

# **Regional Economic Policy Review**

## **Paper 3 - International Perspective Regional Economic Policy Advisory Group**

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## 1. Introduction

1. This is the third of a series of papers contributing to the Regional Economic Review. The overall aim of the review is to consider the use of regional geographies and structures to deliver more effective inclusive growth. The review will evidence why, and crucially in which policy areas, economic development works well on a regional scale.

2. This paper takes an international perspective, reviewing regional disparities and regional policy responses in selected European countries – Denmark, Finland, Iceland, Ireland, Norway, Sweden – together with New Zealand and Canada. The coverage of Denmark, Finland, Ireland, Norway and Sweden is drawn from research undertaken by the European Regional Policy Research Consortium,<sup>1</sup> EoRPA, managed by the European Policies Research Centre at the University of Strathclyde. The EoRPA research is supplemented by studies undertaken by OECD and other sources.

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<sup>1</sup> EoRPA is a research programme on the design and implementation of regional policy funded by government departments in Austria, Finland, Germany, Italy, Netherlands, Norway, Poland, Portugal, Sweden, Switzerland and the UK (including Scottish Government)

## 2. Trends In Regional Disparities

### 2.1 International trends

2.2 The most recent overview of disparities and problems in the EU is provided by the 8<sup>th</sup> Cohesion Report (8CR).<sup>2</sup> Its opening message is that “Cohesion in the European Union has improved, but gaps remain”.<sup>3</sup> This reflects the positive progress with convergence between less-developed regions and the EU average, but concern with the economic stagnation or decline of middle-income and less developed regions, especially in the southern EU Member States, and suggestions that they are in a ‘development trap’. Recent regional GDP data show a continued and pronounced core-periphery map of economic disparities across Europe, as well as significant gaps between capital city / metropolitan regions and other regions.

2.3 Regional disparities in key labour market indicators are still higher than before 2008, indicating the long shadow of the 2008-10 financial and economic crises. Crucially, there has been mixed progress in reducing disparities in some of the key growth factors (e.g. innovation, entrepreneurship) that explain the widening differences between so-called ‘frontier regions’ or ‘regional high-income clubs’. Indeed, the 8CR notes that “the regional innovation divide in Europe has grown”.<sup>4</sup> Other indicators in areas such as basic digital infrastructure, environmental pollution and quality of governance also remain wide.

2.4 Further challenges have arisen from the impact of the COVID-19 pandemic, which is estimated to have increased the number of people at risk of poverty and social exclusion by five million in 2020. And looking forward 30 years, there are new so-called ‘drivers of disparities’ – the green and digital transitions, demographic change, threats to social mobility and quality of life - potentially exacerbating the geography of discontent. The 8CR concludes that “without a clear territorial vision of how these processes will be managed...a growing number of people may feel their voices are not heard and the impact on their communities are not considered, which may fuel discontent with democracy”.<sup>5</sup>

### 2.5 Key trends for comparator countries

2.6 Relatively limited socio-economic disparities, but challenges of demographic change and physical geography.

2.7 For the selected countries in this paper, regional socio-economic performance is generally better for core GDP and employment indicators than OECD and EU averages. New Zealand has the lowest regional disparities among 30 OECD countries with comparable data, when the richest and poorest regions representing

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<sup>2</sup> European Commission (2020a) [Cohesion in Europe towards 2050: Eighth report on economic, social and territorial cohesion](#), Luxembourg, Publications Office of the European Union

<sup>3</sup> European Commission (2022a) *op. cit.* p. xiii.

<sup>4</sup> *Ibid.* p.xxi

<sup>5</sup> *Ibid.* p.xxii.

at least 20% of the population are taken into account, and regional inequality has been declining over time.<sup>6</sup>

2.8 Territorial disparities become more pronounced at a greater level of disaggregation, revealing problems in specific regions/sub-regions related to demography (e.g. population density, migration, ageing, labour shortages) and physical geography (e.g. remoteness, accessibility, climate) (NO, DK, FI, SE).

2.9 There are notable inter-regional differences in terms of the well-being indicators,<sup>7</sup> with the largest disparities across the analysed countries observed in the areas of access to services (CA, FI, IE, NZ), safety (CA, DK, NZ), health (CA, NO, NZ), jobs (FI, NZ, SE), and housing (CA, NO, SE). In Iceland, the well-being regional gap is insignificant across all indicators, with all of its regions ranking among the top 20% of OECD regions in the dimensions such as access to services, environment, jobs, life satisfaction and sense of community.

2.10 There are also marked differences in terms of the types of challenges faced by different types of regions. In Sweden, for example, the key issues for northern regions are related to remoteness and demographic challenges of declining and ageing population, labour shortages, and the perceived lack of social network support; whereas the urban areas predominantly in the south are facing issues related to infrastructure and housing shortages, balancing growth with environmental considerations, and addressing increasing social polarisation problems.

### **Territorially differentiated patterns of productivity growth**

2.11 Analysis of productivity growth across regions within countries since 2000 points to the marked differences between two groups of countries. On the one hand, Denmark, Finland, Ireland, Norway and Sweden have followed a regionally distributed productivity growth model, wherein differences in productivity growth rates across regions are mainly limited, with no single region standing out and few large differences. By contrast, the two non-European countries (Canada and New Zealand) followed a regionally concentrated productivity growth model, wherein regions at the productivity frontier contribute disproportionately to aggregate productivity growth, there is a clear gap between the region with the highest contribution to productivity growth and all remaining regions, and regional disparities in productivity levels have widened over time.<sup>8</sup>

### **Persistent gap between capital region / large urban centres and rural/peripheral areas**

2.12 Despite the relatively limited socio-economic disparities, the urban-rural divide, and particularly the gap between the capital / metropolitan regions and remote / rural areas, remains prominent. For example:

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<sup>6</sup> [Regions and Cities at a Glance 2020 \(oecd.org\)](#) [Regions and Cities at a Glance 2020 \(oecd.org\)](#); [How unequal are our regions? \(infometrics.co.nz\)](#)

<sup>7</sup> [OECD Regions and Cities at a Glance 2020 | en | OECD](#); [OECD Regional Well-Being \(oecdregionalwellbeing.org\)](#)

<sup>8</sup> OECD (2019) OECD Regional Outlook 2019: Leveraging Megatrends for Cities and Rural Areas

- Ireland: the main regional divide is between the Dublin and Mid-East areas versus the more rural west and south-west.
- Norway: the highest employment rates are in Oslo and the coastal regions from Rogaland to Trøndelag.
- Sweden: economic activity and population are concentrated in the metropolitan regions (e.g. Stockholm) and regions with larger cities that are able to offer more attractive and diverse opportunities for people and businesses. The opposite prevails in many remote and rural regions, especially in northern Sweden but also in other areas such as in the south-east of the country. Highly educated and young people in particular are drawn to larger urban (metropolitan) regions, while smaller and medium sized (more peripheral) regions experience out-migration.

### 2.13 Challenges related to demographic trends and physical geography inhibiting growth prospects in remote / rural regions

2.14 Rural / peripheral regions often face specific challenges related to the demographic structure, service provision, labour and skills shortages, productivity, as well as physical geography, such as climatic conditions, accessibility and long distances to services and markets.

- Ireland: particular challenges face the more remote and rural regions, which have an older population, higher rates of part-time employment, higher dependence on SMEs, lower median incomes, higher dependency ratios and higher poverty rates than the national average.
- Denmark: productivity is beginning to lag behind in the small and relatively peripheral region of Northern Jutland.
- Norway: labour and skills shortages, age dependency ratios, quality of public services and challenges of business development in remote and rural areas have become pressing issues. While the proportion of elderly people in the population is expected to increase in all counties, the more remote areas are expected to be more affected.
- Sweden: economic development in rural/peripheral areas is challenging due to the lack of skilled labour, increasing old-age dependency rate, weakened tax base, and the increased need to provide essential services. This development pattern has made it more difficult to deliver equal public services across the country and further intensified the existing regional disparities, deepening the gap between metropolitan and rural regions.<sup>9</sup> Overall, growth prospects in the rural heartland areas, sparsely-populated rural areas as well as in smaller cities and towns are estimated as being considerably lower.

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<sup>9</sup> Tillväxtnalys (2018) *Regional agglomeration of skills and earnings – from convergence to divergence?* PM 2018:09

- Iceland: while the population in the capital region has been growing in recent years, population development has been less positive or negative in many of the remote and rural areas, particularly in northwest and east of the country.<sup>10</sup>
- Canada: ageing challenges are affecting most non-metropolitan regions. While major city-regions have low elderly dependency rates (27%), around one-quarter of small regions have an elderly dependency rate of 40% or higher.

2.15 Patterns of physical geography, including distance from services / main economic centres, remain an important factor behind regional disparities.

- Denmark: the main spatial differences within each of the regions mainly reflect distance from the main agglomerations / urban economic centres in the eastern parts of Zealand (metropolitan Copenhagen) and East Jutland.
- Ireland: the average distance to services in more remote and rural regions is longer than in urban areas, which raises challenges for delivery of services.
- Norway: accessibility and long distances are also among the key issues at the core of territorial disparities.

### **Spatially differentiated impacts of COVID-19 within countries**

2.16 The crisis triggered by the pandemic has had a highly differentiated impact within countries and across different types of regions. Economically stronger and more globally integrated (e.g. into international value chains, global markets and mobility networks) regions, especially capital regions and large metropolitan areas, have been particularly strongly affected by the effects of the pandemic and containment measures, including in terms of GDP, employment and business liquidity indicators.

2.17 Across all countries, regions with higher specialisation in the tourism sector have been particularly affected e.g. western counties of Ireland (Galway, Mayo, and Roscommon). Containment measures were particularly challenging for border regions, especially those with a high number of businesses and trade linked to markets in a neighbouring country. In Sweden, areas located on the border with Norway (Västra Götaland) faced an increase in unemployment of ca 75% between November 2019 and November 2020 due to the interruption of cross-border trade and services.

2.18 The concentration of economic activity and population is often expected to continue to favour large urban areas in the recovery stage. Recovery rates are expected to be slower in lagging areas, with potentially increased long-term unemployment. There are particular challenges for more remote and rural regions, although the increase in distance working and some relocation of people from cities to rural and remote areas (in Finland, Norway and Sweden) could provide new development opportunities, especially for those areas that are experiencing depopulation.

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<sup>10</sup> [Iceland Territorial](#)





### 3. Regional Policy Objectives

#### 3.1 Main policy objectives and frameworks

3.2 The formal objectives of regional policies in the five countries focus on the development and growth throughout the country (DK, IE), or ensuring development of all regions while simultaneously reducing regional disparities by focusing on specific disadvantaged or problem regions (FI, NO, SE, CA, NZ).

| Country     | Key regional policy objectives                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|             | Development of all regions and focus on problem regions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Finland     | Development of the entire country, but with a place-based approach that promotes regionally distinctive strategies and interventions. In addition, a specific focus on the sparsely-populated areas.                                                                                                                                                                                                                                                                                                                                              |
| Norway      | Regional development policy comprises district (rural) policy focused on northern and other remote / sparsely-populated areas, and regional policy, focused on economic development in all regions. The goal is 'regional balance through growth, equal living conditions and sustainable regions throughout the country'.                                                                                                                                                                                                                        |
| Sweden      | Development of all parts of the country, but a territorial dimension recognises different conditions for sustainable regional development in different regions (different types of urban, rural and sparsely-populated areas). The underlying principle is 'the more parts of the country that are strong and sustainable, the better it is for Sweden'.                                                                                                                                                                                          |
| Iceland     | All regions apart from three main metropolitan areas are eligible for Provincial Growth Fund funding (the government's key regional economic development policy). Regions identified as needing the most assistance are prioritised.                                                                                                                                                                                                                                                                                                              |
| New Zealand | The national regional development strategy places a special emphasis on economically disadvantaged regions, whereas the operations of the Regional Development Institute are aimed at strengthening settlements predominantly in rural areas. At the same time, a place-based approach targets all types of regions, including the more developed ones. For instance the governmental policy statement for the economy and community proposes special regional planning for the capital area and the southwest region (which includes Reykjavik). |
|             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|             | Development of all regions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| Denmark     | To boost productivity and growth throughout the country through targeted efforts in relation to innovation, sustainability, education and entrepreneurship.                                                                                                                                                                                                                                                                                                                                                                                       |
| Ireland     | No formal regional policy objectives, but a government priority to promoted more balanced development reflected in progressive development of interventions promoting a more long-term, cohesive and structured approach to promoting regional growth.                                                                                                                                                                                                                                                                                            |
| Canada      | Promotion of inclusive growth in all regions with policies that are nationally consistent but at the same time regionally tailored and build on specific regional and local economic assets and strengths.                                                                                                                                                                                                                                                                                                                                        |

3.3 At strategic level, these objectives are reflected in the core documents for regional policy at both national and regional levels. The key national strategic frameworks are as follows.

|         |                                                        |                                                                                                                                                                                                                                                                                                                                           |
|---------|--------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Denmark | Strategy for Business Development in Denmark 2020-2023 |                                                                                                                                                                                                                                                                                                                                           |
|         | Objective                                              | Unlocking the specific growth potentials of individual regions.                                                                                                                                                                                                                                                                           |
|         | Focus                                                  | Addressing potentials and challenges in all parts of the country, including in cities, rural and peripheral areas.                                                                                                                                                                                                                        |
|         | Priority areas                                         | <ul style="list-style-type: none"> <li>• Qualified labour and social inclusion;</li> <li>• Entrepreneurship;</li> <li>• Green and circular transition;</li> <li>• Innovation and positions of strength;</li> <li>• Digitalisation and automatisisation;</li> <li>• Internationalisation;</li> <li>• Tourism.</li> </ul>                   |
|         | Main instruments                                       | <ul style="list-style-type: none"> <li>• Rural Development Allocation: to promote living conditions through grants and loans to projects on the small islands and in rural areas; and</li> <li>• Direct grant support to individual firms in all small and some medium-sized bridgeless islands as part of the ERDF programme.</li> </ul> |

|         |                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                              |
|---------|-------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Finland | Regional Development Decision ('Sustainable and Vibrant Regions') |                                                                                                                                                                                                                                                                                                                                                                                                              |
|         | Objective                                                         | Reducing the differences between regions and within the municipalities                                                                                                                                                                                                                                                                                                                                       |
|         | Focus                                                             | Supporting all regions and cities, taking into account the strengths and special characteristics of the regions (place-based approach linked to smart specialisation).                                                                                                                                                                                                                                       |
|         | Priority areas                                                    | <ul style="list-style-type: none"> <li>• Mitigation of climate change and safeguarding biodiversity;</li> <li>• Sustainable community development and well-functioning connections;</li> <li>• Economic renewal and acceleration of RDI;</li> <li>• Knowledge and education as resources of regional development;</li> <li>• Increasing inclusion and well-being; preventing social inequalities.</li> </ul> |
|         | Main instruments                                                  | <ul style="list-style-type: none"> <li>• Business Development Grant: aid to firms, especially SMEs.</li> <li>• Regional Transport Grant: assistance to SMEs in selected sparsely populated areas, to safeguard and improve the conditions for SMEs by reducing the costs associated with long transport distances.</li> </ul>                                                                                |

|        |                                                                             |                                                                                                                                                                                                                                                                             |
|--------|-----------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Norway | 2019 White Paper 'Vibrant Communities for the Future – the district report' |                                                                                                                                                                                                                                                                             |
|        | Objective                                                                   | Regional balance, equal living conditions and sustainable regions across the country; growth and employment in the districts, sustainable utilisation of natural resources with a positive impact on local communities, and equal service provision throughout the country. |
|        | Focus                                                                       | Regional balance and sustainable development; reinforced focus on the districts (rural areas).                                                                                                                                                                              |
|        | Priority areas                                                              | <ul style="list-style-type: none"> <li>• Growing businesses in regions and districts;</li> <li>• Cross-border cooperation and the High North;</li> <li>• Capacity-building and basic services in the districts.</li> </ul>                                                  |
|        | 2021 Strategy for Small Towns                                               |                                                                                                                                                                                                                                                                             |
|        | Focus                                                                       | Role of small towns as motors of development for surrounding areas and as 'specialised' centres for service provision.                                                                                                                                                      |
|        | 2021 Strategy for mountain and inland areas                                 |                                                                                                                                                                                                                                                                             |
|        | Focus                                                                       | Developing the comparative advantages associated with natural resources (e.g. energy, industry, bioeconomy, food production, tourism) and more specific activities (e.g. data centres).                                                                                     |
|        | 2021 Strategy for coastal areas                                             |                                                                                                                                                                                                                                                                             |
|        | Focus                                                                       | Supporting the development of established industries and promoting new and emerging activities (e.g. offshore wind, biological resources for food and medicine, CO2 storage, hydrogen and seabed minerals).                                                                 |

|  |                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | Main Instruments | <ul style="list-style-type: none"> <li>• ['Narrow' RP] Regional Risk Loans and Regional Aid Grants; bespoke packages to address restructuring in targeted areas; schemes to support local capacity-building in remote and sparsely-populated areas.</li> <li>• ['Broad' RP] Regionally-Differentiated Social Security Concession; measures for the Action Zone of northern Troms og Finnmark; exemption from VAT for energy consumption from renewables; specific grants to disadvantaged municipalities.</li> </ul> |
|--|------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|        |                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|--------|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sweden | Strategy for Sustainable Regional Development (2021-2030) |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|        | Objective                                                 | Strengthening the local and regional competitiveness for sustainable development in all parts of the country, recognising different conditions for sustainable regional development in different territories.                                                                                                                                                                                                                                                                                                                                                     |
|        | Focus                                                     | Sustainability (covering economic, social and environmental sustainability, and link to Agenda 2030) and shift from growth to development (a more holistic and longer-term view of development).                                                                                                                                                                                                                                                                                                                                                                  |
|        | Priority areas                                            | <ul style="list-style-type: none"> <li>• Equal opportunities for housing, work and well-being;</li> <li>• Skills supply and development;</li> <li>• Innovation, renewal, entrepreneurship and businesses;</li> <li>• Accessibility through digital communication and transport system.</li> </ul>                                                                                                                                                                                                                                                                 |
|        | Main instruments                                          | <ul style="list-style-type: none"> <li>• Regional Investment Support: to supply capital to businesses.</li> <li>• Transport Grant: to compensate for the extra costs incurred due to long distances from markets in the four northernmost regions and to stimulate further processing.</li> <li>• Social Security Concessions: to stimulate small business growth and ensure a good level of services in areas characterised by long distances, limited markets, poor access to services, low population density and unfavourable climatic conditions.</li> </ul> |

|         |                                                 |                                                                                                                                                                                                                                                                 |
|---------|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Ireland | National Planning Framework (NPF): Ireland 2040 |                                                                                                                                                                                                                                                                 |
|         | Objective                                       | More balanced territorial development.                                                                                                                                                                                                                          |
|         | Focus                                           | Targeting a level of growth in the Northern and Western and Southern Regions combined; improving regional accessibility; recognising the role of 'regional centres'.                                                                                            |
|         | Priority areas                                  | <ul style="list-style-type: none"> <li>• Compact growth to ensure sustainable growth of more compact urban and rural settlements;</li> <li>• Smart and sustainable growth;</li> <li>• Low carbon actions;</li> <li>• Sustainable transport measures;</li> </ul> |

|  |                  |                                                                                                                                                                                                                                                   |
|--|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  |                  | <ul style="list-style-type: none"> <li>• ‘Livability’ of the region committed to sustainable, green and inclusive growth;</li> <li>• Provision and maintenance of economic infrastructure; improving and protecting cultural heritage.</li> </ul> |
|  | Main instruments | <ul style="list-style-type: none"> <li>• Regional (State) Aid Scheme: investment grants for business investment.</li> <li>• Enterprise development and employment support for the Gaelic-speaking areas.</li> </ul>                               |

|         |                                                                            |                                                                                                                                                                                                                                                                                                                                                                     |
|---------|----------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Iceland | Regional Policy of Iceland: National Regional Development Plan 2018-24     |                                                                                                                                                                                                                                                                                                                                                                     |
|         | Objective                                                                  | Address depopulation in individual regions; address the lack of economic and industrial diversity; support technological changes and the development and adaptation of individual industries; counter the impacts of climate change; ensure smooth communications and access to services; respond to increasing international competition for people and companies. |
|         | Focus                                                                      | Supporting regional development across regions, with special emphasis on economically disadvantaged territories.                                                                                                                                                                                                                                                    |
|         | Iceland 2020 – governmental policy statement for the economy and community |                                                                                                                                                                                                                                                                                                                                                                     |
|         | Objective                                                                  | A dynamic society capable of protecting its welfare in a manner that is sustainable and serves all members of the community.                                                                                                                                                                                                                                        |
|         | Focus                                                                      | Social objectives: welfare, knowledge, sustainability; economic and development objectives: prosperity and quality of living.                                                                                                                                                                                                                                       |
|         | Main instruments                                                           | Regional Development Institute supports regions through financial assistance and loans, regional strategy development to implement government goals, and a network of industrial regional development agencies whose aim is to promote innovation.                                                                                                                  |

|        |                                                                |                                                                                                                                                                                                                                                                                                                                      |
|--------|----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Canada | Innovation and Skills Plan, and associated regional programmes |                                                                                                                                                                                                                                                                                                                                      |
|        | Objective                                                      | Supporting innovation-led and inclusive growth in all regions with policies that are nationally consistent but regionally tailored.                                                                                                                                                                                                  |
|        | Focus                                                          | Regionally-tailored programmes support business growth, productivity and innovation; help SMEs effectively compete in the global marketplace; provide adjustment assistance in response to economic downturns and crises; and support communities.                                                                                   |
|        | Main instruments                                               | <ul style="list-style-type: none"> <li>• Financial assistance for economic and community development;</li> <li>• Knowledge mobilisation to support regional policy planning;</li> <li>• Community networks supporting the local activities of the community futures organisations;</li> <li>• Infrastructure programming.</li> </ul> |

|             |                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                            |
|-------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| New Zealand | No specific national regional development plan, but Investment Statement for the Provincial Growth Fund outlines sectors, infrastructure and regions prioritised for investment. |                                                                                                                                                                                                                                                                                            |
|             | Objective                                                                                                                                                                        | Create more and better-paying jobs, increase social inclusion and participation, support Māori development, encourage environmental sustainability, improve infrastructure and economic resilience.                                                                                        |
|             | Other                                                                                                                                                                            | Other relevant strategies and pieces of legislation include: Resource Management Act; National Policy Statement on Urban Development Capacity; Local Government Act; Land Transport Management Act.                                                                                        |
|             | Main instruments                                                                                                                                                                 | Provincial Growth Fund: to improve the productivity potential of regions. Aims to: create more and better-paying jobs, increase social inclusion and participation, support Māori development, encourage environmental sustainability, and improve infrastructure and economic resilience. |

### 3.4 Policy trends

### 3.5 Strong focus on the place-based approach in regional policy

3.6 There is a strong and increasing emphasis on recognising the different potentials and challenges in different (types of) territories across the country and the objective of unlocking the specific growth potentials of individual regions and developing their comparative advantages. For example:

- Finland: different needs and opportunities (e.g. in terms of population, economic structure, environment and culture) and the importance of place-based development approach are emphasised in key regional policy strategies.
- Sweden: a recent analysis of regional growth policy highlighted an increased need for a place-based approach in the light of the complexity of the societal challenges and the need to understand the unique circumstances of different places, their capacities and ability to cooperate.<sup>11</sup>
- Canada: Regional Development Agencies help to address key economic challenges by providing regionally-tailored programmes, services, knowledge and expertise that build on regional and local economic assets and strengths and leverage regional advantages to deliver long-term prosperity. Delegation of authority to community-based actors allows to adapt national programming to regional specificities and promote territorial sensitivity.<sup>12</sup>

<sup>11</sup> Tillväxtverket (2018) Politik för utvecklingskraft i hela Sverige Utveckling, prioriteringar och resultat inom den regionala tillväxtpolitiken

<sup>12</sup> Bradford N (2017) Canadian regional development policy: Flexible governance and adaptive implementation. EC-OECD Seminar Series on Designing better economic development policies for regions and cities.

3.7 Emphasis on addressing territorial inequality, strengthening the focus on disadvantaged areas, and dispersing growth across the national territory

3.8 Most policy frameworks incorporate a strong focus on addressing the existing regional disparities, including though a greater emphasis on more remote and vulnerable areas, including rural and peripheral regions or territories facing specific development challenges (e.g. mountainous or coastal areas). For example:

- Finland: most funding is steered towards the sparsely-populated areas in the East and North.
- Norway: the recent (2017 and 2019) White Papers place more emphasis on the remote / rural areas compared to the previous ones (e.g. 2013). The 2019 White Paper 'Vibrant Communities for the Future – the district report', as well as the new strategies for mountain and inland areas and for coastal areas reflect a shift in emphasis towards more remote, vulnerable regions, reflecting concerns at demographic challenges, quality of public services and the challenges of business development in these territories.

3.9 A focus on addressing territorial inequality and ensuring more balanced development is also reflected in an increased consideration of and support to small and medium-sized towns, e.g.:

- Norway: the 2021 Strategy for Small Towns focuses on the role of small towns as motors of development for surrounding areas and as 'specialised' centres for service provision.
- Finland: the 'regional city' (seutukaunki) programme 2020-22 addresses smaller cities with regional importance with the aim of strengthening their role as part of wider urban policy and regional development.

3.10 This is also seen in the efforts to decentralise economic and institutional functions or activities away from dominant territorial centres, by dispersing them more evenly across the national territory. For example in Denmark, the priority is to boost productivity and growth throughout the country, and initiatives such as dispersal of government institutions or HEI beyond the big cities contributes to this objective.

### **Widening the scope of regional policy to address 'grand challenges'**

3.11 Regional policy efforts also increasingly seek to consider and address the spatial implications of global 'megatrends', including digitalisation and technological change, demographic transition and climate change, as well as wider sustainability considerations.

- For example in Canada, Policy Horizons Canada conducts scanning and foresight to anticipate emerging policy challenges and opportunities, to support medium-term policy development. It monitors and explores social, economic, environmental and technological changes in Canada and across the world, and analyses how they changes may come together in the future.

Some of the work has considered how trends might have different impacts across regions.<sup>13</sup>

3.12 Sustainable development is considered in its different dimensions (social, economic, ecological, cultural) and in line with the UN Agenda for Sustainable Development (e.g. FI, NO, SE).

- Finland: sustainable development is a key cross-cutting theme in the Regional Development Decision, and is underlined as the foundation for regional development. The New Regional Development Law focuses on the interrelation between sustainable development, growth and competitiveness, and the way these link to the regional economy, human capital and the diversity/specialisation/innovativeness/accessibility of the economic and research and innovation activities.
- Norway: strategies adopted in 2021 for the areas of small towns; business development in the mountains and inland areas; and business development in coastal areas are all firmly cast in the context of the UN Sustainable Development Goals, reflecting the recent tabling of a White Paper on Norway's plan to achieve these by 2030.<sup>14</sup>
- Sweden: the new Strategy for Sustainable Regional Development marks a shift to a more holistic and longer-term view of development which includes a specific focus on sustainability, covering economic, social and environmental dimensions, and link to Agenda 2030. The sustainable dimension was added to the policy objective by the Parliament following the recommendations of the 'Agenda 2030 and Sweden report'.<sup>15</sup> Agenda 2030 and the region's own sustainability work are at the centre of the Regional development strategies, which set out the objectives and long-term priorities for the implementation of regional development activities in one or several regions.

3.13 Green and digital transition are also at the heart of the post-COVID longer-term recovery plans, some of which have a relevant territorial dimension. For example the Irish Recovery Plan is structured around the objectives of 'Advancing the Green Transition' and 'Accelerating and Expanding Digital Reforms and Transformation' in pursuit of a regionally balanced and inclusive recovery. Similarly in Finland, the measures in the regional recovery plans aim to promote digitalisation and carbon neutrality.

### **Addressing the implications of climate change**

3.14 Regions are recognised to play a key role in climate change mitigation and transition to a carbon neutral economy, and climate challenges are increasingly considered in regional development strategies and plans.

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<sup>13</sup> OECD (2019) Regional Outlook Canada

<sup>14</sup> Meld. St. 40 (2020-2021) Mål med mening— Norges handlingsplan for å nå bærekraftsmålene innen 2030.

<sup>15</sup> Statens offentliga Utredningar (2019) *Agenda 2030 och Sverige: Världens utmaning – världens möjlighet*, SOU 2019: 3



- Sweden: environment and climate, including different impacts on different parts of the country depending on the economic structure and geographical conditions, are among the key long-term societal challenges affecting regional development under the new Strategy for Sustainable Regional Development (2021-30).
- Finland: the new Regional Development Decision Regions recognises that regions and urban areas play a key role in the mitigation of climate change, transfer to carbon neutral circular economy, and safeguarding of biodiversity, and climate change is considered both in the national and regional strategic decision-making and planning of activities, which require analysis of risks and forecasting of impacts.
- Ireland: the content and focus of regional development plans and initiatives is strongly determined by the need to address the longstanding challenge of climate change. For example, a National Economic Plan for 2021 (followed by a new National Development Plan for the period up to 2030) is focussed on recovery and regeneration in particular targeting employment creation and greening and decarbonising the economy.

### **Promoting the digital transition**

3.15 A strategic focus on digital investment under regional policy is apparent across countries, covering a range of priorities. This is emphasising the role of digitalisation in fostering territorial cohesion and inclusion (e.g. through the roll-out of broadband in remote and rural regions and improving access to e-government, e-health, and digital skills) and also in supporting digitalisation of businesses and the take up of advanced technologies.

- Sweden: the growing importance of digitalisation in regional policy is reflected in its prominence in the new national strategic framework, as a specific priority.
- In the new Regional Development Decision in Finland, digitalisation is a theme that cuts across all the priorities (climate change mitigation, sustainable community development, economic renewal, knowledge and education and increasing inclusion and well-being). The Decision notes the importance of digital equality, which aims to ensure that no population group is excluded from the opportunities it provides.
- Iceland: the National Regional Development Plan 2018-24, which provides a framework for regional support and sets strategic priorities and actions for each sector, includes actions on changing technologies, including digital technologies in rural areas.

3.16 The increasing prominence of digitalisation in regional policy agendas is reflected in governance initiatives and institutional reorganisation that are seeking to strengthen coordination and coherence of measures (e.g. NO).

- Norway: the linking of regional policy with the digital agenda, through the appointment of a minister for 'districts and digitalisation' within the Department

for Regional Development in the Ministry of Local Government and Modernisation (KMD), marks an important shift. KMD has been devising a strategy on the links between regional development and digitalisation, developing three strands: urban and rural issues; mountains; and coastal areas. This supports policy initiatives aiming to use digitalisation to boost regional development and maintain population settlement, and sits within a wider agenda to improve efficiency and address major societal challenges, reflected in a White Paper from KMD on innovation in the public sector.<sup>16</sup>

## Demographic challenges

3.17 Regional policy also seeks to address demographic challenges e.g. related to population ageing and outmigration in rural and peripheral areas.

- Finland: there is an interest in adopting a new ‘Smart Shrinking’ approach, which considers challenges of ageing and decreasing population and the impacts this has on economic development in regions and on other issues such as the delivery of services. Furthermore, the ‘regional city’ programme, which, among others, includes cities facing specific demographic challenges, is focussed on the supply of skilled labour force.
- Norway: a dedicated Commission on Demographics in the Districts examined the consequences of demographic challenges for the municipal, State and private sectors. A ‘youth panel’ provided an input into the process, as attracting and retaining young people is regarded crucial to the future of the districts. The 2019 White Paper considers how improving efficiency and innovation in the public sector can contribute to addressing major societal challenges, including demographic changes.
- Sweden: a government study in 2020 highlighted a clear pattern of skill divergence across the regions, reinforced by the mobility of highly educated people and coinciding with a decline in income convergence across the regions. Rural areas are facing challenges with skills supply in areas such as health care, schools and technical professions. Demography (including urbanisation, ageing, and regional skills supply) is one of the five long-term societal challenges at the core of the new Strategy for Sustainable Regional Development (2021-30).

3.18 In addition, there is an increased focus specifically on the dimensions of well-being, quality of living environment and social inclusion as objectives of regional policy (e.g. FI, SE, IE).

- For instance in Finland, the Regional Development Decision 2020-23 focuses on increasing inclusion and well-being and preventing social inequalities among its five priorities. Similarly, well-being, which is concerned with the living conditions, ability to function/work and inclusion in the society, is among the three core dimensions in the new Regional Development Law.

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<sup>16</sup> Meld St. 30 (2019-2020) En innovativ offentlig sector – kultur, ledelse og kompetanse

## 4. Regional Policy Governance

### 4.1 Institutional frameworks

4.2 The institutional frameworks of regional policy depend on broader governance structures and the allocation of responsibilities between administrative levels. The countries can be grouped into three categories (federal, decentralised, unitary), reflecting the distribution of regional policy tasks at national and sub-national (regional) levels.

Table 1: Governance of regional policy

|             | Unitary                                             | Decentralised                                                      | Federal                                                              |
|-------------|-----------------------------------------------------|--------------------------------------------------------------------|----------------------------------------------------------------------|
|             | National, with minor role for sub-national entities | National level has main responsibility but regions have some tasks | Responsibilities mainly regional, with limited national coordination |
| Canada      |                                                     |                                                                    | X                                                                    |
| Denmark     |                                                     | X                                                                  |                                                                      |
| Finland     |                                                     | X                                                                  |                                                                      |
| Iceland     | X                                                   |                                                                    |                                                                      |
| Ireland     | X                                                   |                                                                    |                                                                      |
| New Zealand | X                                                   |                                                                    |                                                                      |
| Norway      |                                                     | X                                                                  |                                                                      |
| Sweden      |                                                     | X                                                                  |                                                                      |

4.3 In the three countries with unitary governance (Ireland, Iceland, New Zealand), regional policy intervention is designed and controlled by national ministries and implemented by national agencies and local authorities. Insofar as there are regional structures, they are largely for coordinating planning by local authorities.

- Ireland: responsibility for regional policy is not allocated formally to any single government department. The Department of Enterprise, Trade and Employment is responsible for regional aid, which is delivered through accountable agencies. Regional Assemblies identify regional policies and coordinate initiatives that support the delivery and implementation of national planning policy. There are 31 integrated local authorities, each of which has Local Enterprise Office, which are the main point of access for firms to Enterprise Ireland, and Local Community Development Committees enable devolved control over areas of local-level development.
- Iceland: at national level, the Department of Local Government and Regional Affairs at the Ministry of Infrastructure is responsible for strategic planning in local government and regional affairs, for regional and rural policy, and regional and development programmes. The Regional Development Institute contributes to regional development through implementing government policy via regional strategies. The Governmental Steering Committee for Regional

Development provides support to regional associations of local authorities in preparing plans of action and in negotiations between the associations and ministries. A single-tier of subnational government is made up of municipalities. Regional associations of municipalities, based on regional cooperation between local governments, prepare and implement regional development plans for their regions, in line with the central government policy.

- New Zealand: at national level, the Provincial Growth Fund (key regional economic development policy) is administered by the Provincial Development Unit (within the Ministry of Business, Innovation and Employment), and is overseen by a group of relevant regional economic development ministers. Other relevant institutions at national level include the Ministry of Housing and Urban Development, and the Just Transitions Unit. National regional development policies are complemented by regional investment strategies aligned with them. The central government provides national direction through issuing national policy statements. Subnational level consists of 67 territorial authorities and 11 regional councils. Most regional authorities have action plans identifying specific economic activities to leverage regional opportunities.

4.4 Among the Nordic/Scandinavian countries, the policy frameworks for regional policy are set by national ministries, but with regional strategies designed and implemented to suit development needs and opportunities either by (deconcentrated) regional offices of the State or (devolved) regional self-governments.

- Denmark: regional policy is overseen by the national Danish Executive Board for Business Development and Growth and managed by the Danish Business Authority. There are five Danish regions, funded through grants from the state and municipalities, and each region is responsible for creating a regional development strategy. At sub-national level, six cross-municipal business development centres operate and seven Regional Growth Teams were recently created to address specific challenges in individual regions.
- Finland: the Ministry of Economic Affairs and Employment has overall responsibility for coordinating the planning, implementation, monitoring and evaluation. Policy goals are set at national level and provide the context for regional strategies and implementation. Regional councils develop and implemented strategic programmes on behalf of representative municipalities, operating alongside the regional State administration (ELY-centres) which carries out operational delivery of some national policies.
- Norway: regional development policy-making is led by the Department for Regional Development in the Ministry of Local Government and Modernisation. Policies are implemented principally by national agencies at county level (Innovation Norway, SIVA, Research Council of Norway), together with county and/or municipal authorities.
- Sweden: the Ministry of Enterprise and Innovation has overall responsibility for policy coordination, with the national agency for economic and regional growth (Tillväxtverket) responsible for implementation.

- At sub-national level, regions and the municipality of Gotland have the responsibility for regional development. The County Administrative Boards (the national Government's representatives in the regions) promote the participation of other state authorities in regional development and represent the state at the regional level in various regional development issues.

4.5 Lastly, in Canada, as a federal country, regional development involves input from federal and provincial/territorial governments, along with a wide array of partners. The regional level is composed of 10 provinces and three territories. Long-term regional planning is undertaken by six regional development agencies (RDAs), which cover the entire country and are part of the Innovation, Science and Economic Development portfolio. The RDAs engage with strategic partners at regional level (including provincial, territorial, municipal and indigenous governments) on an ongoing basis and across the federal government. Their engagement ensures that regional perspectives are considered in national policy development.

Table 2: Regional policy governance: division of responsibilities

|    | National regional policy tasks                                                                                                                                                                                                                                                                                            | Sub-national regional policy tasks                                                                                                                                                                                                                                                                                                                                                  |
|----|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| CA | Regional development implemented in a decentralised federation, involving input from federal and provincial/territorial governments and a wide range of partners. Four flagship national platforms support the delivery of the Innovation and Skills Plan.                                                                | Long-term regional planning is undertaken by six regional development agencies (RDAs), which implement federal priorities and engage with strategic partners at regional level.<br>The RDAs develop Regional Growth Strategy with an all-of-government approach (federal / provincial / territorial) for their respective regions.                                                  |
| DK | Danish Executive Board for Business Development and Growth develops a national business development strategy and monitors conditions for decentralised business development. Danish Business Authority provides oversight of regional activities and facilitates strategic linking of regional and national initiatives.  | Six cross-municipal business development centres provide strategic input to the Danish Executive Board for Business Development and Growth. Seven Regional Growth Teams (introduced in 2021) develop strategies to address one of seven designated development challenges.                                                                                                          |
| FI | The Ministry of Economic Affairs and Employment sets national priorities, coordinates, monitors and evaluates programmes.                                                                                                                                                                                                 | 18 Regional Councils (and Åland) manage strategic functions on behalf of the municipalities. 15 ELY-centres (regional offices of the State) carry out operational tasks and manage regional development funding.                                                                                                                                                                    |
| IE | Centralised economic development strategy-making, but responsibility for regional policy not allocated to any single department.                                                                                                                                                                                          | Three Regional Assemblies, no executive powers, but coordinate and direct social and economic development activities, including through Regional Spatial and Economic Strategies.                                                                                                                                                                                                   |
| IS | The Department of Local Government and Regional Affairs (Ministry of Infrastructure) is responsible for regional policy. The Regional Development Institute implements government policy via regional strategies. The Governmental Steering Committee for Regional Development provides support to regional associations. | No regional government; regional associations of municipalities, based on regional cooperation between local governments, prepare and implement regional development plans, in line with the central government policy, and serve as a central government deconcentrated body. In some cases, the regional associations have been entrusted with special tasks from municipalities. |

|    |                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                          |
|----|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| NO | Regional policy is led by the Ministry of Local Government and Modernisation (KMD), which undertakes analyses, frames the regional policy narrative and aims to influence the spatial dimensions of other policies.                                                                  | Policies are implemented by national agencies operating at county level together with county (largely autonomous locally elected bodies) (and/or municipal) authorities.                                                                 |
| NZ | Regional economic development policy is administered by the Provincial Development Unit (Ministry of Business, Innovation & Employment), and overseen by relevant regional economic development ministers. Central government provides national direction through policy statements. | Subnational level consists of 67 territorial authorities and 11 regional councils. Regional authorities produce action plans identifying specific economic activities to leverage regional opportunities.                                |
| SE | Ministry of Enterprise and Innovation provides overall coordination, while the Agency for Economic and Regional Growth (Tillväxtverket) has key implementation role.                                                                                                                 | 21 directly-elected regions (and the municipality of Gotland) have the responsibility for regional development. The national government is also represented through the regional state agencies, the County Administrative Boards (CAB). |

### Key trends in governance arrangements

4.6 The key recent trends in terms of governance arrangements underpinning the design and implementation of regional policy in the countries examined, among others, relate to:

- the strengthening of horizontal and vertical policy coordination;
- adaptation of governance structures to the demands of addressing regional challenges in a more targeted way, and growing relevance of partnership and agreement-based approaches to policy delivery;
- decentralisation and deconcentration processes;
- stronger emphasis on the quality and capacity of government structures and governance systems, and capacity-building.

### Strengthening policy coordination and cooperation

4.7 Regional development policy addresses a broadening set of cross-sectoral issues and instruments across a wide range of territories and administrative levels, which brings coordination challenges to the fore. There is increasing recognition of the value of policy coordination in designing and implementing policies with relevant territorial dimension, including in order to enhance policy synergies and avoid overlaps. This is seen e.g. in a greater recognition of the regional dimension and regional policy objectives in other national policies, and a stronger emphasis on both horizontal and vertical policy coordination and cooperation, i.e. between different policy areas and sectors, policy instruments, and territorial levels. This is seen particularly relevant for effective design and implementation of place-based approaches and strategies.

4.8 Greater mainstreaming of regional policy priorities across various policy domains is an important way to promote synergies and success of policy measures. Stronger coordination of sectoral strategies in pursuit of regional development goals is also meant to support policy efforts.

- Ensuring that regional policy objectives are taken into account in the development of horizontal policies is a priority in Norway, where the new White Paper reflects a shift towards greater policy coordination.
- Ireland: the emphasis on more integrated investment and delivery is reinforced in the country's National Development Plan, which sets out a commitment to more integrated regional investment plans, and stronger coordination of sectoral strategies.
- Canada: federal and provincial governments have collaborated to embed a regional or local lens in horizontal policies that cross different jurisdictions or departments.

4.9 Closer ministerial cooperation also aims to support coordination efforts.

- Norway: there is increasing emphasis on coordination with other ministries, trying to track and understand their activities more closely and proactively and to look for ways of increasing the impact and influence of regional policy objectives in other ministries' thinking. The trend in recent years has been for KMD to step back from day-to-day policy implementation and to focus on strategic and coordination issues and influencing the actions of other ministries in various ways.
- Iceland: the Governmental Steering Committee for Regional Development ensures harmonisation between government offices (ministries) in the implementation of regional policy. It also ensures active consultation with local governments and provides support to regional associations of local authorities in negotiations between the associations and ministries.

4.10 In some cases, ministerial reorganisation has integrated regional policy alongside traditionally separate sectors to create internal coordination.

- Norway: the appointment of a new minister for 'districts and digitalisation' in the KMD brings together digitalisation and regional policy agendas.

4.11 The need for greater cooperation across administrative boundaries and levels of government drives shifts towards negotiated arrangements for coordinating instruments and resources from various policy sectors and administrative levels.

- Regional development in Finland recognises the importance of cooperation between different actors across the administrative boundaries as development efforts do not necessarily respect the strict boundaries of a region or a municipality (e.g. functional areas, growth zones). Cooperative practices and network-based approaches have therefore come to the fore in regional development.



- Canada: the Regional Development Agencies develop regional growth strategies following broad consultations with regional stakeholders, including other levels of government. The regional growth strategies aim to develop a common vision and identify areas for cooperative actions that leverage regional advantages to deliver long-term prosperity. Tri-partite agreements, which are formal contractual arrangements among federal, provincial, and local authorities for implementing policies, serve to facilitate strategic planning and delivery of programmes and projects.

4.12 Holistic approaches to coordination are concerned with both horizontal and vertical cooperation, and emphasise its long-term and strategic nature.

- Sweden: coordination is central in regional development policy, and is one of the underlying conditions underpinning the National Strategy for Regional Development. Its importance stems from the complexity of societal challenges and the opportunity to involve a wider range of actors who bring in new skills and thinking. Cooperation takes a broad perspective including different policy areas and sectors (e.g. between the state authorities), but also different territorial levels (local, regional, national, international), as well as different policy instruments. The national strategy underlines the importance of cooperation being long-term and strategic in nature and in which the state can provide the overall steering. Whilst cooperation has long been an important part of the policy delivery, there are higher ambitions for how this is to be carried out.<sup>17</sup>
- Canada has developed a complex system to achieve efficient horizontal and vertical coordination. Regional Development Agencies play an important mediating role between the provincial and federal governments and across provinces. Two federal institutions, the regional federal councils and the minister regional offices, have been established to further facilitate the coordination of federal sectoral policies at provincial level, share information across government levels and represent regional interests in national decision-making. Furthermore, various sector-specific councils coordinate sectoral policies among provinces and territories. Most of the institutions created for coordination have the double mandate of both vertical coordination across levels of government and horizontal coordination across sectors.<sup>18</sup>

4.13 In some cases, institutional reforms aimed at rationalising the territorial/governance structure support policy coordination efforts.

- Norway: recent regional institutional reforms merging some municipalities and reducing the number of counties, among others, pursued the goals of a more coordinated and rational approach to planning, e.g. to ensure that decisions on transport links and housing were not taken in isolation.

4.14 Adapting governance structures to place-based challenges and potentials, and promoting agreement-based approach to delivery

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<sup>17</sup> Nationell strategi för hållbar regional utveckling i hela landet 2021-2030, 2020/21:133

<sup>18</sup> [Canada.pdf \(oecd.org\)](#)

4.15 In order to respond better to different regional characteristics, opportunities and challenges, place-based approaches to regional policy delivery may require adaptation of governance structures, including development of models greater concentrated around specific thematic challenges, or more adaptable and collaboration-based implementation frameworks.

- Denmark: with the aim of unlocking the specific growth potentials of individual regions, the government has introduced new Regional Growth Teams. The teams combine private sector partners, local authorities, trade unions and HIEs, and are tasked with developing strategies to address one of seven specific challenges, individually set by government after consultation with the local business development centres. The creation of the Regional Growth Teams is a new and different place-based response to development challenges. While the more flexible business development centres focus on place in the sense of bringing together a wide range of activities within their area of spatial responsibility, the Growth Teams are focused on a single designated development opportunity.
- Finland: the delivery of regional policy is increasingly based on partnerships and agreements which address the specific traits and opportunities of each region. The new Ecosystem Agreements, the ‘regional city’ programme, as well as the new statutory regional development discussions are key examples of this approach to strengthening more agreement, partnership and network-based regional development and policy.<sup>19</sup> This can entail agreements between the national level and the Regional Councils or cities, or agreements amongst the regional development actors within a region, and does not solely include ‘paper-based’ agreements, but also ‘physical’ agreement-based cooperation.
- Canada: through the six RDAs now covering the entire country, the federal government engages multiple policy-sharing partnerships implementing regional policy. The RDAs, which connect governments, businesses, academia and community organisations to inform and facilitate strategic planning and policy delivery, bring a regional lens to federal economic development policy and translate national goals into regional and community settings.<sup>20</sup>

### **Decentralising regional policy competences**

4.16 In some countries, decentralisation processes are reallocating regional policy competences, highlighting the role of sub-national (regional or local) levels in policy design and delivery.

- Norway: regional institutional reforms came into force at the start of 2020 which, among other things, reduced the number of counties while enhancing their role in economic development policy and merged some smaller and/or less populous municipalities. This is in the context of an increasing strategic

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<sup>19</sup> Laasonen et al. (2020) Kohti vaikuttavampaa verkostotyötä. Policy Brief 10/20

<sup>20</sup> Bradford (2017) *op. cit.*

focus of regional policy on the districts, or rural areas, rather than on the country as a whole.

- Denmark: six cross-municipal business development centres, established in 2018, replaced the previous five regional business development centres. The new system allocates a stronger role to the municipalities and ensures better coordination between business promotion efforts by municipalities and the state business development centres.
- The 'Iceland 2020 – governmental policy statement for the economy and community', which provides guidance for regional development, emphasises the need to strengthen municipalities, in part by transferring projects from the national government to the municipalities.

4.17 There are also efforts to decentralise specific functions or activities away from dominant territorial centres (particularly capital cities), by dispersing them more evenly across the national territory.

- Norway: the location of public sector jobs has become an increasingly prominent element of policy in recent years. A specific process involving criteria related to the type of change and a ranking of possible locations must be followed. This is a requirement to consider non-Oslo sites and, in practice this means regional centres outside the largest cities with the greatest local employment potential must be considered. Furthermore, in line with the High North policy, a northern Norway location should also be considered.
- Denmark: the setup of the new business development clusters involved some dispersal of headquarters and a significant degree of decentralisation of operational capacity. In addition, the Closer (Tættere på) initiative for the dispersal of HEI beyond the big university cities continued the line of reasoning behind the dispersal of central government institutions away from Copenhagen, namely that the benefits of government institutions should be dispersed throughout the country.

### **Administrative capacity building**

4.18 The issues of institutional quality and administrative capacity continue to be high on the agenda, particularly given the prominent role of sub-national authorities in the 'place-based' model and the reallocation of competences as part of decentralisation processes.

- Sweden: capacity at the regional and municipal level is considered key in their ability to drive regional development. Capacity is understood as 'the opportunity to work strategically and on a long-term basis with development questions which are based on learning, analysis, monitoring and evaluation work'.<sup>21</sup> Given major responsibilities of the sub-national level for regional development, capacity building aims to strengthen capacities especially in

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<sup>21</sup> Nationell strategi för hållbar regional utveckling i hela landet 2021-2030, 2020/21:133, pp. 15

those regions and municipalities that face the largest development challenges, led by Tillväxtverket.<sup>22 23</sup>

- Norway: strengthening the quality and capacity of sub-national institutions has been made an explicit priority in new regional policy strategies. For instance, 'capacity building and basic services in the districts' is defined among the three key goals of district and regional policy in the 2019 White Paper.

4.19 The role of learning and knowledge, including through sound analyses, monitoring, evaluation and research on regional development issues, underpinned by high-quality data and indicators, is also emphasised in the context of the ongoing capacity-building efforts.

- Finland: the Regional Development Decision underlines the need to base decisions on data and up-to-date information on the development situation of the regions (e.g. via the biannual review of the Regional Economic Prospects, or the monitoring of regional development based on up to date statistics at different territorial levels under various indicators). There has also been an increasing focus on the use of a wider range of indicators to provide a better and more accurate picture of regional development.
- Sweden: learning through analyses, monitoring, evaluation and research is an important element in the delivery of regional development policy. As part of the commitment to learning, the regions are responsible for analysing, monitoring and evaluating their work across the three dimensions of sustainability (economic, social and environmental) and in consideration of the equality aspects. Different forums and networks are in place to support the learning and cooperation.
- Iceland: the Institute of Regional Development monitors and researches regional development. It performs an evolution and situation analysis report on each of the regions on a two-year basis.
- Canada: the RDAs have been active in policy research and knowledge mobilisation, which has involved partnerships with think-tanks to report on region-specific trends and priorities, working with educational institutions to promote scientific learning, and positioning regional firms in the global marketplace through international benchmarking of economic performance. Such intelligence gathering and environmental scanning, labelled 'policy, advocacy and co-ordination' (PAC), are integral to identifying and responding to opportunities and challenges in the regional economy. PAC provides economic analysis to support RDA priorities as well as federal ministerial decision-making about policies and programming. Increasingly, the RDAs are undertaking regional risk analysis in consultation with local stakeholders in order to better adjust programming and implementation to the challenges specific to the region or a sub-region within.<sup>24</sup>

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<sup>22</sup> Tillväxtverket (2019) Hållbar utveckling i regionerna

<sup>23</sup> Statskontoret (2021) *Regional utveckling – regionernas erbjudan och länsstyrelsernas roll*, 2021:11

<sup>24</sup> Bradford (2017) *op. cit.*

## 5. Conclusions

5.1 The valuable comparative analysis of international approaches to addressing regional disparities outlined in this paper has led to the conclusions below. Before noting them, it is worth highlighting that the Scottish Government's stronger emphasis on regional working is in keeping with the other aspirational countries with ambitions to build a Wellbeing Economy. This helps to reassure this is justified approach with clear benefits that build on recognising that different regions have different economic needs and strengths. This ought to give Scottish Government greater confidence in pushing this policy agenda further, supporting and working with regional partners to realise more equitable regional economic growth.

### Shared Challenges Related to Rurality

5.2 There are key challenges experienced by all/some of the countries examined, whereby the demographic issues related to declining and aging population, labour and skills shortages, plus transport and digital infrastructure issues are viewed as core barriers to economic growth. Whilst Scottish Government have key rural and population policies aimed at treating exactly these issues, and as noted in prior conclusions, there are undoubtedly specific regional treatments of these. REPAG suggest that further exploration of whether and how the approaches taken by Finland, Norway and Sweden, who emphasise rural regions in strategic focus, could also be applied to Scottish regions such as Highlands and Islands and the South of Scotland.

### Regional Productivity

5.3 This results in productivity gaps between rural and urban areas, with Scotland being more akin to Ireland, Canada and New Zealand in terms of having certain regions (largely those in the Central Belt) driving productivity more than others. A nuanced approach to boosting productivity, where regions identify and focus on particular sectoral strengths and have effective support from Scottish Government (where the levers exist) to reduce barriers, may allow productivity rates in more rural areas to begin to close the gap. Piloting Intelligence Hubs in these rural areas as a priority would support this work.

### Business Development

5.4 Noting the similarity between Denmark and Scotland in terms of the priority areas for strategic business development, targeted to unlock the specific growth potential of individual regions, REPAG believe there would be merit in Scottish Government and the Enterprise Agencies examining further what lessons could be learned, and knowledge shared, such that we are able to strengthen our strategic approach to supporting businesses on a regional basis.

### Towns and Cities: Sharing the Benefits

5.5 REPAG note the efforts made in Norway (specifically around towns) and Finland (in terms of smaller cities) to address territorial inequality and strengthen their role as part of the wider urban policy and regional economic development, there are links to Scottish Governments Towns and Cities Policies. Denmark have taken this a step further and have sought to boost productivity and encourage growth throughout the country by disbursing Government institutions beyond the big cities

and into other areas. This is something the Scottish Government may wish to consider doing more of.

### Grand Challenges & Megatrends

5.6 This review has highlighted certain national policy areas that have a clear regional application or delivery dimension. Canada have also recognised the spatial implications of global megatrends such as climate change, digitalisation and technological shifts. Policy Horizons Canada's work in scanning the policy horizons looking to identify policy opportunities within these trends, and analyses the implications of such changes looking at how this might impact regions. REPAG would suggest that the Regional Intelligence Hubs suggested in Paper Two could look to replicate this horizon scanning and foresight analyses, working alongside the SG's Office of the Chief Economic Adviser (OCEA) to assess how national challenges might play out in each region. This could link in particular to net zero and Just Transition and sustainable development as a priority.

### Digitalisation

5.7 In Paper One REPAG highlighted the future potential to take a regional approach to digital economy policy and delivery in Scotland, and we see how Sweden, Finland and Iceland have fostered territorial cohesion and inclusion through emphasising digitalisation in regional policy, making links to rurality and digital equality. Noting the link between net zero and digitisation, this marks out clear supporting justification for the proposal scoped out in Paper One.

### Skills

5.8 Connecting once more to the conclusions drawn from Paper One, this time on the need to align regional skills and encourage REPs to take forward complementary Regional Skills Strategies, we note the work in Sweden, where skills divergence between regions, and the need for a regional skills supply, is one of five long-term societal challenges at the heart of the new Strategy for Sustainable Regional Development. This demonstrates that the themes and conclusions being drawn from this review are consistent with other countries pursuing a Wellbeing Economy.

### Governance

5.9 Throughout this paper in the review we see governance structures largely created to support planning by local authorities. REPAG identified key recent trends in governance that underpins regional policies, which involved strengthening horizontal and vertical policy coordination; adaptation of governance structures to the demands of addressing regional challenges in a more targeted way, including partnership and agreement based policy delivery; decentralisation, and a stronger emphasis on the quality and capacity of structures and capacity building.

5.10 These are all entirely consistent with the findings from Papers One and Two, and ought to give confidence that in accepting the conclusions and recommendations from this review, Scottish Ministers are acting to ensure Scotland keeps pace with other Wellbeing Economies. Indeed, by taking the recommendations forward and learning from the best practice across a range of other nations, Scotland could lead the way in regional economic development.

### Closer Policy and Portfolio Coordination

5.11 As has been made clear in previous papers within this review, more deeply coordinated efforts to align policies on a regional place-based basis is essential to realising the full benefits highlighted here. REPAG note that other countries recognise this necessary facet of successful policy design and implementation, with Canada collaborating between federal and provincial governments to embed the regional lens in horizontal policies. Norway and Iceland have also made efforts to coordinate Ministerial portfolios to better track and understand activity, and proactively find ways to increase the impact of policy objectives within regions. Decision making with Scottish Government can only benefit from this kind of coordination, ensuring the refreshed culture of delivery highlighted as necessary within NSET flows right through all parts of Government.

### Capacity Building

5.12 Finally, institutional quality and capacity are priorities across the majority of countries REPAG have assessed as part of this review. Though this may take slightly different forms, the overarching principle is the same: if regional activity and policy delivery are drivers of national aims relating to all aspects of a Wellbeing Economy, this cannot be achieved without Central Government support. Building resource capacity is critical, particularly in terms of enhancing analytical capacity. This would lead to deeper knowledge, sound analysis, would ease monitoring and evaluation, and add to research on regional development challenges in Scotland. This would all be supported by novel, high quality data and indicators. It is evident to REPAG that this international study supports previous conclusions that the Scottish Government explore how to build capacity within REPs, with the Regional Intelligence Hubs being a primary option to appraise.



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**W W W . g o v . s c o t**