europe a part of the European periphery, are the two showing the same processes in industrial development, or are the models fundamentally different? Can we speak of a simple development lag (difference of degree), or do the differences amount to something qualitatively different (difference of kind)? The answers to these questions have far-reaching implications for both the region itself and to broader Europe.

### **Patterns of De-industrialisation**

The fall of industrial production and employment as well as the tertiarisation of the economic structure have played a considerable role in post-socialist spatial restructuring. These processes were not entirely specific to transition countries, as they had also taken place in Europe's core regions as well as on its southern periphery; however, the main differences could be found in the extent of structural problems, as well as in the new conditions of systemic change. Without the financial and political capital to undertake complex restructuring strategies, the main feature of the transition was passive, market-led adaptation, instead of active, policy-driven intervention, accompanied by a territorially uneven tertiarisation process widening both national and sub-national disparities – where higher tertiarisation did not automatically correspond to a higher level of development (Lux 2010).

In the period immediately following 1990, all states in Central Europe experienced a fall in industrial employment, but the loss of industry over the two-decade transition period differed significantly among national economies (Figure 1). Long-term decline was much less prevalent in the North-Western than in the South-Eastern states. These differences can be traced back not just to the common features of transformation-related recession, but also to historical factors; underdeveloped states were more affected by the destructive forms of de-industrialisation, whilst they saw fewer of its advantages. While the Visegrad countries, Slovenia and, to an extent, Croatia could reorient their economies to western export markets, transformation recession was particularly severe in Serbia, Albania and Bosnia-Herzegovina. In Romania, the GDP share of industry declined from 46.2% in 1989 to 25.2% in 2000.

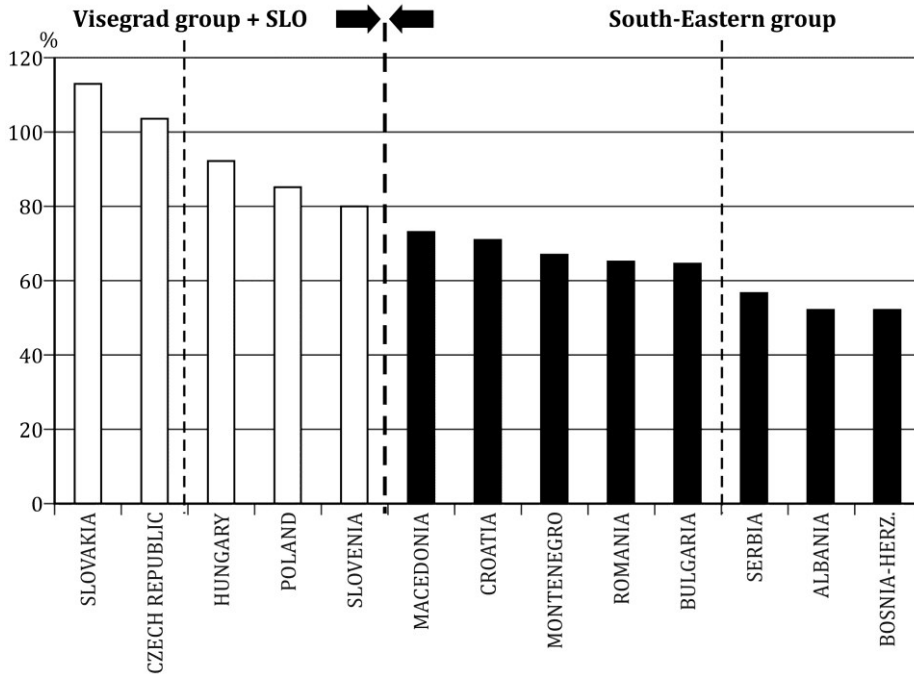


Figure 1. Employment changes in industry and construction, 1990–2008 (%)

Source: Author's construction based on national statistical yearbooks and EUROSTAT.

In the former Yugoslavia, the continuing impact of the war forms a particular feature of industrial transition: isolationist tendencies which had already been apparent before 1990 got greatly strengthened in the course of nation-building, and the impact of this conflict could also be felt in the destruction of physical and human capital. The collapse of the federal market weakened regional specialisation and contributed to the disintegration of product chains, hampering the reorganisation of economic relations and, ultimately, the entire transition process (Vojnić 1994, Schönfelder 2005, Miletić 2006, Bartlett 2009, Gulyás 2009, Mezei 2010). The war had caused lasting damage in the institutional and human milieus underpinning industry, which are now crucial components in higher forms of industrial competitiveness. In addition to casualties, we must mention losses due to displacement and mass migration, even long breaks in the production of industrial complexes. These situations are similar to long-term unemployment, leading to the decay of professional skills, technical know-how, and the ability to work, and consequently, to destructive de-industrialisation patterns. In Bosnia-Herzegovina, much of the arms and chemical industry was destroyed or dismantled; in 1996, only 10% of the pre-war industrial capacities of the now-divided state were in

operation, and the projected post-war recovery did not materialise – the conditions for industrial development were no longer present.

A second difference of industrial transition can be seen in broader South-Eastern Europe. In the early phase of transformation, the absence of a tertiary sector, which could provide employment during the shift from industry to services, led to a temporary surge in the role of agriculture as a source of self-sustenance: post-traditional ruralisation (Kovács 2003) took place. The temporary spread of subsistence farming could be seen in all countries except Croatia, the FYR Macedonia and Slovenia, and was most significant in Albania where, according to data from Petrakos and Totev (2000), it grew from 38 to 55% of the GDP between 1990 and 1995, while industry saw a drop from 48 to 22%. Nevertheless, as Büschenfeld (1999) proves, tertiarisation was both more significant and more long-lasting in the region. At the sub-national level, the harshest examples of de-industrialisation (close to total collapse) were seen in Bosnia-Herzegovina, North-Eastern Montenegro, Southern Serbia, North-Eastern Macedonia and Kosovo; later research on labour markets have shown a very limited return towards the formal economy (Bartlett 2009, Zeković 2009).

### **The Regional Restructuring of Industry**

As the previous section has shown, the processes of de-industrialisation affected the entire space of post-socialist South-Eastern Europe, but their degree, not to mention the real meaning (the effect on development and regional competitiveness), varied widely. This part of the paper aims to distinguish the differentiating role of industry at the level of country groups (North-Western vs. South-Eastern) and regions (among different region types) on the basis of cross-sectional data. This image, of course, has to consider gaps in data, differing methodologies in available sources<sup>1</sup>, the role of informal employment, and transfers from immigrant workers that can amount to 40–50% of the labour force in some countries, with a significant effect on representativeness. For these reasons, industry plays a slightly less, while services a greater role than may be apparent from the following statistics.

The results of two decades of industrial restructuring are shown in Figure 2. During this period, de-industrialisation processes had redrawn industrialisation differences among countries, whilst they had had a comparatively weaker effect on sub-national structures. The most relevant change is the realignment of the dividing line between the Visegrad and South-Eastern country groups.

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<sup>1</sup> For instance, Serbian employment figures treat the small enterprise sector (about 26% of all employees) separately from larger companies.

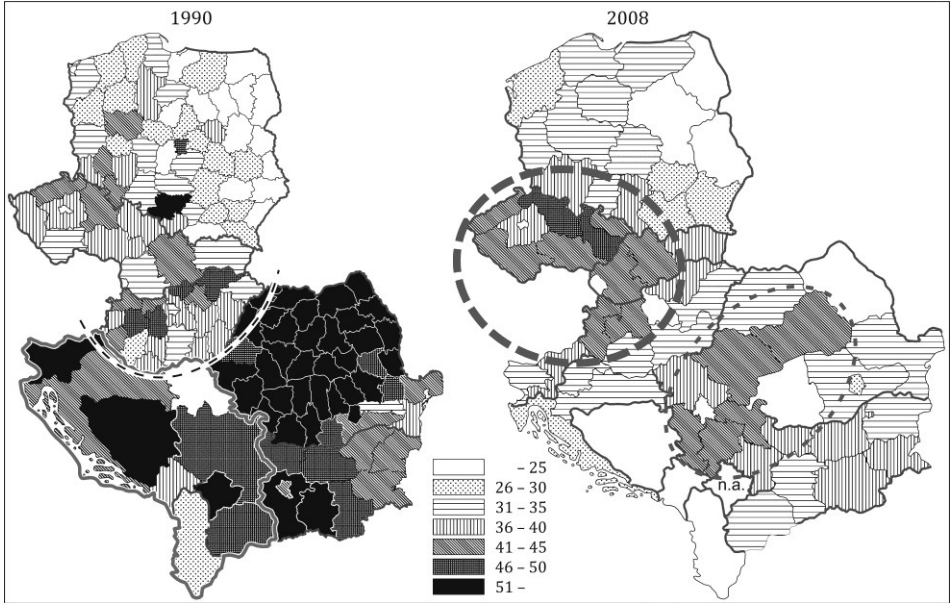


Figure 2. The share of employment in industry and construction in Central Europe, 1990 and 2008 (%)

Note: Regional data for Serbia are from 2009.

Source: Author’s construction based on national statistical yearbooks, EUROSTAT and Serbian employment statistics.

In 1990, industrialisation in the South-East exceeded that in the North-West due to extensive development campaigns; the ratio of industrial employment was the highest, in descending order, in Romania, Yugoslavia and Bulgaria (in the first and last, the severe underdevelopment of the service sector, and in Yugoslavia, steep unemployment played a part). This industrialisation did not correspond to a high development level; it had in fact led to the establishment of capacities which had already been obsolete and inefficient at the time of their foundation, and, consequently, meant exposure to the subsequent crises. A high level of industrial employment had simultaneously existed in relatively advanced core regions as well as in newly industrialised peripheries. By 2008, the macro-regional dividing lines had been redrawn, and the emerging structure reflects the outcome of a long and varied transformation process: the decline of transformation recession, the long-term restructuring of industry through creative and *not-so-creative* destruction, as well as the slow reindustrialisation and industrial reorganisation processes generated by the spread of Foreign Direct Investment (FDI). As already seen in Figure 1, the South-Eastern countries had seen a much worse industrial decline than those in the Visegrad group, whilst the inflow of FDI remained much more

limited. A significant share of industrial capacity was lost without any chance to rebuild it.

The major concentrations of industry are found, on the one hand, in a “Central European manufacturing core” (based mostly on machine industry), and in a lesser zone covering industrial centres in Southern Transylvania (Romania) and Serbia. Both of these regions have traditions stretching back to before World War One. The second is in a less advantageous position, struggling with serious structural problems and characterised by the greater presence of capacities in the light and food industry sectors. Even so, it is in a relatively favourable position in South-Eastern Europe, since its surviving professional milieu, knowledge and institutions can provide better conditions for new investment than the areas which, through long de-industrialisation, have lost much or all of this potential.

The differences between the Visegrad group and the South-East are also illustrated in Table 1. In South-Eastern countries, the contribution of industry is much lower in the production of Gross Value Added than in the more developed North-West, while agriculture has a stronger role. If we only look at the significance of industry, it becomes apparent that there is a similarity between these South-Eastern states and the EU average. Naturally, this is not a structural equivalence, but rather a sign pointing to the lack of competitive industry. By contrast, the Visegrad group’s strong industrial specialisation shows some similarity to the economic development of Southern Germany (Czifrusz 2007, Paas – Sepp – Scannel 2010), although there is a development lag in modern, high value added service activities if compared with advanced EU economies.

The differences in industrial growth may be seen not just at sectoral, but also at regional level. The most successful locations of European reintegration are capital cities and their agglomerations, and, to a much lesser extent, the regional centres whose economy is mainly tertiary, but which occupy favourable positions in advanced industrial functions (Pavlaković-Koči – Pejnović 2005, Zeković – Spasić – Maričić 2007, Zivanovic 2009, Rácz 2011, Faragó – Rácz 2011). Old industrial regions (mining areas, heavy industrial and some processing industrial centres) are still struggling with problems of their mono-functional economic structure, persistent social ills and the inadequacy of investment (Stiperski – Lončar 2008, Spasić – Jokić – Maričić 2009, Marot 2010). The most significant problems are, however, concentrated in traditional peripheries and some former conflict zones where the collapse of socialist industry has resulted in a “post-industrial vacuum” – an economy without modern productive or service functions. As Hardi (2011) notes, poverty, low education levels and depopulation (due to migration into large cities and abroad) are persistent in these areas, and only centres with advanced light or food processing industry experience development.

Table 1. The sectoral structure of Gross Value Added (GVA), 2007–2008 (%)

Country	Agriculture, forestry and fisheries (NACE A–B)	Industry (NACE C–E)	Construction (NACE F)	Services (NACE G–Q)
<i>Albania</i>	19	9	15	57
<i>Bosnia-Herzegovina</i>	9	21	6	64
<i>Bulgaria</i>	7	22	9	62
<i>Croatia</i>	6	20	8	65
Czech Republic	2	31	7	60
Hungary	4	25	5	67
<i>Macedonia</i>	11	26	7	56
<i>Montenegro</i>	9	14	4	74
Poland	4	24	8	64
<i>Romania</i>	8	26	12	55
<i>Serbia</i>	10	24	5	61
Slovakia	3	30	8	59
Slovenia	2	26	8	64
Visegrad group + Slovenia	3	27	7	63
South-East	10	20	8	62
EU27	2	20	6	72

Source: Author's calculations and construction based on EUROSTAT.

### Forms of Industrial Reorganisation

Whilst the decade following the systemic change most often meant the disintegration of former productive structures, after the turn of the millennium the processes of reintegration into the European economic space have gained momentum. In reintegration, the common characteristics of Central European industrial development have also become typical in South-Eastern Europe: the inflow of FDI, industrial upgrading (the shift from resource-intensive and labour-intensive towards scale-intensive production, specialised supplier and, to some extent, science-based industrial activities; Guerrieri 1998 and Szalavetz 2012) and the spread of new industrial formations supported by public development policy. All of this has taken place in different national or sub-national contexts, with strong path-dependency between the new processes and the recent or long-standing historical patterns; still, there has been no significant decline in regional disparities.

With the partial exception of Slovenia, FDI has appeared to be the most significant factor of reindustrialisation in post-socialist Central Europe, and its location decisions have had a far-reaching effect on the spatial structure of industry. In the case of South-Eastern Europe, Croatia enjoyed an advantageous early position; other states could only benefit from the second, post-2000 wave of FDI inflows.

The effects so far have been less significant than in the Visegrad country group, although a catching-up process is evident (Table 2). There is a definite and strong link between FDI inflow and export potential as well as economic performance. With a banking sector showing emerging market characteristics (Gál 2011), domestic capital is insufficient to create the conditions for endogenous growth.

Table 2. Foreign Direct Investment (FDI) per capita (USD)

Country	1995	2000	2005	2008	2011
<i>Albania</i>	67	80	323	892	1,462
<i>Bosnia-Herzegovina</i>	0	293	609	1,607	1,791
<i>Bulgaria</i>	53	338	1,790	5,804	6,400
<i>Croatia</i>	106	621	3,275	6,990	7,026
<i>Czech Republic</i>	712	2,113	5,935	10,906	11,889
<i>FYR Macedonia</i>	44	269	1,024	2,013	2,291
<i>Hungary</i>	1,094	2,240	6,058	8,781	8,473
<i>Montenegro</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	5,330	9,178
<i>Poland</i>	204	894	2,381	4,299	5,158
<i>Romania</i>	36	313	1,186	3,146	3,281
<i>Serbia</i>	<i>n.a.</i>	<i>n.a.</i>	<i>n.a.</i>	1,927	2,321
<i>Serbia and Montenegro</i>	<i>n.a.</i>	94	597	<i>n.a.</i>	<i>n.a.</i>
<i>Slovakia</i>	242	881	4,368	9,379	9,375
<i>Slovenia</i>	897	1,457	3,626	7,748	7,442
Visegrad group + Slovenia	630	1,517	4,474	8,223	8,467
South-East	51	287	1,258	3,464	4,219

Source: UNCTAD.

The industrial areas of the South-East are integrating into the European division of labour in different positions. Contrary to the pessimistic expectations of Guerrieri (1998) and Sokol (2001), FDI-based growth in post-socialist states did not stay restricted to the low wages – low technology model, instead, industrial integration has led to a general increase of factor intensity. However, both lower and higher value added industrial forms are present. The differences between industries which encourage the development of human resources and the spread of high technology, and those which represent peripheral modes of integration with low technological and knowledge content, are still in danger of preserving or even radically increasing development gaps. Regions which can only supply an uneducated labour force may not be able to attract high-grade investment or benefit from endogenous growth, and may retain their underdevelopment. The relevance of these questions for Croatia and Serbia has been discussed in papers



by Bartlett (2009), Kovačević (2009) and Campestrin – Clarence (2011). Similar dilemmas can be raised with respect to Croatia: apart from a few success stories, the external trade deficit was highest in high value added industrial branches and lowest in low value added (resource- and labour-intensive) ones. After 1990, even previously successful, relatively advanced industries experienced “de-specialisation”, the loss of their potential competitiveness (Buturac 2009).

One of the most interesting questions of industrial integration pertains to the traditional light industries, especially textiles. They represent a large part of the industrial structure in the least developed areas, and are also traditional engines of world market integration between core and periphery (Kalantaridis – Slava – Sochka 2003, Smith et al. 2005). Industrial co-operation encompassing different parts of the value chain has typically integrated producers from South-Eastern Europe in smaller production segments, while intermediary functions have often been supervised by Greek or Turkish companies operating a form of triangular trade (Labrianidis – Kalantaridis 2004). At the turn of the millennium, Yoruk (2001) anticipated the increasing coverage of the value chain, but in Bulgaria, there were no strong signs of textile companies expanding into higher value added production (Evgeniev 2008); and in Croatia, producers focusing on the whole value chain have not been more profitable than simple subcontractors (Anić – Rajh – Teodorović 2008).

The long-term perspectives of the reintegration process are heavily influenced by the possibilities of knowledge-based development. Here not only innovative knowledge-based industries, but even the basic conditions for a functional knowledge economy are on a weak footing. Looking at the figures of the World Bank’s survey on knowledge-development potential, it is apparent that relative performance in both exploiting knowledge (Knowledge Economic Index) and potentially useable knowledge (Knowledge Index), as well as their component indices show serious underdevelopment (Table 3). In the South-Eastern group of post-socialist countries, only the supply of info-communication technologies was in a relatively good position. Croatia, although its indicators are somewhat below the North-Western group’s average, demonstrates a greater structural similarity to them than the South-Eastern states. The low level of achievement in knowledge-based development mirrors the disruption of the relatively developed Yugoslavian research network after the systematic change (Dubarle – Horváth 2011) and the general collapse of corporate applied research in broader post-socialist Europe. This situation is a long-term development risk: knowledge assimilation and adaptation capacity are increasingly relevant in modern industry, and innovation increasingly pervades the entire production process.

Table 3. Knowledge economy indices in Central and South-Eastern Europe

Country	Knowledge Economy Index (KEI)	Knowledge Index (KI)	Economic incentives and institutional regime	Innovation system	Education and human resources	Information communication
<i>Albania</i>	4.0	3.9	4.1	2.8	5.0	4.0
<i>Bosnia-Herzegovina</i>	4.6	4.7	4.3	3.1	5.7	5.2
<i>Bulgaria</i>	7.0	6.9	7.1	6.4	7.7	6.7
<i>Croatia</i>	7.3	7.3	7.3	7.7	6.6	7.6
Czech Republic	8.0	7.9	8.2	7.8	8.2	7.7
Hungary	8.0	7.9	8.4	8.2	7.7	7.7
<i>Macedonia</i>	5.6	5.7	5.3	4.7	5.4	6.9
Poland	7.4	7.4	7.5	7.0	8.0	7.1
<i>Romania</i>	6.4	6.3	7.0	5.7	6.5	6.6
<i>Serbia</i>	5.7	6.3	4.0	6.2	5.8	7.0
Slovakia	7.5	7.4	7.8	6.9	7.3	8.0
Slovenia	8.2	8.2	8.1	8.3	8.3	7.9
Visegrad group + Slovenia	7.8	7.8	8.0	7.6	7.9	7.7
South-East	5.8	5.9	5.6	5.2	6.1	6.3
EU15	8.7	8.7	8.7	8.8	8.6	8.7

Source: Author's calculations and construction based on data from the World Bank's Knowledge Assessment Methodology.

The industrial policy of the South-Eastern European states follows the typical Central European trajectory with some delay. The foundations of capital attraction were originally general macroeconomic advantages (investment freedom, the legal environment and tax benefits), easy market access and low wages (Radenkovic-Jocic 2004), and only after a few years following the turn of the millenium did the emphasis shift on targeted and network-based system development, whose most important instruments, the special economic zones, the industrial estates (parks) and clusters have since become generally used as means of reindustrialisation (Juhász 2004, Zeković 2006, 2009, Zeković – Spasić – Maričić 2007, Komarek 2010, Molnár 2010). Romania, Croatia and Serbia have built a network of industrial estates covering their entire state territory. The network is more concentrated in Serbia where there are 64 units. The national regional development strategy also encourages the use of public funds for the establishment of 14 new industrial estates in the underdeveloped areas, mainly in Southern Serbia (Strategija Prostornog Razvoja Republike Srbije 2009–2013–2020, 2009). In Croatia, a total of 106 entrepreneurial zones providing services typical of industrial estates are in opera-

tion, but an additional 15 free trade zones have also been created near sea-, river- and airports as well as at some of the main transport routes ([www.zonemingorp.hr](http://www.zonemingorp.hr); Sheane 2006). In Romania, after early bottom-up development, a 2002 government programme encouraged the development of industrial estates; a network developed which had 11 units in 2003 and 65 in 2010, mostly concentrated around the capital and in the Western region. However, the range of services they offer and their quality have been very limited.

### **Summary**

The industrial transformation of South-Eastern Europe after the systemic change was characterised by an increase in the already significant territorial differences. During the period when the politico-economic space got fragmented, national differences proved to be more significant. In sub-national terms, historical development gaps and core areas have re-emerged: territories with stronger industrial traditions were more resistant to decline and benefited more from reindustrialisation than did their peers. Meanwhile, traditional peripheries and war zones, which have undergone an industrial collapse, have experienced similar forms of decline as the regions struggling with structural crises, and in their case, even the long-term potential for rebuilding has been damaged.

Regions' dependency on external capital will remain a long-term issue of development. In post-socialist countries, where reindustrialisation is closely tied to Foreign Direct Investment, its absence or scarcity can preserve underdevelopment, and this can be seen as a potential threat to South-Eastern Europe. This is particularly the case if the long-lasting global and European crisis leads to a chillier investment climate. Unfortunately, the conditions for knowledge-based industry are rather weak outside a few privileged centres (capital cities), and endogenous growth strategies cannot count on the sufficient availability of domestic capital in the foreseeable future.

Nevertheless, with the possible exception of South-Eastern Europe's super-peripheries (Albania, Bosnia-Herzegovina and Kosovo), the author is of the opinion that the differences between the Visegrad group and South-Eastern Europe amount to differences of degree: while strongly path-dependent, development processes show a sort of convergence, and a slow closing of the development gaps. In industrial restructuring, we can see not only the evidence of EU-integration, more effective development policy and new investments, but increasingly also the movement towards industrial upgrading and higher forms of competitiveness. Time heals all wounds – but will we have enough time?

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# TRANSFERRING THE LEADER MODEL TO NEW MEMBER STATES: SUCCESS OR FAILURE?

*Marie-Claude Maurel*

## Introduction

The implementation of a new European policy based on integrated rural development is an entirely new experiment in the Central European countries, which formerly belonged to the communist system. The paper attempts to explore the conditions and the context in which the Local Development Model is being transferred from former member states to new ones, and the way this model was implemented. To examine this issue, we consider the European Union's LEADER programme (an acronym of *Liaisons Entre Actions de Développement de l'Economie Rurale*) which has become the fourth axis of European Rural Policy (2007–2013). The LEADER approach is usually presented as an original way of supporting local development. How does such a policy model transfer take place and what effects does it imply? This paper attempts to assess the institutional context of its reception, examining the responsiveness of five member states (Czech Republic, Hungary, German New Länder, Lithuania and Poland).<sup>1</sup> Does the LEADER model fit the interests and the policy preferences of these countries? Our hypothesis is that the transfer process and its outcomes will be dependent on the whole "institutional opportunity structure" both at national and local levels. Downloading policy to the local communities takes place via various hierarchical modes of governance. Domestic authorities (or transfer operators) transpose and implement European rules and norms which are rather flexible. Looking at the main differences among the five countries we are going to explore how the original model is being distorted by domestic institutional factors. The LEADER model is experimented in various

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<sup>1</sup>The research project "Local Action and Territorial Development in Central Europe" has been co-ordinated by Marie-Claude Maurel and Pascal Chevalier. Started in 2008, the research project lasted for four years. It has involved several research teams, the Transdanubian Research Institute of the Centre for Regional Studies belonging to the Hungarian Academy of Sciences (Hungary), the Institute for Agriculture and Rural Development in Warsaw (Poland), Vilnius University (Lithuania) and the French Research Centre for Social Sciences in Prague (Czech Republic) and the Research Centre ART-Dev (UMR5281) in Montpellier-Perpignan (France).

territorial and social contexts, more or less receptive to this new way of thinking and managing local development.<sup>2</sup>

### **A Policy Transfer: Experimenting LEADER in the New Member States**

Our approach focuses on the methods and the effects of transferring a new form of public action proposed by the EU to the Central European member states. The rationale of transferring the European LEADER model refers explicitly to the conceptual framework defined by the policy transfer studies. For Dolowitz and Marsh, policy transfer is understood to mean the process by which the policies and/or practices in one political system are fed into and used in the policy-making arena of another political system. More exactly, these authors define policy transfer as “a process in which knowledge about policies, administrative arrangements, institutions etc. in one time and/or place is used in the development of policies, administrative arrangements, institutions in another time and/or place” (Dolowitz – Marsh 1996, p. 344). The latter working definition has to be completed by supplementary questions: What is transferred and how is it transferred to the new member states? Who are the actors involved in the decision-making of the transferring process? How is it operated?

The transfer cycle extends from the moment when the LEADER model is designed to the moment when it is actually implemented. During the whole transfer cycle there is a pluralist configuration of actors, namely EU institutions, member states, and local interests. The transfer cycle could be broken down into three distinct sequences: selection, transposition, reception.

In the *selection sequence* we have to specify what is transferred, namely the LEADER model, referring to the specific concept of endogenous development. As a source of inspiration, the endogenous model of development took shape in the Western member states where various forms of programmes had been first tried out. Since its creation the Local Development Model has evolved considerably, both in the definition of its objectives and in the regulation mechanisms. These include the LEADER initiatives incorporated in European policy. For the period 2007–2013, it has taken the shape of the fourth axis of the CAP’s second pillar.<sup>3</sup> At the supranational level, different European institutions are responsible for the normative and funding regulations shaping the LEADER axis of the European Rural Develop-

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<sup>2</sup>The paper is based on the relevant academic literature, on official national sources and field research surveys. It is a cross-national comparative work that takes into account national and local variations in order to highlight similarities and differences in the transfer of a policy model.

<sup>3</sup>LEADER+ was introduced as a measure during the period 2004–2006 and from 2007 it became an axis of the Rural Development Policy.



ment Policy (ERDP). The *transposition sequence* is about how the LEADER model is transferred to the 27 member states. Each member state has to transpose the second pillar priorities into their national strategic plans. Domestic authorities download the guiding principles and adapt them to their own juridical and normative rules. The regulative policy framework is then directly or indirectly (by regional institutions) forwarded to the local level.

Finally, the *reception sequence* is the result of the involvement of local authorities who are in charge of disseminating information to the local stakeholders. What are the distribution channels and how do they mobilise people? What are the factors favouring, or alternatively hindering, the implementation of the LEADER approach? In which way do the actors adopt this form of public action? What are the policy outcomes?

### **At National Level: Downloading the Policy Model**

#### *Transposing Rural Development Policy into National Strategy Plans*

The EU could be considered as the “process manager” of the policy transfer. In September 2005, the European Council adopted Council Regulation (EC) N° 1698/2005, a new Rural Development Regulation for the financial programming period of 2007–2013.<sup>4</sup> Thus the development policy for rural areas largely depends on the strategic guidelines and the multiannual financial programming established on a European level. For 2007–2013, greater emphasis was put on consistent strategy for rural development across the EU as a whole. Within the framework of the objectives established in the Rural Development Regulation, the strategic guidelines have identified rural development priorities. On the basis of these guidelines, the member states design their own national strategy plans for the preparation of rural development programmes. According to their own policy preferences, they are allowed to draw from the EU menu of support measures, those best fitting to the needs of their rural areas. Every member state must prepare a rural development programme specifying the funding to be spent on supporting measures in the period 2007–2013. To help ensure a balanced approach to policy, member states and regions are obliged to divide up their rural development funding among four axes.<sup>5</sup> Downloading policy to the member states takes place via a more or less

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<sup>4</sup> Known as the second pillar of the CAP, the Rural Development Policy is financed by the European Agricultural Fund for Rural Development (EAFRD).

<sup>5</sup> Within the regulatory minimum funding limits for each axis (10% for axis 1, 2.5% for axis 2, 10% for axis 3 and 5% for LEADER axis, reduced to 2.5% in the case of the new member states), member states can spend resources depending on their specific context. It is a further requirement that some of the funding must support projects based on the “LEADER

hierarchical mode of governance in which softer rules are transposed and implemented by domestic authorities (Bulmer et al. 2007). The EU's governance regime is based on "soft" rules (strategic guidelines offering measures) which can generate discretionary forms of transfer. The ERDP places considerable control in the hands of individual member states and regions. The transposition of the LEADER axis offers the new member states a chance to try out a new instrument for use in public actions. This form of transfer is flexible and voluntary, with the "importing" countries enjoying relative autonomy and retaining a degree of freedom allowing for the possibility of modifications to the model. The LEADER model is transferred through an institutional process, the mechanisms of which will be examined below, along with their political and practical effects on the new members' institutions and policies.

Are the general guiding principles enough to ensure compliance with the original endogenous development model inspiring the LEADER approach? What does the implementation of this single EU intervention tell us about rural development policy in each national context? How do domestic authorities appropriate the new approach that relies extensively on local initiative?

### *Domesticating the Implementation*

At the national level, the state administration is the principal actor implementing the policy transfer. In practice, the institutional mechanism brings together the Ministry of Agriculture and Rural Development (MADR), the payment agencies in charge of financial management, and ad hoc foundations. Several similarities can be mentioned in the experiences of the countries involved: the predominant role of the MADR in the interpretation of regulations and the management of the programme, and the formulation of the normative mechanism. In the Central European states, MADRs, usually dominated by farming interests, have shown weak capacity in managing non-agricultural programmes. The centralised nature of the whole process is another common feature, leading to weak transparency and relative slowness of the evaluation procedures, the selection and financing of the strategies proposed by the (Local Action Groups) LAGs. The institutional configuration inherited from the centralist tradition has accentuated the hierarchic character of domestic governance. The version of the LEADER programme implemented in the new member states is from top to bottom and it gave the domestic authorities a decisive function in institutional mediation.

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approach" to rural development (that is, individual projects designed and executed by local partnerships should address specific local problems).

Because of their normative role (in particular the formulation of action principles, definition of procedures, adoption of the criteria for eligibility), domestic authorities in fact possess considerable power to intervene. As the main actors implementing the transfer, the MADRs control the information and the channels by which it is disseminated. In addition, they initiate the programmes for training people in the LEADER method, relying on the support of various levels of public administration (in the regions and/or the districts).<sup>6</sup> Thus a strong asymmetry is established in the relationship between the national operator and the local actors. In the tradition of subordination inherited from the former communist regime, the local actors continue to depend on the goodwill of the central administration and its various devolved bodies. The latter ones play a role in disseminating information and transferring solutions in the form of public actions. This is supplemented by the role of the “facilitators” of the transfer, who take part in disseminating ideas; here we can mention the network of NGOs working in the rural areas and also the consulting bureaus, genuine entrepreneurs of the transfer, which can contribute to the success of the programme by creating favourable conditions for its reception.

#### *The Transfer Effects at the National Level: Similarity or Distortion?*

Under “adaptive pressure” from the EU, the transposition of the CAP second pillar (rural development policy) into each national institutional system has determined a plan of public action, i.e., a set of norms, rules, methods and procedures. Does this policy transfer strengthen the Europeanisation process?

The domestic authorities interpret the model so as to make it compatible with the forms of regulation specific to the national political system. We are going to examine how the domestic authorities make use of the measures. What ideas underlie the choice of methods for implementing the LEADER approach? Do they intend to guide public action or direct it with those techniques of political domination that only a state authority can mobilise? What is the nature of the political goals that lead the state operator?

On the basis of criteria specifying the form of regulation for LEADER action, the Table 1 presents two opposing rationales for implementing the LEADER instrument. The distinction between “soft” and “hard” rules provides an analytical grid for describing the governing directions in which the LEADER programme is implemented. Neither of these rationales is applied completely, but they do correspond to dominant trends identifiable in each country.

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<sup>6</sup>In Poland, regional self-governments are in charge of managing the whole process of assessing and selecting the LAGs.

Table 1. Typology of forms of regulation

LEADER action tools	Germany	Czech Republic	Poland	Hungary	Lithuania
Guiding approach	Bottom-up	Bottom-up	Bottom-up (through voivodeship level)	Top-down	Top-down
Contract procedures	Incentives	Incentives and instructions	Incentives becoming hardened	Injunctions	Injunctions
Rules for shaping partnership	Stakeholders' free choice	Stakeholders' free choice	Binding (depending on voivodeships)	Binding	Binding
Territorial pattern	Mixed	Mixed	Mixed	Uniform	Uniform
Coverage of rural areas	Relatively extensive	Moderate	Variable (depending on voivodeships)	Almost complete	Almost complete
LAGs's selection process	Highly selective	Moderate	Moderate	Slightly selective	Slightly selective
Allocation of funding to LAGs	Differentiated funding	Differentiated funding	Differentiated funding	Equal distribution	Equal distribution
Dominant form of regulation	Mainly soft rules	Mainly soft rules	Mixed rules (depending on voivodeships)	Predominantly hard rules	Predominantly hard rules

Source: Author's elaboration.

Softer rules comply with the LEADER paradigm of public action. The process starts from the bottom up, presupposing local stakeholders' capacity for initiative, and their ability to build voluntary partnership and outline their area for action. At national level, this type of guidance leads to a spatial arrangement that only partly covers all rural areas, because LAGs are selected on a competitive basis.

Hard rules come from the government operator's intention to use the LEADER instrument for achieving its own specific goals. Consequently, it is a top-down command and control institutional system. Procedures lay down strict rules (or injunctions) for shaping partnerships and defining action areas on the basis of the administrative unit's network. The central authority's intention is to impose rules that best fit its objective of using the LEADER programme as a tool for the central planning of rural areas and the top-down distribution of development subsidies.

Between the German Federal Government's true compliance with the principles underpinning the LEADER instrument and Hungary's adoption of an interventionist approach, an entire range of situations can be observed. This variety may be related to the political systems and traditions of member states. Soft rules rationale prevails in the decentralised political systems (whether federal or unitary).<sup>7</sup> Guidance based on hard rules predominates in the highly centralised political systems where regionalisation has been limited to an administrative devolution of powers (Hungary). In Hungary, the MADR has used the LEADER programme to implement its own planning policy by regrouping at least two micro-regions into one large rural community endowed with a LAG and by extending the LEADER programme in order to reach a complete coverage of rural areas. This uniform network of rural communities also became the operative framework for managing the third axis's projects of the ERDP.

The intervention of the domestic authorities is shaped by the institutional context of the new member states. They introduce some distorting effects on the original model that is transferred to the local stakeholders.

## **Receiving the LEADER Model at the Local Level**

### *Involvement of Local Actors*

The "recipients" of the LEADER model, who are encouraged to become involved in putting it into practice, are at the bottom of the transfer cycle. The originality of LEADER lies primarily in the method on which the decision-making and the initiatives arising from it are based. In a bottom-up process, the LEADER method is based on the principles of *subsidiarity and partnership*. These two principles underlie the creation of a decision-making body, a LAG, constituted of public and private stakeholders (self-governments, associations, entrepreneurs). The partnership principle implies the participation of local stakeholders in designing the development strategy and its implementation.

Learning the LEADER approach depends on receptiveness at the local level, which in turn depends on mobilising the elites and their perception of its usefulness for meeting local problems. This local context may have a specific impact on implementation. Will the experimental method of the LEADER approach be sufficient to re-awaken the capacity for initiative of local actors in the new member states where social capital is weak in the rural areas?

What are the outcomes of the LEADER model experiment? A number of questions arise relating to the conditions of the reception of the LEADER model by local

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<sup>7</sup> Such is the case with the German *Länder*, where procedures may vary between incentives and prescription, and in Poland, currently decentralising, with the voivodeships.

stakeholders, their capacity to mobilise, and the degree of involvement of the local society.

### *Strong Control by Mayors over Local Development*

Our field research has revealed the key role played by local elites in implementing the process. Having examined partnership formation we have found that only a handful of elected officials took part in the construction of the LAGs. Professional mayors have been the main catalysts in this process.<sup>8</sup> The rules laid down for forming partnerships (representation of the three sectors) are formally obeyed, but may be adjusted or even manipulated in the Czech Republic and Hungary to strengthen the clout of mayors in the LAG's decision-making bodies. Since the more influential mayors recruit the managers, they can guide the design and implementation of strategies. They usually do it in line with their own idea of public interest. Project funding from the LEADER programme is a supplement to the local self-government's scarce budget. Most of the projects are designed for the preferred areas of the local self-government and their impact is usually restricted to the needs of the village inhabitants (renovation of public buildings, facilities and services).<sup>9</sup> Few projects cover more than one municipality and even fewer are jointly implemented by separate municipalities. The LEADER instrument serves meeting the local expectations. Since mayors have the political ability to mobilise resources (information, administrative competencies) and propose project designs, they tend to guide the initiatives towards benefits for the improvement of their villages or small cities. The behaviour of mayors is at best that of good managers of collective amenities and services relating to public welfare.

### *Traditional Ruler–Ruled Relationship*

The above use of the LEADER instrument by local elected officials is based on a traditional conception of the ruler–ruled relationship, mainly inherited from the communist time. Although representative democracy has been consolidated in the course of two decades of local self-government and it operates on a pluralistic basis, it is not yet fully open to citizens' participation. Furthermore, despite reforms promoting decentralisation, the political systems of the post-communist

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<sup>8</sup>In most cases studied, the catalyst was the impetus given by a mayor, firmly based in his or her municipality within a network of local personalities at the micro-regional level. The typical profile of an initiator is a firmly established, "charismatic leader", heading a relatively large municipality, who has formed a network of patronage relations with his or her opposite numbers in neighbouring municipalities.

<sup>9</sup>This is also true in Lithuania, where projects are proposed by rural communities, and in Poland, where they are proposed by villages (*sołectwa*, sing. *sołectwo*).

countries bear the mark of centralising traditions that, in the case of Hungary, have been firmly reasserted by top-down government practices. The political capacity of local elites to improve the economic and social conditions of their territories is more uncertain and fragile where the decentralisation of powers has not been completed (Lithuania).<sup>10</sup> In post-communist systems in general, the implantation of participative democracy is hampered by a stereotyped view of the ruler-ruled relationship and a lack of mutual trust among citizens. As our surveys have shown, the stakeholders involved in LAGs, particularly the elected officials, are convinced that their citizens want to be properly governed without necessarily participating. At the same time, the vast majority of these elected officials say that they want to take part in managing public affairs. The local elite's conception of the ruler-ruled relationship, inherited from the previous system, practically restricts the representatives having been elected in exercising participative democracy. All attempts to widen the scope of deliberation to local residents (forums, public meetings) quickly collapse because the hopes for participation initially aroused by the novelty of the LEADER approach have already been lost. Local democracy emerges strengthened only where a more "inclusive" approach radically alters local governance. However, scope for action remains limited to only a small number of project applicants (mainly municipalities and associations in their direct sphere of influence) and does not inspire the entrepreneurs and farmers whose projects would help diversify economic activities.

Where LEADER principles are poorly disseminated within local society and stakeholders are only moderately involved in preparing strategies and projects, the limitations of the transfer mechanism are apparent.

#### *The Transfer Effects: Absorption, Transformation or Rejection of the LEADER Model?*

To describe the prevailing effects of the policy transfer on the Europeanisation of public action<sup>11</sup>, we can best express them in terms of absorption, adaptation and rejection of the policy model. Cross-tabulating the forms of regulation as defined at

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<sup>10</sup> In Lithuania, where self-government has not been established at the local level, the local elites are recruited from the "rural communities" (Dedeire - Mačiulytė 2012).

<sup>11</sup> Once integration is completed, Europeanisation advances via common programmes and policies in a more flexible manner than with the transposition of the *acquis communautaire*. It takes the form of Europeanising the rules, practices and instruments of public action. Radaelli states that these may be seen as "processes of (a) construction (b) diffusion and (c) institutionalization of formal and informal rules, procedures, policy paradigms, styles, 'ways of doing things' and shared beliefs and norms which are first defined and consolidated in the making of EU public policy and politics and then incorporated in the logic of domestic discourse, identities, political structures and public policies" (Radelli 2003, p. 30).

the national level with the way of reception by local stakeholders, we may define these different transfer effects as shown in Table 2.

Table 2. The transfer effects of the LEADER model

	Mainly soft rules	Predominantly hard rules
Extensive participation of local stakeholders	Model absorbed (Germany: Henneberger Land LAG)	Model adapted (Lithuania: Joniškis LAG)
Limited participation of a "project class" (local elite)	Model adapted (Czech Republic: Podlipansko, Ostrožsko a Hornácko, Úhlava LAGs)  (Poland: Kraina Rawki, Dolina Karpia)	Model distorted (even rejected) (Hungary: Zengő-Duna, Mecsekvidék LAGs)

Source: Author's elaboration.

Maximum effect is achieved where soft rules and incentives encourage extensive participation of the local stakeholders, as it occurs in the new *Länder*, where learning has gone on for over two decades. The projects and the achievements of the Henneberger Land LAG give evidence of the *absorption of the European model*.

Other countries are on a path of *adaptation* of the LEADER model. Stakeholders are attempting to overcome the institutional obstacles. In the studied Czech LAGs the experiment is quite successful despite limited citizen's participation. Moreover, some stakeholders have seized the opportunity to consolidate their own particular interests. This is especially the case with a number of mayors, exercising political leadership, who have taken over the system to strengthen their legitimacy. Other social groups, well organised in the voluntary sector, may also adopt an elitist attitude. In Lithuanian LAGs the strong engagement of "rural communities" is counterbalancing the influence of a top-down management style.

Only the Hungarian experiment presents an *effect of rejection*, produced by a top-down management that blocks any channels that might disseminate the ideas and values of the LEADER model. The use of the LEADER instrument is confiscated for the benefit of local self-governments and their political leadership.

## Conclusion

Across the new member states in Central Europe, the processes of implementing the LEADER instrument are just as varied as they are in the old member states that have had longer experience with it. The form of public policy transfer promoted by



the EU gives all member states leeway to adapt the LEADER instrument to the rationales for action that meet their own public policy objectives. The adaptive pressure applied by the EU is variously perceived and integrated into the national frames of reference and leads to differential rationales for action.

Although the process of implementing the LEADER model has undoubtedly strengthened local capacity-building and initiative, the rationale that underpins governance at the local level may vary considerably. Where LEADER principles are poorly disseminated within local society and stakeholders are only moderately involved in preparing strategies and projects, the limitations of the policy transfer mechanism are apparent.

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# CHALLENGES OF REGIONAL AND METROPOLITAN POLICY IN POLAND<sup>1</sup>

*Iwona Sagan*

## **Introduction**

The issue of regional development, and the complexity of the notions of “region”, “regionalisation” or “regionalism” are among the subjects that are constantly debated by theorists, as well as by those working in the practical field of regional policy. The exceptional liveliness of the debate on the subject of regions, that has been observed in the last decade, comes as a consequence of different socio-economic policies applied by individual countries, as well as of the uniting European policy. The European characteristics of regional development are, to certain extent, a result of the impact of global conditions on the continent and in the Union. Their dominant nature is a consequence of the global range that modern society and economy have. As Poland has been a part of the EU since 2004, the global influences on Polish regions are “filtered” through EU policy: in some respects they are weakened, while in others they are strengthened or modified.

A state’s conditions regarding its economic and social spheres have a significant impact on the shape of its regional policy. After 1945 Poland, similarly to other countries of Central and Eastern Europe, followed the communist model of state socialism. After its collapse, the aim of the system transformation was to create democratic capitalism, however, what has come about is rather a model of political capitalism. This is a result of the weakness of civil society and the state structures. The state’s incapacity is best reflected in the lack of professional civil service, legislative chaos, invariably high level of financial and political corruption, that have made citizens feel distrust in state institutions.

In 1999 a territorial reform was carried out, based on the logic of creating a limited number of strong voivodeships – the regions. A total of 16 voivodeships were created. The reform, realised as one of the first determinative restructuring reforms, was partially forced or accelerated by Poland’s preparatory actions for EU accession. EU formal and administrative regulations, tightly related to financial

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<sup>1</sup>This text contains parts of the following publication: Sagan, I.: *Polnische Regional und Metropolenpolitik: Koherenz oder Konkurrenz? Jahrbuch Polen 2012 – Regionen*, Wiesbaden, Harrassowitz, 2012. pp. 29–39.

support systems, obliged practically all the new member states to modify their existing territorial administration systems to comply with the Nomenclature of Units for Territorial Statistics (NUTS). The voivodeships established in 1999 conform with the size requisitions for the second level units (NUTS 2), which allows them to receive financial support in the form of structural funds dedicated to modernising and restructuring regional economies. Therefore one of the aims of the reform and the posterior regional policy was to balance the level of economic development of the regions and to overcome disproportions between them, both within Poland and on a European scale.

### **Rich Regions and Poor Regions – The Split of Polish Territory**

In spite of applying numerous regional policies in the post-war history of Poland, it has never been successful to overcome the developmental differences – especially between the socially and economically better developed western part, commonly known as *Poland A*, and the lagging eastern part, called *Poland B*. The borderline of this division is marked by the Vistula river. The duality stems from the history of the lands that now constitute the Polish territory. The Partitions of Poland (1772–1918) proved to be the most determinative historical factor. The traces of Partitions can be clearly seen in the level of urbanisation, the transport infrastructure's density, agricultural structure, and the concentration of industrial and services' centres. It is a direct consequence of the fact that all these fields of the economy developed under different governance systems of Russia, Prussia and Austria. The dissimilarities in the level of development of these zones are also reflected in different attitudes and mentalities of their inhabitants. Political preferences also show clearly the *Poland A* and *B* division: *Poland A* seems more liberal, while the latter inclines towards more rightist and nationalist tendencies. Neither the short period of independence between the World Wars, nor the almost half-century-long communist period did succeed in diminishing these differences.

Analysing the different forms of social capital in the historical regions of Poland reveals that the concentration of bonding social capital is significantly higher in less urbanised regions and, generally, in Eastern and Southern Poland (Działek 2010). Meanwhile, in highly-urbanised regions and in Western Poland, it is the bridging social capital that predominates (Gittel – Vidal 1998). To make proper assessment of social capital in a region, it is necessary to distinguish between bonding and bridging social capitals, as they have distinct impact on the socio-economic development of the region. These two forms of social capital relate to different natures of human relationships. Bonding social capital brings together people who already know each other, while bridging capital binds individuals and groups who previously may not have had any closer relations. Bonding social capi-

tal acts inwards, is exclusive, and focused on strengthening the internal identity of a group. Local communities, ethnic and religious groups, elite clubs provide examples for this type of capital. Bridging social capital is inclusive, promotes creation of open networks, brings together people of different social statuses and origins. Associations, foundations, social movements, and community organisations serve as examples of this type of capital. Bridging social capital is based on citizens' attitudes that are much desired in today's processes of increasing the socio-economic development of regions. This type of capital has the capability to create firm and partner relations between social structures and the authorities.

Strong regional economic disproportions favour polarisation of social attitudes. The sense of cultural inferiority – when experienced by entire social groups – encloses them in conservative, xenophobic structures of social capital. This relates both to regions of Eastern Poland and to those regions that are currently becoming peripheral compared to the new, highly developed metropolitan areas being created. Wide discussions over the new *National Strategy of Regional Development 2010–2020*, approved by the government in July 2010, have focused largely on the matter of overcoming these inequalities as well as on seeking how to increase regional development on a national scale. The essence is described in three specific aims of the regional policy, namely: (1) supporting competitiveness of the regions, (2) building territorial cohesion and counteracting marginalisation processes in the catching-up areas, and (3) raising the efficiency of regional developmental actions. These issues may be reduced to an essential triad of competitiveness–cohesion–efficiency.

### *Competitiveness*

For the purpose of acquiring high competitiveness while economising on expenditures, the strategy implies that regional policy should address regions with best perspectives (i.e. the urban zones) to increase competitiveness on an international scale. Such a concept marks a polarisation-prone nature of regional development, which leads to increasing developmental dissimilarities, eventually growing inequalities, between the regions. The policy of cohesion, on the other hand, aims to counteract the negative impact of polarisation by using and amplifying the effects of the expected diffusion of innovation, progress and economic growth that will spread from the fast developing metropolitan areas. This is expected to balance the developmental disproportions between the regions. Therefore, this polarisation–diffusion model of regional development will initially increase the disproportions, but in later phases, through the process of spreading developmental impulse from the centres, it will overcome disparities and will balance the general level of development in the country.

Nevertheless, the practical application of such a model is highly limited. It is not easy to challenge the logic of economical efficiency that implies investing exclusively in a country's strongest centres and regions. Furthermore, a developmental impulse should be preceded by an infrastructural one, since communicational and telecommunicational development in the areas that are to absorb the effects of such an impulse are essential. A lack of well-balanced road infrastructure, especially the expressways and motorways, and a virtual collapse and dismantling of the railway infrastructure obstruct rapid transportation and commuting which are among the key factors in overcoming inequalities between regions.

Commuting, even on long, interregional distances, is an integral part of labour markets in highly developed countries. Usually commuting has a daily, but increasingly a weekly, cycle. Commuting prevents regions from depopulating through the permanent moving of inhabitants to areas with more attractive labour markets. The creation of "flight from blight" regions is the most undesirable phenomenon in regional policy, since it causes social and economic degradation. The possibility to live in a region, without the necessity to work there, creates opportunities for the region's development. The incomes from residents' taxes, goods consumption and services stimulate the development of residential and residential-related functions in the region. This can be extremely beneficial, especially in cases of municipalities and suburban centres that flourish thanks to the processes of suburbanisation. Although this is a phenomenon on a local scale, it well illustrates the general mechanism. The suburban municipalities owe their development to the fact that the cities' inhabitants seek more attractive living conditions. It should also be noted that keeping or attracting working-age residents creates potential for the business development of the area in the future. The resources of human capital retained in the region may be used for recovering the economy in the area.

A second fundamental obstacle in migrating freely between the regions in search of job is the lack of a balanced housing market. Strong inequality between the demand and the supply of housing is a legacy of the socialist system. Housing prices are disproportionately high in relation to average wages in Poland. This particularly applies to large cities. Regulating the housing market through supportive instruments of governmental policy is a practice often used in economically developed countries. The state's housing policy in the social field is justified by the profits it brings in the economic sphere. Up to now none of the governments has ever taken effective actions aimed at elaborating stable support mechanisms for housing policy that would generate economic benefits from the inhabitants' mobility. As a result, it is still their flats that attach people to the regions in Poland, rather than their jobs.

### *Cohesion*

Having in mind the shortcomings of hitherto governmental policy in the field of centrally managed actions, the regions should not be exclusively blamed for their poor development. Applying the economically effective policy of supporting polarised development, concentrated around the strongest areas – without a consistent, long-term policy of eliminating developmental barriers that are external to regions – may lead to the aggravation of disparities in regional development. Reaching a certain level, the disparities will destabilise the entire national system, causing an economic and social crisis. It is difficult to find more convincing evidence that a polarised system impedes smooth functioning and stable development, than the consistently realised EU support policy itself. It aims to diminish the dissimilarities between European regions. Poland fully participates in the European projects dedicated to improving social, economic and spatial cohesion of the regions. Still, comparative studies of the directions and scale of expenditures, co-financed by the EU, demonstrate unfavourable tendencies in the pace and the nature of development in the poorer, eastern counties of *Poland B*, in comparison to the much wealthier, western regions of *Poland A*. The average per capita value of projects co-financed from the Cohesion Fund was 3.5 times lower in Eastern Poland than in the rest of the country. In terms of calculation per county, the level of investments was 4.5 times lower in Eastern Poland than in the rest of the country. Another characteristic feature of the projects carried out in Eastern Poland is their significantly lower singular worth compared to the others – slightly less than half of the national average (Miazga – Sagan 2011). These indices prove how difficult it is to stimulate development in peripheral regions, even with financial means at hand. To be successful, such policies require clearly focused, long-term, state-level policies. Once they fall into a spiral of socio-economic degradation, seldom are the lagging regions able to break out of it by themselves. Therefore it is much desired not to allow regions to succumb to such a spiral, thus preventing the appearance of strong developmental differences between the regions. Eventual overcoming of such disparities is much more costly.

### **Metropolises and their Regions**

Deficiencies in infrastructure – commented in the context of barriers for the competitiveness of regions in Eastern Poland – create obstacles for the diffusion of developmental impulse from the growth centres, expected in the cohesion policy. This problem is best visible on the intraregional scale, i.e. at the level of relations of urban metropolises with their surrounding regions.

The new type of relations between a metropolitan area and a surrounding region is disadvantageous for the latter. It is difficult, if not impossible, to become regionally successful without dynamic collaboration with the metropolis which offers the most favourable economic, social, technological, and institutional environment for development. Therefore if a region lacks such developmental driving force, achieving success is virtually impossible or extremely complicated at best. Current trends indicate that a metropolis is able to grow without direct links to its immediate regional surroundings, while a region without connections to a metropolis is bound to become peripheral. This stems from network type spatial relations that allow creating decentralised, non-hierarchic links, independent from physical neighbouring and based on supra-regional space of flows. It is the metropolitan areas and the urban regions that constitute hubs of this network, not the vast and territorially diverse areas of the regions (Sagan 2009, Sagan – Canowiecki 2011).

Big developmental disparities between a metropolis and other territorial units in a region – combined with a lack of active policy aimed at creating infrastructural, communicational, institutional, and social channels for the transmission of growth – result in aggravating intraregional disharmony. A research for the Ministry of Regional Development (Ministerstwo Rozwoju Regionalnego 2009) clearly shows that the principal borderlines of regional divisions in Poland – based on the level of social and economic development and on that of material infrastructure – do not run along the boundaries of administrative units, but rather along the borders between rural and urban areas. An analysis of the GDP per capita in the metropolis and in its regional surroundings in the years 1994–2005 indicates a significant growth of inequalities. In 2005, the dispersion coefficient, based on the GDP per capita relations, was 12% higher in the case of intraregional developmental disparities than in the case of interregional ones. Relatively strong – and constantly growing – differences between territorial units within the voivodeships have been observed not only by the analyses made for the ministerial report, but also by the international OECD regional report. The OECD report confirms that, among the member states, Poland has one of the highest, and growing, intraregional disparities, deriving from the increasing inequalities between urban areas – mainly the cities – and the predominantly rural and town areas. Warsaw has the highest GDP per capita growth rate among the OECD metropolitan regions. Together with Cracow they also have the highest labour productivity growth. The GDP per capita in urban areas is twice as high as in rural areas in Poland (OECD 2008).

It should be stressed that the growing disparities between metropolitan areas and regions do not necessarily imply stagnation or socio-economic degradation in the regions. Research shows (Smętkowski 2009) that the increasing inequalities

are a result of different speeds of developmental processes taking place in these areas. At the same time, the regions having strong metropolitan areas tend to develop much more dynamically than those set around smaller cities.

Taking into consideration that the disparities are not caused by the pauperisation of the least developed territorial units, but are simply an effect of their slower development rate, it is reasonable to ask whether the discussed stratification is an actual problem. Actually this turns out to be a more comprehensive dilemma, related rather to social than economic polarisation. As the research indicates, strong inequalities in the level of development have an impact on the subjective perception of quality of life in the slower-developing units. Consequently, this intensifies emigrational processes, human capital drainage, and in the long term, leads to the stagnation and degradation of the area, which eventually decreases the efficiency of the entire system.

The ongoing legislative and administrative negotiations with the objective to legally settle the future shape and functioning of metropolitan areas, may be a unique chance to strengthen the regions' position in the future territorial structures. This will only be possible with the active participation of regional authorities in the creation of metropolitan administrative and organisational structures. However, all the current controversies and debates on the metropolitan system focus on the conflicts within the limits of the potential metropolitan areas. The debate has been dominated by the notion of reaching a consensus between the more-or-less-willing-to-collaborate metropolitan partners. Neither the central administration – both responsible for the cohesion policy and conscious of the growing intraregional disparities –, nor the local governments of the regions ventured to discuss the matter of selecting a form of the metropolitan system and examine its impact on the region-metropolis relations. Albeit it is the form of the territorial and administration system that will be crucial for shaping the links between the metropolis and its surrounding region. The current lack of governance at the metropolitan level constitutes a significant obstacle in Poland's regional policy.

### *Efficiency*

Raising effectiveness and efficacy of regional developmental activities – in one word: the *efficiency* – is the last of the three main objectives of regional policy. Doubtlessly, it should be accompanied by creating institutional embeddedness for the regional policies' efficiency in the regions – this implies building a high-quality public sector – and as a result by the creation of *good governance*.

The reform of Poland's territorial system carried out in 1999 gave birth to a unique situation of actual bipolarisation of local governance. At the regional level,



it consists of the highest tier self-government unit<sup>2</sup> and the lowest tier of state governmental administration structure.<sup>3</sup> Poland's territorial organisation at a regional level has a dualistic nature and is set in between the models of territorial state administration and territorial self-government. In a territorial state administration, the regions are governed by the central administration's governors who possess limited competence, strictly control budgets, and control counties and municipalities. In a territorial self-governance the regions, counties and municipalities have the right to self-governance, although their competences are limited, and the budget is centrally controlled. At the regional level, Poland applies a model of partial territorial self-governance. Regions are still strongly limited financially and are controlled by governmental administration. The most severe is the lack of self-governance at the metropolitan level.

The duality of administration at the regional level could theoretically lead to the strong political representation of this level. However, for effectively supporting the regional system, it would be essential to establish a clear hierarchy between the two administrative entities, the Marshal's Office and the Voivode's Office, with a slight domination of self-governance represented by the Marshal's Office. At the same time, due to struggles for power, competences and prestige, the duality rather causes system disintegration, and as a consequence, is detrimental to the region's development.

The ministry's policy is crucial in building coalitional relations between the two centres of power in a region. A proper approach to Voivodeship Offices should stimulate their collaboration with Marshal's Offices, rather than antagonise the two entities. Voivodeship Offices should not serve as regional political infiltration "channels" for the central administration in power. Although the office of the Voivode is not a political one, there is strong temptation to select candidates by political criteria, since it is the central government administration that nominates them. The political dependence of the Voivodes complicates their co-operation with the democratically elected Marshals. It is especially the case when the heads of these two entities come from different political backgrounds. Therefore, without central government's policy aimed at overcoming the deficiencies mentioned, the dualistic system more often obstructs a region's development than intensifies it. Lack of co-operation between the two main centres of power in the region can become an element of weakening the negotiating position of the region as against the central government.

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<sup>2</sup> Marshal's Office, presided by the Voivodeship's Marshal.

<sup>3</sup> Voivodeship Office, presided by a Voivode.

## Conclusion

The high complexity and networking nature of connections in today's economic systems, the dynamism of processes and a need for quick reactions to meet new challenges require the optimisation of methods in regional and local administrations. At the same time the quality of Poland's state, regional and local tier public institutions continues to be inadequate to face European and global challenges. Although in the first years following the political transition the quality of public institutions was gradually improving, this process has been halted by power struggles between different governing political parties. To persist in the model of political capitalism would not only be detrimental to the Polish nation as a whole, but also to the regional and local communities. Their successful development under the circumstances of economic globalisation and the internationalisation of state policies requires the proficient and flexible application of public intervention instruments and the co-ordinated participation of citizens.

Political capitalism in its post-transformation stage – where the strong players (social groups, economic entities or individuals) exploit the lack of regulations and the weakness of the state – has given rise to strong, fossilised sectoral structures stemming from the deeply rooted legacy of the previous political system. The commonly stressed need to replace sectoral organisation in nearly all fields of socio-economic life with territorial task- and problem-oriented collaboration has so far not been reflected in any reform of the national organisational structures. The domination of sectoral structures over the regional ones has a decisive effect on the distribution of funds dedicated to development and investments by the central administration. The “territorial contract” – a solution proposed by the Ministry of Regional Development as part of the *National Strategy of Regional Development 2010–2020* programme, which would involve the relocation of significant funds – has practically not been carried out. Sector-thinking and sector-acting obstruct the harmonisation of socio-economic structures and the overcoming of disparities in development of regions and localities. They impede benefiting fully from the regions' developmental potential. It should be stressed that the necessary changes do not simply form a strategic objective of national regional policy, but above all, they are demanded by the inhabitants of all regions.

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# (ETHNO) REGIONALISM IN UPPER SILESIA

*Nóra Baranyai*

## Introduction

The current territorial division of Poland is based on the law accepted on 24th July 1998<sup>1</sup>, which recreated the three-level<sup>2</sup> administration system in the country. The new voivodeships were mainly established by union of former, smaller units; while in some areas the previous regions were divided and attached to different voivodeships (Figure 1). The upper sub-national administrative units are directly elected political regions but having administrative and planning-statistical functions as well. Besides administrative regions, ethnic/linguistic-cultural, traditional territorial units can be found in the country as well, being also the base for Polish regionalism. The motivations, objectives and activities of regional movements depend on the type of the region: there are demands for ethno-linguistic and cultural rights, higher degree of self-government or at times autonomy. In this regard Silesia is a special area, because it is an ethnic/linguistic-cultural and historical region at the same time; therefore its regional aspirations can be interpreted along these characteristics (Jałowiecki 1999). As per the strong Upper Silesian cultural identity, two unequivocally isolated trends appeared in the 1990s: one of them aimed to continue the fight for certification of the Silesian nationality and language, the other to restore the autonomy granted in 1920<sup>3</sup> (Wódz 2010).

The aim of this study is to analyse the increasingly important process of (ethno)regionalism in Upper Silesia, various concepts of the Silesian Autonomy

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<sup>1</sup>Act on the three-level division of the country (Ustawa z dnia 24 lipca 1998 r. o wprowadzeniu zasadniczego trójstopniowego podziału terytorialnego państwa).

<sup>2</sup>Voivodeship (*województwo*), county (*powiat*) and local (*gmina*) levels.

<sup>3</sup>Upper Silesia was annexed to Poland after World War One. It was undoubtedly the most developed and most industrialised part of the country. The economically and culturally distinct region, the Silesian Voivodeship did not have to fit in the unitary state structure. In 1920 the Polish government granted autonomy to the voivodeship, thus the region had its own parliament with legislative power and through the Treasury it could independently manage certain segments of local revenues (Szczepański – Śliz 2012). Accordingly, the Silesian Voivodeship – which at that time meant Katowice and its wider area – could decide on the administrative structure of the region. In addition, the Silesian Sejm had the authority to create laws on regional education, health, social services, infrastructure, transport and police forces. The autonomy ended in practice with the expansion of the Third Reich in 1939; however, it was in 1945 only when it was legally abolished by the National Council.

Movement (*Ruch Autonomy Śląska*, hereinafter RAŚ) and to outline the possible consequences of these ideas, based on the results of national censuses and political elections, the documents and draft laws of the movement.



Figure 1. The structure of voivodeships since 1999

Source: [http://www.adam.krynicky.net/lo/mapy/pol\\_1999.jpg](http://www.adam.krynicky.net/lo/mapy/pol_1999.jpg)

### Struggle for Registration of Silesian Nationality and Language

Minorities and their cultures were completely ignored in the state-socialist period, therefore the political, cultural, and scientific dialogue about Upper Silesian society could only begin after the transition. In the first years of the 1990s, due to the appearance of “minority” organisations, Upper Silesia was rediscovered and the region moved towards institutionalisation. In order to create Silesian regional identity several actions were taken, and the importance of Silesian language was revived again. The unique Silesian identity in the culturally and ethnically mixed region was formed by regular boundary changes, the permanent “feeling strange”

and by social-political stigma; after the transition Silesians expected certification of their minority rights (Janicki 2009). Several exhibitions have been dedicated to accentuate the region's multiculturalism, multi-nationalism and the "heroic industrial past". Therefore this is the way for Silesia to find its position in Europe, highlighting its difference from the rest of Poland (Bialasiewicz 2002).

The most famous Silesian organisation, the RAŚ was established in Rybnik in 1990. The organisation's activities extended to the territory of historical Silesia including the current Silesian and Opole Voivodeships and the southern part of Lower Silesian Voivodeship as well. Although the current goals and aims of RAŚ are not significantly different from the organisation's previous conceptions (Statut 1990), regarding the tone and the activities a caesura can be found around 2010, when the last regional and local elections were held.

Due to the results of the national elections in 1991, RAŚ had two mandates in the Sejm, but after the introduction of the five per cent threshold in 1993, the organisation lost its parliamentary representation. In order to represent the interests of Silesians, the movement tried to establish an alternative organisation, The Union of the Population of the Silesian Nationality (*Związek Ludności Narodowości Śląskiej*, hereinafter ZLNŚ). It aimed to reach the certification of Silesians in order to develop national identity and protect their language and culture in regional and local ethnic schools (Kamusella 1999), and to benefit from special voting laws<sup>4</sup> for minorities (Buchowski – Chlewińska 2012). Although the lower court registered the organisation, the higher court – due to the appeal of the voivode – rejected the registration claiming that there was no such thing as Silesian nationality, Silesians are an ethnic group. The ZLNŚ appealed to the Supreme Court which shared the previous justification. Following this decision the ZLNŚ turned to the European Commission of Human Rights which initiated an inquiry in the European Court of Human Rights. It discussed the appeal in two trials and finally agreed with the Polish state in its judgement<sup>5</sup> (Halász 2007). The statements of the judicial decisions, that Silesians are an ethnic or regional group, had no impact on Polish legislation, since in the Act of Minorities (2005) Silesian is not mentioned either as an ethnic minority or as a regional language.

The legislature's decision is rather surprising if we take into account the results of the 2002 census (Figure 2). Almost 97% of the population identified themselves as Polish, and only 1.23% of the remaining 3.26% denominated a minority

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<sup>4</sup>According to provisions of The Law on Elections to the Sejm and Senate (2001), national minorities benefitted from positive discrimination, as they automatically got into the Sejm if they collected enough votes for a mandate. This preferment did not concern ethnic minorities and regional languages.

<sup>5</sup>The ZLNŚ had a subsequent attempt at registration in 2004, but in 2007 the application was denied again (Buchowski – Chlewińska 2012).

(Kaźmierczak 2003). Silesian became the largest minority group<sup>6</sup> (173,153 people) in Poland, while the number of people declaring German identity decreased significantly (to 152,897 people), which supposedly meant identity change and transition between the two groups.

In 2011, 94.8% of the population marked solely Polish as identity, while the remaining 5.2% had twin identities (occasionally neither was Polish) or non-Polish identities. The number of Silesians was more than 846,000, being not only the most populous ethnic group in Poland, but also representing 57.6% within non-Poles. The expected number of Silesians was only about 600,000, therefore it is no wonder that the publication of the results shocked both the Silesian organisations and the whole society. The number of people with Silesian identity has undoubtedly grown all over Silesia<sup>7</sup>, partly because the Germans mainly chose Silesian identity instead of German in 2011 (Sakson 2012).

The unique nature of Silesian identity can be characterised by the language used at home, which varies among those who declared themselves Silesian. In 2002, 77% of Silesians used Polish only, 16% used Silesian and 5% German for everyday interactions within the family. Interestingly, from all Silesian-speakers only about 52% identified themselves as Silesians, at the same time their language was used by Poles (35%) and Germans (13%) as well (GUS 2002). During the 2011 census, just as in 2002, the respondents could have marked three languages. In 2011 the most often used non-Polish language was Silesian (529,000) followed by Kashubian (108,000). Although detailed analysis of the published data (e.g. relationships between ethnicity and language) is still not possible, it can be concluded that the number of Silesian-speakers significantly exceeded the number of people with Silesian identity in the last ten years.

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<sup>6</sup> According to the accusation of minority organisations – their most prominent spokesman was the RAŚ – in the first period of the 2002 census the “other” categories of nationality were not recorded by data collectors. Nevertheless, the president of the Central Statistical Office permitted the marking of non-registered minorities as well. Accordingly, the estimated number of Silesians was much higher (350,000) than the official data based on the census. The suspicion seemed to be corroborated, as the proportion of the “non-specified” is the highest in Opole and Silesian Voivodeships, which could have been a result of the refusal of marking (Janicki 2009). These questions are still unanswered and the complaints remained uninvestigated. However, during the national census in 2011 both primary and secondary identity pledge and the marking of non-registered minorities were possible (due to this fact the number of Kashubians increased with more than 200,000 people).

<sup>7</sup> Unfortunately the current census data does not allow regional analyses, but it is certain that the geographical distribution of Silesians has not changed significantly. Similarly to the results of the previous census, most Silesians can be found in the Upper Silesian regions and principally in the Silesian Voivodship.

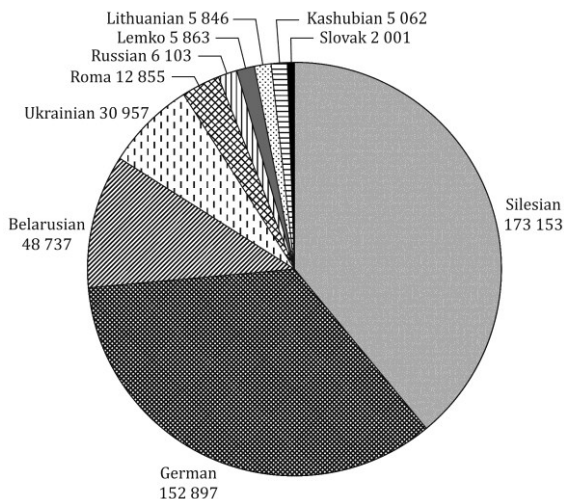


Figure 2. The most populous minorities in Poland, 2002  
Source: GUS (2002).

Based on the results of the 2002 census, Silesians launched an appeal to the parliamentary Commission on National and Ethnic Minorities for recognition in the Act of Minorities. After consulting with ethnologists, sociologists and linguists, the Commission denied acknowledging both the minority and the regional language status, since “Silesians have a distinct social identity, but they sustain different national identities, i.e. Polish, Czech and German” (Buchowski – Chlewińska 2012, p. 13) and their language cannot be considered as an independent language, only a dialect of Polish.<sup>8</sup> In 2007, members of parliament from the Silesian Voivodeship presented a cross-party initiative on the amendment of the Act of Minorities. Although this group distanced itself from the activity and objectives of RAŚ, the legislature was concerned that the regional language status would be the first step towards autonomy. In 2010, 51 parliamentarians from all over the country participated in the preparation of the amendment of the Act, but the proposal was not discussed in the Sejm. In March 2012, referring to the results of the 2011 census, a 64-member group<sup>9</sup> initiated another amendment which defined Silesian as a regional language. The proposed amendment was supported by linguistic studies defining Silesian as an independent Western Slavic language as opposed to previous views which mentioned it as a Polish dialect only (Projekt 2012). The amend-

<sup>8</sup>The Silesian language (godka) is a Slavic language combined with German words. Its grammar often follows German as well (Buchowski – Chlewińska 2012).

<sup>9</sup>The group contained parliamentarians from the following parties: Civic Platform, Democratic Left Alliance and Palikot’s Movement.



ment was addressed to the Commission on National and Ethnic Minorities for first reading in July 2012, but since then there has been no further action taken.

The registration of The Association of People of Silesian Nationality (*Stowarzyszenie Osób Narodowości Śląskiej*, hereinafter SONŚ) had great importance for the ethnic-linguistic group. The SONŚ was established in Kotórz Mały (in the Opole Voivodeship, where the number of Silesians is much lower than in the Silesian region) with the aim to unite declared Silesians and to create Silesian regional identity. These two objectives were somewhat contradictory, as the national and the regional identity had different goals: the former created ethnical, while the latter regional representation. For successful registration some preconditions were necessarily fulfilled. First, the SONŚ stated that the organisation did not wish to enter the elections (Statut 2012, §5); secondly, based on the Law on 2011 Census, the initiators effectively argued with the definition of nationality in court (Buchowski – Chlewińska 2012).

### **Struggle for Silesia's Autonomy**

Although RAŚ urged the expression of Silesian identity during the 2002 and the 2011 censuses, the organisation recognised that the estimated number of Silesians would not be sufficient to create an autonomous unit based on ethnicity. Accordingly, in 2010 RAŚ replaced the formally represented ethno-regional and nostalgic argument with the idea of modernisation and deeper decentralisation in Poland. Distancing from the ethnic argument has become visible under the leadership of the current president, the charismatic Jerzy Gorzelik, who has unambiguously tried to create a movement with regional character. The major change in the organisation's rhetoric took place during the local, county and regional elections in 2010, which coincided with the 90th anniversary of adjudication on Silesian autonomy. Now the main goal of the organisation was to create real regional representation, besides national parties, which can emphasise regional issues and protect the interests of the area.<sup>10</sup>

During regional elections, the members of RAŚ ran for mandates in each electoral district in the Silesian Voivodeship and the organisation successfully nomi-

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<sup>10</sup> The key elements of the campaign focused on education, including regional education, culture and cultural heritage as well as infrastructure and public transport. Of course, the question of autonomy played a leading role in the campaign; however, instead of the content elements the organisation emphasised only the substantial features of self-government. On the occasion of the twentieth anniversary of local governments the RAŚ hastened finishing the reform of the administrative system, whose final stage will be the truly decentralised, namely regionalised, state with autonomous regions. For the implementation of the new administration reform and for the creation of the autonomous Upper Silesia the determined deadline is 2020.

nated candidates both for mayoralty and for membership in self-governments at territorial and local levels as well. Based on the results of regional elections in 2010, support to the movement undoubtedly increased since the votes for RAŚ more than doubled between 2006 and 2010 (Table 1). With 8.62% of the valid votes the organisation – contrary to former elections – got representation in the regional self-government. Due to this result, RAŚ became the fourth strongest political group in the Silesian Voivodeship after the Civic Platform (PO), Law and Justice (PiS) and the Democratic Left Alliance (SLD). Moreover, in three electoral districts RAŚ overtook the leftist party. The political support of the organisation was especially high in areas where the number of people declaring Silesian identity (n 2002) was also high. The winner PO has governed the region together with its national coalition partner, the Polish Peasants' Party (PSL) and with RAŚ. In addition, Gorzelik was elected to the five-member executive body of the region.

*Table 1. Results of RAŚ at the regional elections in 2010 (Silesian Voivodeship)*

Electoral district	Number of votes		Average of valid votes (%)	
	2006	2010	2006	2010
Bielski	1,815	3,570	0.87	1.58
Katowicki	15,805	35,264	7.69	15.96
Rybnicki	16,778	32,068	8.14	14.57
Gliwicki	11,700	17,719	5.93	8.70
Chorzowski	11,139	29,851	6.95	17.50
Częstochowski	662	1,263	0.41	0.69
Sosnowiecki	1,020	3,046	0.48	1.37
Total	58,919	122,781	4.35	8.62

*Source:* Państwowa Komisja Wyborcza 2010.

During the parliamentary elections in 2011 RAŚ entered for mandates of the Senate as a so-called registered voter election committee. They nominated six candidates, one in the Opole and five in the Silesian Voivodeship (Table 2). Although the results of the last two elections are not comparable due to the divergent electoral districts, it is clear that political support to RAŚ increased significantly. The number of votes increased by 18,292, which means that the political base of the movement is still growing. Relying on the results of Katowice and Rybnik electoral districts – although none of them had mandates – RAŚ can be considered as an important political element of the future and the movement will probably be able to get mandate(s) in the Senate in the next parliamentary term. Although the achieved 7% in the Opole Voivodeship is much lower than in the other region, the

result can still be evaluated as a success.<sup>11</sup> The supporting base of RAŚ and other Silesian organisations will probably continue to grow also in this region in the following years.

*Table 2. Results of RAŚ at the parliamentary (Senate) elections in 2011*

Electoral district	Number of votes	Average of valid votes (%)	Rank (Number of commissions)
Opole Voivodeship			
53rd district, Opole	6,637	7.06	5 (7)
Silesian Voivodeship			
70th district, Gliwice	25,037	14.93	3 (4)
73rd district, Rybnik	26,303	21.92	3 (5)
74th district, Katowice	41,003	25.30	2 (6)
75th district, Katowice	34,527	32.35	2 (3)
78th district, Bielsko-Biała	14,203	6.78	4 (5)

Source: Państwowa Komisja Wyborcza 2011.

In order to reveal the background of the organisation's ideas, the European Free Alliance (EFA) should be mentioned as well. RAŚ is a full member (since 2003) of this umbrella organisation which unites progressive, nationalist, regionalist and autonomist parties in the European Union. Its members are fighting for democratic rights and autonomy for different European regions and stateless nations, as well as for deeper regionalisation of the member states (Riedel 2006). Since the demands of the EFA go beyond the "regionalisation" or "autonomy" framework and in view of the recent Scottish and Catalan processes, the fear from independence plans of RAS is understandable. Its main goal is now to change the current state structure based on the French model towards a Spanish-based regionalised model. In order to clarify their ideas, the organisation prepared a draft amendment of the existing Constitution based on the most essential elements of the Spanish state system. To avoid separatist accusations, RAŚ lays down in the amendment that "the basis of the Constitution is the indissoluble unity of the Republic of Poland [...] and [the Constitution] recognises and guarantees the right for autonomy" (Projekt 2010, Art. 3.), which refers to the establishment of the regionalised country.<sup>12</sup> The chapter on territorial organisation of the state comple-

<sup>11</sup> Earlier RAŚ was not able to nominate candidates even to the regional elections in the Opole Voivodeship.

<sup>12</sup> To maintain the unity of the state and prevent separatist accusations, RAŚ tried to build such guarantees into the draft which hamper closer co-operation between regional units. These, on the one hand, forbid confederation of regions in the interest of independence ambitions, on the other hand, apply rigorous terms of collaboration.

ments the missed opportunity in 1997 and ensures constitutional status for the districts and the autonomous voivodeships as well. The competencies of the autonomous voivodeships are more widely defined than in the current Constitution, but – and that is the unique element in the proposition – the list of functions does not mean general commitments for each region. Similarly to the Spanish model, namely asymmetric decentralisation (Wódcz 2010), the regions can themselves define the tasks listed in the Constitution in accordance with the capabilities, opportunities and interests of the area.

RAŚ worked out a draft statute for the autonomous voivodeship, which would regulate the region's internal functions. Both the planned regulations and the proposed regional institutional systems would base on the Catalan model, although some elements would follow the Polish tradition. The draft gives detailed information on the institutional, administrative system and the symbols of the autonomous voivodeship, but the region's borders – probably on purpose – are not determined. As the Statute points out: “the Autonomous Silesian Voivodeship is created by counties connected with the region historically, culturally and economically” (Statut 2010, Art. 3.). However, this definition – because it is too vague – can lead to misunderstandings. It is obvious that RAŚ's ideas go beyond the existing administrative boundaries. A previous draft (Gazeta Wyborcza 2010) specified the western and eastern borders of the future region, whereas in the current document Opole is the seat of the Administrative Court. From all these a union of the Silesian and Opole regions seems to emerge.<sup>13</sup>

Although the draft statute does not regulate the physical boundaries of the voivodeship, it elaborates on the content of autonomy, namely the institutional system, the tasks of each organisation, public policy, public ownership and property; and it corresponds to the draft Constitution. Based on the draft statute, it can be definitely stated that the organisation's current projects are not unrealistic. The declaration of the strategy was preceded by a long planning process in which RAŚ tried to so summarise the demands and needs to be ready for adoption in 2019, the definite time of the constitutional amendment. In order to achieve this goal, a long-term schedule has been elaborated to inform both the country's leading political forces and society about the essential elements of the conception. RAŚ announced “the Polish Regions” programme, and as a first step they want to revive the former organisation, the League of Regions, which joined the fight for

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<sup>13</sup> The idea of integration of the two voivodeships raises several problems itself, but there are questions about the fate of the Częstochowa area as well, which has no historical or geographical links to Upper Silesia, and RAŚ does not vindicate its territory at all. Despite several attempts, this area has not been able to successfully integrate into the Silesian Voivodeship and its population is ready to join the Świętokrzyskie Voivodeship (Kaczmarek 2009).

deeper regional processes. RAŚ plans to organise a demonstration March of Regions in 2015 in Warsaw, which will be hopefully followed by a referendum on constitutional amendments in 2019. The first step of establishing bottom-up regional movements in the voivodeships and historical regions seems to be successful, since it has visible results. Besides the Unia Wielkopolan, established in 1990, there are now several organisations fighting for regional autonomy within their own voivodeship. Some of them have legal status with statute and membership<sup>14</sup>, but the majority is still in a chaotic stage and has only a Facebook-profile.<sup>15</sup> However, later these quasi-organisations may become regional political forces similar to RAŚ. The nationwide network will definitely exceed current actions and civil approach. Supposedly RAŚ is working on the establishment of a national political party which could become a real representative body of regions' interests. If the organisation wants to be ready for the national elections in 2015, they have to create a national base as soon as possible.

## Conclusions

RAŚ fights inexorably for political rights. First the organisation tried to vindicate its interests by using the minority argument, then – when the recognition of Silesians seemed to be unsuccessful – turned indirectly to the political sphere with the aim of creating a regionalist party and a regionalised state. The evolution of the organisation and the development of its ideas parallels with the Western European ethno-regionalist parties, like the brother parties Republican Left of Catalonia (*Esquerra Republicana de Catalunya*) and Scottish National Party. The attempt to adapt Western European path in Poland can be theoretically successful, but it is doubtful that the regionalised or federal model comes true in Poland. First, it has no traditions of decentralised state organisation, secondly, the Scottish referendum on independence in 2014 and the growth of separatist aspirations in Catalonia since 2009 strengthens the fear in the society of losing the unity of the state.

The present-day ambitions and doubts of the ethnic-linguistic trend and its claims render decisions of the legislature more difficult. The independent existence of Silesian nationality, ethnicity and language are unverifiable unequivocally, but Silesian masses of almost one million people cannot be ignored any longer. In this situation, the desired decision would be the recognition of Silesian ethnicity and/or language, but this has only slight chance because the amendment of the Act of Minorities could awake minority consciousness among other unrecognised

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<sup>14</sup> Masurian Autonomy Movement (*Ruch Autonomii Mazur*), Podlasia Autonomy Movement (*Ruch Autonomii Podlasie*).

<sup>15</sup> E.g. Mazovian Autonomy Movement (*Ruch Autonomii Mazowska*).

groups (such as Kashubs, Góral, Mazurs) and it could strengthen the activity of the regionalist–autonomist movement, from which the government undoubtedly wants to keep distance.

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# **SPATIAL AND TEMPORAL DISTRIBUTION OF ECONOMIC GROWTH AND STAGNATION AREAS IN POLAND**

## **Challenges for Polish Cohesion Policy after 2013**

*Paweł Churski – Anna Borowczak*

### **Introduction**

The process of socio-economic development is characterised by the lack of spatial balance. Due to various conditions and volatile factors endogenous and exogenous development processes do not appear with equal intensity in each area. However, too large spatial differentiation between development levels may result in a barrier to the course and optimisation of development processes. One of the general objectives of the European Union rests upon creating favourable conditions for its balanced territorial development. Since the very first years the European Communities were founded, the necessity to pursue economic and social cohesion has been taken for granted. Unfortunately the subsequent extensions of membership resulted in deepening the internal developmental differences, entailing a systematic reinforcement of interventionism targeted at efficient improvement of cohesion, while broadening the content of this concept. As a consequence, there has been a change in orientation of the EU's regional policy towards cohesion policy, setting its goal for attaining the highest cohesion possible in three dimensions: economic, social and territorial, while abandoning the compensation approach. A prerequisite underlying this new path is that achieving cohesion does not necessarily mean equalising spatial differences, it only means a state where these differences are socially and politically acceptable (Faludi 2006, Molle 2007). In conclusion, the co-existence of economic growth and stagnation areas is no longer considered a development barrier per se. A barrier exists when there are very large inequalities in the development levels accompanied by a lack of linkages which are substantial for the proper functioning of the spatial system according to polarisation and diffusion theories. Adopting this prerequisite to interventions in regional policy may impact its objectives, reorientating them from levelling out to taking advantage of the endogenous resources through employment, territorial coordination of policies, and multi-level governance (ESPON 2006, European Parlia-



ment 2008). The change of policy paradigm from compensation to polarisation-diffusion is widely acclaimed, among others by both the OECD and the World Bank (OECD 2008, World Bank 2009, OECD 2010, EC 2011d). However, it becomes controversial when discussing the distribution of the cohesion policy budget. The lagging countries and regions are apparently afraid of the compensation paradigm to be abandoned, leading to a partial loss of structural allocations, which now may be directed to core regions.

This paper aims at identifying the current state and dynamics of socio-economic development discrepancies in Poland, that may be challenging for economic policy at both country and regional levels in terms of complying with the EU's cohesion policy after 2013. It will analyse:

- (1) characteristics and objectives of EU cohesion policy after 2013;
- (2) analysis of the discrepancies in the socio-economic development in Poland at regional and subregional levels;
- (3) and finally it will give conclusions and recommendations for targeting the cohesion policy in Poland with respect to identified spatial differences and EU cohesion policy in 2014–2020.

The analysis will be carried out in two spatial dimensions: regional – NUTS 2 (16 Polish voivodeships) and subregional – NUTS 4 (379 Polish poviats), its scope being determined by the accessibility of statistical data. It is the official database of the Polish Central Statistical Office that is used. The analysis covers the period of 2000–2010.

The results presented here are those of the project “Socio-Economic Growth and Emergence of Growth and Economic Stagnation Areas”, financed by the National Centre of Science (N N306 791940). This project is undertaken by the Research Focus Group, Regional Analysis Department, Institute of Socio-Economic Geography and Spatial Management Adam Mickiewicz University in Poznań.

### **Scope and Objectives of the EU Cohesion Policy after 2013**

The new programming period of the EU's budget is challenging for member states. First, the united Europe shows low resistance to the consequences of the world economic crisis, its position is even weakening on the global markets. Secondly, member states constantly attempt to stabilise the economic situation of the Euro Zone and elaborate efficient mechanisms of monitoring the macroeconomic policies preventing crises from deepening in specific member states, which would affect the whole European Union. Thirdly, there is a lack of satisfying effects of the present cohesion policy in mobilising the European Council, Parliament and Com-

mission together with governments to search for better solutions in programming, implementing and monitoring the policy.

On 29th June 2011 the European Commission adopted a draft of “Multiannual Financial Frameworks 2014–20” (EC 2011b) and “A Budget for Europe 2020” (EC 2011a). Here the EU Commission presented assumptions underlying the new programming period of 2014–20 and defined their relationship to the Growth Strategy in Europe (EC 2011d). In order to specify the assumptions underlying cohesion policy, the European Commission initiated a legislative package proposal for consultation on October 6th 2011 (EC 2011c). According to it, cohesion policy in the new programming period is to support not only actions stimulating economic growth, but also the levelling out of differences and the consequences of economic crisis. The policy is simplified and its orientation must be determined upon the momentary effects. It is a significant change that a common conditionality rule is introduced as one of the basic instruments boosting the efficiency and effectiveness of interventions co-financed from the EU public funds amounting to 339 billion euros.

The new programming period 2014–2020 of cohesion policy is targeted at accomplishing two general objectives (EC 2012a):

Objective 1: Investment in growth and jobs – covering actions financed from European Regional Development Fund, European Social Fund and Cohesion Fund – 96.5% of input planned.

Objective 2: European Territorial Co-operation – actions financed from European Regional Development Fund – 3.5% of input planned.

Reducing the number of objectives from three to two versus the financial perspective of 2007–2013 signifies the further concentration of means, confirmed by the spatial (geographic) and substantial scope of the policy.

Geographic concentration, while generally encompassing all EU territories, still includes some preferences for lagging areas. In Objective 1 all European regions are to be classified according to GDP per capita into three groups (EC 2012b):

- lagging regions: with GDP per capita <75% of EU average – 50% of resources allocated to Objective 1, covering 119.2 million EU citizens;
- phasing in/out regions with GDP per capita ranging from: >75% to <90% – 11.1% of resources allocated to Objective 1, covering 72.4 million EU citizens;
- well-developed regions: with GDP per capita >90% – 16.9% of resources allocated to Objective 1, covering 307.1 million EU citizens.

In addition to the interventions framed within Objective 1, regions of countries having GNP below 90% of EU average will be supported from the Cohesion Fund (21.6% of means allocated for Objective 1). The intervention will be complemented

by special actions for remote or low-dense territories, specified in Article 349 of the Treaty on the functioning of the European Union and in the Treaty of Accession of Austria, Finland and Sweden to the European Union, supported by 0.4% of the resources allocated in this objective. Objective 2 will be implemented in cross-border and other geographically indicated areas covering supranational territorial co-operation. With regard to its limited budget, this intervention will be of complementary and local significance (EC 2012c).

Apart from the two aforementioned objectives, the substantial concentration can be found in the implementation of Europe 2020 – a strategy for smart, sustainable and inclusive growth (EC 2010). As a result, the interventions undertaken in the regions of the united Europe will have to fulfil the requirements in this most important EU strategic document. In order to orientate the activities of the beneficiaries of cohesion policy, the European Commission proposes 11 thematic objectives (EC 2012d), corresponding to Europe 2020 on one hand and being the vital development challenges of the EU on the other:

- (1) strengthening research, technological development and innovation;
- (2) enhancing access to, and use and quality of, information and communication technologies;
- (3) enhancing the competitiveness of small and medium-sized enterprises, the agricultural sector and the fisheries and aquaculture sector;
- (4) supporting the shift towards a low-carbon economy in all sectors;
- (5) promoting climate change adaptation, risk prevention and management;
- (6) protecting the environment and promoting resource efficiency;
- (7) promoting sustainable transport and removing bottlenecks in key network infrastructures;
- (8) promoting employment and supporting labour mobility;
- (9) promoting social inclusion and combating poverty;
- (10) investing in education, skills and lifelong learning;
- (11) enhancing institutional capacity and an efficient public administration.

The indicated scope and objectives of the new cohesion policy for 2014–2020 will also be supported by many organisational changes, the most important being the integrated strategic programming in territorial dimension based on multifund, common strategic frameworks and partner contracts (EC 2012e). The conditionality rule may bring fundamental improvement in effectiveness. It will rest upon both ex-ante conditionality (accession, including concentration of actions) and ex-post conditionality (reward bonus), and what matters most with regard to the current financial situation in Europe also macroeconomic conditionality (possibility of suspending payments). The procedures will become more flexible and simple, and financial instruments more accessible; there will be Joint Action Plan and e-

administration decreasing the costs of cohesion policy implementation will be promoted.

### **Analysis of Differences in Socio-economic Development and Dynamics at Regional and Subregional Levels in Poland**

Analysing the differences in socio-economic development and dynamics requires a procedure enabling us to identify points (objects) in multidimensional space. In this case objects are identical with territorial units as defined in the Nomenclature of Units for Territorial Statistics – NUTS 2 voivodeships and NUTS 4 poviats. Dimensions describing the position of these objects in multidimensional space are identical to the values of indices defined for each moment in time. Indices express the specific characteristics of the process of socio-economic development, covering the following aspects: population and settlement, labour market and economic structure, technical infrastructure and spatial accessibility, financial situation and the level of affluence, innovative economy and business environment, and in general systemic approach, too. In our research a Z-score index and k-smooth cluster analysis were applied. Z-score index was used to determine an average standardised value of all indices (characteristics describing the position of objects). It is thus a synthetic metaindicator measuring the socio-economic development level for each territorial unit. Based on the Z-score index values, territorial units were then classified with the use of k-smooth cluster analysis. This method helped identify clusters of similar Z-score values with regard to the lowest possible variance of index values in each cluster (Morrison 1990, Szymła 2000). The econometric analysis was employed to distinguish three groups of objects: the ones having

- the relatively lowest values – identified as stagnation areas,
- average values, and
- the relatively highest values – identified as growth areas.

The analysis covered the time period between 2000 and 2010, and included all data for these territorial units made available by the Central Statistical Office's Local Database.

The research procedure was composed of three basic steps: selection, clustering and classification. At the stage of selection, characteristics describing the socio-economic development were scrutinised with autocorrelation procedure and submitted to a content-related assessment of their merit. The first assumption underlying this stage was to eliminate all characteristics that displayed the autocorrelation of  $r^2 > 0.5$  in the period of at least seven years. However, all characteristics that were to be removed from further analysis were also assessed in terms of

their actual content-related merit for conditioning the socio-economic development process and their meaning in the process in a general approach. The result of content-related assessment was therefore deciding in the selection procedure. The second assumption underlying this stage was to eliminate at least 50% of the initial number of characteristics in the database. Clustering the objects – territorial units – led us to divide them into three groups according to the relatively high similarity with k-cluster analysis. At this stage four methods were tested: standardised k-clustering of mode values, smooth k-clustering of Z-score index, smooth k-clustering of the first three PCA-values and smooth k-clustering of Z-score index with averaged clusters' thresholds applied for all 11 observations in the period of 2000–2010. With regard to various advantages and disadvantages of these methods, a smooth k-clustering of Z-score index with averaged clusters' thresholds was finally chosen for the purpose of further research (Churski – Hauke 2012). Classification of the objects (territorial units) rested upon the interpretation of three groups (clusters) in the context of stagnation and growth areas.

The research has been conducted separately for each level of analysis: regional and subregional, and the results obtained are illustrated in Figures 1 and 2.

On the basis of the regional approach the following conclusions can be drawn:

- Mazovia (Mazowieckie Voivodeship with the capital city of Warsaw) is a single object clustered in the group corresponding to growth areas, and it did not change during the analysed period of 2000–2010.
- The cluster of regions characterised by the lowest development level is not diverse; these regions are located at the eastern border, i.e. the poorest area of Poland, but also at the western border, Lubuskie Voivodeship, close to the EU, however, despite their convenient location they do not benefit from the positive impacts of the Berlin and Poznań agglomerations. In most cases regions located at the Eastern border belong to stagnation areas from particular aspects, implying a relatively low efficiency in using structural funds allocated to them.
- Growth and stagnation areas are mostly characterised by various levels of financial possibilities and innovation. Diversification of the labour market and economic structure or the availability of technical infrastructure seem to have a relatively lower impact.
- The highest polarisation at regional level was found in the financial situation and the level of affluence: the capital of Mazovia region in 2000–2010 and Lower Silesia (Dolnoslaskie Voivodeship) only in 2010.
- The most balanced spatial distribution was noted in the case of population and settlement.

The regional approach led to the following conclusions:

- Clustering of growth areas is the least numerous and includes three categories of units (poviats). To the first category belong cities and towns classified as urban poviats. The second category includes “resource-rich poviats” with large plants of mining industry and characterised by the best financial situation among all units in Poland. To third category belong poviats with profitable enterprises, operating primarily in the chemical industry.
- Complementary to these categories are land poviats located in the direct neighbourhood of urban poviats, together constituting metropolitan areas.

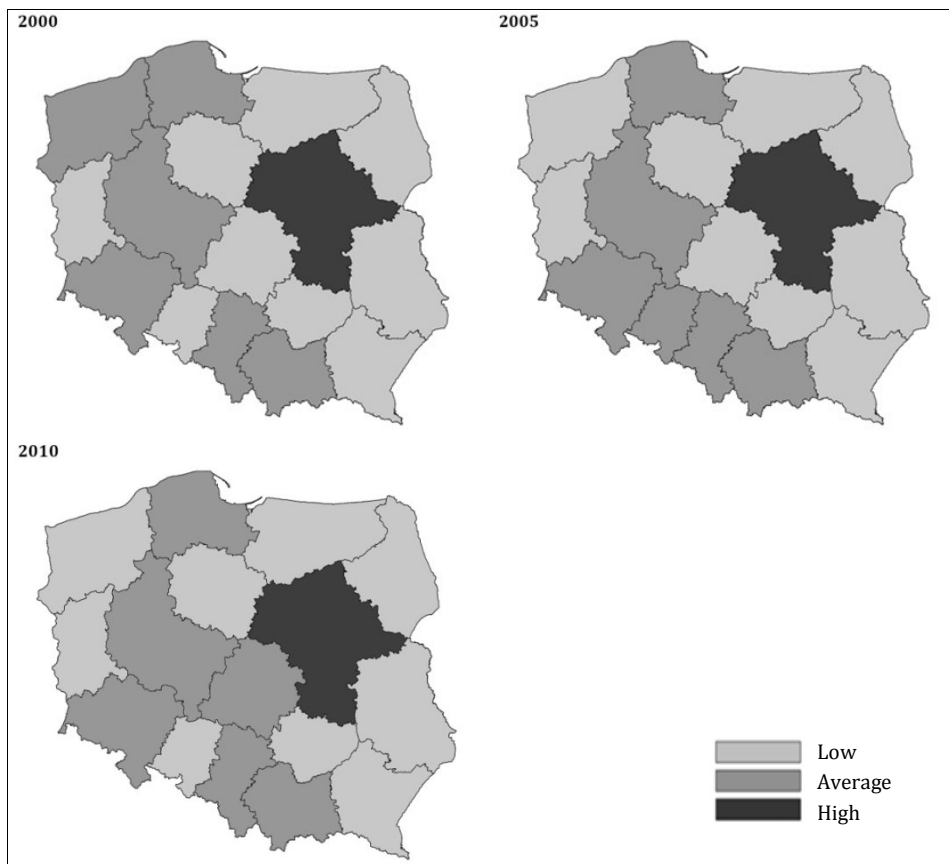


Figure 1. Socio-economic differences at regional level in Poland in 2000–2010  
Source: Authors' compilation.

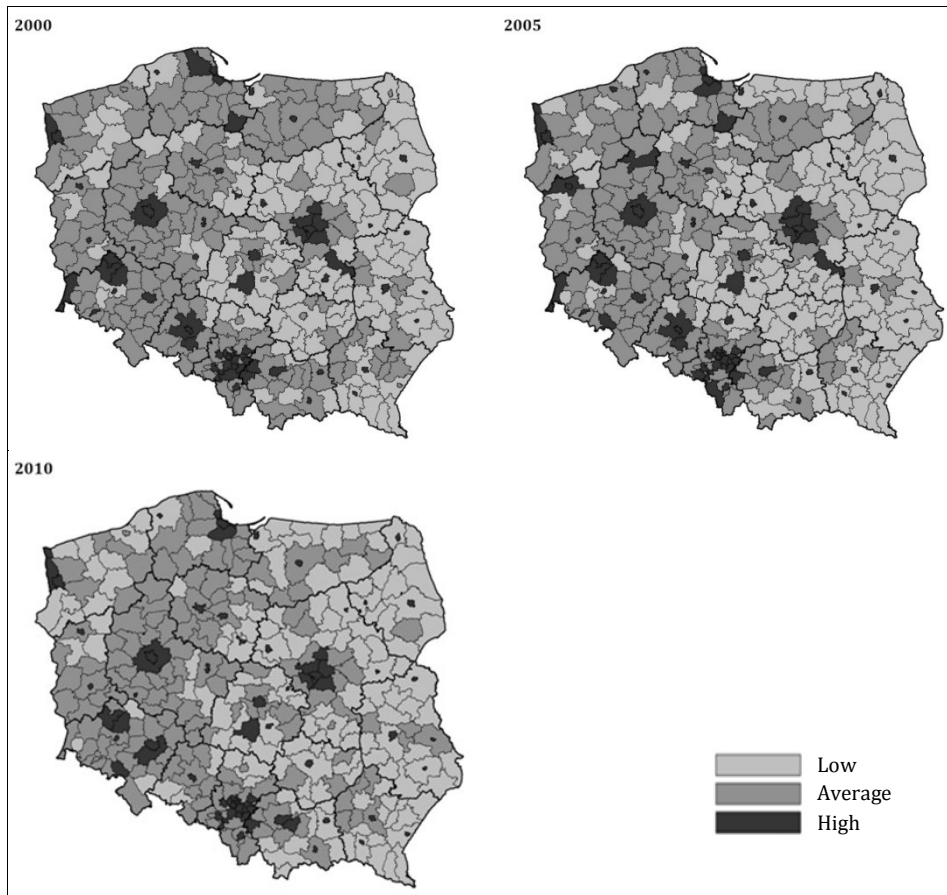


Figure 2. Socio-economic differences at subregional level in Poland in 2000–2010

Source: Authors' compilation.

- Clustering of economic stagnation areas is far more numerous than that of growth areas. In this group land poviats located especially in the eastern and central part of Poland dominate. The spatial distribution reflects historical boundaries (political boundaries from 1815–1919), which clearly divide the socio-economic space of Poland even today. Moreover, this cluster also includes poviats having suffered from deep structural problems resulting from: a high share of formerly (in the communist era) state-owned agricultural farms (the north-western and north-eastern parts of Poland), dispersed and small agricultural farms (poviats in the eastern part of Poland), and monofunctional labour markets, because the local economy was based on one enterprise and thus depended on its situation, and also bankruptcies

impacting the socio-economic development of the whole area (occurring all over the country).

- Urban poviats belong to the cluster of growth areas from all the analysed development aspects. The influence exerted on the development of their economic background is clearly visible in the aspects of population and settlement as well as labour market and economic structure.
- There are various stagnation areas depending on the development aspect concerned. Their largest number was found when their financial situation and level of affluence was measured, whereas the lowest when their combined situation in population, settlement, labour market and economic structure was examined (a high share of these units displayed average development levels).

### **Conclusions and Recommendations**

The outcomes of this research allow us to make the following conclusions and recommendations for the future (2014–2020) cohesion policy in Poland:

- (a) Interventions used so far in the framework of regional policy in Poland have led to rather ambiguous development effects at both regional and subregional levels (Borowczak – Churski – Perdał 2012).
- (b) All Polish regions, whether they are growth or stagnation regions, are identified in the EU cohesion policy 2014–2020 as lagging or phasing-in (capital of Mazovia) regions, requiring development incentives and levelling out the discrepancies.
- (c) Content-related orientation of actions should be based on identified differences in development impacted by particular aspects:
  - Strong concentration of means for improving networks as well as the scope and ranges of functional linkages both at regional and subregional levels, which will probably strengthen spill-over effects, now only observed in the direct neighborhood of the biggest agglomerations.
  - Among the goals, including the 11 thematic objectives of cohesion policy 2014–2020, special attention should be paid to improving the level of innovativeness and developing the business environment, as these factors highly differentiate the economic space of Poland. Attention should also be paid to developing the financial support for entrepreneurs, as it is substantial for them under the conditions of growing indebtedness of the public finance sector and their decreasing absorption potential. The use of non-grant, i.e. recyclable assistance is strongly recommended to boost the effectiveness of this measure.
  - It is recommended to improve intervention directed at human capital, as it has not brought effective results, which is confirmed by the slightly



- differentiated situation in the area of population, settlement, labour market and economic structure.
- (d) Spatial orientation of actions should be based on conclusions drawn from the spatial distribution of socio-economic development at regional and subregional levels:
- maintaining compensation support for regions in East Poland;
  - intensifying support for big urban agglomerations and also subregional centres in order to strengthen their development capacities with special attention to broadening the functional linkages;
  - supporting rural areas threatened by permanent marginalisation, enabling them to develop endogenous capitals as a base for their multifunctional development on one hand and to shape their linkages with growth areas on the other.
- (e) New instruments of cohesion policy envisioned for 2014–2020, and especially integrated territorial investments, may bring a relevant contribution to shaping the functional linkages between growth and stagnation areas, while creating efficient conditions for a polarisation-diffusion model from a bottom-up perspective.

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# HISTORY AND PRESENT OF REGIONAL AND MULTI-LEVEL GOVERNANCE IN SLOVAKIA

*Jan Buček*

## **Introduction**

More than ten years have passed since the Slovakian public administration reform (2002), and our regions look back to a past of fifteen years from their 1996 demarcation. Such a time-span allows us to pose questions whether our preliminary expectations have been fulfilled. Could regional-level governance contribute to the development of the respective regions, mitigating the deep social and economic disparities among them? What is the current political status of regions and regional governance in Slovakia, and what do citizens think about it? If we just take a look at the main social and economic indicators or the extremely low electoral participation levels, we could find unsatisfactory answers to both questions. The development of regions and regional institutions has not taken place without contradictions. Though certain experiences signify that the importance of regions and regional governance has been growing, their role in the promotion of regional development, their position in political life, and especially their recognition by the citizens is clearly insufficient (based on e.g. Buček 2011).

Our paper investigates the possible roots of these problems, aiming to find solutions. Our approach could be characterised by the combination of temporal, spatial and institutional aspects. First, we focus on the stability, spatial dimension and horizontal linkages of regional governance based on considerations of old and new regionalism, regional space, and issues of regionalisation as presented for example by Paasi (2011), Griffin (2012), or Zimmerbauer and Paasi (2013). Secondly, we address the issue of multi-level governance, that is, the vertical connections concerning primarily the influence of other levels of public administration on regional bodies. As in the case of many other countries, it is questionable whether we can talk about a “layer cake” or a “marble cake” organisation of public administration (see e.g. Hooghe – Marks 2003, Entwistle et al. 2012), and to what extent vertical relations in governance develop in favour of regional self-governance.

We argue that the inappropriate spatial demarcation of regions causes difficulties both in the healthy development of horizontal governance linkages and in the

identification of citizens and institutional entities with their regions, leading to low activity and participation at the regional level. The institutional vacuum between the current eight regions and the small local governments call for revision, in the course of which the traditional territorial structure should be taken into account.

Finally, we emphasise that the role and position of the regional level is under permanent pressure by the better established and more influential national and local levels. Although the relevance of the region in governance is seemingly growing, in practice it continuously faces “opposing forces”. The initial effort to build a layered model of quasi-autonomous levels of government without strong vertical links could not make its way through. Though formally regions are self-governing, the “layer cake” is strongly supplemented by indirect multi-level governance.

### **The “Dual” and “Layer Cake” Model of Regional Self-governance**

Regions in Slovakia would represent the typical meso-level in the spatial structure of governance. However, in spite of the general effort to build a governmental structure combining a “dual” (separate lines of state administration and self-government at the same territorial level) and a “layer cake” model (vertically separated levels of governance with clear responsibilities), the role and position of regions is under permanent pressure of the better established and more influential levels of government. Both local governments and the central state have strong participation in regional-level decisions through their representatives in the regional bodies, and the central state is reluctant to delegate further powers and resources to the spatial meso-level.

After the change of regime, first a clear preference was given to the dual model of public administration, introducing two parallel but separate lines at the same territorial level – those of the state administration and the formally self-governing regions. In the early years of the state building process in the 1990s, state administration had dominant influence, and also the formation of the meso-level was determined by state centrist views instead of a vision of partly independent regions. Later another key approach emerged, to build a vertical governmental structure, in principle as a “layer cake”, at three levels – central, regional, and local. However, certain weaknesses of the regional level compared to the other two have been identified already before the introduction of regional self-governing institutions. The lack of constitutional background of the regional level had to be changed by an amendment to the Slovak Constitution (in February 2001). As a result, legally speaking the region was granted the same independence as the settlements, having both sub-national levels defined as separate legal entities, not accountable to each other. This attempt to strictly distribute powers and resources among the

territorial levels pointed towards giving preference to a “layer cake” model of governance. On the other hand, it has to be underlined that while state administration at the regional level started operation already in 1996, regional self-governing institutions were introduced only in 2002 and, as “latecomers”, they have to fight for consolidating their positions within the system of power distribution.

Due to their strong identification with the functioning of the communist regime, former regions were ceased immediately after 1989. Though their reconstitution was under constant debate, the region was established as a level of political and territorial organisation of the country only in 1996, and only with state administration bodies (during the government of V. Mečiar). This meant the establishment of eight Regional Offices of state administration with powers deconcentrated by the state. However, after a short period they started to lose their positions and operated as offices of the general state administration, or as offices of the so-called “specialised” state administration. From 2002 on, they lost their importance step by step due to the transfer of powers in favour of the newly established regional self-governing bodies, keeping only residual functions (business registration, civil protection, crisis management, general state administration) up to 2004. Then, “Regional Offices” (Slov. Krajský úrad) were replaced by so-called “Regional Offices of the general state administration”, partly because there had been more or less parallel networks of regional offices of “specialised” state administration (subordinated to respective ministries). However, the limited scope of powers led to their full cessation in 2007, while a set of specialised regional offices survived.

The latest change concerning state administration at the regional level started to be introduced in January 2013. Existing regional offices of the specialised state administration were partly integrated, but mostly closed. To simplify the structure, their powers have been generally transferred to territorial offices in the cities. These changes concerned 64 regional offices mostly with reduced powers in education, environment management, military administration, land administration or forestry. Reorganisation is expected to generate savings of about EUR 700 million between 2013 and 2016, increasing governance efficiency also by integrating the previously fragmented specialised offices of territorial-level state administration. The nature of this reorganisation influenced the perception of regions and regional self-governance, too. On the one hand, the retreat of regional state administration is good for the independence of regional bodies which have become dominant actors at the regional level, but on the other hand it may result in less respect to the region at least among certain groups of actors at the central political level.

Regional self-governing bodies started operation in 2002, following the election of their representatives in 2001. The first period (2002–2005) of operation could be interpreted as “the beginnings”, focusing mainly on issues of establishment (buildings, staff, property), coping with the transfer of powers (mostly from the

regional state administration), and circumscribed by the missing autonomy in financial matters. The fight for respect, and building the image of an efficient level of government were left to later periods.

After the first electoral term (from 2006), the region was increasingly gaining importance both in the political sphere and within society. This was expressed in the stabilisation of powers, the completion of fiscal decentralisation, and a more intensive policy involvement. Directly elected regional chairpersons have been much more active in the media and in solving problems related to sensitive political issues. Regions have started to be perceived as an attractive field of political action. Central-level politicians (members of parliament, ministers, deputy ministers) as well as local political representatives started to appreciate this level of government much higher, especially since the second term (after the decentralisation of powers and fiscal decentralisation). Regional councils have become attractive not only for numerous mayors, vice-mayors, and regional leaders of the political parties, but also for “political strata” previously focusing only on central-level policy-making. The post of regional chairperson (directly elected chair of a region) attracted former ministers, members of parliament, or mayors of the largest Slovak cities. In fact, all regional chairpersons elected in 2009 had experiences at other levels of the public administration and policy-making. Five out of eight had been members of parliament, one had experiences as the mayor of the second largest Slovak city (Košice), and the rest had been serving as regional chairpersons in earlier electoral periods (Buček 2011). However, neither the representatives of local governments are missing: Krivý (2010) evaluated the composition of all newly elected regional councils (2009 elections), and found 26.7% of the mayors among the members (and also 4.4% of the members of parliament).

In contrast to the above-presented evolution of regional independence, the dominance of the central level in political life and low respect for regionalisation are visible in the existence of only one single electoral district for parliamentary elections. It seriously limits the possibility of deeper identification with regions as politically influential entities. It seems now hard to imagine any further change, e.g. establishing 8 or even more electoral districts for parliamentary elections, or at least four electoral districts as was the case at the beginning of the 1990s. The missing direct representation of regions in country-level political decisions limits the representation of regional social and political interests as well.

### **“Old” and “New” Regions – the Absence of Continuity**

Regions as territorial units and regional governments were subjects to constant “destabilisation” in 20th-century Slovakia. Following the terminology of Zimmerbauer and Paasi (2013), the numerous changes in the demarcation of regions and in the roles of their institutions could be interpreted as frequent “de-institutionalisation” of the meso-level, questioning the substance and sense of regional-level governance, and leading to unstable relations between regions, their governments, and the citizens. Especially since the beginning of the communist period, regional institutions have been strongly influenced by political decisions, based on prevailing economic and ideological assumptions. Regions were split as well as integrated into different units on several occasions, with changing borders and radical institutional restructuring. Issues like regional identity, regional consciousness or citizens’ participation as factors of economic success of a region and potentials for widespread activism and mobilisation were set aside. The spatial, complex geographical aspects of regions became downgraded with a focus on resources and powers, resulting in simplified notions of regional development and competitiveness.

Thus in the case of Slovakia we can identify discontinuity between “old” and “new” regionalism. Traditional, historical regions that functioned until the formation of Czechoslovakia could be regarded as institutions of “old regionalism”. Not even the tempests of history could ruin the deeply rooted regional structure and consciousness, especially in certain parts of the country. Traditional regions as cultural regions can still be found in Slovakia, following more or less the old regional borders (see e.g. Beňušková 2005, presenting 17 regions). As a contrast, by “new regionalism” we mean the unstable variants of regional division and structures applied during the 20th century, whether we speak of the large regions of the communist era or the current regional structure. We link new regionalism to “regional spaces”, economic growth and competitiveness. Old regionalism is closer to “spaces of regionalism”, bottom-up formation of regions, activism and mobilisation, a widely perceived regional culture and regional consciousness. We suppose that this division in the regional approach can partially explain the slowly growing efficiency and respect of regional self-governance, the moderate participation of citizens and weaker social identification with the regions.

As regards the historical antecedents, on the territory of current Slovakia there had been a long-lasting tradition of meso-level governance. Since the Middle Ages, many forms of public administration had existed on the regional level until the formation of Czechoslovakia. Nevertheless, we can find a quite solid territorial structure of 17–21 regions. During the 20th century this level of government faced many challenges, having to adapt to various goals and external influences. Under

the communist regime, regions were strongly linked to central control over the territories and citizens, expressed by the dominant role of the communist party in the regions. The so-called “large regions” (three, and later four regional units in Slovakia from 1960 to 1990) were in fact artificial administrative units, playing important economic roles strongly incorporated into the central planning system, subordinated to the socialist economic planning logic, without any stronger link to the traditional regional division. They were internally diversified, with inherent conflicts between sub-regions and their leading cities. This subordination of regions to dominant political goals was the main reason why regional-level governments were ceased immediately after 1989.

The unclear fate of meso-level governance in Slovakia during the first years of post-communist transition was related to various factors. Contrary to official declarations, the strong political interests and capacities to form a meso-level political-administrative system were missing after 1989. Political parties were “young”, without clear structures of regional representation. Efforts were focused on two major and stable levels of political and administrative organisation: the central and the local levels. Public services delivery and administration were easier to organise at the local (area, district, settlement) and the central levels as natural fields of political action and the mobilisation of citizens. These two levels could play a much more important role in the success of post-socialist transition than the regional one. Moreover, to eliminate uncertainties of the transition process (e.g. pushing the proponents of the previous regime into the background), the simplest way was the immediate termination of regional bodies after 1989. Though it was accompanied by proclaimed intention to create new regional institutions later, at the very early years of transition the regional level had no strong political advocates. Having had bad experiences with subordination to and dependence on higher levels of administration including regions during the communist era, neither local governments happened to be interested in regionalisation. The picture was complicated further by the consensus that the new regional structure should differ from the previous one, leading to a lasting debate on demarcation. The decision was finally taken in 1996, when less space was provided to “voices from below” and to the political opposition supporting a higher number of regions.

Based on the experiences during the communist regime, we could expect a turning-back to “old” regionalism after 1989. There emerged a quite wide recognition of traditional regions, resulting in two attempts to exploit important advantages of old regionalism. The first one appeared logically already at the beginning of 1990s, however, the proposal for territorial division closer to traditional regions remained as an alternative that did not survive the frequent political changes at the central level. The traditionalist, conservative and at that time influential Christian Democratic Party (then led by Prime Minister Ján Čarnogurský)



decided to initiate preparatory works on a proposal with 16 self-governing regions (and 77 districts serving state administration). It was supported also by the Union of Towns (an association of larger cities), however, the position of the more influential Association of Towns and Communities was not so equivocal. Arguments for and against the proposal were mostly geographical and historical in nature, having been inspired by traditional and cultural regions. The short-lived alternative lost political support after 1992.

The second attempt to apply a territorial administrative division closer to “old” regions was even stronger. At the turn of millennium, a proposal came to light in the framework of the public administration reform executed by the first government of Prime Minister Mikuláš Dzurinda (1998–2002), aiming to establish 12 regions as key actors in public administration. Considerable efforts were dedicated to build a wide consensus and to reach an acceptable compromise on the issue (especially thanks to the responsible Government Plenipotentiary V. Nižňanský), also within the regions and with representatives of the local level. Unfortunately, though this “territorial” part of the reform package attained wide support, it did not pass in the Slovak Parliament. Finally, due to the loss of political support of a part of the then governing coalition, a large-scale public administration reform became adopted without any changes in the regional division of the country, with the chances for getting closer to the “old” regions lost probably for a long time.

As a result of developments in the post-communist period, we can consider the spatial organisation of governance in Slovakia unbalanced, with an obvious functional vacuum between fragmented local governments and the eight regions. Neither the position of other traditional (e.g. districts) and functional territorial levels (e.g. urban regions) is clear. The weakness of functional territorial units seems problematic especially from a regional development and regional governance point of view. In areas without stronger urban centres and sufficient capacities, the absence of certain regional bodies has led to inefficient operation.

It seems that proponents of the adopted regional structure did not take into account the possible consequences of the deviation from deeply rooted regional traditions. The role of identity, memory, roots, developed linkages and perception have been underestimated for decades, and they still are, although with a better perspective for positive change. Restructuring brought fundamental institutional changes and the weakening of the earlier framework and relationships. To a certain extent we can accept that this was “part of the game”, that is, there was real interest to eliminate the “socialist” regions and their institutions in order to “de-throne” those who used them as a source of power, while it was neglected that “tacit values of old regionalism” and continuity could be useful in future, in the next stages of regional development.

## Conclusions

Although there is a strong tradition of and respect for the territorial meso-level in Slovakia, recent reforms have underestimated some of its important aspects, primarily regional identity and consciousness, and the role of regional governing bodies in the development of the region and in mobilising the citizens. It seems that these functions are considered as ones that cannot be helpful in progress. Instead, a modernisation logic prevailed – a new region should be economically strong, competitive, large enough, and led by urban centres. This also means that traditional regions have no important integrating institutions. They have been fragmented into smaller units, and have remained only as mental borders in the mind of citizens. In fact, the current regional structure rather serves state-level policy-making than local or regional interests and the related tradition.

The central state dominates over the regions, and limits their scope of action. The political structure is too centralised, political parties are not really regionalised. Regional functions have been destabilised, “de-institutionalised”, rendering current regions more or less artificial constructions. The position of regions could be strengthened e.g. by the reintroduction of regional electoral districts at the national parliamentary elections. Without such changes, decades would pass without any real progress in regionalisation, and regional identification. Probably a model, or elements of a model, somewhat closer to the old regions would still have benefits.

Present Slovak regions, especially in representing the territorial division of the country, constitute one of the most solid and still working “monuments” of the government of the controversial prime minister, Vladimír Mečiar. Their borders have not been modified by later reforms, mainly owing to the fragmentation of political space and to the reluctance to reopen the debate on demarcation. Unfortunately, the reform of Dzurinda’s government did not pass, and now we can hardly expect any quick change. A few years ago arguments against a regional reform were based on the already adopted regional development documents necessary for the absorption of EU funds, now the lack of resources and capacity resulting from the financial and debt crisis are referred to as main obstacles. Nevertheless, the current regional structure and the mechanisms of regional governance have to be reconsidered and adjusted in the future. At least a few steps should be taken, among them filling the gap between local governments and regional-level administration. This could be carried out by the formation of larger local units (e.g. by amalgamation), or by informal institutional actors. Certain traditions are still alive in existing regional associations of towns and communities. We look forward to a future attempt to search the possibilities of a successful compromise on the integration of specific aspects of old and new regionalism in Slovakia.

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## **FRAGMENTED STRUCTURE OF MUNICIPALITIES IN THE CZECH REPUBLIC – AN ADVANTAGE OR A PROBLEM?**

*Michal Illner*

Compared with many other European countries, the Czech Republic's settlement structure is highly fragmented, distinguishing itself by a particularly large proportion of small settlement units – villages and small towns more-or-less evenly distributed over the country's territory. The fragmented settlement structure plus further factors to be mentioned later resulted in a highly fragmented structure of local government. In a country with 10.5 million inhabitants there existed (as of 1.1.2012) 6251 municipalities of which more than one half (3485) had fewer than 500 inhabitants (Malý lexikon obcí České republiky 2012). Among the EU member states only in Cyprus was the average population size of a municipality (1521 in 2007) smaller than in the Czech Republic (1675 persons). There are two other countries that approached this figure: France with 1754 and Slovakia with 1872 average population in their municipalities (Loughlin – Hendriks – Lidström 2011, Appendix 1, p. 743).

The Czech municipalities consist of altogether 15,067 local parts, mostly spatially separated localities, on average 2.4 local parts per municipality. All municipalities – irrespective of their size – are self-administering entities with their own elected municipal councils and mayors, they own property and budgets, and enjoy other privileges guaranteed for them by the Constitution of the Czech Republic and by further legislation (Table 1).

Besides geographic and historical circumstances, the present fragmented structure of municipalities is an unplanned by-product of the democratisation of Czechoslovakia after the collapse of the communist regime in 1989. Namely, there was a spontaneous reaction to perceived injustices caused under that regime to smaller localities by their forced administrative amalgamations in 1950–1960 and then again in the 1970s and early 1980s. As a consequence of those mostly forced measures the number of municipalities dropped by 25% between 1950 and 1961 and then by another 53% until 1989.

After the demise of the old regime a reverse process took place and the number of municipalities increased by one half during the years 1989–1993 (from 4120

Table 1. Size structure of municipalities in the Czech Republic, 2012

Population size categories	Municipalities		Population	
	N	%	N	%
– 199	1,468	23.5	181,851	1.7
200 – 499	2,017	32.3	658,207	6.3
500 – 999	1,366	21.8	962,918	9.2
1,000 – 1,999	727	11.6	1,017,529	9.7
2,000 – 4,999	400	6.3	1,215,137	11.6
5,000 – 9,999	142	2.3	971,336	9.2
10,000 – 19,999	68	1.1	954,676	9.1
20,000 – 49,999	42	0.7	1,217,062	11.6
50,000 – 99,999	16	0.3	1,137,171	10.8
100,000 –	5	0.1	2,189,558	20.8
Total	6,251	100.0	10,505,445	100.0

Source: Malý lexikon obcí ČR 2012, Český statistický úřad 2012 [Small Lexicon of Municipalities in the Czech Republic 2012, Czech Statistical Office 2012].

units in 1989 to 6196 in 1993), mostly due to the disintegration of formerly amalgamated communities. The process of disintegration continued at a declining rate until 2001 when it came to a standstill: 337 new municipalities were established in 1992, 104 in 1993 and 36 in 1994, after which the number of municipalities has stabilised at about 6250, with slight oscillations around this figure (see Table 2). This situation has persisted until the present time. An overwhelming majority of the new municipalities were small communities – about half of them with fewer than 200 inhabitants (Vajdová – Čermák 2006, p. 32).

This fragmentation was a spontaneous process driven mostly by local ambitions to make up for the injustices mentioned above and was a component of the general process of rectifying the political and administrative damages caused by the communist regime. In late 1989 and most of 1990, when new municipalities mushroomed, splitting was a more-or-less unregulated process. The chance to restore their administrative and political independence of which they had been deprived in the previous decades activated local initiatives and civic participation in many villages. Other motives for separation were a desire to escape the real or imagined discrimination the seceding communities had experienced as parts of the central villages or townships, locally specific personal tensions, traditional antipathies between neighboring settlements and, rarely, also an expectation of economic gain (Illner 2010a, pp. 221–223). The symbolic value of the administrative and political autonomy of their own village or township, however small it was, often appeared more important to their inhabitants than the potential benefits of being part of a larger and stronger municipality. The *small is beautiful* attitude

Table 2. Number of municipalities in the Czech Republic, 1950–2012

Year	Number of municipalities
1950	11,459
1961	8,726
1970	7,511
1980	4,778
1989	4,120
1991	5,768
1993	6,196
1995	6,232
2001	6,258
2007	6,249
2010	6,250
2012	6,251

Source: Czech (Czechoslovak) Statistical Office.

frequently prevailed over the *economy of scale* logic promoted by the top-down local government reforms in 1970–1980s.

Let me illustrate this (now already historical) development by two real life examples. The first one describes the damages village XZ suffered by its forced merger with a nearby township in 1975, the instability of this merger and its eventual abolition. The other example shows the perseverance of the mayor of ZY in defending his village's autonomy against the threat of a forced administrative amalgamation with neighboring municipalities by entering into co-operative relations with them.

XZ is a village in Central Bohemia. According to historical records it was founded in the Middle Ages and, in spite of many turbulences, has survived until the present time. After the late 19th-century political and administrative reform of local administration in Bohemia XZ became a self-administering municipality with its own elected municipal council, mayor, budget and responsibilities. This situation, although modified several times, lasted for the next hundred years until the 1970s. At that time, still partly an agricultural place, XZ had about 450 inhabitants and a relatively rich infrastructure: a nursery, four classes of an elementary school, a municipal library, a shop, a pub with a dancing room used also for meetings and cinema performances, a fire brigade, a football team and clubs of hunters and gardeners. People in XZ were proud of their village's history which was carefully recorded in the municipality's chronicle.

Then, in 1975, as a consequence of the reform which introduced the *central places system* in Czechoslovakia, XZ was deprived of its autonomy and declared to be a *local part* of a nearby township with a population of about 2500. It lost its

local government and, instead of it, was represented by just two deputies in the township's local authority. Over time, the cinema performances, the library, the elementary school had been closed in XZ and its customers and schoolchildren had to rely on the township's facilities. Children had to be bussed to the school there. Further population growth, housing and infrastructure development took place mainly in the central township whose position was purposely strengthened at the expense of its stagnating peripheral local parts.

Unsurprisingly, inhabitants of XZ, dissatisfied with their situation, availed themselves of the "revolutionary" atmosphere of 1989–1990 and seceded from the township, renewing the administrative and political independence of their village. Similar development took place at that time in hundreds of other municipalities in the Czech Republic (see Table 2), sanctioned in autumn 1990 by a permissive clause on splitting of municipalities in the new democratic Law on Municipalities<sup>1</sup> and its liberal application.

The second case illustrates the perseverance and tenacity of a mayor in another small village (acronym ZY), at a distance of some 60 kilometres north-east of Prague, in defending the village's survival as an independent political and administrative entity. ZY, with an origin dating back to the 16th century, had a stable population of 310. Although a small place, it was spared – as a seat of a communist era collective farm – amalgamation with the neighbouring villages. A majority of its active citizens commute to work in a nearby town, the rest staff local services, work in a private farm and in a small local industrial enterprise. There are two pubs, a petrol station and a few shops along the main road which cuts the village into two halves. Similarly to XZ, there is a nursery, a fire brigade, a soccer team and a hunters' club. The elementary school was closed ten years ago, children commute to a nearby town. Every year a number of social events took place – dancing parties, discos, a fair, Christmas and Easter Monday ceremonies, sports competitions.

The municipal council has five members, except for the mayor mostly young people. The strongest and most influential local personality is the mayor himself on whose shoulders rests the main burden of running the local government and its agenda. An energetic man in his fifties, he manages to combine his political role with a full-time job in an engineering firm at another locality and with running a small business of his own. He spends one afternoon weekly in his small office located in the village's firestation to attend the increasingly voluminous mayoral administrative agenda, most of it imposed on small local governments by the state bureaucracy, failing to differentiate between small and large municipalities. Assisted only by an administrative assistant for a few hours a week, the mayor

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<sup>1</sup>Law No. 367/1990 CoL. on Municipalities (The Municipal System), substituted in the year 2000 by the still valid Law 128/2000 Col., many times amended since then.

admirably manages to cope with these responsibilities requiring sometimes specialised knowledge usually available only to administrative officers of larger municipalities. On weekends he talks to local people, listens to their proposals and complaints and takes part in local events.

In spite of this stressing situation, the mayor, assisted by several young councillors, enjoys his role, bursts with activity and is a source of ideas and initiatives stimulating and animating local life. When asked about the possibility of merging his village with adjacent communities to establish a larger unit which would have larger budget at its disposal and could hire a professional secretary, the mayor resolutely rejected such an option.

*"I wholly disagree with the amalgamation of small municipalities with larger units – some kind of central places. This would happen at the expense of small municipalities – money and development would be channelled only to such central places, while the small villages will be neglected. Instead, I support voluntary co-operation of independent communities in implementing mutually beneficial projects."*

Preservation of the political and administrative autonomy of his community was a priority not just for him, but also for mayors of the neighbouring communities. Instead of a merger they joined forces on an ad hoc basis to finance and operate joint infrastructural projects: water supply, filtration and sewage systems and a communal dump.

The two above-mentioned cases illustrate the importance Czech villages, even if small ones, attach to their political and administrative independence, regardless of the fact that such independence can only be relative in contemporary society and has to be paid for by various disadvantages. Geodemographic, historical and cultural factors – such as the country's dispersed settlement structure, Czech society's rural, petit-bourgeois and provincial roots, the rural population's ingrained distrust of *those from elsewhere* and of townspeople in general, particularly of inhabitants of the capital, and feuds with neighbouring communities – may be part of the explanation.

Surveys and other analyses in 2009–2011<sup>2</sup> confirmed the notorious fact that local politics in the Czech Republic's small rural municipalities is different from that in the large ones. It is less party-oriented, citizens' political participation is more intensive, particularly as regards their turnout at local as well as parliamentary elections, people tend to trust local politicians and to be more satisfied with

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<sup>2</sup>An intensive longitudinal participant observation of the social and political life in three small rural municipalities combined with repeated interviews of their mayors and several councillors. Interviews of mayors and councillors in other nine small municipalities. A standardised questionnaire survey of mayors in 209 small municipalities. A questionnaire survey of residents in twelve villages. Analysis of statistical data available from the Czech Statistical Office.



them. The relationship between citizens and local governments is more immediate and the legitimacy of local politicians is typically based more on their integration within local community and their social networks than on their performance and party membership (Bernard et al. 2011, p. 65).

Yet, in the second half of the 1990s some adverse features of the extremely fragmented territorial structure of local governments in the Czech Republic became visible and started attracting criticism. Due to insufficient human and financial resources and lack of administrative expertise, some of the very small renewed municipalities found it difficult to function properly as administrative, economic and political units. The primary concerns related to their economic sustainability, administrative efficiency and the quality of their financial management. Some suffered also from an insufficient human potential: the inability to elect or to maintain the necessary minimum number of local government members.

Under these circumstances the national government looked for a policy which would permit to move some of the local agenda of small municipalities to a higher level without infringing upon their political independence. The possibility of establishing and institutionalising intermunicipal co-operative structures was incorporated into the Law on Municipalities in 1992. Municipalities got empowered to cluster (without losing their administrative and political independence), to form voluntary *Unions of Municipalities* with the aim of protecting and promoting their joint interests. It was expected that the Unions could be the first step in a bottom-up process of developing tighter and more permanent intermunicipal co-operative structures and thus reducing the fragmentation of local governments. For territories of the individual unions the term *micro-regions* was coined. The project drew great attention: 474 Unions were registered in 2005 according to the Ministry of Interior, involving altogether 4680 municipalities, more than 70% of their total number (Illner 2010b, p. 229).

Municipalities appreciated the voluntary character and the flexibility of the Unions and also that by entering them they did not have to sacrifice any of their independent powers. Yet, the Unions' attractivity was seriously diminished by scarcity of financial means necessary for supporting their activities. Although legitimate recipients of potential financial support from different sources, most Unions had to rely on modest membership fees contributed by their members. As most of them were small municipalities with small budgets, such contributions were usually modest, allowing to support only small projects. There was no scheme that would have made financing the projects from the state budget possible (Vajdová – Čermák – Illner 2006, Illner 2006, pp. 60–61, Bernard et al. 2011). Thus, in ten years' retrospect, the Unions were only partial success and they did not solve the problems brought about by fragmentation.

Since 1993 the number of municipalities (around 6250) and the proportion of those with less than 500 inhabitants (around 60%) have been more or less stable (see Table 1). Also the proportion of urban population in the Czech Republic (70%) has not changed much during the last years.<sup>3</sup> Apparently, there have been factors at work stabilising the scattered structure of municipalities, factors which were stronger than the potential advantages of large amalgamated units with their more substantial economic, administrative and political capacity, but at greater distance from the local authority and the citizens; units which would disregard the historically anchored and defended municipal structures. In spite of their fragmented structure, municipal governments in their present form and within their present territorial delimitation have been repeatedly appreciated by respondents in the national representative opinion polls which are the Czech Republic's second most trustworthy political institution, ranking better than the parliament and the national and regional governments.<sup>4</sup> Such strong political and social capital would be risky to waste.

Promoting nowadays a straightforward consolidation of local governments in the Czech Republic by fiat – for example, by a reform similar to the one implemented recently in the German Land Sachsen-Anhalt – would be politically impassable, bringing more damage than benefit. The memory of forced consolidation of municipalities in the 1970s–1980s is still alive.<sup>5</sup>

Instead of consolidating territorial self-governments, the state prevented further fragmentation by three provisions: (1) by tightening the rules applying to separation of municipalities<sup>6</sup>, (2) by making it easier for municipalities to merge voluntarily or to associate on a temporary or permanent basis in order to carry out

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<sup>3</sup>The relative stability of the proportion of urban population (meaning population with domicile within the administrative boundaries of cities) can be explained by the balance of immigration to cities and out-migration from them to suburban localities, most of which are classified as rural in the official statistics.

<sup>4</sup>Center of Public Opinion Research (CVVM), periodical polls “Our Society – Trust in the Institutions of the State”, quota sampling, N=1020–1065 respondents aged 15 and over.

<sup>5</sup>Although aware of the handicaps resulting from the small size of their municipalities, mayors and councillors, interviewed in 2010 during an in-depth survey of local politicians in twelve rural villages, unanimously rejected the idea of obligatory mergers of their municipalities with the neighbours. What they did not reject was the possibility of voluntary mergers for executing selected administrative agendas – such that demand specialised knowledge (accounting, legal services, applications for European and other grants etc.).

<sup>6</sup>An amendment of the Law on Municipalities stipulated that for a split to be permitted a local part intending to break away from an existing municipality as well as the municipality from which it wanted to separate must each have at least 1000 inhabitants. Moreover, separation must be approved in a local referendum by citizens of the local part which intends to separate. The final decision on permitting separation belongs to the Regional Office.

joint projects (while mergers were extremely rare, the possibility to associate has been used on a large scale), (3) by centralising the execution of its own administrative competencies at subregional level.<sup>7</sup> A hierarchical three-layer structure of local authorities was established depending on the scope of their *delegated* tasks, and associated with a concomitant differentiation of their *administrative territories*.

In his recent analysis of the factors influencing the developmental potential of rural municipalities in the Czech Republic, Josef Bernard has found that the population size of municipalities is indeed an important predictor of some of their developmental chances, but the relationship between size and development is non-linear (Bernard et al. 2011). Mostly non-linear relationships were identified also between municipality size and their demographic characteristics, job opportunities, the range of services available, the amount of associative activities and the level of political participation. While the smallest municipalities with just several hundred inhabitants were often the most disadvantaged in the above respects, municipalities with large population did not improve significantly as the number of their inhabitants increased. However, a municipality's size does affect four independent components of its situation: (1) economy and education, (2) age and reproduction, (3) local public life and political participation, and (4) settlement stability. But the different spatial factors influence different dimensions of development and do so in different ways.

The analysis also proved that, beyond their size, the geographical position of rural municipalities vis-a-vis larger cities also has an impact on their development potential. Rural municipalities in the vicinity of larger cities are distinguished by above-average levels of human capital and economy. Clusters of such municipalities can also be found in the vicinity of smaller, economically prosperous cities, particularly in regions with larger density of such smaller centres, as well as in the vicinity of cities attractive for tourists. At the same time, Bernard et al. (2011) confirmed the existence of compact rural regions with below-average values of developmental characteristics. A significant part of such substandard municipalities exist in economically under-developed regions, such as parts of south Moravia or the territorial belt separating Bohemia and Moravia, and in regions handicapped

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<sup>7</sup> Depending on their population size, centrality and geographic location, all municipalities were divided into three nested categories differentiated by the scope of their *delegated* administrative tasks and the size of their concomitant administrative territories. The category with the most extensive delegated responsibilities and the largest administrative territories consists of 205 urban municipalities, the medium category embraces 392 urban municipalities and the third category, fulfilling just the basic transferred responsibilities and only within their own administrative territories, includes the remaining (rural) municipalities.

by structural economic problems, like, for instance, the north-west and north part of Bohemia as well as Silesia. Relatively handicapped are also small municipalities located in the *internal peripheries* of the Czech Republic, mostly the territories situated along the perimeters of the metropolitan regions and of the administrative regions which often overlap. Among them, the belt separating Central Bohemia and South Bohemia is the most distinctive (Musil – Müller 2008).

## Conclusions

The fragmented structure of local governments in the Czech Republic, one of the two most scattered in the EU, is both a problem and an advantage, or a fact with ambivalent consequences.

*A problem* because small local governments, unlike the large ones, cannot by themselves apply the economies of scale in their activities, cannot afford to support ambitious developmental projects, have difficulties in coping with administrative rules, do not have the means to employ professional administrators, are usually weak in negotiating with the state administration, may be more easily disabled by personalised internal feuds etc.

*An advantage* because political participation of citizens in small municipalities is significantly higher than in the large ones, the citizens tend to be more satisfied with their local representatives and trust them more than inhabitants of large communities, local patriotism plays an important role here and citizens can be more easily mobilised to take part in beneficial local activities. Studies of local politics in small (mostly rural) municipalities in the Czech Republic, past and present, proved that local politics in smaller municipalities often did not follow party lines and missed many of the features characterising the institutions of representative democracy in cities and at supra-local levels.

*Ambivalent* is the fact that local politics in the small municipalities is to a large degree structured according to other cleavages and relationships than in the larger and more differentiated urban milieus. Cleavages such as kinship, inter- and intra-family relations, neighbouring, traditional sympathies and animosities, property differences, old feuds and friendships, joint or conflicting interests of different local parts etc. can play a more important role here, either in positive or negative sense. See also Keating (1995) on size, efficiency and democracy in local politics.

Moreover, it also turned out that the developmental chances of small municipalities are as much determined by their size as by their *geographical position* vis-a-vis important urban centers. Besides the structural and geographic circumstances, there are sometimes *singular factors* too that may influence local development. These may be either positive, such as an enterprising mayor with extra-local

connections able to secure European money for his municipality, or negative, for example, a quarrelsome or unstable local council.

There are no known plans by the state at present to reorganise the system of local self-government in the Czech Republic, anchored in the Constitution, either to amalgamate the small municipalities or to reduce their competencies. The present trend is rather to support intermunicipal co-operation and to concentrate the execution of the transferred responsibilities of municipalities in larger urban centres.

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# 2007–2013: HUNGARIAN MULTI-LEVEL GOVERNANCE WITH OR WITHOUT REGIONS?

*Zsolt Pálmai*

## **Different Approaches to Multi-level Governance**

In this chapter multi-level governance (MLG) findings of different scholars will be introduced, with special focus on NUTS 2 regions not having public administration nature.

### *Foreign and Hungarian Scholars on MLG*

Hooghe and Marks (2001) defined MLG against national state-centric governance. Whilst national state-centric governance (especially in terms of European integration studies) strengthens the national level, allowing only supranational bodies to facilitate operation or aid the member states, MLG (in terms of the polity creating process) is shared among multiple levels of government such as subnational, national or supranational. In the national state-centric model states are the ultimate decision-makers, devolving only limited authority to supranational institutions in order to achieve specific (national) goals. According to MLG, the decision-making competencies are shared by actors at different levels, rather than monopolised by national governments. MLG supports that the different levels of government (as part of internal sovereignty) also contribute to international politics (to external sovereignty) of the nation state.

Governance as understood by Kjaer (2004) could be defined in different domains. Governance within public administration means policy networks and meta-governance; within international relations the neo-realist state-centred approach versus the emerging multinational actors and transnational networks standpoint is discussed. In European integration studies it also varies from a neo-liberal position to heterogeneous models as territorial units within the state, networks of state, market and networks. Governance is present in comparative politics and economic development as well. In our present study we shall use it as it is in European integration studies: it presents territorial units as contributors to the operation of the European Union (EU) within its member states.

Scholars often deal with MLG as a theory supporting the idea that European integration has weakened the state (Marks – Liesbet – Blank 1996). From another angle, Van der Kolk (2008) describes MLG as a concept meaning that the breakdown of competences is exercised according to functional and territorial dimensions. According to his view Europeanisation<sup>1</sup> reflects the supra-national character of MLG, towards the European Union and the supranational organisations. The direction of competence flows up to the top reflects centralisation, whilst the ones to the bottom decentralisation. Therefore, the shift from monolithic government towards multi-level governance could be a consequence of territorial strategies being more effective than others, or simply because territorial modes of organisation are more effective than others. This approach of MLG very much supports the principle of subsidiarity, namely that European NUTS2 regions could exercise different functions at their territorial level, provided it is more effective or it is strategically appropriate.

Schmidt (2006) researched EU and national policy-making in the case of statist/etatist countries. She pointed out that in most countries Europeanisation had an influence on how the national state organised its (EU) institution system. EU policy (the implementation of the rights and obligations of EU membership) has always had a significant impact on the member-states' national institutions, resulting in establishing the institutional system at different territorial levels. Therefore, following the framework Schmidt described, territorial units embedded in EU policy could play an active role in Europeanisation.

After these foreign approaches to MLG in terms of NUTS2 regions, this section of the paper is going to be closed with the views of two Hungarian scholars. The reason for this is that regions in Hungary do not have strong identity because from their very inception they have been subjects of continuous debates, without a stable consensus on them.

Pálné Kovács (2003) writes that in modern democratic states the tool of territorial division of powers is the self-government of municipalities, despite that these municipalities are not fully able to deal with all of the different interests at their territorial level. The different governance models (see above) have already gained ground and they included the regional aspects of exercising the powers. As the constitutional and institutional bases of regionalism had been missing, the Hungarian NUTS2 regions have never been part of the state administration, their role was defined within the framework of EU membership. According to the conclusions of Pálné, territorial governance in Hungary did not have an adequate

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<sup>1</sup> Europeanisation means here the process through which the European Union's political and economic dynamics become part of the organisational logic of national politics and policy-making.



vision of either EU policy or politics. Hungarian NUTS2 regions were proper units of the Hungarian institutional system established in favour of EU cohesion policy, but – in spite of not being territorial administrative units of the state – they faced incomprehension and were perceived as continuous threat to the historically very strong county level.

Kaiser (2009), however, is rather optimistic about the changing role of Hungarian regions to be played in terms of MLG. He emphasises the new forms of poly-centric and multi-level governance, and sees new channels opening for the Hungarian regions in intra-state (national) and extra-state (supranational) politics. In this context he defines the basic problem as a choice between democracy and effectiveness. He also names tools for supporting the role of regions, such as partnership (more responsibility, better co-ordination), or the increase of system elements fostering participation. According to these operating circumstances and the direction of MLG at EU institutions, Kaiser identifies the structural (cohesion) policy elements of the EU and Brussels' presence in the Hungarian regions as their fields of operation. Based on his above views, Kaiser, in comparison with Pálné, sees opportunities for the Hungarian regions to be part of territorial administration as well.

#### *The "in House" MLG of the EU: The Committee of the Regions*

The main engine of MLG is the Committee of the Regions (CoR) within the architecture of the EU (CoR 2013). Its relevant slogan is: MLG – building Europe in partnership. This not only means the fostering of the culture of MLG, but also adding momentum to encouraging a wide-ranging debate on the future of Europe beyond the EU institutions. The priority areas of the CoR in this process are: (1) implementation of the Lisbon Treaty, (2) review of the EU's financial framework, (3) focusing on the overarching strategies such as Europe 2020, (4) keeping track of the reform of structural policies, influencing the future policies of territorial cohesion, (5) demographic change, (6) energy and climate change. From 2008 onwards CoR regularly organises workshops and consultations, issues the White Paper on MLG and organises the so-called MLG Scoreboards (offering opportunity for innovative thinking and real partnership building) to monitor the annual pace and achievements of development within MLG. In a scientific sense (Warleigh 2003) CoR is considered as a laboratory in terms of defining and forming MLG. In this role it not only influences the way MLG will be put in practice, but its views also reinforce the EU regions towards more intensive lobbying for their extended regional decentralisation in their nation states. CoR as a consultative body within the architecture of the EU can also take action in this latter direction.

*Summary of the Quoted MLG Approaches in Terms of NUTS 2 Regions*

Table 1 summarises the quoted definitions/interpretations of MLG and their relevance as regards (in some cases Hungarian) NUTS 2 regions.

*Table 1. Different MLG concepts – different roles of NUTS 2 regions*

Scholar	MLG as	NUTS 2 relevance
Hooghe and Marks Kjaer	tool for EU integration subject of European integration studies	NUTS 2 regions contribute to the operation of the state at sub- and supranational levels
Van der Kolk	concept according to functional and territorial dimensions	NUTS 2 regions – in subsidiarity – exercise state functions at the territorial level where these functions are the most effective
Schmidt	tool for Europeanisation	NUTS 2 regions play smaller or bigger role in EU policy
Pálné Kovács	place for the regional aspects of exercising power	Hungarian NUTS 2 regions are better suited for EU cohesion policy than regional administration
Kaiser	choice between democracy and effectiveness	Hungarian NUTS 2 regions with possibilities towards regional administration
CoR	building Europe in partnership	NUTS 2 regions are supported by the MLG culture CoR proposes for regional decentralisation

*Source:* Author's compilation.

### **Hungarian Processes Influencing the NUTS 2 Regions in 2007–2013**

First of all we have to differentiate between the ways the EU and the Hungarian Government defines their NUTS 2 regions. According to EUROSTAT (EUROSTAT 2013), NUTS 2 regions are basic regions for the application of regional policies. Moreover, regions eligible for aid from the Structural Funds (European Regional Development Fund and European Social Fund) have been classified at NUTS 2 level. The current NUTS classification, valid from 1 January 2012 until 31 December 2014, lists 270 European regions at NUTS 2 territorial level. NUTS 2 regions in the EU are characterised by a population between 800,000 and 3,000,000 inhabitants. In the current, 2007–2013 programming period Hungary has seven NUTS 2 regions.

According to Law 1996/XXI on regional development and spatial planning (Hungarian Parliament 1996) and its later amendments, regions were defined in two senses: as planning-statistical (or so called “macro”) regions and as development regions. The difference between the two lies in their relation to the geographical borders of state administration. Whilst the “great” regions exactly follow the administrative borders of their counties, the borders of development regions are defined according to the social–economic–environmental nature of the development they were created for. As “macro” regions may play role in MLG, whereas development regions do not, the latter ones are not discussed below (Figure 1).

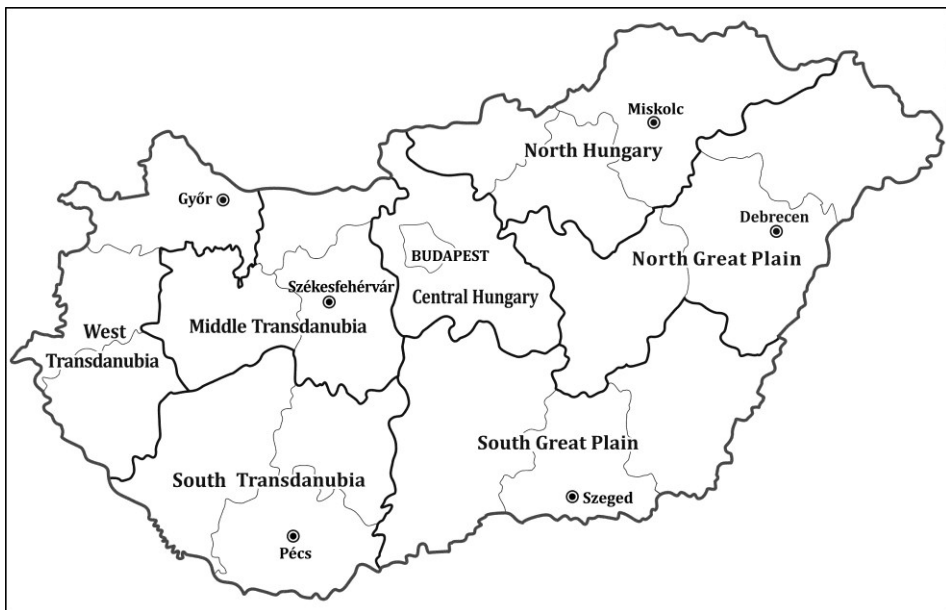


Figure 1. Planning-statistical (or “macro”) regions of Hungary with their capital cities  
Source: Author’s elaboration.

At the time of their inception, “macro” regions were not defined as administrative regions but as territorial units for planning-statistical purposes, in their main part subordinated to EU programming logic and processes. Issues cited by the majority of scholars, such as better governance at territorial level, competences in jurisdiction, exercising power, choice between democracy and effectiveness, cannot be defined in this context. It is not a mere coincidence: with its decision the Hungarian Parliament did not want to create a new level of territorial politics within the country. This position of Hungarian decision-makers has not changed,

despite the fact that the 2002 and 2006 programmes of the Hungarian Government announced the establishment of regional administration. Even a legislative package was brought to the Hungarian Parliament which finally did not decide in favour of regional administration. Until the time of writing this paper there has not been any further improvements in this field.

### *Strengthening the Hungarian NUTS 2 Regions (1996–2011)*

Following the adoption of the 1996 law, three of its amendments were passed, namely Law 1999/XCII, Law 2004/LXXV and Law 2011/CXCVIII. It is common in these modifications that, on the one hand, the competences/obligations of the NUTS 2 level units became better regulated, and on the other – as a clearly visible and trendsetting phenomenon – the possibilities of the Hungarian “macro” regions got continuously narrowed. Table 2 includes the bodies established by the respective law, the amendments of their competences (+ if extended, – if decreased) as described in the laws mentioned above.

According to the will of the legislators, the main focus of Hungarian NUTS 2 regions is on regional development, the most important part within that being the planning and implementation of development programmes. This entitlement has nothing to do with politics, but much with EU policy and Europeanisation.

Looking thus back on the 2004–2006 programming period, it provided limited space for regions: the Operative Programme for Regional Development (OPRD) was centralised, regions – within their geographical borders – could indirectly support this process by initiating and generating project proposals for receiving EU co-financing. Similarly, some domestic grant schemes were also available for regional level implementation. These latter funding opportunities were open especially for county (NUTS 3) and regional (NUTS 2) level implementation, and aimed at developing basic and communal infrastructure of the municipalities. The broader scale social and economic roles of the regions were also exercised, but this activity was far less in the focus. Overall, during these three years NUTS 2 units in Hungary gained experience in development programming and implementation.

On preparing for the 2007–2013 programming period, regions were considered by the central government meriting closer involvement in the Europeanisation process. This was also a result of the 2004 modification of the law further broadening the competences of these regions. Regional development councils and their regional development agencies were operating country-wide, and were mostly accepted in their regions by the experts, technical organisations and politicians, though caused anxiousness at the county level (NUTS 3 units). Their professional records comprised of several successfully implemented Phare Programmes, domestic grant schemes (such as the Preparatory National Development

Table 2. The main steps of strengthening NUTS 2 regions in Hungary

Law	NUTS 2 level bodies	Competences
1996/XXI	regional development council	bodies of bottom-up nature (more members from territorial than from central level – in South Transdanubia: 3 counties, 3 chambers of commerce and industry, 6 local government associations, 11 line ministries: 12 territorial vs. 11 central), the establishment of the council is optional; operate in concordance with the county development councils; elaborate regional development concepts, take part in the preparation of spatial plans
	regional development agency	defined as the “working organisation of the regional development council”
1999/XCII	regional development council	– bodies of centralised nature (more members from central than from territorial level – in South Transdanubia: 3 counties, 3 cities of county rank, 3 local government associations, 1 regional tourism committee, 11 line ministries: 10 territorial vs. 11 central), the establishment of the council is compulsory; + co-ordinates the economic development of the region; + harmonises the interests of the different (level) stakeholders; + takes part in the implementation of development programmes (intermediary body tasks, allocation of grants), for this purpose enters into contracts with the competent line ministries; + intervenes in the case of social and economic crises
2004/LXXV	regional development council	+ right to express own opinion on the allocation of the domestic and EU grants (in the case of EU grants the highest level involvement was expressing its own opinion, allocation decisions were not taken by these councils); + for the purpose of developing the region it may enter into agreement with foreign regions and could be partner in such projects; + makes proposals for the (central) government on the representatives of the CoR; + can take part in the implementation of the EU co-financed Operative Programmes

Source: Author's compilation.

Programmes) and – regional development agencies as – territorial agents supporting the implementation of the 1st National Development Programme (NDP) and the OPRD. The composition of the regional development councils represented majority influence played by the central government, with minority presence of counties, county seat cities, towns and micro-regions. By the end of 2006 regional decisions necessary for the preparation of regional OPRDs were made, in 2007 the main documents regulating the operation of regional development councils and regional development agencies were adopted to enable the Hungarian regional development agencies to become intermediary bodies of their own OPRDs in 2007–2013. In this period every Hungarian NUTS2 region had its own OPRD, though there was only one Managing Authority operating within the National Development Agency (NDA) in Budapest. This was the starting point and the environment describing the highest level entitlement of Hungarian NUTS 2 regions in EU policy focusing on MLG.

*Case study one: The South Transdanubian OPRD 2007–2013*

The South Transdanubian OPRD (National Development Agency, 2007), having a budget of 195 billion HUF (830 million EUR), implies the implementation of the following tasks: (1) elaboration of the calls for proposals, in co-operation with the NDA, (2) organising information days, receiving the applications, (3) eligibility and technical evaluation of the applications, in co-operation with external experts and with the NDA, (4) supporting decision-making on the allocation of funds, involving the South Transdanubian Regional Development Council (STRDC) and the NDA<sup>2</sup>, (5) preparing and entering into Grant Contracts with the beneficiaries, (6) project implementation, on-site checks, project payments with a deadline of end 2015 (n+2 rule), (7) monitoring the implementation and maintenance of the projects following project closure.

Another novelty or result of the 2004 amendment to the law was the embedding of the Hungarian regions in European Territorial Co-operation<sup>3</sup> (ETC) and Community Programmes.<sup>4</sup> Though, before 2007, it was also possible for regions to go international, this was rather limited in scope: Hungarian regions were only observers in European umbrella organisations (such as the Assembly of European

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<sup>2</sup> Decisions on the allocation of the fund are made at national level with regional support from STRDC.

<sup>3</sup> Cohesion policy encourages regions and cities from different EU member states to work together and learn from each other through joint programmes, projects and networks. In the period 2007–2013 the European Territorial Co-operation Objective (formerly the INTERREG Community Initiative) covers three types of programmes: cross-border co-operation, transnational and interregional programmes.

<sup>4</sup> Community Programmes are actions underpinning the implementation of Community policies covering almost every area of social and economic life.

Regions), could not enter into bilateral agreements with other European regions, and were not represented at the European (Brussels) level. Following the 2004 amendments, all these became possible for them, which was especially beneficial in the 2007–2013 period when EU grants in the framework of ETC and Brussels Programmes often supported the internal regional development processes. The participation in such programmes contributed to the presence of Hungarian regions in Brussels.

*Case study two: Brussels Representation of the South Transdanubian Region 2006–2011*

Based on the initiative of the Hungarian Government, Hungarian regions were given the opportunity to join the Representation of the Regions of Hungary, to represent themselves and to strive for the assertion of their own interests in Brussels. South Transdanubia was among the first NUTS 2 units responding to it (in July 2006). These regional representations were independent, but they were subordinated to their regional development councils and agencies in terms of employment and financing. During its five years of existence, the self-reliant Brussels Representation of the South Transdanubian Region underwent significant changes. Namely, dependence from the central state gradually weakened, and the operation of the office depended more and more on its ability to raise funds from ETC and Community Programmes. In the final stage, the office left the premises of the Representation of the Regions of Hungary and co-shared the office of the Slavonia Baranja Region of Croatia until its own financial means lasted (June 2011). The portfolio of the office, however, offered a considerable scope for manoeuvring. The representation office dealt with several issues of regional relevance (cohesion policy preparations for 2014–2020, supporting the regional members and alternates of the CoR, fundraising for the counties, NGOs and universities of South Transdanubia, contributing to the success of the Pécs 2010 European Capital of Culture programme, etc.) in partnership with domestic agents such as the county councils, some innovative SMEs, public utility companies. The results of this five-year work were utilised especially by STRDC and its regional development agency (they were the owners of the office), whereas further actors enjoyed the benefits mostly indirectly, e.g. attending Brussels programmes, exhibitions, information days and other events (Pálmai 2011).

The extension of the competences of the Hungarian planning-statistical regions was a real success story. It meant not only the creation of a new territorial unit from virtually nothing, but also its entitlement with exercisable tasks, which was acknowledged both within the country and in Europe. Regions therefore succeeded in EU policy, in Europeanisation, but NUTS 3 units still felt anxious as they were left out of these processes. In political terms, more were against than for the regions, as their NUTS 2 units did not have a real political profile, having been responsible only for the EU money they received.

*Centralisation and Weakening the Hungarian NUTS 2 regions (2012–)*

The definition of territorial units is always a domain of party politics and hence of state administration. As in 1996 a left-wing and liberal coalition passed the law on regional development, they were governing the country between 2002 and 2010 as well, they provided a relatively wide range of NUTS 2 contribution to the planning and implementation of EU co-financed development programmes under the supervision and management of the NDA. From this aspect, the 1998–2002 period was a slight detour, when a right-wing coalition governed the country and amended the law in 1999 so that regional development councils became centralised and lost their bottom-up character. This process received momentum again after the 2010 Hungarian parliamentary elections when the biggest right-wing party won with two-thirds majority. As this political regime is very much in favour of the NUTS3 units (not only in an administrative, but also in a historical-cultural sense), they passed amendments to the law at the end of 2011, re-drawing the competencies of the Hungarian NUTS 2 regions.

The last amendments have been in force since 1 January 2012. They abolished the regional development councils, subordinated the regional development agencies to the responsible line ministry and simultaneously established the regional development consultation fora. These latter bodies more or less substitute for the tasks of the former regional development councils, but they are headed by the presidents of the counties the NUTS 2 regions belong to. Their main competence is harmonising the decisions of the county councils, and if unanimous, forwarding them to the Government as the position of the NUTS 2 regions. With some other similar competences (see Table 3), all these are steps towards a strong central administration, with real powers delegated to county (NUTS 3) level. As the majority of contracts defining the operation of the programmes of cohesion policy in the current (2007–2013) period have not changed – due to the protocol of the operation of EU programmes – the real changes will be coming into force between 2014 and 2020. Actually, the short-term “result” is a weakened regional institutional system, fulfilling the same tasks as it did from 2007, but under stronger state control.

**Hungarian NUTS 2 Regions after 2014?**

Presently – at nearly the first half of 2013 – several things are visible to support a foresight for the 2014–2020 programming period regarding Hungarian NUTS 2 regions. Further centralisation of resources in Hungary is very likely. This implies that NUTS 3 counties will play a decisive role in both EU policy and politics, given that regional development councils will not be established again. The expertise, the



experience, the human resources available at the regional development agencies will support the further planning and delivery of EU cohesion programmes. Decisions on the allocation of EU grants will be either (1) fully centralised or (2) most probably further supported by the information available at, and co-decision of, the county level. The EU grants will be addressed to the counties, not to the regions, and there will be no regional OPRDs, instead only one centralised OPRD with still unknown territorial division. As a result, strongly and more directly controlled EU cohesion policy is foreseen, with weak, but due to the planning logic, still existing NUTS 2 units.

*Table 3. The main steps of weakening NUTS 2 regions in Hungary*

Law	NUTS 2 level bodies	Competences
2011/CXCVIII	regional development council	– ceased to exist
	new: regional development consultation forum (successor, in some respects, of the regional development council, but without legal personality)	<ul style="list-style-type: none"> <li>– manages issues in need of regional level decision, position</li> <li>– co-ordinates the decision-making of county self-governments</li> <li>– advocates the common decision of county self-governments as the position of the region</li> <li>– makes proposals for the (central) government on the representatives of CoR</li> </ul>
	regional development agency	<ul style="list-style-type: none"> <li>– ceased to exist as a working organisation of the regional development council, became a background institution of the Ministry for National Development – actually, before the 2011 amendment, through different contracts, it was de facto subordinated to the NDA</li> <li>+ keeps continuous contacts with the bodies of administration, in order to map development needs and resources</li> <li>+ organises the management of (development) programmes, keeps up-to-date record on their implementation</li> <li>+ in the framework of separate agreements, manages (development) programmes</li> </ul>

*Source:* Author's compilation.

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# COHESION POLICY IN ROMANIA: INTENSIFIED FAILURE

*László Csák*

## **Introduction**

In the present paper we are going to provide an insight into Romania's planning system, focusing on factors which had influenced the cohesion policy as introduced in Romania, like e.g. the origins and changes of the planning framework and regional trends.

In the first section, an attempt is made to identify the stages of Romanian territorial planning, by means of analysing the legal context and practice from 1950 up to now. All legal texts are taken from Acte Oficiale – Intralegis v6.2 (2013). In the second section the time series, based on data sources available from TEMPO-Online time series (2013) of the National Institute of Statistics, will be analysed. All main findings are shown on maps, in order to help a spatial understanding of the trends.

Although the author is fully aware of the risks implied in any kind of modelling for regional planning (Wong 2006), a simple model will be constructed for estimating regional development potential, in order to formulate policy options for the next programming period.

The approach of the present paper is mostly influenced by the concept of spatial planning (Faludi 2010, Haughton et al. 2010), and in this context, we hold the opinion that a necessary precondition of effective planning is a collaborative approach (Healey 2006), based on citizen participation and partnerships, as stated also in the policy documents of the EU (see Regulation CSF 2012). The quality of planning is greatly affected by the governance of development, a fact neglected by Romanian planning practice. There is strong need for a major change in planning approach in Romania, as stated also in the Position paper of the Commission Services (2012).

## **Territorial Planning in Romania: Four Stages**

In order to clarify the context, it seems necessary to identify the main periods of development policy in Romania. After the 2nd World War, Romania had faced serious issues regarding development and planning. The main obstacles of development were:

- low level of urbanisation (mostly in the East and the South),
- low quality and density of transport related infrastructure,
- rural localities with lack of water supply, sewage system, roads, services,
- underdeveloped industry.

The first five-year plan, a national level planning policy document usual in the Soviet bloc at that time, was approved in 1950, see picture below. It laid great emphasis on modernisation and was based on well detailed territorial analyses.



*Gheorghe Gheorghiu-Dej voting for the first five-year plan in 1950*

Source: Fototeca online a comunismului românesc, Fotografia #GA156

The problems could not be solved at the time due to insufficient funding. The modernisation of Romania faced a new start in the period of 1972–1974, when the communist party decided to implement the so-called *sistemizare* at its congress in 1972. The Law no. 58/1974 on systematisation was voted in 1974<sup>1</sup>, and was applied continuously until the revolution in 1989: it was repealed on the 26th of December 1989 by the very first Law Decree of the Council of the National Salvation Front<sup>2</sup> (Law Decree no. 1/1989).

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<sup>1</sup> LEGE nr. 58 din 1 noiembrie 1974 privind sistemizarea teritoriului și localităților urbane și rurale.

<sup>2</sup> Consiliul Frontului Salvării Naționale, DECRET-LEGE nr. 1 din 26 decembrie 1989 privind abrogarea unor legi, decrete și alte acte normative.

The main objective of the systematisation of Romania was a just territorial system for the country, including its counties and communities, indifferent if they were rural or urban. Besides general development directives, the law referred to basic urban planning and land use rules. Environmental issues were also taken into consideration. The systematisation was fiercely criticised by intellectuals from the West, because it was associated with the demolition of villages, taken as part of the built cultural heritage. In fact, the systematisation was not only applied to villages, but a part of Bucharest was also demolished and a new, Stalinist design city centre (Kostof 1991) was built there, including the House of the People and the Victory of Socialism avenue.

One may say that the criticism of systematisation was misleading. The problems identified in the 1950s remained, and with low level of financing opportunities, it was very unlikely to offer at least acceptable housing conditions for rural Romania. The systematisation of the urban structure tried to raise housing standards from unacceptable to low quality blocks of flats, poorly designed and with very low comfort level, due to financial restraints. The way it was handled did not take into consideration the viewpoint of the people living in dwellings below every standard.

The urban system in the western part of Romania was totally different compared to other regions of the country. There was a rapid change in this respect: in 1930 there were only 142 towns, it increased to 148 by 1950, and nearly doubled by 1975. And this increase has been going on: in 2001 and 2012 the figures were 265 and 320 respectively.

In the 1974–75 plan, the density of the urban system was supposed to grow, with minimising the rural character and raising the localities' level of urbanisation. The system was conceived as a hierarchic framework, with polarising towns of national, regional and zonal influence. The plans had to deal at once with strengthening the development of major polarising towns and with establishing lower level urbanised localities. Every intervention, no matter at what level (county, zone or local), was based on deep studies of social, environmental, economic and demographic issues. The quality of these plans and also of the framework guidance documents was fairly good, even if the outcomes can be really contested (Figure 1).

The county was divided into functional zones, not reflecting the administrative system of that time. But zoning was applied to lower levels too. It was stated in the law on systematisation that urban development plans should take into consideration the functional area around the town, so urban–rural links were supposed to be taken seriously. The main areas of intervention in urban design were: services for the population, economic activities and housing.

Rural localities with administrative power were seen as areas of public intervention and also as possible urban poles. One must not forget that at that time

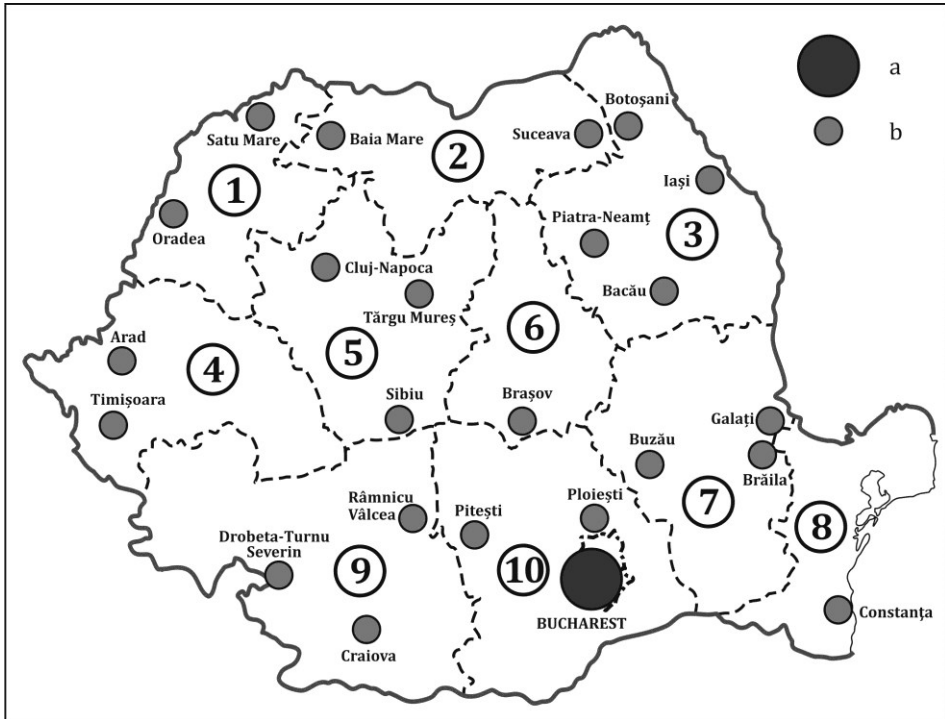


Figure 1. Functional zones of Romania in the period of systematisation

Legend: a) – Capital of Romania; b) – Towns with more than 100,000 inhabitant; 1 – Cris and Upper Somes; 2 – Marmatie and Highland; 3 – North-Central Moldavia; 4 – Banat, South-West; 5 – Central Transylvania of Inner Valahia; 6 – Barsa Land and Ciucs; 7 – Carpathian Danubian East Valahia; 8 – Danubian and Maritime; 9 – Carpathian Danubian Oltenia; 10 – Carpathian Danubian Central Valahia.

Source: Author's compilation.

there were rural communities without appropriate buildings for public administration, social services and health care, cultural activities – besides the housing and infrastructure related issues. Sparsely populated and outermost rural settlements were out of focus, because they were seen as localities with no development opportunities: any public intervention in these settlements was supposed to be avoided.

The systematisation from 1975 to 1989 changed the character of Romanian towns and rural settlements definitely, so that the overall architectural view of Romanian localities is still characterised by the buildings and systems designed and built in that period. These blocks of flats, huge public buildings, oversized avenues and other features of that time are not really nice, but these achievements

help Romania functioning even nowadays, because no public investment of that scale has taken place since the revolution either in urban or in rural context.

The next planning period was between 1989 and 2001. This era can be characterised by no or low level of intervention. Planning as a whole was seen as a scapegoat for all sufferings Romanian people had, so systematisation and planning became a taboo in Romania. A total economic and social collapse of Romania took place – evidently not caused by the lack of planning, but some planning could help Romania reducing the economic and social costs of the crisis. There was no planning save at local level – the Law no. 50/1991 on building permits is from 1991 – so between 1989 and 2001 there were no national, regional or sub-regional level plans.

The beginning of the next period seems hard to identify. European integration was launched in 1995 (Gallagher 2010). Turning towards market economy is dated from 2003 when private property became a constitutional right. The first law on regional development was adopted in 1998<sup>3</sup> (Law no. 151/1998) as part of the harmonisation process. The new law on regional development is from 2004<sup>4</sup> (Law no. 315/2004). However, from the aspect of regional development or cohesion policy, the real beginning of the fourth period is marked by the law on territorial development and urban planning<sup>5</sup> (Law no. 350/2001).

The reason why 2001 is suggested as a turning point<sup>6</sup> is that European integration in itself does not necessarily imply any type of territorial planning policy, because territorial planning is an exclusive authority of member states and candidate countries. Market economy is not a precondition of regional development: as we have seen, Romania had, even before the revolution, a detailed development policy with spatial character, without any features of a market economy. The same can be stated for private property and other fundamental rights. So these milestones do not apply here. But the law on territorial development and urban planning contains real regional and urban development principles, goals and means. Mostly due to bad feelings about systematisation in the past, it took a decade to reintroduce planning to Romania's development. The question may arise why not take 2007 as a starting point of a new period, when Romania joined the EU. But accession has had an effect only on the funding opportunities, and not on the planning and development system itself. The main characteristics of Romanian development policy as part of the EU cohesion policy will be discussed later.

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<sup>3</sup> LEGE nr. 151 din 15 iulie 1998 privind dezvoltarea regionala in Romania.

<sup>4</sup> LEGE nr. 315 din 28 iunie 2004 privind dezvoltarea regionala in Romania.

<sup>5</sup> LEGE nr. 350 din 6 iulie 2001 privind amenajarea teritoriului si urbanismul.

<sup>6</sup> The four periods of Romanian territorial planning are: (1) 1950–1974, (2) 1975–1989, (3) 1990–2000, (4) 2001–.

The terminology of the law is a bit strange, because while speaking about master plans with rules and land use regulations, it uses the term “amenajarea teritoriului” (Law no. 350/2001), which is very similar to the French development policy’s major direction: *aménagement du territoire* (Brunham 2009). In fact, if we look at the meaning of the term, it is clear that it does refer to an approach similar to that of systematisation: planned territorial development, land use and building regulation. However, it is clear why it cannot be named systematisation.

The law is purely regulatory, even if the principles and objectives of regional and spatial development are set out as guidelines for planning. The national territorial development plan, approved by different laws, deals with transport, environmental and urban systems, as well as cultural heritage and infrastructure. The regulatory framework is very sophisticated, dealing with different planning issues which may occur at different levels of a territory. The levels of territorial planning are:

- national,
- regional (NUTS<sup>7</sup> 2),
- county level (NUTS 3),
- zonal.

Zonal plans offer flexible means of planning for areas covered by different counties or municipalities. For urban areas including rural settlements, zonal plans can be used as a good planning tool for harmonising urban regulatory plans of different local administrative units.

The regulatory framework seems efficient and flexible enough to deal with all kinds of territorial planning issues, like urban–rural linkages, the urban system, or well balanced spatial structure. Nevertheless, the proof of the pudding is in the eating, so it must be carefully analysed how the law is put into practice.

As already mentioned, at national level the territorial master plan exists. The problem is at lower levels in the hierarchy, at regional and county levels where in the majority of cases the plans have either expired or have not been prepared at all. So the system is not really efficient if it has not been applied completely after more than a decade. There are other concerns about the planning system as well:

- lack of participation of the public in planning,
- scarcity of funding available for public investments in this field.

There is no good news in this respect. These plans are designed by experts, approved by public bodies, but there is a total lack of citizen participation in the planning process. Neither local and regional partnerships, nor those affected by the

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<sup>7</sup> NUTS: Nomenclature des unités territoriales statistiques, as stated in Commission Regulation (EC) No. 1059/2003.



plans are involved in planning, so one can hardly talk about awareness, ownership or integration of needs and objectives identified when using a bottom-up approach.

In the context of funding, it is hard to say that a policy can be taken seriously without public investment into that sector. Between 2001 and 2007 only projects based on the national territorial development plan, and lower level master plans were hardly supported from the state budget. So the only tool from the development toolkit put into practice is that some rural communities were declared towns after 2001 (as mentioned above, there are 320 towns in Romania presently).

After joining the EU, all EU funds became accessible for private and public initiatives in Romania, but it is hard to find any operational programme which used the regulatory and planning framework of territorial development. One may only hope that at least the regional development programming took the framework into account, so it is worth finding out if it did so or not. As stated in the regulatory framework<sup>8</sup> (Law no. 351/2001), there are four types of towns in Romania:

- the capital: Bucharest (rank 0),
- towns of national importance (rank 1),
- towns of regional importance (rank 2),
- other towns (rank 3).

Normally the head office of a regional development agency is in the most significant town of the region, so one may suspect that rank 1 towns are “capitals” of regions. In Romania there are eight regions, but in three out of eight the head office is placed in other towns:

- Nord-Est: Piatra Neamt (rank 2),
- Sud: Calarasi (rank 2),
- Centru: Alba Iulia (rank 2).

In the Romanian Regional Operational Programme (Programul operational regional 2007) there are three types of integrated urban development measures<sup>9</sup> (Government Decision no. 1149/2008): for growth poles, for urban development poles and for urban centres. Growth poles may match rank 1 municipalities, urban development poles rank 2 and the rest of the towns rank 3. But it is not designed this way. Only rank 1 urban settlements received funding as growth poles, and not all of them, because there is a single growth pole in each region. Oradea, Bacau,

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<sup>8</sup>LEGE nr. 351 din 6 iulie 2001 privind aprobarea Planului de amenajare a teritoriului national – Sectiunea a IV-a Reteaua de localitati.

<sup>9</sup>HOTARARE nr. 1.149 din 18 septembrie 2008 privind modificarea si completarea Hotararii Guvernului nr. 998/2008 pentru desemnarea polilor nationali de crestere in care se realizeaza cu prioritate investitii din programele cu finantare comunitara si nationala.

Galati and Braila are rank 1 towns, but they received only urban development pole financing, together with some of the rank 2 towns. Rank 2 towns with a population over 100,000 received urban development pole funding, but not all of them: Botosani, Piatra Neamt, Buzau and Drobeta Turnu Severin have to compete with other smaller rank 2 and also rank 3 towns with a population over 10,000 for the funding earmarked for the so-called urban centres. The list of growth poles and urban development poles was actually not based on spatial analysis or some competitive selection of projects or strategies, but purely on a government decision (Government Decision no. 1149/2008).

All in all, the territorial planning system is only partly applied as a regulatory framework and was totally neglected while working out the regional development of Romania for the 2007–2013 programming period, as shown in the above example. It can be added that divergence from the territorial planning framework may be due to its outdatedness: it may have happened that authorities designed the regional breakdown of urban development funding based on new studies. The bad news is that for a decision like this authorities were supposed to carry out spatial analysis and refer to the framework that would not be applied – but this was not the case.

### **Authentic Cohesion Policy: The Fifth Stage**

Regional disparities have grown constantly and significantly. If we want to take a deep insight into Romanian regional trends, it is better to use the NUTS 3 level, even if the regional (NUTS 2) data show more of the difficulties regional development will face. The NUTS 2 level value of the ratio between the most and the less developed regions increased from 1.91 in 1997 to 3.95 in 2008 (Csák 2012), so it doubled in a decade. The ratio between the least developed NUTS 3 region (Vaslui) and Bucharest–Ilfov was 547 in 2010, expressed in Romanian leu per capita values (Figure 2).

In 2000, there were only 15 counties below 75% of the national average, in 2010 this increased to 21. One can observe a corridor of declining counties from northwest to southeast, and all counties on the bank of the river Danube have rather low GDP/capita figures, too. Out of the total 41, there are only 10 NUTS 3 regions<sup>10</sup> above 100% of the national average.

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<sup>10</sup> The capital city (Bucharest) and the neighbouring county (Ilfov) are treated as a single unit of analysis in order to minimise the risk of statistical inaccuracy, because the commuting zone of Bucharest covers Ilfov county.

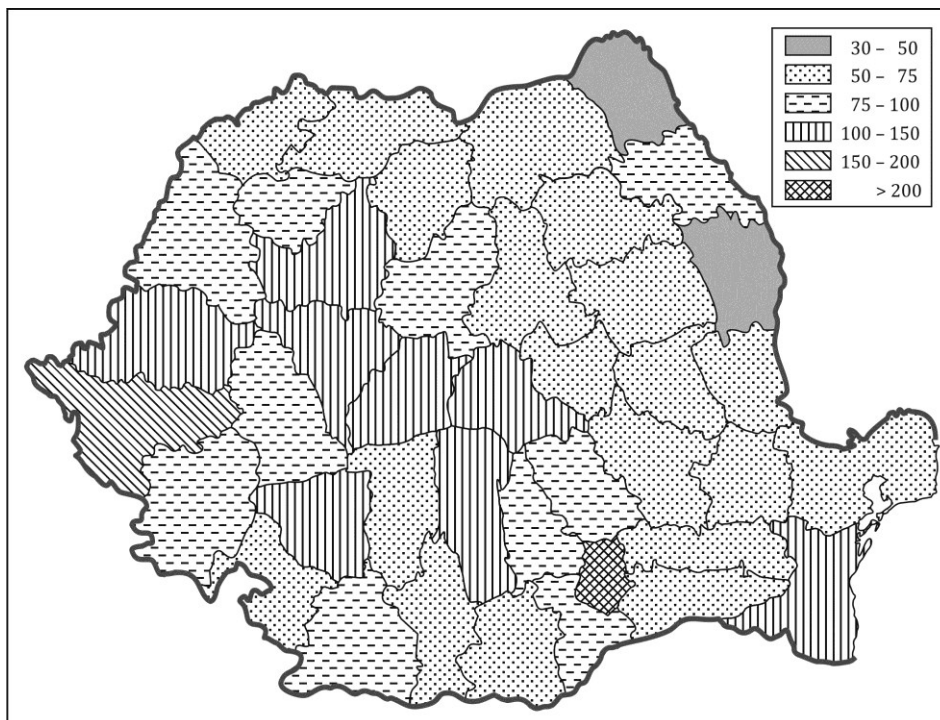


Figure 2. GDP/capita at NUTS 3 level in 2010 (Romanian leu per capita, %)

Source: TEMPO-Online time series (2013), edited by the author and Hajnal Kakucs as part of a regional development analysis carried out by CDC Consulting SRL (Romania) in 2013.

The trends have been worsening for all declining counties, and there are only 6 of them having been able to change the 1997–2004 economic trend favourably by 2010. This sounds great at first glance, but there were 12 counties well below their 1997–2004 trend in 2010. The rest of the counties did not diverge from their trends, whether they were in a declining or a growing period.

Using data from 1997–2010, we have attempted to calculate the future trends in order to see the pattern for 2020, the end of the next programming period (see Figure 3). The GDP/capita of Bucharest–Ilfov will be ten times greater than that of Vaslui county, and as many as 25 counties will be below 75% of the national average.

It can clearly be seen that conditions in the northwest–southeast corridor and also in the South are alarming: altogether nine counties are below 50%, while all the counties in the corridor are below 75%. There are few exceptions in the South, Craiova and Giurgiu: the first one has an economy boosted by the Ford investment, whereas the latter one is located at the only road transport corridor from Romania

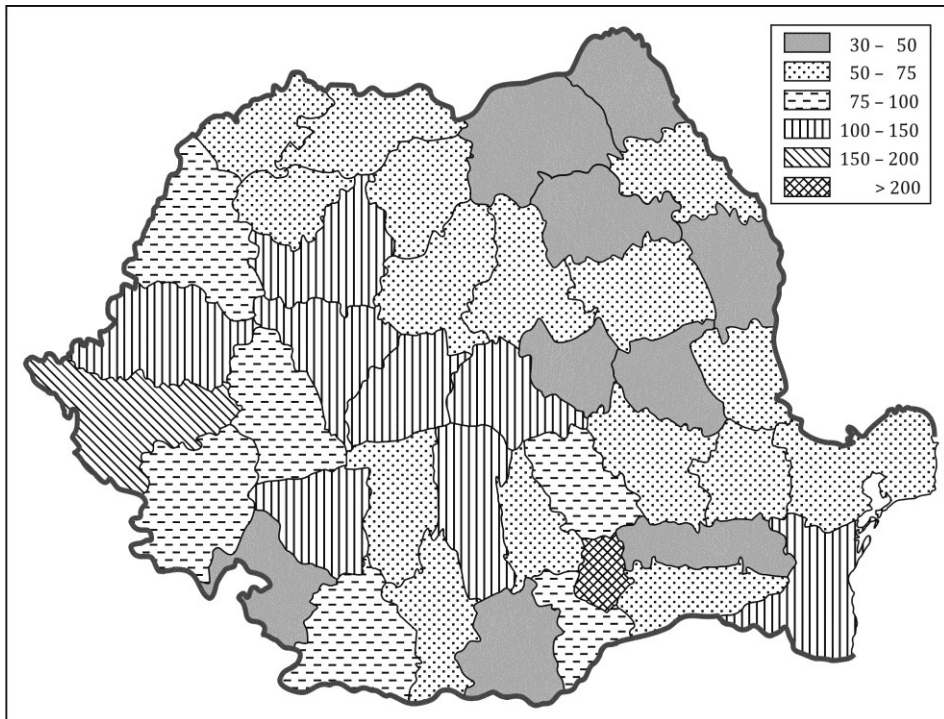


Figure 3. GDP/capita at NUTS 3 level in 2020 (Romanian leu per capita, %)

Source: TEMPO-Online time series (2013), edited by the author and Hajnal Kakucs as part of a regional development analysis carried out by CDC Consulting SRL (Romania) in 2013.

to Bulgaria. Gorj and Arges counties are above 100% value, economy in the first one is mainly based on the mining and power generation sector, while in the latter one the Dacia automobile factory, owned by Renault, has been operating.

There are only two other traditional poles in Romania, excluding Bucharest: Constanta with its ports at the Black Sea and Timisoara in the southwest of the country. Emerging industrial zones are in Cluj Napoca and Brasov. From Brasov to the West there are Sibiu, Alba, and Arad counties, all above 100% and situated at the same transportation axis connecting Romania to EU member states in the West. In this respect, it is worth mentioning that neighbouring counties of the poles (Bucharest, Timisoara, Cluj-Napoca, Brasov) did not benefit from their proximity to these poles. Actually, all these counties, and also Arad and Bihor in the West, had to suffer a kind of economic drain towards the poles. So these poles cannot be considered as the engines of regional development, even if they help NUTS 2 regions having better figures; however, simultaneously the non-pole areas have been going through a continuous “desertification”.

As mentioned, some NUTS3 regions were able to change their trends, so it seems necessary to summarise the development potential for each of them. In order to analyse this, the following simple model will be used:

- Counties with rank 1 and 0 towns together with their neighbouring counties are supposed to have better potential, so rank 1 and 0 are both marked 1, neighbours with road transport connection are marked 2, others receive 3.
- The performance of research and development is a major factor in regional development, so Bucharest-Ilfov is marked 1, those with above 30% of the national average of R&D per capita are marked 2, others receive 3.
- Counties with above 120% of the national GDP/capita value receive 1, their neighbours 2, others 3 (assuming that the mentioned polarisation effect can be annihilated).
- Growth poles (Bucharest-Ilfov and Timis) receive mark 1, others with good increasing GDP/capita value are marked 2, others marked 3, based on the 1995–2010 trend.

Based on this simple model, the factors influencing regional growth potential are shown in Figures 4–7.

The calculated potential values are ranging from 1 to 3: the lower the value, the better the potential. The growth potential marks are shown in Figure 8, calculated by using an optimistic scenario (scenario 1), and in Figure 9, assuming that the above-mentioned negative neighbouring effects cannot be overcome (scenario 2).

If we compare the patterns of scenario 1 and scenario 2, we can see that there is an urgent need to fight the polarisation or economic drain effect of the poles, otherwise the decline corridor and the Danube decline area will persist – which is clearly unwanted if a balanced spatial development in Romania is aimed at. On the basis of this model one can say that using the territorial development system of Romania, as stated in the law, will be beneficial to rank 0 and 1 towns and also to their hinterland (neighbouring, mostly rural counties), but there is an urgent need for public intervention in order to tighten urban–rural linkages and for sound planning and wise management of the polarisation effect of poles and rank 1 centres.

Research and development are unlikely to contribute to growth as practised presently, with overwhelming public and public university based research activity (Csák 2012). The only good exception in this respect is Arges, where industrial private research is present and it does really serve the economy. Hence, private research activities and initiatives are supposed to be supported in order to use R&D funding in an efficient way in both the traditional academic poles of Romania (Bucharest, Iasi, Cluj-Napoca, Timisoara) and in the case of the newcomers like Brasov.

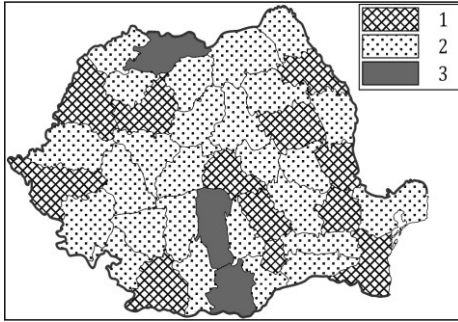


Figure 4. National territorial planning system

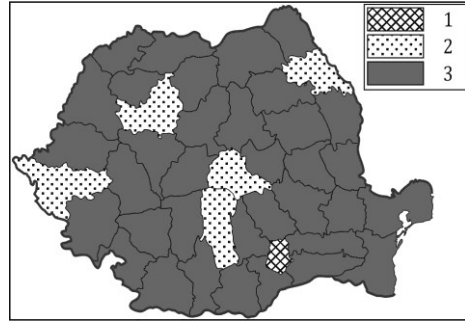


Figure 5. Research and development

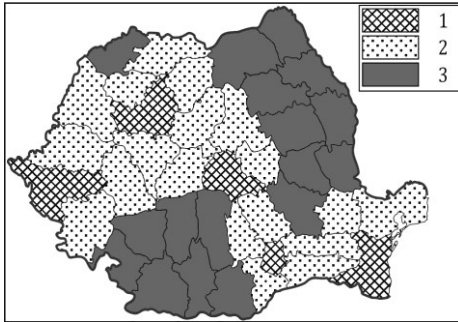


Figure 6. Poles

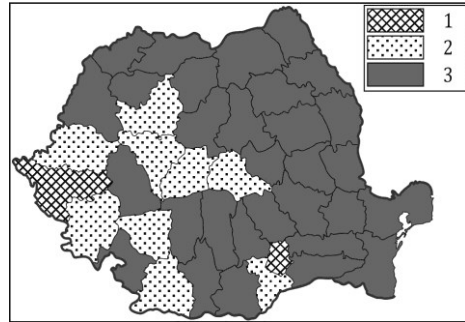


Figure 7. 1995–2010 trend

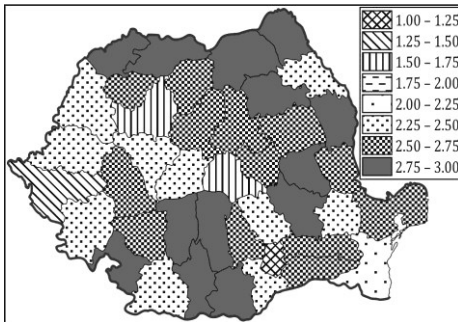


Figure 8. Growth potential, scenario 1

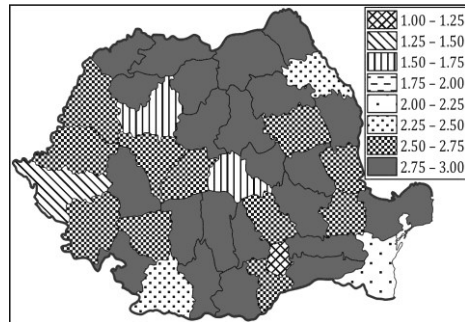


Figure 9. Growth potential, scenario 2

Source: Author's elaboration.

So the present approach to development, as practised by the government, can be summarised as follows:

- neglecting the law on territorial planning,
- no awareness of the polarising poles.
- no authentic planning, based on spatial trends, in the case of EU funds.

Without a change in governmental approach to cohesion policy, the “desertification” process will be unsupportable for most of the population. Unfavourable demographic changes may occur and the majority of the population will face the risk of poverty and no access to well-paid jobs – just contrary to the EU 2020 goals (EC 2010).

It may be added that the same story could have been told in 2005–2007 when planning for the present programming period, so Romania has wasted 7 years, and there is a risk that during the 2014–2020 period a similar thing will happen. There are three options for Romania:

- option 1: maintaining status quo,
- option 2: reforming regional development without any awareness of the problems,
- option 3: changing approach and implementing a real cohesion policy.

The first option, even if it is better than the second one, has already been put aside. There are regional reform debates in Romania, so a reformed structure will be in use during the next programming period. Modifying regions half a year before 2014, while negotiating the partnership contract with the EU sounds risky, but if there is a move towards realising option 3, the risks mentioned in this paper could be avoided.

Let us recall that regional and territorial plans in Romania have not changed the trends since 1989. Our forecast for 2010 based on 1997–2004 data was quite correct, even if 18 counties diverged from the trend; however, as already mentioned, the pattern remained the same, just some counties replaced others. But what is the cause of this inefficiency of cohesion policy and territorial planning in Romania? The answer is twofold:

- There is no funding with spatial approach:
  - ERFA programmes were planned without spatial consciousness;
  - member state intervention in the field had no spatial character at all.
- There is no efficient governance structure for planning and development:
  - regional development agencies have the role of intermediate bodies of the regional development operational programme, with lack of skills and competencies in this field; so one cannot find any public body, agency or partnership at regional level that could be involved in the consultations;

- real spatial plans have only been made during the first and the second periods of Romanian territorial planning, with no consultation at all, so planning competencies are deficient.

## Conclusion

Both funding and governance issues have to be solved at once, by introducing new means of planning for a real cohesion policy. First of all, the legal framework of territorial planning shall be put into practice by means of tailor-made funding and of spatial plans and strategies planned by using a collaborative approach. All CSF Funds<sup>11</sup> (Regulation CSF 2012) have to be planned in line with territorial plans of different levels (national, regional, county and zonal), because the major aim of CSF Funds is not absorption, but contribution to cohesion in the member states and in the EU at the same time. A well designed national development framework and its application supported by CSF Funds might be fruitful, but a simple translation of CSF objectives without any sign of spatial approach cannot be efficient or only by chance.

The intensified failure of Romanian cohesion policy is caused by different factors, like the negation of the past marked by the very much criticised systematisation, which, however, dominated the third period of Romanian territorial planning (1989–2000). But the seemingly spatial present period is deficient in this context, as we tried to demonstrate above. If the next programming period (2014–2020) will not be planned with spatial consciousness, based on collaborative planning, using new governance structures and tailor-made funding, failure can be taken for granted<sup>12</sup> and Romania is going to waste one more decade.

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<sup>11</sup> CSF stands for Common Strategic Framework.

<sup>12</sup> Similar issues are identified in the Position Paper on Commission Services (2012).



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# REGIONAL DEVELOPMENT, REGIONAL POLICY AND REGIONAL STUDIES IN POST-SOVIET RUSSIA

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## **Introduction**

After the collapse of the USSR in the early 1990s, the new Russian state started its operation among extremely difficult economic and political conditions. Radical economic and political reforms were needed for the modernisation of Russian federalism, and to lay down the bases of regional policy that, in fact, had never existed before in the Soviet era. A principle question was to reform all state-operated systems simultaneously since economic modernisation could not be started on the basis of the previous political system and the inherited property relations, neither a new federal structure could be built on the remnants of the USSR quasi-federation, and without an effective regional policy. Finally, all such transformations implied a consolidated national budget. The process of transformation took place in two, clearly different phases:

- in the 1990s, when the Russian state started its operation within its current boundaries, carrying out political and economic reforms of radical characters (the period of B. Eltsin’s presidency); and
- in the 2000s, when the vertical structure of power strengthened together with Russia’s political and economic positions in the world (the period of V. Putin’s and D. Medvedev’s presidencies).

## **The First Two Decades of Regional Development in the Russian Federation**

After the collapse of the USSR, in the 1990s business activity was concentrated mostly in big cities (mainly in Moscow and St. Petersburg), and the hydrocarbon-producing regions (Tyumen Oblast and its autonomous districts). This increased regional disparities – raising the differences in gross regional product (GRP) and industrial production per capita 15–20-fold between certain subjects<sup>1</sup> of the Russian Federation (RF). The adopted new taxation principles for large resource com-

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<sup>1</sup> Administrative territorial units of Russia are called “subjects of the Federation” in Russian constitutional language.

panies also worsened the situation, since such companies started to pay taxes at the place of their registration (mostly in Moscow), and not at the place of operation (Siberia and the Far East). As a result, the tax revenues of local governments in the eastern regions shrank.

Other regions of the country were on the verge of subsistence. To prevent any separatist movement, President B. Eltsin launched a populist slogan – “take as much sovereignty as you can swallow” (this is the word for word translation of his statement made at the meeting in Kazan, the capital of the Republic of Tatarstan, in August 1990). As a result, on the one hand, local parliaments and legislative assemblies adopted constitutions, regional charters, and other statutory acts which contradicted the Russian Constitution and federal laws. On the other hand, financial decentralisation was not supported by taxation reforms that could have allowed regions and municipalities increase their revenues. Federal support was granted according to political priorities but not to the principles of fiscal federalism, and most part of it favoured such republics as Tatarstan and Bashkortostan. The federal programmes aimed at supporting other territories figured out only 5–10% of federal support in best case.

The doctrine “to curtail economic activity” in the Eastern parts of the country (Siberia and the Far East) appeared in this period, too, based on the idea of supposedly high costs of living and infrastructure maintenance in these areas. Foreign experts’ assessments were involved to prove this thesis. A number of large RF subjects successful in the Soviet period saw depression because of slumps in industrial production, structural shifts, and the absence of defense investments.

In the 1990s, economic and social difficulties especially severe in the North Caucasian republics were accompanied by mass unemployment in the country and fast islamisation in these republics. Separatist tendencies and secession slogans launched by the Chechen Republic led to the armed conflict in the Northern Caucasus, and then to the formation of an enclave within the territory of Russia, acknowledged only by sharia laws but not by those of the Russian Federation.

Thus by the turn of the century the country found itself on the brink of an economic and political catastrophe, including unsustainable trends in regional development, too.

In the 2000s, when President Putin came to power, the country undoubtedly took a turn towards a different, and much more stable economic development due to changes in the economic conditions (to a considerable degree due to a rise in oil and gas prices). This period began with “strengthening the vertical structure of power”, namely the division of Russia into eight districts led by the plenipotentiary representatives of the RF President, the centralisation of natural resource management, and the delegation of a part of regional powers to the federal government.

The positive trends in this period include the followings:

- intergovernmental fiscal relations have been stabilised, federal transfers have started to be allocated on a regular basis;
- regional laws were brought into line with federal ones (in the 1990s, “regional” parliaments and assemblies passed hundreds of laws, and municipalities thousands);
- the federal government in co-operation with large business actors launched federal programmes to support a number of RF regions; in this period, the “presence” of private business became increasingly visible in several regions through their impacts on many aspects of regional life;
- several RF regions successfully realised their own development models by taking advantage of their competitive advantages;<sup>2</sup>
- teams of new managers came to power in the regions, who could solve not only tactical problems but also strategic ones;
- in this period, Russia started the development of a new system of regional strategic planning – some federal districts, RF subjects, and large cities developed their economic strategies (the Siberian Federal District was the first among them); this has undoubtedly improved regional governance;
- new institutions were built at the federal, regional, and local levels serving development (investment funds, special economic zones, technoparks, scientific centres in certain towns, and industrial and logistic parks); and
- the federal government launched a new development doctrine for the Russian North and Arctic to use the potentials and resources of these regions considered as territories of strategic importance. In 2013 the *Development Strategy for the Arctic of the Russian Federation up to 2020* was adopted.

The consequences of the global crisis of 2008–2009 included a relative reduction of regional disparities in Russia, as the developed regions proved to be most affected, and governmental support aimed at mitigating the impacts of the crisis mostly in depressed regions. In all, the geography of the crisis was rather clear. In the first and most difficult phase it hit the European part of Russia significantly, that is, regions specialised both in the production of less competitive products satisfying domestic demand, and resources also for domestic markets. Regions of

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<sup>2</sup> For example, Novosibirsk Oblast being one of the developed regions of the USSR in the 1960–1980s with its specialisation in engineering industry, then becoming a depressed region from the 1980s to the end of 1990s, has emerged as one of the dynamically developing regions of Russia since the first years of the new century, with a diversified economic structure led by innovation. This region effectively realised its own development model by taking advantage of its favorable geographical position and good R&D potential inherited from the Soviet era.

metals industry such as the Ural, Siberia, and Central- and North-West Russia saw hard days. Large cities experienced a crisis shock, too, followed by a huge drop mostly in the construction industry, and partly in the banking and service sectors.

In the 2000s we could solve our major problems related to regional development, however, the spatial development of the country has not been based on a strategy specifying the legislative priorities for long-term spatial development to ensure its sustainability. Neither there is a national urban planning pattern.<sup>3</sup> No effective measures have been taken to solve the problems of single-industry cities (mostly those where large facilities of defense or coal industries were located), and no quality changes of institutions and natural resource management took place, so regions with resource-based economies had not enough financial and material background to carry out effective social and environmental policies.

As the general economic trend in the country was favourable, the Russian government started supporting some regions and so-called “new points of growth”, but this meant mainly the support of the North Caucasian republics (mostly the recovery of the Chechen economy) and some representative projects such as the Sochi Olympic Games<sup>4</sup>, the World Student Games in Kazan, or the APEC Summit in Vladivostok. Priorities actually required for improving Russian spatial development (such as the renewal of the transportation infrastructure in the Eastern part of Russia) were left without proper governmental support.

As a result, the development of large regions of strategic importance did not become a priority of spatial development policy. If we just take the example of Siberia, we can see that governmental policy requires co-ordination: till now the development of the region meant some actions not connected with each other, while federal investments in Siberia were ten times lower than those in representative projects mentioned above. As regards the route to go, the society and the experts have different opinions about the proposal – rather sound in principle – to build new institutions for supporting eastern regions (such as the Public Development Corporation for Siberia and the Far East). A dominant opinion is that such corporations would not serve the support of eastern regions, but the exploitation of natural resources in favour of the Centre, and some financial and industrial groups of big cities, which would raise corruption risks higher.

However, a process of building an interregional innovation cluster (Novosibirsk Oblast – Tomsk Oblast – Krasnoyarsk Krai), the basis of which had been laid in the Soviet era, has started in spite of the difficult economic circumstances of the past decades including the impacts of the crisis, and it brought tangible benefits to these

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<sup>3</sup> However, the RF Urban Development Code requires the Scheme of Territorial Planning as a main document of strategic planning in addition to the Socio-Economic Development Strategy.

<sup>4</sup> At present, Sochi’s Olympics costs are assessed to have reached \$50 billion.

regions as the traditional resource specialisation of Siberia started to change. Within the framework of this cluster new institutions emerged (technoparks, special economic zones, technological platforms, etc.), and this could be regarded as an important indicator of modernisation in the Siberian economy. Moreover, the influence of such institutions is higher in Southern Siberia than in Russia as a whole. In all probability, innovation in the Siberian economy together with the new oil and gas fields in Krasnoyarsk Krai and Irkutsk Oblast will maintain higher growth rates in the region compared to the RF average in the coming years.

### **The Genesis of Russian Regional Policy**

In our opinion, taking into consideration the vast economic space of Russia and the strong disparities between its territories regarding both the availability and variety of natural resources and the levels of their industrial and social development, a new *regional policy* should become one of the priorities of the Russian government. For a long period, spatial development of the country as well as socio-economic policy have been given much less attention than deserved. In the Soviet era, they were replaced by a centralised distribution of the national productive forces. In the 1990s, deep in economic crisis, Russia could not have any regional policy since there were no financial and material resources for its realisation. Actually, Russian regions had to survive independently – in this period, various models of interregional barter and clearing of payments between local governments could be observed, giving at least some chance for federal subjects and cities to survive. In addition, at the turn of the century, the federal department responsible for regional policy was dismissed.

The 2000s saw a visible progress in the theory and practice of regional policy in the Russian Federation. Three simultaneous reforms were launched at the federal and regional levels – an administrative, a municipal, and a fiscal one. The harmonisation of regional and federal law was almost completed. The financial resources of regional policy increased, and new forms, instruments, and institutions of this policy appeared in Russia (in addition to the federal target programmes aimed at regions). In the process of building regional policy institutions, the most important step was the reconstitution of the RF Ministry of Regional Development, and steps were taken also to improve the structure of subnational public administration entities. The development of programme documents on regional strategies notably intensified at the level of the federal districts and RF subjects; and finally, documents reflecting the legal principles and concepts of regional policy were elaborated (such as the draft of the federal law *Concerning the Basic Principles of Governmental Regional Policy and the Procedure of Its Development and Implementation*

and the *Concept of the Socio-economic Development Strategy for Regions of the Russian Federation*).

In spite of all these important steps, regional policy in Russia gets much less attention than macro-economic and fiscal policies, reflected also in the volume of resources dedicated to its implementation. In fact, there is neither a legislative framework concerning regional policy nor a strategy of regional development for the country which would co-ordinate the different sub-strategies for macro-regions, federal districts, and subjects of the Federation. As a result, regional disparities in the economic and political space of Russia have increased, and the federal subjects and cities are condemned to depend on federal support (as it is considered the only way to respond to regional challenges). All this led to an excessive and exaggerated competition between regions.

The picture turned even worse by the implemented model of governmental regional policy chosen improperly, focusing only on the support of “locomotive regions”, and rejecting any effort to help the social and economic levels of regions converge. This approach (“polarised development” based on the governmental support of the “locomotive regions”) was declared the mainstream regional policy of the RF Ministry of Regional Development for many years. We believe, however, that regional policy should necessarily combine two priorities, supporting both depressive regions and regional “points of growth”.

By now, Russian regional policy has started to gain a new character, adopting world practices adjusted to the geographic characteristics and spatial development issues of Russia. Below, we list our recommendations related to further steps to be taken in the framework of regional policy:

- (1) The objectives of regional policy should be closely connected with those of improving Russian federalism, as in a federation regional policy has to fit in the whole federal model (e.g. related to issues of fiscal federalism and intergovernmental relations). The author’s research results came to the conclusion that Russia tries to imitate a model of competitive federalism instead of a co-operative one.
- (2) Even if regional policy is suggested to aim at certain regions (or groups of regions) in one respect or another, the assessment of the impacts of these actions on the rest RF subjects should be carried out. In other words, though any regional policy may be regarded as the “discrimination” of some regions, it should bring a positive overall effect to the system of regional co-operation, and such “discrimination” should never be sustained in the long term in order not to increase disparities artificially.
- (3) The regional policy of Russia should not be considered as the centre’s paternalistic policy towards the regions (even if the federal centre distributes financial subsidies for different territorial units). Regional

policy should enhance communication between the centre and the regions, and help create a system of horizontal co-operation, too. The development and implementation of an effective regional policy requires intensified processes of integration within the economic and legislative space of Russia, as well as new forms and mechanisms of regional interaction and co-operation between regions and the federal centre. First and foremost, intergovernmental relations (both vertical and horizontal ones) should acquire a new character, i.e. they should be based on the principles of equality and the consideration of mutual interests instead of the present experiences of subordination.

- (4) Russian regional policy should give up the practice of allocating federal support in exchange for political loyalty or ethnic stability; in addition, the limited financial resources of regional policy should not be dedicated to internationally representative super-projects mentioned above.
- (5) Regional policy should include a clear *social dimension*, incorporating the principles of justice and equality, but regional equalisation should not mean only the levelling of regional disparities since it is neither possible nor effective. Complex economic solutions are recommended to solve social problems, for a set of business projects to be implemented in certain regions cannot *build the conditions* for the development of regions and their social systems.
- (6) The improvement of regional policy should include strengthening its institutions. Special agencies (corporations) of regional development acting as institutions of regional policy on the regional and local levels could co-ordinate the interests of the authorities, business, and the public. The international practice of regional policy has proven the effectiveness of this approach.
- (7) Regional policy should fit in a broader nation-policy with due regard to the special characteristics of our national republics (such as those in the North Caucasus) and the autonomous regions (in Siberia and the Far East).
- (8) At present, unlike other policies, regional policy is especially closely linked with processes of democratisation and building an open society in Russia. Therefore, it should be based on public-private partnership and the institutions of civil society. We believe that changes in Russian regional policy will bring it closer to the EU cohesion policy, but this will require a new, co-operative model of federalism.



### **The Roots and Development of Russian Regional Studies**

The roots of regional studies in Russia date back to the Soviet era. Those days some of our scientific innovations represented the world standard, e.g. in the fields of the theory of regional production complexes and industrial hubs, the theory of regional co-operation, forecasting methods and models of regional development within the context of national economics. The studies of Soviet researchers focused generally on practical tasks (concentrating national production forces in Siberia, for instance), but they gave inputs also to the development of national strategic documents such as the General Plan of Allocation and Development of the Labour Forces in the USSR, the General Population Settlement Pattern, and contributed to regional planning. These papers were of interdisciplinary character (combining economics, economic geography, sociology, and urban planning).

However, not all new ideas could be realised in practice, for the Soviet economic and decision-making system rejected certain innovations. Not even the term “regional policy” existed in the regional studies of those days. Most studies were based on the primacy of national economic interests, and therefore, regional social and environmental problems were not given emphasis. Neither modeling and forecasting regional development in the USSR was based on the thorough study of the financial aspects of long-term development and intergovernmental relationships.

Some research results found before the collapse of the USSR, which could not be applied in the context of a centralised economy, gained new opportunity due to a certain level of independence granted to regions in post-Soviet Russia. For example, studies on the theory and models of regional interactions previously made by the Institute of Economics and Industrial Engineering of the Siberian Branch of the Russian Academy of Sciences (Novosibirsk) are in principle much more applicable in an economy where regions have certain independence, with own interests and freedom to form co-operations or coalitions.

However, the central government did not provide Russian science and regional studies with sufficient financial support, showing no demand for special regional studies in the 1990s. Still, the research centres of the Russian Academy of Sciences (RAS), and universities in Moscow, St. Petersburg, Novosibirsk, Yekaterinburg, Khabarovsk managed to survive and adapt to the new economic and political reality, utilising the availability of international co-operation.<sup>5</sup>

In the recent decade, many new problems were discussed in the framework of regional studies, focusing on the major problems of the present era. Main topics

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<sup>5</sup> Leksin and Shvetsova (2000) present a comprehensive picture of regional studies in Russia in this period, highly appreciating those of the 1990s, in spite of the difficulties in financing.

include the regional disparities of post-Soviet Russian space; regional policies; social problems of Russian regions; regional diagnostics; regional and municipal governance; migration flows and the development of transport infrastructure in the context of regulatory problems related to spatial development; spatial structure of information society, etc. The most noticeable research results in this field were presented by members of the RAS, namely by A. Granberg and P. Minakir, Prof. V. Leksin, Prof. A. Shvetsov, Prof. N. Zubarevich, and others. A new series of regional studies on modeling spatial economic systems and on the theory of regional co-operation were carried out by the IEIE SB RAS under the supervision of A. Granberg, associate member of the RAS, V. Suslov, and Prof. S. Suspitsyn (Granberg – Suslov – Suspitsin 2007, Suspitsin 2010). Researches on the theory, methodology, and practice of strategic regional planning developed rapidly, too.<sup>6</sup> The peculiarity of all these works lay in their interdisciplinary character, integrating the approaches of regional economics and new economic geography, economic, social, ecologic, and scientific/engineering aspects of regional development, discussing issues of economic and institutional theories as well.

In the 2000s, publications devoted to regional studies multiplied. Among them we could mention monographs (see, for example, Zubarevich 2007 and Shvetsov 2010), periodicals such as *Region: Economics and Sociology* published by the Siberian Branch of the RAS in Novosibirsk (Editor-in-Chief: Prof. V. Seliverstov<sup>7</sup>); *Spatial Economics* published by the Far-East Branch of the RAS in Khabarovsk (Editor-in-Chief: P. Minakir, member of the RAS); *Regional Economy* published by the Ural Branch of the RAS in Yekaterinburg (Editor-in-Chief: A. Tatarkin, member of the RAS).

Since 2010, the Pleiades Publishing Ltd. and the MAIK Nauka/Interperiodica have been publishing the journal *Regional Research of Russia* (in English, distributed by Springer, Editors-in-Chief are V. Kotlyakov and Prof. S. Artobolevsky, members of the RAS), which is a selection of articles from three Russian journals: *The Bulletin of the Russian Academy of Sciences. Geographic series*, *The Bulletin of the Russian Geographical Society*, and *Region: Economics and Sociology*. The foreign journal publishes those papers, which are supposed to be of foreign readers' interest.<sup>8</sup>

After the breakdown of the USSR, the position of Russian regional studies was consolidated by its scientific leader, A. Granberg, who initiated the programme *Basic Research on Spatial Development of the Russian Federation: Interdisciplinary Synthesis*, financed within the research framework launched by the Presidium of

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<sup>6</sup>The author devoted two of his monographs to this problem (Seliverstov 2010, Seliverstov 2013).

<sup>7</sup>Prof. Gyula Horváth is member of the editorial board.

<sup>8</sup>The author is Deputy Editor-in-Chief of *Regional Research of Russia*.

the RAS. The programme was implemented between 2009 and 2011, including 13 different lines of research such as the spatial transformations of the society; spatial demography and social environment; evolution, modernisation, and new exploration of economic space; fundamental problems of the united transport space; problems of building and developing Russian macro-regions and regional integration; scientific bases of the improved regional structure; building a system of regional planning, etc.

Almost 20 research institutes of the Russian Academy of Sciences were involved, and they came to new and interesting scientific results related to the theory and practice of regional studies and spatial development.<sup>9</sup> The author headed the project *Building the Multi-Level System of Strategic Planning: Methodology, Instruments, and Institutions (a case study for Siberia)* within the framework of this programme.

The death of A. Granberg (2010), the leader of Russian regional studies, weakened the positions of this field of science, but not dramatically. Taking into account the importance of spatial aspects in the development of the Russian Federation, the Presidium of the Russian Academy of Sciences adopted its resolution in 2011 on launching a new series of research for the period 2012–2014, *Modernization of Russia and Space: Natural Resources and Socio-Economic Potentials*, co-ordinated by V. Kotlyakov, member of the RAS and Director of the Institute of Geography of the RAS. This programme allows the discussion of the new economic and geopolitical reality, including 7 lines of research such as the development of the economic space based on a modernisation strategy; development of Russia within the global and Eurasian space; or the institutional and legal aspects of the regulation of spatial development. The author is scientific supervisor of the programme, and manager of the project *Public Administration and Regulation of the Spatial Development of Russia: from Strategic Planning to Strategic Governance*.

In all we can state that Russian regional studies are in progress, some of their achievements can be reckoned among the scientific breakthroughs of our age. Having seen the demand for regional studies in the recent decade due to the modernisation processes taken place in Russia, we believe that future international projects on regional problems could bring further good results, as it happened within the frames of our<sup>10</sup> co-operation with the Centre for Regional Studies, Hungarian Academy of Sciences. On the basis of the co-operation agreement concluded we anticipate further results of our joint work.

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<sup>9</sup> About the results of this programme see Kotlyakov – Glezer – Treyvish (2012) and a monograph devoted to the same issue is to be published in the near future.

<sup>10</sup> The Institute of Economics and Industrial Engineering, SB, RAS.

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# **YUGOSLAV SUCCESSOR STATES: AFTER THE FAILURE OF THE SOCIALIST FEDERATION, INTO THE FEDERALISING EUROPEAN UNION?<sup>1</sup>**

*Zoltán Hajdú*

## **Introduction**

Yugoslavia followed a specific development path rich in turns in the period following World War II. Until its disintegration in 1991, the country had contacts of varying content with both the West and the Soviet Union. The non-committed status of Yugoslavia, its special internal economic and social policy representing a “third way”, with special socialist elements, created the minimum bases of co-operation in both directions, except for some brief intervals.

In its internal relations, structures similar to other socialist states were dominant in many respects, but the birth of Yugoslav self-managing socialism endowed the country with unique features. Unlike most other socialist countries, Yugoslavia continuously remained open to the West in several respects. The conditions of organised emigration and mass employment abroad were gradually created.

The country developed its relations to the European Economic Community (EEC) from the mid-1960s on. In economic relations, the EEC became the most important trade partner for Yugoslavia, and in the framework of these relations the country was given development resources as well.

In the decades after 1945 Yugoslavia made continuous efforts to operate on constitutional grounds (for this purpose, four constitutions were approved: in 1946, 1953, 1963 and 1974). At different times, the constitutional foundation of the federation was an important issue. A subject of continuous debates was the regulation of the constitutional situation and the rights of the federal level and the member republics, and the two provinces within Serbia (Kosovo and Voivodina).

In practice, the will of Tito was enforced in almost all respects, and constitutionality was only seemingly respected. The foundations of the integration of the country were, from the beginning, the communist party and the army.

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<sup>1</sup> This research was supported by the FP7 Programme. Title of project is *Bordering, Political Landscapes and Social Arenas: Potentials and Challenges of Evolving Border Concepts in a post-Cold War World* (EUBORDERSCAPES), GA Nr. 290775.

The reform of the Constitution in 1974 was actually an act of the Yugoslav political elite to prepare for the post-Tito era. The “system” worked quite well in Tito’s life, but after his death in May 1980 first operational malfunctions, then crises broke out, and finally the constitutional arrangement reached the phase of inoperability, and the member republics chose their own separate ways.

In the history of Yugoslavia and the EEC a turning point was brought (in the opinion of both parties) by the Common Declaration approved in 1976 that deepened their relations.

The EEC was interested in keeping Yugoslavia in one for a long time, and made declarations on this. Still, in December 1991 an EEC member state, Germany, unilaterally recognised the sovereignty of Croatia and Slovenia, and as a consequence of this, in January 1992 the whole of the EEC recognised the independence of these two countries. (Which can also be interpreted as the escape of the two most advanced, most westernised countries with Roman Catholic majority from the unfolding chaos of the Balkans.)

The transforming European Union, redefining itself in many respects, played a significant role from 1992 on in supporting Croatia and Slovenia and in establishing their international relations. In the transformation processes of the other ex-Yugoslav states, especially in Bosnia and Herzegovina, the EU failed to help these processes. It was the UNO, the NATO and the USA that became the major actors in solving the problems there. The EU contributed to stabilisation in the fields of finance and development.

This brief analysis is an attempt to draw attention to the extremely complicated development of the European integration processes in the ex-Yugoslav member states. Slovenia, the most developed and most open of them, became member of the integration in the framework of a considerable enlargement wave in 2004, in fact, the country even met the criteria of introducing the Euro in a short time; Croatia will join the EU in the summer of 2013, so its integration took almost two decades.

Even more complicated accession processes are expected in the future. The economic and institutional crisis phenomena of the European Union after 2008, the serious internal problems of some of the member states will not accelerate, but probably slow down the accession of the other ex-Yugoslav member republics.

If the EU loses its attraction for some member states, for whatever reason, that will presumably affect some of the countries striving for accession. In the beginning it occurred only in Serb journalists’ analyses that the EU “stepped on the path of Yugoslavia”, but now one can read about the necessity of a radical transformation of the EU, and in the worst case even its disintegration, even in large Western newspapers and at the level of political evaluations.

### **The Relations between Yugoslavia and the EEC until 1991**

In 1965 Yugoslavia joined the GATT (General Agreement on Tariffs and Trade), thereby creating the basic conditions for expanding its western relations. In the longer run membership was not simply about customs and tariffs; it was about getting closer to integration into the economic systems operating in Western Europe.

In 1970 a trade agreement was made between the EEC and Yugoslavia for three years. The agreement allowed Yugoslavia to integrate into the economic development of the six member countries of the community in an organised form. The expiring agreement was extended by a five-year framework agreement in 1973. The principle of most favoured nations was also applied.

After 1974 ministerial level relations between the EEC and Yugoslavia became regular; also joint committees were set up in various fields for deepening the relations. Yugoslavia and the EEC signed the first comprehensive bilateral agreement in 1976. (It was the first time that a Yugoslav prime minister in office made a visit to the EEC centre.) The agreement, in addition to the development of trade relations, also allowed co-operation in several other fields (specifying economic policy, improvement of the balance of trade, transportation, environment, labour issues, and also scientific and technical relations).

These agreements greatly contributed to the EEC becoming a considerable factor in Yugoslavia in the development of trade relations, in fact, in the direction of the development of the economy. From the 1970s on Yugoslavia established specific, EEC dominated trade relations (in 1970, 33% of its exports went to the EEC and 40% of imports came from there). The socialist countries had a much lower proportion in the foreign trade of Yugoslavia. Although Yugoslavia also developed its relations to the Soviet Union and the COMECON (Council for Mutual Economic Assistance), these countries had only a secondary role in the foreign trade of Yugoslavia.

In 1976, for the first time, the EEC gave Yugoslavia loan for the development of areas specified in the bilateral relations. Approximately 60 million USD was approved by the EEC. In 1977 another loan was given to Yugoslavia for integrating the high voltage cables into those of Italy and Greece (Commission 1979).

In 1978 Yugoslavia was given another loan for the construction of its motorway system. The objective was to establish connections to the motorways in Greece and Turkey, as the membership of Greece was already anticipated at the time. Yugoslavia supported the accession of Greece to the EEC in the hope that its southern territories be developed by the new neighbourhood, which expectation partly came true later.



The most comprehensive impact of the EEC on the Yugoslav economy, society, families and individuals was through the reception of masses of guest workers (especially by the then Federal Republic of Germany after 1968). Although in varying proportions, all member republics sent guest workers to the EEC. (Within a short while, more than 1 million people showed up in the territory of the EEC for shorter or longer employment.) These experiences lead to growing skills, cultural impacts, and also prosperity through remittances.

On the whole, in the second half of the 1970s versatile relations, in fact, quasi strategic co-operations existed between the EEC and Yugoslavia. In the international conditions of the time, Yugoslavia was the most democratic, most liberal socialist country for the leaders of the EEC (but a socialist country, anyway; this could not be neglected as it was also expressed in the name of the country). The political, economic and social elite of Yugoslavia and also society at large learned about the internal relations and the rules of game in the EEC. In this respect Yugoslavia had an incomparable advantage over all other socialist countries.

In 1981 – already after the death of Tito – 70% of the industrial goods produced in Yugoslavia were shipped to the western markets free of duty, on the ground of the trade agreement between the EEC and Yugoslavia. Nevertheless, the volume of trade between the two partners decreased by 15% between 1980 and 1985, due to the unfolding economic crisis in Yugoslavia. The trade deficit of the EEC to Yugoslavia decreased from 4 billion USD to 1 billion. (It was partly the consequence of the Common Agricultural Policy that made Yugoslav agricultural and food products uncompetitive on the market of the Community.)

In 1988 the EEC renewed the status of Yugoslavia as a special trade partner for another five years. Theoretically by this the more and more apparent crisis of Yugoslavia was given a potential “tension easing” tool and some help from outside to solve the problems (Mariotti 1993).

The issue of full EEC membership was a matter of public talk, and also a topic of political debates from the late 1980s on. (It was promoted by Austria’s application for full membership status in 1989, while keeping its neutrality.) In Yugoslavia many thought that if it was possible for Austria to remain neutral as an EEC member, then Yugoslavia too might have a chance to keep its non-obliged status (Tsakaloyannis 1981).

As a member republic of Yugoslavia, Croatia (together with Slovenia) joined, as founding members, the activity of the Alpine-Adriatic Working Community in 1978. Both member republics were active in developing co-operation. The elites of these member republics were thus integrated into another international network by this co-operation, and they acquired important skills about the operation of such systems.

Parallel to the deepening internal political and economic crisis of Yugoslavia, in January 1990 the League of Communists of Yugoslavia (LCY) ceased to exist. Prime Minister Ante Markovic – a Croatian – who founded a party of his own (Union of Reform Forces) after the dissolution of the LCY and worked out a comprehensive reform programme, officially announced in 1990 that the achievement of full EEC membership was a priority goal. (An important consideration behind this announcement was to maintain and strengthen European relationships and to keep Yugoslavia together.) Markovic believed that it was EEC membership that could save Yugoslavia from disintegration and a civil war.

The EEC itself was engaged in processing the impacts of German unification and its own organisational restructuring, as preparations for transforming the EEC into the European Union were already on the agenda. Thus neither the immediate accession of Austria, Finland and Sweden (that became full members in 1995 only), nor the candidate status for the economically and politically instable Yugoslavia was timely (Accetto 2007).

The deepening and accelerating crisis that covered each field of life in Yugoslavia made the consolidated development of relations impossible. The country carried out a “violent self-liquidation” in which each republic had a substantial role, although of different magnitude.

In the course of Yugoslavia’s disintegration the federal institutions could not use or could only use their constitutional competencies with limitations. The conflicting interests of the member republics gradually made the operation of the Yugoslavian prime minister and the federal government impossible (Mastny 1999).

In December 1991 Germany and then in January 1992 the EEC too recognised the sovereignty of Croatia and Slovenia, contributing thereby to the self-liquidation of Yugoslavia and the international recognition of its disintegration (Aksoy 1994, Redeljic 2012).

### **Characteristics of the Relationship between the EU and the Sovereign Yugoslav Successor States**

The main factor affecting the development of relationships between the EU and the newly sovereign Yugoslav successor states was the way events took place in the respective countries. The development of relations is basically an evaluation of these processes. Croatia and Slovenia gained their sovereignty at the same time, recognised by the EU, and the internal processes in these two most westernised ex-member republics were basically different from those in other member republics (Rupnik 2011).

Slovenia “got out of Yugoslavia” without any major damages and large indebtedness, the experience of its sovereignty was primarily used for developing rela-

tions with the EU. The new state quickly settled its relations with its neighbours; it had a long lasting debate only with Croatia. More than a decade after gaining its guaranteed sovereignty, Slovenia acceded to the EU in 2004. (Besides EU membership the country also gained membership in the NATO in the same year.)

Croatia faced much more complicated internal problems when it gained sovereignty. It had serious material and demographic sacrifices when fighting for its sovereignty. The relations between Croatia and Serbia remained tense. The Croats in Bosnia had a complicated system of relations and they also had violent fights in Bosnia and Herzegovina with both the Serbs and the Bosniaks (Trbovich 2008).

President (1990–1999) Franjo Tudjman had the restoration of the territorial unity of the country as his primary goal, which was only achieved in 1998. President Tudjman considered the chance of EU accession as an important but only secondary issue coming after territorial unity and sovereignty.

The relations between Croatia and the European Union were settled in almost all respects only after October 2001. The EU and Croatia signed the stabilisation and association agreement, which made Croatia a candidate country. Croatia submitted its request for accession in February 2003. The EU realised that the internal institutional structures of Croatia were hardly compatible with the established EU systems, and a separate programme was launched and financed for the elimination of the “gap”, the institutional differences between the two parties (Stiks 2006).

Croatia participated in working out different Central European, Danubian and Mediterranean macro-regional development concepts. The completed materials of the programme called CADSES systematically analysed the characteristics of Croatia (being a Danubian, Adriatic and Southeast European country at the same time), and its problematic issues and macro-regional structural challenges were integrated into European spatial policy, planning and development.

The Croats had to settle, for the sake of accession, their relations with Slovenia. Although the two countries left the former Yugoslavia in co-operation, border debates and economic issues burdening their relationship were not easy to solve.

Croatia – together with Albania – became a member of NATO in 2009. NATO membership is not a prerequisite of EU membership, but belonging to the alliance accelerated the EU accession processes. In the summer of 2013 Croatia can already participate as a full member in outlining regional policy. However, Croatia’s adaptation is laden with the present economic crisis, and Slovenia too seems to adapt to the changing structural circumstances with difficulties.

In 2000 the EU offered West Balkan states the prospect of accession to the EU, and in the course of 2001–2008 the SAP (Stabilisation and Association Process) agreements had been concluded with practically all the countries concerned. Having become the number one financial and partly also political actor not only in the issues of these countries among each other but also in their internal relations, the

EU presumably had to take this step. The EU and the NATO gradually “surrounded” the region.

Without going into details of the accession processes and the various stages of the countries one by one, on the basis of the official “status definitions” of the EU we can say that in February 2013 Montenegro (a quiet member of the Euro zone) was already having accession talks, Macedonia and Serbia were official candidate countries, while Bosnia and Herzegovina had associate member status. Kosovo, a complicated country also for the EU (five member states have still not recognised its sovereignty) is having preliminary negotiations.

The relationship between Serbia and Kosovo has not been settled yet (as of spring of 2013). Both parties have specific long-term considerations for the development of their relations. Serbia actually connects the settlement of relations to awarding full territorial autonomy to the Serbs living in the northern part of Kosovo.

On the grounds of the present EU relations and the negotiation talks, the question is which countries will join the EU of what structure, and under what internal conditions. Amidst the ever sharper economic, financial and institutional-operational crisis, the European Union wants to develop itself into a federation. Internal debates are expected about the characteristics of this federation. By far not all member states are interested in the creation and future operation of a genuine federal structure. The member republics of the former Yugoslavia may have a specific contribution to the interpretation of the actual content of federation.

## Summary

The EEC and Yugoslavia had an intensively widening system of co-operation from the very beginning of the 1970s. The mutually advantageous relations were useful for both parties, but Yugoslavia did not manage to overcome either its international embeddedness in the bipolar world or its internal ideological foundations and limits.

The Yugoslav leadership started to seriously consider the possibility of EEC membership in 1990, at the time when the bipolar world was collapsing. The European partners at that time were mainly engaged in the reunification of Germany and the shaping of the European Union. The disintegration of Yugoslavia resulted in separate development paths in the former member states and their varied relations towards the EU.

Slovenia rapidly and successfully managed to overcome the obstacles raised by European expectations, while Croatia had more difficulties. The rest of the successor states – at different stages of the accession process – are now making their way to be included in the future enlargements of the EU. The internal (economic, finan-

cial and institutional) crises of the EU having started in 2008 will make the accession process more complicated than the earlier ones were. The EU must face the performance problems and adaptation difficulties of the states that became members after 2004.

The crises may challenge the dedication of countries even in the core area. The Euro-scepticism of Great Britain and a probable referendum may result in a new situation. We do not think that a real parallel can be drawn between the EU and the disintegration of Yugoslavia, neither do we believe that an observation and registration of the “stages of disintegration in Yugoslavia” should be made (“Will the EU end up like Yugoslavia?”). It is evident, on the other hand, that the solution of the crisis in the European Union requires fundamental changes.

In our opinion, the uncertainties and contradictions of the federal state system and in the definition of the competencies and levels of decision-making all contributed to the disintegration processes in Yugoslavia. However, it was not primarily a crisis of the federal state system that led to disintegration; rather, it was the unfolding economic, social, political, ethnic etc. conflicts that were reflected in the federal structures. It was the special socialist way that failed first in Yugoslavia, and then its omnipresent effects made the functioning of the federal institutional system impossible.

The disintegration of Yugoslavia has morals for the European Union as well: the integration has to find such a framework for dynamising and operating the economy which is acceptable for the majority of the members, and in its development towards a federation, the EU must consider that a significant part of the new members will probably insist on their sovereignty.

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# PROSPECTS OF CROATIAN REGIONS IN WESTERN BALKAN TERRITORIAL CO-OPERATION

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## Introduction

Cross-border co-operation (CBC) is an important part of European territorial co-operation policy and an integral instrument for achieving the objectives of EU cohesion policy and in particular of territorial cohesion. As all the countries in the Western Balkan (WB) region have declared their wish to join the EU, naturally, the European enlargement and neighbourhood policy is extended to this region. This is the main basis for the initiation of CBC programmes among the member states and the neighbouring WB countries, and since 2007 programmes have been implemented among non-EU member states, namely the candidate and the potential candidate countries within the WB.<sup>1</sup>

It has been a difficult time for the new independent countries of the WB region. Very soon after a series of conflicts in the 1990s, new development co-operation opportunities arose when the European Union regional co-operation programme commenced after the 2003 Thessaloniki Summit. Already in the context of CBC with member states, some WB countries gained their first experiences in CBC projects through the neighbourhood programme co-financed by the CARDS and Phare pre-accession funds.<sup>2</sup> A more systematic regional approach has been introduced with the Integrated Pre-accession (IPA) Programme covering all the WB countries (Croatia, Bosnia and Herzegovina, Montenegro, Serbia, Macedonia) and also including Albania, Turkey and Iceland (IPA countries).

In this paper, we are going to focus on the experiences gained from the perspective of the Republic of Croatia. Specific regional and local level experiences in the CBC process from a region in the eastern part of the country, namely the Vukovar-Sirmium County will be presented. This county is a NUTS 3 level region belonging

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<sup>1</sup> In 2013 Croatia will become an EU member state. Montenegro, FYR Macedonia and Serbia have a candidate status, while Bosnia and Herzegovina remain in a potential candidate status. In 2008 Kosovo declared independence and aims to become an EU member state as well.

<sup>2</sup> CARDS – Community Assistance for Reconstruction, Development and Stabilisation; PHARE – Poland and Hungary: Assistance for Restructuring their Economies.

to the region of Continental Croatia which has had a NUTS 2 level status since September 2012 and borders with Serbia and Bosnia and Herzegovina (BiH). It belongs among the regions that were mostly affected by wars and is one of the economically least developed regions according to 2010 regional GDP in Croatia (CBS 2013).

We shall deal with the following topics in this paper. First an assessment of CBC results in Croatia covered by the IPA programme 2007–2013 will be presented. Then we shall examine to what extent CBC can be considered as a good opportunity for institutional capacity building in the WB region. The analysis of the Croatian Vukovar–Sirmium County experiences in CBC projects with partners from the neighbouring countries, Serbia and Bosnia and Herzegovina, will also be presented. Then we shall deal with the meaning of the concept of European territorial cohesion in the WB context; and also with the ways in which CBC contributes to the development of the regions and peoples that were in conflict in the 1990s. As CBC emphasises partnerships at project level, the benefits as well as obstacles of this kind of co-operation will be analysed too and conclusions be presented at the end of the paper.

### **The European Concept of Territorial Cohesion in the Western Balkan Context**

Territorial cohesion as a new cohesion policy objective of the European Union is widely accepted as an important third development aspect, but its meaning is still differently understood when viewed from the perspectives of different member states. This is first of all due to the different spatial planning traditions and also to the fact that territorial or spatial development is still in the primary competence of the national and not the EU level. As a result of a long process of developing an adequate policy approach at the supranational level, territory or space in the EU context is viewed in a much broader and multi-dimensional sense overarching the administrative boundaries of territories and the development processes going on within and among them. Clearly, it is very hard to define regions and their boundaries in a uniform and all-encompassing way. Depending on the purpose of governing and the nature of such divisions (e.g. administrative, natural, geographic, historical, or religious), there can be subnational, supranational, transnational and/or cross-border regions.

Since the 1990s significant efforts have been made by both scientific and regional policy communities, in the frame of ESDP and ESPON, to broaden the understanding of development processes in a spatial context.<sup>3</sup> Furthermore, in his report Barca (2009) emphasises the importance of placed-based policy and the role of the

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<sup>3</sup> ESDP – European Spatial Development Perspective; ESPON – [www.espon.eu](http://www.espon.eu).



EU in cross-border co-operation, as there are evident interdependencies and externalities that can be better handled in an EU context. The most recent policy-related processes can be linked to the Territorial Agenda of the European Union 2020 (TA2020) adopted at the Informal Ministerial Meeting of Ministers responsible for Spatial Planning and Territorial Development in Hungary in 2011 (IMMM 2011). As emphasised in the background document for the TA2020 (Ministry of National Development and VÁTI 2011, p. 14) and in the Green Paper on Territorial Cohesion (EC 2008), the notion of territorial cohesion refers to multiple levels of governance and its integrative character. It is seen as a tool for building networks of functional areas. And what is even more important, it represents a change in spatial paradigm strengthening the interdependences of regions.

The notion of “territory” was one of the key reasons for the split up of former Yugoslavia. Economic, social as well as territorial cohesion, though not named in that way, were integrated into the policy framework of “brotherhood and unity” of the former socialist system until 1990. In this sense, the policy objectives of the EU are very familiar to peoples in the WB, unfortunately having ended with a tragic break-up. Today the former republics, except Slovenia, are countries belonging to the WB region, and are all in the process of EU integration. In a historical perspective, CBC and territorial cohesion in the WB region is characterised by two controversial features. The first one refers to a good basis for reviving old ties and relationships, since the WB countries once co-operated within the same state (Đokić – Sumpor 2011). The other one relates to the difficulties among peoples that only recently were in tragic conflict which cannot be easily overcome by a rationalist approach, whereas development depends to a large extent on trust and good social relations. In this respect, participatory planning can be considered as a useful approach, but it needs time, money and social competence. Since regional co-operation in the WB has been defined as a key policy priority of the EU (EC 2005), CBC programmes have been implemented between the WB countries, funded by the IPA programme (component II).

As already recognised in the Lisbon Treaty, cross-border territories often face several difficulties due to geographical obstacles, such as a mountain or rivers, and also other barriers like language, culture etc. that need to be surpassed by cross-border information, education and training. Non-harmonised legislation and European legislation are implemented differently across borders. This hampers the mobility of labour and services. Also, EU sector policies are not always appropriate for the specific context of the cross-border regions (EC 2009). Such difficulties are faced by governments involved in such co-operation as programmes with EU members and IPA countries are bilateral. Institutional structures, processes and procedures differ for each programme, and though EU regulations are common, differences occur in implementation. As experiences across the WB differ due to

different levels of development, the following chapters present findings from a Croatian perspective.

### **The Implementation of the IPA CBC Programmes in Croatia**

Croatia participates in eight CBC programmes within the IPA CBC Programme 2007–2013. Therefrom six operational programmes are bilateral with neighbouring countries, while the regional ones involve several countries in the Adriatic and South East Europe. All programmes are elaborated in accordance with the EU programming methodology, following standard steps in strategic planning, containing strategic objectives, priorities and measures, defined implementation procedures and structures. Programmes are implemented through grant schemes and calls for project proposals (CfPs) with predefined financial allocations.

Based on data presented in Table 1 and Figure 1, it is evident that the most active programmes and the corresponding numbers of projects are contracted with neighbouring EU members (85.6%), registering increase in the last two years. This development is due to Croatian partners' experiences in CBC at all governance levels with EU neighbours (Slovenia, Hungary and Italy). As of January 2013, the total contracted amount is 75 million euro, almost 85% of which comes from IPA sources, while the remaining sum is co-financing by the project applicant and/or partners.

Almost three quarters of all projects funded through seven (out of 16) calls for project proposals are linked with partners from EU member countries. The relatively weaker results with non-EU members can be interpreted as first steps in the re-establishment of cross-border relations with neighbours that used to belong to the same country, but where besides physical, also social and economic ties were damaged as a consequence of the war in the 1990s. Also, the funds for grant schemes with the WB countries were much lower than those allocated for co-operation with EU member countries.

There are also differences in size of projects in financial terms (see Table 2). Projects implemented with partners from EU member countries are generally larger and almost double in value. Depending on the overall value of the CBC programmes, the project minimum and maximum values are predetermined in the application guidelines. Since the programmes with the EU member states have larger overall budgets, the maximum values of the projects are higher than of those with non-EU member countries. These figures vary considerably among CBC grant schemes and CfPs as a result of differences in the nature, content and finally the budget of projects. The data quoted here are from an intensive period when many CfPs were opened to potential applicants, the number of projects tripled and the number of partners increased. It can be concluded that partnerships established



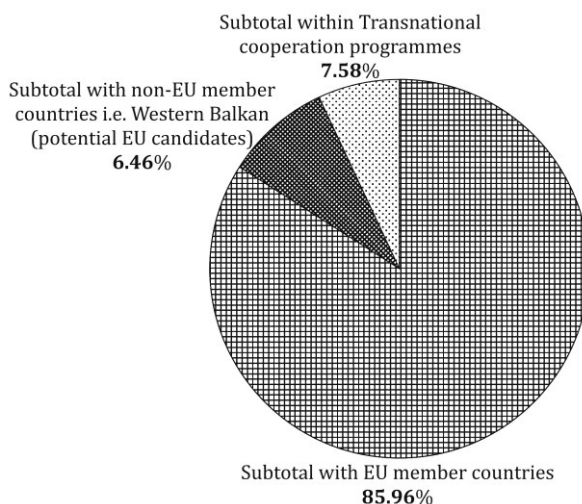


Figure 1. Distribution of projects by type of IPA CBC Operational Programme

Source: Authors' calculation based on data provided by Republic of Croatia, Ministry of Regional Development and EU Funds, 2011 and 2013.

Table 2. Average size of projects per CBC programme groups

	EUR
Average size of projects (with EU member countries)	266,828.76
Average size of projects (with non-EU member countries)	124,504.85
Average size of projects (transnational programmes)	129,375.84

Source: Authors' calculation, 2013.

during the first CfPs continued in the next ones, meaning that the overall number of partners has not changed considerably.

Results obtained from other CBC programmes also show positive trends, especially the transnational programme South Eastern European Space (SEE) with four CfPs and considerable changes in all categories: increased number of projects, number of partners and total amount contracted. Partners may come from various regions according to the guide for applicants, while territorial eligibility for the location where projects can be implemented is specified in each CBC programme. Overall, CBC projects have been implemented in 18 counties. Most of them in the Osijek–Baranya County (75) followed by the Medjimurje County with 36 projects.

The top four counties (Table 3) represent more than a half of all CBC projects, while the first seven counties carry three quarters of all CBC projects in Croatia. In the remaining 14 counties, a total of 78 CBC projects have been implemented,

which is almost the same number as in Osijek-Baranya County. Technical assistance projects (9) have been carried out within three bilateral CBC programmes, i.e. Croatia – Bosnia and Herzegovina, Croatia – Montenegro and Croatia – Serbia.

As can be seen in Table 4, projects funded from four CBC programmes have been implemented in the City of Zagreb, Istria and Dubrovnik–Neretva County. As each programme has specific institutional and administrative structures, as well as varying priorities and measures, implementation of the respective project management structures requires a certain level of flexibility and adaptability. Thus the personnel must have expertise in EU funded project management and also specific expertise in thematic fields addressed in individual CBC programmes. In two border region counties, Lika–Senj and Brod–Posavina, no CBC project has been implemented. It can only be assumed that applicants from these counties participated in CfPs, but were not successful.

Table 3. Number of projects per county

No.	County	Number of projects	Share in total (%)	Cumulative (%)
1.	Osijek–Baranya	75	23.73	23.73
2.	Međimurje	36	11.39	35.13
3.	Istria	31	9.81	44.94
4.	City of Zagreb	26	8.23	53.16
5.	Koprivnica–Križevci	26	8.23	61.39
6.	Primorje–Gorski kotar	25	7.91	69.30
7.	Dubrovnik–Neretva	19	6.01	75.32
8.	Virovitica–Podravina	17	5.38	80.70
9.	Vukovar–Sirmium	12	3.80	84.49
10.	Split–Dalmatia	11	3.48	87.97
11.	Varaždin	8	2.53	90.51
12.	Krapina–Zagorje	6	1.90	92.41
13.	Karlovac	5	1.58	93.99
14.	Zagreb (County)	5	1.58	95.57
15.	Sisak–Moslavina	4	1.27	96.84
16.	Zadar	4	1.27	98.10
17.	Šibenik–Knin	3	0.95	99.05
18.	Bjelovar–Bilogora	2	0.63	99.68
19.	Požega–Slavonia	1	0.32	100.00
20.	Brod–Posavina	0	0.00	100.00
21.	Lika–Senj	0	0.00	100.00
	TOTAL	316	100.00	–
	Technical assistance	9	–	–

Source: Authors' calculation, 2013.

Table 4. Participation of counties (NUTS III regions) in CBC programmes

	ADRIATIC	CRO-BIH	CRO-MN	CRO-SER	SEE	HU-CRO	MED	SLO-CRO	Total	
									Projects	Programmes
Bjelovar-Bilogora						2			2	1
Brod-Posavina									0	0
City of Zagreb	5			16			2	3	26	4
Dubrovnik-Neretva	11		5	2			1		19	4
Istria	16			4			2	9	31	4
Karlovac		2						3	5	2
Koprivnica-Križevci				3		23			26	2
Krapina-Zagorje								6	6	1
Lika-Senj									0	0
Međimurje						30		6	36	2
Osijek-Baranya					7	64			75	3
Požega-Slavonia						1			1	1
Primorje-Gorski kotar	13				3			9	25	3
Sisak-Moslavina			4						4	1
Split-Dalmatia	9		2						11	2
Šibenik-Knin	2				1				3	2
Varaždin						3	1	4	8	3
Virovitica-Podravina						17			17	1
Vukovar-Sirmium					4				12	3
Zadar	2	1			1				4	3
Zagreb (County)	1				1			3	5	3
TOTAL	59	14	5	38	11	140	6	43	316	8
Technical assistance		3	3		3				9	3

Source: Authors' compilation, 2013.

**Cross-border Co-operation in the Vukovar–Sirmium County (VSC)**

CBC is an integral part of EU regional policy aiming at economic, social and territorial cohesion to reduce the negative impacts of borders and differences in development levels of various European regions. The Vukovar–Sirmium County (VSC) Government recognised the importance of cross-border co-operation already in the pre-accession stage and it actively participated in the IPA 2007–2013 programme. There were two rounds of calls for CBC project proposals in which the county participated and it intends to participate also in the third and final round in the second quarter of 2013.

The first CfP within the IPA CBC programmes was released in March 2009. For the IPA CBC Programme Croatia–Serbia (CRO–SER) there were a total of 111 applications, out of which 31 proposals related to VSC territory. VSC was partner in six projects and lead partner in one. For the IPA CBC programme Croatia–Bosnia and Herzegovina (CRO–BIH), the total number of submitted proposals was 103 out of which 12 is linked to VSC territory. VSC was partner in three projects, while in one project it was leader. The second CfP was released in June 2010. Out of 154 submitted project proposals within the IPA CBC CRO–SER call there were 38 applications from the territory of VSC. For the IPA CBC CRO–BIH there were 153 project proposals, wherefrom 10 projects were submitted from partners in VSC. VSC had the lead partner function in 2 proposals.

In Table 5 below, a selection of nine CBC projects from the 1st and 2nd CfP implemented on VSC territory is presented.

The experiences and findings regarding partnership creation, project preparation and project management in VSC are summarised below.

*Partnership* – Challenges in the preparation of CBC projects are primarily related to finding adequate and reliable partners. “On-line forums” for partner search are helpful and important, but good partnerships were rather created through personal meetings, organised by the Joint Technical Secretariats (JTS). By defining a project idea that satisfies the needs of CBC partners, the functional lead partner takes overall responsibility for project implementation and proper budget execution, co-ordination of project preparation and implementation. Project teams harmonise their views and needs and co-ordinate activities in accordance with the differing statutory regulations applicable in each country. Also, geographic distance of partners represents technical problems in co-operation. This limiting factor is sometimes crucial, when finalising partnerships and harmonising the communication flows. Sometimes it is a key problem to find a partner that is truly interested in the project.

Table 5. CBC projects on the territory of Vukovar–Sirmium County

Programme/ Project	Applicants/ Partners	Project value/Duration	Objectives
<i>IPA CBC CRO–BIH 2007–2013</i>			
Joint efforts for innovative environment	<i>Applicants:</i> Agency for Development of VSC – Hrast d.o.o.(CRO), The Independent Bureau for Development (BiH) <i>Partners:</i> Vukovar–Sirmium County (CRO), City of Vinkovci (CRO), Municipality of Odzak (BiH)	€ 226,887 14 months	Improve competitiveness of SMEs in Posavina and Vukovar–Sirmium County and achieve long-term sustainable co-operation of business support institutions and entrepreneurs
Innovative networking and collaboration of entrepreneurs in the City of Tuzla and Vukovar	<i>Applicants:</i> City of Vukovar (CRO), City of Tuzla (BiH) <i>Partners:</i> Vukovar Business Zone	€ 393,570 24 months	Strengthen institutional and economic co-operation between two cities by building network of SMEs
ABCDE Posavina (Agricultural Biomass Cross-border Development of Energy in Posavina)	<i>Applicants:</i> Energy Institute Hrvoje Pozar (CRO), Institute for Genetic Resources, University of Banja Luka (BiH) <i>Partners:</i> Vukovar–Sirmium County, Brčko District, Municipalities Orasje, Odzak, Domaljevac-Samac, Samac, Government of Brčko District	€ 320,100 24 months	Promote use of agricultural biomass for energy purposes and facilitating investment in projects of energy use of agricultural biomass
IRRI – The Irrigation Project (Irrigation)	<i>Applicants:</i> Municipality of Lovas (HR), Municipality of Odzak (BiH) <i>Partners:</i> Municipality of Tompojevci, Vukovar–Sirmium County, Association of Irrigation Systems Users Opatovac, Associations for Irrigation Users Tompojevci, Municipality of Samac, Association – Independent Bureau for Development	€ 127,192	Contribute to yield increase in agriculture and farmers' income in Croatia and Bosnia and Herzegovina through education and setting up irrigation systems at demonstration fields



Table 5 (continued)

Programme/ Project	Applicants/ Partners	Project value/Duration	Objectives
<i>IPA CBC CRO-SRB 2007-2013</i>			
Improving the international cycling route danube – Cycling Danube	<i>Applicants:</i> Vukovar–Sirmium County (CRO), Municipality of Backa Palanka (SRB) <i>Partners:</i> Tourist Board of VSC, Osijek–Baranja County, the Tourist Board of Municipality of Backa Palanka, Municipality of Bac, Municipality of Backi Petrovac, City of Novi Sad	€ 364,764 18 months	Strengthen recreational cycle-tourism in the CBC region
REPRO – Cross-border exchange of renewable energy	<i>Applicants:</i> Municipality of Tovarnik (CRO), Municipality of Backa Topola (SRB) <i>Partners:</i> “Eco Energy in Serbia and Environmental Cluster” Backa Topola (Serbia), Eko-Sustav (CRO), Municipality of Lovas (RH)	€ 191,129 24 months	Improve knowledge in Backa and Sirmium on management of renewable energy systems
Establishment of the Centre for the Improvement of Knowledge in Rural Tourism	<i>Applicants:</i> Tourist Board in Vukovar (Croatia), Municipality of Backi Petrovac (SRB) <i>Partners:</i> City of Vukovar, Municipality of Backi Petrovac	€ 378,008 24 months	Improve economic and social life of rural population in project area and achieve reliability of service quality in rural tourism by applying the knowledge and skills acquired in the process of education
Libraries for the New Age	<i>Applicants:</i> Library of the City of Vinkovci (CRO), International Aid Network – IAN, Belgrade (SRB) <i>Partners:</i> Library of the City of Vukovar, Library of the City of Zupanja, Municipal Public Library & Reading Room Drenovci, City Library & Reading Room Ilok, National Library Dr. Djordje Natosevic Indjija, National Library Kula, National Library Veljko Petrovic–Backa Palanka	€ 137,433	Contribute to social, economic, cultural and digital inclusion of target groups by increasing capacities of libraries, increasing the competitiveness of the unemployed on the labour market, providing access to information to marginalised groups and promoting interethnic tolerance
Cross-border co-operation for investment promotion	<i>Applicants:</i> Municipality of Gradiste <i>Partners:</i> TINTL, Municipality of Lovas, Town of Ilok (CRO), Agency NALED, Municipality of Odzaci, Municipality of Kula (SRB)	€ 525,854	Promotion of business zones and attracting potential investors

*Source:* Vukovar–Sirmium County, 2013.

*Human resources* – Co-operation in cross-border projects is a particular challenge for all involved partners. The most common difficulty emerges in connection with the human resources of the interested parties. Insufficiently skilled and educated personnel and the lack of practical experience are major obstacles in developing good and implementable project ideas.

*Project formulation and budget* – The main challenge for the project teams is to work out the activities, results and objectives that are the backbone of each project. Misunderstanding the project cycle often results in serious errors, for example, when preparing the project budget; project costs are recklessly calculated and unrealistically linked to the project activities. Many potential applicants for EU funds think that the most challenging part is to obtain funding, but those who have already obtained it know that the real problems come after the contract is signed.

*Beneficiaries* – Project beneficiaries always have the best intentions during project preparation. But even the best prepared projects almost always face unforeseen situations and risks in implementation. Fund beneficiaries often find themselves in a situation that they did not spend all approved funds or that they must repay the funds that were not properly spent. The biggest problems occur in managing the project budget, the public procurement processes regulated by EU rules and in reporting on the implementation of the project.

*Implementation* – Partners do not always understand the project implementation process, the interdependencies in project activities and the necessity of respecting deadlines. The negligence of one partner can endanger the entire project. It is a further significant problem that project implementation monitoring bodies set up on the two CBC sides are not properly harmonised. It occurs that the project implementation report from one side of the border is accepted, while the same report from the other side gets rejected or clarifications are requested. Finally, it also happens that for the same joint project two completely different reports are produced.

*The project team* – Its quality, expertise, and experience is of particular importance. Regardless of project type or complexity, a good project team can contribute to and must be responsible for successfully implementing the project by effectively controlling each phase of the implementation and by timely identifying possible errors or irregularities that could jeopardise the project.

## Conclusions

In general, it can be concluded that EU CBC programmes positively influence the evolution of regional and local development practices. From the experiences of Vukovar–Sirmium County it is clear that with a well-developed strategy, a good

idea, sufficient knowledge and will, many projects can be co-financed from EU funds. It is important to strengthen human resources for effective project preparation and management, to achieve efficient project implementation. In Vukovar–Sirmium County a number of individuals have developed project management skills through regular training and experience.

In addition, experts and consultants involved in EU project preparation also gained knowledge, while further experiences were gathered by all those involved in the project implementation process. However, as awareness is rising only slowly since administrative procedures require new ways of thinking and working, this process is, like many others, evolutionary and so cannot be pushed, only fostered and skilfully facilitated.

Positive results of CBC experiences in Croatia can also be seen in the transfer of institutional know-how toward the WB neighbours through co-operation in sustainable economic, social and environmental development. The EU accession process represents an opportunity for territorial cohesion in the WB region. This process is helped by territorial co-operation based on rules set by the EC and the responsible managing authorities. Of high importance are transparent procedures based on which better governance practices can evolve through co-operation in new institutional settings and territories.

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