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AER Survey

Regional policy to tackle the economic crisis

Introduction

Regions and their elected politicians have a responsibility to fight for the interests of their citizens, to improve and strengthen the regional and local economy, to promote employment opportunities and to support the development of a sound and robust financial system in their territories. They are therefore heavily challenged to battle against the economic crisis. Although macro-economic strategies and bigger financial aid programmes primarily do not correspond to the competences of regions, this does not prevent them from taking action. Regions can respond more accurately to the specific needs of the regional economy and take into consideration the regional employment situation.

In order to exchange experience and provide stakeholders with information on how regions can react to the crisis, AER carried out a survey on member regions' strategies to support their regional economy, especially small and medium sized enterprises (SMEs).

By 12 May 2009 **24 regions from 13 countries** have submitted answers to AER's survey:

- Albania: Tirana
- Austria: Lower Austria
- Belgium: Brussels Capital
- Croatia: Krapina Zagorje, Medjmurje, Primorje and Gorski Kotar
- Finland: Central Finland
- France: Alsace, Ile-de-France
- Germany: Baden-Württemberg
- Hungary: Békés, Eszak-Alföld, Fejér, Heves
- The Netherlands: Flevoland, Noord-Brabant
- Poland: Lower Silesia
- Sweden: Östergötland, Västra Götaland
- Switzerland: Fribourg, Valais
- United Kingdom: Cornwall, Hampshire, Somerset

In addition, a collection of good practices in UK counties and an overview of the measures of Baden-Württemberg's partner regions Catalunya, Flanders, Lombardy, Rhône-Alpes and Wales was submitted to AER. The consultation will remain open and feedback is still welcome; it will be included in the next update of this report.

Regional threats related to the economic crisis

Sectors concerned

When comparing the regional impacts of the economic crisis different economic situations, diverse sector profiles, varying competitiveness of companies and dissimilar dismay by the financial crisis have to be taken into account. However some similarities can be observed.

All the regions that participated in the survey are affected by a severe **downturn of industrial production**, especially investment goods. Export oriented regions with a focus on innovative and technology based products, such as Baden-Württemberg, Békés, Fribourg, Noord-Brabant and Valais, have to face a strong decline in international demand, leading to a decline in high tech exports such machinery, metallurgy and chemistry both overseas and within Europe.

Regions hosting **automotive industry** such as Alsace, Baden-Württemberg, Flevoland, Hampshire, Heves, Ile-de-France, Lower Silesia, Noord-Brabant and Västra Götaland face harsh impacts not only on the car manufacturers itself but also on the supply chain, mainly dominated by SMEs. The same applies for other sectors in mechanical engineering (Baden-Württemberg, Lower Austria, Östergötland).

Several regions already experience or forecast a downturn in the **service sector** affecting both services directed to companies (consultancy, IT, law firms, accountancy, advertising) and private individuals (tourism, restaurants, retail). UK regions in particular face serious problems with the closure of retail stores which was also mentioned by Brussels Capital Region.

A decline in **construction and property development** is reported by Hampshire, Heves, Ile-de-France, Lower Austria, Lower Silesia, Somerset and Västra Götaland and the cutback of **national and international investment** is a major problem for regions in Croatia and the UK.

In the **logistics and transport sector**, the regions of Central Finland, Hampshire, Nord-Brabant and Västra Götaland mentioned a decline in service contracts and a decrease in passengers and goods shipped by air, rail and sea affecting their ports and airports. The recession may also concern small and medium sized coach and taxi operators and private care hire in late 2009.

The regions of Alsace, Central Finland, Lower Austria and Primorje and Gorski Kotar stated a decline in **wood processing and agriculture** affecting their territories.

Impacts on individual businesses and private individuals

In what concerns individual companies, SMEs in the supply chain of big companies are particularly affected. Beside the problems caused by the **fall of incoming orders**, they face **liquidity problems** related to a decrease in loan placements by banks, increased interest rates and late payments. Those companies who already faced **productivity and competitiveness problems** or financial troubles before the crisis, in particular, are now confronted with severe difficulties. This context was especially highlighted by Ile-de-France, Lower Austria and Medjimurje, but might also be true for SMEs in other regions.

Another consequence of the economic downturn regions are already facing, or are forecasting, is a rise in **unemployment**. Somerset has already reported **social impacts** such as an increase in crime, alcohol related violence, domestic abuse, incidents of homelessness and increased rural isolation of young people.

Regional strategies and action plans

According to their regional particularities regions respond to the specific needs of their economy by taking into consideration industry sectors, company types, employment situation and labour profile. Nevertheless some strategies are alike.

Stimulation of demand and public investment

An important approach to tackle the economic crisis is the **stimulation of demand** from private individuals and companies. **Public infrastructure investment** is a key pillar of strategic responses to the economic crisis in many regions and regional policy has an important role to play in ensuring that this public investment is transparent, well-targeted and timely and that it leads to sustainable long-term growth. Supporting regional infrastructure does not only provide regions with the opportunity to speed up the economy but to also emerge from the crisis stronger than they were before. In this context, “green investments” present enormous opportunities for both rural and urban regions. Public and private investment in renewable energy, energy efficient housing and buildings can boost innovation, create job opportunities and regional competitiveness.

The approach of **investing in public infrastructure** (e. g. roads, public transport, schools, hospitals) using the multiplier effect of such investments on local enterprises has been chosen by the regions of Alsace, Baden-Württemberg, Békés, Central Finland, Ile-de-France, Krapina Zagorje, Lower Austria, Lower Silesia and Valais. To back up extended public investment, Baden-Württemberg eased the regulations of **public procurement** and the regions of Hampshire and Somerset put stronger emphasis on **procuring locally** where possible. Ile-de-France applies a policy of **responsible procurement** focusing especially on cutting down delays in payment. **Reducing bureaucracy** and speeding up bureaucratic procedures are part of Eszak-Alföld and Heves’ strategy of an entrepreneur-friendly administration. The region of Alsace seeks to **indirectly speed up investment** by accelerating payments to local authorities.

Investment in **environmental and energy efficient measures** and renewable energy is part of the strategies of the regions of Baden-Württemberg, Fribourg, Heves and Lower

Austria and Noord-Brabant. The plans comprise schemes targeting the renovation of public buildings and support for companies and private individuals when installing energy efficient measures in their buildings or using renewable energies. Besides “green investments” regions also focus on **investment in other innovation areas** such as broadband in rural areas (Flevoland) or international transport networks (Lower Silesia).

Another approach to stimulate demand is through the **reduction of public dues** and costs of bureaucracy. With the **relief of taxes** (Fribourg, Valais) and the offer of extended invoice payment terms (Hampshire) some regions aim to extend the scope of **liquidity of companies** and **stimulate private consumption**.

Measures to strengthen **regional marketing** and the **development of regional tourism** are means to develop the territory and to tackle some of the social impacts of the economic crisis such as shop vacancies and abandoned buildings. With support schemes for investment in sustainable tourism measures and new tourism products Baden-Württemberg, Hampshire, Lower Austria and Primorje and Gorski Kotar seek to improve local tourism infrastructure and to maximise tourism in their territories. Somerset invests in its regional marketing in order to attract investment and visitors and Békés develops a strategy for medical tourism.

Access to Finance and development of SMEs

Small and medium sized enterprises are the backbone of Europe’s economy. SMEs (enterprises with up to 250 employees) represent 99,8% of all European enterprises and 91,5% of all EU enterprises are micro enterprises with one to nine employees. 67% of all private sector jobs are in SMEs; around 30% in micro enterprises.¹

The financial crisis has affected the credit flows of various types of companies to different degrees, depending on their size, location and risk features. In such a context, SMEs are particularly vulnerable due to their heavy dependence on bank credits and limited recourse to financial markets. Although half of European SMEs expect negative developments in their businesses in the first semester of 2009 (compared to only 20% two years ago) they are – contrary to larger enterprises - still reluctant to lay off employees.² Private owners of small family businesses usually act with great responsibility towards their employees even if the company has to face hard times. Thus, safeguarding those companies is crucial for regional welfare.

Despite the importance of SMEs for European economy and employment, they are often not explicitly on the radar of national recovery plans. Here lies an important field of action on a regional level.

The majority of regions that participated in the survey set up schemes to **improve the access to finance for SMEs**. Enabling SMEs to invest during the crisis allows them to gear up after the crisis. The measures are manifold and comprise

- Financial aid and grants to companies and actors concerned with financing SMEs (Alsace, Fribourg, Hampshire, Ile-de-France, Lower Austria, Östergötland, Tirana)

¹ Source: European Commission DG Enterprise

² Source: UEAPME Union Européenne de l’Artisanat et des Petites et Moyennes Entreprises

- Subsidised loans including micro credits and support to access credits, e.g. through banking dialogues (Baden-Württemberg, Békés, Brussels Capital, Cornwall, Krapina Zagorje, Ile-de-France, Lower Austria, Lower Silesia, Medjmurje, Primorje and Gorski Kotar, Somerset, Valais)
- Guarantees for credits (Baden-Württemberg, Békés, Brussels Capital, Ile-de-France, Lower Austria, Medjmurje)
- Equity capital (Alsace, Baden Württemberg, Flevoland, Ile-de-France, Lower Austria, Noord-Brabant).

Sustainably **strengthening the competitiveness of SMEs** is crucial for many regions. Measures include

- Business start-up support such as advisory services and training for entrepreneurs (Medjmurje, Primorje and Gorski Kotar)
- Stimulation of internalisation, innovation and restructuring of SMEs, e. g. through specific funding, advisory services or fostering SME-Research-Cooperation (Baden-Württemberg, Békés, Ile-de-France, Noord-Brabant, Valais)
- (Re)-development of industrial zones and technology parks (Noord-Brabant, Primorje and Gorski Kotar)
- Assistance to firms which are struggling with debts and risk to face insolvency through advisory schemes (Baden-Württemberg, Brussels Capital, Hampshire)
- Support for specific sectors such as crafts, the housing and development sector or agriculture (Alsace, Hampshire)

Development of employment and skilled labour

Employment and life long learning are critical to regions' competitiveness. It is therefore essential to maintain and further develop the skills of employees in order to be prepared once the economy will again go into a higher gear. Furthermore responsibility towards the future generation implies that school and university graduates will find an opportunity to start their career even in difficult economic times. Training activities are therefore on the agenda of several regional recovery plans.

Developing the labour market and related services are strategic aspect in Békés', Ile-de-France's and Noord-Brabant's response to the crisis. Specific **training activity** targeted at workers on short time work and special support for employees over 50 years are part of the schemes in Baden-Württemberg, Hampshire, Lower Austria and Västra Götaland. Lower Austria and Somerset have set up schemes to support companies who offer **traineeships** for school leavers and Lower Austria provides additional places for apprentices in the public sector. The activity of Primorje and Gorski Kotar comprises support to employees in scarce job profiles, e.g. in certain crafts sectors in order to help companies to find skilled staff and to preserve traditional crafts. In Alsace and Noord-Brabant special emphasis lies on **training low skilled employees** who are most at risk of losing their jobs and face the largest problems finding new ones. **Strengthening labour mobility** is part of Noord-Brabant's action plan.

Support to private individuals and consumers

Raising energy bills, short-time work and unemployment cause stress to many households. Nevertheless it is important for local businesses that consumer demand holds up through times of crisis. UK regions in particular report the strong impacts the economic crisis is having on private households and have developed actions to support families and individuals. **Signposting advice for individuals** on how to cut down energy consumption, pay their mortgage or rent and assistance for those in debt are thus part of the schemes in Hampshire and Somerset.

Communication

A large part of economy is psychology and regions are close to entrepreneurs and citizens. They can better listen and react to worries and explain the situation and measures which are taken. **Communication packages and information strategies** related to the crisis therefore part of several recovery plans in Hampshire, Heves and Somerset. Hearings and round tables with regional stakeholders and entrepreneurs are mentioned to be important when developing regional strategies by Cornwall and Lower Austria.

Conclusion

Importance of regional policy

The contributions to AER's survey have clearly showed that the economic crisis is affecting regions throughout Europe and that an enormous variety of actions to fight against the crisis need to be taken on a regional level. With their strategies, regions answer to the specific needs of their territories and fill niches that are not sufficiently addressed by European or national recovery plans.

Nearly all regional recovery strategies are designed complementary to national recovery plans, however several regions report to have not been involved with national strategies when developed. This also applies to the European recovery package. It is clear that economic slowdown hits different places in different ways. Responses to the downturn must thus be tailored to individual circumstances in the regions. The crisis affects people and company owners in the places where they live and work and this is precisely where they demand responses.

Public investment is a key strategic response to the economic crisis with regions playing an important role in ensuring appropriate implementation. In this context the issue of how to best leverage public investment is crucial and is at the heart of how and on which level governments can and should act to meet economic, social or environmental goals. National strategies must address capacities on a regional level and should be based on appropriate governance mechanisms for the coordination of European, national and regional actions.

In what concerns public investment, regional policy can act in a way that helps lagging regions to reveal their comparative advantage and optimize their resources. Public

investment can also contribute to the setting in motion of a “green recovery”. In many countries, responsibility for public areas related to the environment lies with sub-national authorities; these being responsible for land use, building codes, public transport or water management. They are thus natural born actors for any action in this field.

Another promising way to help regions turn this crisis into an opportunity is by fostering entrepreneurship and SMEs while boosting their innovation capacity. This will help them to deal with crucial challenges like enterprise failure and job losses. In this context, effective regional policy promotes the best use of local knowledge, for the alignment of objectives and to ensure the consistency of policy interventions. Working together with all relevant stakeholders regions are close to businesses and can take appropriate measures. While national support plans mainly target larger mostly internationally acting firms, regions focus on regional clusters and support business start-ups and SMEs that make up the important part of Europe’s companies and employers.

Interregional cooperation as a way to improve regional action

It is striking that similar impacts – even when it comes to specific sectors or employment situations – have been mentioned by several regions, while many of the chosen approaches are also alike. However none of the participating regions mention interregional cooperation in relation to the question on how to tackle the economic crisis.

In order to exchange experience, further develop and improve regional schemes, cooperation among AER member regions seems to be the next logical step. Such cooperation may also contribute to fostering the regional economy, e.g. by jointly developing innovation or fostering business relations among companies. As regional politicians and officers working on recovery packages currently face heavy workloads, it will be crucial for AER to identify and offer to its members ways of cooperation which are beneficial for regions, taking into account their limited personnel resources.

Regions spare enormous financial efforts to fight against the economic crisis but they also use national and European funds. Exchanging experience on the use of Structural Funds and their adaptation to measures related to the economic crisis could not only be beneficial for regions itself but also allow them to jointly lobby towards European institutions concerning the design of European recovery packages and the use of EU funding for their implementation.

To conclude, the outcome of AER’s survey shows that regions are at the core of helping citizens and businesses through hard times and proves that at a time of economic downturn, regionalism, subsidiarity and cooperation become more, not less important.

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