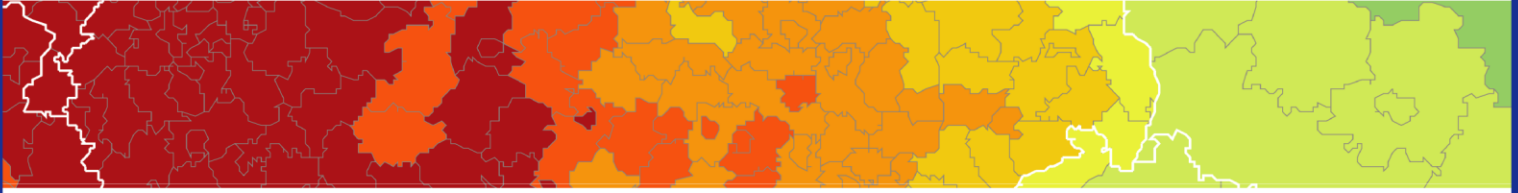


**Inspire policy making by territorial evidence**



# ReSSI

## Regional strategies for sustainable and inclusive territorial development – Regional interplay and EU dialogue

Targeted Analysis

**Annex 2 – Governance Regimes, Opportunities  
and Challenges for European Cities and Regions**

Version 30/11/2017

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## ReSSI

Regional strategies for sustainable  
and inclusive territorial development  
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## **Abbreviations**

DCLG	Department for Communities and Local Government
ERDF	European Regional Development Fund
EU	European Union
OP	Operational Programme
WGI	Worldwide Governance Indicators

# 1 Introduction

This Annex to the ReSSI (Regional Strategies for Sustainable and Inclusive Territorial Development) project reviews the most prevalent governance regimes in European regions, as well as the emerging opportunities for and challenges faced by those regions. This review aims to contextualise the analysis undertaken in the project, and was produced through extensive review of the scientific literature and recent research on both topics.

The document is structured as follows. Section 2 presents a review of the most prevalent governance regimes in Europe. It includes a historical overview of administrative traditions, territorial governance and spatial planning systems in Europe (Section 2.1) and describes the differential governance of the EU Cohesion policy in the member states (2.2). It then builds on this analysis to provide a preliminary overview of the main regional governance regimes characterising the European Union (EU) (2.3) and concludes by focusing on prevalent regimes in the ReSSI regions in particular (2.4). Section 3 then reviews the current opportunities and challenges for European cities and regions. It starts by analysing the effects of the post-2008 financial crisis in European regions (3.1), before focusing on the prevalent opportunities and challenges for the promotion of sustainable, inclusive and smart development in the European regions (3.2).

A synthesis of these two sections is included in the main ReSSI report (Section 2 of that report).

## 2 The most prevalent governance regimes in Europe

The broader ReSSI project analyses how sustainable, inclusive and smart development can be promoted by local and regional authorities in four European regions characterised by evolving territorial governance and spatial planning frameworks. To set these case studies into the broader European context and to provide a background against which to interpret the results of the research, the case study analysis was preceded by an overview of the most prevalent governance regimes common to European regions.

The overview begins by analysing a number of existing typologies of administrative traditions, spatial planning systems and governance features. It then describes how EU cohesion policy is implemented in the different domestic contexts, reflecting upon the authorities responsible for the preparation and management of the Operational Programmes (OP), their level of autonomy, and the level of integration between EU cohesion policy and domestic spatial planning. The final two sections build on these steps to develop a preliminary overview of the existing governance regimes in Europe and discuss how these may influence the promotion of smart, sustainable and inclusive development in the four European regions involved in ReSSI.

### 2.1 Administrative traditions, spatial planning system typologies and governance clusters

Since the beginning of the 1990s, a broad range of classifications of the administrative traditions that characterise European countries have been produced in the literature, as already analysed by the ESPON TANGO Project (ESPO and Nordregio, 2013). These categories typically rely on historical and cultural classifications rather than on consistent analytical criteria, and their aim is to identify how distinctive local government is, in the different countries (Table 2.1).

A first attempt to produce a typology of *administrative traditions* was produced by Hesse and Sharpe (1991). This proposes a classification that contrasts the Northern European and the 'Napoleonic' countries on the basis of degree of local autonomy, and consolidates it with the addition of a third, smaller, group that includes the 'Anglo-Saxon' countries. Following this approach, Lidström (2003) further splits the Northern European group into two categories: Scandinavian welfare democracies, and Middle European countries including Germany, Switzerland and Austria, which are characterised by a different local government system. Goldsmith (1992) defines a classification of three basic types of local government systems: the patronage-based model; the economic development-based model; and the welfare state-based model. Whereas the economic development model is mostly found outside of Europe, the patronage model primarily concerns southern Europe (Greece, Italy, Spain, and also France) where the primary duty of local politicians is presumably to ensure that the interests of their community are well promoted and defended at higher levels of government. The



welfare state model, instead, concerns northern European countries where efficient service delivery has shaped local government through time. A more complex analysis is proposed by Loughlin and Peters (1997) that develops four different ‘state traditions’ on the basis of different aspects of state and political features, thus determining the conditions within which democracy is understood and practised at both national and sub-national levels. They distinguish four major traditions: the Anglo-Saxon, the Scandinavian, the Germanic and the French (Napoleonic), each one characterised by a distinct political and administrative culture, state organisation, and state-society relationship.

Table 2.1: Typologies of administrative traditions in Europe. ReSSI countries in red

Authors	Administrative Tradition			
Hesse and Sharpe, 1991	<b>Northern European</b>	<b>Anglo-Saxon</b>	<b>Napoleonic</b>	
	AT, <b>DK</b> , FI, FR, NL, SE	IE, <b>UK</b>	BE, ES, FR, GR, <b>IT</b> , <b>PT</b>	
Goldsmith, 1992	<b>Welfare state</b>			<b>Client-patron</b>
	AT, DE, <b>DK</b> , FI, NL, SE, <b>UK</b>			FR, <b>IT</b> , GR, ES
Loughlin and Peters, 1997	<b>Scandinavian</b>	<b>Anglo-Saxon</b>	<b>Germanic</b>	<b>French</b>
	<b>DK</b> , SE, NO	IE, <b>UK</b>	DE, AT, NL, ES (after 1978); BE (after 1988)	FR, <b>IT</b> , ES (until 1978), <b>PT</b> , GR, BE (until 1988)
Lidstrom, 2003	<b>Northern European</b>	<b>British</b>	<b>Middle-European</b>	<b>Napoleonic</b>
	<b>DK</b> , FI, SE	IE, <b>UK</b>	AT, DE, CH	BE, ES, FR, GR, <b>IT</b> , NL, <b>PT</b>

Source: authors' own elaboration on ESPON and Nordregio (2013)

As far as the classification of territorial governance and spatial planning systems in Europe is concerned, numerous contributions were produced starting from the end of the 1980s (Joint Centre for Land Development Studies and Great Britain, 1989; Larsson, 2006; Newman and Thornley, 1996; Stead and Cotella, 2011). Among them the best-known example is provided by the EU Compendium of Spatial Planning Systems and Policies (CEC, 1997), which developed four Weberian ideal types or ‘traditions of spatial planning’ in Europe (Table 2.2). In this typology, the word ‘tradition’ is used to emphasise the way that forms of spatial planning are deeply embedded in the complex historical conditions of particular places. The four types are: 1) comprehensive integrated approach; 2) regional economic approach; 3) land use regulation; and 4) urbanism. The EU Compendium recognises that some countries might exhibit a strong tendency to one tradition while others may exhibit a more complex combination of types. This aspect was also stressed by the attempt made by Farinòs Dasi *et*

al. (2007) to extend this classification to the countries that had become part of the EU since the publication of the Compendium<sup>1</sup>.

Table 2.2: Traditions of spatial planning in Europe. ReSSI countries in red

	<b>Comprehensive integrated</b>	<b>Regional economic</b>	<b>Land use regulation</b>	<b>Urbanism</b>
Legal basis	Mixed	Mixed	Discretion	Code
Scope of planning	Wide	Wide	Narrow	Narrow
Scale of planning	Multi-level planning	National planning	Local	Local
Locus of power	Mixed	Centre and local	Centre	Local
Public or private	Public	Public	Mixed	Mixed
Maturity of the system	Mature	Mature	Mature	Immature
Distance between goals and outcomes	Narrow	Mixed	Narrow	Wide
Examples (CEC, 1997)	AT, <b>DK</b> , FI, DE, NL, SE	FR, <b>PT</b> , (+DE)	IE, <b>UK</b> (+BE)	GR, <b>IT</b> , ES (+ <b>PT</b> )
Examples (Farinós Dasí, 2007)	AT, <b>DK</b> , FI, NL, SE, DE, BG, EE, HU, LV, LT PL, RO, SL, SV, (+BE, FR, IE LU, <b>UK</b> ).	BE, IE, LU, <b>UK</b> , CY, CZ, MT, (+ <b>PT</b> , ES)	FR, DE, <b>PT</b> , HU, LV, LT, SK, (+IE, SE, <b>UK</b> )	GR, <b>IT</b> , ES, CY, MT

Source: authors

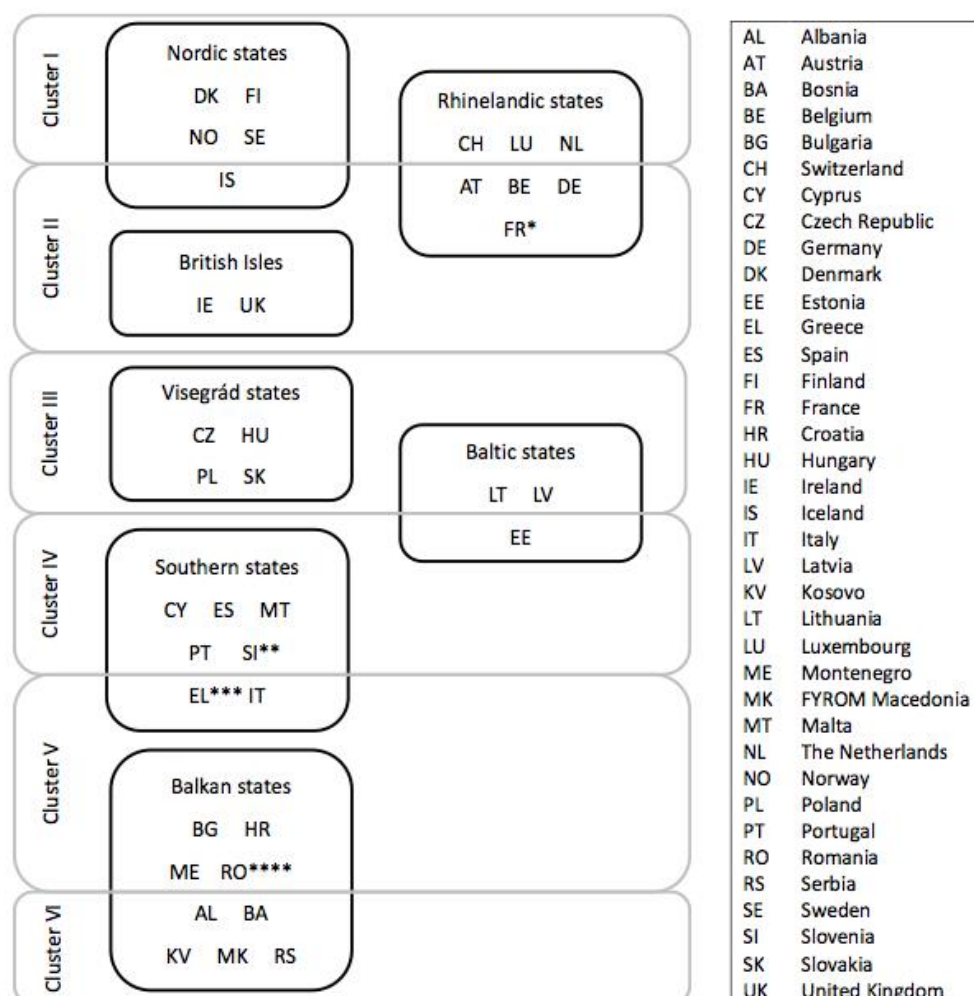
Another relevant factor that influences the promotion of territorial development in European regions is the vertical co-ordination between different territorial levels and horizontal co-ordination between actors at the same territorial level. Thus, the ESPON Project 2.3.2 distinguishes four categories of countries (ESPON, 2006): 1) countries characterised by strong vertical and horizontal co-ordination: Germany, Denmark, Estonia, Finland, France, Ireland, Lithuania, Latvia, The Netherlands, Poland, Slovakia; 2) countries presenting mainly vertical co-ordination and weak horizontal co-ordination: Austria, Switzerland, Hungary, Norway, Romania, Slovenia; 3) countries featuring a strong level of horizontal co-ordination

<sup>1</sup> It is important to highlight that ESPON has recently funded a project (ESPON COMPASS – Comparative analysis of territorial governance and spatial planning systems in Europe) that aims at providing an update of the EU Compendium by analysing the changes that Member States' territorial governance and spatial planning systems had gone through during the last 20 years (For further information see: <https://www.espon.eu/programme/projects/espon-2020/applied-research/comparative-analysis-territorial-governance-and>).

and scarce vertical co-ordination: Slovenia, Luxemburg, Malta, Sweden, UK, Czech Republic, Cyprus; and 4) countries characterised by both weak vertical and horizontal co-ordination: Belgium, Bulgaria, Spain, Greece, Italy and Portugal.

Finally, in the ESPON TANGO Project an analysis of quality of governance clusters was developed that builds on the Worldwide Governance Indicators (WGI) project database (Kraay et al., 2010). The analysis applies six aggregate quantitative indicators of governance which are then used to identify clusters of countries in which the quality and the characteristics of governance are similar (ESPON and Nordregio, 2013): 1) voice and accountability, i.e. the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and the presence of free media; 2) political stability and absence of violence, i.e. the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically motivated violence and terrorism; 3) government effectiveness, i.e. the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies; 4) regulatory quality, i.e. the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development; 5) rule of law, i.e. the extent to which agents have confidence in, and abide by, the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence; and 6) control of corruption, i.e. the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests. On the basis of these indicators it was possible to organise countries into six clusters, and then develop an additional group on the basis of their common geographical co-location and historical legacy (Figure 2.1).

Figure 2.1: Six clusters of countries obtained from the statistical analysis of WGI data compared with typical socio-political macro-regional divisions



Notes:

- \* Some of the comparative politics literature categorises France as a Southern (or Mediterranean) state (e.g. Hendriks et al, 2010), rather than a Rhinelandic state (as indicated in the diagram)
- \*\* Part of Slovenia belongs to the Balkan region although the country is not generally classified as a Balkan state
- \*\*\* Although Greece is also located in the Balkan region it is often categorised as a member of the Southern (or Mediterranean) states in comparative politics literature
- \*\*\*\* Only a small part of Romania belongs to the Balkan region but the country is categorised above as a member of the Balkan states since it does not belong to the other country groups

Source: ESPON and Nordregio (2013)

## 2.2 EU Cohesion policy: Reconfiguring governance processes

Besides administrative and spatial planning traditions and governance characteristics, the delivery of sustainable, inclusive and smart development in European regions strongly depends on the role played by EU cohesion policy. Since the reform of the Structural Funds in 1988, the EU has increasingly invested resources to promote sustainable, inclusive and smart

development of its territory and, through its programming periods, has helped to foster regional development across the continent. At the same time, this has also influenced domestic policy changes, with various countries progressively adapting their domestic governance structures and spatial planning systems in order to exploit synergies between EU and domestic policy, and to maximise the absorption of EU funds (ESPON and TU Delft, 2016).

Before exploring EU cohesion policy implementation systems across Europe, it is worth revisiting the basic differentiation between them, which is not directly related to administrative or governance issues, but stems from eligibility for EU cohesion policy. While all EU Member States are eligible for some form of support, the vast majority of funding (70% in the current period) is allocated to the regions where investment needs are arguably the greatest. These have been classified as Convergent Regions (2007-2013) or Less Developed Regions (2014-2020) which have a GDP per capita lower than 75% of EU average.

In relation to management of cohesion programmes, despite an influential filter role played by the Member States' national governments, the EU initially identified the region as the main institutional level through which to distribute its resources. Whilst turning the European regions into the main pivotal actors for the promotion of territorial development, this has also raised a number of issues, mostly linked to the administrative differences that characterise EU countries. Notably, whereas the responsible authorities for delivering EU cohesion policy were identified with NUTS2 level regions, not all the Member States have a NUTS2 equivalent administrative layer. Even where NUTS2 regions exist, they can be fully autonomous federal units, directly elected sub-national entities, indirectly elected second tier bodies, authorities directly appointed by central government, or purely statistical units. To add further complexity, the 2014-2020 programming period allowed for the possibility of recentralising the management of EU resources, providing an opportunity that has been seized by various national governments.

This heterogeneity, together with the simultaneous existence in most EU Member States of one or more autonomous sub-national policy levels responsible for territorial development and spatial planning, clearly constitutes a challenge for the efficient promotion of sustainable, inclusive and smart development. Thus, successful ways to promote territorial development may vary in the presence of different approaches to managing and implementing EU cohesion policy and of different levels of integration between EU cohesion policy and domestic planning. Table 2.3 proposes a qualitative characterisation of EU Member States that takes into account the manner in which each of them has been involved in EU cohesion policy during the programming periods 2007-2013 and 2014-2020. In particular, it divides European countries into four groups: 1) countries that manage EU cohesion policy centrally; 2) countries that manage EU cohesion policy through non-elected bodies strongly dependent on the central level; 3) countries that manage EU cohesion policy through non-elected bodies

whose actions are influenced by both central government and lower levels; and 4) countries that manage EU cohesion policy through elected sub-national entities.

Table 2.3: Institution deputed to manage EU cohesion policy. ReSSI countries in red

Programming Period	Level at which EU cohesion policy is managed			
	Central level	Non-elected sub-national institution		Elected sub-national institution
		Central influence	Mixed influence	
2007-2013	BG, CY, <b>DK</b> , EE, HR, LT, LV, LUX, MT, RO, SL	HU, <b>PT</b> , SK	CZ, FI, GR, IE, NL, SE, <b>UK</b>	AT, BE, DE, ES, FR, <b>IT</b> , PL
2014-2020	AT, BG, CZ, CY, <b>DK</b> , EE, FI, HR, HU, LT, LV, LUX, MT, RO, SL, <b>UK</b>	<b>PT</b> , SK	GR, IE, NL, SE	BE, DE, ES, FR, <b>IT</b> , PL

Source: authors

Various sources of evidence emerge that are relevant for the effective promotion of sustainable, inclusive and smart development of European regions. On the one hand, in the new programming period it is possible to witness a partial re-nationalization of EU cohesion policy, with various countries opting to take back responsibility for OPs into the hands of central government or institutions whose decision-making is directly influenced by it. On the other hand, those countries having a strong sub-national level (federal or regionalised states) maintained the distribution of resources firmly in the hands of these levels. Finally, various sub-national institutions created at NUTS2 level in order to manage cohesion policy 'regional' OPs during the 2000s lost their pivotal role in the national versus local negotiation of the distribution of EU funds.

An additional factor influencing the promotion of EU development concerns the current degree of alignment between EU cohesion policy programming activities at the national and/or regional level and domestic spatial planning. In some countries, particular attempts were made to improve such alignment in terms of timing, pairing of spatial and strategic-programming documents and alignment of investment priorities. However, up to now other countries have made little or no effort in this direction. Here, linkages with spatial planning mainly relate to the embracing of multi-annual perspectives in domestic spatial development planning.

### **2.3 Overview of regional governance regimes in Europe**

Building on the various elements gathered and presented above, it is possible to compile a tentative overview of regional governance regimes in Europe which takes into account both the specific governance characteristics of the various countries as well as the way they each chose to manage and implement EU cohesion policy in the last two programming periods (Figure 2.2). From Figure 2.2 it is possible to identify some clear patterns which influence the promotion of sustainable, inclusive and smart development in Europe.

First, there are those Member States where it is most possible to exploit synergies between domestic regional development policies and EU cohesion policy. These are countries where the sub-national level plays a crucial role in both domestic and European perspectives (e.g. France, Poland and Germany) and/or that are characterised by mature, comprehensive and integrated spatial planning systems (e.g. The Netherlands and Sweden). A similar situation also exists in Member States that have traditionally adopted a land use regulation approach to spatial planning, where both the central and local levels play important roles in promoting territorial development (Ireland, United Kingdom and Belgium).

Second, there are countries where, despite the strong regionalisation of EU cohesion policy management, the exploitation of development synergies is less immediate due to the peculiar governance characteristics of their spatial planning tradition. This is the case in some Mediterranean countries, such as Italy, Spain and Greece, where different governance approaches and less comprehensive spatial planning systems, pivoted around the urbanism approach, leaves a gap in vertical and horizontal co-ordination between levels and sectors. Here Portugal is an exception, as EU cohesion policy is indeed partially managed at the regional level but simultaneously influenced by central government in the definition of development priorities. This may be a direct consequence of the country's spatial planning tradition, which is often more associated with the regional economic approach than to the Mediterranean urbanism approach.

An additional group comprises Cyprus, Malta, Luxembourg, Slovenia, Croatia and the three Baltic States, where EU cohesion policy is centrally managed through specific National OPs that also cater to the regional dimension of each country. This is also the case in Denmark. In these contexts, the successful promotion of regional development is mostly an issue of co-ordination between national and local priorities. Here, the sub-national level is either non-existent or constrained between the other two. In this case, the quality of governance and the maturity, and integration, of the country's spatial planning system is a crucial precondition to favouring the required co-ordination. A similar situation exists in those countries that eventually ended up re-nationalising these competences, despite various attempts during the 1990s and 2000s to create a sub-national order through which to delegate the management of regional development via both domestic and EU funds (Hungary, Czech Republic and Slovakia). Romania and Bulgaria, which entered the EU in 2007, continue with a centrally managed cohesion policy as, despite various efforts, they have not yet succeeded in

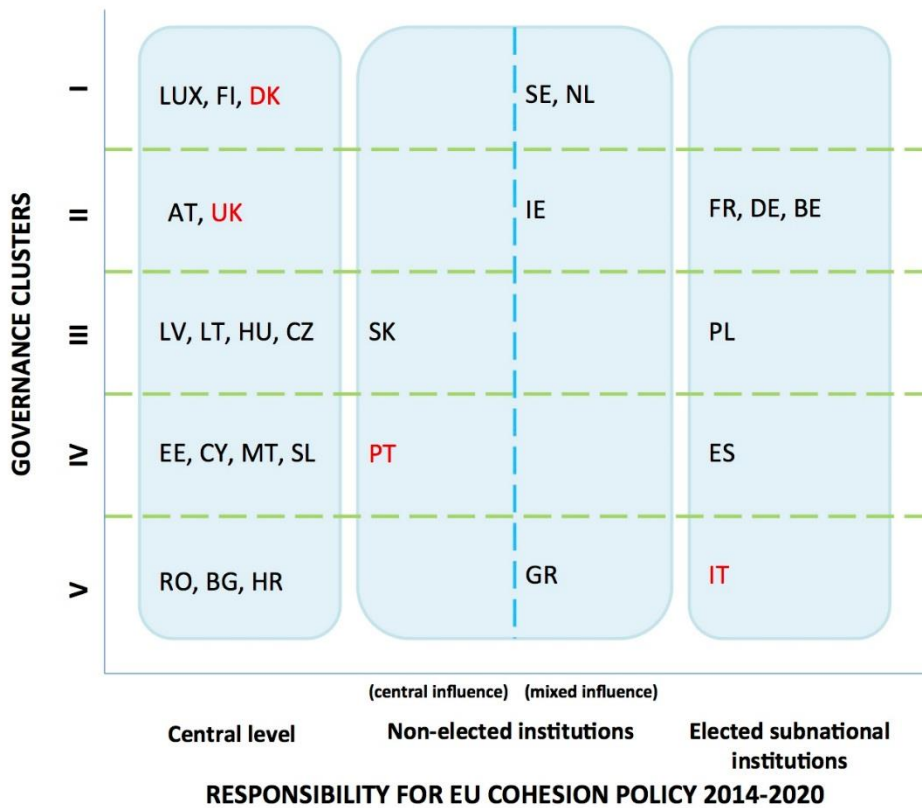
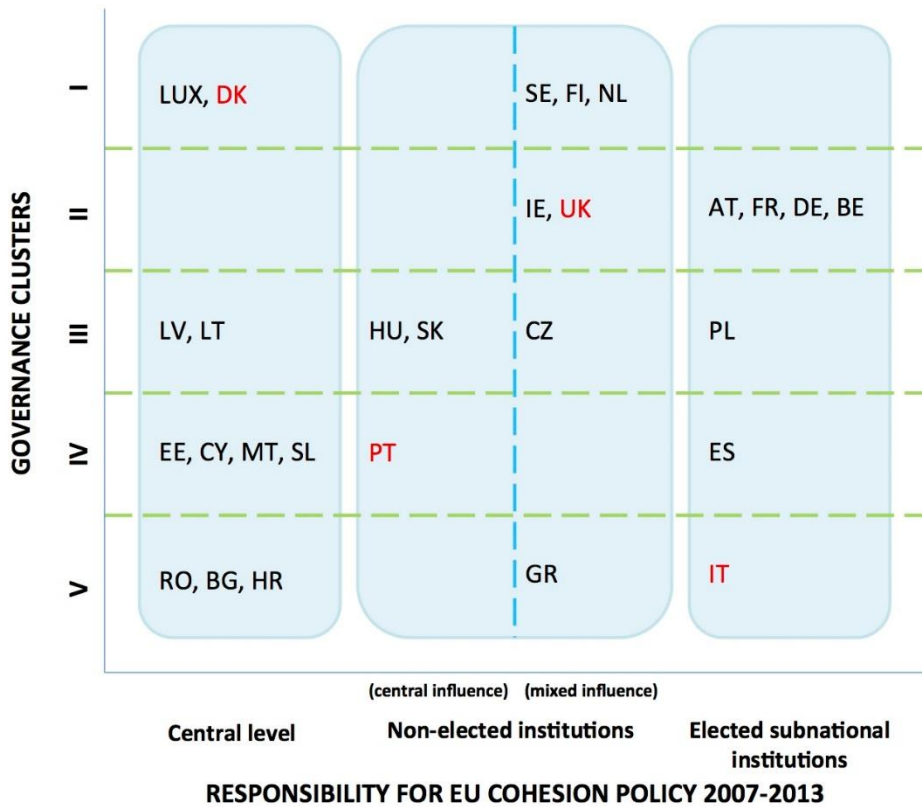
developing autonomous meso-level institutions. Overall, it can be observed that most of these countries have a strong mono-centric character, with a capital that dominates in terms of population and economic development, in all issues that contribute to influencing the development trajectories of other regions.

A last group comprises those nations that, whilst presenting good quality governance in most of the analysed fields and being characterised by mature spatial planning systems of a comprehensive integrated nature, decided to re-nationalize the management of EU cohesion policy in the recent programming period. In the case of Austria, the development of a national OP for the distribution of European Regional Development Funds (ERDF) has been negotiated with Austria's Lander, allowing for the exploitation of synergies between domestic and EU cohesion policy priorities. On the other hand, Finland traditionally features a weaker regional level, and in this context the re-nationalization meant a further weakening of EU cohesion policy priorities. Be that as it may, it should be mentioned that both countries feature regions whose level of development is over 90% of the EU average GDP per capita and therefore do not fall under the Cohesion objective and have access to limited funding compared to other Cohesion objective countries.

Finally, it should also be mentioned that the so-called ESPON space includes four additional countries, Iceland, Liechtenstein, Norway and Switzerland, not taken into account in this last part of the analysis as they are not part of EU cohesion policy. Whereas Switzerland has a federal character and a spatial planning system with comprehensive integrated features, Iceland and Norway are generally classified together with the other Nordic countries regarding governance features and spatial planning characteristics.



Figure 2.2: Regional governance regimes in Europe. ReSSI countries in red



Source: authors

## 2.4 Governance regimes and ReSSI regions

The proposed overview of regional governance regimes in Europe is by no means exhaustive and only aims at providing a background against which to collate and interpret the findings of the case studies explored within the ReSSI project. In this light, it is particularly relevant to highlight that the case studies analysed belong to four regions that have very different characteristics in terms of spatial planning, governance and approaches to delivering EU cohesion policy.

First of all, each of the countries hosting ReSSI stakeholder regions can be associated, although not unequivocally, with one of the four different spatial planning traditions proposed by the EU Compendium. Specifically, Denmark features a comprehensive integrated approach to spatial planning, characterised by an understanding of spatial planning which is rooted in a systematic and formal hierarchy of plans from national to local level, and a co-ordination of public activities across different sectors. By contrast, Portuguese spatial planning is partly aligned with the regional economic approach, and relies on a strong central government pursuing social and economic objectives and having an important role in managing development pressures across the country. Spatial planning in the United Kingdom is instead grounded in the concept of planning focused on the narrower task of controlling the change of land use at strategic and local levels. Finally, the Italian spatial planning system is by tradition strongly influenced by architectural aspects and concentrates mainly on issues of zoning regulation, urban design, townscapes and building control (CEC, 1997).

The ReSSI stakeholder regions also differ in relation to the governance characteristics identified by the ESPON TANGO project, as they belong to different clusters of nations and therefore are characterised by different levels of quality of governance. In particular, Denmark belongs to a cluster of countries (cluster I) scoring very high in all variables underpinning the analysis (voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption). The United Kingdom also scores highly (cluster II), whereas Portugal (cluster IV) and Italy (cluster V) feature lower scores, suggesting drawbacks in terms of governance performance and vertical and horizontal coordination capacity.

Finally, whilst all the ReSSI regions belong to the EU cohesion policy's more 'developed' regions, the countries they belong to deliver this policy rather differently. In particular, Italy is the only country that manages the EU cohesion policy through directly elected regional administrations, leaving a high degree of autonomy to the region on how to spend the funds and potentially allowing for the development of synergies between EU and domestic priorities and actions. Portugal, however, manages EU cohesion policy through territorial subdivisions whose action strongly depends on the central level. This situation may generate development

tensions between the national and the local level, with the former playing a strong role in orienting local development priorities through the distribution of resources in the absence of any independent sub-national level. A similar situation concerns the United Kingdom, where cohesion funds are managed by the devolved national governments (in Scotland, Wales and Northern Ireland) and by the Department for Communities and Local Government (DCLG) in England. Finally, in Denmark, along with an administrative reform in 2007, former centralised regional policy took on board the new (enlarged) regional authorities and made them responsible for the forming of regional business policies and the handling of applications for EU regional funds and regional co-financing. In parallel in Denmark, former responsibilities on regional spatial planning were abolished, thereby leaving regional authorities to act as networking bodies that contribute to the spread of territorially relevant knowledge and to the development and consolidation of stakeholders' networks that may, in turn, constitute the starting point for territorial development strategies and actions.

As will emerge in the following chapters, this heterogeneity is promising in terms of the possible elements of interest through the case study analyses. At the same time, it may constitute an obstacle in terms of sharing good practice. For this reason, transferability opportunities should be carefully explored *vis-à-vis* the particular governance features of the place where a specific practice has emerged, an issue that will be further elaborated below.

### **3 Opportunities and challenges for European cities and regions**

#### **3.1 Crisis and austerity policies' impacts on cities and regions**

Challenges and opportunities for European cities and regions have arisen from a number of drivers, resulting from changes in the economy and society, but also triggered by the 2008 financial crisis. In addition, there are sectoral challenges and opportunities with distinct territorial impacts from the point of view of cohesion and sustainability. These challenges and opportunities for cities and regions are discussed in this section with a focus on existing governance regimes, the 2008 financial crisis and subsequent 'austerity' policies in Europe.

Space and place are the missing elements in the explanations and narratives of the 2008 financial crisis and the austerity policies which transformed daily life across European cities and regions. The diverse economic structures and social composition of cities and regions help explain the different crisis and austerity outcomes observed across a wide range of spatial scales (Cotella et al., 2016). For example, those residential areas with concentrations of low-skilled workers and lower-income, less educated, and/or ethnic minority populations are amongst the most negatively affected by austerity measures, aggravating social–spatial segregation at city level (Donald et al., 2014).

The first responses to the crisis were dominated by neoliberal policies, translated into austerity measures which aggravated social inequalities in cities, especially in the European periphery. The impact of austerity is also associated with a dependent and fragile integration in the Eurozone, culminating in bailout programmes across the Eurozone periphery as of 2010-11 (Hadjimichalis and Hudson, 2014; Rodrigues and Reis, 2012; Vale, 2014). These authors argue that the brunt of structural adjustment programmes attached to the bailout agreements illustrate the North–South divide in the EU.

These crises also impacted on building cycles and are thus reshaping housing markets. Evidence suggests that regions which were more dependent on real estate and construction activities, more specialized in public services and with significant incidence of long-term youth unemployment suffered more than other regions (Ferrão, 2013; Méndez, 2013). However, there are significant opportunities for large cities to better co-ordinate urban expansion and achieve more sustainable growth compared with past decades, especially in Southern Europe (Salvati et al., 2016). Conversely, cities are also developing new optimistic narratives, which champion post-industrial strategies as a way out of the crisis. However, most of the latter strategies are based on mega-projects that tend to polarize communities or depreciate rapidly, while the former urban strategies pursuing sustainable, inclusive and smart growth require debate, participation and institutional collaboration, balancing public and private realm considerations at the local scale (Huston et al., 2015).

The financial crisis and subsequent austerity policies are powerful changing drivers of governance regimes. The post-crisis governance regimes range from those characterised by neoliberal orientations to those shaped by social movements, often organised via social media. For example, current UK urban policies are investment-oriented and growth-focused, showing less concern with community development, reflecting the neoliberal logic. In contrast, governance regimes with a strong presence of social movements and citizen platforms emerged in a number of European cities. These aim to counteract austerity and become an alternative voice of citizens, entering local governments and influencing urban governance debates aiming at reducing inequalities, such as in Madrid or Barcelona (Pérez et al., 2016). According to such authors, these social movements are rebalancing municipal budgets and benefiting peripheries at intra-metropolitan scales.

The variegated nature of political priorities and governance regimes across the EU influence the ability to promote sustainable, inclusive and smart growth, but also the ways in which cities and regions explore opportunities and overcome threats. These include great societal challenges, such as economic competitiveness, social inequality, migration, ageing, energy efficiency and climate change, which cannot all be solved at regional level.

New opportunities are, however, also emerging. Increasing co-operation among European institutions and stakeholders, including inter-governmental organisations, is necessary to improve efficiency, decision-making processes and to co-ordinate actions to deliver smart, inclusive and sustainable growth. Notably, co-operation is needed to enhance the provision of services at a 'functional' scale (rather than an administrative one), including experimental approaches to integrated local development. In this process, local authorities have significant powers to govern the domains of land-use planning, energy provision, transport, waste and water services and can team-up and scale-up these services more efficiently to the population. Private actors are also relevant stakeholders and are willing to participate through public-private partnership agreements or other institutional arrangements that unleash creativity and innovation. Such arrangements offer the opportunity to deepen the involvement and participation of civil society, ensuring more inclusive development.

### **3.2 Challenges and opportunities for cities and regions and governance regimes**

The effects of the 2008 financial crisis highlighted the relevance of the study of governance regimes, as they reflect the distinct forms of design and delivery of policy in the current context of privatisation and financialisation of public action. However, lack of funding, political fragmentation and institutional fragilities all challenge the promotion of sustainable, inclusive and smart growth.

The aftermath of the crisis has resulted in significant changes to the composition of public expenditure in some Member States, especially in Southern Europe. Simultaneously, regional

and local authorities have expanded their action over time in many Member States, and are responsible for a large share of public expenditure (Dijkstra et al., 2014). This confirms the increasingly important role of local and regional actors in the implementation of place-based approaches to development. Nevertheless, there are distinct effects depending on the institutional model. In particular, it can be noted that sub-national levels of government tend to be more important in federal states like Austria, Belgium and Germany, or in countries like Spain and Sweden where there is a high degree of decentralisation. On the other hand, less effective governance systems and low levels of institutional capacity constrain the effectiveness of EU cohesion policy, both directly (slowed down investment leads to funding losses) and indirectly (weak or bad co-ordination between actions) (Dijkstra et al., 2014; ESPON and Politecnico di Milano, 2012; Rodríguez-Pose and Garcilazo, 2015).

The variegated responses to the economic crisis across cities and regions show how local political processes unfold differently at such levels (Holgersen, 2015). Challenges and opportunities for cities and regions have had two main drivers: on the one hand, there are those arising from changes in politics, economy and society; and on the other, those triggered by the impacts of the financial crisis itself. Moreover, these challenges and opportunities are intrinsically related to the governance regimes discussed in the previous section. Those linked with territorial development are especially relevant for the context of the ReSSI project. These include the design and implementation of better regulation, better access to funding, and better-developed opportunities for knowledge-sharing. From the point of view of governance, the most important challenges and opportunities are linked to improving institutional capacity, economic efficiency, competitiveness, inclusion and sustainability.

In relation to those challenges and opportunities linked to the creation of conditions for economic and technological development, cities and regions can promote the use of innovative technologies to foster inclusion and wellbeing, as well as promoting smart growth. This has the added advantage of frequently resulting in lower levels of resources and energy usage, thus contributing to EU sustainability goals. Cities and regions are increasingly investing in energy efficient infrastructure development, as well as in areas such as mobility and housing, which can deliver positive social impacts and generate 'green' jobs and new businesses. Some of these follow the principles of 'open innovation', exploring niche markets and promoting innovative social institutions. Well governed and managed cities and regions focus on more inclusive innovation, aiming at spreading the benefits of economic development to the least affluent sections of the population. Hence, cities and regions provide many opportunities for sustainable, inclusive and smart growth.

Overall, the main challenges and opportunities, operating in tandem with each other and across various spatial scales, include:

- *Increased exposure to globalisation: structural changes after the global economic crisis:* Increased exposure to globalisation has differentiated spatial impacts. Larger urban agglomerations located in the core of the EU benefit from more integrated

transport systems, higher concentration of skilled labour and highly competitive firms generating high revenues, whereas middle and low-income cities/regions face stiff competition from lower cost locations outside Europe and lack the resources to upgrade into value added activities, having more difficulty retaining a talented young population. Nevertheless, institutions and the quality of government can make a difference in a global economy, favouring the business environment and innovation (introduction of new ideas, products and processes and exploring the digital and green economy) and underpinning higher economic growth, job creation and knowledge dynamics.

- *Challenges of EU integration (and disintegration), and the growing interdependencies of regions:* Brexit is challenging European integration. The impacts of Brexit are currently unknown, as are the impacts of other populist political manifestations across Europe which present challenges to EU integration. In the White Paper on the Future of Europe, five scenarios are presented setting out the main challenges and opportunities for Europe (EC, 2017). Only one of the scenarios (*Doing much more together*) suggests more integration across more policy areas in Europe, while another scenario (*Carrying On*) focuses on implementing and upgrading the current reform agenda. The remaining scenarios (*Nothing but the Single Market; Those who want more do more; Doing less more efficiently*) are much less optimistic and suggest a *not all for all* Europe. The aftermath of Brexit might have an effect on EU cohesion policy after 2020. The leeway for merging cohesion policy funding with the Juncker Plan will gain momentum, and the cessation of grant schemes may well be replaced by other schemes directed at regional development (such as loans or bank guarantees). The growing interdependency of regions requires the appropriate authorities to act within complex and dynamic multilevel governance landscapes and different functional territories, involving actors who operate at different levels and domains, as well as across the remit of public and private authority. Addressing this growing complexity is made more challenging by budget cuts and austerity. In many cases, the solution has been to create new post-political institutions, whose problems of political legitimacy are an important weakness when it becomes necessary to justify certain policy options (Swyngedouw, 2009).
- *Challenges to achieving more inclusive innovation:* Innovation has played a fundamental role in the economic growth process in the EU. A range of EU regions engage in 'high road' competitiveness strategies, aiming at avoiding global competition from low skilled/low paid labour countries. Knowledge-based economic and innovation strategies become common currency in many policy guidelines. However, the reality is that many initiatives did not deliver relevant results, especially in peripheral regions. Moreover, innovation dynamics favour large private actors and it is often difficult to realise spill-overs and other positive externalities in the short-to-medium term. The Europe 2020 strategy aims to deliver smart growth pursuing a place-based approach, linking local/regional capabilities with industry structures and involving more actors in the development process (entrepreneurs, scientists, users, governments and civil society). At city level, public policies can play an important role in promoting links between schools, universities and local firms to ensure that the skills and necessary training can be provided locally. Recently, urban experimentation is unleashing new ideas that can promote more inclusive growth (e.g. Open Data

initiatives) and change the economic development model (e.g. more collaboration among actors in the sharing economy model).

- *Diverse demographic and social challenges, including segregation of vulnerable groups:* The Europe 2020 strategy for smart, sustainable and inclusive growth aims at reducing the number of people at risk of poverty or social exclusion. With 40% of the EU population living in cities, this goal can only be met if poverty and social exclusion are reduced in cities too. The financial crisis of 2008 led to much material deprivation and to an increase in poverty and social exclusion in many cities, especially among women, children, ethnic groups and migrant populations. Cities can help migrants and other vulnerable and marginalised groups by providing training and counselling, supporting job searches, helping them to set up their own businesses and other modalities to address poverty. City councils can provide measures to promote social inclusion and equal opportunity by improving active participation and employability; combating poverty and discrimination; enhancing access to affordable health care and social services; and promoting social entrepreneurship. Housing in cities also involves problems such as overcrowding and affordability, which tend to worsen if cities go through rapid population and/or income growth. Cities can influence their housing market by ensuring that planning does not unduly hinder housing construction. Cities can improve neighbourhoods by creating and maintaining safe, attractive and inclusive public spaces and ensuring equal access to high-quality public services. In large cities, access to affordable public transport is particularly important to ensure poor residents can access jobs and services.
- *Climate change and environmental risks: geographically diverse impacts:* The impact of climate change will differ considerably from one region to another. This implies a need to adopt adaptive measures tailored to the local context. Climate change is a global issue, but mitigation through global collaborative efforts remains a challenge. Thus, curtailing greenhouse gas emissions may be better driven by the loosely coordinated work of individual nations, groups of nations (such as the EU), non-governmental organisations, and cities. In cities, the technological possibilities of improving efficiency to reduce energy demand and to reduce emissions are significant (building heating, cooling and lighting systems, transportation systems, etc.). The energy efficiency agenda for the city and the decarbonisation of energy sources, mainly for power production and transportation/mobility, are essential to sustainable urban development. However, as the emphasis within the EU is being focussed on the development of a circular economy, by its very nature this exceeds municipal boundaries. Although cities can cope with localised issues to be effective, supportive policy has to involve co-ordinated action at the city, regional, national and supra-national levels. There is an awareness of the need to respond to new demands, challenges and opportunities which call for new principles and theories that can guide reliable solutions to complex problems, such as climate change. Thus, technology and public policy are necessary elements but they need to be accompanied by a change in cultural and behavioural norms and practices, beginning with energy conservation, both as a personal and as a societal imperative.
- *Energy challenges come to the fore and threaten regional competitiveness:* Energy options are multiple. A particular societal challenge is to reduce the consumption of fossil fuels in order to address the threat of climate change. Energy efficient cities and



regions require the development of renewable energy portfolios according to indigenous resources. Given that people continue to aspire to standards of living that are energy-intensive, there will be a continually rising demand for energy, particularly in urban areas. The structural changes required demand political and social leadership at these scales. If 'business as usual' is likely to continue in traditional manufacturing and energy sectors, in other sectors new opportunities of business and jobs creation will certainly grow. Solutions for climate change and energy consumption involve an array of competing technological, economic, social and cultural issues and stakeholders at the city and regional scales. There is also a demand for reconfiguring the energy mix and increasing efficiency. These challenges and opportunities require a new way of thinking about cities. Holistic thinking and open mind-sets are needed from all stakeholders, who must be prepared to join and reset their agendas, strategies and plans, as they are dealing with wicked problems of environmental pollution, climate change and energy consumption.

- *Loss of biodiversity and vulnerable natural, landscape and cultural heritage:* The actions required to increase ecosystem services differ between places, according to specific local features. Nevertheless, the demand for ecosystem services tends to rise as population density increases, mainly in city-regions. Cities and regions must support the installation of green infrastructure (comprising all natural, semi-natural and artificial ecosystems), as this can provide ecological, economic and social benefits through natural means. It can deliver health-related benefits such as clean air, better water quality, a greater sense of community and combat social exclusion and isolation. In addition, it provides opportunities for connecting urban and rural areas, and provides attractive places to live and work, as well as more jobs. The conservation of biodiversity through establishing nature protected areas, such as the EU Natura 2000 sites which are a particular form of green infrastructure, is one way of protecting natural capital. The improvement of the environment in less favoured regions increases their attractiveness for external investors and for tourism, and helps to strengthen their regional identity. Cities and regions are compelled to increase the quality of their environment. From this perspective, supporting investment in green infrastructure is particularly appealing since it is often an effective and cost-efficient solution while at the same time contributing to achievement of the objectives which the EU has set for limiting biodiversity loss.

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