

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

Final Report  
Volume 2: The six Case Studies

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Study coordinated by **ADE**



This report has been prepared by ADE at the request of the European Commission.

The views expressed are those of the consultant and do not represent the official views of the European Commission.



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## List of Acronyms

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ADESIMAN	Federación para el Desarrollo de la Sierra y Mancha Conquense
ADIMAN	Desarrollo Rural de la Manchuela Conquense
CEDER	Centro de Desarrollo Rural de la Alcarria conquense
CEPYME	Confederación Española de la Pequeña y Mediana Empresa
CF	Cohesion Fund
CIDI	Spanish Institute of Audiovisual Knowledge, Digitisation and Entrepreneurship
CSG	Community Strategic Guidelines
EAFRD	European Agriculture Fund for Rural Development
EAGGF	European Agriculture Guidance and Guarantee Fund
ESF	European Social Fund
ERDF	European Regional Development Fund
EFF	European Fisheries Fund
ICDEA	Spanish Institute of Audiovisual Knowledge, Digitisation and Entrepreneurship
OP	Operational Programme
PIEMSA	Information and Strategy Plan for the Improvement and Sustainability of the Environment
PRODESE	Promoción y Desarrollo Serrano



# 1. Introduction

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This focus of this case study report is an analysis of the relevance and effectiveness of ERDF and Cohesion Fund co-financed programmes and the extent to which they are adapted to the specific territorial context of the province of Cuenca, which is both sparsely populated and mountainous.

The report has six sections. The first provides a brief contextual analysis of the province of Cuenca. The second focuses on the main policy responses that have evolved since 2000. The third explores the relevance of the ERDF and Cohesion Fund programmes to the specific territorial context of Cuenca. The fourth examines the effectiveness of the funding across two programming periods. The fifth section then addresses the issue of implementation and governance and the sixth provides some conclusions from the case study.



## 2. Brief context analysis

This section provides a brief contextual analysis with the aim of highlighting the main needs and challenges faced by the province of Cuenca.

### *A sparsely populated province with continuous depopulation of rural areas*

The province of Cuenca is located in the heart of Spain around 150 km east of the capital Madrid, in the region of Castilla-La Mancha (see Maps 1 and 2 below). This NUTS3 region is a sparsely populated area but also shares characteristics of mountainous regions since in the north-eastern part of the province, bordering the neighbouring province of Guadalajara, there is the mountainous Sistema Ibérico area.



**Map 2: Location of Cuenca**



*Source: Eurostat*

The main geographical challenge facing the province of Cuenca is its sparsity of population. In 2007, the province of Cuenca had a population of just over 211 000 with a density of 12.5 inhabitants per sq km, nearly half that of its NUTS2 region, Castilla-La Mancha, with 24.8, and less than one-seventh of the Spanish average, 89.4. The city of Cuenca, the administrative capital, accounts for 25% of all residents of the province whilst in 2008 nearly 85% of the towns in the province had less than 1 000 inhabitants spread over a territory of over 17 000 km<sup>2</sup>. In addition, a large number of municipalities have suffered significant population loss, which means that the majority of the population lives in a small number of local areas. For example, in 2008 53.9% of the population lived in 10 municipalities.

Furthermore, the degree of ageing of the population of Cuenca is very high compared with the Spanish national average. In 2008 some 23% of the population was aged 65 years or over, compared to 16% on average in Spain<sup>1</sup>. The case highlighted below is particularly illustrative of the demographic dimension in Cuenca.

#### **The case of Olmeda de la Cuesta**

Olmeda de la Cuesta is a small municipality in the province of Cuenca, located 55 kilometres from the provincial capital and 160 kilometres from Madrid: this small town is like many others that has been slowly losing population. There are now only 32 residents (18 women and 14 men) in Olmeda de la Cuesta, but in fact only 15 people are constantly resident there. The municipality also has another problem besides the sparse population: Olmeda de la Cuesta is actually the oldest in Spain because over 80% of its inhabitants are over 65 years of age. The town has not held a wedding or a christening in 40 years<sup>2</sup>.

<sup>1</sup> Source: BBVA Foundation; [www.fbbva.es](http://www.fbbva.es)

<sup>2</sup> Source: <http://rutas.excite.es/olmeda-de-la-cuesta-solares-gratis-para-N17738.html>

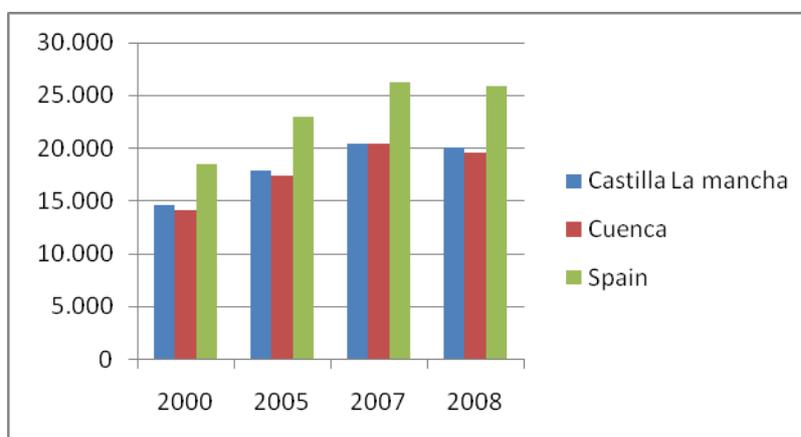
According to some local stakeholders interviewed, in the past the continuous depopulation of rural areas of the province of Cuenca was part of a *vicious circle*: the decrease in traditional rural and agricultural activities led to the migration of young people to urban areas, thus impacting on the local economy and reducing demand, resulting in fewer businesses, jobs, basic infrastructure, and so forth. In fact, in 2008 there were 10 municipalities with a density of population of less than 1.2 inhabitants per sq kilometre<sup>3</sup>.

While the geographical challenges of some NUTS3 regions could be transformed from constraints into opportunities (as, for example, in the ‘Black Architecture Villages’ in the mountainous area of Guadalajara, which is the neighbouring province to Cuenca), in the case of Cuenca being sparsely populated does not seem to be viewed as an asset or potential for development but rather a constraint and handicap that hinders the growth potential of the local economy.

### *A fragile economy*

The province of Cuenca has a GDP per inhabitant significantly below the Spanish average. Nevertheless, since the year 2000, there has been an increase of nearly 25% took place; this is part due to the considerable economic boom that the whole of Spain underwent in that period. The economic scenario, however, in the last couple of years has changed with the economic crisis that has hit Spain particularly badly. In actual fact, the updated data for 2008 show a stronger decline in Cuenca in terms of GDP per inhabitant compared to the rest of the region of Castilla-La Mancha as well as Spain (see Figure 1 below).

**Figure 1: GDP per inhabitant (in PPP)**



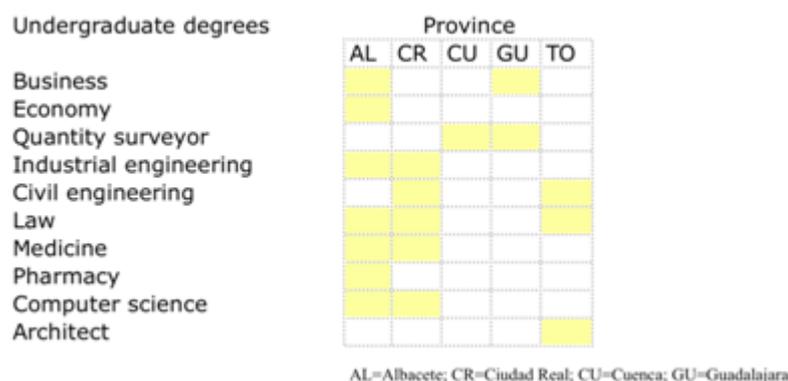
Cuenca’s local economy, therefore, remains fragile and highly sensitive to national and international economic downturns. The last available figures relating to unemployment also indicate a serious decline from a relatively low level of 5.9% in 2007 to more than 15% in 2009.

<sup>3</sup> Source: INE 08

In this sense it is worth noting the importance of agriculture for the local economy of the province and the restructuring under way. In 2000, nearly 28% of the employed workforce was still occupied in the primary sector. In 2008, the share of agriculture in employment dropped to less than 18%. It is still high compared to Castilla-La Mancha (11%) or Spain as a whole (around 6%) but the decline shows the importance of the reallocation of the workforce in the province. Employment increased in all other sectors (industry, construction and services), especially in the service sector which was relatively underdeveloped at the beginning of the decade. The rise was particularly significant in the subsectors of trade services, hotels and restaurants, and transport services. Economic activities in these sectors are easy to develop, not requiring too large an investment at the start although they may be more sensitive to economic fluctuations. Cuenca's economic structure is also characterised by small size companies: according to CEPYME Cuenca (the employers organisation), 98% of firms had fewer than six workers; probably only around 50 firms having more than 50 employees.

As discussed earlier, the province's ageing population combined with a relative lack of an adequately skilled workforce is another handicap. One reason for the relative lack of skills is the poor training facilities and weak innovative capacities amongst the firms in the province. For example, Cuenca belongs to the University of Castilla-La Mancha, a relative young institution created in the mid 1980s which is present in all provinces of the region except Guadalajara<sup>4</sup>. The role of the University, however, as a catalyst for the economic development of the province is somehow limited in the case of Cuenca for the following reasons: first, there is only one undergraduate degree studies course available at Cuenca's campus out of the top ten courses most demanded by Spanish employers in 2008 (see Figure 2 below).

**Figure 2: Top demanded studies by employers in 2008 (Spain)**



Source: Infoempleo.com

Second, when considering the two sectors with more potential for economic development in Cuenca, namely tourism and the creative economy, the degree of alignment between the present and future qualified labour force in these fields and the higher-level training available on Cuenca's campus is not as strong as would be desired.

<sup>4</sup> Guadalajara has historically been adhered to the University of Alcalá de Henares (Madrid district)

The picture is not entirely bleak, however, as the city also contains some innovative bodies and institutions, such as the Regional Centre for Design of Castilla-La Mancha; the recently EU funded (ERDF) created institution ICDEA (Spanish Institute of Audiovisual Knowledge, Digitisation and Entrepreneurship) aiming to draw together ICT companies, audiovisual industries and training activities; and the Research and Development Centre for Branding (CIDI).

### ***Improved infrastructure***

Basic infrastructure in the province of Cuenca was long considered underdeveloped. During the last decade significant efforts have been made, particularly to improve transport facilities, and more specifically roads and railways. Despite good infrastructure provision - roads and high-speed rail link financed by ERDF/CF - the province has not yet capitalized on its full potential for economic development.

- Two important actions are worthy of note. First, improvement of the road infrastructure, and second, the recently inaugurated high-speed rail link connecting Madrid, Cuenca and Valencia. For both, the financial contribution of the Structural Funds, namely ERDF and CF, has proved indispensable for their success. In this regard, when consulting CEPYME Cuenca it was explained that one of the real problems for Cuenca was that their infrastructure was developed at a later stage than other provinces and despite it is much better now, to some extent they feel they lost out;
- The improvement and construction of new roads has certainly helped to boost the tourism industry in the province of Cuenca, mainly rural tourism that has developed in the last decade around different ‘comarcas’ or sub-regions of Cuenca such as ‘Serranía Alta’, ‘Alcarria Conquense’, ‘La Mancha de Cuenca’, etc.(see point below 5.2.2);
- In addition, the construction of the high-speed train to Cuenca is expected to have a major impact on the capital, the city of Cuenca, in terms both of tourism and of exploiting new business opportunities, as will be described further in this report.



### 3. Policy responses

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This section assesses how different policy measures actually impact on the ground at the NUTS3 level, and how they align and interact together, at the same time identifying the dominant policy responses, strategies, and approaches utilised at NUTS3 level in Cuenca.

#### *No integrated strategy at NUTS3 level*

No formal strategies, or documents or white papers describing an overall strategy, have been found at NUTS3 level for the province of Cuenca. Policy responses and approaches have in recent years followed the main guidelines designed at regional level (NUTS2). The key strategic plans developed by the Regional Government of Castilla-La Mancha are the 'Recovery Plan for the Economy of Castilla-La Mancha' (2009); the 'Covenant for Development and Competitiveness of Castilla-La Mancha 2005-2010'; the 'Strategic Plan for Sustainable Development of Rural de Castilla-La Mancha 2008-2013'; the 'Strategic Plan for the Tourism in Castilla-La Mancha 2010-2014'. These have been designed in collaboration with, or with the participation of, the Provincial Diputación of Cuenca, along with other authorities and stakeholders of the region.

The key point, however, is that these plans have not been developed at the NUTS3 level in Cuenca, by provincial stakeholders, for the province and certainly do not consider specific geographical features *per se*. Instead, such features are dealt with as a cross-sectoral issue to be addressed on a case by case basis and are not viewed as needing an individual strategy

In the last decade, therefore, Cuenca has been the focus of several cross-sectoral strategies and has relied mainly on policies and guidelines designed at NUTS2 level by the Regional Government of Castilla-La Mancha. Moreover, the lack of a comprehensive, integrated strategy for the whole province, as well as the coordination to bring all the stakeholders together around a clear vision, is widely acknowledged amongst the majority of stakeholders interviewed as being a weakness.

In the words of an interviewee:

- *'far too often each village has built its own industrial polygon/estate when instead the funds would have been better optimised on larger projects of the benefit of a wider number of villages and citizens'.*

Another one mentioned the:

- *'lack of coordination amongst stakeholders at the local level as well as the lack of a common strategy for the different players to buy into'.*

### ***Local policy design***

One of the key actors is the Provincial Development Board, an independent body belonging to the Diputación of Cuenca. The main objective of this organization is to promote the economy and tourism in the province, including local development and job creation, in collaboration with all relevant sectoral stakeholders. In response to the above regional strategies and policies, several lines of action and projects have followed in the province of Cuenca under the management of the Provincial Development Board.

Another key element to consider when studying policy issues in the province of Cuenca is the so-called Local Action Groups (GAL)<sup>5</sup>. There are five groups covering the different zones of the province of Cuenca, namely, CEDER Alcarria, PRODESE, ADIMAN, ADI el Záncara, and ADESIMAN. Their initiatives play a key role in:

- assessment of the natural and cultural heritage of the towns of Cuenca;
- conservation of the environment;
- promotion of SMEs, mainly in the agribusiness and industrial sector;
- promotion of rural tourism;
- training of the population;
- implementation and diffusion of the new technologies.

The relevance of these groups is further strengthened by the words of a representative of one of the Local Action Groups interviewed: *“the main challenge facing the province of Cuenca is its depopulation, which is mainly due to the lack of jobs in the rural areas. The fight against these issues is the main reason behind the existence of our groups. Indeed, if it wasn’t for the EU funding many rural villages would have simply disappeared a long time ago.”* In this regard, the EU funding was crucial in providing the means to invest in these areas as well as attract the necessary national co-financing to allow these villages to survive. It is fair to assume that without the EU funding, the national funding would have not been attracted to such areas and certainly not to the same levels of overall investment. The EU funding, therefore, served as an important catalyst in helping to regenerate these villages.

### ***EU funds play a key role***

Both ERDF and the CF have played a key and indispensable role in the development of most of the initiatives promoted in the province of Cuenca. The Provincial Development Board made it clear that without the co-financing coming from Europe, 90% of the flagship projects carried out in the last decade in the areas of tourism, employment and enterprise in the province of Cuenca, would not have seen the light of day.

The key role of the EU funds in Cuenca is a general opinion amongst all stakeholders consulted, and in the case of the Provincial Development Board this view is even more relevant since this body belongs to the Provincial Diputación of Cuenca, the local authority

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<sup>5</sup> ‘Local Action Groups are a broad-based local private-public partnership whose aim is to improve the long-term potential of the local area and who has the ability to define and implement a development strategy for the area’ (European Network for Rural Development)

in charge of dealing and executing the budget allocated to the province of Cuenca, either coming from National or European sources. So, even though it is difficult to say exactly what percentage of projects and activities would have been achieved in Cuenca without the EU financial assistance, the fact is that it would have had a clear negative impact on that since the national funds would not have been able to make up for the required financing.

EU financed initiatives are present in all sectors of the provincial economy, from state-of-the-art transport infrastructures (e.g. the high speed, AVE train) to rural development projects (e.g. the Tourist Development Plan for the Serrania de Cuenca Alta).

All major initiatives and projects outlined in the 'Covenant for Development and Competitiveness of Castilla-La Mancha 2005-2010' targeting the province of Cuenca have been co-financed by ERDF or CF, namely the construction of the Local Centre for Innovation and Economic Development (CLIFE)<sup>6</sup>; the Business Incubator Centre<sup>7</sup>; the Headquarters of the Regional Centre for Design of Castilla-La Mancha<sup>8</sup>; the Castilla-La Mancha high-speed road (A40); and the high-speed railway train from Madrid to Cuenca and Valencia.

Further to the above list of projects, examples of ERDF and CF projects can be found, in most sectors of the provincial economy such as local and rural development, tourism, culture and handcraft, environment, and others.

The Provincial Development Board generally contributes 50% co-financing to these initiatives, the other half coming from national, regional, local or EU funds. With regard to the latter, both EAGGF and ERDF are the most frequent, although it must be pointed out that, according to stakeholder interviews, whether the EU financing comes from one fund or the other seems to be of little consequence and even lacking in transparency from the point of view of the target audience in most cases. This was a recurrent point that emerged from stakeholder interviews. Put simply, at local level beneficiaries of EU funds are not involved or even interested in the funding stream but are merely keen to get financial support for their project.

In reality, policy responses in the Province are mainly driven by EU funding allocations. Nevertheless it would be very difficult to assess to what extent the management and implementation of ERDF and the CF has helped with or contributed to any changes in the strategies. In any case it is worth noting the view of the Head of Regional Coordination of European funds of Junta de Castilla-La Mancha who believes that: *“for every new programming period, it seems more of a challenge for the designers of the Operational Programme to establish other priorities than those set by the European Commission; in that sense, the Operational Programme Castilla-La Mancha 2000-06 enjoyed a higher degree of freedom to focus on specific regional features than the subsequent 2007-13 Operational Programme”*.

Although this comment referred mainly to the promotion of specific sectors of the economy such as R&D, information society, renewable energies, etc. as laid out in the

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<sup>6</sup> See <http://www.innovared.net/> for further information

<sup>7</sup> See <http://www.dipucuenca.es/pdp/secempresas/cemp.htm> for further information

<sup>8</sup> See <http://clmdisenio.com/> for further information

Lisbon Strategy, this view however, seems somehow questionable, since the EU strategies (Lisbon, 2020) are so wide that there should be also room to fit in other specific needs of the region. Nonetheless, this point seems to suggest that, at least at the local level in Cuenca, there is a perception that the strategic focus on the Lisbon Strategy and Europe 2020 in areas such as R&D and innovation etc, seems to somehow not be applicable to territories with specific geographical features.

## 4. Relevance of ERDF and CF Programmes

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This section assesses the extent to which ERDF and CF Programmes address the specific needs and challenges of the regions and contribute to economic development at NUTS3 level. For this purpose, the section is divided in the following three sub-sections:

- 4.1 Overview;
- 4.2 Strategies & approach for the use of ERDF/CF in Castilla-La Mancha and in Cuenca;
- 4.3 Relevance of ERDF/CF in the province of Cuenca;

### 4.1 Overview

The province of Cuenca has benefitted, and currently benefits, from ERDF and CF contributions delivered through different national, multi-regional and regional Operational Programmes targeted on the region of Castilla-La Mancha as the table below shows:

**Table 1: ERDF commitments for the different programmes**

2000-2006	ERDF total (€)
1 regional programme - 'Objective 1 Programme for Castilla-La Mancha'	1 528 000
3 multi-regional programmes – 'Improving Competitiveness and Developing Production Structures', 'Research, development and innovation', 'Local development'	4 461 000
2007-2013	ERDF total (€)
1 regional programme – 'Operational Programme Castilla-La Mancha'	1 439 000
1 national programme – 'Operational Programme Cohesion Fund'	4 900 000

### 4.2 Strategies & approach for the use of ERDF/CF in Castilla-La Mancha and in Cuenca

In terms of the main strategies and rationale for using ERDF in the region of Castilla-La Mancha, and in particular in the province of Cuenca, it is worth noting the following points:

- In Spain every ERDF Operational Programme is designed in the same way i.e. they all focus on the same priority areas, and this non-differentiation policy applies to both the 2000-06 and 2007-13 programming periods. This suggests at first sight that programme

priorities are not necessarily aligned with the main needs of the regions and that strategies for using Structural Funds follow multi-sectoral approaches rather than focus on activities in which every region has a particular competitive advantage;

- The focus of the Operational Programme of Castilla-La Mancha looks very similar in both periods, considering the budget allocated by priority area. In this way transport and energy accounted for 33% in 2000-06 and 37% in 2007-13; environment 21% in both periods; and competitiveness, innovation and production development 17% in 2000-06 and 19% in 2007-13;
- The SWOT analysis is the starting point for the strategy and objectives for each of the priority areas set out in the Castilla-La Mancha OP. Although stakeholders from the five provinces of Castilla-La Mancha did contribute to this analysis, the actual results do not “drill down” to provincial issues but remain at regional level, and thus no specific mention of Cuenca – or any other province – is made in the SWOT results;
- In any case, with regard to the specific geographical features of Castilla-La Mancha, the SWOT analyses for both programming periods produced a very similar diagnosis that well depicted Cuenca’s challenges in this regard. The main elements outlined in the Operational Programme 2000-2006 that should also apply to Cuenca, given its specific geographic features, can be summarised as follows:
  - The main weaknesses included: a) a dispersed territorial model with organisation difficulties: accessibility, connection and interrelation problems; b) ageing population and depopulation in rural areas; c) deficits in equipment and infrastructures, especially in relation to environment, public health, education and Information Society;
  - The main strengths and opportunities included: d) strategic location within Spain and proximity to the state capital (Madrid); e) high potential for the tourism industry, especially rural tourism and historical heritage; f) development of an agro-alimentary industry; g) the ability to count on a territorial administration enjoying a high level of competences and a solid institutional framework.

In the province of Cuenca, during the 2000-06 period the main focus (see table below) was placed on ‘transport infrastructure’ (66% of total funds allocated), followed by some distance by other initiatives mainly in the fields of ‘environmental infrastructure’ (10%), ‘planning and rehabilitation’ (9%), ‘assisting large business organizations’ (7%), ‘developing education and vocation training’ (3%), ‘RTDI’ (2.6%), and ‘social and public health infrastructure’ (1.5%)<sup>9</sup>.

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<sup>9</sup> Source: SWECO analysis 2000-2006

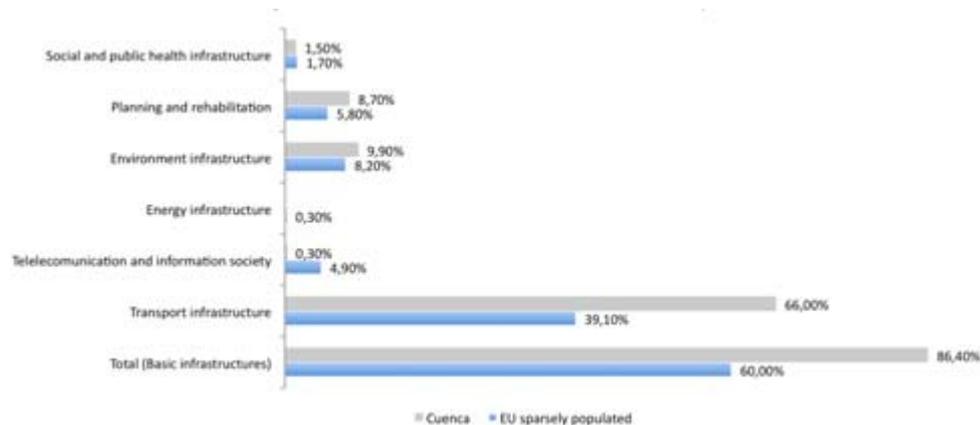
**Table 2: Budget allocation by main priority 2000-2006**

	Castilla-La Mancha	Cuenca
Productive environment	18.7%	10.4%
Human resources	3.7%	3.0%
Basic Infrastructure	77.4%	86.4%
<i>of which</i> Transport	37.8%	66%
Environmental infrastructures	28%	10%
Planning and rehabilitation	9.1%	8.7%
Social and public health infrastructure	2.5%	1.5%

Source: SWECO 2008

As shown by the following figures, Cuenca may be considered as a ‘typical’ case of a regional strategy based on infrastructure development and even more specifically on investment in transport facilities. When comparing<sup>10</sup> the level of investment by field of intervention in Cuenca to others EU Objective 1 Member States sharing the ‘sparsely populated’ geographic feature, it is clear that category (a) basic infrastructure received the vast majority of financing, (86% in Cuenca and 60% in average for all ‘sparsely populated’ EU regions); followed by (b) productive environment (10% and 37%); and (c) human resources with barely 3% and 2% respectively.

**Figure 3: ERDF/CF investments in Basic Infrastructure, 2000-2006**

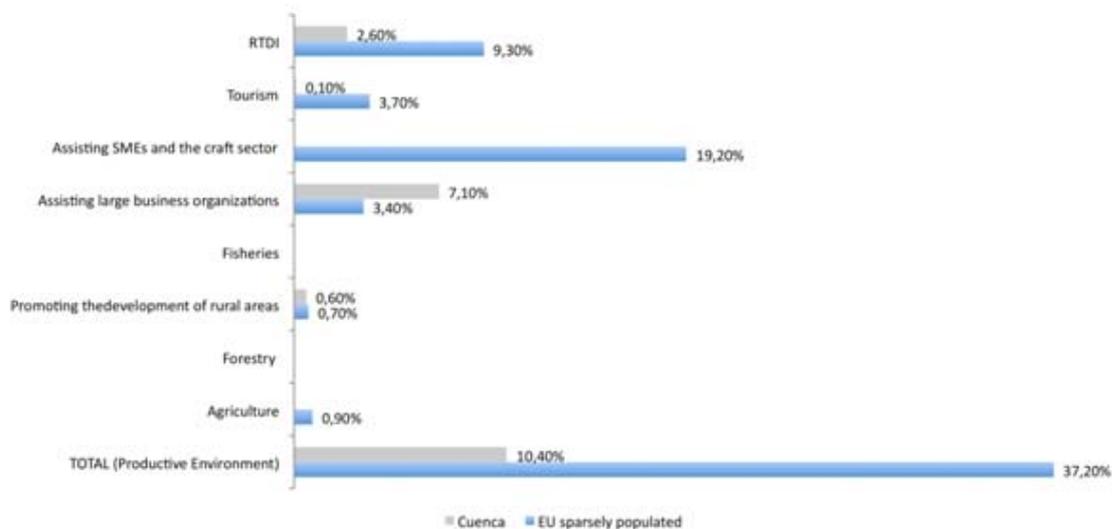


Source: SWECO Analysis 2000-2006

<sup>10</sup> Source: SWECO Analysis

- Infrastructure investment in telecommunications and information society were much higher for the EU average than for Cuenca: 4.9% vs. 0.3%;
- What is also striking is the small amount allocated to Productive Environment in Cuenca (about 11%) and especially to assisting SMEs and the craft sector where – according to the SWECO analysis – there were hardly any investments in Cuenca in comparison with the 19% EU average;
- Other notable gaps were in tourism, in which Cuenca had a meagre 0.1% compared with a 3.7% EU average; and research, technology, development and innovation, with 2.6% for Cuenca compared with a 9.3% EU average. However, Cuenca placed higher weight than the EU average on assisting large business organizations, which accounted for 7.1% of the investments as compared to the 3.4% EU average (see Figure 4);

**Figure 4: ERDF/CF investments in the Productive Environment, 2000-2006**



Source: SWECO Analysis 2000-2006

- Finally, human resources received 3% in Cuenca compared with 1.6% in the EU devoted to developing education and vocational training. Of course this should be seen in the light of the ESF programme which covers all training actions.

### 4.3 Relevance of ERDF/CF in the province of Cuenca

Despite the fact that the regional ERDF/CF strategy was not subsequently tailored to the specific characteristics of each province, the reality – according to most stakeholders interviewed – is that Structural Funds have been crucial in the province of Cuenca during the last two programming periods.

- According to a Local Action Group in the province of Cuenca, the role played by ERDF has been crucial to reducing, or at the very least holding back, the depopulation phenomenon in the province within the last 15 years. The point was made again that:

- *“had not it been for the Structural Funds, a good number of small villages of the province of Cuenca would have entirely vanished a long time ago”*
- In the same vein, representatives from one of Spain’s largest trade unions, the CCOO, echoed a similar point when mentioning that EU funds have been crucial to the province of Cuenca to make sure that villages are kept alive through this support.

***The main objective of EU interventions in Cuenca: the fight against depopulation***

In the past EU funds (ERDF/CF) were used mainly to fight perceived disadvantages or territorial handicaps such as depopulation rather than to try to develop or create opportunities. This point was made by a number of stakeholders who highlighted the need for a better focus of the funding on improving the productive fabric of the province to make real changes rather than dealing with the effects of population decline. There is also the common idea amongst stakeholders consulted that funding should be used in a more strategic way to promote catalytic investments in key economic sectors such as agro-food production and services such as tourism.

It was also mentioned that the depopulation ‘problem’ has taken priority and has shaped, in many cases, the rest of the interventions. In that context one stakeholder explained that, thanks to EU funds (not differentiating between ERDF and EAFRD), many rural houses had been restored and converted into rural accommodation in the hope first of slowing down the population drain and second with the aim of reactivating the local economy. Despite the fact that these issues go hand in hand, in his opinion the former outweighs the latter.

However, in recent years a more proactive approach has developed, with initiatives to promote the tourism sector such as ‘The Tourist Development Plan for the Serrania de Cuenca Alta’ (northern mountains of Cuenca). The main objective of the Plan is to create a new tourist destination by promoting a zone in which there was no previous tourism industry at all.

The increasing pressure on ERDF programme designers to comply with EU-wide strategies such as the Lisbon Strategy and Europe 2020 may explain this shift but is also considered – according to intermediate management authorities – as limiting the scope of the Operational Programmes in addressing region-specific features such as those affecting the provinces of Cuenca or Guadalajara. This view, however, is somewhat restrictive because the high-level strategies are in fact rather wide-ranging so there should be room to develop projects that fit both to the specific needs of the region as well as meet the Lisbon objectives.

***The main activities undertaken: improving basic infrastructures and access to public services***

According to the Head of Regional Coordination of European funds of Junta de Castilla-La Mancha, the Structural Fund projects have clearly contributed to territorial cohesion in the province of Cuenca, paying particular attention to the benefits that transport, as well as social and healthcare infrastructure investments, has brought to rural communities.

- With regard to road transport, important work has been done, in line with the II Regional Roads Plan for Castilla-La Mancha, including construction of the high-speed road A-40 connecting Cuenca with the capital of the region, Toledo; further improvements in local roads throughout the whole province have also been made (e.g. N-403, N-430...);
- The construction of the high-speed Madrid–Cuenca–Valencia rail link is unquestionably one of the flagship projects of the Operational Programme 2007-2013. It is expected to have a significant impact on the city of Cuenca in terms both of boosting tourism and of attracting new businesses to the area; with the new high-speed line in service, two of the most important urban areas of Spain - Madrid and Valencia - are now less than one hour from Cuenca. This is expected to complement and add value to other EU-financed (ERDF) projects carried out in recent years in the city of Cuenca, such as ICDEA<sup>11</sup> (Institute for Audiovisual Knowledge, Digitalization and Entrepreneurs); the Regional Centre of Design of Castilla-La Mancha<sup>12</sup>; or the Business Centre of the Diputación of Cuenca, amongst others;
- Social & Healthcare infrastructure projects include the refurbishing work in the provincial Hospital of Cuenca; construction of Primary Health Centre IV Cuenca and the Interim Office of Performance; and construction of elderly day-centres in the villages of Huete and Tarancón;
- In the area of education some of the most relevant initiatives include the extension and reform of the Primary School Centres in Mota del Cuervo and in Tarancón; the refurbishment of the Secondary School ‘Alfonso VIII’ in Cuenca; the refurbishment and expansion of the Public Library of Cuenca;
- The knowledge society has reached many municipalities of the province – thus facilitating access to basic ICT services such as the internet, email and others to most citizens – thanks to the Network of Public Internet Access Centres of Castilla-La Mancha, which included 163 centres in the province of Cuenca during the period 2001-2006;
- A good number of EU funded (ERDF/CF) projects are found in the environmental field, including water treatment projects, social and environment conditioning work along various riverbeds in the province of Cuenca (rivers Tajo, Júcar); infrastructure to improve and ensure water supply to the municipalities of the province; and others. In addition to all these, it is worth noting one of the flagship projects for the current period, the PIEMSA Project (Information and Strategy Plan for the Improvement and Sustainability of the Environment) in the province of Cuenca. This is the focus of the mini-case study for Cuenca. It is a comprehensive initiative in the province of Cuenca aimed to develop territorial cohesion for all 238 municipalities through participation in environmental improvement, environmental sustainability and economic growth in the area, as well as the welfare of all its citizens;

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<sup>11</sup> ICDEA, Instituto del Conocimiento, la Digitalización y el Emprendedor Audiovisual (Institute for Audiovisual Knowledge, Digitalization and Entrepreneurs) is a ground-breaking Spanish project within the audiovisual arena, bringing forward-thinking training, creativity, technology and innovation together in a communal space devoted to creativity and the exchange of ideas. More information at [http://www.icdea.com/icdea\\_quees\\_EN.asp](http://www.icdea.com/icdea_quees_EN.asp)

<sup>12</sup> More information at <http://clmdiseno.com>

- Territorial cooperation in the province of Cuenca has been mostly interregional and at national level, by means of the Spanish Network for Rural Development (ReDR) to which all Local Action Groups of Cuenca belong. Very few examples of European cooperation in the tourism sector have been found, with a few exceptions such as the INTERREG III SUDOE 2000-2006 Project ‘Network for the management of rock art in archaeological sites – First European settlers’ in which the PRODESE Local Action Group participated;
- However, in relation to the upcoming sector of the ‘Creative Economy’ – on which many of Cuenca’s stakeholders are placing their hopes for further economic development based on the recently-created entities such as ICDEA and CIDI – some very interesting INTERREG initiatives are taking place in Cuenca, as discussed below:

#### **The case of interregional initiatives around the ‘Creative Economy’**

- The best example of the recent boom of ‘Creative Economy’ initiatives is the INTERREG IVC project TOOL QUIZ ‘Competences for an inclusive and creative economy’ (2010-2012).

- *The main goal of Tool Quiz is the networking of public authorities, technical experts and cultural professionals to work together for the identification, exchange and transfer of good practices in the cultural and creative sector in order to be able to design more efficient and suitable cultural policies on a mid and long term<sup>13</sup>.*

- One of the partners of the project is the Simetrias Foundation<sup>14</sup>, which includes collaborators such as the Provincial Diputación of Cuenca; the Fine Art Faculty of the University of Castilla-La Mancha; and the CIDI Audiovisual Institute. The others include 13 partners from other countries, namely, France, Belgium, Italy, Poland, Norway and the UK (Wales).

- In this field, the Simetrias Foundation in partnership with ICDEA, the University of Castilla-La Mancha, the Fine Arts Faculty of Katorwice in Poland, and the University of Gangbord in Wales, has for example submitted<sup>15</sup> a project proposal to the European Commission for a pilot project between the UK (Wales), Poland and Spain to help increase the potential of European cultural and creative industries working in research and training activities for young artists.

#### **Use of the current legal framework for EU funding**

When stakeholders were asked about the ways in which different legal provisions were used, the message was clear that no such provisions were used in Cuenca. The reason for this is that the programmes are managed in conventional ways and there had not been the need to experiment with other flexibilities. Indeed, the stakeholders were not aware of other such provisions with the Regulations that may well be relevant to regions with specific geographical features.

<sup>13</sup> Source : <http://www.simetrias.es/pdfs/SimetriasPlatform.pdf>

<sup>14</sup> The Simetrias International Foundation is a private and non-profit-making institution created 4 years ago which runs a professional platform with a stable structure of research, training, cooperation and divulgation of social and cultural policies, from a national and International point of view, taking into account the regional and local good. Source: <http://www.simetrias.es>

<sup>15</sup> Date of proposal submission, June 2011



## 5. Effectiveness of ERDF/CF in Cuenca

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This section will explore the extent to which ERDF and the Cohesion Fund have achieved their objectives at the NUTS3 level. For this purpose the section is divided into the following two sub-sections:

- 5.1 Main results of the programmes;
  - 5.1.1 Review of the 2000-2006 programming period;
  - 5.1.2 Progress and outputs for the 2007-2013 programming period;
- 5.2 Further considerations regarding the effectiveness of the funds;
  - 5.2.1 The phenomenon of depopulation;
  - 5.2.2 The tourism activity;
  - 5.2.3 The high-speed train to Cuenca (AVE);

### 5.1 Main results of the programmes

Since the ERDF Operational Programmes for Castilla-La Mancha do not “drill down” to describe objectives at NUTS3 level, it is quite difficult to assess to what extent Cuenca's objectives have been achieved. The assessment of the results is based on the analysis of co-financed projects in Cuenca combined with interviews with key stakeholders as well as other relevant data.

#### 5.1.1 Review of the 2000-2006 period

Focusing on the above elements, the effectiveness<sup>16</sup> of the EU funds (ERDF/CF/EAGGF) for the 2000-2006 for Castilla-La Mancha could be summarised as follows next<sup>17</sup>:

- In terms of financial achievements (absorption rate), the region was the most effective amongst all Objective-1 Operational programmes, reaching 93% for the period 2000-2004. The most effective priorities included ‘5.3 Infrastructure and community facilities in towns with less than 20,000 inhabitants’; and ‘2.2 Research, innovation and technological development projects (ERDF)’; while among the less effective there were: ‘7.5 Endogenous development of rural areas with respect to non-agricultural activities (EAGGF)’; and ‘7.9 Endogenous development of rural areas with respect to agricultural activities (EAGGF)’;
- As for physical achievements, the Mid Term Evaluation 2000-06 identifies the fields of interventions where good results were observed, namely ‘1.2 Improvement the processing and marketing of agricultural goods’; and ‘4.6 Facilitating integration in the

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<sup>16</sup> Source: ‘Mid Term Evaluation Update of the Objective 1 Programme of Castilla-La Mancha, 2000-2006’, September 2005

<sup>17</sup> As explained in the introduction, data at NUTS3 level (Cuenca) have unfortunately not been found. Therefore the level of achievement at NUTS3 level may only be inferred in a general way from the NUTS2 level data.

market for the unemployed'. Modest results were found for '3.10 Environmental actions derived from countryside conservation and the agrarian economy (EAGGF)';

- With regard to infrastructure, significant distances of new roads were constructed – 80% of all new kilometres during that period. This improved the relative position of the region, in relation to Spain and the rest of Objective 1 regions, in the area of transport infrastructure provision. However, further effort should have been made in the area of environmental infrastructures;
- Efforts in the field of ICT tools and basic infrastructure – so important in addressing the problems of sparsely populated areas – were deemed insufficient to achieve convergence with the Spanish average and with other Objective 1 regions;
- The effectiveness of rural development measures was favourable – in particular the support given to improving the quality of production – according to the high rate of private sector participation and the good feedback provided by beneficiaries of EU funds. For example, 70% of the beneficiary companies were said to have increased the quality and value of their production. In terms of employment 9 795 jobs were retained and 3 971 created;
- Finally, despite the Programme's positive results, the Updated Interim Report 2000-2006 highlighted residual challenges including *'social and territorial obstacles: the geographical dispersion of the population implies a major constraint and cost with a view to achieving the necessary territorial cohesion of the region'*. The Updated Interim Report states that the *'next Operational Programme should therefore promote structuring of the territory through actions favouring balanced development in rural and urban environments, such as basic provision of essential services to society, and endogenous development based on creation of comparative advantage, namely rural tourism, cultural heritage, local economy, and so forth'*.

### 5.1.2 Progress and outputs for the 2007-2013 period

In relation to the 2007-2013 programming period, no evaluation reports are yet available to facilitate an analysis of the effectiveness of the Programme. Instead, the 2009 and 2010 Annual Reports of the ERDF Operational Programme 2007-2013 provide information about the main outputs and progress achieved so far in the province of Cuenca.

- As for the previous programming period, for 2007-2013 there are three priority areas receiving 75% of the funds, namely '4-Transport and Energy' (37%), '3-Environment, natural surroundings, water resources and risk prevention' (21%), and '2-Entrepreneurial development and innovation' (17%). The distribution between these three, as well as for the subjects covered, is very similar to 2000-2006, except that for 2007-2013 there is a slight change in area naming with a view to focusing more on innovation and entrepreneurial development (see Table 3);

**Table 3: OP 'Castilla-La Mancha' 2007-2013**

2007-2013: Operational Programme 'Castile-La Mancha'	Contribution (€)			
	Total	EU	%	National
1 - Knowledge economy (R & D, Information society, ICT)	179,924,248	143,939,389	10%	35,984,859
2 - Entrepreneurial development and innovation	352,887,037	247,020,925	17%	105,866,112
3 - Environment, natural surroundings, water resources and risk prevention	435,322,605	304,725,821	21%	130,596,784
4 - Transport and Energy	820,429,223	533,278,994	37%	287,150,229
5 - Local and urban sustainable development	181,988,048	127,391,636	9%	54,596,412
6 - Social Infrastructure	95,660,550	76,528,439	5%	19,132,111
7 - Technical Assistance	8,135,866	6,508,690	0.3%	1,627,176
<b>Total</b>	<b>2,074,347,577</b>	<b>1,439,393,894</b>		<b>634,953,683</b>

According to the Annual Report 2010 of the ERDF Operational Programme 2007-2013, certified expenditure to 31 December 2010 amounted to EUR 964 million; this figure represents 83.85% of planned public expenditure for 2007-2010 and 47.44% of the planned public expenditure for the entire period 2007-13. Table 4 hereafter provides a detailed view by axis.

**Table 4: Implementation rate by axis at the 31<sup>st</sup> of December 2010 (%)**

	Implementation rate by 31 December 2010 (%)
Axis 1 - 'Knowledge economy (R & D, Information society, ICT)'	18.29
Axis 2 - 'Entrepreneurial development and innovation'	15.21
Axis 3 - 'Environment, natural surroundings, water resources and risk prevention'	24.10
Axis 4 - 'Transport and Energy'	88.11
Axis 5 - 'Local and Urban Sustainable Development'	3.47
Axis 6 - 'Social infrastructures'	45.43
<b>Total</b>	<b>47.44</b>

- When considering the specific amounts of funds allocated to the different categories of territory, namely 'urban', 'mountainous', 'sparsely populated', and 'rural areas (excluding sparsely populated and mountainous)', the 'sparsely populated' category comes third on the list, receiving nearly half the amount that 'urban' territories (EUR 414 million and EUR 829 million respectively) receive. Also worth noting is the remarkably low execution rate to date for both 'sparsely populated' and 'mountainous' territories, with just 2% and 1% respectively. On the other hand, initiatives relating to 'rural areas' have already achieved an outstanding 133% execution rate (see Table 5).

**Table 5: OP 'Castilla-La Mancha' 2007-2013**

2007-2013: Operational Programme 'Castile-La Mancha'	Contribution (€)			
	Total programmed 07-13	Total executed 31.12.10	Exec. / Progr.	share of 'territorial' type funds
1. Urban	829,739,031	127,221,289.49	15%	40%
2. Mountainous	207,434,758	1,877,157.17	1%	10%
3. Sparsely populated areas	414,869,515	7,623,015.69	2%	20%
4. Rural areas (excluding mountainous / sparsely populated)	622,304,273	827,623,777.71	133%	30%
Total	2,074,347,577	964,345,240	46%	

Finally, below is a brief description of the most relevant projects for the province of Cuenca mentioned in respective Annual Reports. Most are ongoing projects so there is much less information with regard to status, progress and results.

- Regional Centre of Design of Castilla-La Mancha<sup>18</sup> - ERDF funds to co-finance projects proposed by the Centre. By 2009, 20 project applications had been approved for this body and other similar organizations in the region;
- The Chamber of Commerce of Cuenca participated in the 'Programme to adapt the business to the digital economy', an initiative aimed at promoting the incorporation of Information Technologies and Communication (ICT) in the work processes of companies to improve their competitiveness and productivity - *completed*;
- Visitor Centres (*Centros de Interpretación*) in the Natural Reserve Serranía de Cuenca, in the municipalities of Tragacete, Uña, and Vademeca - *completed*;
- Preservation and conditioning of the riverbeds basins of the Tajo river in the province of Guadalajara and Cuenca - *ongoing*;
- Socio-environment conditioning of riverbeds basins of the Júcar river by the municipal areas of Altarejos and Cervera del Llano - *ongoing*;
- Socio-environment conditioning of riverbeds basins of the Júcar river by the municipal areas of Belmontejo, Chumilla y Fuentes - *ongoing*;
- Water supply infrastructure improvement and expansion to the areas of 'El Girasol' and El Algodor' - *ongoing*;
- Construction of a new water tank in Tarancón - *proposed*;
- Water supply to Barajas de Melo from 'El Girasol' - *proposed*;
- Renew of monitoring and prevention infrastructure to fight forest fires in the area of Fuentelespino de Haro (Cuenca) - *completed*;
- High-speed railway track (AVE) Madrid - Cuenca - Albacete - Valencia; - *completed*;

<sup>18</sup> The services provided by the Centre range from information and documents on issues of design and innovation, to advising companies on new products and services, project management of Industrial and Graphic Design, specialized training, to promote and disseminate the work of the designers of Castilla-La Mancha and the creation of new design company. More information at <http://clmdisen.com>

- Highway A40 Maqueda-Toledo-Cuenca-Teruel, section Santa Cruz de la Zarza – Tarancón – *ongoing*;
- Highway A40 Maqueda-Toledo-Cuenca-Teruel, section Ocaña R4 – A4 – *ongoing*;
- ‘The Tourist Development Plan for the Serrania de Cuenca Alta’ (northern mountains of Cuenca) – *ongoing*;
- PIEMSA Project (Information and Strategy Plan for the Improvement and Sustainability of the Environment) in the province of Cuenca – *ongoing*;
- Urban Project San Anton, presented and promoted by the Municipality of Cuenca, is targeting a series of actions in respect of physical, social and economic development in the neighbourhood of San Anton, a suburb outside the walls north of the city and the margin Jucar river.
- Extension and reform of the Primary School ‘Virgen de Manjavacas’ in Mota del Cuervo – *completed*;
- Extension and reform of the Primary School ‘Ruiz Jarabo’ in Cuenca – *completed*;
- Reform of the Secondary School ‘Alfonso VIII’ in Cuenca – *completed*;
- Construction of the Primary Healthcare Centre Cuenca IV – *ongoing*;
- Construction of the Elderly Centre in Huete – *ongoing*;
- Construction of the Elderly Centre in Tarancón – *ongoing*.

The selected project for the mini-case study is one of the flagship initiatives of the current programming period: the PIEMSA Project. It is a comprehensive plan to develop, across the whole province of Cuenca including all of its 238 municipalities, a project to encourage participation in the improvement of the environment, environmental sustainability and economic growth in the area, as well as the welfare of all its inhabitants. The purpose is to encourage the participation of all of the citizens of the province of Cuenca, through environmental awareness raising campaigns, as well as through an employment plan aimed at promoting economic growth through the environmental development of the province.

## 5.2 Further consideration regarding the effectiveness of the funds

In addition to the findings presented in the various documents on the Operational Programmes (annual reports, evaluation reports, etc.) it is worth mentioning the view of most stakeholders consulted in relation to the actual effectiveness of the EU funds (ERDF/CF). These can be summarized in two main ways. First, they have contributed to a relative slowing down in the depopulation of the province of Cuenca (5.2.1). Second, they have contributed to boosting the tourism sector (5.2.2), both in the city of Cuenca and in the province more generally. In this regard, EU funds have contributed to combating Cuenca's specific geographic feature, namely its sparse population, by focusing and capitalizing on its potential for the tourism industry (as shown in the SWOT analysis of the Operational Programmes) rather than focusing on other alternatives such as the agro-industry sector.

### 5.2.1 With regard to the phenomenon of depopulation

Several different stakeholders, such as the Head of Regional Coordination of European funds of Junta de Castilla-La Mancha or representatives from the Local Action Groups in Cuenca, claim that the depopulation process in the province – if not totally eliminated – at least has slowed down in the last decade, thanks in large part to the influence of EU funds.

In this context one stakeholder explained that *'due to the current financial crisis, some people from Madrid have decided to come back to work to Cuenca thanks to the aid provided by EU funded (not only ERDF but also EAFRD) programmes to open new retail businesses, such as groceries, bakeries, etc.'* Furthermore, others have returned or stayed to take advantage of the financial aid available for refurbishing old rural town houses to convert them into businesses such as rural guesthouses. This can also be linked to the positive aspects of the new high-speed rail link in relation to depopulation.

There are, however, other stakeholders, such as trade unions, that criticise this focus or priority on fighting depopulation. In their view, even though EU funds are crucial to the province of Cuenca and the impact would really be disastrous if the funding was reduced, yet they believe that this funding needs to be better focused on improving the productive fabric of the province to make real changes rather than dealing with the effects of population decline

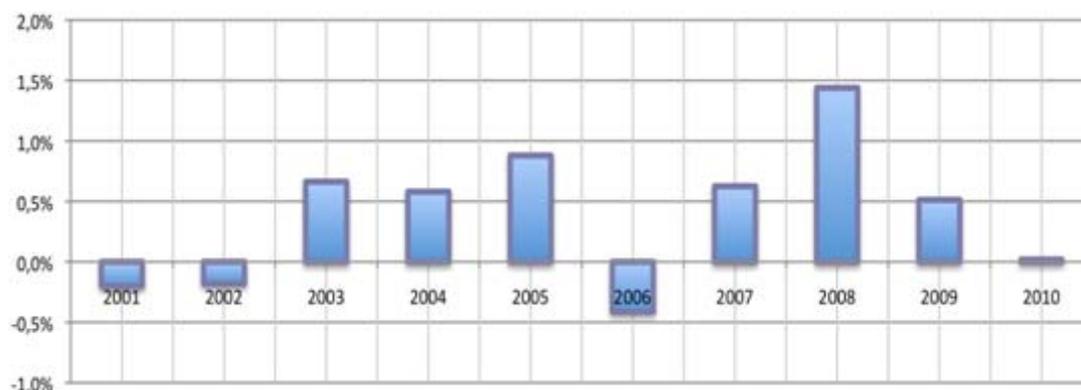
Regardless of whether one agrees with the need for a change in the priorities expressed by this stakeholder, many others interviewed agreed, in relation to this issue, that the strategy for the last 15 years or so has concentrated more on fighting depopulation rather than improving the productive fabric to boost the economy. Of course, both are interlinked, as the representative of the Local Action Group CEDER Alcarria pointed out.

On the other hand the existing data for the last decade seems to confirm the positive results of the fight against depopulation in the province of Cuenca, and thus the effectiveness of the EU funds (ERDF/CF) allocated in that regard. Of course, that is not

to say EU funds have been solely responsible for changing the dominant demographic trends in the province. On the other hand, a majority of stakeholders are of the view that the funds have played, and continue to play, an important role in this regard. What follows below is a brief analysis of the relevant data.

From 2001 to 2010 the annual increase of the population of the province of Cuenca – excluding the capital city of Cuenca so as to give more weight to the rural areas in the analysis – showed positive figures for all years except for 2001, 2002 and 2006; for the other years the positive variations were clearly higher than the negative variations for the three years mentioned (see Figure 5 below).

**Figure 5: Annual population increase in the province of Cuenca (%) (city of Cuenca not included)**



Source: INE (Spanish Institute of Statistics)

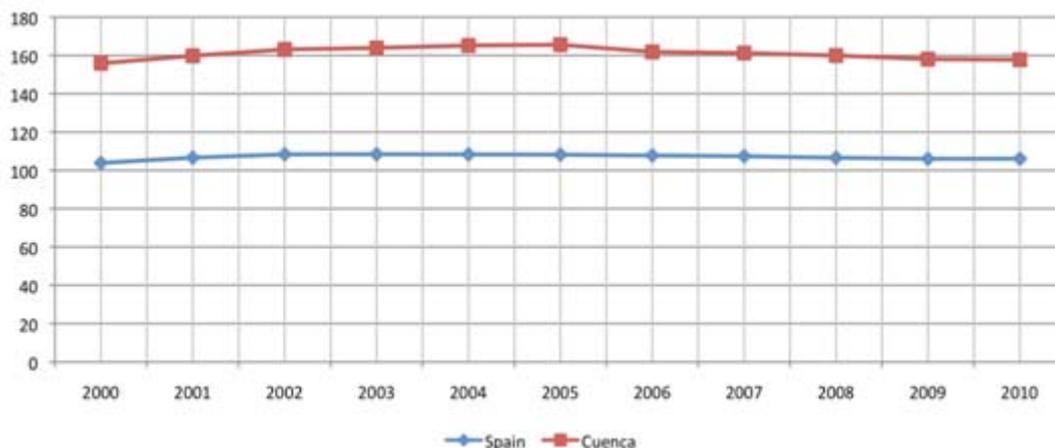
Following the above point, if the period 2001 - 2010 is considered as a whole, it is clear that the population in the province of Cuenca – excluding the capital – has slightly increased in absolute terms. It has increased from 155 035 inhabitants in 2001 to 161 527 in 2010, a 4% increase in 10 years.

Although it is true that this analysis takes into consideration all municipalities of the province of Cuenca, again except for the capital, and not only those municipalities that suffered or risked the phenomenon of depopulation, it may be assumed that this increase of 4% has impacted positively on the sparsely and depopulated areas of the province, as confirmed by most of the stakeholders interviewed.

Even though the actual problem being addressed hereby is the depopulation in the province of Cuenca, this phenomenon is closely related and is one of the main causes of another problem: ageing population. Therefore, we will also look at the ageing rate as an additional indicator to assess the fight against depopulation. The ageing rate is measured as the number of people more than 65 years old for every 100 people younger than 15 years old. As the following figure shows, the ageing rate in the province of Cuenca is well above the national rate for Spain. In 2001 Cuenca had 156% *versus* 104% for Spain, and in 2010 Cuenca had 157% *versus* 106% Spain. So the index has increased over the last decade

although very minimally, hardly 1%, and in any case it slowed the trend of the period 2000-2005 (see Figure 6).

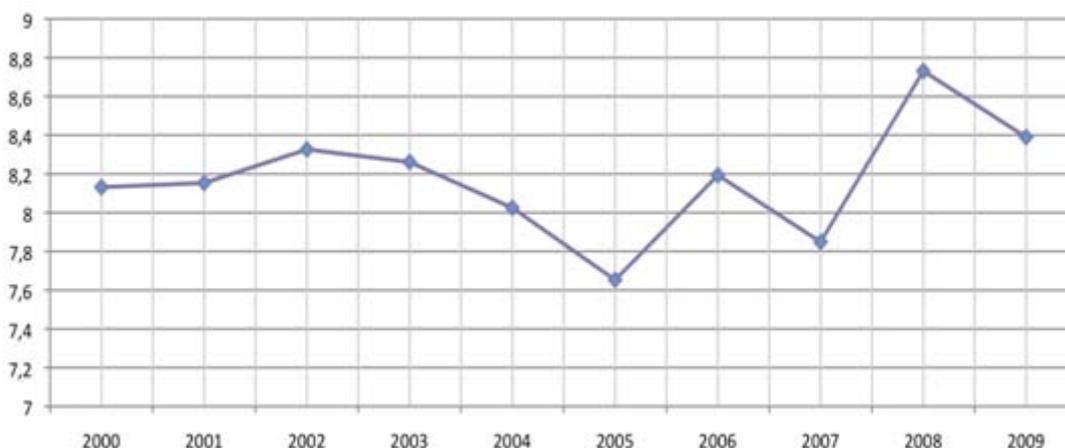
**Figure 6: Ageing rate in the province of Cuenca (number of 65+ year old people per 100 young people; less than 15 yrs)**



Source: INE (Spanish Institute of Statistics)

Finally, the birth rate in the province of Cuenca – number of births per 1 000 inhabitants – also shows a positive trend if considered during the period 2000 - 2009. As the following figure shows, there have been several rises and falls along the period, but in overall terms there has been a 3% increase from 2000 (8.13) to 2009 (8.39).

**Figure 7: Births rate in the province of Cuenca (births per 1 000 inhabitants)**



Source: INE (Spanish Institute of Statistics)

## 5.2.2 With regards to tourism activity

EU funds have contributed directly to development of the tourism industry in the rural areas of the province of Cuenca whereas ten to fifteen years ago this area of the economy was relatively underdeveloped. In addition, Structural Funds have also boosted the tourism sector in the city of Cuenca, which already ranks amongst the most visited tourist destinations in the region of Castilla-La Mancha.

The relative boom in rural tourism in the province of Cuenca in recent years is largely due to a set of plans, projects and initiatives executed during the two recent Programming periods, which have complemented each other and in which EU funds have played a key role. As one stakeholder mentioned *'it would have been impossible to carry out all these projects but for the aid coming from the EU'*. These initiatives address, above all, the following three aspects:

- a) Improvement in basic infrastructures: there has been a huge effort, especially during the 2000-2006 programming period in the province of Cuenca, to improve the infrastructure relating to transport (66% of EU funds (ERDF/CF)<sup>19</sup>); environment (9.9%); planning and rehabilitation (8.7%), which have all had a direct impact on the development of tourism activity;
- b) Grants to encourage the tourism industry: there have been a large number of small grants available to different stakeholders as follows: first, aids to local entities for promotion activities or infrastructure works (e.g. refurbishing and old town house); second, aids to tourism business to improve services relating to ICT, energy, or environment; third, aids to not-for-profit organizations for the preservation of local culture, traditions, fairs, and so forth;

Cuenca's main constraint with regard to the allocation of EU funds (ERDF) for tourism-related initiatives results from its large number of municipalities scattered across the province. According to the Directorate-General (DG) of Tourism of the Regional Government of Castilla-La Mancha, *'the consequence of this limitation, which equally affects the province of Guadalajara that also have large numbers of sparsely populated and dispersed municipalities – is that the amount of average funding per initiative is quite low (EUR 60 000 – EUR 300). Yet, the results are very positive, both in terms of revitalizing the tourism sector as well as achieving territorial cohesion and avoiding conflicts amongst the different areas of the province'*;

- c) 'Tourist Development Plan for the Mountains of Cuenca' (Plan de Dinamización de Productos Turísticos Serranía de Cuenca, PDPT). This is one of the flagship initiatives of the Operational Programme 2007-2013. A very similar plan is found in the other province of Castilla-La Mancha with specific geographic features, namely Guadalajara. In this regard, again according to the DG Tourism of the Regional Government of Castilla-La Mancha, *'thanks to ERDF, it has been possible to carry out non-agricultural related investments in depopulated areas of the province, and the Tourist Development Plans for Cuenca and Guadalajara are a very good example. In both cases the approach is very similar: bring in tourism value to*

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<sup>19</sup> Source: SWECO analysis 2000-2006

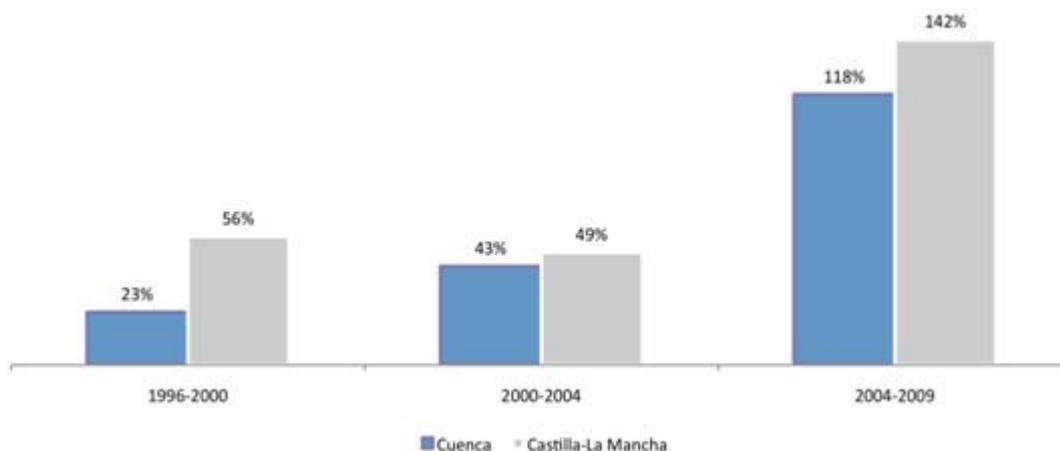
*depopulated areas, which, being close to wealthy cities or regions, may capitalize on its potential to develop rural services and activities?*

In the case of Cuenca, the Plan seeks to attract a large number of tourists from the neighbouring provinces of Madrid and Valencia, which in fact provide the largest number of visitors to the province of Cuenca, 25% and 17% of all visitors respectively. In the case of Guadalajara the initiative, named ‘Tourist Development Plan for the Black Villages’ (Plan de Dinamización de los Pueblos de la Arquitectura Negra de Guadalajara, see more details in Annex 1) seeks also to attract a large number of tourists from Madrid and from the province of Guadalajara itself.

As mentioned by the DG Tourism of Castilla-La Mancha the ultimate objective of these plans is to shift an economic model that was historically based on the agriculture sector towards a new and more sustainable model based on tourism; it is also worth noting that prior to these plans and other EU funded initiatives, the tourism activity was hardly present in these areas.

The quantitative data on the evolution of the tourism sector in the province of Cuenca during the last two programming periods 2000-2006 and 2007-2013 also confirms the positive results yielded by the EU funds (ERDF/CF) allocated to the initiatives described earlier addressing, directly or indirectly, the tourism industry. There has been an outstanding increase in the number of bed-places in rural accommodation in the province of Cuenca during the last ten years. In fact, the positive trend has brought about a significant increase of 118% over the last period 2004-2009 (see Figure 8).

**Figure 8: Increase of bedplaces in rural accommodation (%)**

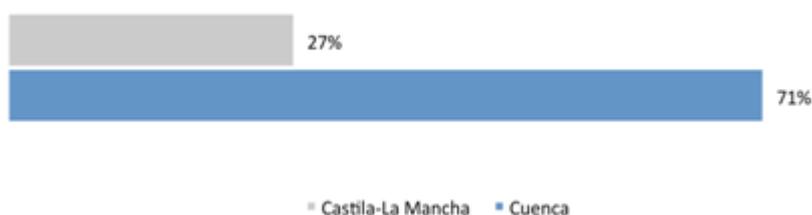


Source: PETCLM - Strategic Plan for the Tourism in Castilla-La Mancha, 2010-2014

Another positive signal for the province of Cuenca is its share of ‘active tourism’ in the region, given the link this type of tourism has with rural areas. In this regard it is worth noting that 36% of all businesses of Castilla-La Mancha offering active tourism activities are based in Cuenca, followed at some distance by Guadalajara with 19%. Once more, it looks as if the two provinces catalogued as having special geographic features are somehow capitalizing on some of the advantages that their specific geographical contexts offer.

Finally, two other indicators showing the progress of Cuenca in this regard are: first, the number of tourist information offices, which in the 2004-2009 period increased by 71% in the province of Cuenca, as compared to an average of 27% for the whole region of Castilla-La Mancha; and second, the increase of overnight stays by foreigners, showing a 52% increase for Cuenca during 2004-2008 as compared to 17% for the region (see Figures 9 and 10).

**Figure 9: Increase of tourism information offices, 2004-2009**



Source: PETCLM - Strategic Plan for the Tourism in Castilla-La Mancha, 2010-2014

**Figure 10: Increase in overnight stays of foreigners, 2004-2008**



Source: PETCLM - Strategic Plan for the Tourism in Castilla-La Mancha, 2010-2014

### 5.2.3 The high-speed train to Cuenca (AVE)

As mentioned earlier, while EU funds (ERDF/CF) are having a positive impact on the development of rural tourism in the province of Cuenca, some ERDF initiatives are also expected to contribute to boosting the economy and tourism industry in the city of Cuenca. In that regard much hope has been pinned on the recently inaugurated high-speed railway service connecting the cities of Madrid, Cuenca, Albacete and Valencia.

The 15<sup>th</sup> of December 2011 saw the official inauguration of the AVE station 'Fernando Zóbel' in Cuenca under the presence of the Spanish Prince and Princess of Asturias and other public authorities. A few days later the first regular high-speed trains started to operate and bring commercial passengers to Cuenca. The high-speed line Madrid-Cuenca-Valencia connects, at speeds of over 300 km/h, the city of Cuenca to the Spanish capital in 45 minutes and to Valencia in 55 minutes, saving 1 hour and 1 hour 45 minutes over the respective car journeys.

Of course, it is too early to analyse the effects of this emblematic project that has been financed from EU Structural Funds (ERDF/CF) from the two recent Programming periods 2000-2006 and 2007-2013) with a total investment of EUR 5 118 million and a duration of four years, from 2004 to 2010. However, it is worth noting that both academic studies and

the qualitative opinion gathered from different stakeholders interviewed, points towards the rail link as having a considerable positive impact on Cuenca's local economy. The key thing in the coming years is that the right strategies need to be put into place following the construction of the infrastructure to ensure that the maximum socio-economic benefits can be accrued.

Most stakeholders interviewed shared the overall conclusions of the impact study (see box below), such as the representative of the local Association of SMEs (CEPYME) who seemed very positive about the potential impact of the AVE especially for the tourism and service sectors. However it is worth noting here two further views, first from a representative of the trade union CCOO, who was quite critical about the project; and second from an academic expert on the impact of high-speed trains.

The trade union representative was critical of the large amount of money spent and explained that the national view of his CCOO was not to support such projects. He argued that for Cuenca the money would have been better spent in improving the local rail infrastructure to connect smaller villages across the province. He was also sceptical about the impact the AVE will have on the local economy in the short and long term. On the other hand, the academic expert on high-speed trains provided an alternative view which was much positive about the impacts that the rail link will bring to Cuenca's economy, highlighting some additional issues that should be looked at in the future for this or similar capital intensive infrastructure projects:

- First, she was critical of the location of the AVE station in Cuenca, saying that an opportunity had been missed in not locating it in the centre of the city. However, she explained the background to some of the decisions behind the choice, including the fact that 4-5 years ago the city planners thought that the city's residential areas would expand outwards;
- Second, she made it quite clear that the economic impact of the AVE on Cuenca would be difficult to measure accurately. Whilst tourism would increase there were questions about the potential reduction in one-night hotel stays as visitors could make a day trip and then return to Madrid. She mentioned that the Provincial Government is already trying to address such issues by offering different deals for tourists using the AVE to stay in Cuenca, which in her opinion was a good sign;
- Thirdly, she made an interesting point, to be considered only in the long term according to the extent to which it does happen or not: the risk of 'brain drain' linked to the AVE; that is, over time the new infrastructure could easily encourage the best and the brightest to leave the province for major urban areas such as Madrid or Valencia.

In any case, the academic expert emphasised that the key point to keep in mind is that the infrastructure provides the necessary scope for economic development in Cuenca but that the right kinds of strategies and policy levers have to be put in place by policymakers and stakeholders alike to ensure the benefits are realised; in other words, the AVE in itself will not somehow transform the economic prospects of the province of Cuenca.

An important study was carried out on the AVE<sup>20</sup> which focused upon some already measurable economic effects from the actual construction of the infrastructure, mainly the railway track and the train station: *'the economic impact during construction of infrastructure has led to a turnover of EUR 10.372 million and 105 720 jobs. The multiplier effects of investment are such that for every euro spent 2.03 euro have returned in terms of turnover and 2.02 in terms of GDP. Also, for every direct employment, a total of 2.05 jobs have been generated'*.

After looking at measurable figures, the study then estimates the effects of the AVE in the new number of passengers that will come to Cuenca, the impact on the productivity and on the local economy, on the environment and other issues. With regards to passengers, the *'AVE will generate 276 000 passengers on the Madrid-Valencia-Cuenca Cuenca during the first year of operation and of out of these, 66 900 will be new passengers, induced by this new mode of transportation. Over half of these trips, 57% will be directed towards Cuenca. The AVE service will bring an increase of some 185 000 train travellers between Madrid-Cuenca and Valencia-Cuenca'*. Furthermore, the impact that these new passengers will bring to Cuenca is substantial, *'travellers using the AVE to come to Cuenca, will generate an annual turnover exceeding EUR 120 million and 1 700 jobs. These figures account for 3% of Cuenca's GDP considering the generated turnover and equal 2% of total employment in Cuenca with regards to jobs created'*.

One of the most frequently forgotten issues when analysing this type of project, according to the study, is the productivity brought by the new high-speed lines. In that regard the study argues that, *'the Madrid-Cuenca-Valencia is not only a quick and safe transportation mean but also a means to work. So, thanks to the more efficient use of time by business travellers going from Madrid - Valencia to Cuenca, it is expected that 1.3 million hours of work will be saved, what results in EUR 25.5 million a year. The increase in productivity is equivalent to 0.7 of GDP in Cuenca'*.

In terms of new business opportunities, the study surveyed some 600 businesses of the region of Madrid and Valencia as well as some 600 citizens from those regions, arriving at the following conclusions: firstly, *'the existence of the high-speed strengthens business relations with Cuenca. Some 17% of companies in Madrid and Valencia say they will create or strengthen its business relationship with Cuenca (without AVE 10% of companies in Madrid and Valencia had already relationships with Cuenca)'*; and secondly, *'the results showed that there are gaps, i.e. opportunities for improvement the quality and quantity of services. In the fields of accommodation, transport, catering, commerce and tourist, the surveyed citizens from Madrid and Valencia already identified some gaps so to keep busy local entrepreneurs from Cuenca in the coming years, and this exclusively due to the new infrastructure'*.

In this regard a representative of one of the Local Action Groups of Cuenca consulted explained that in the last FITUR event (International Tourism Trade Fair of Spain) the number of those attending that showed interest in visiting Cuenca as a result of the new

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<sup>20</sup> Study commissioned by the Regional Government of Castilla-La Mancha and the Diputación of Cuenca to CEET - Centro de Estudios Económicos Tomillo, in February 2011: 'The economic impact of the high-speed railway line Madrid - Valencia in Cuenca'

high-speed train had increased significantly compared to previous years. Moreover, in terms of international tourism, the AVE line also seems to be contributing positively. As one Councillor from the city of Cuenca Council explained, before the AVE line service was in place, there were hardly any Japanese tourists in the city. And he was very positive on the major impact on the economy of Cuenca that the high-speed train will bring.

The effects on the environment of the Madrid-Cuenca-Valencia train are also very positive according to the study, which explains that *'it is expected an annually decrease of greenhouse gases of 3 250 tons and of 140 333 tons from other pollutants. Furthermore the annual energy consumption will be reduced in 567 GWh and imports of oil barrels will fall by 960 000 annually'*.

Two other side effects not measured, but mentioned, by the study are, first, the increase in the capacity of other infrastructures. In that regard, *'the old passenger railway line between Madrid and Valencia can now be used also for freight traffic. This will allow major changes in the economic scenario; certainly, throughout the logistics chain, which nowadays plays a key role to economic distribution. Trade will increase along the entire corridor'*. The second collateral effect refers to the strengthening of competitiveness thanks to the connectivity and mobility that the AVE service will bring. *'The AVE mobility reduces or eliminates the negative effects of transport and magnifies the positive effects on economic growth. In terms of connectivity, the new line not only connects cities, but metropolitan areas (which account for 23% of Spanish GDP and almost 20% of Spanish population) that will increase the perception of their quality. A 1% increase in the attractiveness of cities often results in an increase in foreign investment equivalent to EUR 300 million'*.

The study concludes by outlining the significant positive economic impact that the AVE will bring to Cuenca as well as its high social return, provided that *'entrepreneurs and businessmen of Cuenca, together with local authorities, commit themselves to transform opportunities into reality'*.

## 6. Implementation and governance

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This section will assess the extent to which the programmes have been delivered with a clear vision and strategy. For this purpose, the section is divided in the following five sub-sections:

- 6.1 The process of ERDF decision-making, design, coordination and implementation;
- 6.2 The relationship between ERDF and other community, national, or regional policies;
- 6.3 To what extent are geographical specificities of Cuenca taken into consideration;
- 6.4 The dominant governance pattern and the administrative ‘fit’ between the NUTS2 and NUTS3 level;
- 6.5 Governance pattern evolution in the region in the last ten years;

### 6.1 The process of ERDF decision-making, design, coordination and implementation

Both in 2000-06 and 2007-13, the managing authority role for ERDF lay in the DG Fondos Comunitarios y Financiación Territorial (DGFCFT) of the Ministry of Economy and Finance, through its Subdirectorate General for ERDF in collaboration with the Regional Administration of Castilla-La Mancha, so as to secure successful coordination of all regional stakeholders involved in the co-financed actions.

The whole process for designing the Operational Programme 2007-2013 for the Castilla-La Mancha starts with the drawing up of the Strategic Reference Framework for Castilla-La Mancha. This Framework sets the needs and priorities for the programming period and governs the application of the Structural Funds. Furthermore it guarantees coordination with both the National Strategic Reference Framework of Spain (which in turn is consistent with the Community Strategic Guidelines) and the National Reform Programme, but also with the Covenant for the Development and Competitiveness in Castilla-La Mancha 2005-2010, which is the key strategic reference for Castilla-La Mancha for that period.

The starting point for developing the Strategic Reference Framework for Castilla-La Mancha consists of carrying out a SWOT analysis covering the social, territorial, environmental and economic elements of the region. For that purpose, a series of sectoral working groups has been established on the following topics: a) business dynamics; b) labour market and training; c) R&D and ICT; d) transport infrastructure and territorial planning; e) environment and energy. From there, other tasks follow such as setting of the priority axes, analysis of their potential impact, *ex ante* evaluation and so on, concluding with the definition of the management systems for implementation of the Operational programmes.

It is important to note that none of these working groups includes a dedicated group on specific geographical features of the region i.e. 'sparsely populated' or 'mountainous'. These features are considered alongside a long list of issues affecting the region, and in actual fact they are regarded as a more of cross-sectoral element that should be brought up within the context of the different working groups.

As explained by the Head of Regional Coordination of European funds of Junta de Castilla-La Mancha, *'the specific geographic feature of the province of Cuenca – sparse population – or that of the province of Guadalajara – mountainous – are just some of the issues to bear in mind when assessing the needs of the region, and thus drawing up the Operational Programmes, but not the only ones. In any case the SWOT analysis shows that the top of the list is the issue of depopulation.'*

Therefore, whilst it already seems clear that the 'sparsely populated' geographical feature may not be given preferential treatment during the analysis phase, it is fair to say that at least it is considered and recognised as an important cross-sectoral issue that would certainly be brought up by different stakeholders participating in the working groups. Of course, the question remains as to whether or not the actual voice and needs of sparsely-populated or mountainous areas' stakeholders reaches is heard depends very much on the degree of stakeholder involvement. Stakeholder views are much divided in this regard; some say that they have been consulted during working groups' activities; others claim that they have never been invited to participate.

- A representative from one of Cuenca's Local Action Groups seems quite happy about the degree of involvement the organization in the development of the ERDF Operational Programmes, he states that *'there is collaboration and understanding with the regional level, and we do participate in the inception phase of several programmes – such as working groups prior to ERDF and CF Operational Programmes – which also gives us the opportunity to understand the problematic of other sectors of the region'*;
- However, and surprising as this may seem, representatives from the Provincial Development Board interviewed claim that – and here it is worth recalling that this body belongs to the provincial Diputación of Cuenca – as far as they are concerned the Board has not participated or been involved in any of the working groups set up to prepare the ERDF Operational Programmes;
- Similarly, the representative of the CCOO of Cuenca criticized the fact that stakeholders such as the trade unions are not consulted in the design stage of the EU funding programmes. And that this was a mistake and had caused a lack of strategic fit with the real economic needs of the region and how the funds were being utilised. Furthermore he explained that there are many organizations involved in economic development at local level but that there tends to be much duplication, waste and a lack of clear vision or strategy, and unfortunately the same is true for the use of EU funds.

Finally, the territorial allocation of the co-financed Structural Fund projects depends on the typology of the projects in question. For example, large infrastructure projects are decided at the regional level and their implementation usually takes place in a balanced way across the whole territory. For individual projects, the territorial distribution will be influenced by the project applications received, which tend to be more directly linked to the different production structures and socio-economic needs in each province. This

means that some imbalances may occur at times with some areas carrying out more projects than others.

## 6.2 The relationship between ERDF and other community, national, or regional policies

The Operational Programme for Castilla-La Mancha in both periods shows a good level of alignment at EU and national levels regarding the Community Strategic Guidelines (CSGs) and the National Reference Framework, despite the fact that the Programme does not go into too much detail at NUTS3 level. Equally, alignment with regional policies is very positive since the Programme follows the main regional policies and plans previously agreed by the most relevant regional stakeholders. Also there is an adequate collaboration with other EU funds, mainly ESF and EAFRD, the representatives of which are involved in the design phase and ongoing sectoral networks of the Programme.

The CSGs in fact recommend paying particular attention to the specific needs of certain territories, for example urban and rural areas, through the application of an integrated approach to EU cohesion policy, promoting growth and employment but also pursuing social goals and environmental issues. In that regard the Strategic Reference Framework Castilla-La Mancha 2007-2013 states that *'in the case of Castilla-La Mancha, this integrated territorial approach focuses on small and medium municipalities and the actions envisaged for them are aimed at achieving a sustainable local development that results in greater territorial cohesion, valuing the special circumstances of this territory (ageing population, depopulation, poor access to training and new technologies...)'*.

The Operational Programme 2000-2006 was based on three key regional documents, namely the 'Regional Development Plan for Castilla-La Mancha 2000-2006'; the 'Industrial Covenant for Castilla-La Mancha'; and the 'Regional Employment Agreement for Castilla-La Mancha', which in turn involved input from a wide range of regional stakeholders. Similarly, the *ex ante* Evaluation of the Operational Programme 2007-2013 states that the Programme *'has enjoyed the participation and consensus of multiple agents, both the ones involved in the future implementation of the Programme as well as those concerned with its content and potential impact'*. Besides, the main socio-economic stakeholders of the region had signed the 'Covenant for the Development and Competitiveness in Castilla-La Mancha 2005-2010', one of the main strategic references for the Operational Programme 2007-2013.

In relation to coordination with other EU funds, the Operational Programme for 2007-13 envisages that managers from other regional community funds sit on the monitoring committee in an advisory role. Some of these include members from the Sub-Directorate General of Cohesion Fund and European Territorial Cooperation, members from the Administrative Unit of the ESF, and representatives of the Rural Development Programmes co-financed by EAFRD. Furthermore, as the *ex ante* Evaluation Report for the OP 2007-13 explains, representatives from ESF, EAFRD, and EFF were involved in the design phase of the Programme, and – according to the 2009 Annual Report OP 2007-

13 – there are ongoing Working Groups and sectoral networks that include representatives of ERDF, EAFRD and EFF.

In fact, this coordination amongst different funds seems to be working well, not only at the design level phase but also when it comes to day-to-day operations. For example, managers of ERDF funded projects at the Provincial Development Board of Cuenca work in close collaboration with their respective colleagues managing ESF funds. At a smaller scale, the ERDF from CEDER Local Action Group also mentioned the level of communication with his peers involved with ESF. The fact that in most cases ERDF and ESF funds are managed from the same organization, contributes to this enhanced collaboration.

Most stakeholders consulted agreed that ERDF and EAFRD complement each other very well, although each has its own focus; in this regard, the representative from CEDER Local Action Group explained that *‘both funds work well together, however ERDF seems to play a more direct role in reaching the citizens’*.

Lastly, the key role that NUTS3 stakeholders play must be emphasised – in partnership with the Regional Government and the National Government – in relation to the implementation of EU funding. In the case of Cuenca, the most active and relevant of these stakeholders are the Provincial Development Board of the Diputación of Cuenca and the five Local Action Groups, covering all the different territories of the province; all these stakeholders work in close collaboration with the direct beneficiaries and receivers of the funds. This is an important point.

A good example of this collaboration at different levels is the ‘Tourist Development Plan for the Mountains of Cuenca’, coordinated by the Provincial Development Board and including the Spanish Ministry of Industry and Tourism, the Regional Government of Castilla-La Mancha and Diputación of Cuenca.

### 6.3 To what extent are geographical specificities of Cuenca taken into consideration

None of the Operational Programmes for the 2000-2006 or 2007-2013 show explicit measures (priority axes, programmes, projects, etc.) at NUTS3 level designed to address the specific geographic features of Cuenca (or Guadalajara, as the mountainous province). In fact, the programme objectives and priorities focus on all five provinces of Castilla-La Mancha.

Stakeholders interviewed, however, believe that the EU funding programmes have, in practice, been very relevant to both provinces, considering that (i) there are clear mentions of the issues relating to specific geographic features in the contextual analysis phase; (ii) stakeholders affected by specific geographic features are directly or indirectly represented; and (iii) there is a close link between needs identified and measures proposed – although not described at NUTS3 level.

## 6.4 The dominant governance pattern and the administrative 'fit' between the NUTS2 and NUTS3 level

Analysing the Operational Programmes for both periods, where not much information is provided on the ERDF / CF, follows a centralized pattern rather than devolution of decision-making. In fact, most initiatives are usually aligned with prior regional programmes or plans in mind, which to some extent explains why the 'sparsely populated' feature, that only affects two of the five provinces, is regarded as just another issue when placed alongside other socio-economic challenges facing the region.

The 'fit' between the NUTS2 and NUTS3 levels is, more often than it should be, hindered whenever different political colours are running the Regional and the Provincial governments. In the words of a stakeholder, *'the political dimension was a big factor in the coordination of funds. The shift in political colour has a big impact on who gets what in the region and really shapes region-province relationships. Even though Cuenca is the poorest province in Castilla-La Mancha it still does not receive as much money as it should, due to the political bias in the way funds are distributed'*.

In terms of administration of the funds, several stakeholders alluded to some of the challenges and issues related to the management of the funds, especially at the NUTS3 level. These include:

- While most stakeholders recognized the importance and effectiveness of the EU funds (ERDF/CF) for the province of Cuenca, they also expressed complaints in relation to two issues: 1) excessive controls, and 2) delays in payments;
- DG Tourism of the Regional Government of Castilla-La Mancha explains that during the Operational Programme 2000-2006 the control systems and requirements in place were less demanding, thus making life easier for the managers of the funds and beneficiaries of the aid;
- For the new programming period 2007-2013, further and more complex controls are in place, which results in delays in implementation of the projects and lower levels of efficiency. Furthermore, the DG Tourism of Castilla-La Mancha adds that this problem is even worse in the case of provinces such as Cuenca and Guadalajara, - 'sparsely populated' and 'mountainous' areas with a large number of scattered municipalities;
- Since the regional funding policy is to distribute the funds equally amongst all municipalities, the result is that there are plenty of micro-projects ranging in size from EUR 300 to EUR 60 000 which, despite the low amounts, have to undergo the same controls as large projects; this creates considerable overload for managers, delays in execution and certain inefficiencies. Whilst being true that the funding of a large number of projects in most municipalities may be a positive way to contribute to territorial cohesion of the region, some mechanisms should also be implemented (to the extent that is feasible) in order, for projects managers, to deal with a large number of small projects in a more flexible and agile way.

- A similar view is shared by a trade union representative who was critical of the paperwork involved in managing the funds and especially the delay in being reimbursed for work and money already spent. The CEPYME representative also argued that EU funds are crucial to keeping villages in the province alive although he the amount of paperwork and complexity in accessing the funds is too much;
- Also representatives from the Provincial Development Board complained of delays in ERDF payments, which – according to them – did not occur in the past. Furthermore they explained that other EU funds such as ESF do provide financing in advance, which is important in the case of this organization. In this regard there have for instance been cases where the Board has been running EU projects of a magnitude of some EUR 2 million while the budget of the Provincial Development Board itself is only EUR 2 million;
- Finally, it is worth noting a fact observed during the field research work, namely that most end-receivers of EU funds, and in some cases even intermediate beneficiaries, do not distinguish between or are even unaware of the type of fund from which they are benefitting; whether this is ERDF, CF, ESF, EAFRD is a matter of indifference to them. Yet, it is important to stress that they all know well that the aid is coming from the EU.

## 6.5 Governance pattern evolution in the region over the last ten years

No major changes or trends in terms of the governance of ERDF in the region or in Cuenca have been identified. As explained in earlier sections there might have been some changes in committees' names, or new participants on the monitoring and follow-up groups and so forth, but nothing of any substance.

As regards ERDF policies, however, most stakeholders consulted do actually see a clear trend, and not always for the better, when it comes to addressing the specific geographic features of Cuenca. Some stakeholders find it slightly contradictory to try to tailor the Operational Programmes to the 'specific geographic features' of some areas of the region whilst at the same time there is considerable pressure to comply with EU-wide strategies such as the Lisbon Strategy or Europe 2020. Stakeholders viewed such EU-wide strategies as not particularly relevant to or focused on territories with specific geographic features. For example, apart from complaints about the excessive controls that micro-projects have to go undergo, another stakeholder pointed out that *'with the time the pressure to apply the Lisbon Strategy in the past and now the Europe 2020 Strategy to the Operational Programmes increases, and yet there is not much content in any of these strategies dealing with the specific geographic features of Castilla-La Mancha, such as 'sparsely populated' or 'mountainous' issues. So it would seem a little bit contradictory to ask for both things, since the room for setting different priorities narrows down over time'*.

## 7. Conclusions

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Below are a summary of the main points that emerge from the Cuenca case study:

### 1) Geographical context

- The Cuenca case is interesting because it is one of the few examples of a sparsely populated region that is not Nordic;
- The issue of ‘sparsity’ is viewed in the Spanish case as much more a question related to the rurality of the area rather than in terms of distance or peripherality which is much more the case in the Nordic context. This issue will be explored more in comparison to the Swedish case study of Norrbotten;
- The interesting point is that Cuenca is actually located very close to one of Europe’s largest capital cities, namely Madrid, which makes the issue of sparsity all the more pertinent;
- On the other hand, it is clear that the dual challenge facing Cuenca of both population sparsity combined with an ageing demographic profile is absolutely the key driver behind public policy and funding. Depopulation might be considered more as a ‘transversal issue’ causing the age profile of the region to increase, however, both are clearly interlinked and require specific measures to tackle them. Some progress has been made in reducing the impact of its geographical specificity, however, the economic fragility of the province of Cuenca is another point that really stands out;
- The recent recession in Spain has caused relatively more problems in Cuenca compared to other regions and so the challenge now for policy makes is to stabilise the local economy.

### 2) Policy responses

- The dominant policy approach in Cuenca is to view the province’s specific geographical features as a ‘handicap’ rather than an opportunity. The measures adopted are really focused on preventing population decline – what is seen as the main problem – particularly in sparsely populated areas suffering also from high ageing rates;
- There is no real strategy or vision for economic development at the NUTS3 level. This is a problem cited by a majority of stakeholders. The focus is at the NUTS2 level with strategies adopted at the regional level mainly by the Castilla-La Mancha regional government.

### 3) Relevance of ERDF and CF Programmes

- It is clear that EU funds, especially ERDF/CF, play a major role in promoting economic development in Cuenca. Indeed, as several stakeholders mentioned, if it weren’t for EU funds, many villages in the province would simply have disappeared;

- The main focus has been on improving basic infrastructure, very much in line with other Objective 1/Convergence regions. Less investment has been made in productive infrastructure which is partly due to the economic fragility of the region;
- The priorities for investment stayed largely the same between the two programming periods. This again reflects the focus on basic infrastructure as the main priority for Cuenca's development trajectory.

#### **4) Effectiveness of ERDF and CF Programmes**

- Overall, the 2000-06 programme performed well and the same can be said for the current period even though it is more difficult to assess results;
- ERDF and CF have contributed, along with other EU funds, to ameliorating the dual problems of depopulation and ageing although the challenges very much still remain;
- Tourism has been a particular focus of investment in Cuenca and some successes have been made. The completion of the high speed rail link is anticipated to further enhance the tourism potential of the whole province of Cuenca;
- A multi-sectoral approach has been adopted to promoting economic development. This has had some positive results however it is apparent that the lack of strategic focus has meant that there was a lack of both geographical and sectoral targeting in Cuenca;
- In Spain every ERDF Operational Programme follows the same structure (both in the 2000-06 and 2007-13 programming periods), which suggests that programme priorities are not necessarily aligned with the main needs of the regions (Cuenca in this case);
- It would be recommendable, therefore that future Operational Programmes focused on 'picking winners' in terms of more catalytic investments and projects in certain areas and sectors (for example, rural tourism in the province of Cuenca). This approach is further strengthened in the context of Castilla-La Mancha receiving less EU funding post-2013.

#### **5) Implementation and Governance**

- The governance picture is one of stability with clear structures and systems in place which have remained relatively stable since 2000. Overall, the management of the funds is very good with well-organised stakeholder engagement;
- There is no specific forum, however, for stakeholders relating to specific geographical features; the issues relating to sparsity and of mountainous areas are viewed and dealt with as cross-sectoral ones;
- There is very good alignment of both domestic policy and funding, as well as complementarities with other EU funds, especially ESF and EAFRD. Indeed, at the local level, beneficiaries are not aware of the differences between the respective funding streams;
- Some stakeholders highlighted the apparent increased complexity in the management and administration of EU funds, including ERDF and ESF, for the current period

compared to the previous one. This is in fact is a problem that mostly affects the managers of the funds;

- The political dimension is an important one in the management of the ERDF and CF. Changes in political ‘colours’ do seem to have influenced the ways in which project allocations and decisions have been made;
- The Spanish system of multi-level governance in relation to ERDF seems actually to somewhat impede the ways in which ERDF can be tailored to the geographical specificities of Cuenca.



## 8. Mini-case study

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**Project Title:** PIEMSA (Information and Strategy Plan for the Environmental Sustainability of the Province of Cuenca)

**Key words:** *Environment, sustainability, household waste and recycling, Cuenca, Spain*

### Synthesis

CUENCA PIEMSA project 'Information and Strategy Plan for the Environmental Sustainability of the Province of Cuenca' is one of the flagship initiatives of the current programming period. It is a comprehensive plan to develop, across the whole province of Cuenca including all of its 238 municipalities, a project to encourage participation in the improvement of the environment, environmental sustainability and economic growth in the area, as well as the welfare of all its inhabitants.

In order to achieve this objective, the project defined several activities grouped in three main programmes, namely, (1) the delivery of environmental awareness raising campaigns; (2) the construction of 'Household Waste Recycling Centres' in all municipalities of the province. This would make Cuenca the first province in Spain in which all municipalities have a 'Household Waste Recycling Centre' in which to deposit household waste; and (3) the elaboration of an employment plan aimed at promoting economic growth through the environmental development of the province.

The project is based upon the creation of a partnership and collaboration between provincial and local authorities and institutions, employers, unions and Local Action Groups to build a network of employment and enterprise promotion. Specifically, the creation of five centres of employment and self-employment in each of the areas of the province will be developed to help facilitate the unemployed to find employment or start up their own business. Special attention is paid to women, the under 30s age group and immigrants and it is estimated that 40 direct jobs will be created as a result of the PIEMSA project.

The role of the EU co-financing has been fundamental for the viability and implementation of the PIEMSA project. Most stakeholders consulted referred to PIEMSA as one of the flagship projects in Cuenca for the current period, and when asked about the viability of the project without non-national funds, the Provincial Diputación of Cuenca – the main authority for the province – made it clear that without the funding from Europe this would have not been possible at all.

Finally, it is worth noting the importance of this project, not only for its environmental dimension, but also for its contribution to creating new jobs in a region particularly and historically affected by the depopulation phenomenon.

## Background information

**Member State:** Spain

**Region:** Castilla-La Mancha, Cuenca

**ERDF Programme/Objective:** ERDF Operating Programme for Castilla-La Mancha

**ERDF Programming period:** 2007-2013

**Funding:** Total ERDF/National/Regional/Private: ERDF (EUR 6 400 952.94); Regional Government of Castilla-La Mancha (EUR 2 100 000); Provincial Diputación of Cuenca (EUR 643 265.55)

Project started on 22 January 2010 and is expected to finish on 31 January 2012.

### 1) Project Description

The actions of CUENCA PIEMSA are designed to achieve the following two objectives:

- a) Economic promotion: job creation and economic opportunities through the diversification and improvement of local infrastructure and services;
- b) Improvement of the natural environment and environmental quality.

Furthermore, the project aims to contribute to the following two long-term objectives:

- a) Promotion of the information society and use of the new technologies (ICT);
- b) Protection and promotion of Cuenca's cultural heritage.

The activities of the PIEMSA are grouped into three programmes that are being carried out during the project. These programmes follow a bottom-up approach; the first, focuses on training on environmental issues; the second, on providing 'green' infrastructures; and the third on promoting the creation of employment related to the environment sector.

#### • Programme I: Information and awareness raising campaigns

One of the specific objectives of PIEMSA is to promote and encourage citizens to get into the habit of taking hazardous waste or high-volume waste into the household waste recycling centres. The following actions have been designed:

- a) Information and awareness raising, including: road-show awareness campaigns delivered through an 'Ecobus' travelling around all of the municipalities of the province; educating and raising awareness in respect and care for the environment as well as creating awareness of the natural and cultural resources of the province of Cuenca through videos, brochures, etc. Particular attention is being paid to awareness-raising campaigns in schools/colleges focusing on young people;
- b) Communication campaigns, including: public awareness through radio, television and the press; the creation of a web platform for the dissemination and education of the population of Cuenca on sustainable development, environment and waste management; editing and delivery of brochures, posters, etc; information on local media on the state of play with the project; hosting launch events for the household

waste recycling centres;

- c) Use of ICT tools for dissemination: the use of an innovative marketing tool called Advergaming, which is an interactive video game that the target audience receives via their mobile phones in order to raise awareness, educate and motivate citizens to focus on the environment, sustainable development and improved waste management.

- **Programme II: Construction of household waste recycling centres**

In order to give an opportunity to all citizens of Cuenca to contribute to the improvement of the environment and to sustainable development, the PIEMSA project is building a grid of household waste recycling centres in order to try to preserve the natural environment of the province as well as the welfare of its inhabitants. The actions of the programme are twofold:

- a) The construction of household waste recycling centres: the target is that all municipalities of the province of Cuenca have one of these centres so that afterwards they all become part of the regional grid;
- b) The cleaning of uncontrolled dumping sites, especially of non-localized landfills.

- **Programme III: Creation of employment**

PIEMSA aims to capitalise on the strategies and tools for the protection of the environment and the promotion of sustainable development, to create new and alternative sources of employment, thus creating wealth through new or the conversion of existing activities. To achieve this goal, the project foresees the following actions:

- a) Workshops for 'green' entrepreneurs called 'Green Seeds': the work of these groups draw on (and elaborate further) the ideas developed during the information and awareness-raising phase from Programme I;
- b) Entrepreneurs: self-employment and the environment: this is primarily aimed at people aged over 40, the unemployed, women, youth and people with disabilities. The initiative provides micro-credits up to EUR 6000 per business;
- c) Strategy for the creation of environment related jobs: this initiative foresees the creation and consolidation of 35 new jobs as a result of the PIEMSA project.

## 2) Political and Strategic Context

According to the managers of PIEMSA, the main rationale behind the implementation of the project was the increasing awareness amongst citizens on environmental matters, and in particular the fact that household waste treatment that has become an important issue in Cuenca. In that sense, the background that supports the need for the project were:

- First: the need to centralize all municipal solid waste of the province into one single municipal waste treatment centre, catering for a proper segregation of recyclable materials as well as providing production of organic composting. Before that, every single municipality had its own un-controlled landfill which tended to not have proper controls in place;
- Second: the need for the deployment of the selective collection of different waste products including glass, packaging and paperboard, for all municipalities of the

province, regardless of their size;

- Third: the urgent need to seal off the un-controlled landfills as well as the increased social demand to create adequate infrastructures to deal with household waste.

In addition to that, the PIEMSA project also complements national and regional policies that promote the closure of all uncontrolled and old landfills by providing a comprehensive system for the management and collection of municipal waste. In particular, the project is part of the Regional Plan for Urban Waste Treatment of Castilla-La Mancha 2009-2019, which is the regional transposition of national, and EU legislation.

Furthermore, the project fits in the context of the National Strategic Reference Framework of Spain with a view to respond to the strategic objectives set by this Framework in relation to Axis-5 'Local and urban development', namely: (a) Territorial cohesion through integrated projects for urban and rural regeneration for small and medium sized municipalities; (b) Strengthen the citizen participation in the management of public affairs and improvement of local services.

### **3) Implementation**

In terms of competition with other projects, the PIEMSA project automatically qualified and was selected for ERDF co-financing since it is part of the Regional Plan for Urban Waste Treatment of Castilla-La Mancha 2009-2019 (decree 179/2009, 24/11/2009, published DOCM nº233, 27/11/2009).

The Provincial Consortium for the Environment is the body responsible for the management, design and planning, and implementation of the project PIEMSA CUENCA. The Consortium is a provincial agency that belongs to the Diputación Provincial of Cuenca. For the purpose of this project, the Consortium contracted the services of a third-party private company 'Ingeniería IDOM International S.L.' to provide technical assistance services in the areas of project management, monitoring and control of the PIEMSA project.

As pointed out earlier, the role of the financial aid coming from the EU (ERDF) has been fundamental for the viability and implementation of PIEMSA, a project considered by most stakeholders as one of the flagship initiatives of this programming period in Cuenca. In this regard is worth noting that in the view of the Diputación Provincial of Cuenca, a large number (up to 90% it was said) of the flagship projects carried out in the last decade in the areas of tourism, employment and enterprise in the province of Cuenca, would not have seen the light of day had not it been for the co-financing coming from Europe.

Eventually, it is worth noting that even though one could imagine problems of implementation for a so complex project, no major difficulty has been mentioned by the project managers.

### **Project beneficiaries**

For the purpose of some activities of the project, the Diputación Provincial of Cuenca has established a partnership agreement with local institutions of the province, businesses, trade unions and Local Action Groups. In any case, the Diputación of Cuenca, through its Provincial Consortium for the Environment, leads this partnership.

The indirect beneficiaries are the general public of the province of Cuenca that will benefit from the environmental improvement and sustainability of their municipalities as well as from the expected economic growth. Construction and environmental businesses have been contracted to carry out the necessary works for the project, as well as some other service provider companies such as training businesses, ICT companies, etc. Public authorities and stakeholders sponsoring the initiatives at local level such as Diputación Provincial of Cuenca, Chamber of Commerce, trade unions, municipal authorities, etc. In addition to that, the five Local Action Groups (GAL) and their officers do play a key role in the design, development and implementation of the activities of the project carried out so far across the whole of the province of Cuenca.

Direct beneficiaries include groups of unemployed, women, people under 30s and immigrants. Also, entrepreneurs and business people in the province that have taken part in seminars and workshops aimed at creating new businesses in the environmental sector. Young people in general are the target of the environmental awareness campaigns that are being carried out during the project.

## **4) Project Results**

In relation to results, it is worth noting that for all the three programmes, the project is still ongoing and therefore the following text relates mostly to outputs and in some cases to incipient results, rather than results. Having said that, the main outputs of the PIEMSA project, as of July 2011, according to the three main programmes are:

### **I. Programme on Information and awareness raising campaigns:**

- Campaign 'It is our duty to keep our town clean': two technical officers of CEDER<sup>21</sup> Alcarria Local Action Group for the PIEMSA project have visited more than 27 municipalities of the territory Alcarria Conquense by informing primary and high schools youngsters about the campaign. Participants were given recyclable shopping bags, 'eco-cards' informing them about the nearest waste recycling centre, and a guide on environmental best practices for the home (March 2011);
- Information workshops in the territory Mancha Alta Conquense: delivered by technical

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<sup>21</sup> CEDER Alcarria (Centro de Desarrollo Rural de la Alcarria Conquense) is one of the five Local Action Groups (GAL) covering the territorial zones of the province of Cuenca, the other four including PRODESE, ADIMAN, ADI el Záncara, and ADESIMAN. *Local Action Groups are a broad-based local private-public partnership whose aim is to improve the long-term potential of the local area and who has the ability to define and implement a development strategy for the area* (European Network for Rural Development)

officers of ADESIMAN Local Action Group, including municipalities such as Fuentelespino de Haro, Villarejo de Fuentes, Palomares del Campo o Puebla de Almenara, Pozorrubio and Rozalén del Monte (April 2011);

- More than 50 workshops and information events have been carried out on waste recycling and sustainable consumption habits for young people in the territory of La Manchuela. The events were organized by ADIMAN Local Action Group and took place in 30 primary schools with the participation of more than 1 800 children from the area (May 2011);
- Organisation of the 'World Environment Week' in the territory of Mancha Baja Conquense by ADI El Záncara Local Action Group. The event included waste treatment and recycling seminars; best-practice talks on sustainable consumption; 'SMS campaign' to send messages about environmental issues to major local stakeholders; the organization of a competition 'advertising spot on waste' for local school children aged between 6 and 12 years old (June 2011).

## **II. Household waste recycling centres:**

With regards to the construction of household waste recycling centres, the situation as of early July 2011 is as follows:

- Finished the drawing up of all the projects for the construction of the waste recycling centres in 227 municipalities of the province of Cuenca;
- Started the construction of 192 waste recycling centres out of the total 227 foreseen in the PIEMSA project;
- Completion of the works for 128 waste recycling centres (September 2011 is the expected date for the completion of the 64 remaining centres);
- The remaining 34 centres, although they have not started yet, are at the contract award phase.

## **III. Creation of employment:**

- The first Workshop on Business Opportunities and Sources of Employment in the Environmental Sector took place in the municipality of Tarancón. The event, organized by CEOE-CEPYME (Confederation of Businesses and SMEs of Cuenca) was led by the Partner and Director of Cleantech Consulting, a local environmental business; some 60 people including businessmen, entrepreneurs from the Tarancón area attended the event (December 2010);
- The second Workshop on Business Opportunities and Sources of Employment in the Environmental Sector took place in the municipality of Iniesta. The event, organized by CEOE-CEPYME was led by Partner Director of Cleantech Consulting; some 60 people from the area of Iniesta attended the event (January 2011);
- The third Workshop on Business Opportunities and Sources of Employment in the Environmental Sector took place in the municipality of San Clemente. The event, organized by CEOE-CEPYME was led by expert Jorge Murillo who focused on business opportunities in the field of biomass; some 50 people including businessmen, entrepreneurs from the area of San Clemente attended the event (February 2011);

- The fourth Workshop on Business Opportunities and Sources of Employment in the Environmental Sector took place in the city of Cuenca. The event, organized by CEOE-CEPYME was led by the Partner and Director of Cleantech Consulting who focused on business opportunities in the field of renewable energies; some 40 business people and entrepreneurs from the city of Cuenca attended the event (May 2011);
- The course 'Business Management of Environmental Projects' was held in the municipality of Mota del Cuervo. The event was organized by the Chamber of Commerce of Cuenca. The 18 people on the course were entrepreneurs interested in exploring business opportunities within the environment sector. As a result of the course, 16 participants will create a business plan to put into practice their initiatives and ideas that were developed during the course. For that purpose they will count on future specialized mentoring sessions in the context of PIEMSA project (June 2011).

## 5) Sustainability and transferability

### • Sustainability

The sustainability of the project's results is guaranteed from a triple perspective, namely with regards to the jobs created; to the maintenance of the infrastructure created; and to the communication campaigns and support provided to 'green' entrepreneurs.

- With regards to employment: the Management of PIEMSA explains that those jobs created in connection to the household waste treatment centres will continue after the end of the project, similar to what happened with other initiatives regarding the municipal solid or selective waste collection;
- Furthermore, it is expected that municipalities – according to their capacities – either contract or subcontract workers for the maintenance of the new centres since they are the public authority responsible for providing the service. The Provincial Consortium of Environment Affairs will be responsible for the collection of household waste;
- The information awareness campaigns on sustainability and environmental issues will be continued by the Diputación of Cuenca, which is responsible for assisting all municipalities in the province, especially those with fewer resources, in this field;
- Finally, project participants including businesses, entrepreneurs, etc. that started a business plan or idea around opportunities in 'green' sector, will count on the support, for as much time as needed, from different bodies after the end of PIEMSA, including: the Chamber of Commerce and CEPYME Cuenca, together with the Diputación of Cuenca and its Provincial Development Board branch.

### • Transferability

An officer of PIEMSA consulted believes that this project is highly replicable either in other regions of Spain or indeed elsewhere in the EU: *'yes, PIEMSA is especially aimed at regions with similar geographical features such as the large and dispersed number municipalities with sparse population. In that sense, management bodies at the provincial level prove to be of vital importance due to the poor capacity of the municipalities involved in terms of financing, management and, most importantly, the additional costs coming from single, separate initiatives?'*

### **Conclusions: Key success factors and lessons learned**

At this stage of the project, and according to key stakeholders involved in the management of PIEMSA, the key success factor has consisted on having differentiated very clearly two stages of the project: in the first stage, the main focus was the involvement of people and stakeholders of the project, leaving the deployment of the infrastructures for a second stage. In fact, carrying out targeted communication and awareness raising campaigns to the wider public ensured that there was a sufficient level of awareness about the aims of the project, especially amongst the general public, what allowed them to make a proper use of the new household waste treatment centres afterwards.

Furthermore, and in relation to the above, the active involvement of people and stakeholders from the municipalities where the new infrastructures were constructed has proven fundamental. This has been possible thanks to a wide partnership of stakeholders at all levels, ranging from provincial authority (Diputación Provincial de Cuenca), to local authorities (town halls of all municipalities), territorial associations (Local Action Groups), employers, unions, etc.

### **CONTACT DETAILS**

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## **Annex 1: Stakeholders consulted**

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This annex includes the names of stakeholders consulted during June and July 2011 (in alphabetical order).

- Concepción Bernal, Head of Service, Tourism and Handcrafts Office of the Junta de Comunidades de Castilla-La Mancha in Guadalajara.
- José Luis Condado, Chief Architect, Diputación Provincial de Guadalajara.
- Pedro Contreras, Officer of Patronato de Desarrollo Provincial, Diputación Provincial del Cuenca.
- Luis Castrillo, Technical officer from the Environmental Area of Diputación Provincial de Cuenca.
- Pilar Cuevas, Manager of the ‘Competitiveness Plan for the Black Villages’, Diputación Provincial de Guadalajara.
- Juan Ángel García, Managing Director of Patronato de Desarrollo Provincial, Diputación Provincial del Cuenca.
- Alfredo González, Officer of Patronato de Desarrollo Provincial, Diputación Provincial del Cuenca.
- Clara González, Officer of Patronato de Desarrollo Provincial, Diputación Provincial del Cuenca.
- Ana Isabel Guerra, Technical officer from the Environmental Area of Diputación Provincial de Cuenca.
- Félix Herranz, Head of Maintenance of provincial roads, Diputación Provincial de Guadalajara.
- Acisclo Jiménez, Secretary of Asociación CEDER Alcarria (Centro de Desarrollo Rural de la Alcarria conquense)
- Lourders López, Technical officer of the Agencia de Empleo Local, City of Cuenca.
- Pedro José Lucas, General Secretary of Comisiones Obreras (CCOO), Cuenca.

- Francisco Maroto, Mayor of Campillo de Ranas (village of the Black Architecture Villages of Guadalajara).
- Ildefonso Martínez, Coordination Chief of European Regional Funds of the Junta de Comunidades de Castilla-La Mancha, Vice-presidency and Regional Ministry of Economy and Finance (Toledo).
- Angel Mayordomo Mayordomo, General Secretary, CEPYME Cuenca (CEOE).
- Carmen Mota, Architect and Assistante Lecturer at the University of Castilla-La Mancha, Cuenca.
- Victor Alcocer Navalón, Managing Director of Asociación "Promoción y Desarrollo Serrano" (PRODESE).
- Juan Pérez, Technical officer of the project 'Iniciativa Urbana San Antón Singular y Plural', City of Cuenca's Council.
- Diego Ramírez, Technical Officer, DG Tourism and Handcrafts of the Junta de Comunidades de Castilla-La Mancha, Vice-presidency and Regional Ministry of Economy and Finance (Toledo).
- Mari Paz Roselló, Head of Procurement for Roads and Civil Engineering Works, Diputación Provincial de Guadalajara.
- Laura Ruiz, Manager of ADEL, Association for the Local Development of the North Mountains of Guadalajara.
- Gregorio Sebastián, Councillor and Head of Local Development of the City of Cuenca's Council.

**CASE STUDY 2: NORRBOTTEN,  
Region of Övre Norrland, Sweden**

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## List of Acronyms

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CSG	Community Strategic Guidelines
EAGGF	European Agricultural Guidance and Guarantee Fund
ESF	European Social Fund
ERDF	European Regional Development Fund
FIFG	Financial Instrument for Fisheries Guidance
GRP	Gross Regional Product
OP	Operational Programme
RDP	Regional Development Programme (NUTS3)



# 1. Introduction

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This focus of this case study report is to analyse the relevance and effectiveness of the ERDF co-financed programme and the extent to which it is adapted to the specific territorial context of the county of Norrbotten which is the most sparsely populated area within the EU.

The report has five sections. The first provides a brief context analysis on the county of Norrbotten. The second focuses on the main policy responses that have evolved since 2000. The third explores the relevance of the ERDF programme to the specific territorial context of Norrbotten. The fourth examines the effectiveness of the funding across two programming periods. The fifth section then deals with the issue of implementation and governance and the sixth provides the conclusions from the case study.



## 2. Brief context analysis

The county of Norrbotten is a vast geographical area of 106 000 km<sup>2</sup> located in the most northern part of Europe. It is defined as a 'Region with specific geographical features' due to sparsity. Together with the county of Västerbotten, it constitutes the NUTS2 region Övre Norrland. In Norrbotten, 250 000 inhabitants live on a territory which is larger than three times Belgium.

Both Norrbotten and Västerbotten contain a coastal area with an archipelago in the east and mountains in the west, as shown in Maps 1 and 2.

**Map 1: Location of Övre Norrland**



*Source: Eurostat*

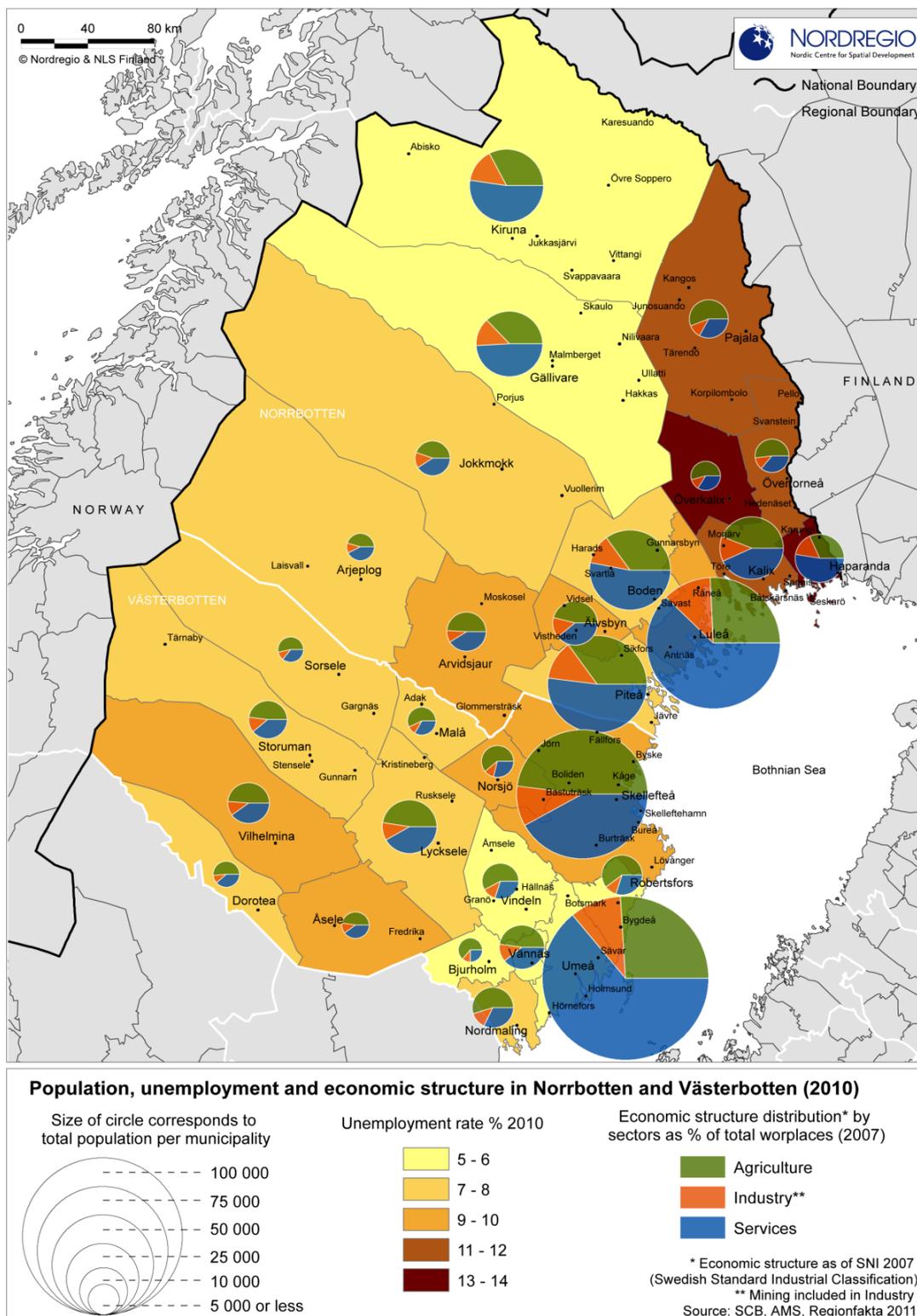
**Map 2: Location of the County of Norrbotten**



*Source: Eurostat*

In between the land is covered by vast forests and marsh. About 30% is covered by mountains and 40% of forests. The figure further shows the distinctive population distribution with a majority of the inhabitants of Norrbotten living in the coastal area. The two municipalities in the far northwest, Kiruna and Gällivare, stand out as the second most populated area whose development is mainly driven by the mining sector.

**Figure 1: Population, unemployment and economic structure in Norrbotten and Västerbotten (2010)**



*Note: Mining is included in 'Industry' while Forestry is included in 'Agriculture'*

## 2.1 Handicaps and assets of Norrbotten

The territorial context of Norrbotten renders a number of handicaps, of which many at the same time are seen as assets by regional and local stakeholders.

Clearly, as mentioned, distance is the main constraint that the region must face. The vast territory of 106 000 km<sup>2</sup> is also remote and far from main national and international markets meaning that accessibility is one of the main challenges. A second territorial handicap is the harsh climate and topography. The winters are long and cold reducing the length of the growing seasons. On the other hand, the vast area covered by the county in combination with the sparse population makes the region rich in uninhabited land which is also seen as an asset. It brings possibilities in the fields of tourism and activities in need of large amounts of available territory like the space port in Kiruna, military training grounds and large storage facilities. Moreover, the cold climate brings possibilities for winter tourism, and not least of 'cold climate testing' of products such as cars.

The geography also means that the county has an internal energy production in the form of hydro- and wind power which is a valuable asset, not least for the competition for attracting external companies with demands for extensive and reliable energy supplies. Moreover, the region benefits from extensive natural resources and minerals including forests, copper, iron and steel that has been exploited and exported for decades. Interestingly, in spite of its location, the county has created a long tradition of international contacts outside the region through trade in such natural resources.

The region is stable both politically and in a geographical sense. The political situation of all of Sweden has been stable for the last century and this is also the case locally as well as regionally. At the same time no natural disasters in the form of earthquakes, hurricanes etc risk the stability of the county and the economic development has been strong in the last years.

## 2.2 Main challenges

The specific geographical features of the county, namely its remoteness and sparse population represent a challenge in several ways:

- The provision of services to population;
- Market accessibility;
- Endogenous growth process while agglomeration economies are weak.

As discussed, the distances are long both within the region, and from the region to larger markets. As can be seen on the graph below, internally the largest cities are situated along the coastal zone while the rest of the land is scattered with (very) small villages. Hence, some of the coastal municipalities are comparatively urban while most of the inland ones are geographically dispersed and scattered with small populations and long distances between villages and cities. Accessibility thus becomes a key to development.

For long distance travel, air traffic is crucial since going from Luleå (the county's capital) to the Swedish capital of Stockholm takes 10 hours by car and even longer when using the railway system. Consequently, there are five airports in the county and two main railways, one running along the coast all the way to Stockholm and the other mainly serving the mining sector and running in an east-west direction between the Swedish and Norwegian coasts. For internal travel, roads are the main transport route. The distances and the current state of infrastructure prevent commuting between many of the municipalities making the labour markets comparatively isolated.

The limited possibilities for internal travel mean that there are limited spill-over effects between the different economic centres within the county. At the same time the economic structure differs between the municipalities with some more based on forestry others on mining, service etc. Some of the municipalities, not least the smaller inland ones rely to a large extent on one main activity, often the extraction of natural resources, creating vulnerable local labour markets and greater sensitivity to changes in the international economy, in terms of the price of minerals for example. Additionally, distances to services such as health, banks, as well as for example higher education, are vast. The costs for delivering equal services to the whole population are much higher than in many other Swedish counties. On the other hand, the situation of the coastal and inland areas is slightly different. Access to markets and agglomeration economies are relatively easier to achieve in the coastal area while the distances and market fragmentation are much more acute in the inland.

The economic situation is characterised by a strong traditional primary sector linked to the exploitation of natural resources; a small industrial sector which is in many aspects still related to the primary sector (steel industry, wood products) and an emerging service sector, which is more dynamic in the coastal area. Overall, the economic performance of the county over the past ten years has been good compared to Sweden and to the rest of EU but the inherited model of natural resource exploitation is relatively fragile and does not meet the needs or aspirations of all of the population, especially young women. As a matter of fact, the relatively good economic situation has not reduced the flows of out-migration. The decrease and ageing of the already sparse population remains one of the main challenges endangering the economic model of the region. As mentioned by many stakeholders interviewed, the main issue is the out-migration of young qualified woman related to the fact that central Swedish cities are more attractive for career opportunities plus some want to get away from the restrictions of living in traditionally patriarchal small municipalities with long traditions of organising society around mining.

Between 2000 and 2010, all municipalities, apart from the two largest ones - Luleå and Piteå, both on the coast, experienced depopulation. During the same period all 14 municipalities in Norrbotten saw an increase in average age among their populations, both amongst women as well as men. The trend from 2000 showing that more men than women lived in the inland municipalities, while coastal municipalities experienced a more even distribution, was still valid in 2010. Thus, the inland has a decreasing population and a higher share of men than women while the largest coastal municipalities experience a slightly different development trajectory.



## 3. Policy responses

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### 3.1 Main stakeholders

In Sweden, regional policies are managed at the county level (NUTS3 level) combining a centralised system for planning and regional development and a more decentralised system for the provision of welfare services. The main stakeholders involved in Regional Development are the state represented by the County Administrative Board, the County council, the municipalities, as well as the business and voluntary sectors. The Swedish State is also active in regional development through national agencies. The State is responsible for most of the main roads and other transport infrastructure like railways. It also owns large companies crucial in the extraction of natural resources in Norrbotten. The County Administrative Board represents the State and is in charge of strategic regional development at the NUTS3 level.

The County council on the other hand, also at the NUTS3 level, is run directly by an elected assembly and is mostly responsible for health services (nearly 80% of their budget). Regional and local public transport comes under the responsibility of both the county council and the municipalities. Municipalities have a central role in territorial planning and service delivery. They are in charge of basic and secondary education, basic infrastructure like waste and water management, environmental protection, social services and physical planning. They also work to support business development and tourism amongst other things.

### 3.2 Strategy at NUTS3 level

Regional development in Sweden ought to be seen in the light of the historically strong social democratic politics with the development of an extensive welfare state and regional policy in the form of a system of nationally led regional redistribution. A main concern has been that public investment provides balanced access to welfare services. Over the years however, the focus has begun to shift from national redistribution and welfare service provision towards a greater focus on competitiveness and a growing attention has been given to developing regional growth strategies based on local advantages. The issues of regional development and domestic cohesion were given attention nationally before Sweden joined the EU in 1995. Examples of measures are the financial redistribution between municipalities, transport support to peripheral areas and dispersion of state agencies to increase demand for labour in more remote areas.

Each county has a Regional Development strategy (RDP) aiming to define a long term sustainable regional growth and development strategy for the region. It is seen as an “umbrella programme” providing a coherent framework for various programmes undertaken at different levels. The RDP is translated into a more operational programme (Regional Growth programme) laying out priorities and measures in more detail including funding and implementation modalities. Traditionally, the RDP was developed at the

county level by the County Administrative Board and largely driven by central government objectives. In early 2008, regional coordinators were appointed in Norrbotten and in another county to strengthen co-ordination at the regional scale.

The current regional development programme in Norrbotten (from 2007) explicitly focuses on a number of identified assets such as landscape, wild nature, economic vitality and harsh winter season. The three main challenges/goals that the county pursues are summarised as:

- *Attractive living environments - A place to covet;*
- *Good public health - if we feel well, we do well;*
- *Strong economic growth - a question of competitiveness.*

As shown in the box below, the development programme of the county is in line with the main challenges of the region: more external and internal linking; accessibility to external markets; diversification and innovation in the business sectors; attractiveness, ageing and depopulation. The regional strategy is based on a holistic approach considering that one of the main challenges, depopulation, should be responded to by addressing issues of labour, access to public services and to information, quality of the place and mobility.

<b>Regional development Programme in Norrbotten</b>	
A.	Openness and collaboration
a.	Underpin strategic alliances
b.	International cooperation
c.	Intraregional balance
d.	Collaboration within the county
B.	Attractiveness and vitality
a.	Encourage inward migration
b.	Develop the experience industry
c.	Preserve and refine culture and cultural heritage
d.	Make use of local development powers
e.	Special focus on young people
C.	Availability and region enlargement
a.	Transport system – Norrbotten line
b.	European transport corridors
c.	Transport solutions
d.	An information community for all
D.	Competitiveness and entrepreneurship
a.	Continued focus on strategic growth areas
b.	Children's and young people's enterprise
c.	New creative business
d.	Diversified business sector

- e. Environmentally-driven business development
- E. Skills and labour market
  - a. Well-educated and skilled workforce
  - b. Good accessibility to education
  - c. Give the young the tools
  - d. Preventive public health measures

All stakeholders involved in regional development including the County Administrative Board, the County Council, the municipalities and the state agencies are concerned by the implementation of the regional programme. The RDP constitutes the basis for activities and programmes at regional level including Structural Funds programmes, County Plans for infrastructure, Environmental programmes. Whilst the municipalities enjoy comparatively high autonomy and are responsible for local development, the role of actors at the NUTS3 level becomes more and more focused on strategic development and making best use of external funding by coordinating initiatives and funds.

Between 2007 and 2013 the total amount of ERDF funding allocated to Övre Norrland is EUR 242 million. In comparison, the Övre Norrland Gross Regional Product was EUR 17.7 billion in 2008 (Statistics Sweden 2011). Since the entry of Sweden in the EU, the Structural Funds, especially ERDF have become a main source of funding for regional development even if the total amount received is relatively small when compared to the overall size of the regional economy. This is particularly true for measures/programmes which directly support employment and business development. As co-financing requirements absorb a significant part of the county's own resources to support these fields, the Operational Programmes' priorities/measures are the main ones undertaken in those fields.

Other priorities such as transport infrastructure, health, education, and environmental infrastructure are traditionally covered by own domestic funding sources. For instance, transport infrastructures were mostly funded, on the one hand, by municipalities and county councils for local/regional roads/airports and, on the other hand, by the State's transport agency for largely infrastructure projects. This has seen the creation of a large network of roads (8 000 km), a railway line from east to west, several local airports and a highway linking Stockholm with the main city of Norrbotten, Lulea. In the same way, environmental infrastructures (wastewater treatment plant, waste management), are mainly covered by municipalities.



## 4. Relevance of ERDF

This section will assess the extent to which ERDF Programmes address the specific needs and challenges of the county and contribute to economic development at NUTS3 level. For this purpose, the section is divided in the following three sub-sections:

- 4.1 Overview
- 4.2 Strategies & approach for the use of ERDF
- 4.3 Relevance of ERDF

### 4.1 Overview of Programs undertaken 2000-2013

**Table 1: Allocation of ERDF funds**

2000-2006 *(EUR million)	Övre Norrland
Development of infrastructure	100
Development of industry	115
Nature, culture and living environment	36
The Sami programme	2
Technical assistance	7
<b>Total ERDF</b>	260 <i>(124.8 for Norrbotten)</i>
<b>Total ESF</b>	87
<b>Total EARDF</b>	58
<b>TA</b>	3
<b>Interreg</b>	43.4
<b>2007-2013 ** (€M)</b>	
Innovation and knowledge based economy	177
Accessibility	55
Technical assistance	10
<b>Total:</b>	242
Including additional funding for sparsity	140

Source: \*Objective 1 programme for Norra Norrland 2000-2006

\*\*Operational Programme 'North Sweden' 2007-2013

Note: most of the data shown in this table were not available for Norrbotten, but it does not mean such allocations are inexistent.

In Sweden, the ERDF programmes are implemented at NUTS2 level which is actually not the territorial level in charge of regional development. In the case under review, the Operational Programme, therefore, covers both the counties of Norrbotten and of Västerbotten. Actually the differences between these two counties are not so significant: they share the main characteristics of remoteness and sparsity even if these are even more acute in Norrbotten. During the 2000-2006 period, 48% of the budget was committed to Norrbotten but in general, and because of the similarities with Västerbotten, this budget was spent in a similar manner in both counties. There is no reason to believe that this has changed during the current programming period because the challenges remain mostly common for the two of them.

The ERDF Operational Programme is by far the most important EU programme in the NUTS2 region. Nevertheless the ESF and the EARDF programmes also provide large amount of resources to support the regional development programme. The level of ERDF funds allocated per inhabitant is estimated around 520€ or 85€/inhabitants/year of which more than 40% comes from the specific provision for sparsely populated areas amounting to 35€/inhabitants/year.<sup>22</sup>

As emphasised by many interviewees, the amount of EU funds allocated to the region is considered as high. Some of them even mentioned that the level of funding was excessive; arguing that there is obviously enough demand for spending the money but the issue is how to spend it in a way that is relevant to economic priorities. In addition, the point was made about the role of public money to support economic development without inducing an excessive dependency on public funds. In the case of Norrbotten, nearly every submitted project has been funded, especially in the early stages of the programme where the selection process was considered as relatively 'easy'.

## 4.2 Strategies & approach for the use of ERDF in Norrbotten

The ERDF Operational Programme for Övre Norrland has been written using the NUTS3 RDPs of Norrbotten and Västerbotten as well as national guidelines (in turn based on EU guidelines) as a basis. The national guidelines were followed closely in Övre Norrland and both there and in the RDPs EU objectives and strategies are well captured.

With the spread of actors in the NUTS2 Regional Development partnerships designing the RDPs, as well as in the ERDF partnership designing the Operational Programme for 2007-2013 all parts of Övre Norrland are well represented. This has resulted in a Programme that does take into account the specificities of Norrbotten, both inland as well as coastal. Moreover, as awareness rises about these specificities being assets for building sustainable economic development, the Programme has been increasingly used for promoting regional comparative advantages. From 2000 up until now, the objectives of the ERDF Operational Programmes were entirely focused on supporting the business sector, on setting up new

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<sup>22</sup> This allocation stems from the specific provision for the Nordic sparsely populated regions in the Swedish and Finnish Accession Treaty.

firms and on creating new or maintaining existing jobs. All the measures were evaluated based on their capacity to contribute to that goal.

As can be seen in Table 2 below, Norrbotten's use of ERDF in the 2000-2006 period appears quite different compared to the average for sparsely populated regions (as discussed in Part 1 of this Report). Relatively high priority was given to assisting SMEs and the craft sector (nearly 50% were allocated to that FOI) whilst transport infrastructure received "only" 10% compared to the 40% on average for other comparable sparsely populated regions. Supporting business development was also addressed through research and technological development (the second priority) and support to the tourism sector (nearly 12% of ERDF). Since 2000, the focus was on stimulating the productive environment.

As an Objective 1 region at that time, the Övre Norrland Operational Programme has also supported basic infrastructure; 20% of the ERDF funding was used for improving land, sea, and air communications as well as for setting-up a broadband network.

**Table 2: ERDF OP 2000-06 – Final commitments by fields of intervention (%)**

Fields of intervention	Övre Norrland	Norrbotten	EU - Sparsely populated - Obj. 1
1. Productive environment	78.1	77.9	37.2
11 Agriculture			0.9
12 Forestry			
13 Promoting the adaptation and the development of rural areas	4.7	4.2	0.7
14 Fisheries	0.1		
15 Assisting large business organisations			3.4
16 Assisting SMEs and the craft sector	44.6	47.3	19.2
17 Tourism	9.5	11.7	3.7
18 Research, technological development and innovation (RTDI)	19.1	14.8	9.3
2 Human Resources			1.6
3. Basic Infrastructure	19.6	19.5	60.0
31 Transport infrastructure	9.9	9.8	39.1
32 Telecommunication infrastructure and information society	9.6	9.7	4.9
33 Energy infrastructure			0.3
34 Environmental infrastructure			8.2
35 Planning and rehabilitation			5.8
36 Social and public health infrastructure			1.7
41 TA	2.3	2.6	1.2
Total	100	100	100

Source: SWECO study

In the 2007-2013 period, some changes were made. The region moved out of Objective 1 into the Regional Competitiveness and Employment objective, and with the EU Lisbon strategy to follow, the programme in Övre Norrland was changed to focus even more on supporting the productive environment with relatively less focus on basic infrastructure.

**Table 3: ERDF OP 2007-2013 – ERDF Allocations-Övre Norrland**

	€M	%
<b>1. Innovation and knowledge based economy</b>	<b>177</b>	<b>73.1</b>
1.1 Entrepreneurship and business start up	85	35.1
1.2 Innovative milieus	46	19
1.3 International cooperation	17	7
1.4 Regional attractiveness	27	11.1
1.5 Others	2	0.9
<b>2. Accessibility</b>	<b>55</b>	<b>22.7</b>
2.1 Cooperation between modes of transport	19	7.8
2.2 Regional enlargement*	24	10
2.3 ICT	12	4.9
<b>3. TA</b>	<b>10</b>	<b>4.1</b>
<b>Total</b>	<b>242</b>	<b>100</b>

\* *Improvement of infrastructure to increase mobility e.g. commuting*

The three main priorities of the current programme can be summarised as **accessibility**, **attractiveness** and **innovation**. Again, reflecting the emphasis on overcoming the territorial specificities. In addition, still a large part of the Operational Programme is allocated to direct business support. In order to reach these objectives, the programme has focused on:

- Support to SMEs: through direct aid/subsidies as well as by funding agencies aiming to support innovation, skills, and exports capacities within SMEs. The current ERDF funding contributes to business development based on regional comparative advantages: cold climate testing, creative industries, energy and environmental technologies, basic industry – development of technology and service, ICT;
- Research and technological development;
- Investments to improve transport inter-modalities;
- Specific actions in the sector of tourism.

An important issue is the balance between the coastal and the inland area. The ERDF programme 2000-2006 followed a specific approach to address this question and a territorial balance between coastal and inland areas was achieved by setting aside a part of

the budget for the inland area and by applying a preferential co-financing rate for inland projects. The system was inherited from the previous period (1994-1999) and the Objective 6 programmes. As shown in Table 4, overall the inland area received 42% of the ERDF resources and even more as far as development of industry is concerned.

**Table 4: ERDF Final commitment. Share of support to priorities, inland and coast in Övre Norrland 2000-2006 (in %)**

	Övre Norrland	Inland	Coast
<b>Total (%)</b>	<b>100</b>	<b>42.1</b>	<b>57.9</b>
Development of infrastructure	39.6	35.4	64.6
Development of industry	45.5	46.2	53.8
Nature, culture and living environment	13.9	43.9	56.1
The Sami programme	1	100	0

*Source: County Administrative Board Norrbotten*

*Note: The classification used here is following the priorities in the OP. Development of infrastructure includes research and development.*

After a political decision based on discussions around the limitations in the approval of projects due to the strict division of funds between the inland and the coastal area this approach was not continued in the current ERDF programme. In addition the inland area was not seen to have experienced more problems than the coast in terms of developing projects. Instead, for the current period, the role of the regional partnership is to prioritise between projects (which have already been approved by the Managing Authority) for the benefit of the programme area. This is a strategic role rather than simply ensuring a relatively equal allocation of the funds between the coastal and inland areas.

### 4.3 Relevance of ERDF in Norrbotten

The priorities of the Operational Programmes have been fully coherent with domestic priorities and the national guidelines were entirely followed when designing them. The NSRF (National Strategy for Regional Competitiveness) outlined thematic priorities among them the utmost priority went to “innovation and renewal” in line with the Lisbon agenda. These guidelines were nevertheless considered as a strong constraint by some regional stakeholders even if the NSRF has underlined the role of Regional Development Programmes as a collaborative platform to define comprehensive regional development strategies.

For example, some of the regional stakeholders said that Sweden wanted to be among the 'best pupils of the EU classroom' (in regards to the Lisbon Strategy) and therefore has imposed upon the regions a far too strong focus on immaterial investment and direct business support. As highlighted above, the two ERDF programmes in Norrbotten have been clearly focused on business development. The main shift between the two periods has been to increase even more the weight of soft interventions aiming to support business activities.

The approach followed is overall relevant regarding the needs of this high income region and the state of the existing infrastructures. As highlighted above, the region has benefited in the past from strong investment in transport facilities and during the previous programming period, of a huge investment in the broadband network. As most of the people living in the region have now access to a broadband internet connection, no significant additional investments were required in the current programming period.

Regarding transport infrastructure and with the existing network (roads, port, the five existing local airports and the railway) already very well developed, ERDF was not considered as primary tool to be used for further transport infrastructure investments. The two sub-priorities underlined by the current ERDF programme in that field, co-operation between different modes of transport (inter-modals transport solutions and terminals) and regional enlargement through more effective passenger transport systems (local airports and railway along the coast), were more in line with a better use of the existing infrastructures and fully in line with the regional strategy.

Instead of basic infrastructures, investment spending was more oriented towards immaterial investments under the form of R&D programmes. The emphasis put on innovation and innovative milieus, is closely related to the shift of paradigm in Sweden and the "regionalisation" of industrial and economic development policy. The promising results observed in the region as well as in other Swedish regions, have been an incentive to even increase the resources allocated to that field. The objectives are still to reinforce innovation capacities, the role of the university and its spill-over effects on the business community. Most of the R&D projects seem to be linked to regional specificities (such as the I2 (car testing industry), E-Health Innovation Centre).

As requested by the national guidelines, besides the strong focus put on university-technological development, the ERDF programme places a big emphasis on business development and on the consolidation of new emerging sectors. As shown above, part of the resources has been used to fund local/regional business support agencies in the field of innovation, exports and investment. Further analysis is needed on the success (or otherwise) of such measures, however the view of some stakeholders is that there has been both positive and negative outcomes. On the one hand, the funding has helped to overcome market fragmentation as well as isolation from main markets whilst on the other hand, arguably too many different business organisations depend on public money and a lack of coherence has been created. Nevertheless, the focus put on business activities based on regional assets seems *a priori* highly relevant regarding the characteristics of the region. It

is typically the case for tourism activities and for some industries such as the winter car testing industry or e-services. It is also worth mentioning the setting up of an Office of Foreign Investment aiming to 'sell' the attractiveness of the region – a form of 'place marketing' for the county<sup>23</sup>.

Several issues should be raised regarding the relevance of the ERDF programmes in sparsely populated areas, such as Norrbotten. Firstly, is the balance towards soft intervention not too disproportionate? As transport is still one of the key issues in sparsely populated areas, the limited focus on this field of intervention may be questioned especially in the context of a decrease of national transfers. Many stakeholders argued that the amount of money allocated by the State level to infrastructures (mainly to transport) is no longer enough to cover local needs. The quality of the road network is deteriorating due to falling budgets from the National government and increased traffic of large trucks. According to some interviewees, freight transport capacities (mainly of raw materials) must be enlarged in both directions North-South and East-West if an efficient accessibility to markets is to be ensured. This could require constructing a new railway that will increase export capacities and reduce costs.

Secondly, within the budget allocated to innovation and productive environment some questions were also raised about the role of the University of Lulea and its capacity to work with the business sector in a very fragmented market.

Thirdly, the question of complementarity with other EU funds is quite important maybe more than in "normal" regions. Depopulation is a transversal issue which requires an integrated approach and strong cooperation between all actors. As emphasised by the regional strategy of Norrbotten, enlargement and inter-regional cooperation are crucial for a sparsely populated and remote area. INTERREG is one of the main instruments to favour the links with neighbouring regions. Interactions with the EARDF are also crucial regarding the size of rural areas (which represent the bulk of the territory). Last but not least, the role of the ESF to overcome the lack of skilled workers in a region highly specialised in terms of economic activities is also of considerable significance. Unfortunately, it is apparent that there are still barriers between the various EU funds, even though at the local level, information sharing between the Management Authorities does take place. On the whole, the purposes of each EU fund are poorly integrated in practice and complementarities are weak. This proves that the Regional Development Plans are not always able to act as a strategic platform when decisions must be taken.

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<sup>23</sup> In October 2011, the online social network company, Facebook, announced that it will locate its first data centre outside of the United States in Luleå. The remote northern location, stable political situation, cheap supply of electricity from 100% renewable sources and low cooling costs given the Arctic temperatures were cited by Facebook as the main assets of the region which influenced the decision to build the data centre there.



## 5. Effectiveness of ERDF in Norrbotten

This section will explore the extent to which ERDF and the Cohesion Fund have achieved their objectives at the NUTS3 level. For this purpose, the section is divided in the following three sub-sections:

- 5.1 Main results of the programmes;
- 5.2 Further considerations to the effectiveness of the funds;
- 5.3 Remaining challenges;

### 5.1 Main results of the programmes

#### 5.1.1 Review of the 2000-2006 period

The results of the ERDF programme were almost exclusively measured as the number of new jobs and new enterprises created.

**Table 5: Programme's indicators**

	Targets	Achieved
New firms created	2477	2240
Maintained jobs	155	442
New jobs created	5495	8106
Temporary jobs created	6200	3708

*Source: Managing authorities – ADE Database*

As shown in Table 5, overall, most of the targets fixed at the start of the period were largely exceeded in 2006 except the number of firms created (and the number of temporary jobs created). The number of new jobs created reached 150% of the target. Nevertheless, when looking to specific measures, some disappointing results may be pointed out. For example, the achievements of the measure “aid to SMEs” were below expectations as were also the results of the priority “Promoting the adaptation and the development of rural areas”. Another source of concern is the apparently weak results of the “Research and Development” measure in terms of economic impact (number of new enterprises created (less than half the target value) and jobs created) while all outputs indicators (number of R&D project, international collaboration, cross county collaborations) were all largely exceeded. On the whole, the programme has encountered some difficulties to make the bridge between the university and the business sector.

It must be stressed that it is difficult to interpret such figures for various reasons: 1) the targets were difficult to fix especially when linking jobs and enterprise creation to specific measures; 2) the causality is also difficult to establish and the increase and decrease of jobs or firms may also be due to many other external reasons.

### 5.1.2 Progress and outputs for the 2007-2013 period

The allocation for the current programme is almost entirely committed. Some of the measures were more difficult to implement as for instance the measure “international cooperation” aiming to support cooperation with international partners to benefit researchers and SMEs. Few demands were expressed in this area. All sub-priorities of Priority 1 (Innovation and renewal) were therefore pooled under one line. The following figures provide a picture of the funding decisions both in Norrbotten and Västerbotten. The most striking elements are within the Priority 1:

- **The strong focus on entrepreneurship and business start ups**

Examples of projects funded under this measure are for example projects aiming at supporting business start-ups and innovation run by public and semi-public organisations such as an entrepreneur centre; projects supporting groups of firms like cluster organisations (e.g. Arctic steel circle, a cluster organisation for firms in Övre Norrland working in the steel processing industry); and publicly owned projects supporting specific sectors like the creative industries, processing of woods or the development of a science park (e.g. Solander science park);

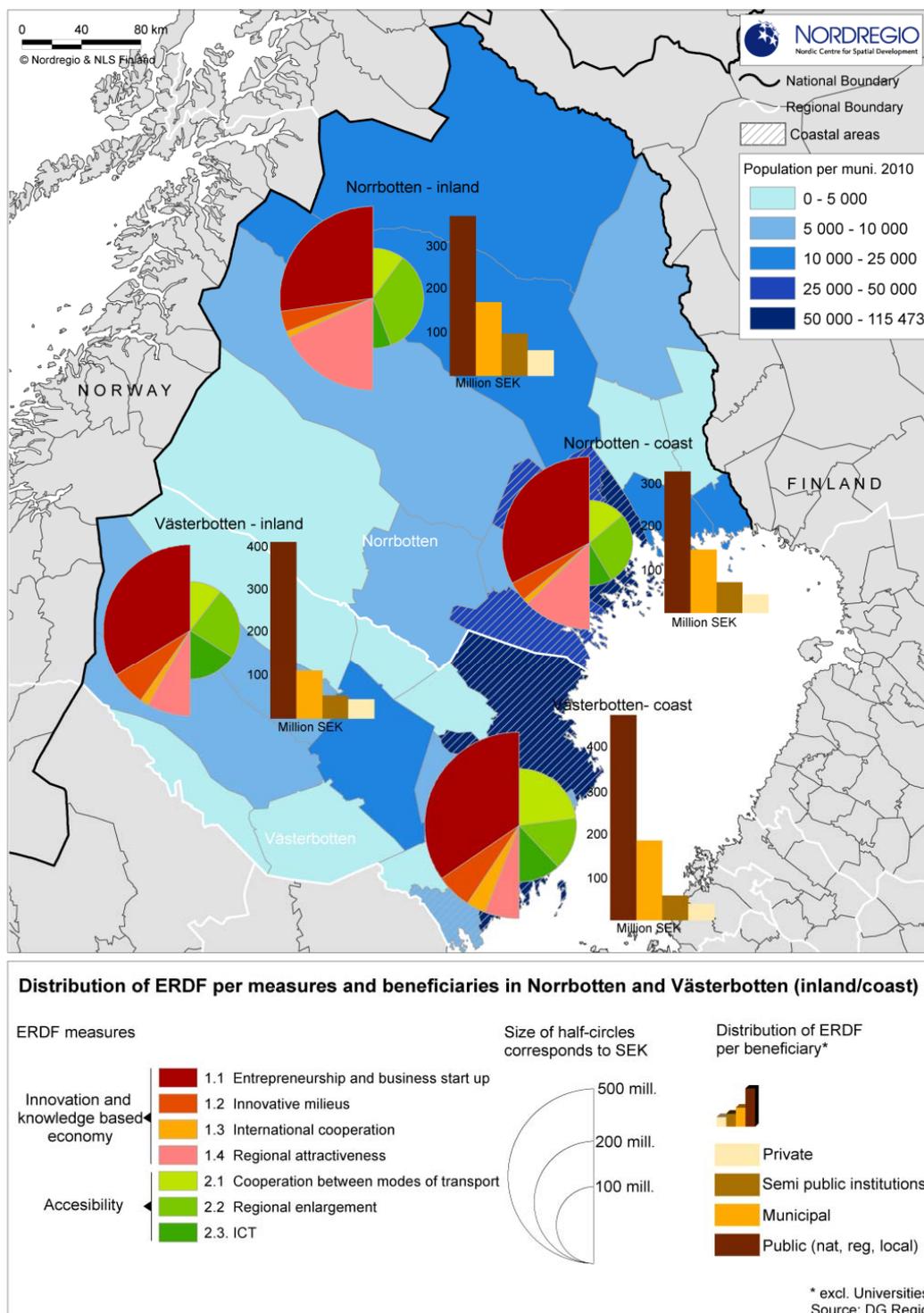
- **Regional attractiveness**

Examples of activities funded by this measure includes projects run to a large degree either by municipalities, associations where municipalities and the tourism sector work together or associations representing specific groups like the Sami indigenous population association. Many focus on the development of tourism destinations but also on more concrete actions like supporting the cultural scenes for dance, music and storytelling.

As expected, the other priorities have received fewer resources. In some cases such as for ICT infrastructure, the allocated budget has even not been spent as scheduled. The number of projects in that field was rather lower than expected. This is due to the fact that during the last programming period a number of large ICT initiatives like the extended effort to support the development of fast Internet lines (fibre) were carried out under this priority.

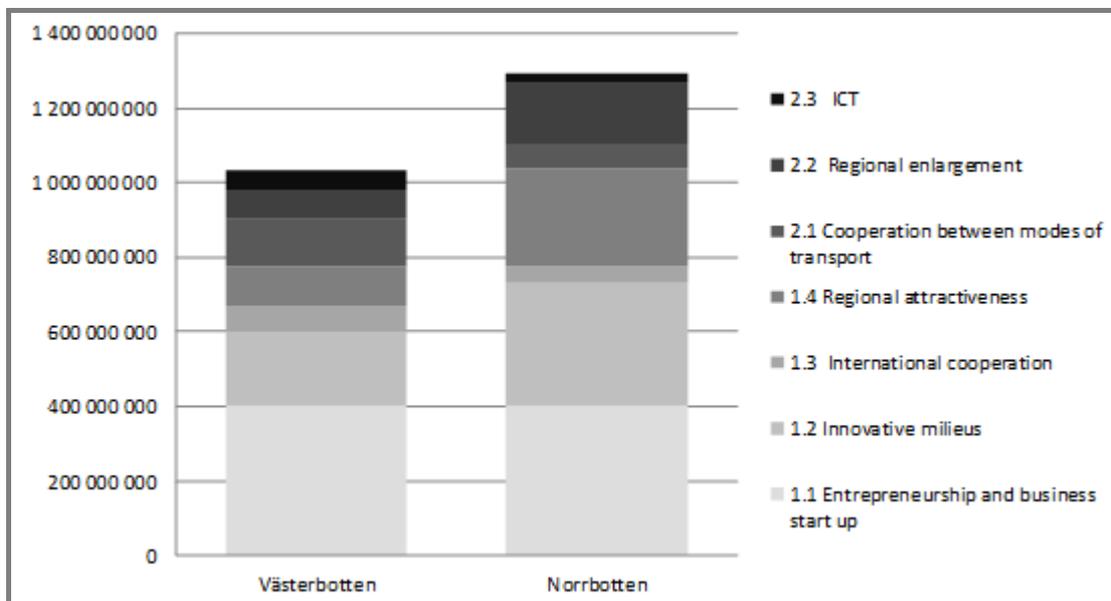
Priority 2 has mainly been used to fund projects to develop the airports of the region. Municipalities, the County Administrative Board and the national state owned company for air traffic run these projects. A project to develop a road connection (the mountain road between Saxnäs and Borgafjäll run by the municipality of Vilhelmina in Västerbotten), as well as projects to support the process of initiating and lobbying for the development of railway in the region (e.g. a project to support the development of the so called ‘Bothnian Corridor’ run by NorrTåg AB and projects to support the initiation of an improved railway connection along the coast called Norrbottniabanan), was also granted funding.

**Figure 2: Distribution of ERDF per measures and beneficiaries in Norrbotten and Västerbotten (inland/coast)**



Note: The map and figures presenting the distribution of ERDF funding in Övre Norrland 2007-2011 are based on information regarding the funding from 2011-08-12. The division of projects based on geography and type of beneficiary is made by Nordregio and is to be seen as indicative. The beneficiary group called 'Private' includes private businesses. 'Semi public institutions' are organizations or groups of actors including both private and public actors and funded by both while 'Municipal' means one or a number of municipalities. 'Public' indicates that either national, state owned, regional public or a mix of national, regional and local public actors stand behind the project.

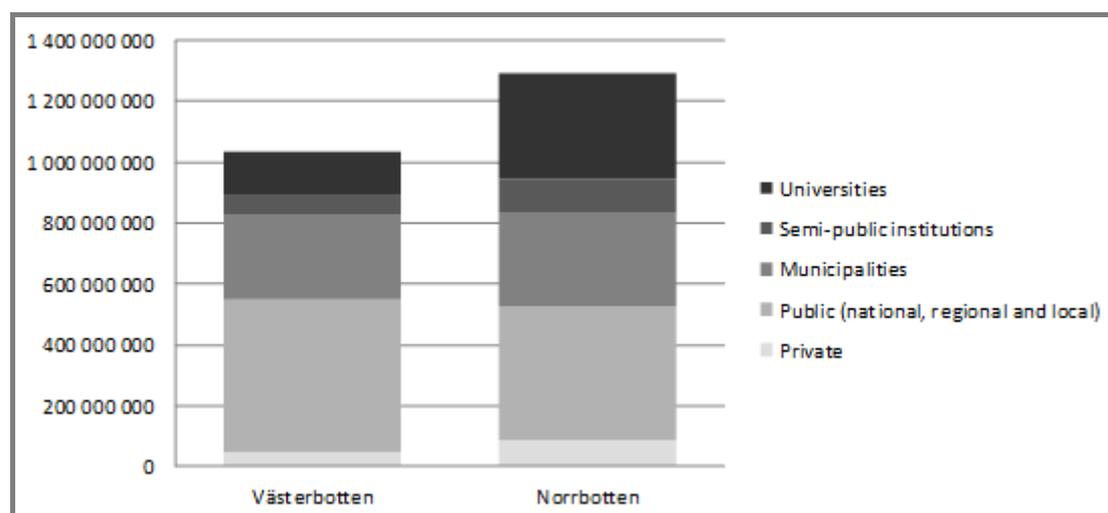
**Figure 3: Distribution of ERDF (SEK) per measure by NUTS3 region in Övre Norrland 2007-2011.08.12**



Source: County Administrative Board of Norrbotten 2011

As mentioned above, the programme is very similar in both counties. During this programming period, the county of Norrbotten has been allocated a higher part of the programme. These additional funds have been mainly used 1) to develop innovative milieus; and 2) to increase the efforts to improve regional attractiveness and to a lesser extent regional enlargement.

**Figure 4: Distribution of ERDF (SEK) per beneficiary by NUTS3 region 2007-2011.08.12**



Source: County Administrative Board of Norrbotten 2011

As a result of the choices made, a significant part of the programme is directly used to support R&D projects in the research centres of the Lulea University. The importance of the University has increased within the current period, which is not always well understood by other stakeholders as it is often seen as too powerful and sometimes too removed from the private sector and its constraints.

Even though the programme is clearly business oriented, the other main beneficiaries are the municipalities and the public institutions at national/regional/local levels. Both types of actors are involved in supporting business development as well as in improving accessibility: municipalities use part of the ERDF to develop some niches (such as cold climate testing in Arpjelog or environmental technologies) and to support local infrastructures (such as airports). ERDF has also contributed to fund some regional/local agencies in charge of tourism development or those in charge of improving innovation capacities at local levels.

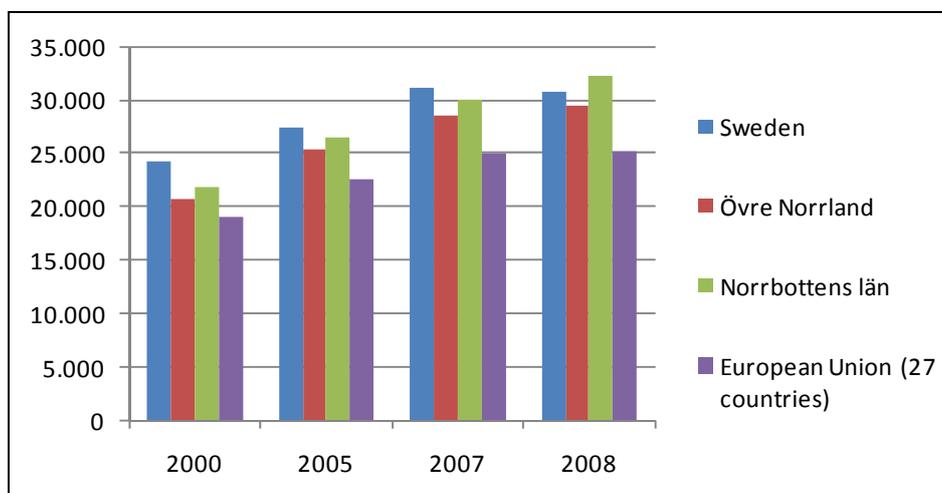
## 5.2 Further considerations to the effectiveness of the funds

### ***Contribution to the renewal of the regional economy and labour market***

Overall, since 2000, the region has performed quite well comparing to other European regions. In the last ten years, the county of Norrbotten has experienced a higher average growth rate than in Sweden and *a fortiori* than in the whole EU. As a result, the GDP per capita (PPP) has increased by nearly 50% in the county since 2000 (compared to 30% in the EU27) and is now higher than the Swedish average.

The unemployment rate is comparatively low and most people recognize that the economic situation of the region is strong. In 2010, unemployment rates were under 8% in most of the municipalities except in some areas bordering Finland. The trend was decreasing since 2000. Job opportunities exist in the county especially in the traditional sectors which recruit more and more highly qualified workers which are actually lacking in the regional labour market. It means that the region is desperately trying to attract new qualified workers.

**Figure 5: GDP per inhabitant**



Source: Eurostat

Many interviewees outlined the changes linked to the renewal of the business sector. Traditionally, economic activities were based on natural resources working (mainly mines and timber industry). The main evolution is first that these “old” industries have evolved towards more high-tech activities (especially in the mining sector) and secondly, that new industries are emerging based on a combination of regional assets and technologies. This is notably the case of the winter car testing industry, the ICT sector, green activities (wood houses, bio energy/fuels, waste products) as well as in space development.

As highlighted by the regional Chamber of Commerce, exports have hugely increased in the recent years. The number of exporting companies has risen from 438 in 2000 up to 908 in 2010. Interestingly, Norrbotten is now the second county in Sweden in terms of exports per inhabitant. The ERDF contribution to the relatively bright economic picture has been significant even if this is not always recognised by the stakeholders. The effects are mainly visible in the development of new activities; in internationally recognised clusters; in the restructuring and development of the tourism sector (see below); in the attraction of foreign investments and of foreigners (workers or tourists); as well as in technological innovation that may in the future support the development of certain niches and improved innovation capacities.

Other more intangible effects are also important to mention. Capacities of networking and cooperation have improved. Better cooperation is observed between companies, with the University and between municipalities. One of the effects of being such a sparsely populated area is the difficulty of running joint projects. Each municipality for instance wants to achieve its own results. Each of them has its own strategy and the link-interactions with the neighbour are not so obvious at the start. ERDF has contributed to more dialogue, exchange of experiences and more integrated approaches. This has also contributed to an increase in the spill-over effects of interesting projects between various areas.

### **The automotive winter testing industry: an emerging cluster?**

The idea of testing car facilities in the north of Sweden emerged in the early 1973 when engineers of Opel in Germany had the idea to use the iced lake Hornovan to test brakes. A local industry was born offering ideal weather conditions, frozen lakes and a good infrastructure system (roads), test facilities and equipment to the automotive industry. In the 1980s, more companies came to Arjeplog and it was soon recognised as the world's leading winter test centre.

Since that time, the industry has grown rapidly with a significant impact on the local economy. Today, nearly all big automotive companies (Fiat, Saab, Renault, Peugeot, Citroën, Opel, Ferrari, Audi, VW, Seat, and Porsche) test new models and new equipment and components in the region.

In 2007/08, the total turnover of the industry reached EUR 70 million compared to EUR 3.5 million in 1989/90 and 200 in 1999/2000. In 2007/08, more than 500 people were employed on an annual basis by the local test companies (mainly test drivers, maintenance crew, ice makers, etc.). Moreover up to 2800 engineers of the automotive companies come each year during the winter season to carry out the tests. This has a significant impact on the local economy mainly on hotels, restaurants and shops as well as on other connecting activities such as tourism, events, etc. Regional employment linked to the winter testing industry has been estimated close to 850 people in 2007/08 which is quite high compared to the size of the population.

The main assets of the winter testing industry are space, weather conditions (temperature can plunge to  $-40^{\circ}\text{C}$ ), adequate infrastructures (remote roads, frozen lakes, ice tracks), quietness, knowledge of foreign languages. Nevertheless the industry face a number of challenges among them seasonality of the activity, strong competition from other Nordic destinations (such as Finland) and sensitivity to the situation of the car industry are the most preoccupying. To maintain their position as well as to diversify their activities, the industry must enlarge the variety of services including performing tests and must offer high tech equipment for test makers.

There is a large consensus in the region that the winter testing industry is a factor of growth for the local economy. In that context, the regional authorities have provided different types of support, notably by using the ERDF programme for that purpose: financial support was offered to the testing companies to encourage new investments. In parallel, the ERDF was and is still used to fund research programs in the field. The I2 project and the AVTEC project (see the mini-case study below) have been designed to develop new technologies for improving testing facilities of the local companies as well as to encourage more links between Luleå University of Technology and the local industry. The idea is to reinforce the interactions between all the stakeholders of this emerging strong cluster. In parallel, promotion activities are also provided by municipalities (some of them also funded through the ERDF).

### *The development of the tourism sector*

For some 10 years or so, tourism has been a priority for the county. It is definitely regarded as a pillar of rural development policy, providing some grounds for a more balanced development between the coastal and the inland areas as well as an answer to tackle out-migration. The tourism industry employs more young people, female with a foreign background.

An important source of financing in the tourism development initiatives has been the ERDF. A consensus has emerged around the fact that initiatives to develop rural tourism need to take region-specific assets into account; and the characteristics of the region such as space/quietness, polar climate, darkness, and wild fauna are clearly seen as assets for the promotion of the sector. Significant opportunities exist for developing eco-tourism, hunting and fishing activities, cultural tourism linked to the Sami community, winter and summer sport activities. The role of the public sector is to ensure private initiatives can take place in a stimulating environment and be profitable. The objectives of the county has been for 10 years now to set up these conditions and contribute to the development of an innovative tourism sector based on such regional specificities.

A number of projects have been specifically implemented to support tourism development in Norrbotten; among these are e.g. these four large ones:

1. Development of the tourism sector – continuation project to strengthen the skills of employees in the tourism sector and thus the attractiveness and competitiveness of the tourism sector in four inland municipalities (2009-2010, ESF: EUR 377 000);
2. Marketing of tourism in the county of Norrbotten (2008, ERDF: EUR 314 000);
3. Marketing of tourism in the county of Norrbotten – a continuation (2009-2010, ERDF: EUR 879 000);
4. Attractiveness Swedish Lapland (2011-2013, ERDF: EUR 1 320 000).

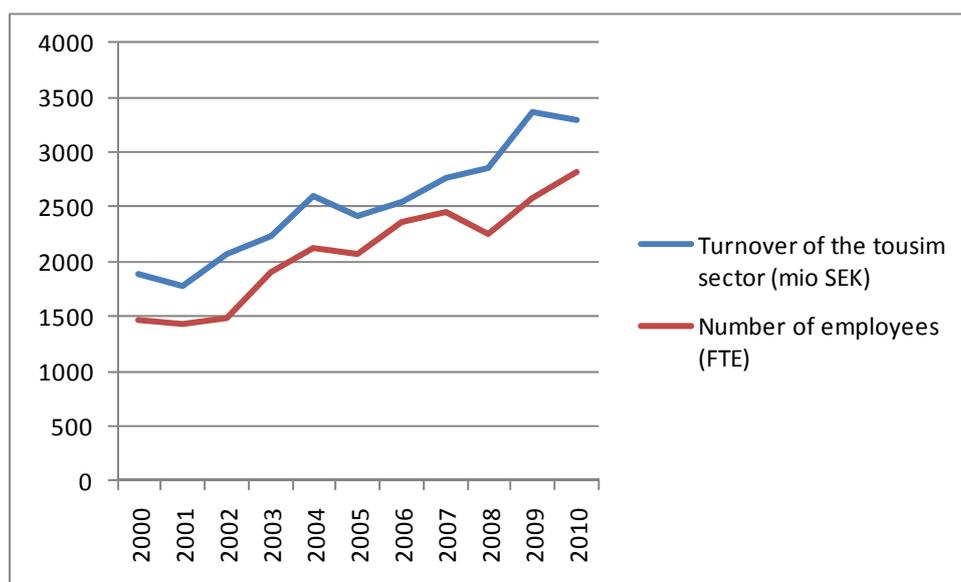
A profound restructuring has taken place in the last ten years to better support the development of such activities. Firstly, a reorganisation in the sector management has been initiated. Nine destinations were identified and each of them is managed by a private company. These companies are funded by the local governments as well as by the ERDF. Above that, a regional organisation called Swedish Lapland (SLP) is in charge of the coordination of all activities and of the implementation of a common strategy. The SLP is partly financed by the ERDF (nearly 40% of its resources), the county and by Membership fees. Entrepreneurs and external private stakeholders are also associated to the organisation Swedish Lapland.

Secondly, in 2009, a common strategy was redefined focusing on the promotion of the Lapland brand on a few markets (Families from North Norway, so called WHOP (Wealthy Healthy Older People) from Germany and so called DINKY (Double Income No Kids Yet) from the UK). Concretely, advertising campaigns and specific events have been undertaken in London and Germany as well as the setting up of direct flights from London to Kiruna in the Winter. First results are encouraging as for instance a huge increase of guests' nights from Germany was observed in Summer 2011 (an increase of 45%).

Thirdly, last year the Swedish Lapland launched a process to design a long term strategy. The main objective was to double the turnover of the sector by 2020. The main issues that must be addressed now are the improvement of accommodation facilities and access, the availability of skilled workers and competences, more efficient promotion campaign to attract demand in both summer and winter. Moreover, other priorities of the ERDF programmes are also seen to contribute, so far it has done so e.g. through developing better accessibility for people (such as local airports) as well as promoting the Sami culture (Under Objective 1, 2000-06, the sixth sub-priority was entirely dedicated to Sami culture).

As shown by the graphic below, a huge increase of the turnover in the tourism and related sectors has taken place since 2000 (an increase of 75% in 2010). This is also reflected in the number of employees which has nearly doubled in the last ten years. The Lapland brand is also better known in other European countries thanks amongst other things to innovative private initiatives such as the world famous Ice hotel (Jukkasjärvi, Norrbotten County). Nevertheless, statistics for the number of guests' nights do not follow the same trends. As recognised by the regional authorities, the main challenges remain therefore to attract more demand and maintain the efforts to improve accessibility as well as promotional campaigns.

**Figure 6: Tourism sector in Norrbotten**



### *Improvements of public services accessibility*

As underlined, accessibility is one of the main challenges in Norrbotten. The ERDF programmes have targeted on the one hand accessibility to markets mainly by supporting the upgrading of transport infrastructures (Lulea port, local airports of Lulea, Kiruna and Arvidsjaur, inter-modal facilities), and on the other hand, accessibility to public services (such as education and health care) and to information. The latest aspect of accessibility is considered as crucial for reversing the vicious cycle of migration, ageing population and a relatively weak business network.

During the ERDF programming period 2000-2006, the installation of an ICT broadband access network covering most of the county was one of the main priorities. A total of EUR 25 million (6.2% of ERDF contribution) was devoted to build the infrastructure and more than 3 000 km of broadband connections were installed. As a result, since 2007, nearly 100% of the population has access to broadband and this is equally shared by all municipalities of Norrbotten. According to the Swedish Post and Telecom Agency, this includes both wireless and non-wireless Broadband and the quality and speed varies.

For the current period, still 4.9% of the ERDF resources were allocated to ICT infrastructure. As mentioned early, at this stage of the programme, the ICT budget has not been spent as expected. The main reasons are 1) less needs as the core of the infrastructure is already in place; 2) difficulties for municipalities to find the co-financing. The budget has been partly reallocated to reinforce the cooperation between modes of transport.

On the other hand, in the current period, funding has been used to develop new applications for delivering e-public services. Based on the existing IT infrastructures, innovative projects are funded in the field of e-health and e-education. At the start, these projects were under the leadership of the university; their aim to develop the applications and then to test their applicability on a sample of people living across the county. One of them is developed by the e-health Innovation centre of Lulea University with the aim to create an environment where patients can stay at home for doctors' consultations for diabetes and heart diseases. Adequate medical equipments are provided to the patients who can do their own tests and discuss the results with a doctor via the web.

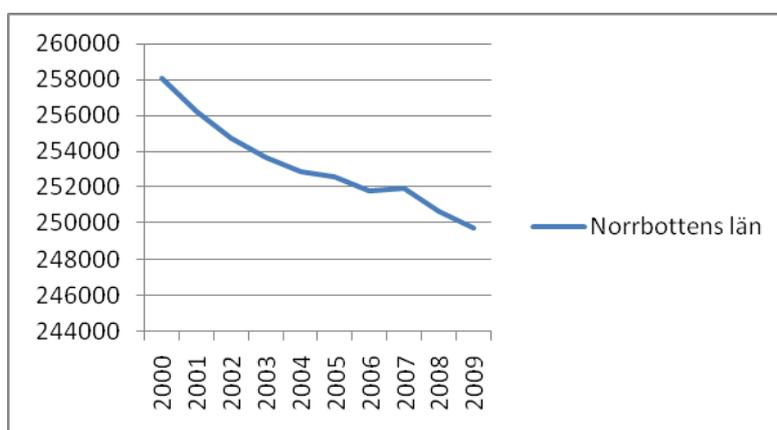
The interesting thing is that the project gives good results because of the already strong use of internet connections by the population including the elderly. The installation of a broadband network during the previous period has contributed to lay the foundations of an e-policy aiming to bring public service providers and final beneficiaries closer together. It is however, rather difficult at this stage to evaluate the results of these projects in terms of attractiveness of the zone and out-migration. Nevertheless, the main effects are reduced travelling as well as a decrease in health care costs as less hospitalisation is necessary. Overall, ICT and improved infrastructures might overcome some of the problems connected to long distances and isolated labour- and functional markets.

### 5.3 Remaining challenges

#### *Still outmigration and depopulation is continuing*

As can be seen below, despite all of these investments, migration and depopulation is continuing. The population has decreased by 8500 people since 2000. The trend slowed between 2005 and 2007 but now it seems to have increased again in the last two years. The number of people coming into the county is insufficient to overcome the number of people leaving. Migration is an option for young women who tend to leave the county for University and never come back, but also for other groups; e.g. less qualified workers who cannot find enough low qualified jobs anymore in the traditional sectors.

**Figure 7: Evolution of the population**



#### *Skills and qualifications of young people, especially in the inland part*

The issue of skills and qualifications of local workers is therefore crucial. The renewal of the regional economy demands more qualified labour. In order to maintain its economic model, the county must be able to attract or to keep qualified people who are ready to work and to live there. As mentioned by many interviewees, reversing the migration trend requires a holistic approach that will tackle, in parallel, business opportunities, incomes, social services, accessibility, leisure, environment and quality of the place. To focus exclusively on the economic part of the equation is definitely not enough. In that context, the lack of complementarities in the implementation of the different Structural Funds (ERDF, ESF, and EAGGF) is not helping the region to provide a fully relevant and effective policy response to this issue.



## 6. Implementation and governance

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This section will assess the extent to which the programmes have been delivered with a clear vision and strategy. For this purpose, the section is divided in the following five sub-sections:

- 6.1 The process of ERDF decision-making, design, coordination and implementation;
- 6.2 The relationship between ERDF and other community, national, or regional policies;
- 6.3 The dominant governance pattern and the administrative ‘fit’ between the NUTS2 and NUTS3 level;
- 6.4 Governance pattern evolution in the region in the last ten years;

### 6.1 The process of ERDF decision-making, design, coordination and implementation

The Operational Programme for Övre Norrland is designed with guidelines from above (national level) as well as below (municipalities). Since the geographical coverage of the programme constitutes a region made up of two Swedish counties, strategies from both of these as well as from the State and the EU make up the basis of the programme. While the combined ERDF and ESF partnership of Övre Norrland prioritise among project applications, the actual work of designing the programme is carried out by two Regional Development Partnerships, one in Norrbotten and one in Västerbotten. These are also the ones to design the RDPs and in cooperation with each other they ensure that the Operational Programme is in line with both counties RDPs. Thus, the RDP for Norrbotten is one of the main guiding documents and the specificities of the region are fully taken into consideration. However, certain stakeholders in Norrbotten criticised the process as too heavily focused on enabling the use and spend of EU and national funds, rather than on the creation of a coherent, strategic and long term regional development framework for the area.

In the implementation phase, the combined ERDF and ESF partnership of Övre Norrland makes the programme decisions. It mainly consists of representatives of regional and local public actors following national guidelines about who to include. To make sure that all parts of the programme area are represented the partners have a geographical spread and come from municipalities from all over the region. A main focus of the partnership is to allocate funding to all parts of Övre Norrland, to Västerbotten as well as Norrbotten and the inland as well as the coast. According to some interviewees the differing situations that the representatives from the municipalities face, potentially in connection with a lack of a tradition of carrying out strategic development work at NUTS2 level, means that the participants tend to focus primarily on local, parochial development issues rather than of developing an approach for all of the region of Övre Norrland.

In the implementation of the programme, focus seems to a large extent to be on making use of all the funding available. This has led to changes made in the programme design during the ongoing programming period. Sub-measures have been changed to make the financing of applications more flexible and to enable money to be moved from unpopular to more popular sub-measures. Thus, to ensure the use of all of the funds, the demand from project applicants has steered the use of the programme and one can question whether this risks undermining the initial strategic focus of the partnership.

## 6.2 The relationship between ERDF and other community, national, or regional policies

The coordination between funds and programmes in Övre Norrland is done through the NUTS2 RDPs which indicate how the different funds (ESF, ERDF, EAGGF, FIFG, national support) are to be used in Norrbotten respectively Västerbotten. In the implementation phase, the combined ESF and ERDF partnership ensure coordination as the administrative staff receive programme applications plus most of the officers involved are located in the same building and some in a neighbouring building. This is the same for the Managing Authorities. Thus, the relationship between officers and administrators in practice seems to really aid ongoing coordination. However, in practice the coordination seems at present to focus on the demarcation between funds, and directing applications to suitable funds, rather than on a more proactive approach encouraging cooperation between funds.

## 6.3 The dominant governance pattern and the administrative 'fit' between the NUTS2 and NUTS3 level

As stated above, there is no tradition of carrying out development work at the NUTS2 level and no combined development strategy for the entire region of Övre Norrland. The NUTS2 division came with Swedish EU accession. The two counties (NUTS3) Norrbotten and Västerbotten have however traditionally had cooperation and collaboration across the county borders, and both have similar geography, culture, history and economic development. The similarities between the two NUTS3 levels made the creation of a common NUTS2 ERDF programme feasible and it was also well-received. In terms of regional development the differences are larger between the inlands of Norr- and Västerbotten than between the two counties. Thus similar situations can be found on both sides of the county border and a number of ERDF projects covering parts of both counties have been implemented.

## 6.4 Governance pattern evolution in the region in the last ten years

The NUTS3 areas (counties) used to be, and are still, the most prominent level on the geographical scale between the State and the local level in Sweden. The local scale has traditionally however had more responsibilities than the counties. In general, the NUTS3 tier has been increasing in importance during the last 10 years; this could be seen in the

light of the importance of regions within the EU, and not least the implementation of EU programmes.

Furthermore, this shift of responsibilities towards the counties has moved responsibilities from the State in the form of the County Administrative Board, to new types of politically elected bodies at NUTS3 level. In regard to ERDF funds, State representatives have nonetheless been the Managing Authorities for both programming periods in Norrbotten; first in the form of the County Administrative Board and currently in the form of the regional office of the Swedish Agency for Economic and Regional Growth.

Partnerships however come to play a larger role, both in regional development work in general and in regard to the ERDF programme in particular. In the case of the latter they have become less closely connected to the implementing body – thus increasing the power of non-state actors in the implementation of the programme.

With the current ERDF and ESF programmes, and previous Objective 1 programme covering the two counties, incentives for cross border dialogue is in place and NUTS2 has become an arena for development. The implementation of EU funds does thus provide fora and a platform for cooperation over municipal and county borders.



## 7. Conclusions

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Below are a summary of the main points that emerge from the Norrbotten case study:

### 1) Geographical context

- Remoteness is the main constraint that the region must face. It is both remote from main EU markets as well as internal scattered communities and territorial differences. For example, there is a disparity between the coast and the inland, the latter encountering more difficulties and challenges;
- Demographic issues, mainly depopulation and ageing, are one of the main policy issues which render the future of the economic model quite unsecure;
- The harsh climate and topography are also handicaps combined with the sparse population, however, these are increasingly being seen as interesting opportunities to develop specific activities such as winter tourism and ‘cold climate vehicle testing’;
- Natural endowments are very valuable since they provide opportunities in terms of hydro- and wind-based energy production, as well as exporting natural resources. The latter industry is based on a long tradition of international contacts which over time have helped to reduce the feeling of remoteness.

### 2) Policy responses

- Policy responses to geographic features must be analysed in the context of the long tradition of the Swedish State to ensure an equal access throughout the country to public services and especially to the remoter northern Swedish regions;
- Moreover a progressive decentralisation has taken place for several years now, with increasing responsibilities given to the county (NUTS3 level) to manage industrial and economic policy. Each county has now a Regional Development strategy (RDP) which defines the long term sustainable regional growth and development agenda for the region;
- Municipalities have an high degree of autonomy in terms of local development and the role of actors at the NUTS3 level is more and more focused on strategy and coordinated initiatives to encourage economic development;
- The current development programme in Norrbotten (from 2007) focuses on landscape, wild nature, economic vitality and the harsh winter season as ‘assets’. The main objectives are the improvement of attractiveness, more openness inside and outside the county as well as sustainable economic growth.

### 3) Relevance of ERDF Programmes

- Since the entry of Sweden in the EU, structural funds, especially ERDF, have become a main source of funding for regional development;

- Domestic funding traditionally covers transport and environmental infrastructures, health, and education. Such infrastructure was already very well developed especially as far as transport is concerned. Since 2000, the ERDF has thus been targeted on more 'soft' interventions, mainly to stimulate the productive environment which appears to be a quite different pattern compared to other sparsely populated regions;
- The three main priorities of the current ERDF programme can be summarised as accessibility, attractiveness and innovation. Hence, the programme seems to focus even more on supporting the productive environment and innovation capacities, especially with the Lulea University, with relatively less focus on basic infrastructure;
- This approach seems on the whole relevant as it reflects the needs to renew the economic basis of the region and to increase the attractiveness to try to overcome the demographic challenges. This reflects the national guidelines to allocate a major part of the funds to innovation and the knowledge based economy;
- Tackling the demographic issue requires a holistic approach to deal with the different elements and particularly a strong complementarity with other EU funds (especially INTERREG, EARDF and ESF). Currently, such complementarity is not really well achieved and needs to be improved.

#### **4) Effectiveness of ERDF Programmes**

- For the 2000-2006 period, most targets (almost exclusively about jobs and firms) fixed at the beginning of the period were largely exceeded in 2006. Unfortunately, achievements in specific measures such "as aid to SMEs", "Promoting the adaptation and the development of rural areas" as well as "R&D" were disappointing in terms of economic impact;
- The current programming period is clearly business oriented with a strong focus on entrepreneurship and business start ups for instance. Regional attractiveness is also important. Both public and private actors are involved in supporting business development as well as in improving accessibility. In this regard, ERDF has been used by municipalities to develop some niches and to support local infrastructures as well as by regional/local agencies in charge of tourism development or improving innovation capacities at the local level;
- The ERDF contribution to the renewal of the regional economy is mainly visible in the development of new activities (high-tech, green activities, etc.) although Norrbotten used to rely on its "good old" natural resources-based industry. It has also mainly contributed to internationally recognised clusters, improved innovation capacities, development of the tourism sector, etc;
- Tourism is definitely a pillar of rural development policy and needs to be built on region-specific assets. A profound restructuring has taken place in the last decade supported by the ERDF as well as a number of promotion projects in order to attract customers but also workers. The effects on the sector turnover and the number of employees are impressive. However, the efforts must be sustained as the number of guests' nights does not follow the same trends. Hence, there is still much to be done in terms of attracting more demand and improving accessibility at reasonable costs;
- Capacities of networking and cooperation have also improved. Indeed, ERDF has contributed to more dialogue, exchange of experiences and more integrated

approaches, leading for instance to an increase in the spill-over effects of interesting projects between various areas;

- Access to public services is progressively improved. This is partly due to the efforts made through the ERDF to set up an ICT broadband access network and to further develop the applications for bringing public services nearer the “clients”;
- Nevertheless, despite the bright economic forecasts, good access and the quality of life, depopulation (especially in terms of outmigration) is continuing. This raises several additional questions, among others the question of attractiveness and its visibility and the question of further efforts needed to improve skills and the qualifications of young people (especially in the inland part of the region).

## **5) Implementation and Governance**

- Operational Programme for Övre Norrland is designed with guidelines both from above (national level) and below (municipalities);
- The work of designing the programme is carried out by two Regional Development Partnerships, one for each region (e.g. Norrbotten and Västerbotten) cooperating with each other. The RDP for Norrbotten fully takes the specificities of the region into account;
- All stakeholders involved in regional development are concerned by the implementation of the regional programme. The combined ERDF and ESF partnership of Övre Norrland makes the programme decisions. A balance is maintained between inland and coastal, partly thanks the participation of municipalities in the regional partnership;
- Even though a coordination should have done between the different funds through partnerships and administrative easing, in practice one can observe coordination focusing on a demarcation between funds rather than on a more proactive approach encouraging cooperation;
- The NUTS3 tier has been increasing in importance during the last decade as well as partnerships’ involvement in the implementing phase of the programme (increasing in general the power of non-state actors in the implementation of the programme). Implementation of EU funds has also emphasized incentives for cross-border dialogue.



## 8. Mini-case study

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**Project Title:** I2 – Intelligent Inland Road

**Key words:** *Winter and cold; Industry; Automotive testing; Norrbotten; Sweden*

### Synthesis

The Intelligent Inland Road (I2) project studied here was implemented between 2008 and 2010. It has developed new knowledge and technology to strengthen the competitiveness of the region within two sectors which have experienced strong development lately; the automotive testing industry and the telecom sector. The project intended to enhance the innovative capacities of automotive testing companies in the county by adding more intelligence to roads (wireless Internet along the roads) and offering improved test capacities for the international car manufacturers who want to perform cold climate tests on their cars within the region (higher quality, shorter time for analysis).

The project expected to create an Internet infrastructure based on wireless Internet connection along a specific road commonly used for car testing. These infrastructure improvements are also brought through a similar initiative which had to be developed simultaneously in south-western Sweden by the organisation called Test Site Sweden. I2 is developed in cooperation with this organization and its purpose is to deepen the relations between car manufacturers, the telecom industry and the automotive testing industry from the southern and northern Sweden. A transversal goal of the project was also to help to make the automotive testing industry more gender equal.

The project was mainly based on research activities and development of methods and technologies. Several areas of work were identified and a number of subprojects have been carried out in these areas.

The I2 project was implemented by the Centre for Distance spanning Technologies (CDT) and the Centre for Automotive System Technology and Testing (CASTT), both part of the Lulea University of Technology. The project was based on a partnership between various stakeholders: mainly the University, regional companies where the technologies can be applied (mainly IT companies and the testing industry), and also the organisation Test Site Sweden. The direct beneficiaries of the I2 were intended to be the automotive testing providers located in Norrbotten and their partners. Several of them were involved in the project from the start and participated in meetings and demonstrations. The international automotive industry as clients of the automotive testing companies could also benefit from the project, mainly by improving the quality of the tests and by reducing their costs.

The project is successful in many aspects. The main success was the contribution to the development of a cluster, based on the geographical specificities of the region and integrating high tech methods and tools for automotive testing. Even if the expected results (in terms of number of jobs or firms created) were not reached in the short term,

the project has contributed to consolidate the foundations of a competitive automotive testing industry in the region. As far as the gender objective is concerned, the project has initiated innovative approaches to provide a more female perspective to this activity which is dominated by men. It succeeded in highlighting gender issues and putting them on the agendas of the project participants.

Key factors of success are both the existing technical knowledge at the University in combination with the willingness to share it with the industry, and the political consensus in the region to support the development of the automotive testing industry.

The firms in automotive testing in northern Sweden have traditionally been developed by reacting to customers' needs and wishes. Hence, I2 stands out as a more proactive project. The experience of the project has shown that reaching concrete results within the industry is not an easy task. The ownership of the project must be shared between both sides (the University and the businesses) from the start. The needs of the industry must be confronted to technological opportunities leading to a common long term strategy.

The project ought to be seen from a larger perspective, taking all the measures directed towards the developing automotive testing industry into consideration. It is part of a larger package of initiatives stretching over period of time which is probably longer than the typical development projects of today. The national intention to support the automotive testing industry was presented already ten years ago and since then different initiatives (like e.g. the development of a high school and a University education with a focus on performing cold climate automotive testing) have been developed. The quality of the partnership is further a key factor of success: gathering people from various horizons with the aim to understand better each other and build together a stronger industry is essential. The continuation of the project through a new one (AVTEC, also supported by ERDF funding) based on new objectives closer to industrial needs, might also allow to consolidate the results achieved up to now.

## **Background information**

**Member State:** Sweden

**Region:** Övre Norrland

**ERDF Programme/Objective:** Operational Programme 'North Sweden'

**ERDF Programming period:** 2007-2013

**Project owner:** Luleå University of Technology

**Project period:** 2008-01-01 - 2010-12-31

**Funding:** ERDF (EUR 1 320 000); National public financing (/); County Administrative Board of Norrbotten (EUR 188 000); Luleå University of Technology (EUR 1 320 000); Test Site Sweden (EUR 21 000)

### **1) Project Description**

#### ***Objectives of the project***

The I2 – Intelligent Inland Road- project was developed as an answer to the needs for wireless Internet along roads in the inlands of northern Sweden. The demand seemed to

come from firms in the automotive testing industry, requiring the possibility to connect via Internet to the cars being tested on the roads as well as private travellers. The regional firms in the automotive testing industry saw a need for offering improved test capacities (higher quality, shorter time for analysis) to their customers: the international car manufacturers. The project was therefore initiated with the aim to develop infrastructure based on wireless Internet connection to create possibilities for providing test drivers with more information about the road conditions and instantaneously updated test results while testing the cars. In broader terms, an overarching ambition with I2 was to promote the development of knowledge and new technology within automotive testing and telecom, and by doing so also strengthening the competitiveness of regional businesses.

The automotive testing industry has expanded in the county for the last 20 years. Nowadays many international car companies come during the winter season to test their new models and prototypes in cold conditions. A battery of test concerning the functioning of breaks, tires, engines, etc. is carried out in order to improve the performance of the car under a very cold climate. The development of this business sector is based on two main assets of the region: cold climate and large free space. Nevertheless, the industry faces a number of challenges, among them, seasonality, strong competition from other Nordic destinations (such as Finland) and sensitiveness to the situation of the car industry in general are the most preoccupying. Moreover, the increased complexity of the technical systems in vehicles (e.g. active safety systems integration of various electronic systems, new types of energy and fuels systems etc.) leads to new demands from the car companies. In that context, the regional industry must constantly provide innovative solutions to the international clients in order to maintain and expand its level of activity.

While activities connected to the automotive industry in Norrbotten have increased substantially during the last decades, the bulk of the Swedish automotive sector has traditionally been located in south western Sweden. Before the start of I2, the distance between the two regions was long, not just geographically but also organisationally. In an attempt to bring them closer together, the development of a wireless infrastructure in Norrbotten is also brought through a similar initiative simultaneously run by Test Site Sweden (TSS) in south western Sweden. This national venture was set up to develop an innovative environment for developing and testing of future communication solutions in south-western Sweden. I2 was developed in cooperation with this organisation.

One transversal goal was also defined in I2 and consists in helping to make the automotive testing industry more gender equal.

### ***Activities***

The project was mainly carried out through research activities and development of methods and technologies. Several areas of work were identified and a number of subprojects have been carried in these areas.

The backbone work focused on “Distributed automotive development, testing and validation”. This subproject aimed at developing technology and methods that enable distributed collaborative work in the testing and validation of vehicles, and vehicle components in the automotive industry using wireless communication networks. This

includes technology for remote diagnostics, wireless software download and wireless measurement data acquisition. Geographical positioning systems for fleet management of test vehicles have also been developed. These tools and technologies were being tested on proving grounds using WLAN communication technology and on public roads using GPRS and 3G networks. Project partners were the car manufacturer Volvo Car corporation, the research centres Alkit Communications AB, Swedish Hybrid Vehicle Centre, Test Site Sweden, and regional test entrepreneurs like Arctic Falls AB.

Other areas of work in the project include:

- Remote Vehicle Dynamics: exploring new ways of using vehicle dynamics during winter testing, with the goal to enable new or developed services for service providers and thus rendering testing more effective for the automotive industry;
- Research on friction under winter road conditions including friction studies and the characterisation of winter road surfaces;
- Research on friction-induced, cold related noise in automobiles focusing on the climate influence on the excitation mechanisms of friction-induced noise from seal surfaces, the development of a prediction model based on theoretical modelling and the development of a quick and reliable measurement method that can detect transient squeak and rumble sources inside a car;
- Microclimate with the aim to develop methods and technology to measure, analyse, communicate and visualise climate data that will enable the development of applications, services and businesses coupled to the winter testing industry.

### ***Beneficiaries***

Thanks to the project, car manufacturers, the telecom industry and the automotive testing industry worked together. The direct beneficiaries of the I2 project were intended to be the automotive testing providers located in Norrbotten since they have an interest on new technology and improved infrastructure, and their partners. Several of them were involved in the project from the start (Ice makers, Colmis, Arctic falls, Lap Ice, ATM) and participated in project meetings and demonstration of results.

The international automotive industry as client of the regional automotive testing companies might also benefit from the project mainly by the possibilities for improved quality of the tests and by reduced costs.

### ***Expected results***

By the start of the project, a number of milestones were defined both concerning development of technology and the business sector. These have been changed slightly during the course of the project implementation and where by the end of the programme as follows:

Technological:

- Develop infrastructure for automotive testing;
- Develop a national strategy for automotive testing along the inland roads chosen in I2;
- Develop a specific technical solution (Thin Client) for a certain kind of Internet.

Business development:

- At least 50% of the firms in the automotive testing industry, in the regional organisation Swedish Proving Ground Association SPGA, have to find at least one new regional partner and one new national;
- Carry out at least four automotive testing projects in close collaboration with at least two of the participating regional firms;
- The project must lead to at least three new business deals.

Under the horizontal goal of promoting gender balance, the following milestones were defined:

- Contribute to the development of the automotive testing and IT industries;
- Contribute to making education in engineering more attractive for women;
- Create efficient and sustainable firms in the region;
- Widen the labour market for both women and men;
- Change the human behaviour in the long run.

### ***Expected impact***

Behind the project, there was an ambition of contributing to regional development in Norrbotten by building networks between the world of research and the private sector, as well as by making the regional business sector more competitive and robust. The first part was expected to develop networking and cooperation both within the region but also between Övre Norrland and other actors in the automotive and telecom industry in other parts of Sweden. Expected impacts include developed relations leading to new businesses, possibilities for skills development as well as a more developed cluster within the automotive testing industry. The second part was, in addition, connected to the development of knowledge and technology through the increase in knowledge-intensive solutions among regional test entrepreneurs and the expansion of the regional labour market in order to include new types of more high skilled activities.

## **2) Political and Strategic Context**

Both car manufacturing and the telecom industry have traditionally been strong in Sweden and, as mentioned above, Sweden has for a longer period of time already hosted firms within automotive testing, but in the south-western part of the country. During the last two decades, this industry has also developed in northern Sweden though. Today the region is world leading in winter automotive testing. Due to the cold winters, large ice covered lakes, low population density and vast distances, large international vehicle manufactures have gathered in the region during winter time, mainly in the two municipalities of Arjeplog and Arvidsjaur, to perform test and development work on their cars. These companies interact with large component suppliers and other businesses involved in the automotive industry creating a cluster of large international actors.

Local business has developed around these activities which are mostly seasonal, bringing actors and business to the region during the winter months. They are providing the visiting vehicle-related professionals with e.g. test tracks, workshops, garages, offices, test drivers and mechanics, but also service like hotels. The list of clients is impressive and most of the automotive companies come to northern Sweden to carry out winter testing (Bosch, Fiat,

Saab, BMW, Renault, Citroën, Peugeot, Ferrari, Audi, Seat, Skoda, Porsche etc.).

Today several local companies are established as service providers for automotive tests in cold climate. In 2007/08, the local testing industry employed around 500 people on a yearly basis compared to 55 in 1990 and 230 in 2000. The turnover has also hugely increased during the last decade. For the two main municipalities involved (Arjeplog and Arvidsaur), the cold climate testing is today the biggest industry. Nevertheless, the main part of the most highly skilled workforce is not provided locally, these engineers are employed by the large vehicle manufacturers. Around 2800 of them spend part of their winter season in the region each year.

The automotive testing industry in northern Sweden drew the attention of national politicians who became aware of the inherent potential of the industry and the importance for the region by the turn of the century. It was seen as having the possibility of preventing the decrease in some local labour markets in the inlands of Norrbotten. As a result of this, a national initiative was started with the aim of suggesting measures for supporting, stimulating and developing the automotive industry in northern Sweden. Hence, the activities were given political attention at a national as well as regional and local scale. A number of projects and measures have been initiated by actors such as Luleå University of Technology, local and regional public actors as well as the private sector, and have, for example, supported skills development among high school and university students in the region. These have been granted funding from both the EU Regional and Social Funds. In addition, ERDF funded projects supporting the development of infrastructure like Internet and airports as well as individual businesses have benefitted from the growing automotive testing sector. Many projects have also been undertaken to consolidate the Swedish advantages within the fields of telecom and automotive development, among them large research projects funded by the 7<sup>th</sup> Research and Development Framework Program (on roads sensors and road captors. Thus the project studied here (I2), is one measure within a group of different initiatives, all focusing on the automotive testing industry, albeit with different focuses, scale and time spans.

### **3) Implementation**

#### ***Project design and planning***

The project was designed with the aim to develop a technology that can register, store and send information on the road to be used for automotive testing. Two components were identified: infrastructure and applications. The first was being undertaken by Centre for Distance spanning technology (head of the project) and the second by Centre for Automotive System Technology and Testing, both at the Luleå University of Technology. The University, through these two centres, had a leading role in both the initiation, design and planning of I2.

The two main components of the project mentioned above were executed as expected, a few changes was decided by the steering committee along the way though. The main change in direction came about half way into the project. At this stage, the preconditions had changed; Test site Sweden was not granted funding for their project aiming at building an 'intelligent road' in the southwest of Sweden. With this change, the leaders of I2 started

to look for ways of developing their project in the most useful way possible, without the southern part of the road to connect to. The result was an initiative to involve the local automotive testing firms more, and make I2 better suit their needs.

The activities have been carried out within the planned budget. Some activities have been extended though within the course of the project. This has been done due to emerging needs and these have been funded through other sources of funds than the European, both private and public.

### ***Management, Monitoring and Evaluation System***

The coordination of the project has been carried out under the leadership of Centre for Distance spanning Technology (CDT). This centre was started in 2005 with a mandate to develop the automotive testing industry in Norrbotten and bring together entrepreneurs, researchers, teachers, engineers and financiers. It has become an international platform for competence development and cooperation.

I2 was on the other hand implemented by both the Centre for Distance spanning Technologies (CDT) and the Centre for Automotive System Technology and Testing (CASTT), both part of the Lulea University of Technology. The communication between the two main actors was in large good and frequent. The fact that the project had one steering group, that the Centre for Automotive System Technology and Testing had another and that no actor participated in both groups made the communication more demanding though.

External ongoing evaluators were contracted and they followed the development of the project and their work was completed with the production of a final report. Learnings from this have been used in the development of a project to continue the work that was started in I2; AVTEC (see below)

### ***Governance: Partnership and Leadership***

The I2 project was based on a partnership between various stakeholders mainly the University, companies where the technologies can be applied (mainly IT companies and the testing industry), and Test Site Sweden.

A steering committee has been formed with representatives from the University, the test entrepreneurs, a bank, an external expert and a member of a national business organisation. The committee met three times a year and was active in the implementation and continuous development of I2. They were, for example, the ones who made the decision not to install the infrastructures along the road E45 but to focus on more local solutions suitable for local firms since no immediate demand for this was seen half way into the project.

The main challenge along the way turned out to be the creation of a collaborative platform between the stakeholders, especially between the “suppliers” of technologies and the “demand” side. At the start, a close cooperation was initiated with Volvo. In the meantime, regional test entrepreneurs were also involved to a larger extent. Despite growing interactions, they argue their participation was not enough to ensure that the project fitted

their needs. Nevertheless, the situation did improve considerably during the course of the project and new initiatives were taken before the end in order to further develop this collaborative platform and bring actors closer to each other.

One way of increasing the communication was to organise a survey among the test entrepreneurs. This was done in order to get their views on the project and its potential added value. The objectives were to highlight the priorities of the testing industry and better understand the need of their customers. The survey came out with a number of new ideas for the development of new products (vibration measurement system, tyre friction, RT3 system, etc.). Since I2 was already up and running by the time these ideas were highlighted, these were used to develop a continuation project called AVTEC. The main objective of this project is to develop testing protocols and tools for communicating data and results. The new project is thus supposed to be less technical than I2 and more oriented towards the needs of the existing regional business community. Many of the same partners will be involved but the participation of the regional test entrepreneurs will be reinforced. The plan is also to deepen the involvement of the customers of the test entrepreneurs.

Another initiative build to bring actors closer was the yearly conference called SATS organised in Norrbotten with the aim to gather all the Swedish actors and stakeholders, and shared the main results of the project.

#### ***Innovative elements and novel approaches to implementation***

The project in itself was looking for more innovation in the Swedish car industry. It was based on the geographical specificities of the region with the aim to increase its value. It contributed to consolidate the development of a niche of activities in a very specific sector by building bridges between the automotive testing industry in the north of Sweden, the Swedish car manufacturing companies as well as the telecom industry. Similar initiatives bringing actors from the rest of Sweden to the emerging automotive testing industry in the north are uncommon. It shone a light on the possibilities inherent in Norrbotten and the small municipalities in the inlands of Northern Sweden which, compared to the cluster in the south, have not been very prominent in the national debate.

#### ***Key implementation obstacles and problem-solving practices***

During the implementation, two main difficulties appeared. First of all, the steering was slightly inefficient during times, due to the two separate steering groups both involved in the progress of I2 (one in the project and one in the Centre for Automotive System Technology and Testing). Some participants talked about how 'different cultures were emerging' within the two, where their ways of steering as well as of interacting with other actors were seen to differ. This has been addressed through long discussions and meetings to establish information sharing and cooperation and resulted in an improved dialogue and understanding.

The main difficulty was however to establish adequate interactions between the world of research and the main beneficiaries of the project (the companies both within the automotive testing industry and the automotive industry). The project was initially designed and driven by the University with the aim to create technological opportunities that could

provide strong comparative advantages to local suppliers compared to their main international competitors, but it did not fully take into account their constraints. Thus, the regional firms felt that the project was focused mainly on using their respective contacts in international car manufacturers rather than their specific needs. The research side of the project on the other hand did fear that the regional firms were not interested in the new technology being developed. However, as Test Site Sweden was not able to finance the southern part of the intelligent road, the focus of the I2 was changed and instead of the previously national focus, increased attention was given to the regional actors and firms. With the extensive dialogue started and with the change of direction within the project, the contacts have been developed and the understanding increased.

#### **4) Project Results**

With the change of focus in the project, came a change in objectives as well. The milestones developed at the start of the project were updated along the way. These have in large been met and the main results of the project have, in short, been:

- contacts and networks developed between the University, test entrepreneurs and IT entrepreneurs;
- contacts between automotive testing industry in south-western and northern Sweden developed;
- some new business deals;
- new insights into gender equality among project participants.

The results seen are thus mainly connected to the development of networks and new relations both among automotive entrepreneurs, IT-firms and the University. The difficulties encountered regarding the effectiveness of interactions between all stakeholders are partly due to a long history of lack of cooperation. The project has contributed to the change of mind that was underway since 2003. The collaboration between test entrepreneurs, the automotive industry, the University and actors in south-western Sweden does now run more smoothly and is more extensive.

The project has further resulted in a yearly forum for meetings of actors from all over Sweden; the SATS seminar. This has turned out to a platform for common discussions and agenda setting among actors in the Swedish automotive testing industry.

The technical objectives of I2 have in large been achieved. Tools and technologies have been developed and can now be applied and used by the automotive testing industry. For instance, instant hotspot infrastructures have been developed and a first customer (Colmis group) has signed a contract in November to get the application. Mobile installations are also available now and easy to install.

The impact on the automotive testing industry is however still limited. Most of the regional testing providers are not yet equipped with the new technology. Various reasons may explain this slow move. The international economic crisis starting in 2008 had in 2009 reduced the activities of the test companies and brought new perspective for the following years limiting investment capacities. According to the University, a main issue does nevertheless remain: how to convince testing companies that these new technologies will

add value to their services and generate additional business? Some of them have still the opinion that the project was not targeted enough on their needs, and has in turn not been helping them to diversify their activities.

A central question here is the “transfer” of new methods and technologies developed by a university research centre to the local industry. In this case, we have seen that the business sector has regarded their ownership of the project as weak, and the project has further been initiated by the University, mainly driven by technological opportunities. The low capacity of the local industry to fully exploit these technologies is one of the main constraints. Automotive testing companies offer iced roads and tracks, storage facilities, test equipment but no advanced testing themselves. Few of them hired engineers. Thus, the technology developed has been far from what they currently use. Another difficulty has been to involve final beneficiaries, e.g. the international automotive industry. There were very few direct contacts between the research team and the customers of automotive testing companies such as SAAB, Fiat, Opel, etc. The new AVTEC project is developed to compensate for this lack of interactions with the car industry and has explicitly provided for a more active participation of the car industry.

The project has nonetheless also brought development to the private sector, e.g. through some new business deals (mainly among IT-firms but also among some firms in the automotive testing industry). In broader terms, one of the main effects of the project has been to show the local and regional firms the possibility of developing into more knowledge-intensive firms offering more and developed services to their international customers, and at the same time expanding the local labour market and the regional gains from the industry. And even if the economic repercussions on the local industry are still timid, the project has demonstrated its added value for the car industry and testing services. For instance, the data transfer protocol established by the researchers is used by the leading car companies in India.

Some new jobs have also been created but as table 6 shows, the results are below the set targets, especially for women.

**Table 6: Indicator follow-up**

<b>Indicators</b>				
<b>Indicator</b>	<b>Women (Target)</b>	<b>Men (Target)</b>	<b>Of which men/women with foreign background (Target)</b>	<b>Number (Target)</b>
Number of new jobs	0 (7)	4 (15)		4 (22)
Number of new firms (owned by women/men)	0 (3)	0 (1)		0 (4)
Number of new firms (mixed ownership)				
Number of new jobs in research		14	1	14 (12)
Participating firms	3 (10)	22 (30)		24 (40)

*Source: I2, Slutrapportering för Tillväxtverket, 2011*

As regards gender equality, this theme has been evident and ongoing throughout the implementation of I2. Work has been carried out to increase knowledge and awareness among participants in the project. The project has initiated innovative approaches to provide perspectives of women to this sector which is dominated by men. A workshop was for instance held on how women/men interact in groups and how they undertake their research activities. A book about gender issues was offered as a Christmas gift and gender issues were further a recurring point of discussion during the steering group meetings. Thus gender issues were highlighted and put on the agendas of the project participants. The main expected result is progressively to open the sector to more women.

## **5) Sustainability and transferability**

### ***Sustainability***

Due to the networking and bridging nature of the activities the project has resulted in long term effects that will continue to develop after the end of the project period. It has contributed to make the regional as well as national automotive testing industry more competitive, and is seen to continue doing so by the three processes it started;

- The development of new technology;
- The development of the start of a national as well as regional cluster;
- Contributions towards development of new business models for commercialising new technology.

The current development of the new project AVTEC ensures that relations built in the implementation of I2 remain and are developed further. It is in addition an example of how learning regarding cooperation between research and businesses are used in practice. AVTEC is also partly funded by the EU and has been granted 1.8 million EUR from the ERDF.

### *Transferability*

Lessons learned from I2 are largely connected to the process of initiating and running a project where a number of actors from different sectors and with different interests and needs are brought together, as well as the importance of bringing them together in the creation of regional development. They also show the importance of creating a forum for cooperation within the sector. This makes them relevant and transferrable in many cases, not least today when cooperation between different public and private actors is promoted and has to be found in many projects.

## **6) Conclusions: Key success factors and lessons learned**

The project is successful in many aspects. The main success is the contribution to the development of a cluster based on the geographical specificities of the region, and integrating high tech methods and tools for automotive testing. Even if the expected results in terms of number of jobs or firms created were not reached in the short term, the project has contributed to consolidate the foundations of a competitive automotive testing industry in the region. Main outcomes may be summarised as follows:

- Better innovative capacities within the automotive testing industry, which is a niche developed on the regional specificities;
- Improved links and interactions between the various stakeholders involved in the development of the automotive testing industry;
- Increased capacities to launch joined projects between research centres and business companies in that sector;
- An enlargement of the Luleå University research team working in the field of automotive testing which has also reached a critical mass that increases their long term research capacities;
- An international recognition of the research centre;

A key factor behind the relative success of the project was the existing technical knowledge at the University and the willingness to share it with the industry. The firms in automotive testing in northern Sweden have, according to the evaluation of the I2 project, traditionally been developing by reacting to customers' needs and wishes. Hence, I2 stands out as a more proactive project, where potential technological innovations based on regional and national knowledge leads the development. It was initiated by the University, and hence built on a regional cooperation. The experience of the project has shown that to reach concrete results within the industry with such a project is not an easy task. A lesson to be learned is that the ownership of the project ought to be shared between both sides; regional businesses and the University, from the start. Another lesson is that the needs of the industry must be confronted with the existing technological opportunities to lead up to the development of a common long term strategy.

Another key factor has been the political consensus in the region to support the development of the automotive testing industry. The project should be seen from a larger perspective, taking all the benefits of the developing automotive testing industry into consideration. It is part of a larger package of initiatives stretching over a period of time which is longer than the typical development project of today. The quality of the partnership is, in that context, a key factor of success; it was essential to gather people from

various horizons with the aim of better understanding each other and of building a stronger industry together. The continuation of the project through a new one (AVTEC) based on new objectives closer to industrial needs, might also permit to consolidate the results achieved up to now.

## CONTACT DETAILS

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[http://pure.ltu.se/portal/en/projects/castt--centre-for-automotive-systems-technologies-and-testing\(93b31871-142c-4c9c-b686-2f1d79c77faa\).html](http://pure.ltu.se/portal/en/projects/castt--centre-for-automotive-systems-technologies-and-testing(93b31871-142c-4c9c-b686-2f1d79c77faa).html)

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The webpage of Statistics Sweden 2011-11-21

<http://www.ssd.scb.se/databaser/makro/SaveShow.asp>



## **Annex 1: Stakeholders consulted**

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This annex contains the name and the position of each interviewee.

- Lena Anttilla, Responsible for implementation of programme 2000-2006, County Administrative Board
- Bo-Erik Ekblom, Strategic infrastructure planning, County Administrative Board
- Robert Granström, involved in the Mini CS: '12 Intelligent Inland roads' project, Robert Granströms Utveckling AB
- Jan-Erik Jaensson, Head of the organization, Swedish Lapland
- Peter Jeppsson, Lector, involved in the Mini CS: '12 Intelligent Inland roads' project, Luleå University of Technology
- Andreas Lind, CEO, Norrbotten Chamber of commerce
- Bengt Niska, Pajala Utveckling AB (Municipal company in regional development running a ERDF funded project related to this)
- Tina Norgren, Strategic regional development, County Administrative Board
- Tommy Nyström, Mayor in the inland municipality of Gällivare, representative in the regional structural funds partnership, Municipality of Gällivare
- Stefan Oscarsen, Chair of SPGA, and responsible for the public business development company, SPGA Swedish provingground Association
- Märtha Puranen, Head of the office, Swedish Agency for Economic and Regional Growth
- Lars-Erik Sjöblom, Director, ESF regional office, Övre Norrland
- Johan Sjökvist, Involved in the projects supported and run by the council and also with more strategic development issues such as the Regional development plan, County Council
- Roger Ylinenpää, Rural development Programme, County Administrative Board
- Jan-Erik Westerberg, Luleå University of Technology, E-Health Innovation Centre



**CASE STUDY 3: LESBOS,  
Region of Voreio Aigaio, Greece**

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## List of Acronyms

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CCI	Chamber of Commerce and Industry
CF	Cohesion Fund
CSG	Community Strategic Guidelines
DISA	Regional Department of Planning and Development
EAGGF	European Agricultural Guidance and Guarantee Fund
ESF	European Social Fund
ERDF	European Regional Development Fund
FIFG	Financial Instrument for Fisheries Guidance
GDP	Gross National Product
GRP	Gross Regional Product
MA	Managing Authority
NAIAS	the North Aegean Innovative Actions and Support project
OP	Operational Programme
RDP	Regional Development Programme (NUTS3)
ROP	Regional Operational Programme



# 1. Introduction

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The focus of this case study report is to analyse the relevance and effectiveness of ERDF and Cohesion Fund co-financed programmes and the extent to which they are adapted to the specific territorial context of the island of Lesbos.

The report has six sections. The first provides a brief context analysis of Lesbos. The second focuses on the main policy responses that have evolved since 2000. The third explores the relevance of ERDF and Cohesion Fund programmes to the specific territorial context of the island. The fourth examines the effectiveness of the funding across two programming periods. The fifth section then deals with the issue of implementation and governance and the sixth provides some conclusions from the case study.

Concerning the data that has been used, our main sources for statistical data at the NUTS3 level (the former Lesbos Prefecture that includes Lemnos and Agios Efstratios Islands as well) and at the NUTS2 level (the Voreio Aigaio Region) is EL.STAT., the Greek Statistics Agency ([www.statistics.gr](http://www.statistics.gr)) which provides data on population, the economy and the environment. Economic data have been revised significantly during the last few years and the latest available was used from the corresponding websites.

For the ROP 2000-2006 and 2007-2013 our main sources were: (a) the Managing Authority on Lesbos Island that provided us with all available documents and; (b) the SWECO study. Unfortunately, Lesbos Island (the object of the current study) is not taken as a separate unit of analysis for most of the data. When data for Lesbos were available, they were duly used. In all other cases, we had to rely on Regional data or on data for the former Prefecture and extrapolate for Lesbos. The disaggregation of data from the list of projects to produce information at the island level was not always possible since many projects were applied to more than one island and the breaking down of the funds could not be performed. The inclusion of the island level in the databases could produce the missing data.

For the 2000-2006 ROP, the data of the closing report were used. Possible minor disagreements of sums can be attributed to either funds being transferred to the 2007-2013 ROP in the so called “bridge projects” or due to amounts that had to be returned.



## 2. Brief context analysis

This section provides a brief contextual analysis with the aim of highlighting the main needs and challenges faced by the province of Lesbos.

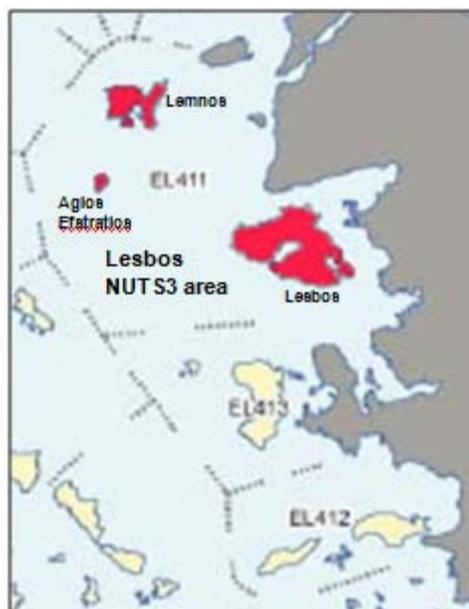
The former Prefecture of Lesbos (NUTS3, GR411) is a part of the North Aegean Region (NUTS2, GR 41) with three islands: Lesbos (1 450 km<sup>2</sup>; 90 000 people), Limnos (475 km<sup>2</sup>, 18 000 people) and Agios Efstratios (43 km<sup>2</sup>, 250 people). It is located in the North East Aegean, an external border area of Greece and the EU close to the Asian coast (5 km from Turkey, and 280 km from Athens). Lesbos is the second biggest island of the Aegean (after Crete) and is a hilly island with few level areas and a high degree of fragmentation, as a result of its diverse geomorphology. The most important land uses include olive plantations (30% of the total surface), pine forests and Mediterranean phrygana used for grazing lands from sheep and goats. A large part of its surface has been included in the NATURA 2000 network of areas under protection. The capital Mytilini and most of the population live in the Eastern part of the island. It is a significant tourist destination for foreign and Greek tourists but not so important as other islands (Rhodes, Kos, Corfu, Zakynthos, Santorini, Paros, Mykonos or Samos). Maps 1 and 2 hereafter offer a geographical overview.

**Map 1: Location of Voreio Aigaio**



Source: Eurostat

**Map 2: Location of Lesbos**



*Source: Eurostat*

### **Main challenges**

One of the main challenges for Lesbos is the continuing depopulation: a loss of 35% was recorded between 1951 and 1981, a small recovery of 3.4% between 1981 and 2001 (but lower than the national average at the same time which was 12%) and again a loss in the last decade 2001-2011 of 4%. The population increase of 1981-2001 was more the result of the return of migrants to their birthplace and strong immigration flows mainly from Albania and other eastern European countries, rather than the result of a natural growth which, moreover, has been negative (more deaths than births) for the last 50 years and stood at -2.3/1000 inhabitants in 2008. This has resulted in an ageing population with an ageing indicator (people over 65/people younger than 15) of 145, compared to a national average of 110. Table 1 hereafter summarises some of the demographic indicators, comparing Lesbos with the other NUTS3 regions (Samos and Chios) in Voreio Aigaio as well as with Greece as a whole.

**Table 1: Geographical and Population indicators for the Voreio Aigaio Region, including Lesbos**

GEO	Area size (km <sup>2</sup> )	Ave altitude (m)	Population (2008)	Population density (2008)	Population change 1961-1981 (%)	Population change 1981-2001 (%)	Births – deaths 2000 (/1000 inh.)	Births – deaths 2008 (/1000 inh.)	Ageing index 2001
	1	2	3	4	5	6	7	8	9
Greece	131,957	143	10,934,097	85,3	16.1	12.2	-0.2	0.93	110
Voreio Aigaio	3,836	81	200,275	52,2	-23.3	5.2	-4.1	-1.8	141
Lesbos	2,154	85	105,957	49,2	-25.4	3.4	-4.2	-2.3	145
Samos	778	127	42,603	54,8	-22.1	8.2	-4.4	-2.6	149
Chios	904	76	51,957	57,5	-20	6.5	-3.6	0	131

Source: EL.STAT ([www.statistics.gr](http://www.statistics.gr)), processed by the authors

These developments have been the result of an even faster decrease of the active population, due to mainly to the decline of competitive (exporting) economic activities (industry based on olive oil and soap processing, agriculture) after the 1950s. In 2001, the active population represented 37% of the total population, compared to 42.2% for Greece and the GDP/capita reflects this, as it stood at 68.7% with Greece at 100%, continuing to diverge from the national average, as the GRP change in 2000-2008 was 30%, compared to 38.3% for Greece.

The data of taxpaying incomes corroborate this picture, with slightly higher percentages than the corresponding GRP data, but still lower than the national average. Unemployment is fluctuating but is lower in comparison to the national average, even during the recent economic crisis, unemployment in Voreio Aigaio was 14.1% and 16.3% for the national level during the second trimester in 2011 in comparison to 8.5% and 11.8% respectively in 2010 and 6.4% and 8.9% in 2009. These rates seem to reflect the lack of availability of jobs which tends to cause out-migration (basically those who cannot find a job often leave the island), rather than high employment rates (that are very low). Services (traditional ones addressed to local population needs such as commerce, public administration, transport, etc.) are by far the most important sector of the GRP (about 75%), while agriculture, manufacture and tourism (HORECA) -the exporting activities- are very low (about 16%). Most of these economic activities reflect trade of imported goods and the public sector that is important on the island due to the presence of the Regional administration and the Municipality, the University of the Aegean and a Greek Army Brigade.

Export activities are limited and those that can be found are in the sectors of agri-food (olive oil, cheese, ouzo), whilst tourism is a significant but stagnating activity. However, agriculture, as a full time economic activity, has been declining on the island and only the availability of cheap immigrant labour force after the 1990s has been keeping many farmers and farms active. Table 2 makes the same comparison as the previous one. Lesbos relies relatively more on Manufacturing (in terms of % of GDP) than its two neighbouring islands. It is barely higher than Voreio Aigaio but almost two times less than the Greek average. Agriculture is almost the same compared to Voreio Aigaio and relatively higher than Greece. Lastly, services are higher compared to both Voreio Aigaio and Greece respectively.

**Table 2: Indicators for active population, GDP, income and unemployment for the Voreio Aigaio Region**

GEO	Active % of population 2001	GDP/capita (Greece = 100, 2007)	GDP change 2000-2008 %	Income / taxpayer (Greece = 100, 2007)	Unemployment rate % (2009) (*)	Agriculture % of GDP (2007)	Manufacturing % of GDP (2007)	Services % of GDP (2007)
Greece	42,2	100	38,3	100	9,5	3,8	10,4	76,5
Voreio Aigaio	35,8	71,6	35,8	89	6	6,1	4,8	77,7
Lesbos	37,0	68,7	30,8	85,2	8,4	5,8	5,6	79,9
Samos	36,1	70,1	31,5	88,1	6,1	4,1	3,2	81,9
Chios	33,0	78,4	28,6	96,4	3,7	9,1	2,5	77

Source: ELSTAT ([www.statistics.gr](http://www.statistics.gr)), processed by the authors  
\*annual data

Mytilini, the main city in Lesbos, is characterised as a Functional Urban Area (FUA), but with a very low value of 1.1 as it is considered only as an administrative and tourism centre of lower importance (ESPON, 2000-6 programme, projects 1.1.1 & 3.1). Indicators related either to Lisbon or to the Europe 2020 Strategy for the NUTS2 level, such as early school leavers, share of population with high level education, R&D, innovation (0 patents), ICT penetration, are very low. All of these result in an extremely low competitiveness index (8 compared to a European average of 55) that leads to a very low attractiveness of the whole area; consequently its economic and demographic decline is normal and cannot be addressed without a relevant strategy and the necessary funding means.

The accessibility of the island is another important problem, not as acute as in the smaller islands of the NUTS3 (Limnos or Agios Efstratios) but nevertheless important for both economic activities (as it raises production and transportation costs making local products less competitive) and the services provided to the population when the comparison is done at the European and global levels.

## Handicaps

Lesbos is a remote island for Greece, dependent on ferry and air traffic although admittedly it is characterised by much better accessibility than many small islands of the Aegean Archipelago in general. Nevertheless, accessibility remains a handicap that enterprises and residents have to overcome. Related to this, there is the cost of transport to

and from the island by both ferry and airplane, which is relatively expensive and especially significant for the tourism and manufacturing industries.

The main challenges that the island faces are related to its specific characteristics (insularity) that impact on its economy, since it is characterised by “traditional” low competition activities and it is based on the public transfer of money (social transfer, subsidies and public investment) to its society, since the population is ageing with relatively low qualifications; quality of Services of General Interest - such as energy provision, ICT, education and health- is rather low (despite the implementation of EU programmes since 1987) creating a low attractiveness environment. Insularity seems to be a constraint for the development of the area in order to compete with others, only on the price of its products and services.

### **Assets**

Conversely, the assets of the area are also linked to its particular (insular) characteristics:

- High quality natural and cultural environments including wetlands (valuable habitats for migratory birds), hot springs, geological monuments (such as the unique Petrified Forest of Sigri), landscapes, unique (endemic) flora and fauna, traditional settlements, historical monuments, traditions (cuisine, music, dances etc). All of these provide real scope for the development of specific tourism products;
- Good quality of life due to the small size of the area and the very diversified and unspoiled environment;
- High quality agri-food products based on quality raw materials and traditional production processes.

As the next section discusses, however, the policy responses developed in Lesbos have not really focused on developing such assets in a coherent and strategic way.



### 3. Policy responses

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This section assesses how different policy measures actually impact on the ground at the NUTS3 level, and how they align and interact together, at the same time identifying the dominant policy responses, strategies, and approaches utilised in Lesbos.

#### *Strategy at NUTS3 level*

In 2010 a major administrative reform was implemented (effective from 2011) through which the president of the North Aegean Region is elected for the first time (a general secretary of Region was appointed by the central government until then). Prefectures in the NUTS3 areas were abolished as administrative areas and incorporated into regional units and the number of Municipalities was reduced in the country by two-thirds. Lesbos was previously divided into 13 Municipalities but since the reform it has now only one entity covering the entire island. Interestingly, this makes it one of the biggest municipalities in terms of area size in Greece.

Policies and regional development plans for the island were part of the Regional Development Plans of the Region stemming back to 1994-1999, as the Mediterranean Integrated Program (1988-1994), which was effectively the first attempt for a medium-long term regional planning in Greece, dealing with the North and South Aegean as a unique entity. Prior to this, there was a complete absence of a separate strategy, vision or set of priorities elaborated at the local level due to a strong tradition of Greek central planning and annually granted budget. The Greek state as a whole followed central programming and planning throughout its history from the 19<sup>th</sup> century onwards.

In recent years, mainly due to the influence of EU regional policy, has the need to plan for the long term through the implementation of multi-annual programmes for either 5 or 7 years. These are always under close central control and the Central Government is responsible for negotiating objectives, axes, goals, procedures and financing with EU officials. For the 2000-2006 period, the regional authorities were asked to deliver a regional development strategy and specific goals, objectives and actions according to the standard EU planning procedure. This has again brought to light some planning deficiencies at the local and at the regional level in Greece. Since the apparent lack of experience in planning, regional authorities were encouraged to hire consultants to help them.

Three main axes -namely inversion of the demographic shrink and the marginalisation of the insular economy; urban development; and diversification of the insular economy and reinforcement of its competitiveness- were adopted in Lesbos. This certainly brought some needed expertise into the whole process. However, according to some interviewees, the overall view of this process was that the list of infrastructure projects was simply put together under some headings and the priorities were determined according to local power structures. Besides the emphasis on the insular economy and its competitiveness, only 14.7% of the budget was finally given for the improvement of the productive environment

and 83.6% for infrastructures. This may be explained by the fact that the lack of “hard” infrastructure (mainly roads) is considered as the main reason for the island’s development lag. At the end of the day, even though the three main axes point out the challenges Lesbos is facing, the “tools” used to tackle these issues seem not to be the right ones. In other words, there seems to be an incoherence between objectives and plans on the island, which could come from an analysis of the actual situation which does not really go into enough detail about the underlying economic issues facing the island.

A similar approach was followed for the current programming period with three major differences: i) the RDP referred to a single fund, only ERDF, while the previous period was based on three funds (ERDF, ESF and EAGGF); ii) the axes of the different regional programmes are identical and iii) regional Operational Programs concern 3 regions together; so, Lesbos and Voreio Aigaio are together with Kriti and Notio Aigaio.

The regional and local authorities were asked to come up with project ideas and objectives in a committee that sought to develop a strategy and the main priorities; once again with the assistance of consultants. In the end though, this process was combined with guidelines from the central government to include actions and projects that were already “mature” (i.e. already had studies carried out, such as feasibility, technical or others) to ensure that expenditures could be made quickly as well as reduce the problem of delays, and the fact that despite past experience, most local stakeholders simply came up with a list of incoherent projects focused on hard infrastructure without a strategic focus. This option, however, has not really led to a faster implementation of projects as the payments are still (2011) relatively low (under 20%).

Under the new reform of local government, during 2011, each municipality has to prepare a local development strategy document that will be discussed and evaluated by a committee composed of local stakeholders which describes the overall action of the municipality for the following years, including the use of EU funds. This is an opportunity to rethink and propose a vision for the island in the future; the goals to reach this vision; the actions required to achieve these goals; and then try to look for relevant projects and not the other way around. Certain stakeholders interviewed thought that the municipal authorities were not particularly active to pursue this plan including innovative actions; moreover, it is likely that transport infrastructure will remain a key priority, as the provisional budget of the municipality for 2011 shows.

Put simply, arguably the vision for the Voreio Aigaio region in the two previous programming periods was rather too vague which meant that practically all projects were eligible for funding:

- 2000-2006: Raising geographical isolation, demographic shrink and economic lagging provoked by the border and insular character of the region;
- 2007-2013: Reduce the double peripherality and strengthen its extroversion by widening and reorganising its productive base.

Our respondents, even those that actively participated in the process of their formulation, commented that these priorities were a result of political and interregional compromise and not even what they had intended from the beginning. Again, this reflects the point about there was being a lack of overall strategy at the NUTS3 level for promoting balanced economic development. This is key point that needs to be addressed in the forthcoming programming period to make sure that the strategic priorities better fit to the socio-economic situation facing the island.

### ***Main priorities since 2000***

Despite the priorities described above, the actual list of the projects co-financed and the amount spent on each spending category, reveals a very clear focus toward “hard” infrastructure projects. Without denying the need to have safe roads and ports, schools or sewage systems, some of our respondents commented that these projects were (and still are) very popular for a number of reasons:

- (a) They have a clear output which everyone can see and use relatively quickly;
- (b) There is enough technical and managerial expertise to run these projects and therefore the money is spent easily allowing good funding flows and indicators for the RDP and national goals as well;
- (c) Local stakeholders consider these projects as ‘money well spent’ and indeed when they were asked during the process of planning of the RDP they came up with lists of such “hard” projects;
- (d) There is a seemingly strong belief amongst decision makers on Lesbos that transport infrastructure and more generally the construction sector (including housing) is capable of producing economic development and so reduce peripherality.

On the other hand, ideas of innovation, quality and added value were not really widely considered during the consultation and planning process according to the stakeholders interviewed in the Managing Authority. Indeed, the money earmarked for innovation in the 2000-2006 period was re-allocated when it was not used.

When the Direction of Regional Planning (DISA) was asked about this, they answered that “*there are no innovative businesses and initiatives in the area*”. It is important to underline that no pilot action implemented under the Regional Innovation Program “NAIAS<sup>24</sup>” was included in the RDP 2007-2013 even if it was explicitly mentioned as a compulsory element in the original contract with central government. Consequently, very successful actions implemented under the auspices of Lesbos Chamber of Commerce and the University of the Aegean, such as the project of the “Responsible Company” (based on the concept of Social Responsibility but adapted to the reality of insular SME’s and specific context of islands), was abandoned. This raises an important issue about the need to include other stakeholders in the process of developing and choosing projects in the innovation field. In particular, the University of the Aegean is an important player in this regard and could provide interesting project ideas and initiatives to be funded in the forthcoming programming period.

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<sup>24</sup> The North Aegean Innovative Actions and Support project.

Similarly, the conservation and the promotion of natural and cultural assets of Lesbos have been only partially explored by the Operational Programme through a targeted local strategy although there is potential for much more to be done in this area. On the other hand, there have been some success stories. For example, there is the case of the Petrified Forest of Sigri (Natura 2000 area): the presence of the Museum run by the auspices of the Ministry of Culture has, due to a very active executive board, succeeded in gaining funding for different projects from the ERDF Operational Programme in order to finance infrastructure, equipment, publications, new activities, awareness' raising actions and so on. The direct results in terms of employment of qualified personnel, development of new activities, support to women cooperatives and so on, has allowed to promote Lesbos worldwide through the Unesco's Geopark Global Network and the winning of the EDEN (European Destinations of Excellence) award.

In contrast, the Natura 2000 wetland of Kalloni, which is an important worldwide site for attracting migratory birds and thus a renowned bird-watching destination, is under threat of closure. The Centre for Environmental Information financed by ERDF was closed for three years as it was not considered as a priority action for local authorities; it has only just opened again recently. This is the same for the Teriade's Museum of Modern Art in the suburbs of Mytilini. Instead of being bastions of world interest, nature and cultural tourism, these significant local assets are continuously degrading through a lack of investment in their maintenance and upkeep. Such examples are illustrative of the potential for an alternative or complementary economic development strategy based on the exploitation of local environmental, cultural and natural resources.

### *Main stakeholders*

- **Regional Authority:** in charge of planning and managing the RDP, especially the Managing Authority of the RDP and the DISA authority that runs the projects to private enterprises,
- **Municipality of Lesbos,** as it has incorporated all 13 former municipalities of the island, is the most important public authority on the island benefiting from ERDF and CF projects,
- The **Local Action Group** that runs the Leader project,
- The **University of the Aegean** – a beneficiary of ERDF projects (infrastructure and equipment) and an organisation that helps in running some of the projects, but not to its full potential,
- The **Chamber of Commerce** that supports (poorly) private companies and assists them to apply for projects,
- **Ferry and air companies** as carriers to and from the island; they take advantage of the ERDF project only indirectly through the amelioration of port and airport infrastructure,
- **Firms** (mainly micro firms) in manufacture and tourism sector that take advantage of incentives.

### ***EU funds are a key actor***

For an area such as Lesbos, with a limited and shrinking socio-economic base for many decades, EU programmes are key sources of funding and key elements in meeting any type of regional or local economic development strategies. The national budget for regional development is limited and especially under the ongoing crisis, it is rather inexistent. In this sense, this RDP is considered as the only opportunity to complete some of the basic needs of infrastructure on the island and to promote a more competitive economy through structural changes in the productive sector. At the same time, EU policies and especially environmental policy, placed the management of resources and waste very high on the agenda (solid and liquid waste treatment especially) and national guidelines were to use these RDP and CF to meet some of the requirements laid down by European law. As several stakeholders pointed out, the EU funding has been, and continues to be, a crucial source of finance for the island of Lesbos. On the other hand, as the next section explores, questions were raised about the ways in which the ERDF funding was used and the relevance of it to the socio-economic challenges facing the island.



## 4. Relevance of ERDF and CF Programmes

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This section will assess the extent to which ERDF and CF Programmes address the specific needs and challenges of the regions and contribute to economic development at NUTS3 level. For this purpose, the section is divided in the following three sub-sections:

- 4.1 Overview;
- 4.2 Strategies & approach for the use of ERDF/CF in Lesbos;
- 4.3 Relevance of ERDF/CF in Lesbos;

### 4.1 Overview

Voreio Aigaio Region (NUTS2 level), where Lesbos is located, was under Objective 1 during 2000-2006 and is now under the Convergence objective during the 2007-2013 period. Actions in the region were financed mainly by the regional Operational Programmes (ref cod 2000 GR16 1 PO 009), but also by the national sectoral Operational Programmes and by Cohesion Fund. During the 2007-13 period, financing comes from a common operational programme for Voreio Aigaio, Notio Aigaio and Kriti (ref cod 2007 GR 16 UP 002) and from the Cohesion Fund.

National sectoral EU programmes have almost no application on islands where actions have mainly a local character (intra- and inter-regional infrastructure projects are practically non applicable). In the Voreio Aigaio Region the following EU funded or co-funded Programs were undertaken from 2000 to 2013:

- ERDF programmes, from which Lesbos receives 52% due to a former decision to distribute fund allocation based on population criteria between different NUTS3 zones (this commitment was not really contested during the recent period where the earmarking principle for the projects' selection was applied);
- ESF;
- Rural development Fund, including the Leader programme;
- FIG;
- Interreg;
- Cohesion Fund.

The vision of the RDP for Voreio Aigaio has significantly changed during the two programming periods and the different classifications followed at the national level make comparisons very difficult at a general level. In 2000-2006, the vision was to tackle geographical isolation, demographic shrinkage and general economic lagging provoked by the border and insular character of the region. In 2007-2013, the aim was to decrease the double peripherality and strengthen the exports of the region by widening and reorganising its productive base. In reality, however, there has not been a significant change in the

distribution of funds: hard infrastructure receives the vast majority of the resources. The overall budget in 2000-2006 spent on Lesbos was EUR 302 million (ERDF plus CF). The analysis of the budget reveals that almost 80% of the budget is used for infrastructures (24.1% for transport; 38.8% for environmental; and 14.8 for telecommunications, see Table 3).

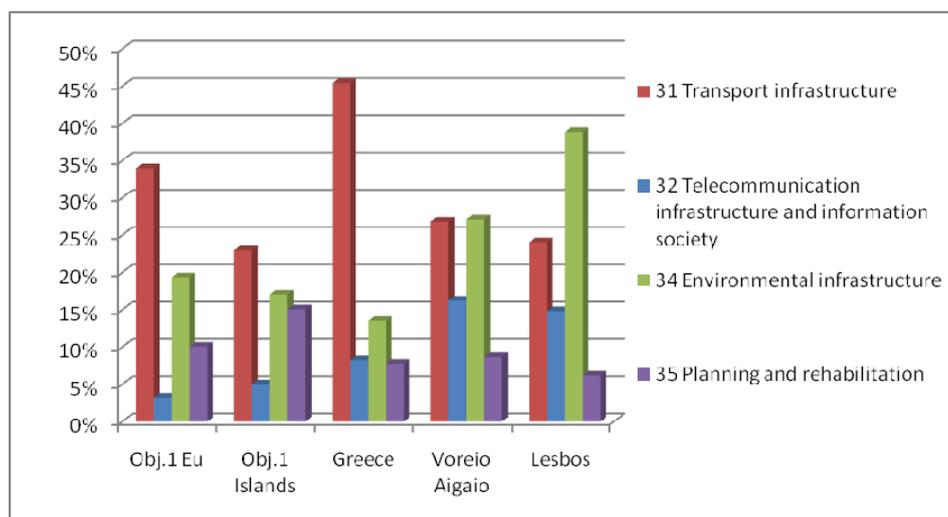
**Table 3: Budget of ROP 2000-2006 for Lesbos and Voreio Aigaio per field of intervention (ERDF and CF)**

Level 3 name	Lesbos GR411 (%)	Lesbos GR411 (€)	Voreio Aigaio GR41 (%)	Voreio Aigaio GR41 (€)
14 Fisheries	0.3	802 565	1.6	8 356 137
15 Assisting large business organisations	0.6	1 938 632	0.7	3 842 537
16 Assisting SMEs and the craft sector	5.2	15 825 933	5.1	27 282 005
17 Tourism	4	12 210 601	5.4	28 877 124
18 Research, technological development and innovation (RTDI)	1.9	5 687 988	2	10 737 754
21 Labour market policy	0	0	0.04	237 721
22 Social inclusion	0.004	10 983	0.005	24 527
23 Developing education and vocational training	0.7	2 102 721	0.7	3 707 500
31 Transport infrastructure	24.1	72 801 141	26.8	143 964 014
32 Telecommunication infrastructure and information society	14.8	44 809 599	16.2	87 101 635
33 Energy infrastructure		0	0	0
34 Environmental infrastructure	38.8	117 525 977	27.1	145 579 446
35 Planning and rehabilitation	6.2	18 643 847	8.6	46 317 146
36 Social and public health infrastructure	3	9 212 489	4.9	26 055 526
41 Technical Assistance and innovative actions	0.4	1 090 364	0.9	5 064 840
<b>Total %</b>	<b>100</b>		<b>100</b>	
<b>Total €</b>		<b>302 662 840</b>		<b>537 147 912</b>

Source: SWECO, 2008

A comparison could also be made with the higher levels (Figure 1) by using the four main fields of interventions chosen by Lesbos. These fields are unsurprisingly basic infrastructures but the distribution clearly shows that the priorities within these infrastructures are not quite the same. Lesbos placed a clear priority on environmental infrastructure, it is essentially explained by the participation of the CF which, on Lesbos, exclusively focus on environmental infrastructures (the CF represents about EUR 65 million). However it is not the case for the upper levels which prefer transport infrastructure. Indeed, although the latter comes in second position for Lesbos, the proportion of commitment is almost two times less than the Greek figure (24.1% against 45.4%).

**Figure 1: Four main fields of intervention of Lesbos – Comparison from EU to NUTS3 level for the 2000-06 period**



Source: SWECO, 2008. Processed by the authors.

Note: Obj.1 in the horizontal axis has to be understood as Objective 1 plus Cohesion Fund.

This allocation has been retained in the 2007-2013 period and, although the regional numbers were not available at the time this Report was compiled, the figures in the table below shows that more than 30% has been allocated for transport infrastructure (roads and ports). Infrastructure for the protection of the environment had almost the same budget for the two programmes (at roughly 15%). The failure of the entrepreneurship part of the programme in the 2000-2006 period, reduced the overall percentage from 15% to 10%. This is important and will be discussed in more detail later in the Report. To all of this, the CF actions have to be added and, as discussed earlier, it concerns only environmental infrastructures on Lesbos. It is worth noting that there is an overall small increase in current prices between the two periods for the overall budget.

**Table 4: Allocation by field of intervention – Comparison between 2000-06 & 2007-13 for Voreio Aigaio**

Fields of intervention (FOIs)	2000-2006 (%)	2007-2013 (%)
Transport & Communications	34.6	32.9
Entrepreneurship	15.1	10.5
Protection of environment	15.2	14.7
Natural Heritage	0.7	2.9
Culture	11.1	4.2
Urban regeneration	1.8	7.6
Access of Women to Job	5.6	3.9
Education Infrastructure	9.9	11.4
Health and Social Care Infrastructure	6.0	11.9

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<b>TOTAL</b>	100	100
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*Source: OPs 2000-6 and 2006-13, Author's calculations*

*Note: The actual amounts are no longer considered (compared to the previous table). This is because it is not possible to compare absolute values since the fields of intervention are different between the two programming periods. Moreover, the classification of the fields of intervention used here is arbitrary; its main purpose is to provide some basis for comparison between the two programming periods.*

## 4.2 Strategies & approach for the use of ERDF/CF in Lesbos

The Operational Program is developed by the Regional Managing Authority, under the supervision and the guidelines of the Ministry of Economics and Finance and with the help of consultants. In the early phases of planning, consultation processes and conferences with local and regional stakeholders were conducted. Local stakeholders were asked to come up with ideas, projects and objectives; and all this material was provided to a committee that sought to develop a strategy and some priorities, again with the assistance of consultants. As already discussed above, all these processes ended up in very similar if not identical planning structures with the larger part of the budget (85 to 90%) spent on basic infrastructures (even more if CF actions are included) and limited funds allocated for the productive sector, or R& D activities and/or business support.

In addition, there seems to be a lack of internal coherence of the Programme between, on the one hand, the analysis of the socio-economic problems and needs of the island, and on the other hand, the formulation of the strategic objectives and operational goals. Put simply, there is an apparent mismatch between the outputs and the results of the actions of the Programme compared with the socio-economic reality of the island, which is a very low competitive economy with very few exports (agriculture and manufacture are declining and even tourism has stagnated during the recent decade).

In this context, the development problems of the area are not fully recognised as problems of low attractiveness for innovative companies and skilled labour due to insularity affecting the productive capacity and the competitiveness of the economy (*weaknesses*). Instead, the dominant view amongst some stakeholders in the islands is that relative underdevelopment is due solely to the lack of hard infrastructure in different sectors. The fact that one third of the budget is used for transport infrastructures - and mainly for roads - means that for the stakeholders and the decision makers, the improvement in accessibility seems to be the main response to the development lag and the depopulation. This is somewhat in contrast, however, to the analysis of the external environment (*opportunities and threats*) and the priorities given either at the European, national level or at the regional level (investment into the productive sector with diversification of the tourism product and the innovation being the two main priorities).

Finally, the natural and the cultural environment, as well as the other assets presented earlier are not recognised as *strengths* and no real actions are planned in order to preserve and to utilise them to enhance the local economy of the island. Again this is something that needs to be addressed in the next programming round to make sure that such assets are developed further.

### 4.3 Relevance of ERDF/CF in Lesbos

As already discussed, the goals of EU interventions on Lesbos were multiple: on the one hand, official goals of the RDP and local stakeholders were to face the geographical disadvantages of the area and namely that it is a remote and peripheral area. However, as the closer examination of the type of interventions that were actually implemented on Lesbos demonstrates<sup>25</sup>, it seems that the implicit goals were to amend or build infrastructure in the area.

This is not to say that infrastructure, especially transport, are not helpful in overcoming isolation and peripherality, but the fact that 75-80% of the ERDF budget is spent on “hard” infrastructure alone reveals how stakeholders view the instruments and projects that, according to them, will assist the area to face these disadvantages. The need for infrastructure is never saturated as we can see in the most developed countries, but the need for a more competitive economy seems to have a too low priority in planning. This economic development paradigm has arguably remained largely the same for more than 20 years of planning in Greece regardless of the wording of the programmes.

The lack of projects and financing to R&D type investments and the creation of “soft” infrastructure is not viewed as a flaw in the programming or the implementation of the RDPs, but as a “natural” consequence of the “inherent” characteristics of the businesses of the area, namely their supposedly non-innovative, ‘backward’ and conservative character. This is the rationale that the regional authority (DISA), which is responsible for approving and monitoring private investments in the area, seems to believe. On the other hand, Lesbos has the advantage of having the University of the Aegean and it is the biggest island in the region with the highest potential for natural and human capital, plus it is the seat of most of the public authorities, which could help in setting up and operating such “soft” infrastructures. As mentioned earlier, adequate procedures and structures need to be developed in order to overcome this situation for the next programming period. Unfortunately, the current situation has not really created many jobs opportunities in the private sector and so a large part of the younger and most educated part of the local population still chooses to migrate to bigger cities and especially Athens (until the current crisis, since new conditions have emerged and a new reality is taking shape).

Links with others EU funds (EAGGF including Leader, ESF, etc.) could be improved. Integrated projects or plans are very rare and frequently of very small scale -such as the integrated urban action for the city of Mytilini that was not very successful. It seems that most of the projects operate independently of each other, especially between ERDF and rural development projects and plans. Integrated approaches were supported, at least in theory, during the 2000-2006 period, but the 2007-2013 RDP is “mono-funded” by ERDF. This is viewed by several stakeholders as a considerable drawback of the current programme.

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<sup>25</sup> see the next section for more details on the outcomes of the projects

Although one can hardly claim that in the previous period, the so-called integrated approach was very successful or productive, at least the opportunity to be able to plan over multiple funds for the same area was a big plus, especially for an area such as Lesbos, which is small, remote and with a very important agricultural sector and rural areas. This view was reinforced by a majority of the respondents interviewed, who stated that having only one fund to plan was restricting and wanted to return to a “poly-fund” and integrated approach, incorporating also programmes such as Interreg, Leader in a unique Operational Programme under a common strategy.

The next section focuses on the effectiveness of ERDF on Lesbos.



## **5. Effectiveness of ERDF/CF in Lesbos**

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This section will explore the extent to which ERDF and the Cohesion Fund have achieved their objectives at the NUTS3 level. For this purpose, the section is divided in the following three sub-sections:

- 5.1 Main results of the programmes;
- 5.2 Further considerations to the effectiveness of the funds;
- 5.3 Remaining challenges;

### 5.1 Main results of the programmes

#### **5.1.1 Review of the 2000-2006 period**

Unfortunately, the indicators of the Operational Programme are not available at NUTS3 level (for Lesbos), but only at the NUTS2 level, for the region. Moreover, a disaggregation at the NUTS3 level of data in order to produce information for the different projects is not always possible since many of these projects were applied to more than one island.

Nevertheless, the indicators for 2000-2006 reveal an overall good picture in terms of meeting the targets. However, a closer examination of the projects reveals that 16 projects were not completed during the 2000-2006 period and were transferred into the 2007-2013 RDP, most of them being infrastructure projects and a good number for Lesbos. Moreover, 27 projects were simply cancelled from the 2000-2006 RDP, either due to problems of the related supporting documents (some implementation studies were incomplete or outdated), or due to the inability of the final beneficiary to complete the project.

For the Cohesion Fund, the two projects that were approved for Lesbos were completed, for water (sewage networks) and for solid waste dumps, but with some problems in their follow-up and their management, especially the solid waste dump project.

A closer examination of financial flows also reveals that, even if the progress of payments seems to be rather good (27% of the budget within the first 3 years of the RDP), most of this money mostly came from projects related to education infrastructure (more than 50% of the sum) and which have been transferred from the previous programming period to the actual one (the so called “bridge” projects).

The real issue, however, refers to the output, results and impact indicators. The vast majority of the indicators (Table 5) are output ones (even those named as result indicators) and reflect more fund “absorption” capacities (i.e. money spending on time) and less achievement rates of certain goals necessary to change the state of the region. Furthermore, some of these indicators are too general and fail to take into account the actual spill-over

effects of many of the projects in job creation or preservation. The targets set in the particular sector are very low and are set arbitrarily, with an eye to what the projects “achieve” during their implementation, arguably a form of self-fulfilling prophecies. There seems to be a lack of an external (overall) evaluation of the whole procedure based on well defined results and robust indicators.

Moreover, concerning the geographical specificities of the area, there is a clear lack of a methodology that can justify extra costs due to insularity. For instance there is no information about the per km cost of a national, regional and local road on islands and the comparison to the costs of construction on the mainland. There is no information about the cost of a job created on islands, the construction of a waste disposal site, the creation of a company, a tourist bed and so on.

The impact indicators fail to reflect the overarching goals of the RDP, as methodological guidelines and common sense would suggest. It is certainly not an easy task to quantify impacts of a diverse set of actions and projects, but at least some efforts were expected to be estimated from the beginning to the expected impacts of the projects on the island. Although this line of criticism is not unique to Lesbos or Voreio Aigaio, it would greatly help to the estimation of the effectiveness of the RDP and would offer a more solid base upon which planning for the next period could be developed.

Of course, the Managing Authority claims -and this is perfectly reasonable- that the national system of indicators was already provided and they could only choose some of the “standard” impact indicators in the system. But no effort was made, since the overarching priority seems to be to meet the financial goals first (“lose” no money was the motto, according to the majority of the stakeholders interviewed).

The inclusion of specific indicators (result and impact ones) on the specific actions financed by the project would greatly help here. For instance, there is no mention on the tourist product and how its quality and/or quantity is supported by the RDP; no information on how this has affected tourist arrivals and an estimation of the GDP created.

Similarly, there is no more information of the kind of businesses that are supported and how this has reinforced the competitiveness of the local economy. These examples, although not exhaustive, may illustrate the absence of a real evaluation of the success and effectiveness of the RDP.

**Table 5: Output, result and impact Indicators of the Voreio Aigaio Region  
2000 – 2006 RDP**

Priority axis	Indicator	Value achieved	% of goal
1	<b>Output Indicators</b>		
	National roads (improvement)	1,6 km	100%
	Regional roads	160,86 km	161%
	Ports	4	100%
	Works in Monuments (castles, archaeological monuments, etc.)	30	167%
	Beneficiaries from labour market interventions	3.344	96%
	Creation of infrastructures for taking care people requiring assistance	54	100%
	<b>Result Indicators</b>		
	Km of new and improved roads % of existing	16,58%	more than 100%
	Interventions % of important monuments	43,43%	more than 100%
	Beneficiaries % of active population	1,83%	close to 100%
	Jobs during life time of project	2.600	104%
	<b>Impact Indicators</b>		
	New full time jobs	285	84%
2	<b>Output Indicators</b>		
	Drinking water network (new and improved)	102 km	84%
	Sewage systems (new and improved)	150 km	88%
	New Infrastructure for Sewage Treatment	5	125%
	Upgrade - expansion of hospitals	3	100%
	Teaching rooms (new and improved)	155	103%
	Integrated interventions in urban areas	5	100%
	Reconstitution of waste dumps	16	390%
	<b>Result Indicators</b>		
	Population serviced from new and improved water networks % of total population	4,4%	more than 100%
	Population serviced from new and improved sewage networks % of total population	29%	less than the target, some to new RDP
	Increase of population serviced from Sewage Treatment Facilities	10,85%	more than 100%
	Upgrade of hospital beds % of existing ones	72,50%	Less than target
	Increase of hospital beds	9,44%	Less than target
	New teaching rooms % of total	1,90%	100%
	Teaching rooms improved % of existing ones	12,80%	Less than target
	Population serviced by integrated interventions	60.800	365%
	Population benefited % of total urban and semi urban population	69,47%	more than 100%
	Jobs during life time of project	1.540	103%
<b>output Indicators</b>			
Operation of schools in one shift	100%	100%	
New full time jobs	158	125%	
3	<b>Output Indicators</b>		
	Tourist companies beneficiaries	320	178%
	Quality upgrade of tourist beds	6.800	101%
	Manufacture companies benefited	178	112%
	New and improved University buildings	6750 km2	102%
	Innovations benefited	36	514%
	Life-long learning beneficiaries	1.116	80%
	<b>Result Indicators</b>		
	quality upgrade of tourist beds % of total	22,5%	more than 100%
	Manufacture companies benefited % of total	6,66%	more than 100%
	Improvement of University buildings	14,40%	more than 100%
	Jobs during life time of project	1.543	96%
	<b>Impact Indicators</b>		
	Permanent capital increase of regional companies	92	213%
New full time jobs	333	133%	

Source: Final report of RDP of Voreio Aigaio 2000 – 2006, Annex II

### 5.1.2 Progress and outputs for the 2007-2013 period

Most of the insights of the 2000-2006 period are valid for the 2007-2013 period as well. Still, most of the budget is allocated to “hard” infrastructures, soft ones are largely ignored, private investments in R&D are still largely non-existent and are expected to emerge as if out of thin air in the area, without assistance or set-up mechanisms, and the indicators for evaluating the RDP and the effectiveness of its actions still do not reflect the overarching goals (Table 6). Financial goals and flows are still considered as more important, since, so far, the financial flows are lagging behind and annual goals are just met each year.

**Table 6: Performance Indicators of the Voreio Aigaio Region 2007 – 2013 RDP**

		Current state	Goal	Achieved
Investment payments for SMEs	Number of SMEs	347	340	89
	Of which, number of new businesses	55	45	-
	Jobs (full time or equivalent)	87	80	84
	Investments (€ million)	75	66,2	
Information society	Number of projects	14	5	
Transport	Number of projects	48	30	
	Km of new – improved roads	110	56	
Environment	Population served by water management projects	8900	4000	
	Equivalent population served by waste management projects	40000	5000	
	Number of projects for solid waste management	1	6	
	Rehabilitation of former dump areas	5	30	
Hazard prevention	Number of projects	4	2	
Tourism	Number of projects	182	150	
Education	Number of projects	33	40	
	Number of students served	9770	6800	
Health	Number of projects	7	20	
Urban development, natural and cultural regeneration	Number of projects	16		
Competitiveness	Number of projects for new businesses and new technologies	4		
Social integration	Number of projects for providing equal opportunities	3		

Source: annual report of RDP, [www.pepba.gr](http://www.pepba.gr)

In terms of the overall impacts of the RDPs, the ongoing crisis of the Greek economy has worsened all economic indicators and has already created a negative impact on the demography of the island, as some preliminary results of the census and personal experience demonstrate. It would not be fair therefore to judge the overall impact of the projects by the development of such indicators, especially in the light of the absence of a coherent methodology or empirical studies that could help to estimate the impact of the projects.

A rough analysis, based on what would happen without the projects, must definitely place a positive sign on the impacts of the projects and the RDPs. At the same time though, even

these incomplete indicators reveal that their impact could be more positive with some adjustments to the type of funded projects and to the priorities set in the programming period, without mentioning the complexity and red-tape surrounding the implementation process.

## 5.2 Further considerations to the effectiveness of the funds

What makes some policies and plans more efficient than others? Theoretical and practical approaches recognise many tangled factors that can make the same type of projects work better in some areas and not so good on others. On Lesbos, as already noted, EU funds - and especially ERDF funded projects- have been an invaluable source of funding for completing infrastructures. It is certain that without their existence, the area would be worse than it is today in terms of infrastructure for transport, environment, health, education and culture. At the same time, all of our respondents agreed that the effectiveness was not what it could be. A wide array of reasons was provided:

1. The complexity of applying, managing and completing the projects in the Managing and Financing framework was mentioned by all. It is true that the national context is very complicated and time consuming, even for projects that are considered “mature” (i.e. with feasibility and implementation studies as well as construction and environmental permits, and with beneficiaries that can run them smoothly) there are many delays due to the duplication of the regionalised and centralised processes and a very complicated and not transparent legislative framework. For instance, situations where expropriations are needed, are very time-consuming.

As our respondent from the University of the Aegean Technical Department mentioned, the more Ministries involved the more time is required. She also estimated, barely exaggerating that for each new actor involved in a project, 1-2 months are added for relatively simple actions and 12-18 months are added overall. This context is frustrating for both public and private beneficiaries. Our respondent in one important private investment in ouzo-making guided us through the 6 year process between the approval of the application and the final payment (2005-2011).

On the other hand though, the staff in the Regional Authority that approves and manages private investments, was adamant in defending the complex system of permits from different agencies, delays in controls and paying. Their claim that they are understaffed for such a complex task, would make more sense if they wanted to make the whole process simpler and more efficient, but their approach towards possible beneficiaries seems to be to regard them all as possible irregular and/or illegal cases. A telling example is the defence of the extremely centralised system of setting the rules of private investments. When asked if they thought that regional variances might help them (and beneficiaries), they said that the Ministry knows best. This is related with the type of investments financed which is discussed later in the Report.

2. The type of local economy was mentioned by some of our respondents, mostly from the managing part and not by public and private beneficiaries. According to this claim, the businesses that operate in the area and their owners are “*conservative*”, “*non-*

*innovative*”, “*do only what they know to do*”, etc. Thus, the “blame” of the failure of the RDP’s section related to R&D was put on the local economy alone. This could be a bit misleading though, as the current context is very unhelpful for operating businesses that may have new ideas. In a national context that requires delaying and expensive procedures already, the absence of public or private facilitators is very important. Unfortunately, this absence, although noted and commented by our respondent in the Managing Authority, seems not to be considered as important, along with other “soft” infrastructures and therefore, even if ideas do exist (and some in tourism and services were identified in the past by regional Innovation Plans), their funding might not be made easy.

3. The type of projects financed is another key factor that affects the success of the RDP. As already mentioned, most of the budget is allocated to “hard” infrastructures, for transport and environmental networks, health and education. Many reasons were mentioned for this clear choice. One of them is that these types of projects have been considered in Greece as important and indeed as the best way for local, regional or national administrators to demonstrate that he/she has “produced” or “provided” for the area. Therefore, when local stakeholders are asked the type of projects they would like to be included in the RDP, such infrastructures - and especially roads- are always mentioned first.

Another reason is related with money flows. Due to the aforementioned preference to such projects, the know-how of managing and making them is high in the area, especially when compared with other type of projects (e.g. the operation of the waste disposal site that faced problems related to insufficient know-how). Since the highest priority is to “absorb” money and have regular and on-time payments, such projects are preferred by all involved, as they spend lots of money and relatively quickly except when there are court related delays for expropriation procedures due to the unwillingness of owners to sell their property or also to archaeological findings (for example, the Mytilini sewage system has faced a lot of extra cost and took much longer to build due to such findings in the ancient town).

4. The apparent absence of a coherent overall planning framework and also some inefficiencies in the administration could play a role too. Both RDPs seem like a compilation of pasted lists of projects from different stakeholders, national, regional and local. The initial diagnosis of the state of the area appears not be complete, the internal coherence between goals, actions and projects is poor and the indicators that monitor the RDP do not depict its actual achievements, especially in terms of impacts. Another related issue that was mentioned by the Managing Authority is the revisions of the RDP, which on the one hand reveal some possible initial planning deficiencies and on the other hand demonstrate the prevalence of spending money as the overarching goal.
5. The human capital of the area is another factor that was mentioned. As already noted, the largest part of the youngest and best educated population of the island has migrated in the last decades, depriving the local administration and mainly the private sector of the appropriate human capital. The making and development of the

University of the Aegean has been a great help there, by providing knowledge and training to local people and this issue is no longer as important as it was in the past. But, especially for rural areas, it still hinders perceptions of what development “is” and helps in maintaining false impressions on local businesses.

Data presented in the first part of this document as well as in the analysis of the Voreio Aigaio region in the second intermediate report concerning the economic and the demographic state of Lesbos NUTS3 area (Limnos and Ag. Efstratios included) have not really improved during the last decade. For example, production in the main sectors - agriculture, manufacture and tourism is declining relatively; the GDP per capita ‘gap’ compared to the Greek average is not diminishing (about 68%); the natural movement of population is still negative (-2.4%); population is ageing and the active population is low. More specifically, as regards to tourism, which was considered for many years as an emerging activity in order to replace agriculture, the number of hotel beds is around 8 300 beds in comparison to 8 700 ten years earlier and the number of nights spent by foreign and domestic tourists is about 650 000 in comparison to 811 000 in 2000. This situation is also apparent in the NUTS2 data concerning the attractiveness of the Voreio Aigaio region, such as the education level of the population, R&D expenditure, the penetration of ICT, or the use of broadband.

### 5.3 Remaining challenges

How could all these factors be addressed? As mentioned before, it could be addressed at different levels: (a) the national and the local, by the implementation of more effective planning procedures and (b) at the European, by adopting a differentiated policy mix of measures adapted to the different territorial specificities within the framework of Cohesion Policy.

Some of the most important issues and lessons that emerge from the case study of Lesbos is that planning for such areas with specific geographical characteristics has to be done by taking into account these characteristics. Since it is impossible to change permanent features (such as insularity), this means, in practical terms, that planning in these areas should have goals that can use these features as *assets* and not as constraints.

This is of course not a very easy thing to conceptualise and here exactly, there may be some of the weaknesses of planning for Lesbos that has not to be attributed to the deficiencies of the Greek planning system as the same problems are met in other European insular areas. As analysed within EUROISLANDS report (ESPON 2013 programme), almost all the islands are facing problems of attractiveness for companies and population, and despite massive state intervention (in most of the Nordic islands the state creates between 30 up to 45% of the GVA and the employment), evolutions in economic activity and population are not positive.

Even if the effects of insularity could be made less acute, this would not provide a comparative advantage to the enterprises of the area if they try to compete with other

European companies in the same markets for the same products. In fact, it would probably make things even worse, since it would expose the small and vulnerable businesses of the island to national and international competition. Most of our respondents, and certainly the central and regional authorities that set the goals of the RDPs, fail to see this fact.

On the other hand, the new Municipality on Lesbos seems to have realised that fact, both in the political and the administrative level. Since the new regional structure of the country has set new rules for the planning and the implementation procedures concerning EU and national funds, with the responsibility at the regional level shifting from the General Secretary of Region, nominated by the government, to the newly elected body and to the new Municipality for the island, this realisation may be crucial for more efficient planning in the future.

It is doubtful that any regional planning -regardless of its effectiveness- can amend this, if there is not a broader change at the European level within the territorial cohesion objective launched recently by the Lisbon Treaty, as many decisions have to be undertaken at the European level. This demands not only adaptations of the Structural Funds but also adaptation of some European Sectoral Policies with an explicit spatial dimension in order to ameliorate islands' attractiveness by taking into account their specific characteristics; that means that islands' attractiveness cannot be the same as urban or rural attractiveness but has a lot of similarities with mountain and sparsely populated areas.

## 6. Implementation and governance

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This section will assess the extent to which the programmes have been delivered with a clear vision and strategy. For this purpose, the section is divided in the following four sub-sections:

- 6.1 The process of ERDF decision-making, design, coordination and implementation;
- 6.2 The relationship between ERDF and other community, national, or regional policies;
- 6.3 The dominant governance pattern and the administrative ‘fit’ between the NUTS2 and NUTS3 level;

### 6.1 The process of ERDF decision-making, design, coordination and implementation

The design of the ERDF related programmes and projects and their governance in Greece are very centralised, as most of the administration and uniform all over the country despite the different territorial features. Most decisions are taken by the central government and administration and only secondary decision are left for the decentralised bodies.

The principal role in the decision making system is held by the Ministry of Economy, the Secretary General (actually the President of the Region) and the regional Managing Authority. The vast committee of stakeholders (about 40 persons for Voreio Aigaio region during the period 2000-6 and about 70 persons for the OP of Kriti and Aigaio in 2007-2013) has only a consultative role even if it is composed by elected members of local authorities, representatives of CCIs, hoteliers, farmers, representatives of employees etc. The committee holds annual meetings in which the process of the RDP is reviewed and discussed, and some decisions are taken. The replacement of the General Secretary, nominated from the central government, by the elected President is too recent in order to produce effective results.

As already mentioned above, the priorities of the different powerful actors in the process are mixed so far. Central Government Authorities seem to be very much focused on meeting financial timetables and keeping money flows by making regular payments. The Managing Authority is also interested in not “losing” money, but in completing the projects as well. So, the importance seems to be given to the output of different actions rather than to their results and impacts.

Lesbos also received financial assistance from other EU and national funds for the two programming periods. During the previous programming period there was one integrated multi-fund programme with actions financed by all EU funds. This helped to unify programming and governance procedures, and facilitated the stakeholders to obtain a global view of the RDP, but also of planning for the area. During the current programming period, the decision to separate the programmes from different EU Funds has complicated

even more the procedures and no real synergies are possible anymore. For instance, Interreg have different rules, procedures and time tables.

Another point that emerged during the discussions with the Managing Authority and other stakeholders is related to the overall amount of money available for projects in the area and the Region in general. This had a twofold effect on programming and deciding which projects would be funded: on the one side, since enough money was in general available, especially for infrastructure, prioritising the projects according to their expected impacts and the actual needs of the area was not very high on the agenda. On the other side, this meant that “hard” infrastructure was the first choice for another reason: such projects are typically expensive and can “absorb” budgets. This is not to say that less money would produce better results. However, only a more efficient programming, on the basis of the needs of the area and the expected impacts, would produce more success stories.

Important problems are also reported concerning the procedures related to incentives to private companies; the system appears to be too bureaucratic and opaque regarding criteria and the way in which the rating is done. The whole procedure from the selection of companies up to the repayment of the subsidy is also very slow: for an investment done in 2006 the final payment arrived in the beginning of 2011. So for companies that have liquidity, the time lost for all the procedures is rather wasteful while for companies that really need the financial support, these procedures can be a “trap” creating financial problems to healthy businesses.

The lack of technical assistance to the SMEs in order to develop and to apply different kind of innovations could also be pointed out. The size of insular companies in general is too small; they tend not to have the skilled personnel needed and the cost of using external experts is generally high in comparison to the sum of the allocated grants, and sometimes not suitably adapted for the particular case of an insular company.

## 6.2 The relationship between ERDF and other community, national, or regional policies

As already mentioned, the 2000-2006 RDP combined the three major EU funds under a single Operational Programme and in some of the actions run, more than one funds were integrated in projects. Despite the rather limited success of these integrated projects to become really integrated (and this mentioned to us by both the Managing Authority and the major beneficiary, the Municipality of Mytilini), at least they presented some internal coherence.

In the ongoing RDP, the single fund approach means that many projects that require infrastructure and some money for “soft” actions cannot be financed by the ERDF, or that “soft” projects financed by the national ESF OP cannot finance the acquisition of infrastructure. Moreover, the beneficiaries claim that this restricts their options to apply for funding, since they have not to think in terms of “complete” actions, but of eligible projects, with problems during the application and the implementation phases. All have commented that a multi-fund approach would be much better for the future, especially

since the strategy of the Municipality concerns, for the first time, the integration of agriculture, rural development, manufacture of agri-food products and tourism.

At the same time, it was mentioned to us that the centralisation of decisions for many issues is critical for another aspect that is not typically considered of high importance, but it is placed high for beneficiaries: personal contact with the managers of the projects in the regional Managing Authority and the rest of the administration involved. Regional authorities are in general accessible (although beneficiaries in remote areas of the island claim the contrary and certainly this is the case for the other two smaller islands of Limnos and Agios Efstratios) and in most of the projects, it seems that good contacts were established between beneficiary and manager. But, contact with the administration in Athens is more difficult and causes delays in communication and understanding which yield other delays in the implementation of the projects.

### 6.3 The dominant governance pattern and the administrative 'fit' between the NUTS2 and NUTS3 level

As mentioned above, Lesbos (along with Limnos and Agios Efstratios) was until recently a Prefecture with an elected Prefect. After the recent reform, Lesbos is now a Municipality (uniting 13 former Municipalities). At the same time, a regional head of administration from the elected Regional Authorities (a vice president) is responsible for the NUTS3 area (Lesbos, Limnos and Agios Efstratios). This has simplified local government in theory, although the practicalities are yet to be resolved after almost one year of implementing this reform, under a severe budget cut compared to the former Municipalities.

This reform has strengthened the administration and management capabilities of the new Municipality, which understandably is the major beneficiary for public projects on the island. The former smaller Municipalities often complained -most rightly so- of being understaffed in trained personnel and this burdened their management capacity very much. Having solved this to a large degree, the head of the technical staff of the new Municipality now turns his attention to the other big issue, red-tape and the complex pathways that have to be followed to make decisions. This is a serious obstacle to public and private projects no matter if they are big or small and this definitely requires simplification.

Cooperation between Municipal and Regional Authorities is in general very good, since the seat of the Regional Authorities is in Mytilini and the elected Secretary General was the former mayor of the former commune of Mytilini. In fact, the rest of the NUTS2 areas of the Region (Hios and Samos) complain that the Region rather favours Lesbos somewhat and not so much the rest of the islands. In planning, the small size and many voices of the former small Municipalities made prioritisation a difficult task, especially for the placement of activities that are difficult to locate (such as waste disposal sites, the electric power plant, the gas tanks, etc.). The new Municipality can in theory at least solve such conflicts and has to plan now for the whole island. According to the vice mayor, this plan is on the way and will be finalised in early 2012, after public hearings.



## 7. Conclusions

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Below are a summary of the main points that emerge from the Lesbos case study:

### 1) Geographical context

Lesbos is a remote island in the European and Greek context. Accessibility is an important handicap that enterprises and residents have to overcome, including the cost of transport to and from the island by both ferry and plane. This geographical context plays a dominant role in determining socio-economic conditions and is more often viewed as ‘handicap’ by local population, administration and stakeholders rather than an opportunity at NUTS3 level.

### 2) Policy responses

Policies and regional development plans for the island have been part of the Regional Development Plans (RDPs) of the Region already since 1989, but under a very centralised planning and management framework of the Greek state. Only recently, under the influence of EU regional policy, the necessity to long term plan has been realised and put into practice through 5 or 7 years long planning but always under close central control, while the Central Government was responsible to negotiate objectives, axes, goals, procedures and financing with EU officials. In the current RDP, there are some differences compared to the previous one: i) the RDP referred to a single fund, only ERDF, compared to the three funds (ERDF, ESF and EAGGF) in 2000-2006; ii) the axes of the different regional programmes are identical all over the country and iii) regional OPs concern 3 regions together; so Lesbos and Voreio Aigaio are together with Kriti and Notio Aigaio.

For an area such as Lesbos, with a limited and shrinking socio-economic base for many decades, EU funds are key sources of funding in meeting any type of regional or local economic development strategies. The national budget for regional development is limited, especially during the ongoing crisis. In this sense, RDPs are considered as the only opportunity to complete some of the basic needs of infrastructure; therefore, the fact that 85% of the budget was allocated to infrastructures has to be considered as very high given that economic competitiveness is low. Such projects and especially roads are very popular because (a) They have a clear output which everyone can see and use relatively quickly; (b) There is enough technical and managerial expertise to run these projects and therefore the money are spent easily allowing good funding flows and indicators for the RDP and the national goals as well; (c) Locals consider these projects as ‘money well spent’ and indeed when they were asked during the process of planning of the RDP they came up with lists of such “hard” projects; and (d) There is a strong belief that transport infrastructure and more generally the construction sector (including housing) is capable of producing development.

It seems therefore that ERDF is an important policy driver and source of funding at the NUTS3 level, although better programming and alignment with domestic policy is crucial.

### 3) Relevance of ERDF

During the planning phase of the RPDs, local stakeholders were asked to come up with ideas and projects and objectives. But most of the budget was allocated to basic infrastructures (even more if CF actions are included) and limited funds allocated for the productive sector, or R&D activities and/or businesses. This situation originates from the inadequate initial analysis of the state of the region and the main factors that need to be addressed, leading to a lack of internal coherence within the programme.

In this context, the development problems of the area are not recognised as problems of low attractiveness for innovative companies and skilled labour due to insularity affecting the productive capacity and the competitiveness of the economy (*weaknesses*) but only as lack of hard infrastructure in different sectors. At the same time, the natural and cultural environment, and the other assets of the area are not recognised as potential areas for investment and job creation.

Links with others funds (EAGGF including Leader, ESF etc.) are weak. Integrated projects or plans are very rare and of very small scale. It seems that most of the projects operate independent of each other, especially between ERDF and rural development projects and plans. Integrated approaches were supported, at least in theory, during the 2000-2006 period, but the 2007-2013 RDP is “mono-funded” by ERDF. A return to multi-fund RDPs was supported by all stakeholders. The inexistence of an insular strategy and policy at the European and the national level worsens these drawbacks, as treating unequal situations with the same tools will continue to give limited results in territorial cohesion.

The case Lesbos case illustrates that the use of ERDF on the island, at the NUTS3 level is actually not more closely attuned to addressing issues related to the specific geographical contexts than at the NUTS2 level; this cannot be considered as a problem as the whole region is insular. Actually, most problematic is the fact that there is not so much difference between the regional programme and the priorities at the national level.

### 4) Effectiveness of ERDF

The effectiveness of EU funds, especially ERDF funded projects, on Lesbos is affected by a range of factors, these include: (a) the complexity of applying, managing and completing the projects in the Management and Financial framework; (b) the structure of the local economy dominated by very small firms; (c) the type of projects financed, since most of the budget is allocated to “hard” infrastructures and very little to “soft” infrastructures for a variety of reasons; (d) the absence of a coherent domestic planning framework as well as a compilation of projects from different stakeholders, national, regional and local; (e) the relative lack of skilled labour, especially in rural areas.

Moreover, concerning the geographical specificities of the area, there is a clear lack of a methodology that can justify extra costs due to insularity. For instance, there is no information about the per km cost of a national, regional and local road on islands and the comparison to cost of construction on the mainland; there is no more information about the cost of a job created on islands, of the construction of a dump, of the creation of a company, of a tourist bed etc.

One of the most important issues and lessons that emerge from the case study of Lesbos is that planning for such areas with specific geographical characteristics has to be done by taking into account these characteristics. But, at the NUTS3 level today, there are not more projects developed that specifically relate to the specific geographical context than at the NUTS2 level.

### **5) Implementation and governance**

The design of the ERDF related programmes and projects and their governance in Greece are very centralised, as most of the administration. At the same time, the priorities of the different powerful actors in the process are mixed so far. Central Government Authorities seem to be very much focused on meeting financial timetables and keeping money flows by making regular payments. The Managing Authority seems to be mainly interested in not “losing” money, but also in completing the projects. Important problems were reported concerning the procedures related to incentives to private companies: the system may be too bureaucratic and not transparent, regarding criteria and the way in which the rating is done, while the whole process from the selection of companies up to the repayment of the subsidy appears to be very slow. Moreover, there is an apparent lack of technical assistance to the SMEs in order to develop and to apply different kind of innovation.

As mentioned above, Lesbos (along with Limnos and Agios Efstratios) was until recently a Prefecture with an elected Prefect. After the recent reform, Lesbos is now a Municipality (uniting 13 former Municipalities). At the same time, a regional head of administration from the elected Regional Authorities (a vice president) is responsible for the NUTS3 area (Lesbos, Limnos and Agios Efstratios). This has simplified local government and it is expected to strengthen the administration and management capabilities of the new Municipality. Cooperation between Municipal and Regional Authorities is in general very good, since the seat of the Regional Authorities is in Mytilini and the elected Secretary General was the former mayor of the former commune of Mytilini. Also, as part of the 2010 major administration reform, the fact that the new Municipality has by law the obligation to produce a strategy, a local development plan and a operational programme will be helpful for the future.

Therefore, better socio-economic impacts of ERDF in NUTS3 regions depends -apart from sound programming- also to administrative and governance structures, partnership working, domestic policy, etc.

Lesbos seems to be in general a case of not fully meeting the potential of the available opportunities. This is related, in a certain extent, to its features: insularity and remoteness have not provided the necessary human resources to understand the issues involved in depth, plan for them and use the available funding to resolve them as far as possible. On the contrary, the available funds were used by the central and the local administration as a means to show “work” and “results” (in most minds linked with hard infrastructures) in the short term and not to face the longer and deeper issues of the area.

It has to be repeated here though that for Lesbos, EU funds -and especially ERDF funded projects- have been an invaluable source of funding for completing infrastructures. It is certain that without their existence, the area would be worse than it is today in terms of transport, environmental and cultural infrastructure.

Addressing all of these is not an easy task, but the most important issue seems to be that planning for such areas with specific geographical characteristics has to be done by taking into account these characteristics, plan *with* them (using local potential) and not *against* them. Since it is impossible to change permanent features (such as insularity), planning in these areas should have goals that can use these features as *assets* and not as constraints. Today, RDPs seem like a compilation of lists of projects from different stakeholders, national, regional and local. This should be replaced by coherent planning procedures to arrive at a robust local plan. For insular areas, such as the Voreio Aigaio Region and Lesbos, a planning and monitoring system at the island level is necessary. Perhaps the new administration reform will ameliorate this.

## 8. Mini-case study

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### Project Title:

1. Construction of Access Road to the Natural History Museum of the Lesbos Petrified Forest
2. Completion of the Natural History Museum of the Lesbos Petrified Forest Building
3. Completion of the Natural History Museum of the Lesbos Petrified Forest

**Key words:** *Remote, rural, coastal areas and islands; Culture; Tourism; Greece; Voreio Aigaio*

### Synthesis

The objectives of the three projects were the completion of the Natural History Museum of the Lesbos Petrified Forest in Sigri and its operation. Sigri is one of the most remote settlements of the island of Lesbos, 100 km away from the capital Mytilini with a winter population of no more than 150 people, across a hilly terrain and a narrow and difficult access road. The difficulties of the geographical setting of the island are magnified for Sigri, in a typical case of a “double remoteness”. The Petrified Forest is a protected natural monument located on the Western part of Lesbos Island, consisting of remains of fossil plants within volcanic rocks, covering an area of 15 000 ha. The Petrified Forest constitutes an entire forest ecosystem fossilised on the spot due to intense volcanic activity.

The geographical constraints set many and complex problems in the operation of the Museum and the Geopark of the Petrified Forest but also difficulties in planning and implementing the co-financed projects. The Museum staff lacks technical expertise in infrastructure projects and the projects were supervised by the former Prefecture of Lesbos and its technical staff. This, although positive due to the expertise of the staff, was a problem because the distance from Mytilini. Another important issue was the initial disbelief of many of the local stakeholders about the outcomes of the projects and the Museum in general.

Key success factors of the project were:

- A clear strategy: The Museum had from the beginning a very well defined strategy including a dissemination of the features of the area through different presentations in diverse forums and networking activities in order to improve the local knowledge about geopark management but also to promote Sigri worldwide;
- Good governance;
- External Financing: the ERDF financing was vital for the execution of the whole plan.

## Background information

**Member State:** Greece

**Region:** North Aegean

### *1. Construction of Access Road to the Natural History Museum of the Lesbos Petrified Forest*

**ERDF Programme/Objective:** 2nd Community Support Framework, Regional Operational Programme of North Aegean

**ERDF Programming period:** 1994-1999

**Funding:** Total: GDR 64 500 000 (EUR 189 288.33); ERDF: GDR 48 375 000 (EUR 141 966.25); National: GDR 16 125 000 (EUR 47 322.08);

### *2. Completion of the Natural History Museum of the Lesbos Petrified Forest Building*

**ERDF Programme/Objective:** 2nd Community Support Framework, Regional Operational Programme of North Aegean

**ERDF Programming period:** 1994-1999

**Funding:** Total: GDR 615 000 000 (EUR 1 804 842.26); ERDF: GDR 461 250 000 (EUR 1 353 631.69); National GDR 153 750 000 (EUR 451 210.57)

### *3. Completion of the Natural History Museum of the Lesbos Petrified Forest 14.01.2003-31.12.2008*

**ERDF Programme/Objective:** 3rd Community Support Framework, Regional Operational Programme of North Aegean / Culture

**ERDF Programming period:** 2000-2006

**Funding:** Total: EUR 2 235 507; ERDF: EUR 1 676 630.25; Private (own contribution): EUR 558 876.75

## 1) Project Description

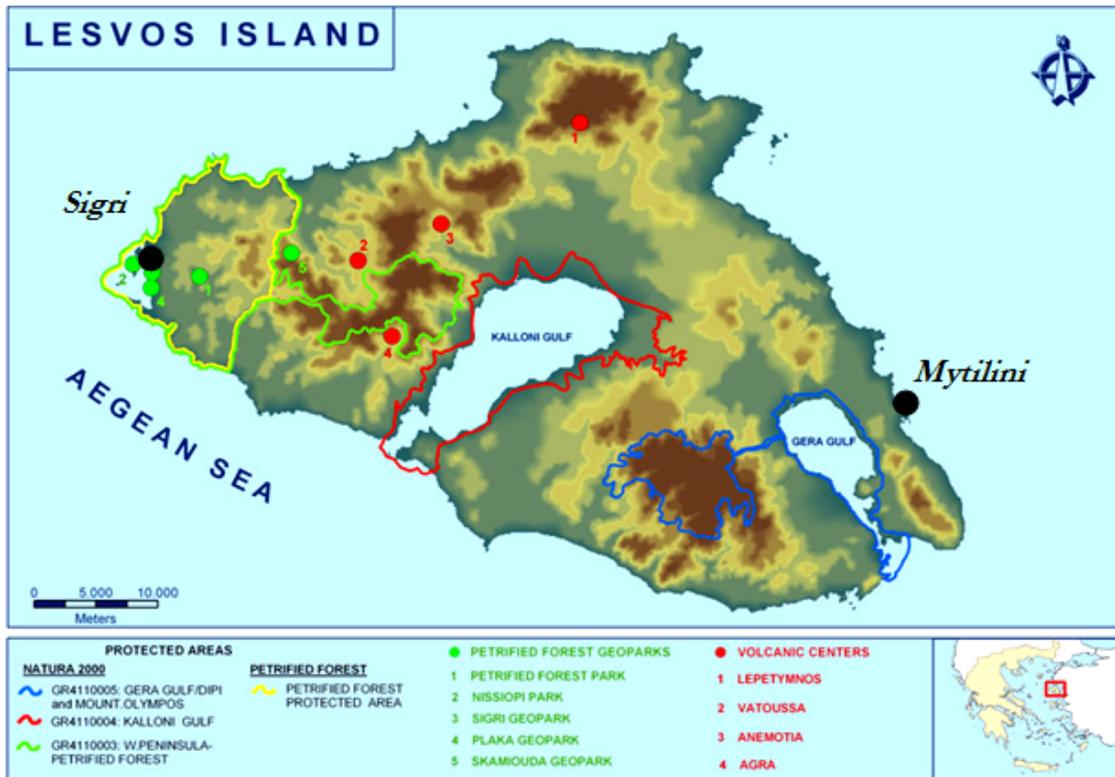
The global objectives of the projects were the completion of the Natural History Museum of the Lesbos Petrified Forest in Sigri, its operation and the development of the Petrified Forest itself. Sigri is one of the most remote settlements of the island, 100 km away from the capital Mytilini, across a hilly terrain and a narrow and difficult access road. The difficulties of the geographical setting of the island are magnified for Sigri, in a typical case of a “double remoteness”. The settlement of Sigri has lost more than 40% of its 1961 population and the remaining inhabitants are old. In the winter, the population is no more than 150 people, doubled during the summer, as it is a tourist destination (but not one of the most popular).

These constraints set many and complex problems in the operation of the Museum and the Geopark of the Petrified Forest but also difficulties in planning and implementing the co-financed projects. First of all, since the Museum staff lacks technical expertise in infrastructure projects, the projects were supervised by the former Prefecture of Lesbos and its technical staff. This, although it was positive due to the expertise of the staff of the former Prefecture, was a problem because the distance from Mytilini created time delays in the supervision and completion of the project. Another important issue that is also discussed later on the case study is the initial disbelief of many of the local stakeholders for the outcomes of the projects and the Museum in general. Although everyone agreed that something has to be done in order to preserve the fossils, the remoteness of the area made many locals unconvinced of the long term viability of the Museum and its added value for the area. This caused some frictions in the beginning and the Museum was not targeted as a possible beneficiary with funds allocated to it in the intervention field of culture. Even after the success of the Museum, it is still not really integrated into the goals of the Regional Development Programme and the island's overall development strategy, particularly related to tourism.

#### ***Some background information about the Museum***

The Petrified Forest is a protected natural monument located on the Western part of Lesbos Island, consisting of remains of fossil plants within volcanic rocks, covering an area of 15 000 ha. Within this area, several unique palaeo-botanical sites showing high concentrations of fossilised tree-trunks have been discovered. Moreover, the region of the Petrified Forest is characterised by volcanic geotopes, resulting of the intense volcanic activity of the past and could be characterised as a window on the geo-historic development of the Aegean over the past 20 million years. The Petrified Forest constitutes an entire forest ecosystem that was fossilised on the spot because of intense volcanic activity. The large number of fossilised trunks that have remained standing upright, with their root system fully developed, confirms that the trees were fossilised in their original position. Maps hereafter show a geographical overview of Lesbos Island.

**Map 3: geographical overview of Lesbos**



**Map 4: The Museum and the parks in Sigrí**



### ***The Petrified Forest Museum***

The efforts for the creation of a Museum in the area began in the 1980s with a plot of 11 ha granted by the Community of Sigri. The building with stonemasonry from local volcanic lava was designed by architects P. Panto-Kikko and S. Frangou, with the renowned architect A. Tobazis as special adviser. The Museum was founded in December 1994 along with the Organisation for the Construction of the New Museum; the completion of the building was financed by the 2nd RDP of Voreio Aigaio region and the finalisation of the exhibitions as well as the promotion and maintenance of exhibits of the Petrified Forest was financed by the 3rd RDP.

Today, the Museum is a legal non-profit entity of the Greek state overseen by the Minister of Culture for: "the study, research, promotion, exhibition, maintenance, protection and any suitable usage of the Petrified Forest of Lesbos". Apart from this goal, the Museum is active in environmental education in the area for schoolchildren, students and visitors, in promoting the cultural and economic growth of the region and very active in research.

The year 2000 marked the establishment of the European Geopark Network, its objective being the cooperation of geologic parks and monuments at a European level for the development of geotourism. The Natural History Museum of the Lesbos Petrified Forest is a founding member of this network. In 2001, the Museum was awarded the Eurosite Management Award for its effective management of the Lesbos Petrified Forest. In February of 2004, the Petrified Forest of Lesbos was inducted into the Global Geopark Network of UNESCO.

Covering an area of 1600 m<sup>2</sup>, the Museum includes a permanent exhibition area, a temporary exhibition hall, a library, a laboratory area, storage rooms, an audio-visual multi-purpose room, a snack bar and a museum shop. Permanent exhibitions present the evolution of plant life on earth and the creation of the Petrified Forest. The flora of the Petrified Forest is presented with fossil remains of over 40 different species found and identified in the broader area of Western Lesbos. The Museum presents also the impressive geological phenomena and processes associated with the creation of the Petrified Forest and the general geological history of the Aegean basin over the last 20 million years.

The visitor of the Petrified Forest can obtain information at the Museum in Sigri, at the decentralised information pavilion in Eresos village and at the Mytilene Information centre. A series of information activities, presentations, guided tours, lectures, scientific meetings and educational programmes as well as cultural events, art exhibitions and concerts are organised every summer at the Petrified Forest. The Earth Festival is organised every year in July-September, offering to the visitors a variety of indoor and outdoor leisure. The Agrotouristic Festival is organised every summer, offering quality local products from the Women cooperatives and promoting the local culture. Eventually, a lot of presentations of the area have been done in congresses, seminars, scientific meetings and so on, worldwide.

The co-funding by the ERDF projects covered: (a) the completion of the building; (b) the completion of the access road; and (c) the finalisation of the exhibitions of the Museum.

## 2) Political and Strategic Context

Nowadays, the Museum is a key player and stakeholder in the cultural and natural heritage of the island of Lesbos. It is not only an important attraction (more than a million admissions have been issued since 1996) for tourists in general, but also its location in the North West remote part of the island has helped in a more balanced distribution of tourism and visitor flows around the island. It plays a very active role in scientific research in the fields of the fossils, the flora and fauna of the era and in earthquake and volcanic research. Its educational programmes cover a rich variety of geological, palaeo-ecological, geomorphologic and environmental issues for the visiting schools or groups of visitors.

Despite all of this, the Museum has not been granted such a role in the planning strategy of the Regional and local authorities. Even though it has been funded by three different projects, these projects were not part of an overall local strategy to integrate the Museum and the parks into the tourism products of the area. One important consequence of this was the fragmentation of the projects. The strategy of the Museum Board and its Director was clear from early on: to offer a high quality and scientifically stimulating venue for tourists and researchers on Lesbos. The fact that three different projects had to be implemented to realise part of this strategy is a testament to the planning deficiencies at the regional level in the area. A single project per RDP that would include all actions would be much easier to manage and could provide money saving due to economies of scale in management. Additionally, even though the Museum turned out to be successful in promoting Lesbos in both Greece and the world and the fact that its staff acquired important know-how thanks to that, nevertheless, this did not prove to be decisive in making managing, promoting and developing nature tourism on Lesbos a priority.

## 3) Implementation

As already noted earlier, the Board and the Director of the Museum have a goal and a strategy from the beginning. Using the existing framework of funding and co-funding programmes was a key part of this strategy as financing from the ministry of Culture was not enough for its development. From the point of view of the beneficiary with a clear goal, the co-funded projects are means towards an end, the intended goal. This was mentioned during the interviews with our respondents from the Museum: they tried to finish the building, the road and the exhibitions and instead of being called by the regional authorities or the Managing Authority to state their plans and see how these could be fit into the RDP, since the Museum was obviously an important project and would produce added value for the area, the opposite happened: the Museum had to try and grab funds out of calls of general interest for culture in the RDPs and compete against projects such as the renovation of churches, which have their worth, but would be placed definitely lower than the Museum in a coherent cultural and tourist plan at the local level.

Management was complex, as the “hard” infrastructure was supervised by the former Prefecture of Lesbos and the rest of the actions by the Museum.

## 4) Project Results

The story of the Museum is a successful one. This is depicted primarily in the number of visitors recorded (see Table 7) that has been more or less stable at around 80 000 people a

year. Considering that the total number of foreign tourists that arrive on the island is 200 000 to 250 000, it seems that the Museum has been established as a destination on the island for a visit. Considering its remote location and its limited accessibility with public transportation, this is an important feat.

Additionally, the Natural History Museum of the Lesbos Petrified Forest is a founding member of the European Geopark Network in 2000 with an objective of cooperation of geologic parks and monuments at a European level for the development of geotourism.

In 2001, the Museum was awarded the Eurosite Management Award for its effective management of the Lesbos Petrified Forest. In February of 2004, the Petrified Forest of Lesbos was inducted into the Global Geopark Network of UNESCO.

More recently, the Petrified Forest protected area was awarded as the top sustainable tourism destination in Greece for 2009 by the European Commission-sponsored programme "European Destinations of Excellence" (EDEN). The theme of the competition was "Tourism and Protected Areas".

**Table 7: Visitors of the Museum of the Petrified Forest and the parks**

Year	Number of visitors			Total
	Museum	Petrified forest Park	Sigri- Plaka park	
1996		27 602		27 602
1997		35 573		35 573
1998		28 246		28 246
1999	12 426	50 511	3462	66 399
2000	21 062	49 885	7711	78 658
2001	25 244	46 689	8126	80 059
2002	32 050	46 027	9530	87 607
2003	28 360	38 912	11 862	79 134
2004	27 909	35 344	12 524	75 777
2005	28 921	37 550	15 920	82 391
2006	27 451	34 685	17 800	79 936
2007	30 171	33 832	20 086	84 089
2008	30 918	33 745	21 934	86 597
2009	32 532	32 210	23 134	87 876
2010*	7574	7045	5591	20 210
<b>Total</b>	<b>304 618</b>	<b>537 856</b>	<b>157 680</b>	<b>1 000 154</b>

\* up to 17/7/2010

Source: Natural History Museum

The operation of the museum has resulted in:

- Important economic benefits based on the direct expenditures of the Museum coming from its annual budget and indirectly based on the additional economic activity generated by the considerable number of visitors to the Museum;
- A number of 20 up to 30 employed people depending on the moment of the year: 7 of them are permanent staff and 4 of them have higher education. Many more have been employed as external staff or sub-contractors, during either the construction or the development of exhibitions of the museum; the production of the museum's books, maps, pamphlets; the operation of the bar from the local women's cooperative; the sales of the museum's local products, etc.;
- The environmental protection of the area as there is not only a continuous effort to preserve the valuable findings but also to promote greater awareness amongst the local population about the area. This local knowledge is much stronger than before the creation of the Museum as a result of such actions;
- The awareness of the population not only of Lesbos but globally through its activity within the Global and the European Geopark Network;
- The promotion of Lesbos - and more precisely its less developed area - worldwide through such Networks and the different fora in which the Petrified forest and the work done in the Museum have been presented;
- The promotion of geotourism and, generally, of specific interest tourism.

## 5) Sustainability and transferability

### *Sustainability*

The creation of the Natural History Museum of the Lesbos Petrified Forest cannot be assimilated to a single ERDF project as it has been realised thanks to three different projects. The original funding decision was a national one and then the EU funding was used after that. The enlargement of its activities to the whole island for the organisation and the promotion of natural tourism will be a key point. For instance, the Museum could overtake the operation of the Centre for Environmental Information of Kalloni, which, as reported in the main Lesbos report, was created by ERDF funds in 2007 but was only partially operational in 2010. So, the Museum, could build on its experience and relevant know-how on the topic in order to develop its activities further for Lesbos' benefit.

### *Transferability*

The development of natural resources through the creation of high added value activities is a common practice in many developed areas. For island areas, it has to be integrated into the overall strategy for achieving the three objectives of islands' development: quality, green and equal opportunities islands. Islands can hardly be competitive through low cost activities: they have to rely and focus on specific local resources that they have to use them in a sustainable way in order to preserve them. Islands have very often many natural and cultural assets that are used, until now, simply as one among other attractions for tourists visiting them mainly for 'sea, sun and sand' tourism. The case of the Museum of the Petrified Forest of Sigri is a case within an underdeveloped rural and remote area of an island that demonstrates how such a strategy can be effective.

## Conclusions: Key success factors and lessons learned

Key success factors of the project are:

- *A clear strategy*: The Museum had from the beginning a very well-defined strategy that was not limited to the exploitation of the funds for the construction of the buildings and the creation of the exhibition. Even if these were prerequisites for the development of the Museum, by their own they could not have had the success described earlier. The strategy has included a dissemination of the features of the area through different presentations in diverse forums and networking activities in order to improve the local knowledge about geopark management but also to promote it worldwide;
- *A good governance*: the strategic plan and its execution cannot be effective if the management team is not performing;
- *An external Financing*: the ERDF financing was precious for the execution of the whole plan.

Lessons learned by this project have to do with broader plan procedures and the capacity of local authorities to “see” the assets that can be used in order to mobilise all the local forces. There is a need for a clear global regional strategy in order to maximise benefits coming out of any project included in a programme is more than necessary. This strategy has to rely on a good analysis of the problems of the area, a description of a clear vision and of strategic goals, the policies and plans necessary to overcome the reasons of problems creation and a monitoring system that is not limited to the use of financing. As this strategy didn't exist yet, the Museum had to “fight” in order to persuade local authorities to agree to be included in the regional OP but also for the broader role that it can play for the use of the natural features of the island as a development lever.

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[http://www.lesvosmuseum.gr/site/home/ws.csp;jsessionid=C8F0FD2C5292821F4C11DDC952AABC73?loc=en\\_US](http://www.lesvosmuseum.gr/site/home/ws.csp;jsessionid=C8F0FD2C5292821F4C11DDC952AABC73?loc=en_US)

<http://www.petrifiedforest.gr/NEW%20pf/index-en.htm>

## **Annex 1: Stakeholders consulted**

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This annex contains the name and the position of each interviewee.

- Ntina Bendana, Museum of Natural History of Lesbos
- Ekaterini Fotiadou, head of the Technical Department of the Administration of the University of the Aegean
- Aris Kouzinoglou, local manager of the ouzo factory EPOM (Group Ricard-Pernod)
- Hristos Malakos, manager of Cohesion Fund projects in the Managing Authority of the Regional Development Plan of North Aegean Region
- Giorgos Plakotaris, head of the planning and evaluation department of the Managing Authority of the Regional Development Plan of North Aegean Region
- Evagelia Smeti, Centre for Environmental Information of Kalloni
- Ioannis Tsakiris, vice mayor of the Lesbos Municipality responsible for national and European programmes and rural development
- Ioannis Tsambanis, advisor of the Union of Local Authorities (TEDK) of Lesbos
- Hrisa Vaikousi, head of the Department of Planning and Development of the Regional Authorities



**CASE STUDY 4: BORNHOLM,  
Region of Hovedstaden, Denmark**

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## List of Acronyms

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CSG	Community Strategic Guidelines
EAGGF	European Agricultural Guidance and Guarantee Fund
ESF	European Social Fund
ERDF	European Regional Development Fund
FIFG	Financial Instrument for Fisheries Guidance
OP	Operational Programme
RDP	Regional Development Programme (NUTS3)



# 1. Introduction

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The focus of this case study report is to analyse the relevance and effectiveness of ERDF and co-financed programmes and the extent to which they are adapted to the specific territorial context of the island of Bornholm.

The report has six sections. The first provides a brief context analysis of Bornholm. The second focuses on the main policy responses that have evolved since 2000. The third explores the relevance of ERDF programmes to the specific territorial context of the island. The fourth examines the effectiveness of the funding across two programming periods. The fifth section then deals with the issue of implementation and governance and the sixth provides some conclusions.



## 2. Brief context analysis

This section provides a brief contextual analysis with the aim of highlighting the main challenges facing Bornholm.

### A small island facing the dual challenge of remoteness and depopulation

Bornholm is a small island, covering 587 square kilometres, based in the southern part of the Baltic Sea, 145 km from Copenhagen, 37 km from Sweden, 88 km from Germany and 90 km from Poland. The island has a coastline of 158 km and is characterised by a rich natural environment including the third largest forest area in Denmark located in the middle of the island, all of which contribute to making the island attractive to tourists<sup>26</sup>. Maps 1 and 2 show respectively the location of Hovedstaden (the related NUTS2 region) and Bornholm.

**Map 1: Location of Hovedstaden**



Source: Eurostat

<sup>26</sup> <http://www.brk.dk/BRK/site.aspx?p=133>

**Map 2: Location of Bornholm**



*Source: Eurostat*

The main challenge facing Bornholm is depopulation. In 2001, the island's population was 44 126 however by 2011 it had dropped by just over 5% to 41 802. In 1990, Bornholm had an age composition which largely reflected the situation in the rest of Denmark. However, in the 20 year period since then until 2010, the number of young people in the age group 20-29 years old has significantly reduced plus, the number of child births also reduced. Perhaps the most worrying statistic is that in 2010, within certain age groups of people in their twenties, the number of young people was lower than the number of people of 80 years or older. According to a population prognosis for the period 2010-2012, a continuing decrease in the population is expected on Bornholm down to 39 470 inhabitants in 2021, which corresponds to a decline of approximately 6.4%.<sup>27</sup>

As the Mayor of Bornholm explained, the demographics of the island present a major challenge. On the one hand, schools and nurseries are under threat whilst services for the elderly need to be improved. Plus, the young people leaving the island are often the most educated but they are not being replaced. The key problem, however, is that the island does not yet offer the kinds of jobs and career opportunities that can encourage young people to stay on the island.

The depopulation issue is compounded by the relative remoteness of the island. Bornholm is dependent on functioning ferry and air traffic which constitutes a handicap, as although the island is located in proximity especially to Sweden and Denmark, it is difficult to commute, especially during winter, due to infrequent transport opportunities. Having said that, the number of commuters increased by 50% during the period 1998-2008, and in 2008, approximately 1 200 people living in Bornholm were commuting to the rest of Denmark.<sup>28</sup> In part, this reflects attempts by public authorities on the island to attract higher-skilled workers with the ability to do a mixture of tele-working and commuting however the reality is, according to the Mayor of Bornholm that only people with connections to the island through family or marriage actually relocate back to the island. Clearly, this restricts the possible numbers that are keen or able to relocate. Again, the restriction is that it is difficult for both members of a couple to actually find productive employment to make relocation a feasible option.

<sup>27</sup> Bornholms Regionskommune (2010) Befolkningsprognose 2010-2021.

<sup>28</sup> Ibid.

Accessibility to the island, therefore, is also a significant factor in the economic situation of Bornholm, especially for both the manufacturing and tourism industries, and generally to the perception of Bornholm as an attractive place to live.<sup>29</sup>The costs of transport to and from the island by both ferry and plane are relatively expensive, which presents obvious barriers for the tourism and manufacturing industries on the island. Notably, as one respondent from the Bornholm municipality explained, the unit cost of transporting merchandise in container ships from Bornholm to Copenhagen is the same as the shipping cost from Bornholm to India. Clearly, this places an added burden on the island economy and undermines competitiveness, which is the other main challenge facing Bornholm.

### Relatively wealthy but with a fragile economic structure

Bornholm is somewhat of an anomaly because its GDP is actually higher than the EU27 average. For example, in 2007, the island's GDP per capita was €31 000 which was higher than the EU27 average of €24 900. Moreover, this makes Bornholm relatively wealthy in comparison to other islands across the EU, certainly some of those located in southern Europe. The interesting point, on the other hand, is that in the Danish context, Bornholm is considered to be relatively poor and underdeveloped. For example, the GDP per capita for the Capital region to which Bornholm is administratively a part, was €51 500, and the Danish national figure was €41 600 in 2007. Clearly, this has an impact upon the policy approaches adopted in Bornholm, as is discussed further in Section 3 of this report.

Overall, during the period 1996-2008 the growth rate of Bornholm was 20 percentage points lower than the national average.<sup>30</sup> An objective in the Business Development Strategy 2007-2010 was that the annual growth rate would increase by at least 5% each year. However, during the period 2004-2009 the total real economic growth was slightly below that at 3.8% per year. The real economic growth for the period is indexed in the table, which illustrates that there was a positive economic growth until the onset of the global financial crisis in 2008 (see Table 1).<sup>31</sup>

**Table 1: The real economic growth in Bornholm 2003-2009**

	2004	2005	2006	2007	2008	2009
Index 1995 = 100	105	112	116	123	121	109

Source: Center for Regional- og Turismeforskning (2010) *Bornholmske Erhvervsindikatorer 1996-2008*, p.9.

The economic structure of Bornholm is based on a few main sectors: agriculture, tourism, fisheries, and transport. The economy is generally dominated by low growth and it is vulnerable towards external changes given that the island has a very small market. For example, in the 1980s, Bornholm's fishing industry was decimated due to the introduction of European Union quotas. This caused considerable difficulties for the island's economy which had traditionally been dominated by the fishing industry. As the Mayor of Bornholm

<sup>29</sup> Bornholms Regionskommune (2010) *Befolkningsprognose 2010-2021*, p.3.

<sup>30</sup> Center for Regional- og Turismeforskning (2010) *Bornholmske Erhvervsindikatorer 1996-2008*, p.2.

<sup>31</sup> *Ibid*, p.9.

pointed out, the fishing industry had provided work for generations of people on the island and most assumed that they would always get a job in that field. However, the industry today is relatively small compared to what it was 20 years ago.

On the other hand, the agricultural sector on Bornholm is relatively important and is influenced by increasing concentration of activities. The slaughterhouses on the island have been threatened by closures, but have managed to stay open. Thus far, major losses in jobs have not occurred within the agriculture industry.<sup>32</sup> Moreover, there has been somewhat a renaissance of the idea of developing local foods and traditions and using these to promote jobs and development on the island through a food 'cluster' (more information is provided in the Mini-case Study on clusters on Bornholm).

In 2008, the number of jobs in Bornholm was approximately 20 000, and during the period 2003-2008 the number was increasing. However, as in the rest of the country, the number of jobs declined as a consequence of the financial crisis during 2009 and 2010. During the period 1996-2008 the primary industries and food production experienced greatest losses in terms of jobs, while accommodation and catering, as well as construction have gained significance in terms of employment.<sup>33</sup>

With regard to the employment figures for Bornholm it is significant to note that the labour market is highly influenced by seasonality, especially the construction and accommodation and catering industries are impacted by seasonality which in turn has an effect on local trade. In connection with this, the statistics for Bornholm should be considered with some caution, since only fulltime employment is included.<sup>34</sup>

Table 2 shows the indexed development in number of jobs and their distribution according to sectors on the island during the period 2003-2008. One should note here that the increase in employment in transport 2004 is due to the decision of Statistics Denmark to regionalise the International Shipping Register. It is evident that during the period 1996-2008 the primary industries and food production experienced the greatest losses in terms of jobs, while accommodation and catering, construction, as well as the iron and metal industries have gained significance in terms of employment. The main export sectors in Bornholm, which are marked with grey in the table, employed approximately 4600 persons in 2008, which was 22.7% of the total number of jobs.<sup>35</sup>

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<sup>32</sup> Ibid.

<sup>33</sup> Center for Regional- og Turismeforskning (2010) Bornholmske Erhvervsindikatorer 1996-2008, p.20.

<sup>34</sup> Ibid, p.20

<sup>35</sup> Ibid, p.20

**Table 2: Indexed employment development in Bornholm 1996-2008**

	1996	2000	2004	2007	2008
<b>Agriculture, fishery, raw material</b>	100	77	74	67	65
<b>Food production</b>	100	79	61	50	53
<b>Iron and metal industry</b>	100	108	116	122	122
<b>Other manufacturing industries including water and energy</b>	100	97	77	93	97
<b>Construction</b>	100	103	95	124	124
<b>Accommodation and catering</b>	100	104	131	140	140
<b>Other trade</b>	100	98	95	105	107
<b>Transport*</b>	100	106	159	266	240
<b>Finance, consultancy, etc.</b>	100	97	96	120	125
<b>Public activity including postal and telecommunications</b>	100	99	98	97	96
<b>Other, primarily residential use</b>	100	106	109	119	123
<b>Total</b>	100	96	100	104	104

Source: Translated from Center for Regional- og Turismeforskning (2010) *Bornholmske Erhvervsindikatorer 1996-2008*, p.21.

\* The increase in employment in transport 2004 is due to the decision of Statistics Denmark to regionalise the International Shipping Register.

In summary, the interesting point about Bornholm's somewhat anomalous economic situation is that it really shapes the thinking and views of both policy makers and citizens alike on the island. Most of the stakeholders interviewed mentioned the fact that Bornholm is a 'poor' island and that it has lots of challenges to overcome. However, the reality, at least statistically is somewhat different and of course it depends upon the benchmark that is used to compare relative wealth. Nevertheless the perception that the island is somehow underdeveloped is a very pervasive discourse in terms of economic development and the general socio-economic situation of the island. This is an interesting point to bear in mind.

In recent years, however, the perception of policy makers on the island has changed somewhat. There is an increasing focus on the utilisation of the islands considerable assets in terms of natural beauty, decent quality of life, good infrastructure, levels of public services including schools and healthcare, as well as the potential for renewable energy. This shift is discussed further in subsequent sections of the Report.



### 3. Policy responses

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This section assesses how different policy measures actually impact on the ground at the NUTS3 level, and how they align and interact together, at the same time identifying the dominant policy responses, strategies, and approaches utilised at NUTS3 level in Bornholm.

#### Distinct domestic policy approach

The domestic policy context is an important one to consider in the Bornholm case. The so-called ‘peripheral areas’ in Denmark have recently become increasingly topical, especially triggered by a debate between ‘Copenhagen’ and local politicians over the location of a hospital in Western Jutland. In 2010, the Danish Government issued a policy document ‘A balanced Denmark in a global world’, which introduced a number of areas in which it will allocate additional funding to the transition of peripheral areas in Denmark.<sup>36</sup> In practice, however, this policy document has not really influenced regional development policy in Bornholm. As stated by interviewees on Bornholm, this initiative was mainly targeted at West Jutland, where the additional funding has been allocated to the construction of a motorway and the establishment of a national research institute in the area. As elaborated by the interviewee at the Danish Enterprise and Construction Authority:

*“A real understanding of what is needed in peripheral areas was not generated from the debate that was taking place. There is not an overall regional policy understanding at the national level.”<sup>37</sup>*

The domestic policy discussions have focused largely upon whether Danish peripheral areas should focus on their strengths or on improving areas in which they have weaknesses. The reality, however, is that most places are already working on developing particular economic strengths. In Bornholm, for example, the concept of being a ‘green test island’ building on its particular environmental assets to encourage wind power has been a key development priority in recent years.

The Danish Enterprise and Construction Authority use the organisation REG LAB<sup>38</sup> as an important source of socio-economic analysis. This is a membership organisation for the collection, development and dissemination of good practice in regional economic development. According to an interviewee at the national authority, several analyses carried out by REG LAB conclude that there are no real differences between what is needed to support economic development in urban centres and in the periphery, examples of which

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<sup>36</sup> [http://www.stm.dk/multimedia/Danmark\\_i\\_balance\\_i\\_en\\_global\\_verden.pdf](http://www.stm.dk/multimedia/Danmark_i_balance_i_en_global_verden.pdf)

<sup>37</sup> Henning Eriksen, interview

<sup>38</sup> <http://www.reglab.dk/english>

are political will and cohesion, and the presence of so-called ‘fireballs’<sup>39</sup> who drive development.

Several stakeholders in Bornholm, however, referred to the fact that they feel that the Danish government is not supporting them enough, and in connection with this, the Swedish island of Gotland was mentioned on several occasions. According to certain stakeholders, the Swedish government has arguably developed more of a focus on regional policy and provides incentives for transport to and from Gotland to encourage the tourism industry as well as commuting to and from the island. A university and other state-owned institutions have also been established on the island. Gotland is not experiencing the challenges of depopulation and an increasingly ageing population to the same extent as Bornholm.

Conversely, the view that Bornholm is not receiving sufficient support by the Danish Government is not shared by an interviewee from the Danish Enterprise and Construction Authority. The example cited relates to the response to the fishing crisis in the 1980s in which the Danish Government initiated several support measures on the island through what is referred to as ‘the Bornholm package’. As part of this package two institutions were set up in Nexø (which had previously been a centre for the fishing industry) the Centre for Regional and Tourism Research, and as part of Copenhagen Design School a glass and ceramics centre providing education courses (including under- and postgraduate) was initiated, both of which are still run today, with the aim to try to transform the island into an education centre. Bornholm Business Fund was also set up as part of the package, managed in cooperation between the State and the banks in Bornholm. The fund is often utilised for projects in combination with ERDF. It provides loans at an interest rate lower than the market rate.

In addition, an important source of domestic support for Bornholm is the subsidisation of sea ferry routes. The central position of Bornholm in the southern Baltic sea has meant that it has developed ferry links not only with Copenhagen and Køge (in the Copenhagen Capital Region of which it is part region), but also with Germany, Poland, and most important of all with Ystad in southern Sweden. The ferries are a mixture of subsidised ‘non-commercial’ (lifeline) routes and commercial routes. Interestingly, the Ystad route is subsidised even though the connection is with Sweden. The interesting point to note is that this practice is not universal in the EU (e.g. Corse ferries from France are subsidised by the French government but not those from Italy). Bornholm is one of only a few cases in the EU where subsidised ferries (together with improved transport technology – fast catamaran services) have offered the opportunity to allow off-island daily commuting to take up better employment opportunities. The fast ferry service to Ystad has allowed residents to exploit the Øresund Bridge from Sweden to Denmark as a combined sea and bridge commuter run into Copenhagen. Direct ferry commuting from Bornholm to Copenhagen is not possible.

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<sup>39</sup> This is translated from the Danish word and refers to dynamic individuals that are able to make a positive impact and drive projects or initiatives forward.

Interestingly, as a respondent from the municipality of Bornholm explained, there is some discussion about constructing a tunnel from the south of Sweden to Bornholm although this is at a very preliminary stage. The cost-benefit analysis of such a development would have to be carefully carried out. Moreover, the respondent explained that the idea of a tunnel actually really polarises public opinion on the island with some for but other groups against it.

### ***A specific, integrated strategy at the NUTS3 level***

In 2007, the Danish government implemented a local government reform, which established five regions in Denmark. Bornholm became a part of the NUTS2 region, the Capital Region, which encompasses Copenhagen. The allocation of ERDF funds is managed by the regional Growth Fora which have been set up in each region. Although Bornholm is a part of the Capital Region, it is unique because it has got its own Growth Forum. This resulted from considerable lobbying from Bornholm stakeholders of the national government to ensure that the island had its own Growth Forum; the original plan was to have only five such Fora instead of the sixth one for Bornholm. In addition, as part of the reform, Bornholm was the only territory in the country that was given the status of Regional Municipality. Significantly, this means that Bornholm has the powers to manage its own regional development on the island. On the other hand, in other policy areas, e.g. with regard to hospitals, Bornholm depends upon the Capital Region. Previously Bornholm had five municipalities, which merged in 2003. The fact there is only one municipality helps to promote more integrated and effective strategies for economic development, as will be discussed later in this report.

Bornholm's Growth Forum issued the first regional development strategy for the period 2007-2010, and this year the strategy for the period 2011-2014 was launched. During this period, similarly to the other Growth Fora in the country, emphasis has been placed on cluster development. Before the establishment of the Growth Forum with the local government reform in 2007, there was a temporary Growth Forum in Bornholm, as well as in the five NUTS2 regions in Denmark. Bornholm's temporary Growth Forum was the first to introduce the idea of clusters in regional development policy on the island. The secretariat at the Regional Municipality of Bornholm started up cluster working groups in 2006, based on the most recent national analysis, which identified which economic sectors experienced the most positive development. Since then a number of ERDF (and other EU funds) projects have been initiated to support these sectors.

The Business Development Strategy 2007-2010 had ten priority areas: transport accessibility; co-ordinated business promotion; marketing of Bornholm; human resources – education and skills; innovation, knowledge sharing and knowledge building; application of new technology; business start-ups: a strengthened focus on entrepreneurship; Bornholm – open all year; rural development; and green energy. This was considered to be far too ambitious so the number of priorities was cut back in order to focus investments.

The current Business Development Strategy 2011-2014, therefore, has four main priorities:

- Bornholm as a ‘business island’;
- Bornholm as an ‘education island’;
- Bornholm as a ‘green test island’;
- and Bornholm as an ‘experience island’.

The title of the strategy is ‘Bright Green Island’ indicating the increasing focus on utilising the geographical specificities of the island, which makes it appropriate for testing green technologies. The decision of Bornholm’s Growth Forum to reduce the number of focus areas in the business development strategy was influenced by the actors involved in the clusters on the island which were consulted in the process. Further information about this may be found in the mini-case study concerning the ERDF funded project ‘cluster development in rural areas’.

The local government reform, therefore, was especially significant because it allowed ERDF funding to be channelled towards the focus areas of the business development strategy for Bornholm, developed by the island’s own Growth Forum. The national budget for regional development is limited in Denmark, and therefore the EU Structural Funds are important for regional policy in the country. The reason for the relatively low priority which is given to regional policy at a national level is based on the fact that amongst EU Member States, Denmark is one of the countries which has the smallest geographical distances, as well as disparities in terms of income, unemployment levels, etc. between and within regions. As the next section discusses, EU programmes are key sources of funding and are crucial elements in maintaining the region’s economic development strategies.

## 4. Relevance of ERDF Programmes

This section will assess the extent to which ERDF Programmes address the specific needs and challenges of the regions and contribute to economic development at NUTS3 level. For this purpose, the section is divided in the following three sub-sections:

- 4.1 Overview;
- 4.2 Strategies & approach for the use of ERDF in Bornholm;
- 4.3 Alignment and integration with domestic strategies;

### 4.1 Overview

Table 3 provides an overview of the total amount of ERDF received in Denmark and the amounts allocated to Bornholm for the programming periods of respectively 2000-2006 and 2007-2013.

**Table 3: Overview of the total amount of ERDF and national funding received**

2000-2006	Total (€)
National budget for Denmark's Objective 2 Programme 2000-2006	126 545 463
ERDF allocated to the County of Bornholm (Objective 2 Programme Complement) 2000-2006	8 432 578
National co-financing for private investment projects in Bornholm	2 446 236
2007-2013	Total (€)
Programme for the European Regional Development Fund in Denmark 2007-2013, regional competitiveness and employment, 'Innovation and Knowledge'	254 788 620
ERDF allocated to the Regional Municipality of Bornholm (Bornholm's Regional Growth Forum: Business Development Strategy)	7 500 000
National co-financing	No fixed amount

*Source: SWECO (2008), Regional Municipality of Bornholm (2011)*

Other EU programmes which are administered and utilised in Bornholm involve the ESF which comprises an amount matching the ERDF allocation to Bornholm, and is being managed in close cooperation with the ERDF by the same administration at Bornholm's Regional Municipality. EAFRD and FIFG are managed by the Local Action Group. The LAG-coordinator takes part in the meetings of the Growth Forum secretariat, and thereby

the programme coordinators ensure coordination of their activities. There is also some participation in Interreg projects on Bornholm.

Although the share of ERDF and other EU funds are relatively small compared to funding levels in other islands, especially those that are Convergence regions, the financial support is considered a crucial element in helping to drive forward the region's economic development strategies. This is also due to the relatively restricted national budget for regional development. On the other hand, the fact that Bornholm is defined as peripheral area does have its benefits. For example, for the current ERDF programming period in Denmark, it was decided to no longer allow the allocation of funds to the investments of individual firms. Due to objections from stakeholders on the Danish islands, the government decided that they (Læsø, Ærø, Langeland, Lolland, Samsø, Bornholm and the 27 small islands) were exempt and hence are allowed to provide support to investments made by individual firms. The main argument here is that the firms are generally small in these areas, often employing just one person or are small family owned businesses. They generally have relatively lower incomes and tend to be more dependent on public funding for investments to expand or renew their businesses, compared to other areas of the country. This decision may be considered a political recognition of the special conditions in these areas. It may also demonstrate the significance of the EU Structural Funds in Bornholm and similar places, since this decision was made within the EU policy framework. Of course, in other areas, Bornholm is not exempt and it is necessary to take into consideration EU state aid rules. According to respondents working in ERDF management, the situation is stricter now than in the previous programming period. The example was given of a private firm which wanted to provide broadband to an area on the island, using ERDF support. This was opposed at the national level, due to legislation which states that infrastructure investments such as broadband investments should be carried out on a commercial basis. Although, the project was eventually approved at the national level, the case demonstrates that national legislation in some areas is stricter than EU legislation.

During the 2000-2006 programming period, match funding from the Danish state was allocated to grants for private firms. The total amount of funding allocated to Bornholm in the 2000-2006 programming period was EUR 2 446 236, which matched the amount of ERDF allocated to private firms during this period.

For the programming period 2007-2013 Bornholm has received EUR 7 500 000 from the ERDF. During the current programming period, the state has not allocated a specific amount to grants for private firms. However, it is possible to receive national co-financing for this type of project of up to 20-30%, depending on the size of the firm in question and the nature of the project. The final national co-financing rate for the current programming period depends on the number and size of projects which are carried out during the programming period.

## 4.2 Strategies & approach for the use of ERDF in Bornholm

In Denmark, the ERDF Operational Programmes are managed by the Danish Enterprise and Construction Authority in cooperation with regional stakeholders. The areas covered during the Objective 2 period are, to the extent they are still defined as such, in the 2007-2013 period referred to as 'peripheral areas'. With the local government reform which entered into force 1 January 2007, a national political agreement was made stating that the peripheral areas shall receive, as a minimum, the same share of the Structural Funds as in the previous period, i.e. approximately one third. The definition of peripheral areas has been changed with the reform, as it has entailed amalgamations of municipalities, thereby in some cases changing the status of previous Objective 2 areas.

The peripheral areas are characterised by 1) a low income level, i.e. the income level per capita in the municipality is less than 90% of the country's average, and 2) a weak population development, i.e. a decreasing population or less than half the population increase of the national average. 16 out of 98 municipalities, as well as the 27 small islands, are defined as peripheral areas. This also includes Bornholm.

In the 2000-2006 programming period, focus was placed on strengthening the service industries and improving transport infrastructure to increase opportunities for commuting and tourism on the islands. In the 2007-2013 programming period, islands are referred to in line with other peripheral areas, and it is stressed that the main challenge in these areas is the low level of education. These are the ways in which reference is made to regions with specific geographic characteristics in the two Operational Programmes.

For the 2000-2006 period, Bornholm had its own Programme Complement and in the 2007-2013 period the allocation of ERDF is guided by the island's regional development strategies for the periods of 2007-2010 and 2011-2014. The regional development strategies have been developed in line with the national and EU strategies (e.g. the national Globalisation Strategy, Lisbon objectives, Europe 2020), and thus do not deviate significantly from national and European priorities. Moreover, each Growth Forum signs a partnership agreement with the Danish Government annually, which includes the point that respective parties agree about the focus of the business development strategy.

In Bornholm, the business development strategies during the 2007-2013 programming period have increasingly become focused on ways to transform the island's specificities into assets, on which sustainable development can be built. In particular, the focus on Bornholm as a 'green test island' is an example of utilising geographic specificities and it is an area which has grown during recent years with the ERDF funded cluster project (see mini case study) and other projects such as the EU Framework Six project called EcoGrid.<sup>40</sup> This was initiated in 2011 and will use Bornholm as a demonstration project for a four year period with the objective that more than 50% of electricity consumption on the island will be derived from renewable energy production.

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<sup>40</sup> <http://energinet.dk/en/forskning/EcoGrid-EU/sider/EU-EcoGrid-net.aspx>

The focus area of the current Business Development Strategy 'Bornholm as an experience island' is concerned with the tourism industry, which is highly important for the island, and related industries such as food, agriculture, arts, crafts, and culture. This may also be signified as a way in which the island seeks to utilise and enhance its specificities and traditional economic sectors.

Table 4 below illustrates the allocation of ERDF funding in the 2000-2006 programming period in Bornholm.

**Table 4: Budget final commitment by main priority 2000-2006 (in EUR)**

	ERDF	National	County	Municipality	Private	Funds	Bornh. Buss. Fund	Other public
1.1 Physical infrastructure investment (capital expenditure)	3 408 025		2 765 464	1 530 255		1 050 930		2 182 749
1.2 Advice, analysis and development	2 049 326		676 920	377 187	26 873	306 572		1 330 649
2.1 Investment support	2 029 453	2 290 520		113 287	9 978 522	190 921	4 654 648	
2.2 A: Consultancy to SMEs	233 844	233 826			238 817	9 405		
2.2 B: Grants for product development	162 753	176 694			631 105			15 990

*Source: Bornholm's Regional Municipality (2011)*

Funding for physical infrastructure investments and for advice, analysis and development projects was mainly granted to public authorities and institutions, such as Bornholm's Regional Municipality, Business Centre Bornholm, the five municipalities (before 2003 when they merged to one), and Destination Bornholm. The priority of investment support refers to the investments of individual firms, e.g. for the purchase and/or installation of production equipment, and renovation or expansion of hotels and other types of businesses. Consultancy to SMEs and grants for product development was mainly granted to private firms.

According to the ERDF coordinator in Bornholm, for 2000-2006, 12-13% of investments were made in telecommunication infrastructure and the information society, and approximately 16% of the funding was allocated to tourism projects.<sup>41</sup> It is significant to note, therefore, that tourism was a real priority area in the implementation of ERDF in Bornholm during this period (see Section 4.3 below).

There is no Programme Complement for the 2007-2013 period. However, the ERDF funding is channelled towards the focus areas of the business development strategy for Bornholm, developed by the Growth Forum. Priorities of the national Operational Programme for this period are now, to an even greater extent, focused on innovation and

<sup>41</sup> Lisbeth Fuglsang, email correspondence

knowledge, which Bornholm is also adapting to in its ERDF allocation. The national guidelines for the division of use of ERDF is 50% to innovation and new technology; 20% for entrepreneurship; 2-3% for utilisation of new technology; and the remaining part can be freely distributed by each region on the three prioritised areas.<sup>42</sup>

### 4.3 Alignment and integration with domestic strategies

As discussed earlier, depopulation is a big challenge for Bornholm, and an important objective of regional development initiatives is to create jobs to encourage people to stay or relocate to the island. As the Mayor of Bornholm stressed, the key to the island's future success is to be able to create enough jobs to encourage young people to stay on the island. The EU Funds are seen as highly significant for the island in this regard. It is a relatively small ERDF programme, but the funds are generally well spent. In the current programme, Bornholm has a few problems in spending ERDF but actually no problems in spending ESF. In fact, Bornholm was previously allocated unspent funds (for both ESF and ERDF) from elsewhere in Denmark, from those areas that can't spend their allocations. This may be considered a good indication of effective management of EU and domestic funds in Bornholm.

The key point is that there is very close alignment between the island's domestic strategy and the ERDF programme. As discussed, Bornholm's Business Development Strategy was reduced from ten focus areas during the period 2007-2010 to four priority areas during the period 2011-2014. The decision of Bornholm's Growth Forum to reduce the number of focus areas in the Business Development Strategy was influenced by the actors involved in the project 'cluster development in rural areas' which is further elaborated in the mini case study. The title of the current Business Development Strategy is 'Bright Green Island' indicating the increasing focus on utilising the geographical specificities of the island, which makes it appropriate for testing green technologies. Prioritised sectors are within the headlines of *Bornholm as a green test island* and *Bornholm as an experience island*. The former comprises amongst others construction and green technology testing, while the latter refers to the tourism, food, arts and crafts industries with a particular focus on the importance of experiences. The focus on cluster development which has been supported by the ERDF has been important in terms of deciding the focus areas of the strategy which comprise significant economic sectors on the island.

A main challenge of Bornholm, in terms of its geographic specificities, involves transport accessibility, which is limited during the tourism low-season. This means that it is difficult to commute, especially during winter, due to infrequent transport opportunities. A way in which the ERDF is utilised to help this situation is to support projects related to the tourism industry which may help pro-long the season and generate jobs. Four examples of such projects are introduced below.

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<sup>42</sup> Ibid.

- An example from the 2000-2006 programming period is 'Havnegade (Harbour Street) – a town environment project in Allinge', which received DKK 1 155 000 (EUR 155 180) from the ERDF, infrastructure investment, as well as DKK 1 527 007 (EUR 205 160) from the ESF. The objectives of the project were to create a better and more attractive town centre in Allinge to the benefit of citizens and tourists, and to facilitate the transition from the fisheries industry to trade and tourism industries. The ESF funded part of the project concerned an education programme for bricklayers, which was needed at the time when there was a lack of them in Bornholm as well as in the rest of the country. The targets were reached, and the 11 persons employed in the project, were still employed after the end of the project.<sup>43</sup>
- The second project is called 'Development of new theme or event based tourism products'. This project received DKK 1 245 943 (EUR 167 394) by the ERDF. A purpose of the project is to create initiatives to help prolong the tourism season. Three themes/events will be tested during the project period: 1) 'Catch the motif', autumn 2010 and 2011, involves courses in oil painting, aquarelle, photo and felt combined with hotel accommodation. 2) 'the Christmas island Bornholm', Christmas 2010 and 2011, emphasis is placed on marketing the concept in the capital area and collaboration has been established with Greenland to host the 'embassy' of Santa Claus in Bornholm. 3) 'The climbing festival' is organised in spring 2011. The tourism products are identified and developed in collaboration between a network of tourism actors on the island and external consultants.
- The third project, 'the diamond spa of Bornholm', was finished in 2010. It was allocated DKK 2 719 660 (EUR 365 400) by the ERDF. The establishment of a spa and wellness concept at Hotel Griffen takes a point of departure in the nature and geology of Bornholm. Since the project was finished, the number of visitors has been higher than expected, the number of weekend tourists has increased, and it expected that it will help prolong the tourist season on the island. The project has led to 11 new jobs.
- The fourth project, 'Film and business tourism', was also finished in 2010. It was allocated DKK 519 000 (EUR 69 728) by the ERDF. The project developed conference concepts which embedded the creating film production process. The project created a network of accommodation places, experience places and creative actors, which is now established at the organization PLAN-Ø. The network has initiated a number of marketing initiatives, and had a test run during the project period. The project is expected to positively impact growth and employment on the island. It has created a network which would not otherwise have been created, as tourism actors are in most cases small businesses, which do not have the resources available to launch larger concepts and products.

Although these examples illustrate only a few of the initiatives undertaken to support the tourism sector they indicate the significance of ERDF in terms of supporting the creation of jobs and prolonging the tourism season. In addition, a number of projects within the food sector were supported on Bornholm. One project was granted to a company producing rye crackers, which had expanded its business through initiating export to new

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<sup>43</sup> TeknologiskInstitut (2005) Evaluering af Mål 2 Programmet i Danmark 2000-2006.

markets, and therefore applied for funding to cover extensions and alterations of its buildings. The project ensured that the existing 12 jobs were maintained and additional two-three jobs were created. Another ERDF co-financed project was granted to Bornholm's only brewery, located in the village of Svaneke. The brewery and the associated restaurant was becoming increasingly popular and experienced difficulties keeping up with demand, and thus received funding for expanding its storage space and installing new production equipment. At the end of the project, the business owner was expecting an increased annual turnover of EUR 600 000 after just one year with the additional capacity which had become available. A third project was granted to a chocolate producer which received funding to expand its production facilities. This entailed that the small firm was able to employ four fulltime employees. It expanded its business as a franchise to Copenhagen with plans to expand further.

In addition, there were a few examples of projects dealing with environmental concerns supported during the 2000-2006 period. One example is a producer of frozen fish blocks, which due to increasing regulation received support to develop more environmentally friendly packaging and to invest in new production equipment. The project ensured that the existing 43 jobs were protected and created a foundation for the creation of further jobs. Another example is a project granted to the electricity company on Bornholm to carry out a feasibility study concerning the establishment of a biogas plant on the island. The project concluded a great potential for the development of biogas plant, and it especially received great interest from local farmers. Subsequently the plant Biokraft A/S was established in Åkirkeby in Bornholm.<sup>44</sup>

In summary, the projects funded under the 2000-06 period covered a relatively wide-range of sectors. For the current period, however, ERDF funded projects became much more focused on delivering the priority areas of the business development strategy, and thus are allocated predominantly to tourism, food and green technology and construction projects. As the next section explores, this has helped to improve the effectiveness of the ERDF funding.

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<sup>44</sup> Bornholms Regionskommune, Projektbeskrivelser Mål 2 og Mål 3.



## 5. Effectiveness of ERDF in Bornholm

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This section will explore the extent to which ERDF and the Cohesion Fund have achieved their objectives at the NUTS3 level. For this purpose, the section is divided in the following two sub-sections:

- 5.1 Main results of the programmes;
  - Review of the 2000-2006 programming period;
  - Progress and outputs for the 2007-2013 programming period;
- 5.2 Further considerations to the effectiveness of the funds;
  - The development of the tourism sector;
  - Improvements in accessibility;
  - Still challenges remain;

### 5.1 Main results of the programmes

#### 5.1.1 Review of the 2000-2006 period

In Bornholm the ERDF budget was spent 100% during the period 2000-2006,<sup>45</sup> while at the national level the absorption capacity of the 2000-2006 OP was 79% for Priority 1- development of the region, and 78.5% for Priority 2 - business development.<sup>46</sup> The results for the Objective 2 areas in Denmark are taken from the final programme evaluation by the Danish Technological Institute (Teknologisk Institut) and there is no distinction between the respective geographical areas across the country.

Table 5 below provides an overview of output indicators and the extent to which targets were reached according to percentage expenditure for the whole of Denmark. At the beginning of the Objective 2 programme, a number of targets were set; these are listed in the column entitled '*Expected effect of projects initiated (1)*' and the column entitled: '*Targeted effects for the entire programme period (2)*'. The last column, entitled '*Achievement of targets in relation to spending (3)*' indicates the percentage target achievement of spending. This is calculated by multiplying the percentage of the share of spent funds, which was 79%, with the figures listed in column 2 '*targeted effects for the entire programme*'. Then, the figure in column 1 for the '*expected effect of the projects initiated*' is divided by the result in order to get the overall '*Achievement of targets in relation to spending*'.<sup>47</sup>

Basically, the higher figure, the larger the relative difference between the expected results compared to the actual; a figure of 100 means that expected results were equal to actual. Thus, Table 5 shows that for several of the targets under Priority 1 (regional development), including the number of jobs created, the number of projects with R&D and ICT, the actual outputs were less than the expected figures. On the other hand, the number of projects realised was more or less in line with what was expected.

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<sup>45</sup> Lisbeth Fuglsang

<sup>46</sup> Second Intermediate Report for this Study

<sup>47</sup> Teknologisk Institut (2005) Evaluering af Mål 2 Programmet i Danmark 2000-2006, p.81.

**Table 5: Output and expected effects for priority 1 – regional development, Denmark**

Input (EUR)	Spent: 179 108 634	Total frame: 226 592 948	% spent: 79.0%
Output/results	Expected effect of projects initiated (1)	Targeted effect for the entire programme period (2)	Achievement of targets in relation to spending (%) (3)
Number of projects	52	59	111.5
Number of projects supporting SMEs	6	N/A	N/A
Number of projects with R&D	24	12	238.1
Number of projects with IT/ICT	19	16	149.2
Number of projects with an environmental impact	15	16	119
Number of jobs created, directly	462	93	630.2

Source: Translated from: Teknologisk Institut (2005) *Evaluering af Mål 2 Programmet i Danmark 2000-2006*, p.81.

This methodology for assessing the percentage target achievement in relation to actual spending is used again for Priority 2 (see Table 6 below). Actually, the Priority 2 targets achieved generally more than was expected; especially in terms of jobs created and the number of projects supporting SMEs. The evaluation also mentions that Bornholm experienced relatively high job creation rates compared to other regions. The only target that underperformed was the number of projects with R&D, but according to the final programme evaluation by the Danish Technological Institute (Teknologisk Institut),<sup>48</sup> this was due to an unclear definition of what constitutes R&D, and thus the actual number of projects was probably higher.

**Table 6: Output and expected effects for priority 2 – business development, Denmark**

Input (EUR)	Spent: 62 209 931	Total frame: 79 222 169	% spent: 78.5%
Output/results	Expected effect of projects initiated (1)	Targeted effect for the entire programme period (2)	Achievement of targets in relation to spending (3) (%)
Number of projects	70	150	59.6
Number of projects supporting SMEs	65	121	68
Number of projects with R&D	36	27	170
Number of projects with IT/ICT	30	40	95.8
Number of projects with an environmental impact	23	32	91.3
Number of jobs created, directly	285	365	99.4

Source: Translated from: Teknologisk Institut (2005) *Evaluering af Mål 2 Programmet i Danmark 2000-2006*, p.82.

<sup>48</sup> Teknologisk Institut (2005) *Evaluering af Mål 2 Programmet i Danmark 2000-2006*.

The evaluation was carried out at the national level, and therefore specific figures for Bornholm are not available. However, during the period 2003-2008, some of the evaluation data as well as comments from interviewees indicate that ERDF funds did have a positive impact on the development of the island during the 2000-06 programming period.

In Bornholm, the funding granted for physical infrastructure investments covered 32% of the total ERDF budget. Several of these projects were utilised for renovating harbour areas on the island, and one concerned a renovation of Grønbechs Gård, which is a physical centre for arts and crafts, and was emphasised by interviewees as an important project to support the development of the arts and crafts sector. 17% of ERDF funding in Bornholm was granted to projects categorised as advice, analysis and development. These were mainly granted to public authorities and institutions, such as Bornholm's Regional Municipality, Business Centre Bornholm, the five municipalities (before 2003 when they merged to one), and Destination Bornholm to carry out analyses for the development of new business opportunities, e.g. within tourism, a pilot study for the cluster project which is elaborated in the mini case study, etc. Another main share of 40% was allocated to the priority of investment support, which refers to the investments of individual firms, e.g. for the purchase and/or installation of production equipment, and renovation or expansion of hotels and other types of businesses. Only a few were focused on ICT. Consultancy to SMEs, which comprised 5% of the total budget concerned ICT related projects, market studies, etc. Grants for product development, which covered 4%, were mainly granted to manufacturing firms, but also for some service firms.

### **5.1.2 Progress and outputs for the 2007-2013 period**

The annual report of Danish Enterprise and Construction Authority of the 2007-2013 OP, which concerns the entire country (without regional distinction), stated that at the end of 2009 approximately half (45%) of the ERDF was allocated to projects. A majority of the funds (33%) was allocated to the focus areas of innovation, knowledge sharing and knowledge building. The three overall targets to be reached by the end of the programming period are:

- 1000 firms/institutions/organisations have become more innovative (objective reached by 23% in 2009);
- 900 new entrepreneurs (No projects had been terminated in 2009);
- 200 firms/institutions/organisations have increased utilisation of ICT (objective reached by 1% in 2009).

In 2009, the results of the Operational Programme were reached to the extent expected at this time.<sup>49</sup>

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<sup>49</sup> Erhvervs- og Byggestyrelsen (2009) Regionalfonden. Årsrapport 2009.

Table 7 (below) illustrates the allocation of ERDF funding in the 2007-2013 programming period in Bornholm, in September 2011, where the total budget has not yet been spent.

**Table 7: ERDF Budget commitment by main priority 2007-2013 in Bornholm in EUR (September 2011)**

	<b>Bornholm</b>
1 Innovation	263 463
2 Entrepreneurship	0
3 Utilisation of new technology	209 805

*Source: Bornholm's Regional Municipality, Lisbeth Fuglsang (September, 2011)*

According to national guidelines 50% should be allocated to innovation and new technology; 20% for entrepreneurship; 2-3% for utilisation of new technology; and the remaining part can be freely distributed by each region on the three prioritised areas. The situation in Bornholm in September 2011 is that 39% of ERDF has been granted to projects under the priority of innovation and new technology. The beneficiaries are here amongst others Bornholm's Regional Municipality and Destination Bornholm, and also a number of firms. It is evident that Bornholm is continuing, to some extent, to utilise the opportunity to provide funding for the investments of private firms. Funding has not yet been provided to entrepreneurship projects. Finally, 8% has been granted to projects concerned with the utilisation of new technology. Under this area, the main part of the projects concerns the investments of firms in new technology.

## 5.2 Further considerations to the effectiveness of the funds

### *The development of the tourism sector*

At a national level and in the Capital Region, the number of beds increased during the period 2000-2006, in the Capital Region the number increased from 26 342 to 32 772 beds in 2007. Meanwhile, in Bornholm the number of beds decreased from 3 771 in 2000 to 3 065 beds in 2007.<sup>50</sup> Respondents stated that a general problem in the tourism sectors is that although the number of tourists is not decreasing, they stay for fewer nights in Bornholm.

As discussed earlier, several projects have been run in the tourism sector ('the diamond spa of Bornholm', 'Film and business tourism', etc.). One of the main approaches to utilising ERDF to support tourism involves the activities of the cluster project (further described in the mini case study), which support cooperation between actors, the development of experiences, and synergies with the food and arts and crafts sectors. Thus, measures to support job creation in the tourism sector are supported with ERDF co-financing.

As several respondents argued, however, the problem with the tourism sector in Bornholm goes much deeper than just having more funding. There is an overall lack of decent tourist

<sup>50</sup> First Intermediate Report for this Study

infrastructure, especially in terms of hotels and B&Bs, to attract tourists to the island. Moreover, it is relatively expensive both to travel to Bornholm as well as to stay once on the island. Denmark's relatively high cost of living is clearly a factor in this regard. It is precisely for this reason that several stakeholders mentioned the need for the island to invest more in its tourism offer, for example, in terms of additional bed spaces, improving publicity etc. in order to attract a range of tourists; the ERDF funding is seen as a very useful way to fund such improvements.

### ***Improvements to accessibility***

In terms of transport, Bornholm has improved its accessibility during recent years. ERDF has been used to improve the port infrastructure and access to the island. This in turn has helped Bornholm to improve the size and frequency of its respective ferry services. Based on an Agreement of the Government in 2007, an additional high speed ferry with space for 1 400 passengers and approximately 400 cars was provided to service the route from Rønne (the largest town in Bornholm) to Ystad (in Sweden). The departures of the ferry have become more frequent with three times per day during low-season and ten times per day during high-season. Less frequent routes also operate between Rønne and Køge (Denmark) and Sassnitz (Germany). The issue remains one of cost, both for freight and private travel, as a respondent from the Bornholm municipality stressed. Clearly, this continues to place a constraint on the competitiveness of the island as well as the ability of citizens to travel outside the island.

Airline traffic to/from Bornholm, on the other hand, is run commercially, and with the addition of one airline in 2009 and another in 2010, there are now three airlines which offer daily departures on the route Rønne – Copenhagen. Moreover, through a network called 'Task Force Poland', a Polish airline has shown an interest in establishing a direct flight connection between Poland and Bornholm.<sup>51</sup> This could potentially help to increase the number of tourist visitors to the island, however, again air travel is not cheap and will not solve in isolation the problems of accessibility to/from Bornholm. Again, ERDF has played a role in terms of helping to improve the tourist infrastructure as well as encouraging a wider range of cultural events, which in turn has helped to increase demand for efficient air transport to and from the island.

The broadband access on Bornholm is limited to certain areas of the island. Thus all public institutions and some private households have access to broadband. The telecommunication company TDC, which was previously state-owned but is now a private company will only deploy broadband in areas where it is found to be economically viable.<sup>52</sup> It was a project funded by the ERDF which, during the 2000-2006 period, supported the development of broadband around the island for public institutions, which in turn also provided the opportunity for some private households and firms to utilise the opportunity.<sup>53</sup> An interviewee suggested that both the broadband and other internet connections on the island would generally benefit from access to higher speed connections.

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<sup>51</sup> Bornholms Vækstforum (2010) Handlingsplan '10 Fra strategitilmål. Det unikke Bornholm – vækst via kreativitet og kvalitet.

<sup>52</sup> Lisbeth Fuglsang, interview

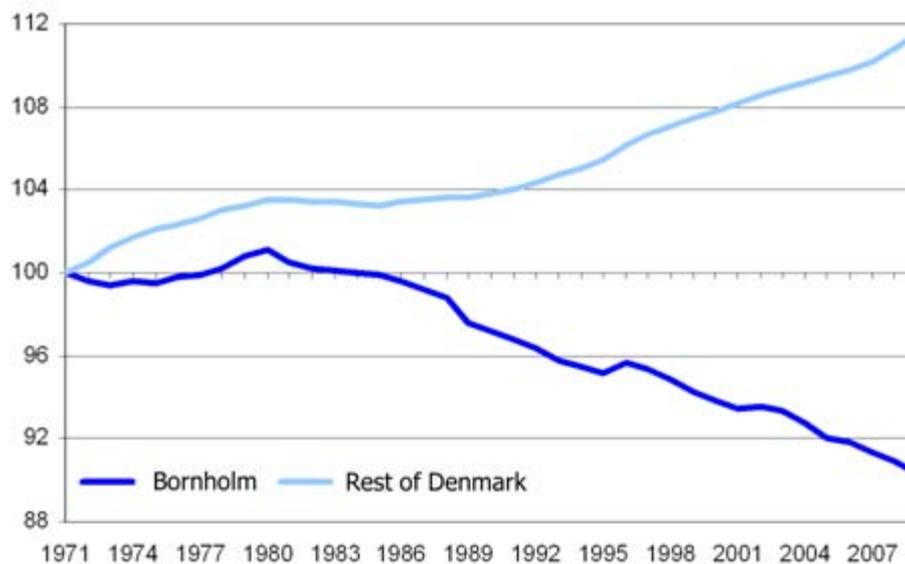
<sup>53</sup> Bornholms Regionskommune, Projektbeskrivelser Mål 2 og Mål 3.

### *Still challenges remain*

The issue of job creation is considered important in order to maintain and attract people to the island and in this regard the ERDF is considered important in order to create new jobs as well as maintain existing employment opportunities in Bornholm.

Although there are efforts to create jobs and reduce migration, the main challenge facing Bornholm, increasingly during the last two decades, is depopulation. As discussed earlier, the island's population is just over 40,000 people and the forecasts do not show a positive growth in the coming years.<sup>54</sup> Moreover, compared to the rest of Denmark, the island continues to lose population. The figure below illustrates the diverse population development in Bornholm (dark blue) and the rest of Denmark (light blue) respectively during the period 1971-2009.

**Figure 1: Population development, Bornholm and the rest of Denmark 1971-2009 (Index: 1971=100)**



Source: Bornholms Regionskommune (2010) *Befolkningsprognose 2010-2021*.

In spite of good absorption capacity of the EU funding programmes and a business development strategy which focuses on the development of the strong economic sectors on the island, Bornholm still faces severe problems related to job creation and out-migration of young people. As mentioned earlier, the Mayor of Bornholm underlined the point that the island faces considerable challenges in the future around losing population and trying to create jobs. She also stated that the prospects do not look promising in the coming years, which is all the more reason why it is vital that Bornholm continues to receive EU funding which really does help to prevent the socio-economic situation from deteriorating.

<sup>54</sup> Danmarks Statistik (2011)

## 6. Implementation and governance

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This section will assess the extent to which the programmes have been delivered with a clear vision and strategy. For this purpose, the section is divided in the following three sub-sections:

- 6.1 The process of ERDF decision-making, design, coordination and implementation;
- 6.2 The relationship between ERDF and other community, national, or regional policies;
- 6.3 The dominant governance pattern and the administrative ‘fit’ between the NUTS2 and NUTS3 level;

### 6.1 The process of ERDF decision-making, design, coordination and implementation

The Regional Growth Forum is a key stakeholder in terms of ERDF. The Growth Forum is in charge of the island’s regional development strategy; the monitoring of local growth conditions; and the decision making concerning allocation of regional development funds. ERDF together with ESF contributes significantly to the regional development budget. The Growth Forum consists of twenty different stakeholders in Bornholm appointed by the Municipal Council (in other parts of Denmark, the Growth Fora are appointed by the Regional Councils): the local authorities; knowledge and education institutions; the business community and labour unions. The Regional Municipality is represented in the Growth Forum by the Mayor as well as other elected local politicians. Moreover, the secretariat of the Growth Forum, including ERDF administration, is based at the Regional Municipality. The Growth Forum has six annual meetings, where time is allocated to the three tasks appointed to the partnership: to discuss the strategic development of the region (the regional development strategy); deal with reports/analyses to monitor regional growth conditions; and make decisions on the allocation of regional development funds.

The business support organisation Business Centre Bornholm, established by local politicians and the business community, plays a key role in supporting businesses and entrepreneurship on the island. Moreover, the branch of Business Link Greater Copenhagen set up in the same facility as Business Centre Bornholm is significant in terms of ensuring links with the Capital Region and the national network of Business Links.

The Local Action Group, responsible for the administration of rural development funds, may also be considered a stakeholder, since the LAG-coordinator takes part in the meeting of the Growth Forum secretariat which administers ERDF and ESF, and there is close cooperation between the actors in charge of the various development funds.

Campus Bornholm is a main education provider. It plays an important role in connecting young people to apprenticeships on the island, which is problematic since the number of firms accredited for apprenticeship is highly limited.<sup>55</sup>

The ferry company operating routes to the island is another stakeholder. It plays a key role as the main transport provider to the island, including freight of goods. The airlines operating routes to Bornholm are also important transport providers. Both transportation options are used by people commuting to and from the island.

Finally, important stakeholders are the firms in Bornholm. Eight to ten larger firms are based on the island, which are referred to by a respondent from the local branch of Business Link Greater Copenhagen as “industrial locomotives”, indicating that they are highly significant for the local economic development. In total approx. 400 firms are registered on the island, but this number includes firms which are inactive. Most firms have between one to twenty employees.<sup>56</sup> ERDF beneficiaries include both the bigger companies and the micro firms.

## 6.2 The relationship between ERDF and other community, national, or regional policies

There is one Operational Programme for Denmark, from which a specific amount of funds is allocated to Bornholm. Coordination on the island between the EU funds is ensured, i.e. ERDF, ESF, EAFRD, and FIFG. ERDF and ESF are managed at the regional municipality by the Growth Forum secretariat, while EAFRD and FIFG are managed by the Local Action Group. An effective cross-funding governance system is ensured through regular meetings between the programme coordinators. The coordinators have close contact to the project applicants on the island, and their guidance entails that generally none of the projects that are reviewed by the Growth Forum are refused. The ERDF is highly integrated with other EU funds in Bornholm, and especially ESF and EAFRD. All of these funds are to a large extent targeted towards the prioritised sectors within the focus areas of the Business Development Strategy concerned with ‘Bornholm as a business island’, ‘Bornholm as an education island’, ‘Bornholm as a green test island’ and ‘Bornholm as an experience island’.

Interviewees at the Regional Municipality state that they have good communication with contact persons at the national Managing Authority for ESF and ERDF, the Danish Enterprise and Construction Authority. An example is the willingness of the Authority to negotiate the moving of unused funds between the Danish regions. The situation is that the ESF funds for the period 2007-2013 have been spent at the time this Study was carried out in August 2011, and since other regions are having problems with spending their ESF funds, an additional monitoring meeting has been set up with the Danish Enterprise and Construction Authority to discuss transfer of funds.<sup>57</sup>

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<sup>55</sup> Eva Højmark, interview

<sup>56</sup> Lars Albæk, interview

<sup>57</sup> Hans Jørgen Jensen, interview

Overall then, both ERDF and ESF are generally well spent in Bornholm. Currently, there are some issues with ERDF spending but these are likely to be rectified before the end of the current programme. Indeed, a respondent involved in the management of ERDF stated that:

*“We do not lack good projects. We lack the money to implement them.”<sup>58</sup>*

Moreover, all stakeholders stated that EU funds are crucial to the island’s development.

### 6.3 The dominant governance pattern and the administrative ‘fit’ between the NUTS2 and NUTS3 level

All stakeholders interviewed agree that the decision to merge the previous five municipalities into one has really helped to focus regional development interventions and reduce disputes over who would get the funding. Undoubtedly, the local government reform in 2007, when Bornholm gained the status of Regional Municipality which meant that the island gained the right to manage its own regional development funds, has helped to ensure greater territorial balance in the distribution of ERDF. Thus, even though Bornholm, since 2007, has been a part of the NUTS2 region, the Capital Region, the fact that the island has its own Growth Forum seems to make the difference.

The Capital Region did not previously have access to ERDF, and thus has not got the same perspective on regional policy as is the case in Bornholm. The respondent from the Danish Enterprise and Construction Authority explains that a main difference is that the Capital Region has fewer and much bigger projects, including many actors, with a higher degree of co-financing from actors involved, including private firms.

*“You cannot require the same degree of co-financing from actors in Bornholm, they are too small, and the Municipality has a relatively poor economy.”<sup>59</sup>*

It can thereby be derived that there is a significant difference between the ways in which the funds are being utilised at NUTS2 level and in the NUTS3 region, Bornholm. This may also further explain the benefit of Bornholm in implementing its own funds, as its socio-economic as well as governance situation is different.

On the other hand, although the autonomy of its own regional development policy is important to the stakeholders in Bornholm, it may also be argued that it is significant to maintain links to institutions outside the small island. This is facilitated in the sense that an agreement was made in connection with the local government reform that Business Link Greater Copenhagen would be represented with a branch located at Business Centre Bornholm. This provides a link to the Capital Region and the national network of Business Links (one in each NUTS2 region). The Business Links are under the auspices of the Danish Enterprise and Construction Authority. As discussed in the mini case study, links to the Business Link of the greater capital area has strengthened the cluster project, e.g. in terms of the involvement of knowledge institutions.

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<sup>58</sup> Karen-Margrethe Hansen Bager, interview

<sup>59</sup> Henning Eriksen, interview



## 7. Conclusions

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Below are a summary of the main points that emerge from the Bornholm case study:

### 1) Geographical context

- The Bornholm case is interesting because it reveals a lot about the challenges facing such small EU islands. The problems of depopulation and ageing as well as the issues of higher transport costs and accessibility, the small size of the local market, the expense of providing public services etc. These are all challenges that Bornholm continues to face;
- The fascinating point, however, is that in spite of its geographical specificity, Bornholm is attempting to harness such challenges and transform them into opportunities for economic growth and development. The small size of the island provides a perfect location for the testing of 'smart grids' based on largely on renewable energies which in turn is being used to power electric vehicles.

### 2) Policy responses

- Bornholm has a clear strategy and vision for its economic development at the NUTS3 level. The vast majority of stakeholders are also very much onboard with the strategy and were involved in its formulation. The priorities are firmly focused on transforming the islands specific features into economic opportunities;
- Being part of the Copenhagen Capital Region brings some benefits with connections to the Business Link Networks. However, the fact that the island has its own Regional Growth Forum as well as one municipality means that policy development is carried 'by the island for the island'. This is a key success factor that emerges from the fieldwork;
- On the other hand, it could be argued that linking the island to the Capital Region could have also assisted with the creation of a different set of policy responses, more integrated with what is going on in Copenhagen, for example in terms of encouraging more commuting or collaboration between firms to boost growth on the island.

### 3) Relevance of ERDF Programmes

- It is clear that EU funds, especially ERDF, play a major role in promoting economic development in Bornholm, in several key areas including tourism, environment and culture;
- Interestingly, the main focus, especially during the current period, has been on 'softer' instruments to develop SMEs, clusters etc rather than improving basic infrastructure. This is in part due to the lack of funds but also because of a commitment to focus on endogenous development by main stakeholders on the island. This is somewhat in contrast to other EU islands because of the fact that it is relatively wealthy and hence not eligible for Objective 1;

- However, it is not because of the amount of funding that the island receives, but the fact that the funding is used as a catalyst to develop initiatives that might not otherwise have been carried out. This is the case with the interesting cluster work that has been developed;
- There is an argument, therefore, to say that less money has actually made stakeholders on Bornholm think more strategically about how best to use relatively scarce resources for the highest results.

#### **4) Effectiveness of ERDF Programmes**

- It is clear that the ERDF programmes in both periods have been very well managed and have had some important results. Indeed, Bornholm has in the past been allocated funds that have not been spent elsewhere in Denmark;
- Tourism has been a particular focus of investment in Bornholm and some successes have been made. The alignment of domestic priorities with ERDF has meant that resources have been targeted in the most effective way, focusing on transforming the island's specificities into opportunities for growth. This is to be commended and represents a real example of best practice for other islands to explore;
- Although ERDF (and other EU funds) have contributed to ameliorating the dual problems of depopulation and lack of job creation on the island, both these challenges very much still remain. The future, therefore, of the island really depends on continued support from the Danish government as well as from EU funds.

#### **5) Implementation and Governance**

- There is very good alignment of both domestic policy and funding, as well as complementarities with other EU funds, especially ESF and EAFRD. Indeed, at the local level, beneficiaries seem to actually not care about the differences between the respective funding streams. The key thing is that the funding is available;
- The close cooperation between the officials involved in managing the different funds ensures a really effective system of management and implementation which has matured over several years. Indeed, the island could easily spend more than its allocation of funding;
- The merging of municipalities into one larger one for the whole of the island was a very successful reform. This helped to reduce duplication and seemed to improve the process of prioritisation of key investment projects. In addition, the fact Bornholm is unique in Denmark in having its own Regional Growth Forum has really been key in ensuring the effective alignment of domestic and EU policy and funding on the island;
- Stakeholders work closely together on the island and whilst this is certainly a strength, the downside is that one could argue that sometimes there is a lack of ambition and even 'fear' of change in order to test more innovative approaches;
- One possible solution would be for the island to become more closely integrated into the Capital Region, in certain policy areas such as innovation, in order to capitalise on the experience and strengths amongst stakeholders there;
- Some stakeholders highlighted the apparent increased complexity in the management and administration of ERDF for the current period compared to the previous one.

## 8. Mini- case study

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**Project Title:** Cluster development in rural areas

**Key words:** *Clusters, networking, rural and peripheral areas, Bornholm, Denmark*

### Synthesis

The project focused on developing and testing a model for the sustainable development of clusters in rural areas, which are based geographically far from knowledge institutions and which have a limited number of small firms in the same industry and/or value chain. The project gathered the main Bornholm stakeholders together in three so-called ‘cluster universes’: the ‘experience’ universe, the ‘food’ universe, and the ‘green technology’ universe on the island. The project leader was the Business Centre Bornholm, which is part of the Business Link Greater Copenhagen<sup>60</sup>; its role was to coordinate and manage the various stakeholder networks including small firms, educational establishments, civil servants and local politicians.

The main aim of the project was to create the foundations for cluster development on the island through various initiatives including cooperation and networking, knowledge sharing, access to funding etc. In addition, the aim was to maintain and create jobs as well as generate growth in existing firms; to attract new firms to the clusters; and possibly generate spin-off firms. Ultimately, the aim of the project was to ensure a sustainable, partly or fully, self-financed cluster initiative in Bornholm.

This project was crucial because Bornholm has a number of micro-firms which prior to the project did not really work together even though they operated in the same economic sector. The clusters have become an integrated part of Bornholm’s Business Development Strategy 2011-2014 and there are continued efforts to develop networking and cooperation activities further to encourage growth and jobs in a range of sectors.

### Background information

**Member State:** Denmark

**Region:** Bornholm (the Capital Region)

**ERDF Programme/Objective:** Innovation, knowledge sharing and knowledge development

**ERDF Programming period:** 2007-2013

**Project period:** 1-1-2009 – 31-12-2011

**Funding:** Total budget (EUR 1 343 849); ERDF (EUR 671 842); Danish Enterprise and Construction Authority budget appropriation (EUR 336 034); Regional subsidies (EUR 74 781); Private grants (EUR 48 378); Regional development funds (EUR 212 814)

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<sup>60</sup> Business Link Copenhagen provides services and support to businesses in the Copenhagen region. The Business Centre Bornholm is the satellite branch of Business Link Copenhagen on the island.

## 1) Project Description

In the project application, written in July 2008, reference is given to four growing cluster initiatives in Bornholm within the areas of food, tourism, light industry and engineering, and construction. Furthermore, three cluster initiatives were starting to develop within crafts, health, and IT. According to the application most of the clusters had developed a strategy, focused on their main challenges and established some cooperation between the members of the clusters. This was the basis for focusing the future effort utilising local traditions and strengths in an effort to increase innovation and knowledge in order to meet global competition. Four main phases were planned to meet the objectives of the project:

- 1) Establishment of a cluster organisation and development of a cluster service model, including a funding model, which explores how different public funding opportunities may be best utilised;
- 2) Establishment of external cooperation with relevant regional clusters. When a common cluster strategy is developed contact with knowledge institutions should be initiated;
- 3) A cluster model will be developed, based on studies from Denmark and elsewhere with a focus on cluster development in peripheral areas, and development of models for cooperation with knowledge institutions and other clusters. The model will comprise the entire process from considerations for development of clusters, to facilitation and development of 'growth clusters of the future'. Focus is placed on special considerations for cluster development in peripheral areas, e.g. how to ensure that the right competences are available;
- 4) The model will be tested on the four growing clusters in Bornholm, with a focus on the activities found most relevant in the individual clusters.

Beneficiaries of this project are public organisations including Business Link Greater Copenhagen and Business Centre Bornholm; knowledge institutes outside the island (and the Centre for Regional and Tourism Research on Bornholm); the education institution Campus Bornholm; firms, mainly micro-firms with less than ten employees but also small firms with less than 50 employees. Expected indirect beneficiaries as a result of economic growth generated by the project are the municipality and the citizens on Bornholm.

## 2) Political and Strategic Context

Before the establishment of the Growth Forum with the local government reform in 2007, there was a temporary Growth Forum in Bornholm, as well as in the five NUTS2 regions in Denmark. Bornholm's temporary Growth Forum was the first to introduce the idea of clusters in regional development policy on the island. The secretariat at the Regional Municipality of Bornholm started up cluster working groups in 2006, based on the most recent national analysis, which identified which economic sectors experienced the most positive development.

Thus working groups within the areas of regional food products; agriculture; tourism; light

industry and engineering; and building and construction were established by the Regional Municipality. Each group had its own facilitator. Some groups were based on pre-existing local membership organisations, e.g. in agriculture.

The concept of clusters was introduced in Bornholm's Growth Forum's business development strategy 2007-2010, which placed emphasis on the significance of cluster development:

*"Bornholm's Growth Forum will prioritise resources to support the cluster work groups. The intention is to promote initiatives both within and across clusters (...) What is essential is that clusters create and promote growth. Cluster groups are key elements in the successful implementation of the Business Development Strategy."*<sup>61</sup>

Thereby, it can be derived that cluster development was highly prioritised by Bornholm's Growth Forum. The focus on clusters is a common one across the six Growth Fora in Denmark.

The regional business development strategy was in turn guided by the Danish national Globalisation Strategy which was launched in 2006, inspired by the four growth drivers introduced by the OECD: human resources, innovation, ICT, and entrepreneurship.

### 3) Implementation

- 3.1. Project design and planning

Based on the initial work with developing clusters in Bornholm, which mainly involved working group meetings to find ways in which it would be relevant for firms to cooperate, an application for ERDF funding was developed by Business Link Greater Copenhagen in cooperation with Business Centre Bornholm.

- 3.2. Management, Monitoring and Evaluation System

The project is managed by Business Link Greater Copenhagen, which has a branch located at Business Centre Bornholm.

A monitoring committee, which involves industry associations, education institutions, Bornholm's Growth Forum, cluster organisations, etc. has been set up and has meetings every six months. Moreover, REG LAB<sup>62</sup> (Denmark's largest network for organisations working in regional economic policy) monitors the project in order to highlight examples of good practice.

The on-going evaluation of the project is managed by the consultancy DAMVAD.

- 3.3. Governance: Partnership and Leadership

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<sup>61</sup> Bornholm's Growth Forum (2007) Business Development Strategy 2007-2010, p.11.

<sup>62</sup> <http://www.reglab.dk/english>

As introduced above, the project manager is employed by Business Link Greater Copenhagen and based with the Bornholm branch. The branch has been set up in order to provide a link to the national network of Business Links (one in each of the five regions) and to the Capital Region in particular, since Bornholm is a part of this NUTS2 region. The project manager is employed by Business Link Greater Copenhagen, while the project coordinator is employed by Business Center Bornholm. The project is managed in cooperation between the two organisations.

- 3.4. Innovative elements and novel approaches to implementation

As stated in the project application, the clusters initiated by the Growth Forum were used as a point of departure for cluster development. Meanwhile, when the project activities were initiated in Spring 2009, it became clear that the clusters were not as developed as stated in the application, and therefore it was necessary to first begin the process of developing a foundation for cluster development, without compromising the activities which had been initiated.

In January 2010, at a cluster seminar in Rønne, the clusters were gathered in three so-called 'cluster universes': the 'experience' universe, the 'food' universe, and the 'green technology' universe. The purpose was to create a broader foundation for cluster development and to enhance the opportunities for cooperation and networking across clusters. In this regard, it was intended that the clusters which had initiated activities could continue them, while space was created for new actors and cluster initiatives.

During 2010, some cluster constellations were developing further while others were somewhat stalling. The project management team spent a lot of resources on maintaining activities in all of the clusters, which led to the realisation that future effort for development should become more focused and comprise fewer initiatives.<sup>63</sup>

Within the three cluster 'universes', a number of activities have taken place which may be considered innovative, e.g. in terms of utilising economic strengths of the island in new ways, and including knowledge institutions in economic development processes.

***Within the 'green technology' universe***

The construction cluster is part of the green technology universe. Two main activities carried out by the construction cluster should be emphasised: their efforts to maintain and attract qualified labour, especially in terms of competence development; and their decision to construct a green demonstration house.

The issue of maintaining and attracting qualified labour to the industry entailed a need for competence development on the island. An employee at Bornholm Business Centre carried out interviews with all relevant firms on the island to explore which competences were needed. Based on this work, the first efforts towards establishing an interdisciplinary education for crafts(wo)men, e.g. plumbers, bricklayers, and carpenters, were initiated in cooperation with Campus Bornholm which is responsible for the different craft education

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<sup>63</sup> Damvad (2011) Klyngeudvikling på Bornholm – Status og perspektiver januar 2011; Albæk, interview.

on the island.

From discussions of developing a Master's programme, eventually a five (now four) weeks course was established at Campus Bornholm to provide training for different types of crafts(wo)men, employed or unemployed, in green construction. In order to develop the programme, the national knowledge institution for sustainable construction, based in Horsens, was involved in the project. Contact to the knowledge institution was initiated by the project management. Two teachers from the knowledge centre in Horsens were involved the first time the course was held. At the course, teachers at Campus Bornholm who did not have the prior detailed knowledge attended the course in order to learn, which allowed them to teach in the following course.

The course is the only one of its kind in Denmark; after the first one took place in Spring 2010, it is now run twice a year. The cluster project financed the development of the course, which is now managed by Campus Bornholm.

A carpenter who is part of the construction cluster bought a house which needed extensive renovation, and it became a common project for green construction involving most of the cluster members. The knowledge institute for sustainable construction was involved in this work. In addition to providing an advisory role in the process, students from VIA university college, where the knowledge centre is based, used the construction project as the topic of their undergraduate projects. Campus Bornholm uses it as a hands-on project in the green construction course.

The house was constructed with the involvement of the carpenter and his family who were going to live in the house. They agreed to be open to visitors for a minimum of one year after it was constructed, and especially after it was the subject of a national TV-programme, the demonstration house for green construction has attracted quite a lot of visitors.

Members of the construction cluster are currently considering setting up a firm to sell their services as a consortium, also outside of Bornholm. The aim is to expand their market and utilise their competences in green construction, e.g. in the Capital Region and the Zealand Region in Denmark. This idea is inspired by the action of the light industry and engineering cluster on the island, where some actors in 2011 have formed a consortium. In cooperation with the project management of the cluster project, a meeting will be organised between the leader of the steel tech firm and the construction cluster to discuss their experiences with starting up a common firm.

In 2011, four individual blacksmith firms, from the light industry and engineering cluster, set up a joint firm with the name steel tech solutions<sup>64</sup> with support from the cluster project management team. They employed a sales person to market and sell their services, especially focusing on Zealand and Germany, and in cooperation they have started working on projects outside of Bornholm.

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<sup>64</sup> <http://www.steeltechsolutions.dk/>

### ***Within the 'experience' universe***

Fourteen music organisers have formed a music cluster as part of the project. They have had a series of meetings, supported by the project management team, to develop common marketing initiatives, common purchase of equipment, etc. A unique part of the music cluster is that it consists of 'grassroots' in Bornholm, who work on a volunteer basis with the organising of concerts. In 2011 the music cluster, in cooperation with the local sports associations, established the membership organisation Event Bornholm.<sup>65</sup> Through this organisation the organisers have started a more structured cooperation which consists of sharing equipment, being able to draw on volunteers for concerts (mainly through the sports associations), and attracting sponsorships.

From Autumn 2011, with the support from the Business Link's branch at Bornholm Business Center, Event Bornholm will be included in a development project with the knowledge centre for experiences under Wonderful Copenhagen, which is a fund and a membership organisation that on a non-profit basis works to promote and develop business and holiday tourism in the Capital Region. The project is called VIBE, and is co-financed by the Growth Forum of the Capital Region, and ERDF. This was initiated with a meeting in September 2011 with the knowledge centre, which is expected to provide inspiration and advice for the future development of Event Bornholm.

ACAB is a membership association for artists working with different types of crafts established in 2001.<sup>66</sup> ACAB is represented with a permanent exhibition at the physical centre for arts and crafts on the island, GrønbechsGård. Co-funded by the Local Action Group funds (from EAFRD) and the Growth Forum/ERDF, ACAB was able to employ an ambassador for the association, who travelled across Europe and promoted the artists in the association for two years. The ambassador invited a gallery owner from London to Bornholm, and consequently a number of artists were represented abroad and increased sales. ACAB is included in the cluster project. The manager of GrønbechsGård (and previously also chair of ACAB) emphasises the usefulness of the cluster course at Business Link in the Capital Region, where she participated with other actors from the cluster project. This generated ideas for expanding the activities of the network. ACAB also cooperates with the food universe, where in connection with an annual food festival on the island, all of the food and drink is served on plates and glass, etc. produced by local artists.

### ***Within the food universe***

The food universe consists of various actors including producers, restaurants, chefs, and distributors. The food universe has become involved in a national initiative by the Danish Enterprise and Construction Authority which has established the knowledge centre for food, called 'Mmm – the food culture zone'. A one and half year project has been initiated by the institute in cooperation with the cluster project and the Local Action Group on Bornholm, which is called 'the new authentic Bornholm kitchen'. The purpose is to create innovation in the food industry through the implementation of a business model, developed especially for Bornholm. The model has three focus areas: i) to strengthen the business of restaurateurs outside the high season; ii) to create an attractive professional and

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<sup>65</sup> <http://eventbornholm.info/>

<sup>66</sup> <http://www.acab.dk/index.php?Itemid=16>

creative environment for chefs in Bornholm; and iii) to increase local food produce used in the restaurants of the island. Currently, during the high-season only 8-10% of the commodities used are actually from Bornholm.

The project is in its initial phase, but two groups have been set up within respectively the lamb and fish sectors that consist of producers, restaurateurs and chefs who are working on ways to utilise the meat/fish better. The groups are facilitated by the Food culture zone, the cluster project, and the Local Action Group.

Within the food universe, nine food producers have started the organisation Gourmet Bornholm<sup>67</sup> with the purpose of increasing their sales outside the island. The objective is to develop new business opportunities and strengthen their common position in marketing and the sale of local food.

- 3.5. Key implementation obstacles and problem-solving practices

According to the project manager of the cluster project, the greatest problem in terms of implementation involved dealing with the high expectations of the project which were there from the beginning. As discussed, it became clear that the pre-existing clusters were not as developed as stated in the original project application, which meant that the project management team decided that it was necessary to develop a more realistic framework for the project, to make local politicians, civil servants and firms understand that it takes a relatively longer timeframe to build up cooperation networks than what was expected from the outset. As part of this process, the respective cluster universes were created, which was intended to encourage synergies between the initial cluster working groups initiated by the Growth Forum and to make it easier for the project management team to manage and organise them.

Another implementation obstacle in terms of cluster development which came up in several interviews with beneficiaries related to the reluctance by some beneficiaries to be open to change as well as really explore the potential opportunities for growth. For example, the involvement of Business Centre Bornholm/Business Link Greater Copenhagen and knowledge institutions, in creating a dialogue with firms and individuals on Bornholm has taken more time than they expected. In most cases the firms, e.g. restaurateurs had not previously cooperated with knowledge institutions and hence they tended to be rather dubious about their usefulness.

Secondly, the idea of expanding firm activities outside the island has also met with some resistance due an uncertainty related with growth and change to existing business. Thus, to try to improve this, there was a greater emphasis on communication efforts as well as keeping a focus on what individual firms would gain from development activities in the cluster project.

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<sup>67</sup> <http://gourmetbornholm.dk/?Id=1052>

#### 4) Project Results

Preliminary results have been positive, since a large number of firms think their participation in the project has added value to their firm and they see further opportunities in the cluster cooperation work.

Results from the activities in construction, have involved the establishment of a green construction training course targeted at crafts (wo)men. The first time it was organised 32 crafts (wo)men participated, and since then the course has been run three times. Today, approximately 90 crafts (wo)men on the island have participated in the course and improved their respective competences. Campus Bornholm which hosts the course has benefited from the cluster project, in terms of the new knowledge gained by the teachers involved and the Campus is now able to offer a course which is unique in Denmark. Moreover, the overall awareness about green construction has increased on the island.

The involvement of the knowledge centre for sustainable construction, based in Horsens, has been highly important in connection with the development of the green construction course as well as the green demonstration house which has been constructed during the project. In addition, the owner of an architect firm explained that the cooperation with the knowledge institute on the demonstration project provided him and his employees with excellent training opportunities.

The cooperation is now continuing with the knowledge institute, as other projects within green construction are being initiated on the island, e.g. a 'green solution house'. The cluster project has been important in terms of establishing the link to the knowledge institute and also between the firms in the construction cluster, which would not otherwise have cooperated. In addition to the knowledge institute for sustainable construction, real estate agents and banks are also cluster members. This is based on the idea that they also need to become informed on the 'greening' of buildings on the island.

The architect firm and a number of carpenters are considering starting up a common firm similar to 'Steel Tech Solutions' which is a concrete result within the light engineering industry on the island. It has increased business for the firms who have started cooperating and also expanded their activities outside the island.

The cooperation which has been initiated among concert organisers has led to the establishment of the organisation Event Bornholm, also in cooperation with sports associations on the island. As stated by one of the actors involved in this cooperation it is difficult to document direct job creation as a result of initiatives, which is dominated by volunteer work. Successful efforts in the organising of concerts should however impact the tourism industry. The organisation also has future plans to employ one or more people to run their secretariat. Support from the development project in cooperation with VIBE, the knowledge centre for experiences, may further support measures for growth for Event Bornholm.

The cooperation within arts and crafts was organised through the organisation ACAB

before the cluster project was initiated, however, the project has increased the focus of the network on ways to expand their sales/activities outside the island, and activities have been initiated with other networks, for example, in the South of Sweden.

A concrete project result in the food universe is the establishment of Gourmet Bornholm which is a joint effort between food producers on the island to strengthen marketing and sales. The newly initiated project in cooperation with the national knowledge centre for food culture 'the new authentic Bornholm kitchen', which utilises the network created as part of the cluster project, may generate innovation and growth in this sector.

To sum up, a result of the cluster project, which is identified in all three cluster universes, is the establishment of membership organisations for firms in similar industries. Moreover, the firm Steel Tech has been established to represent smaller firms as a consortium. Inspired by this, another similar firm may be established to expand green construction activities of local firms outside of the island. Establishment of such organisations may also indicate an increasing independence from the cluster project, i.e. facilitation by the project management.

## 5) Sustainability and transferability

- 5.1. Sustainability

According to the project manager, the clusters are not yet ready to continue activities independently of Business Centre Bornholm/Business Link, and a continuation of the project is needed. In August 2011, an application was submitted to the secretariat of Bornholm's Growth Forum requesting funding for another three year project. This project intends to focus on minor groups of actors, who show initiative and have the resources to invest in development activities. Furthermore, activities which involve the wider groups of actors in the three cluster universes are planned to continue with the organising of network meetings, mainly through so-called 'cluster cafes' and other 'matchmaking' activities. The idea for the continuation project is that firms will have to contribute financially as a way of ensuring greater commitment to the cluster activities undertaken by the project.

In preparation for Bornholm's business development strategy 2011-2014, the various clusters were involved in the process through participation in various working group meetings and workshops about the strategy. The current business development strategy 2011-2014 has four main focus areas:

- Bornholm as a business island;
- Bornholm as an education island;
- Bornholm as a green test island;
- Bornholm as an experience island.

The last two of these areas in the strategy particularly stress the continued priority of cluster development within the industries already focused in the current cluster project, by the Growth Forum. The focus area in the business development strategy 'Bornholm as an experience island' also incorporates the area of food, thus encouraging synergies between

the two industries.

The focus of Bornholm as a green test island is an area with many activities and it is attracting more attention from abroad. A good example is an EU Framework 7 (FP7) project, called EcoGrid,<sup>68</sup> which will run for four years from mid-2011. This is a demonstration project which will take place on Bornholm. It has the objective that more than 50% of electricity consumption on the island will be derived from renewable energy production. This project, as well as another project concerning testing of electric cars on the island, has really started to attract interested stakeholders and experts from abroad. Another example is a project concerning the construction of a 'green solution house', which is planned to become a green technology test centre and a meeting point for visitors. Overall, several stakeholders argued that activities in green technology and construction are increasing on the island and believe that there is great potential for growth in this area.

- 5.2. Transferability

An objective of the cluster project is to develop a model for cluster development which will be transferrable to other peripheral areas of Denmark and internationally. The way in which the project management team has worked with this objective has mainly been focused on the organising of workshops. A conference was organised in 2009, the aim of which was to exchange experiences with other cluster initiatives, and cooperation was initiated with the Danish platform for competence building, knowledge sharing and networking for Danish cluster stakeholders, RegX,<sup>69</sup> which is run by University of Southern Denmark. A second conference was held in 2010, where focus was placed on how to utilize geographic specificities in cluster development. A high level academic expert from New Zealand presented examples of initiatives from different countries. A final workshop was held in November 2011 and focused on exchanging best-practice about the ways to develop a model for cluster development in peripheral areas.

### **Conclusions: Key success factors and lessons learned**

Firstly, the fact that cooperation between firms, and cooperation between firms and knowledge institutions, has been facilitated by the project can be regarded as a key success factor. In connection with this, however, the project manager states that a key lesson learned is that it takes a long time to develop cluster cooperation, especially when the firms involved have not previously cooperated. Although there are examples of cooperation, this is an element that still needs further development.

Secondly, the activities within the green technology universe, and what is now referred to as Bornholm as a green test island, is an example of how the geographic specificities of the island are being utilised and transformed into an opportunity for economic growth. As stated in Bornholm's Growth Forum's Business Development Strategy for 2011-2014:

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<sup>68</sup> <http://energinet.dk/en/forskning/EcoGrid-EU/sider/EU-EcoGrid-net.aspx>

<sup>69</sup> <http://www.regx.dk/en/home.html>

*“The island community’s closed circuit of energy and water consumption makes Bornholm a unique place to test the effects of energy saving projects which can attract jobs and international companies.”<sup>70</sup>*

Thirdly, tourism has traditionally been important for Bornholm, and the activities within the ‘experience universe’ are helping to further support this sector on the island. For example, the cluster project facilitated cooperation initiatives between a group of concert organisers, who have set up a membership organisation which will in the future initiate further joint working in terms of attracting sponsors, etc. According to the project manager of the cluster project, there is great deal of unreleased potential within the tourism and experience industry. What is important is more cooperation between the actors involved, and also with the ferry company.

In summary, the cluster project has brought together actors in similar sectors and encouraged cooperation on common issues. However, it is important to stress that cluster development takes time and in this case much effort has been put into creating common ground within the cluster universes, as well as creating realistic expectations of what the project could achieve. The clusters have become an important element of Bornholm’s future development plans which is a clear indication of the projects relative success.

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Project website: <http://www.clusterdevelopment.dk/mainpage/0/2>

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<sup>70</sup> Bornholm’s Growth Forum (2011) Business Development Strategy 2011-2014, p.13



## **Annex 1: Stakeholders consulted**

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This annex contains the name and the position of each interviewee.

- Hans Aage Steenberg, Owner of SteenbergTegnestueApS
- Lars Albæk, Project Manager of 'Cluster development in rural areas', Business Link of Greater Copenhagen (Bornholm branch)
- Henrik Blyt, VIA University College, Knowledge Centre for Sustainable Construction, Horsens
- Niels Chresten Andersen, Europe Direct, The Regional Municipality of Bornholm
- Niklas Dalsjø, Consultant, the Secretariat of Bornholm's Growth Forum
- Henning Eriksen, Administrator responsible for Bornholm, The Danish Enterprise and Construction Authority
- Lisbeth Fuglsang, ERDF coordinator, The Regional Municipality of Bornholm
- Diana Grevy Lindahl, Consultant, The Secretariat of Bornholm's Growth Forum
- Winni Grosbøl, Mayor, Vice President Bornholm's Growth Forum
- Karen-Margrethe Hansen Bager, Head of Secretariat, Bornholm's Growth Forum
- Eva Højmark, Education Manager, Campus Bornholm
- Jørgen Jensen, Commercial Director, Ferry company
- Hans Jørgen Jensen, Head of Bornholm's Local Action Group
- Torben Kjøller, organiser, Snogebæk Port Festival
- Morten Ledskov, Organiser Hammershus Fairtrade Concert
- Mai Ørsted, GrønbechsGård, previous chair of ACAB (arts and crafts association)
- Pia Sonne Jensen, ESF coordinator, The Regional Municipality of Bornholm
- Katharina Thordis Raagaard, Project Manager of 'The authentic Bornholm kitchen', Mmm – the zone for food culture, Copenhagen



**CASE STUDY 5: ARDÈCHE,  
Region of Rhône-Alpes, France**

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## List of Acronyms

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ADN	Ardèche-Drôme Numérique
CPER	Contrat de Plan Etat-Région (from 2007: Contrat de Projets Etat-Région)
EAFRD	European Agricultural Fund for Rural Development
EAGGF	European Agricultural Guidance and Guarantee Fund
ERDF	European Regional Development Fund
ERGC	Espace de Restitution de la Grotte de Chauvet



# 1. Introduction

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The focus of this case study report is an analysis of the relevance and effectiveness of ERDF co-financed programmes and the extent to which they are adapted to the specific territorial context of the French NUTS3 mountainous region, Ardèche.

The report has six sections. The first provides a brief contextual analysis of the Ardèche NUTS3 region. The second focuses on the main policy responses that have evolved since 2000. The third explores the relevance of the ERDF programmes to the specific territorial context of the Ardèche. The fourth examines the effectiveness of the funding across two programming periods. The fifth section then addresses the issue of implementation and governance which is followed by conclusions in the sixth section.



## 2. Brief context analysis

### 2.1. Ardèche, a 'particular' territory within a large region, Rhône-Alpes

The *département*<sup>71</sup> of Ardèche is a mountainous NUTS3 region, located at the foothills of the *Massif Central*, in the south-east of France. Ardèche covers a geographical area of 5 529 km<sup>2</sup> and counts 314.000 inhabitants (*density: 56 inhabitants per km<sup>2</sup>*). This represents only 5% of the population of the Rhône-Alpes region (NUTS2 level).

Maps 1 and 2 show the location of respectively the Rhône-Alpes region and the *département* of Ardèche.

**Map 1: Location of the Rhône-Alpes region**



Source: Eurostat

<sup>71</sup> In France, a NUTS3 region is called "département" and a NUTS2 region is called "région"

**Map 2: Location of the *département* of Ardèche**



Source: Eurostat

The key feature of the Rhône-Alpes region is its considerable territorial diversity, even if 65% of it is classified as mountainous. Indeed, the mountains of the region do not form a unique and coherent area with single, uniform characteristics. Instead, several territorial contexts coexist each with different economic and demographic specificities. In a nutshell, one can summarise the regional geographical context as follows:

- The ‘west’: foothills of the *Massif Central*, including the *département* of *Ardèche*. Before 2000, these areas underwent a decline in population due to out-migration from the rural areas, which contributed to an ageing of the population;
- The ‘centre’: the Rhone and Saone valleys, in a central position located at the heart of the main transport network, with a significant concentration of economic activity, including both secondary and tertiary activities;
- The ‘east’, Alpes constitute an exceptional and attractive massif of average and high mountains with many assets (such as: *exceptional environment and landscapes, attractiveness for both summer and winter tourism, research facilities and high tech companies around Grenoble, etc.*) which place the area above the regional average with respect to demographic and socio-economic indicators;

Thus, the main challenge for the region at NUTS2 level is definitely to guarantee a balanced development both within and between these relatively diverse mountainous sub-territories. For instance, in the *Massif Central* on the one hand, the issue is to try to reverse the decline of population by attracting new inhabitants as well as improving economic competitiveness. On the other hand, the main challenge for Alpes is to manage growth issues stemming from urbanisation and tourism in order to reduce their impact on the environment.

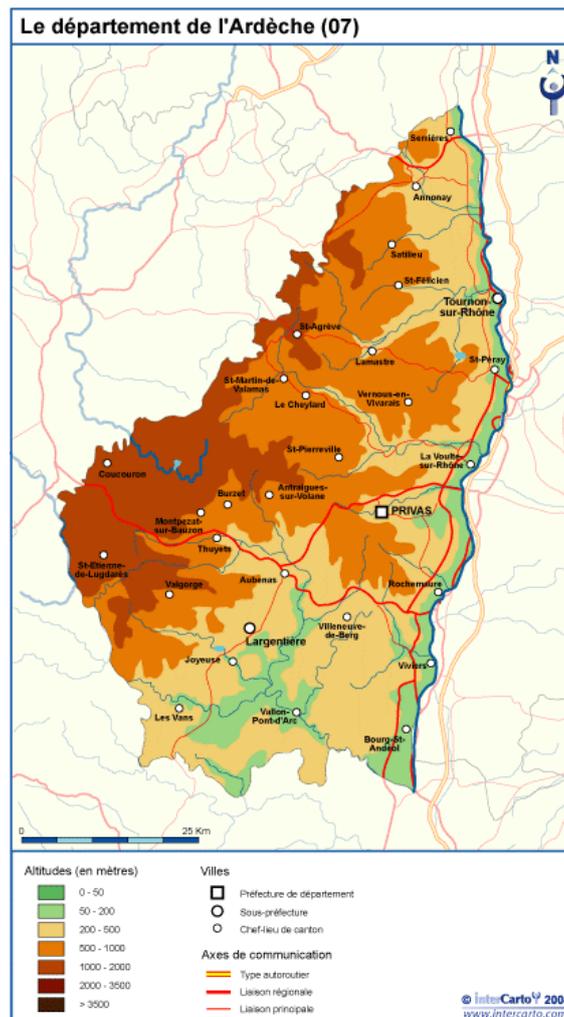
## 2.2 Handicaps and assets

### 1. *The main geographical feature of Ardèche*

Ardèche is located at the foothills of the *Massif Central*, in the south-western part of the Rhône-Alpes region. The mountainous geography and its relative isolation characterise important parts of the territory and largely determine the socio-economic structures and dynamics of the region.

Interestingly, within the Ardèche region itself, there are considerable territorial differences. For example, the southern part of the region has a Mediterranean climate; there is a confined corridor of 150 km bordering the Rhône river; and a significant part of the territory located in the mountains, with the western part exceeding an altitude of 1 000 m. In general, the altitude ranges from 40 m (the level of the Rhône river) to 1 754 m at the top of Mount Mézenc. Map 3 below provides an overview of the landscape of the Ardèche.

**Map 3: Overview of the Ardèche landscape**



Source: Intercarto website

**2. *A paradox: proximity of important poles of development and main transport axis, but difficult to reach them***

The Ardèche, therefore, has a paradoxical location; it is situated close to the significant development poles of *Lyon, Grenoble and Valence* as well as to large axes of communication (*i.e. the Rhône valley, a major European axe*). However, the region is somewhat isolated from these opportunities and there are significant difficulties to reach them. Indeed, the river Rhone's tributaries divide the territory into deep and sinuous valleys oriented east-west (in "*fish bones*"). This makes transport and communications very difficult towards both the Rhône valley as well as between the valleys within the Ardèche.

The hilly landscape as well as the open settlement pattern, explain why the Ardèche does not have any major transport infrastructure for passengers or goods (*no motorway or main national road, no railways or airport*). The road network is made up of many small sinuous roads, which really only provides access to services.

In 2004, nearly a third of Ardèche municipalities (*9% of the population*) were still located in areas without mobile phone coverage whilst almost a third of the population cannot yet benefit from broadband.

**3. *No metropolis or strong decision-making centres***

The territory is characterised by a scattered settlement pattern without any major urban centres of more than 20 000 inhabitants or strong decision-making centres. Thus, Ardèche is largely influenced by external cities (*mainly located in the Rhône valley such as Valence, Montélimar, Lyon, Grenoble, etc.*) which provide most of the major services to the citizens or business of the region. Notably, Ardèche has no research facilities or higher education establishment. Its development is therefore penalised by an outflow of young people towards external centres of further and higher education. In turn, it is difficult for these young people to return to the Ardèche following their training or studies.

**4. *Some population growth resulting mainly from in-migration flows which unequally distributed within the territory***

The rural character of Ardèche is also characterised by an average population density of 56 inhabitants per km<sup>2</sup> (*compared to 129 in Rhône-Alpes*). The population sometimes drops to a density of just 6 inhabitants per km<sup>2</sup> in some mountainous districts. The main reason for this was a significant rural depopulation between the 1950s until the end of the 1970s. Since then, the population grew relatively continuously until the end of the 1990s, even though it was lower than both the regional and national average. Facing a negative natural balance, this growth is mainly the result of in-migration flows. Since 1999, the natural balance has been relatively positive and the growth of the population has been accelerating more quickly than both the regional and national average. On the other hand, the ageing of the population is accelerating. For example, the share of retired people is increasing rapidly; the group accounted for 27% of the working population in 1999, which increased to 32% in 2007. It is worth noting that these demographic trends are not homogeneous across the whole region as there are also internal differences within the Ardèche. For

example, people are moving from the mountain areas in the west of the *département*, towards the most accessible areas in the east and the south of the region.

### **5. *Well-preserved natural landscape***

The relative isolation of the region and a well-managed agriculture has helped to shape and preserve a remarkable natural landscape, which includes a diversity of sites and fragile environments. These elements contribute to the positive image of Ardèche, which is definitely a source of attractiveness. In addition to these assets, it is necessary to add the gorges of Ardèche in the south of the *département*, greatly prized by tourists during the summer months. This tourism concentration in time and space raises particular issues in terms of balanced territorial development and of environmental impact, especially in terms of *water resources*.

### **6. *Traditional industries intertwined with the geographical specificities.***

Interestingly, the structure of the regional economy is largely determined by the geographical specificities of Ardèche. The forestry and wood sector remains significant. Agriculture represents now only 5% of employment and is mainly based on small farm units. Agriculture in general and small local productions benefit from a very positive image related to the territory and their respect of the environment. Bio-agriculture accounts for 320 farm units and 13% of the agricultural area.

As in many other mountain territories, the traditional industrial sector remains significant. In spite of the loss of many jobs in traditional industries in recent decades, the share of industrial employment (*21 600 persons in 2008, representing 21% of the employment in Ardèche*) remains higher than the regional (17%) and national (14%) averages. The Ardèche includes several companies of average size leader in their fields and some of which have more than 1000 employees. Amongst the main sectors, some are more specifically related to the characteristics of the territory: the textile sector (*3 600 jobs*), the agro-alimentary one (*2 500 jobs*), and the wood and paper industry (*1 480 jobs*). Despite relatively strong growth in the last 15 years, the share of services (*66% of the use in 2008*) still remains relatively weak compared to both the regional and national average (about 75%).

### **7. *A 'narrow' labour market***

The unemployment rate (*9.8% in 2009*) remains higher compared to Rhône-Alpes (*8.7% in 2009*). During last years, the unemployment rate for people over 50 years old increased more quickly than other age groups.

Interestingly, the average net taxable income of the households is about 15% lower than both the national or regional average. This difference is not only related to the level of wages, but also to the narrowness of the labour market as well as the difficulties in finding a second job in the same household (*because of a small and poorly diversified local labour market, the time and cost of transport, the lack of adequate childcare facilities close by etc.*).

## 2.3 Main challenges

According to the stakeholders interviewed, the main challenge for the Ardèche is to keep the socio-economic fabric of territory 'alive', making sure that it is not reduced to a mainly tourist, or outdoor leisure area. This raises several interlinked issues, which are discussed below:

### **1. *Population renewal and a balanced distribution***

Keeping a 'living' and dynamic territory implies first a balanced growth of young, qualified people that are able to find job and career opportunities throughout the whole territory. This also requires attracting population to the region, which requires accessibility to services, housing as well as job opportunities.

### **2. *Accessibility***

The relative isolation constitutes a significant handicap both for the population and for the development of economic activity. The relatively high cost of transport is really significant for any firm or household, taking up a significant part of their respective budgets. Moreover, companies also suffer from their remoteness from the resource and decision-making centres (*services for enterprises, R&D or innovation facilities, training, qualified employees*). Hence, to improving physical and/or 'virtual' accessibility to services and markets constitutes a key challenge for the region.

### **3. *To maintain the density, quality and proximity of services***

The unbalanced population distribution across the territory contributes to a relative disappearance of services in certain rural and mountain areas, even though such services are essential. For instance, childcare services are crucial for encouraging labour market participation, especially for women; the proximity of school or health services in mountain areas is undoubtedly crucial. Disparities, however, between territories have been growing in terms of the age structure, services, training, employment and incomes. A key challenge, therefore, is to maintain the density, quality and proximity services for households and companies alike, this is essential in the remoter mountain areas of the region.

### **4. *To develop the tertiary sector***

The development of industrial employment in the region is essentially based on the endogenous development of existing companies, due to the real lack of inward investment. Based primarily on local and family capital, the companies in the Ardèche are largely stable although they still require support. Plus, there is potential growth in two other sectors, which are:

- **Tourism:** Ardèche benefits from a positive image of natural areas. Tourism represents a significant sector in the economy but it is still weakly structured and remains strongly concentrated territorially (*southern of the département*) and in time (*July and August*).
- **Services for ageing or dependent people:** the region benefits from relative experience in this field which should encourage the development of activities and jobs in this sector.

## 3. Policy responses

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### 3.1. Main stakeholders and organisation

In France, regional policies and EU Structural Funds are mainly designed and managed at NUTS2 level, but on the basis of close cooperation between the various levels of regional and local authorities (*see the box below*).

There is relatively good collaboration between the State and local communities through the so-called “contractualised” policies, the co-financing of projects and participation in the overall governance structure.

#### The organisation of the local governance in France

France works with three levels of local governance:

- **Régions (NUTS2)** are managed by the Regional Council (CR) elected for six years by direct vote. They have major competences in terms of economic development, regional planning and transport, education, and initial and continuous vocational training.
- **Départements (NUTS3)**, a level below the Region, are managed by the General Council (CG) whose councillors are also elected for six years by direct vote. Their main competences are: social services, secondary roads and collective transports, the building and the equipment of the schools, economic actions supplementing the action of the other communities. It is worth noting that whilst some competences are complementary with the region, some others are sometimes potential sources of conflict.

Each *région* and *département* also has a **Prefect** whose role is to represent the State and to supervise the **services of the State present at the regional or departmental level** the role of which is usually to have a dialogue with Regional and General Councils, to cooperate through “contractualised” policies and co-financing, and to reinforce the coherence between state, regional and local policies and actions.

- **Municipalities**, in large numbers and with very different sizes, have numerous local competences on their territory.

To manage projects or actions at a coherent scale, new structures were developed. They are not additional administrative levels, but structures which support the cooperation between communities.

- The inter-municipality structures (“*Communauté de Communes*”, *etc.*) allow the municipalities to put several services together (urban transport, collecting of waste...) or to work out economic projects about installation or town planning for example.

- The “Pays” or the “Agglomeration” (gathering for instance, the municipality and the département) allow several communities to initiate projects of development on a relevant territory scale from the social, economic and cultural point of view, by associating relevant local actors.

Among “contractualised” policies, the CPER<sup>72</sup> defines the actions that the State and the NUTS2 region will carry out jointly, in favour of the economic and social development of the region. The design of ERDF programmes and CPER is based on the same process and both initiatives are thus complementary.

The CPER 2000-2006 for Rhône-Alpes is articulated around 5 priorities:

- development of the territories by reinforcing local cooperation;
- urban policy and development of solidarity;
- higher education, research, technology and ICT;
- transport and communication issues;
- employment as a transversal priority (*agriculture, industry, technology or tourism*).

In 2007-2013, the CPER for Rhône-Alpes has become a contract of projects, aiming to support 10 projects for the Rhône-Alpes region, two of which are related to the Ardèche: the Chauvet cave and the Rhône Plan.

### 3.2 A territorialised, bottom-up approach

Given the heterogeneous nature of the territory, the main idea was that the initiatives and the decisions had to be made close to the ground in order to adapt the answers to specific local issues. It was thus a question of reinforcing and supporting the initiative of the local development actors in bottom-up approaches.

Hence, the 1994-1999 ERDF programming period was marked by a strong devolution of measures and decisions to the NUTS3 level. The evaluation<sup>73</sup> of this period shows that this resulted in a multiplication of very small projects (*13.000 projects for 800.000 inhabitants in the Rhône-Alpes eligible zones*) without any strong and explicit coherence at the programme level. This evaluation also showed that territories were unequally structured, with low development of the inter-communality, no specific development strategy at a local level, etc. This situation logically constitutes a handicap and does not allow the implementation of structured and integrated actions.

In 2000-2006 period, in order to overcome these difficulties, the local/bottom-up approach was reinforced through several measures at the most appropriate territorial level:

- development projects supporting local cooperation between communities (*intercommunality, Pays, Regional Natural Parks, etc.*);
- the reinforcement of the dialogue around strategies and action plans;
- the professionalisation of local actors;

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<sup>72</sup> CPER was « *Contrat de Plan État-Région* », and became in 2007 « *Contrat de Projets Etat-Region* ».

<sup>73</sup> Conclusions presented under point 2 of section 3.1 on strategic orientations of 2000-2006 SPD (« *DOCUP Objectif 2 2000-2006 of Région Rhône-Alpes* », p.91)

- adapting the policies and actions to particular territorial contexts in a coherent way.

ERDF contributed in a significant way to the implementation of this localised approach. It constituted the first priority of the regional 2000-2006 SPDs, which included actions aimed at supporting the development of local strategies, defining and implementing a framework of integrated projects and approaches, and informing and training local stakeholders. Even though the strengthening of the local approach was not specific to Ardèche or the Rhône-Alpes region, it was an important response to the heterogeneity of the territory and it encouraged the adaptation of regional policies to local specific issues.

As described further, this approach evolved significantly in the 2007-2013 period, with a greater concentration of funds on larger projects, whilst also preserving a local focus.

### 3.3 No formal strategy at NUTS3 level but a consensus on the main issues and responses

In Ardèche, there is no formal development strategy at the NUTS3 level. There is nevertheless a consensus on the main challenges to be addressed as well as the policy levers. In order to contribute to the design of the documents for the 2007-2013 programming period (CPER and ERDF), the local Authorities wrote a synthesis<sup>74</sup> of the Ardèche main stakes, as well as the expectations and projects of the main actors consulted at the NUTS3 level. The key points were:

- Improve the attractiveness and accessibility of the territory and provide the necessary resources and to improve economic growth and the creation of more companies;
- Development of ICT and high-speed broad band in order to improve access to the e-services;
- Improve the organisation, attractiveness and accessibility of the regional public transport network;
- Improvement of the environment in the fields of water, renewable energies (including wood energy), reduce natural risks (flood and forest fire risks), and the management of agricultural and natural areas;
- The restructuring of the tourism sector by concentrating on particular sites (*e.g. Chauvet*) which are able to have a significant leverage effect on the private sector and the creation of jobs;
- Improve the access and proximity of the population and business actors to essential services;
- Rehabilitation of small market town centres.

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<sup>74</sup> « *Contrat de projets et Programmes européens 2007-2013 : L'Ardèche en Rhône-Alpes, ses enjeux, ses projets, ses attentes* », Département de l'Ardèche.

### 3.4 A specific governance at the level of the Massif multi-regional operational programme

Since the beginning of the 1970s, France has developed a specific policy approach to mountainous areas in terms of the delineation of massifs, mountain-specific legislation and governance. Indeed, a *massif* often constitutes a coherent territorial entity facing common and interrelated challenges which are specific to mountain areas.

The governance is organised through a *Massif Committee* which is a place for dialogue bringing together elected representatives, economic and social stakeholders as well as associations and qualified persons in the field of mountains. The aim is to have common guidelines to develop, arrange and protect the massif through several documents, which includes “*schémas de massif*” and “*conventions interrégionales de massif*”. These documents guide the action of the regions and key local development stakeholders towards coherent policies at the scale of the massif. It includes six NUTS2 regions and twenty-two NUTS3 sub-regions and is able to carry out actions which may be supported through the framework of regional programmes.

The ERDF multi-regional Operational Programme for the Massif Central is a new initiative which is part of the current programming period. ERDF already supported multi-regional projects at the level of Massif Central during 2000-2006 programming period, but through dedicated axes within the regional programme of Auvergne. The benefit of this new approach is that the Massif Committee can access its own ERDF funds to lead specific projects experiments at the scale of the Massif in order to solve problems that go beyond the regional scale.

### 3.5 Internal solidarity within Rhône-Alpes region

In order to ensure the cohesion in a region as large as the Rhône-Alpes, an informal tradition of solidarity exists at the NUTS2 regional level. It aims to support the territories facing structural difficulties, including Ardèche.

## 4. Relevance of ERDF Programmes

This section assesses the extent to which ERDF Programmes address the specific needs and challenges of the regions and contribute to economic development at NUTS3 level. For this purpose, the section is divided in the following three sub-sections:

- 4.1 Overview;
- 4.2 Strategies & approach for the use of ERDF;
- 4.3 Relevance of ERDF in the Ardèche;

### 4.1 Overview

Ardèche benefited from ERDF support during the two respective programming periods through Rhône-Alpes regional programmes first and from 2007, also through the multi-regional Operational Programme for the *Massif Central*. Table 1 hereafter shows the commitments of ERDF, ESF and EAGGF for the different programmes.

**Table 1: Commitments of ERDF, ESF and EAGGF for the different programmes (in EUR million)**

Period	Programme	Progr. type	ERDF	ESF	EAGGF
2000-2006	SPD Objective 2 Programme for Rhône-Alpes (CCI 2000FR162DO020)	Regional (NUTS2)	356.2	61.4	56.5
2007-2013	OP Rhône-Alpes (CCI no : 2007FR162PO022)	Regional (NUTS2)	334.0		
2007-2013	OP Massif Central (CCI no : 2007FR162PO025)	Multi regional (covering 22 NUTS3 regions)	40.6		

*Source: European Commission, 2011.*

The ERDF contribution slightly decreased by 6.6% between the two periods. But this comparison remains nevertheless difficult, since only a third of the regional population (*1.9 million inhabitants*) was located in eligible areas for the 2000-2006 period.

The average level of ERDF funds allocated per inhabitant in 2000-2006 was €190, equivalent to €27 per inhabitant/per year. The abandonment of ‘territorial zoning’ in the current period, however, has lowered this average to €55 or €8 per inhabitant/per year. Thus, it is important to note that ERDF constitutes a limited part of regional policy financing, in particular compared to regions under Objective 1.

### 4.2 Strategies & approach for the use of ERDF

The national and European guidelines provide the general framework for the use of ERDF. The particular strategies and approaches are then defined at the level of the Rhône-Alpes region (NUTS2) based on these guidelines and in close cooperation with local authorities.

In 2000-2006, the French national authorities decided to use ERDF funds mainly to support local development. The logic was to use this financial lever to equip eligible territories facing difficulties. In addition, the aim was to stimulate local actors to cooperate and structure themselves around local strategies or projects. This ‘bottom-up’ approach encouraged a focus on the specific context of each territory.

The Rhône-Alpes Objective 2 SPD was structured around three main priorities reflecting the French approach for 2000-2006 programming period:

1. Provide support for local development and territorial innovation (7% of ERDF);
2. Improve the attractiveness of the territory (70% of ERDF), which aimed at improving the management of fragile nature areas; strengthening regional attractiveness in terms of tourism and increasing services for businesses and inhabitants;
3. Bolster business dynamism to consolidate the economic base (21% ERDF);

The SPD did not indicate particular priorities or specificities for each of the NUTS3 regions. The following table shows the distribution of the final ERDF spending by main measures for projects located in Ardèche.

**Table 2: Final spending for projects located in Ardèche for the ERDF SPD 2000-2006**

		Nb of projects	ERDF final (EUR million)	In %
1.	Support territorial project approach	16	0.66	1.3%
2.	Support the innovation and the city-rural areas relations	36	1.94	3.8%
4.	Rehabilitation and valorisation of the territories	32	3.54	6.8%
5.A	Environmental quality (solid waste and renewable energies)	90	1.84	3.6%
5.B	Quality of water (monitoring, waste water treatment)	174	11.31	21.9%
6.	Cultural and tourist attractiveness	265	17.15	33.2%
7.	Services for companies and people	29	3.36	6.5%
8.	Plan for covering the “white zones” of mobile telephony	1	1.66	3.2%
9.B	Innovation and research	22	0.22	0.4%
9.C	Industry, trade Craft industry	83	3.65	7.1%
10.	Agents and private actors of tourism (lodging, etc.)	185	6.40	12.4%
	<b>Total :</b>	<b>935</b>	<b>51.72</b>	<b>100%</b>

In Ardèche, ERDF focused mainly on 3 fields of intervention during 2000-2006 programming period:

- **Tourism (45%):** The most important element was dedicated to tourist and cultural attractiveness (33%) supporting projects to improve local cultural events or initiatives. The second element was on the economic development side, centred on the support to the creation or modernisation of tourist accommodation (12%);
- **Environmental infrastructures (26%):** mainly centred on the problems of the waste water in municipalities (22%); sorted waste facilities; and renewable energies (wood-energy and solar);
- **Rehabilitation and the valorisation of the territories (12%)**

The economic part without tourism accounted only for 8% of the total expenditure. The average EU contribution was around 55.000€ per project. The local/bottom-up approach which characterised the 2000-2006 programming period did focus on territorial issues at the local level. However, the strong focus on competitiveness and jobs in Community guidelines for the 2007-2013 periods raised questions about the local approach adopted in France during the former period. The regional and local authorities, therefore, had to re-examine their strategy for the use of EU funds following the abandonment of territorial zoning; the priority given to research and innovation; and the introduction of the Lisbon earmarking.

The subsequent approach used for the 2007-2013 period was substantially re-examined, even if the main Fields of Intervention remained more or less identical, focusing on the creation of wealth and jobs as well as larger scale transformational projects. The five priorities of the 2007-2013 regional Operational Programme for Rhône-Alpes reflect this significant change in the approach in line with European guidelines:

1. **Innovation and knowledge-based economy** (*38% of total*);
2. **Diversification and promotion of economic activities** (*25% of total*), the aim of which is to boost sustainable development and to encourage the creation of jobs by supporting growth in economic activities, making services accessible to the population and economic operators and, promoting the use of ICT;
3. **Environment and risk prevention** (*13% of total*) by focusing on climate change and the environment (*energy efficiency, renewable energy and transport*);
4. **Improving accessibility in transport and ICT** (*15% of total*) by developing multimodal and environmentally-friendly transport and encouraging ICT access for enterprises and the public;
5. **The Rhône river as a centre of economic development and environmental protection** (*7% of total*).

An important point worth noting is that the abandonment of territorial zoning has effectively reduced the share of ERDF budget allocated to Ardèche. The share fell from 13% in 2000-2006 to 5% in the current programming period, whereas Ardèche represents 5% of the regional population. Moreover, the innovation and research centres in the Rhône-Alpes region, all located outside of the Ardèche, could easily absorb all of the ERDF funds in the context of the earmarking and the abandonment of zoning. Nevertheless, the Rhône-Alpes region chose to maintain a strong territorial axis in order to reinforce regional cohesion.

The following Table shows the distribution of the commitments by main Fields of Intervention over the 2007-2013 programming period. This presents only a partial view because it takes only into account the projects located in Ardèche, and not those implemented at NUTS2 level or covering several NUTS3 sub-regions. Nevertheless, it gives an indication of the strategy pursued at the NUTS3 level.

**Table 3: ERDF Commitments for projects located in Ardèche for 2007-2013 (up to September 2011)**

		Nb of projects	ERDF final (EUR million)	In %
7.	Economie : Soutien à la création, la transmission et la reprise d'entreprises	6	0.63	7%
8.	Services : Elargir et renouveler l'offre de services	16	2.65	29%
9.1	Tourisme : Utilisation des TIC dans le secteur touristique	6	0.19	2%
9.2	Tourisme : Projets structurants s'inscrivant dans une démarche territoriale	15	1.58	17%
9.3	Tourisme : Réalisation de l'espace de restitution de la grotte Chauvet	5	3.72	40%
11.	Réhabilitation des friches industrielles	4	0.26	3%
14.	Développement durables et prévention des risques naturels	6	0.26	3%
	<b>Total :</b>	<b>58</b>	<b>9.30</b>	

This shows that in Ardèche, ERDF focused mainly on three fields of intervention during the first part of the 2007-2013 programming period:

- **Tourism (60%)** remains the main axis of development for Ardèche. Nevertheless, the approach strongly evolved in comparison to the 2000-2006 programming period since it concentrates on a limited number of projects for the region, focusing on major sites and actors. The main project was the building of a visitor centre to allow visitors to experience the Chauvet cave (see below for more information).

### The Chauvet cave project

The Chauvet Cave discovered in 1994 in the south of Ardèche is an exceptional site in more ways than one. Its walls are covered with pictures which are the oldest in the world, dating back 36 000 years (two times older than the famous Lascaux Cave). It includes 420 representations and 14 species of animals covering about 3 600 square meters (nearly 20 times greater than Lascaux). The aesthetic quality is exceptional with the use of several techniques.

This recent discovery is a unique opportunity to bring together public and private actors for an ambitious cultural, economic and tourism project. Unfortunately, the cave is located at the southern end of the territory on the site which is already one of the busiest in the Ardèche.

This major project represents an investment of EUR 59 million, including EUR 10 million of ERDF. It includes three parts:

- The construction of a visitor centre to accommodate 300 000 visitors a year;
- A candidate for the UNESCO World Heritage;
- A significant territorial component ensuring maximum sustainable

benefits of the project throughout the territory.

This third part (EUR 14 million) is particularly interesting. It allows in particular:

- An overall review of networking and upgrading of important cultural and tourist sites in the *département*. In concrete terms, the visitor centre should be able to attract tourists and redirect them to the rest of the territory;
- To bring together all the public and private stakeholders and involve them in a common approach. Tourism activity was indeed historically developed haphazardly around the gorges of Ardèche and private actors had always held back any proposed site development.
- To attract a new audience and to spread the tourists throughout the year by proposing a major cultural project (for retired people, schools, short breaks, etc.);
- A wider reflection on a better organisation of travel, the welcome of groups, training, creation of new jobs, the development of local bio-industries to supply restaurants, etc.

This project goes well beyond a simple tourist facility, but provides the basis for a more comprehensive approach for the development of a whole territory. Ardèche had no tourism strategy before this project, which has really helped to launch something more dynamic.

<http://www.grotte-chauvet.org> ; <http://www.culture.gouv.fr/culture/arnat/chauvet/en/>

- **Services of proximity (29%)** 1) meeting the needs to maintain population and companies in the territory, and 2) creating or maintaining employment opportunities in this field. The main support relates to the crèches, local health services and facilities for ageing persons.
- **ICT:** to develop high-speed broadband covering all the region in order to improve access to services for the whole population and its firms.

### Projet Ardèche-Drôme Numérique (ADN)

In 2004, nearly a third of the Ardèche municipalities (9% of the population) were still located in areas with no mobile telephone access and nearly a third of the population could not yet benefit from broadband, mostly in isolated mountain areas.

This large scale project (*EUR 123 million, including 14 from ERDF*) consists of the development of a public network of 2000 km of optical fibre in the two *départements* of Ardèche and Drôme. This network is supplemented by hertzian or satellite solutions, at a reasonable cost, to provide equal access to broadband

for the whole territory.

The network is currently finished. All Ardèche households can benefit from broadband and the associated services. 500 public sites or buildings (*schools, town halls, hospital, etc.*) are connected to the network. The 243 economic activity zones have access to high-speed broadband.

A traditional textile company, belonging to an international group including about fifty sites all around the world, explains the advantages in terms of competitiveness of their Ardèche site: reduction of the communication costs, improvement of communication quality, possibility of video conferences, etc. The high-speed broadband also facilitates the shift of the site to SAP and the integrating piloting of machinery.

The second part of the project aims to develop the services available on the network, encouraging local companies to develop them for the population or to acquire new markets.

<http://www.ardechedromenumerique.fr/>

It is interesting to note that the average ERDF project size in the Ardèche multiplied by three between the two periods, from EUR 55 000 to EUR 160 000 of ERDF.

The multi-regional Operational Programme for Massif Central (*covering 22 NUTS3 regions*) is structured around three priorities:

1. Attracting and integrating new populations (*inhabitants and undertaken, 32% of the budget*);
2. Wealth creation (*tourism and setting up network of excellence, 28%*);
3. Attractiveness and equitable accessibility of territories (*mobility, environment and ICT*).

It should first be underlined that the multi-regional Operational Programme for Massif Central has a very limited budget compared to the overall regional one. Notably, due to its limited budget, a different approach was adopted even if the issues and objectives are quite similar to those identified for Ardèche.

The Multi-regional Operational Programme intervenes only on multi-regional projects or transferable experiments with the other regions. In addition, it focuses on soft actions, aiming at reinforcing the capacity building of local agents in charge of territorial development, their networking, their training, and support for the umbrella structures ensuring coordination and cooperation with the other regions in the Massif Central.

This original approach is illustrated below.

**Example of a multi-regional project: the association of ‘water cities’**

The Massif Central has about 20 ‘water cities’, i.e. villages with a particular water related activity, such as thermal baths, producer of drinking water, medical hydrotherapy etc. The majority of these are located in the central mountains of the Ardèche. The problem is that such activities have declined in recent decades, threatening such areas with abandonment, not least because of a lack funding to invest in upgrading infrastructure, etc.

ERDF funding supported the association of ‘water cities’. Diversification strategies towards "recreational" hydrotherapy or "well-being" were identified as important strategies and today all of the ‘water cities’ of the Massif Central have followed this path allowing most of them to open 10 or 11 months a year (against 4 or 5 previously) and hence turn seasonal jobs into permanent ones. One example is Vals-les-Bains in Ardèche, which witnessed a jump of 22% in visitors between 2006 and 2010.

[http://www.villesdeaux.com/an/reception\\_215.php](http://www.villesdeaux.com/an/reception_215.php)

### 4.3 The relevance of ERDF in the Ardèche

***The bottom-up approach is an interesting response to the territorial heterogeneity***

The local and bottom-up approach appeared an interesting response in a region characterised by strong territorial heterogeneity, for two reasons:

- On the one hand, it allows the funding to be adapted to the specific context and challenges of each territory through integrated approaches at local level;
- On the other hand, it stimulates endogenous development approaches based on the resources of the territory. This is crucial because the mountain territories with relatively low attractiveness cannot base their development on attracting inward investment.

The 2000-2006 programming period, however, revealed the limits of this approach if it is not integrated into a more strategic approach at a larger scale around clearly focused objectives. The result was, in 2000-2006, the dispersion into a multitude of small projects covering the whole territory, which failed to form a coherent strategic set.

Several elements contributed to this:

- Firstly, the limited ERDF available budget implied a targeted strategy with priorities treated on a hierarchical basis. At the beginning, a sufficiently clear formulation and hierarchy of the priorities on the various levels territorial (*regional, departmental or local*)

were missing. Strategies were under development at the local level, without a precise view or guidelines on what was required at the NUTS2 and NUTS3 levels. Therefore, there was no clear geographical, sectoral or thematic focus;

- Secondly, the approach was based exclusively on territorial approaches at the local level. This approach risks dividing the territory into a juxtaposition of strategies without any true coherence between them. Hence, there was no incentive to collaborate with other territories;
- Thirdly, with no clear priorities at the NUTS2 and 3 levels, it was difficult to be really selective in the choice of the projects submitted by the local actors.

The approach adopted into 2007-2013 appears, however, to be more convincing in this respect. The approach combines the bottom-up approach with a more strategic top-down vision. The priorities of employment and competitiveness were clearly established. Although not formalised, the Ardèche authorities had a clearer view on the issues and the priorities to be given. Projects must be integrated into a strategic approach at the higher geographical scale.

Stakeholders clearly recognised the limits of the local approach adopted into 2000-2006, while stressing that it was probably a necessary step towards the definition of a more structured and relevant approach in the current period. The comparison between these two periods of programming makes it possible to clarify several success factors:

- First, to have a clear strategy and hierarchy of territorial priorities before defining the most relevant tools to finance them;
- To define the most appropriate territorial scale for each issue;
- To integrate them in a more strategic approach whilst ensuring networking to ensure significant ripple effects;
- To centre the actions on results clearly defined and directly related to the main objectives of the programme.

### ***Strategy and sectoral priorities***

Even if it is not explicitly formulated at NUTS3 level, the main priority for Ardèche, in both programming periods, was population renewal and a balanced distribution across the whole territory. During the 2000-2006 period, the strategy concentrated mainly on the improvement of the general quality of the living environment as well as services to maintain or attract new migrants to the region. The aim was thus both to compensate for certain handicaps as well as to reinforce the territorial assets in terms of attractiveness.

The creation of job opportunities had to be based on the endogenous economic development approach carried by the local actors of each territory. But the local authorities mainly used the ERDF to finance actions of planning and rehabilitation to improve attractiveness or to tackle their needs (*i.e.: water treatment*). There were very few true endogenous projects for economic development.

In 2007-2013, the creation of job opportunities and stimulating economic activity was at the heart of the strategy. Indeed, the impact on jobs and the fragility of the territory became key explicit criteria in the selection of projects. The focus is clearly on the growth of tourist activity and, to a lesser extent, on developing services. The specific geographical features are thus seen more as an opportunity for development than was previously the case.

The main challenge for the tourism sector is to ensure a better distribution both territorially as well as during the year in order to lengthen the summer season, as well as to increase the overall tourist spend in the territory. Through investment in the major cultural project at Chauvet, stakeholders expect to be able to increase visitor numbers.

With the building of the broadband network, the development of ICT as an alternative to transport is the main response to accessibility challenges. This investment also illustrates the ways in which local stakeholders are working together across administrative boundaries to support joint projects. For example, in the case of the Ardèche-Drôme Numeric (ADN) project, the cost of an optical fibre network was too expensive to be supported only by Ardèche so it joined together with the neighbouring département of Drôme in order to present a common project. Similarly, Ardèche joined Drôme in order to encourage the University of Grenoble to install an *antenna* in the valley of the Rhône to offer higher education access for young people. Without the two coming together it would not have been possible to attract the University to the area.

### ***Use of the current legal framework for EU funding***

When stakeholders were asked about the ways in which different legal provisions were used, the message was that no such provisions were used in Rhône-Alpes as they were not aware of any such measures that could be utilised in the region.



## 5. Effectiveness of ERDF in Ardèche

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This section will explore the extent to which ERDF have achieved their objectives at the NUTS3 level. For this purpose the section is divided into the following two sub-sections:

- 5.1 Main results of the programmes;
  - 5.1.1 Review of the 2000-2006 period;
  - 5.1.2 Progress and outputs for the 2007-2013 period;
- 5.2 Further considerations about the effectiveness of the funds regarding;
  - 5.2.1 The demographic trends;
  - 5.2.2 The tourism activity;
  - 5.2.3 The specific approach of the Massif Central;

### 5.1 Main results of the programmes

The evaluation of the effectiveness of the ERDF at the scale of Ardèche remains a difficult exercise for several reasons. Firstly, the indicators and targets are defined at NUTS2 level and not at NUTS3. Secondly, Ardèche accounts for only 5% of the regional population and strategies and contexts significantly differ between the eight *départements*. Thirdly, there is no explicit strategy for Ardèche at the NUTS3 level and there was no ex-post evaluation of the 2000-2006 programming period at regional or departmental levels.

#### 5.1.1 Review of the 2000-2006 period

At the closure of the 2000-2006 programming period, the SPD Rhône-Alpes (*NUTS2 level*) supported 3 975 projects worth a total amount of EUR 356 million. This represents 106% of the initial budget. Ardèche had 933 projects, which is about 23% of the total and 14% of ERDF expenditure of the OP Rhône-Alpes.

Regarding the initial financing plan at NUTS2 level, the expenditure was lower than initially planned for priorities relating to bolster the dynamism of business. The performance monitoring was based at NUTS2 on 14 indicators (*outputs and results*) relating to 4 measures of the programme, which represented 65% of ERDF contribution for the period.

The analysis of the Table below shows that targets were achieved for 10 out of the 14 indicators selected (71%). It also shows the limits of this exercise. First, there are significant gaps between some target and achieved values underlining the difficulties to set targets and/or the way to collect data. Second, the indicators are not necessarily tailored to the issues specific to mountainous areas.

**Table 4: Achievements of 14 indicators (representing 65% of ERDF contribution) for the 2000-06 programming period**

Measure	Type	Indicator	Target value	Achieved value	Achievement rate
<b>Priority 1 : Provide support for local development and innovation (7% of EU contribution)</b>					
2. Support to innovation and links between city and countryside	Output	Number of projects with the city-countryside relation as theme	50	13	26%
	Output	Studies and diagnostics undertaken	200	26	13%
	Results	Number of created enterprise	220	16	7%
<b>Priority 2 : Improve attractiveness of the territory (70% of EU contribution)</b>					
4. Requalification, attractiveness and valorisation of the territories	Output	Number of projects	395	273	69%
	Results	Concerned areas (in million ha)	1.39	2.43	175%
	Key ind.	Net migration into eligible employment zones (1999-2006, compared)	1990-99 = -9.887	+ 47.399	-
6. To develop and strengthen the cultural and tourist attractiveness of territories	Output	Studies and diagnostics undertaken	140	172	123%
	Output	Number of created equipments	60	1646	2 750%
	Output	Number of artistic projects	40	100	250%
	Results	Number of concerned territories	20	449	225%
<b>Priority 3 : Provide support for local development and innovation (21% of EU contribution)</b>					
9c. Bolster the dynamism of tourist and cultural actors	Output	Number of collective actions	30	47	157%
	Output	Number of firms concerned	1000	984	98%
	Output	Studies and diagnostics undertaken	50	133	266%
	Results	Number of projects achieved	50	432	864%
	Results	Number of jobs created	50	1809	3 618%

Source: ADE, 2008

Nevertheless, two points coming from the programme evaluations may be underlined:

- The mid-term evaluation (2003) stressed that the objectives had been defined in a sufficiently broad way to meet the needs of the eligible zones;
- Considering the contribution of the programme to the development of the rural and mountain territories, the final evaluation (2005) stressed that some actions focused on particular territorial needs and did provide useful support although, in isolation, the projects could not address all territorial handicaps.

### 5.1.2 Progress and outputs for the 2007-2013 period

For the period 2007-2013, as of December 2010 which means after only two year of programming, more than 62% of ERDF funds were already committed. However, even though the general commitment rate is fairly satisfying, huge differences in progress remain among the different measures.

Thus, rather logically in this innovating region, all available budgets for research and innovation measures are already committed. The other measures which had the higher commitment rates already exceeding 75% at NUTS2 level were related to the development of the services and the information society (*including the ADN project*) as well as energy efficiency or renewable energies. But few projects emerge within the framework of other measures relating to support the SMEs development (actions 4, 5, 6), to prevent natural risks (action 12), or about land management and sustainable development (13). These are potential areas for future project development, particularly in the more mountainous areas

of the region such as the Ardèche, in order to try to address particular issues related to respective geographical specificities.

## 5.2 Further consideration regarding the effectiveness of the funds

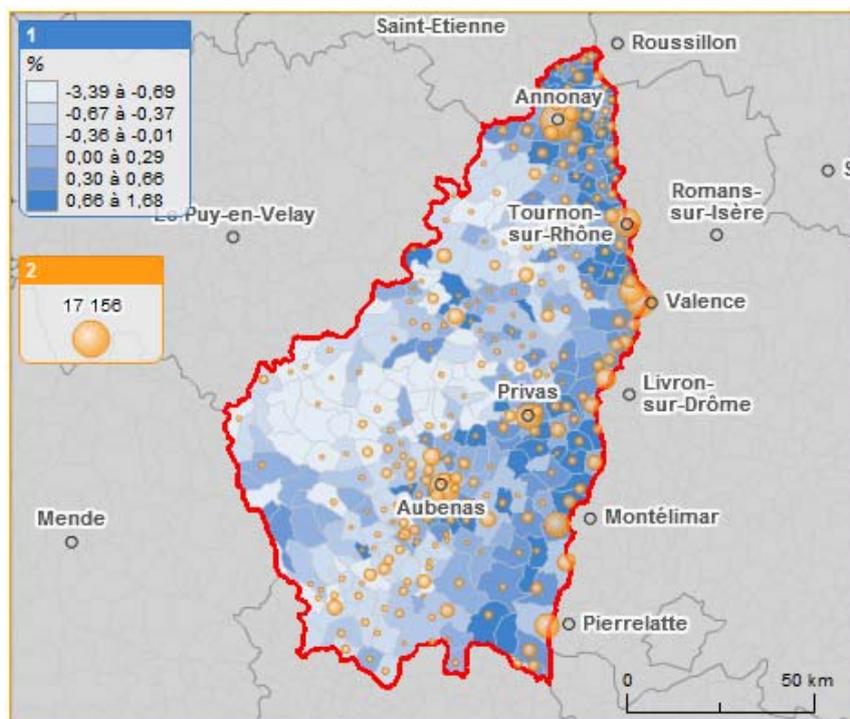
### 5.2.1 With regard to demographic trends

From 1999 to 2008, Ardèche's population increased by 9.1%, definitely higher than the rate observed during the 1990-1999 period (+3.1%). This increase is also higher than the regional average (+8.4%) and especially the national average (+6.3%).

In the case of Ardèche, these positive demographic trends are nevertheless almost fully due to the migratory balance, the natural balance being very weak (*on average 0.1% per year*) even though a positive evolution has been observed for the first time since 1975. The population of all age groups is increasing, except the 15-29 one. This is the result of a negative natural balance over the period 1975-2000.

As shown by the two maps below, this population growth remains very badly distributed across the territory. The first map shows that the natural growth rate of the population remains negative in most of the municipalities, except those located in the most accessible areas in the eastern part of the Ardèche.

**Map 4: Natural growth rate of population by municipalities from 1999 to 2008 (1) and population in 2008 (2)**

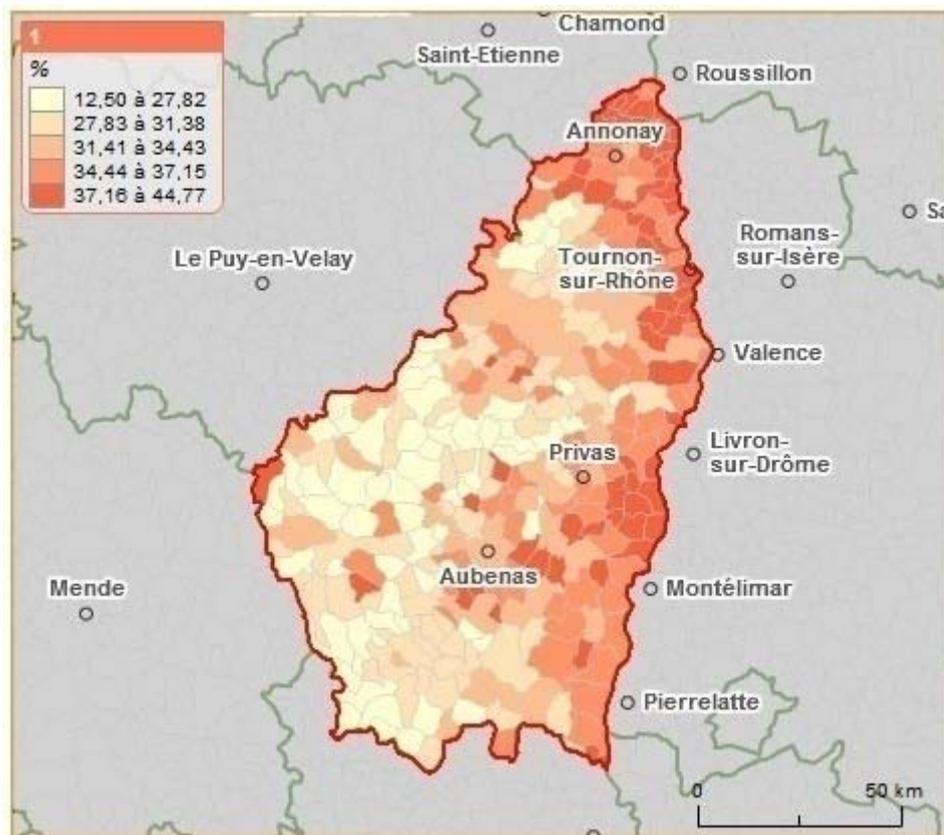


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Source: ADE on basis of INSEE data

The second map shows the share of the 15-44 years in the population of each municipality in Ardèche. Here again, the same migration pattern (e.g. to the most accessible areas) is observed.

**Map 5: Share of 15 to 44 years old in population (1)**



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Source: ADE on basis of INSEE data

### 5.2.2 With regards to tourism activity

The evolution of the tourist sector was a strong ERDF priority in the Ardèche during the two programming periods. However, tourist numbers in Ardèche dropped over the period, from 17.1 million bed-nights in 2002 to 16.1 into 2010, which is a fall of 6%. However, this fall is comparable with the regional average.

Other figures show that between 2006 and 2009, the numbers employed in the tourist sector increased by 8.6% to reach 3 920. For comparison, employment progressed in the Ardèche only by 0.5% over the same period. The fall of the VAT returns in the hotel and catering sector as well as the crisis which impacted the industry and other traditional sectors, could also explain part of this evolution.

According to the stakeholders interviewed, there is considerable optimism that the dynamic around the Chauvet project will benefit the whole tourist sector in the Ardèche. Even if the

project is still in its early stages, stakeholders underlined the importance of the mobilisation of number of private actors who previously were reticent to get involved.

### **5.2.3 With regards to the Massif Central multi-regional approach**

The Massif Central approach was supported by ERDF initially through one specific axis within the Auvergne SPD and from 2007, within the framework of an independent Massif Central Operational Programme. This new approach has created interesting ‘ripple effects’ as well as innovative, cross-border projects, networking and other initiatives including the “water Cities” project and others.



## 6. Implementation and governance

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This section will assess the extent to which the programmes have been delivered with a clear vision and strategy. For this purpose, the section is divided in the following five sub-sections:

- 6.1 The process of ERDF decision, design, coordination and implementation;
- 6.2 The relationship between ERDF and other community, national, or regional policies;
- 6.3 The dominant governance pattern and the administrative ‘fit’ between the NUTS2 and NUTS3 level;
- 6.4 To what extent are specific geographical features taken into consideration;
- 6.5 Governance pattern evolution in the region in the last ten years;

### 6.1 The process of ERDF decision, design, coordination and implementation

Design and implementation of ERDF regional programmes is done at the NUTS2 level and is based upon a broad partnership primarily made up of the representatives of the region, the eight *départements* and the representatives of the regional state administration.

Over the period 2000-2006, the SPD was built on a large regional dialogue (at NUTS2 level with 60 partners mobilized around six working groups). The preparation of the SPD was characterised by permanent information exchanges between the regional level and the local partnership animated by the Prefects of each of the eight *départements* (NUTS3). The objective was to mobilise the local actors and to identify their main needs and expectations.

In terms of implementation, the Prefect (*representing the State in region*) remains the person legally responsible for management and the implementation of the ERDF programme. The decisions on financing are formally made by the *Regional Committee of Programming* which includes the representatives of the State and the local communities at the level of the region (NUTS2) as well as the *départements* (NUTS3). The *Regional Steering Committee* is the body responsible for dialogue which includes in particular a representative of each massif (*Commissaires de massifs*) in 2000-2006.

To develop the current programme, the dialogue was based primarily on the previous Objective 2 Steering Committee extended by representatives of agglomeration territories (*metropolises*) and the participants to the national strategic plan of rural development (EARDF). The dialogue was organised around eight working groups, one of which was related to the local territories. It thus gathers the State and the representatives of the local NUTS3 councillors, but with no representatives of mountain territories.

As mentioned earlier, the multi-regional Massif Central Operational Programme covers six NUTS2 regions and twenty-two NUTS3 areas. Design and implementation is contingent on the governance structures of the Massif Central instituted by French law for mountains. The Massif committee for the *Massif Central* is the body composed of eighty-three members spread into three colleges: i) a College of elected members, ii) a College of economic activities (e.g. representatives of public institutions, professional, tourist and union organisations) and iii) a College made up of representatives of associations, including parks, managing organisations and qualified persons in the domain of the mountain.

## 6.2 The relationship between ERDF and other community, national, or regional policies.

The SPD 2000-2006 was an integrated ERDF-ESF programme in which the regionalised part of EAGFF programme was included as well. The regional steering group was thus common, which mainly ensured the consistency of the various European funds. In 2007-2013, the Regional Committee of Programming is common to the different programmes or regional parts of ERDF, ESF and EAFRD programmes which ensures coherence at the regional level (NUTS2). However, according to most of the interviewees, there is low or no alignment between the different EU funds at regional level. The exchanges consist in communicating simple operational information on the projects rather than discussing about strategic issues. ESF and EAGFF/EARDF are managed by different services and most of the funds are run through national guidelines.

The respective roles and objectives of these funding streams are different. In France, the EAFRD focuses mainly on providing support to farmers to encourage them to develop other, non-farming activities, such as tourism. The ESF focuses on training and skills developing to better fit the needs of local labour markets. The ESF logic is not on territories but on people.

The key question is thus how the funds complement each other at the local level to encourage and improve regional economic development. Examples of project or local strategy that combine explicitly EU Structural Funds are rare according to the stakeholders interviewed. One exception mentioned was the ADN broadband project in which some EARDF funding supported the part of the DSL network cover the most isolated rural areas.

## 6.3. The dominant governance pattern and the administrative 'fit' between the NUTS2 and NUTS3 level

Considering the size of the NUTS2 region (e.g. six million inhabitants for eight NUTS3 regions) and the importance of local partner's for co-financing, the implementation framework was adapted for 2000-2006 by the setting-up of a *Comité Départemental d'Instruction (Departmental Committee of Examination)* for the projects. In addition to the representative of the State and the local authorities on the NUTS3 level, it gathers the main representatives of territories and associations (*Pays, Natural Regional Parks, etc*). This Committee delivers an opinion on the submitted projects, defines their order according to

priorities and checks the commitments of the funding partners. For most of the projects, the entrance point was thus the NUTS3 level which carries out a first sorting and a check at the local level with local partners. However, this did not enhance the strategic vision of priorities at the NUTS3 level.

In a response, a new procedure of competitive calls for projects at NUTS2 level was introduced for the 2007-2013 period; the aim of which is to reinforce the selectivity and the leverage effect of ERDF. According to most of the stakeholders interviewed, this change was fundamental to support a more strategic approach ensuring at the same time a local mobilisation and anchoring, as well as an overall coherence of the ERDF strategy. In this regard, one of the officials underlined that *"the zoning which prevailed into 2000-2006 was comfortable for Ardèche, but not really very dynamic"*.

In order to get competitive projects at the regional level, the local actors must collaborate, integrate a network and a strategic approach, as well as closely focus on objectives. This is absolutely essential for the Ardèche in a large and very dynamic region such as Rhône-Alpes. However, the process of project prioritisation takes an expenditure per capita criterion into account in order to avoid that the most dynamic territories draw down all of the ERDF subsidies. In general, a substantial improvement of project relevancy and quality has been observed.

Nevertheless, two problems are related to this new procedure. On the one hand, the fixed deadline to submit projects leads to the submission of projects which are not sufficiently mature. Then, this raises difficulties at the time of the implementation. On the other hand, the *Departmental Committee of Examination* has been abandoned in the new procedure. Indeed, this committee was not considered to be relevant anymore within the framework of the new procedure which aimed at putting in competition more structuring projects at NUTS2 level. But, this reduces also the opportunity for dialogue at NUTS3 level and to monitor and orientate strategy at this level.

#### 6.4 To what extent are specific geographical features taken into consideration

Formally, the two programmes covering 2000-2013 period do not include any particular provisions exclusively reserved for the mountain areas, as well as the priorities and measures which do not target particular territories with specific geographical features. This choice is justified by both the heterogeneity of territories and massifs, and the diversity of associated issues and challenges. As already said, the mountain areas of Rhône-Alpes region do not form a unique coherent area with single and uniform characteristics and challenges. Indeed, some of the stakeholders would prefer to assimilate mountain areas into general rural areas, with or without an industrial past, rather than considering them as a specific territory.

Nevertheless, the specific geographical features are taken into account in an indirect way through:

1. Eligibility areas in 2000-2006 covering main mountain areas facing structural difficulties;

2. The presence of a representative of the Massif Central in the Steering Committees of the regional programmes in 2000-2006;
3. The strong local/bottom-up approach to adapt actions and strategies to territorial context;
4. Main measures which are coherent with the main issues for mountainous areas;
5. Multi-regional conventions of the Massif Central programme.

The thoughts, experiments and actions led at the Massif Central level are clearly relevant and in line with challenges faced by Ardèche. However, the potential complementarities and synergies between the initiatives still remain largely unexploited from a strategic point of view.

## 6.5 Governance pattern evolution in the region in the last ten years

The implementation of the European Funds, and ERDF in particular, has strongly influenced governance structures for regional policies in France during recent decades. Despite limited amounts of finance, ERDF represents an important lever in terms of governance, for mobilising actors making them sitting down around the same table, at each level. According to several stakeholders, the ERDF has often encouraged an increase in the level of ambitions, innovation and risk taking in the region. Indeed, the ERDF constitutes first an additional financial lever for each partner, particularly significant within the framework of large projects and allowing higher risk sharing. Secondly, the selection of a project within the ERDF framework is perceived as a quality label which mobilises the local partners and actors. A clear message was that major projects, such as Chauvet or ADN, would not have been possible without the ERDF impetus as well as funding.

According to the stakeholders, one of main assets of ERDF is its flexibility. Except on the key question of housing, EU Structural Funds covers all of the necessary levers for the development of mountain areas. The abandonment of zoning was noted as an issue which effectively favoured urban and metropolitan areas and served to reduce the budget allocated to rural and mountainous areas facing structural difficulties. Stakeholders were not opposed but stressed the need to maintain a balance between these two types of areas.

## 7. Conclusions

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Below are a summary of the main points that emerge from the Ardèche case study:

### 1) Geographical context

- The Ardèche case is really interesting because it combines at the same time, both high and middle mountainous areas, a valley and a third part with almost no landscape;
- The perception of the geographic specificity depends on the context. On the one hand, it is clearly seen as a handicap when issues of remoteness and depopulation are considered. On the other hand, it is increasingly being viewed as an opportunity in terms of tourism which has been one of the key priorities since natural endowments are definitely considered as assets;
- Of the six case study regions, Ardèche is the only one where depopulation is not that bad (though it is still an issue), thanks to an important in-migration flow. On the other hand, it is leading to an increase in ageing of the population and to some extent a unequal distribution of the population throughout the territory;
- The labour market distortions come essentially from a lack of young skilled workers (leaving the region for their studies or even already to get better job opportunities) and also, of female workers since couples are not able to find an interesting second job.

### 2) Policy responses

- Ardèche suffers essentially from a lack of an integrated strategy at the NUTS3 level. However, it can rely on a strong historical background in terms of bottom-up approaches. Furthermore, even though there is no specific strategy at the local level, a coordination (though not quite obvious) seems to be present to some extent between the Region (NUTS2 level), the Département (NUTS3 level) and the municipalities;
- An overall consensus on the real needs of the area also compensates the lack of a formal strategy at the local level;
- There is also sort of a “transversal level” which is the Massif Central (including six NUTS2 regions and twenty-two NUTS3 sub-regions) which also matters in terms of domestic policy responses;
- It is worth noting the existing solidarity within the Rhône-Alpes region taking into consideration Ardèche’s specific issues.

### 3) Relevance of ERDF Programmes

- The ERDF funding has been channelled through European and mostly national guidelines. However, local specificities and issues have been largely taken into account;
- The local focus of the programmes was relatively strong during the first programming period, trying to improve attractiveness and economic activities at a local scale. Tourism was also a key priority. This specificity is less present for the current period,

more general considerations such as innovation, ICT development or environment are considered. Nevertheless, specific issues still matter since local actions are still made;

- The bottom-up approach has been recognised as very useful; however it led to a lack of coherence and integration in the previous period. This was largely improved in the current programming period;
- It is worth noting that the authorities have really supported cooperation and mutual assistance within and between local territories, with some interesting examples of joint projects.

#### **4) Effectiveness of ERDF Programmes**

- Conclusions about the effectiveness at the NUTS3 level are made more difficult since no evaluation have been made at this level. The indicators are therefore not tailor-made to the specificities of Ardèche. However, the final evaluation of 2005 stressed the fact the several projects have successfully tackled local issues;
- The migration within Ardèche (e.g. from mountainous areas to most accessible ones) has not been stopped. The population increase comes mainly from an in-migration flow and not a positive natural balance. Moreover, the ageing phenomenon seems not to be reduced;
- Tourism has been one of the most important priorities, although results have been mixed. However, some of the main projects (Chauvet Cave, for instance) are still not mature and do not provide concrete effects yet although it is hoped they will deliver significant impacts on the local economy over time;
- The capacity building is definitely one of the main positive results. Indeed, strong networks saw the light of the day and cooperation between private and public sector as well as within the public sector (e.g. Massif Central, Region, Département, municipalities, etc.) has been greatly improved. This is directly in line with the aims of the different authorities to support cooperation and mutual assistance.

#### **5) Implementation and Governance**

- Although the main authority in charge of ERDF is at the NUTS2 level (still under strong guidelines coming from the national level), a strong communication with the NUTS3 level (e.g. the *Département*) as well as a history of local development-based policies allowed local specificities to be taken into account even though it is not explicit in the programmes;
- Governance as well as implementation are a mix of 'bottom-up' and 'top-down approaches'. The scenario is really rather complicated with multiple actors and different levels of governance involved, although it really seems to work well bringing a range of stakeholders together;
- The relatively small amounts of ERDF funding have nevertheless influenced the governance structures in the region and have really forced different actors to sit around the table in order to find out efficient ways to correctly use the funding available. This has been of considerable added value and would probably not have happened if it were not for the ERDF funding.

## 8. Mini-case study

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**Project Title:** The major Chauvet project : Restitution Space of the Chauvet Cave and its territorial component

**Key words:** *Tourism, Culture, territorial approach, Ardèche, France, major project, structuring project*

### Synthesis

The Chauvet Cave discovered in 1994 in the south of Ardèche is an exceptional site in more ways than one. Its walls are covered with pictures which are the oldest in the world, dating back 36 000 years (two times older than the famous Lascaux Caves). It includes 420 representations and 14 species of animals covering about 3 600 square meters (nearly 20 times greater than Lascaux). The aesthetic quality is exceptional with the use of several techniques and perspective.

This recent discovery has been seen as a unique opportunity to bring together public and private actors for an ambitious cultural, economic and tourism planning. Unfortunately, the cave is located at the southern end of the territory on the site which is already the busiest of the Ardèche.

This major project represents an investment of EUR 59 million, including 10 of the ERDF. It includes three parts:

- The construction of a restitution space of the cave to accommodate 300,000 visitors a year;
- A candidate for the UNESCO World Heritage;
- A significant territorial component ensuring maximum sustainable benefits of the project throughout the territory.

This third part (EUR 14 million) is particularly interesting. It allows in particular:

- An overall review of networking and upgrading of important cultural and tourist sites in the *département*. In concrete terms, the restitution space should be able to attract tourists and redirect them to the rest of the territory;
- To set around the table all the public and private stakeholders and involve them in a common approach. Tourism activity was indeed historically developed haphazardly around the gorges of Ardèche and private actors had always held back any proposed site development;
- To attract a new audience and to spread the tourists in time by proposing a major cultural project (for retired people, schools, short breaks, etc.);
- A wider reflection on a better organisation of travel, the welcome of groups, training suited for the access to new jobs, the development of local bio-industries to supply restaurants, etc.

This project goes well beyond a simple tourist facility, but provides the basis for a more comprehensive approach for the development of a whole territory. Ardèche had no tourism strategy, but rely on the launched dynamics around this project in order to reach their objectives

### **Background information**

**Member State:** France

**Region:** Rhône-Alpes, Ardèche

**ERDF Programme:** 2000-2006 Objective 2 SPD for Rhône-Alpes Region; 2007-2013 Competitiveness and employment OP for Rhône-Alpes

**ERDF Programming period:** 2000-2006 and 2007-2013

**Funding:** In 2007-2013: ERDF (EUR 10 million); State (EUR 14 million) Rhone-Alpes Region (EUR 14 million); General Council of Ardèche (EUR 14 million)

**Memorandum of Understanding / Agreement:** signed on 15 July 2008 (expected date of end 31 January 2012)

### **1) Project Description**

Discovered the 18<sup>th</sup> of December by three speleologists (*Jean-Marie Chauvet, Eliette Brunel and Christian Hillaire*) the *Chauvet Pont d'Arc* cave has been quickly identified as the oldest and richest caves known in the world.

Located at the entrance of the *Gorges de l'Ardèche*, near the *Pont d'Arc* (*natural arch over 50 meters high in which the river flows*), the Chauvet cave heritage is the best preserved and the most abundant of the Aurignacian era, or 36 000 years ago. Its amazing preservation as well as its thousand of parietal performances recorded make this cavity, with an area of 8 500 square meters, the support of the first major art event produced by the man known to date. It includes 420 representations and 14 species of animals covering about 3 600 square meters. The aesthetic quality is exceptional with the use of several techniques and perspectives. Chauvet's paintings are twice as old as the famous caves of Lascaux and cover an area nearly 20 times higher than those of Lascaux. This comparison shows the importance of this discovery and the site.

Given the extreme fragility of this heritage, the state immediately took the decision not open it to the public, whilst ensuring its scientific study and conservation. Therefore, the need to share this discovery to a large number of people, in both its scientific and artistic dimension, has quickly appeared as a necessity for the government.

This project has also quickly emerged as an economic development opportunity for southern Ardèche in particular, a region characterised by the highest unemployment rate in the Rhône-Alpes and a tourism activity focused on the summer only. The goal was initially to allow a sensitive part of the territory to assert a cultural awareness and create a new tourism development locally.

This Chauvet project is a major structuring project for the *département* of Ardèche. This

project represents a public investment of EUR 58 million, including 10 million under the ERDF between 2007 and 2014. The objective of this Chauvet project is to achieve a cultural facility not only attractive and accessible to a large number of people, but also aspiring to become a key vehicle for territorial development, in other words, leverage of the influence and the international reputation of the Ardèche and the entire region.

The project includes three components:

**1. *The Restitution Space of the Chauvet Cave (ERGC – “Espace de Restitution de la Grotte Chauvet”)*** (EUR 43 million , 8 million of which provided by the ERDF):

The ERGC is the heart of the project. It consists in creating a space of discovery available to the public, reproducing a facsimile of the rock paintings of 3500 square meters of wall replicating the appearance of the walls of the cave. This area is located 4.5 km away from the cave. It aims at making the excitement of this discovery to the public by reproducing an underground cavity. The investment covers the cost of studies, land acquisitions and construction;

**2. *UNESCO World Heritage*** (no ERDF to this part):

The Chauvet Cave is a candidate for UNESCO World Heritage of humanity. This application will allow international recognition and guarantees its preservation and transmission to future generations. Beyond this, it is also a powerful lever to mobilise and unite the people as well as public and private stakeholders around this major project. In concrete terms, this UNESCO component aims to recruit a project manager in charge of developing the application form to UNESCO and funding related operations associated with that application;

**3. *A component for territorial development*** (EUR 15 million, 2 million of which provided by the ERDF):

The territorial component must contribute to economic, tourism and cultural development of the Ardèche territory, by the creation of activities and permanent jobs. It also has to facilitate travel and set up around the ERGC network heritage sites.

The primary interest of this project lies in the fact of associating a strong additional territorial component in the design of a large investment. It provides a ripple effect throughout the territory.

The territorial component includes two major axes:

- **Anticipate and support the space of the restitution for a successful entry in the territory:** This axis includes actions aiming to strengthen the site as a cultural destination, the networking and the promotion of heritage sites of Ardèche. But also actions aiming to build and implement a travel plan around the ERGC to ensure coverage and accessibility of the site.
- **Increase the economic development opportunities** in line with the specific characteristics of the cave and its restitution by a ripple effect on the sectors. The

objective here is to structure economic development through tourism. As a real opportunity for local employment, this major project will raise engineering requirements and additional training.

## 2) Political and Strategic Context

Ardèche is located at the foothills of the *Massif Central*, in the south-western part of the Rhône-Alpes region. The mountainous geography and its relative isolation characterise important parts of the territory and largely determine structures and dynamics of this region. The unemployment rate is higher than both the regional or national average; household incomes are lower than the average and industrial employment face to a constant decline. Moreover, the ageing of the population is accelerating. In this context, the challenge is to create new job opportunities throughout the country in order to ensure the renewal of the population and economic mutation.

On the other hand, the relative isolation contributed to shape and preserve a remarkable natural inheritance and environment, which is definitely an asset to develop tourism and outdoor activities. However the tourist sector was poorly structured and is strongly concentrated both in time (*high season*) and in space (in the southern part, around the *gorges de l'Ardèche*). This raised particular stakes in terms of balanced development of the territory and environmental impact (*water resources and trampling*).

Balanced development and structuring of the tourism sector is one of the main axes of development within the strategy of Ardèche. The challenge is to create employment opportunities and better attendance spread over time and space.

## 3) Implementation

The initiative was first launched by the General Council of Ardèche (*Elected assembly at NUTS3 level*) only through several preliminary studies. The aim of the project required a wider partnership.

It has materialised through the signing, in June 2005, of a charter of cooperation between the State, the Regional Council of Rhône-Alpes (Elected assembly at NUTS2 level), and the General Council of Ardèche. This agreement was intended to revive the initiative around two goals:

- To implement a major cultural project based on the restitution of the cave and the operation of a discovery centre;
- To promote regional development based on tourism in addition to this major cultural project.

The building of the restitution space was then assigned to the *Syndicat Mixte de l'Espace de Restitution de la Grotte Chauvet-Pont d'Arc (SMERGC)*, established in June 2007 between the General Council of Ardèche and the Regional Council of Rhône-Alpes. This new structure has become the project manager and has the necessary means to achieving this ambitious

project.

A governance structure has been developed for this great project, ensuring the commitment of partners and the effectiveness of teamwork. It is organised as follows:

- A **Strategic Board** comprising three financial partners: State, Region and *Département*;
- A **higher body for consultation**: their mission consists in defining the policies, setting priorities and agreeing on the major decisions of the major project;
- An **operational committee** involving the services of the State, Region and *Département*, which prepares the meetings of Strategic Board;
- **Steering committees** for the various themes identified as part of the major Chauvet project.

This project and the associated governance pattern have allowed to boost a relevant dynamic that will constitute the basics of a territorial strategy for tourist development.

#### 4) Project Results

The opening of the Restitution Space is scheduled for September 2014. Study and land acquisition phases were complete in late 2011 and the work on the shell is supposed to start in early 2012 and should last until early 2014.

Hence, the project has not effects in terms of tourism yet. Ultimately, it is expected to bring 300 to 400 000 visitors a year.

It should also have a significant impact on the region in terms of attractiveness and structuring of the actors, especially around the territorial component. The project should bring new tourists in Ardèche, in search of culture and history and not just attracted by the outdoor leisure. The territorial component is specifically designed to maintain as long as possible these new visitors in the territory in order to maximise economic benefits for Ardèche.

The thinking surrounding the development process has already produced effects considered as very positive:

1. The process has quickly raised the issue of the quality and the structure of the cultural and tourism offer in the area. It allowed initiating a comprehensive debate on this offer, targeting priority sites and putting them into networks. Several major sites have benefited from a support in order to upgrade themselves and provide a quality welcome for visitors. So, a dozen sites have received the support of the ERDF (*planning of the Combe d'Arc, the restructuring of the Museum of Orgnac, recovery of the archaeological site of Alba-la-Romaine, etc.*).
2. The aim of this project has allowed all public and private actors to sit around the same table, to involve them in a common approach and boost relevant dynamic.

This is already a success in itself according to many observers.

3. Opening the whole year, the Restitution Space is expected to better distribute the visitors throughout the year, especially since it addresses a wider audience (retired people, school groups, short stays in the year, etc.).
4. During this process, it quickly became clear that environmental issues should be at the heart of the process. They had to reinforce the image of a territory-related green tourism. A global reflection has been initiated in order to consider this issue.
5. The project also initiated a wider debate on environmental issues in the tourism sector, better travel arrangements within the Ardèche and the promotion of the use of soft modes around the site of restitution, the welcome of the groups, training suited for access to new jobs, promote and boost local supplies including the development of local bio-industries to supply restaurants, etc..

## 5) Sustainability and transferability

The structuring dynamic involved in this project should help to ensure its sustainability.

The primary interest of this project lies in the thinking process and the commitment of a strong territorial component directly from the design of a large investment. It provides a ripple effect throughout the territory.

Thanks to this ambitious project, an overall reflection on the balanced regional development and tourism has been made. This process constitutes definitely the beginnings of a real tourism strategy and a structuring of the sector. Ardèche has indeed no overall strategy and the tourism sector had historically been developed in a relatively uncontrolled way.

### Conclusions: Key success factors and lessons learned

The authorities are fully aware of the potential of this project and this consideration is probably one of the key success factors of this project. Even though real economic effects have not been observed yet, the structuring dimension has been completely realised since it built and strengthened partnerships between different stakeholders.

In a sense, the common interest led to a well coordinated and efficient approach even though the tourism sector had been historically developed in a relatively uncontrolled way. In this regard, the three components of the project -namely the ERGC, the UNESCO application and the component for territorial development- brought clear objectives and a coherent framework.

The project includes several dimensions such as tourism, economic development, environmental issue and of course cultural valorisation. However, its particularity is definitely the fact that it has not only a local purpose but really an objective of promotion of the whole *département* and even the region. Therefore, this project is trying to include all these elements (*combined with a national, a regional and a transversal approach*) in integrated

policies involving as much stakeholders as possible.

**CONTACT DETAILS**

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## **Annex 1: Stakeholders consulted**

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Here is the list of the interviewees for this case study, sorted by their membership.

### **Préfecture de département de l'Ardèche**

- Dominique-Nicolas Jane, secrétaire général de la préfecture
- Robert Balloch, chef du Secrétariat Général de l'Administration Départementale (SGAD)
- Patricia Perrier, chef de la Mission de Pilotage des Politiques Publiques (MPPP)
- Robert Lascombe, chef de la Mission Programmation et Aménagement des Territoires (MPAT)
- Aymeric Morin, stagiaire de l'Ecole Nationale d'Administration (ENA)

### **Conseil Général de l'Ardèche**

- Hervé Saulignac, vice-Président du Conseil Général
- Christophe Vigne, directeur général des services
- Christine Hacques, Direction générale et suivi numérique
- François Vennin, DG ressources
- Thierry Boutemy, DG territoires
- Cyril Dumontet, Conservateur du Patrimoine
- Didier Boule, DG environnement
- Jérôme Granger

### **Syndicat mixte de l'Espace de restitution de la Grotte Chauvet (SMERG)**

- Robert Buffat, Directeur
- Paul Savatier, mission volet territorial

### **Syndicat mixte d'Ardèche Drôme Numérique (ADN)**

- Hervé Saulignac, vice-Président du Syndicat Mixte ADN
- Sylvain Valayer, directeur du Syndicat ADN
- Thierry Boutemy, DG territoires au Conseil Général

### **Entreprise MILLIKEN**

- David Fourniol
- Ludovic Ruel

### **Secrétariat Général des Affaires Régionales (SGAR), Rhône-Alpes**

- Anne Laure SOLEILHAVOUP, Chargée de mission Europe
- Magali VITTORE, SGAR RA – Mission Europe

### **Conseil Régional de Rhône-Alpes**

- Hervé Saulignac, vice-Président du Conseil Régional
- P. Bezina/J. Granger, Direction des Politiques territoriales
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**CASE STUDY 6: WESTERN ISLES,  
Region of Highlands & Islands,  
United Kingdom**

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## List of Acronyms

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CAP	Common Agriculture Policy
CNES	Comhairle nan Eilean Siar (Western Isles Council)
CPP	Community Planning Partnership
CRESP	Community Renewable Energy Support Programme
EAFRD	European Agricultural Fund for Rural Development
EAGGF	European Agricultural Guidance and Guarantee Fund
ERDF	European Regional Development Fund
ESF	European Social Fund
FIFG	Financial Instrument for Fisheries Guidance
GDP	Gross Domestic Product
HIE	Highlands & Islands Enterprise
HIPP	Highland & Islands Structural Funds Partnership Ltd
HISEZ	Highlands & Islands Social Enterprise Zone
ICT	Information and Communications Technology
OHCPP	Outer Hebrides Community Planning Partnership
OP	Operational Programme
PC	Programme Complement
PMC	Program Monitoring Committee
RET	Road Equivalent Tariff
SDB	Strategic Development Body
SPA	Sparsely Populated Area
SPD	Single Programming Document
SOA	Single Outcome Agreements
SWOT	Strengths, Weaknesses, Opportunities and Threats
UHI	University of Highlands & Islands



# 1. Introduction

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The case study will examine how the 2000-06 and 2007-13 ERDF programmes have responded to the challenges posed by the geography of the Western Isles and will assess how effective the programmes have been. The remainder of the case study is divided into seven sections:

- **Section 2** examines the geographical and economic context of the Western Isles and the implications of geography for socio-economic dynamics. The conceptual approach underpinning this part will be the detailed SWOT analyses developed in the First Intermediate Report.
- **Section 3** turns to the policy responses. This section seeks to put the ERDF programmes in the context of the wider policy strategic approaches that have been used to stimulate economic development in the Western Isles. Given that the Western Isles sub-region is only part of the Highlands and Islands cohesion policy area, the strategic priorities of the Western Isles will be compared and contrasted with those of the bigger Highlands and Islands region of which they are part.
- **Section 4** looks in detail at the relevance of the ERDF programmes for the Western Isles, focusing in particular on how relevant the ERDF programmes have been in enabling the region to respond to its geographical challenges.
- **Section 5** considers how effective the ERDF interventions have been over successive programmes.
- **Section 6** presents results on the key issues of implementation and governance of the ERDF programmes. The concern here is not merely with the functioning of the ERDF programme itself, but also with how Western Isles stakeholders have been involved in shaping the programmes.
- **Section 7** draws together the main conclusions from the Study.



## 2. The geographical and economic context

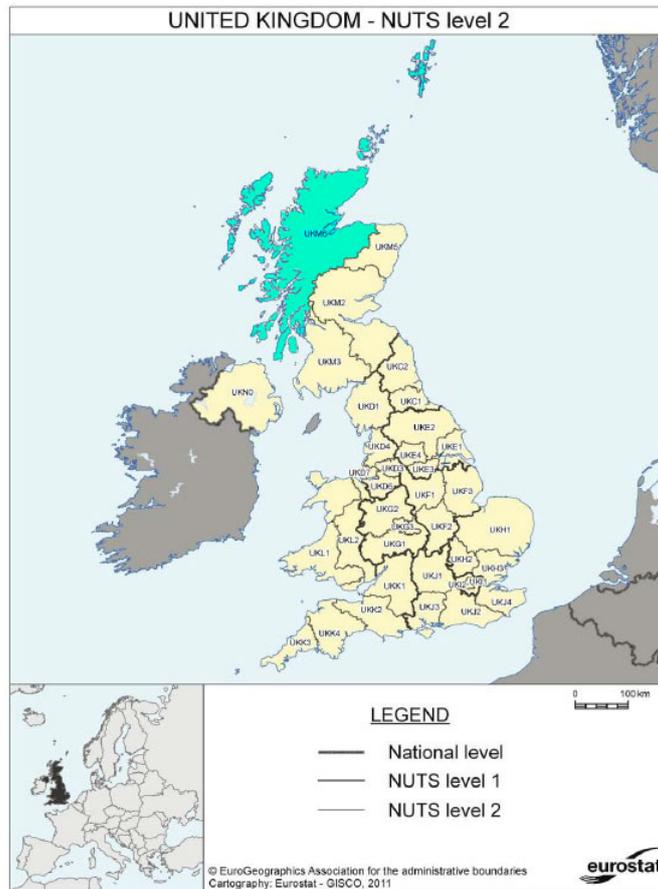
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The Highlands and Islands region of Scotland has for centuries been recognised as unique within Britain. It is geography which principally defines its uniqueness. The region's name picks out two of the geographical characteristics which are the particular focus of this study – mountains and islands. However, the region has also long been renowned in British history for a third geographical characteristic - sparse population. In the late eighteenth and early nineteenth centuries large parts of the population were expelled, a process which became retrospectively, and infamously, known as the 'Highland Clearances'. The Clearances between 1760 and 1860 are thought to have driven as many as 150,000 people from the region (out of a population of some 260,000), leaving an economy dominated by large estates, livestock production and extremely sparse population.

The case study is focused on the Western Isles (see Maps 1 and 2). As shall be shown later, the region's geographical distinctiveness is not confined solely to mountains, islands and sparse population. The region is also *remote* and the small population is fragmented into a patchwork of *scattered communities*.

This section examines the economic context within which ERDF programmes in the Western Isles have operated. The section begins with a brief overview of the geographical characteristics. Section 2.2 asks the key question facing all small island economies: what are the successful niche sectors? Section 2.3 looks at the implications of geography for the islands' socio-economic performance. Finally, in section 2.4 we present the results of a pilot statistical cluster analysis of the Western Isles in the context of the full set of Scottish islands.

**Map 1: Location of Highlands and Islands**



Source: Eurostat

**Map 2: Location of the Western Isles of Scotland**



Source: Eurostat

## 2.1 Geographical characteristics of the Western Isles

The Western Isles face a distinctive *combination* of geographical characteristics. The sub-region comprises islands, is mountainous (although not sufficiently so to be technically defined as strictly ‘mountainous’ under EU criteria – Monfort, 2009) and is sparsely populated. It is important, however, not to look at islandness, mountainous or sparse population in isolation from other geographical characteristics. Three other geographical characteristics are important for the Western Isles:

- *Remoteness* (usually referred to in the ERDF programmes as ‘*peripherality*’). The Western Isles are literally ‘on the edge of Europe’. For example, Copus (1999) in a study of 1,115 European NUTS3 regions (excluding the Outermost Regions), found that while the Western Isles was not *the* most remote region in Europe, its accessibility index of 89.53 (on a scale of 0-100) was on a par with southern Portugal (e.g. Alentejo Central - 89.16), or the Åland Islands in the Baltic (92.27). Similar results were found by Schürmann and Talaat (2000). More modern studies of accessibility place the Western Isles definitively within the ‘predominantly rural, remote regions’ category (e.g. Dijkstra and Poelman, 2008, 2011). The Western Isles sub-region would be remote even if they were not islands. Islandness, however, seriously exacerbates the remoteness challenge. However, the sheer distance from the Western Isles to the Scottish mainland (ferry times for the two main sea routes range from just under two hours for the northern Stornoway to Ullapool route, to just over five hours for the southern route from Barra to Oban), combined with an ‘accident of geography’ that the mainland coast facing the islands is itself remote from Inverness and other Scottish cities, pose continuing major islandness challenges. The accessibility challenge is about more than just distances, by either road or ferry. Ferry frequency and all-year capacity are also important: “*What is ideally needed is fast ferries running both ways on a shuttle basis with good tolerance to bad weather*”<sup>75</sup>. Moreover, it was put to us on several occasions that perceptions of remoteness can be as important as the reality on the ground: “*There is also the issue of the perception of remoteness, both inside the region and by outsiders, even though transport access has greatly improved over the years*”<sup>76</sup>;
- *The settlement pattern*. In common with the wider Highlands and Islands region, the Western Isles comprise a patchwork of *scattered communities* (i.e. small settlements which are very distant from one another). This is partly the result of a sparse population (8.6 persons per km<sup>2</sup> in 2007). Low population density is, however, exacerbated by (a) the physical geography, with its pattern of mountains, peninsulas, lochs and scattered small islands which further breaks up the communities, and (b) the increasing *primacy* over time of the main town, Stornoway, within the Western Isles. Increasing ‘primacy’ actually affects the Western Isles in two ways. Firstly, the ‘capital’ of the wider Highlands and Islands region (Inverness) has become increasingly dominant since the 1970s (“*This is not a sudden upsurge but a deep-rooted historical phenomenon that has developed since the 1970s... (and) the city’s history can be looked at as a succession of waves and key events, that have merged into an almost continuous process*” - Cognoscenti, 2004, p.4). In other words, development is increasingly concentrated at the other side of the Highlands and Islands region from the Western Isles.

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<sup>75</sup> Private Sector Interviewee A

<sup>76</sup> Public Sector Interviewee C

Secondly, within the Western Isles, Stornoway is increasingly dominant, now containing some 30% of the whole population. Moreover, unlike the situation in Inverness, the growth in *relative* population in Stornoway must be seen against a backdrop of sustained Western Isles population decline. The population of the Western Isles fell by no less than 43% in the century between 1901 and 2001. Between 1995 and 2005 “*Eilean Siar experienced the biggest population decline of any Scottish local authority area..... During this decade the overall population dropped by 8.5%*” (Hall Aitken, 2007). The implications of the settlement pattern is most clearly revealed by a passage in the 2007-13 Operational Programme: “*Low population density has produced a settlement pattern of small communities, often distant from each other, key markets and services, resulting in additional costs in the provision of goods and services due to a lack of economies of scale and a corresponding enterprise base – an important development constraint*” (2007-13 ERDF Operational Programme, p.8);

- *The configuration of the islands.* It was put to us by a number of our interviewees that an important, but not well understood characteristic of the Western Isles is the manner in which the 100 or so islands and ‘skerries’ (rocky outcrops) straggle in a long chain running 200km north-east to south-west, giving rise to one of the islands’ early names - the ‘Long Isle’. In practice, this ‘configuration challenge’ and the problems of ‘double and multiple insularity’ that accompany it (Badolet and Sheldon, 2008) is not quite so severe as might be first thought, for two reasons: (a) only 13 of the islands are inhabited, and (b) the construction of bridges and causeways has reduced the archipelago of 13 inhabited islands to effectively only three.

In summary, the islands face a combination of not three, but six geographical challenges. Are some challenges more serious than others? The overwhelming evidence from our interviewees and from textual analysis of policy documents (see section 3) is that (a) remoteness, (b) islandness, and (c) scattered small communities are seen by local stakeholders as the three key challenges. Mountainous terrain was rarely identified as a major challenge by our interviewees. Indeed, one interviewee argued that “*being mountainous is probably on balance a positive characteristic, particularly through landscape and tourism*”<sup>77</sup>.

On the other hand, some thought that it is better not to think of the geographical challenges in isolation from one another but rather as an interconnected whole: “*The sparsity of population has led to many small, scattered communities with only weak links between them. Islandness and mountains essentially act by fragmenting the population further..... and remoteness and sparsity of population go together – they lead to long supply lines and increased costs*”<sup>78</sup>. This expression of the need for a holistic view of the geographical challenges feeds through to the policy response: “*There has not been an explicit mountains element to the programme planning process, but it is implied*”<sup>79</sup>, and “*mountains are fundamentally relevant, so axiomatic and self-evident*”<sup>80</sup>.

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<sup>77</sup> Public Sector Interviewee A

<sup>78</sup> Public Sector Interviewee B

<sup>79</sup> Public Sector Interviewee D

<sup>80</sup> Public Sector Interviewee F

## 2.2 Responding to the geographical challenges: Economic drivers of the Western Isles

This section examines the influence which geography has had on the Western Isles' economic structure. All previous evidence stresses the importance of *niche market specialisation* for small island communities. Niche specialisation, particularly on high value products results in: (a) reduced export transport costs, and (b) a more efficient use of scarce island labour and other factors of production. It will be argued that the Western Isles are an almost textbook case of specialisation on niche markets which offset geographical challenges.

### 2.2.1 Natural resource-based niches

The SWOT analysis in the First Intermediate Report places great emphasis on resource endowments as a basis for prosperous island niche markets. In this respect, the Western Isles have been both lucky and unlucky. The islands are unlucky in that they lack some types of resources extensive elsewhere in the Highlands and Islands, notably offshore oil & gas (important in the Shetland Islands and the east of the region) and forestry (abundant in mainland parts of the region but almost non-existent in the Western Isles – Scottish Government, 2011).

#### *Two key resource-based niches: fishing and fish farming*

While oil, gas and forest endowments are lacking on the Western Isles, fish stocks, together with a coastal terrain favouring aquaculture are important assets for the Western Isles. While the Western Isles' fish landings (3 500 tonnes in 2009 – Scottish Government, 2009a) are dwarfed by those of the Shetland Islands (78 000 tonnes in 2009) and east coast ports such as Peterhead (149 200 tonnes in 2009), they are nevertheless a valuable niche for the islands. This is because some 90% of landings in the Western Isles are *shellfish*, predominantly prawns (*“two thirds of all landings by value are of this single species”*<sup>81</sup>). Shellfish fetch high prices – in 2009 shellfish comprised 18% by weight of all Scottish fish landings but were worth 32% *by value*. Between 2005 and 2009 shellfish landings in the Western Isles remained stable at 3 200 tonnes (worth GBP 10.2 million in 2009). By contrast, landings of other types of fish have fallen dramatically over time. Despite the decline of deeper sea fishing over time, the shellfish sector has meant that fishing remains an extremely important niche sector for the Western Isles. There are currently some 680 fishermen employed in the sector. Direct employment is, however, only the start. Fishing, and the associated fish processing, is a particularly valuable niche market for many island economies. Comhairle nan Eilean Siar estimate that there are some 300 more persons employed in ancillary activities (including 200 in fish processing) and fishing is known to have unusually high knock-on local multiplier impacts within the Western Isles (McNicoll, 1991; Roberts, 2005). Fishing and fish farming (see below) comprise around 6% of total employment on the islands.

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<sup>81</sup> Private Sector Interviewee B

An important characteristic of the dominant shellfish niche sector is that the export of *live* shellfish is much more valuable than shellfish for processing. *‘Live prawns command GBP 9 000 per tonne compared with GBP 3 000 per tonne for processing’*<sup>82</sup>. Live shellfish are shipped out by road in tanks, with very little being flown out. Most are destined for France, Spain and Portugal, with Spain the largest market<sup>83</sup>.

Turning to *fish farming*, a growth industry in Scotland in recent decades, the natural assets of the Western Isles have again enabled a valuable niche market to emerge. Fluctuating prices and health scare issues have given the sector a bumpy ride in recent years, but the industry is both valuable and here to stay. Scottish fish farming is dominated by Atlantic salmon production (144 247 tonnes in 2009, worth GBP 412 million). In the Western Isles Atlantic salmon fish farming also predominates. The origins of the industry lie in the 1980s when small scale salmon farming (with EU help) was established. As production built up, the price of farmed salmon declined making it harder for small producers to survive. Automation, cost-cutting and economies of scale have steadily led to greater concentration in the sector. In the Western Isles this has led to a sector of some 40 businesses being reduced to just three large (multi-national) firms. The industry remains a growing and valuable one for the islands, but the bigger, surviving companies tend to process only a small part of production locally (in Stornoway, with also some smoking of the fish in the central group of islands).

Comhairle nan Eilean Siar (the islands council) estimate that fish farming on the Western Isles provides some 550 full-time equivalent jobs, with direct employment, mostly in salmon farming, providing 350 jobs and another 200 in processing, marketing and distribution. Fishing and fish farming is not only a classic island high-value niche product. It also has further extremely important benefits for the Western Isles:

- The sector plays an important role in supporting smaller communities. The fishing and farm crofting communities lie at the very heart of Western Isles language and cultural assets;
- Fishing and fish farming sectors are key export earning niches. The 2003 Western Isles input-output study estimated that fish farming contributed GBP 30.667 million in export earnings, by far the largest single export item for the islands (Roberts, 2005);
- The sector offers significant future growth potential.

*Farming: A useful, but not lucrative niche sector*

The final resource-based niche sector is agriculture. The Western Isles are geographically large and sparsely populated. The islands lie off the west coast of Britain and benefit from milder winters associated with the warm Gulf Stream. Agriculture should in principle be a key niche sector. Unfortunately a combination of poor soils and a difficult climate (high winds and rainfall) have restricted the development of agriculture. Land cover in the Western Isles is overwhelmingly dominated by blanket bog & peatland and heather moor, with a narrow strip of improved grassland along the western coasts. Over 99% of the farmland is in grass or rough grazing. Sheep predominate, comprising 90% of livestock

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<sup>82</sup> Ibid.

<sup>83</sup> Ibid.

farmed (only 4% are cattle, the next largest category - all data Scottish Government, 2011). The islands are 'less favoured areas' in Common Agricultural Policy terms, and also have some of the lowest gross profit margins on production in Scotland.

Despite these characteristics, the agriculture sector remains important for three reasons:

- The Western Isles exhibit a classic island response of 'making a virtue of a necessity'. In particular, both sheep and cattle farmers have concentrated on producing 'store' animals; livestock shipped off-island for fattening. Rearing lambs and calves as hardy breeding stock is also widespread. The trade in 'store' animals reduces transport costs and saves on feed. In 2003, Agriculture generated GBP 1.212 million in export earnings. Whilst this was dwarfed by food imports (GBP 5.776 million in 2003), it is nevertheless valuable in an economy with limited niche opportunities. Moreover, agriculture has one of the highest multipliers (a 1.658 employment multiplier, higher even than fishing – Roberts, 2005);
- A feature of farming in the Western Isles is the system of landholding called *crofting*. A croft is "*a relatively small agricultural land holding which is normally held in tenancy and which may or may not have buildings or a house associated with it. Crofts vary in size from less than 1/2 hectare to more than 50 hectares but an average croft is nearer 5 hectares*" (Scottish Crofting Commission website). Crofting is an ancient form of landholding in the Scottish highlands and islands, and is governed by its own unique body of regulations and law. In the Western Isles no less than 77% of the land area is held in crofting tenure. "*Of these, 94% provide less than two days work per week for their occupiers and typically average 3 hectares in size*" (Comhairle nan Eilean Siar website). At first sight, this system of landholding appears particularly inefficient. In fact, it has stood the test of time and reflects yet another classic example of island communities adapting to adverse geographical characteristics. 'Multi-tasking', or a 'plurality of occupations' is a phenomenon common on most small islands. Historically, the crofting system has allowed crofters the opportunity to work part-time as farmers, while doing other jobs at the same time. The Comhairle nan Eilean Siar website calls crofting "*the foundation of the way of life, the language and the culture of the Western Isles, and has been extremely successful in maintaining rural populations in areas where they would almost certainly have disappeared*";
- The third reason that agriculture has a value beyond the revenues it generates lies in yet another classic island response to geographical challenges. High transport costs make it vital that producers move up the value chain to develop low bulk/high value products. Once again in the Western Isles we see some classic examples of this, most notably the world-famous Harris Tweed textile industry using the local wool production.

## 2.2.2 Tourism niche markets

Tourism niches have a particular attraction for island economies. Tourism is that rarest of products, one where the consumers of the product pay their own transport costs. The smaller the island, and the more remote it is, the greater this advantage looms. Table 1 below summarises key statistics for the size of the tourism sector in the Western Isles and other parts of the Highlands and Islands region. As can be seen, tourism in the Western Isles accounted for some 800 jobs (6.5% of all employment). This is smaller than for other parts of the Highlands and Islands region, but still very important locally. Moreover, these are just the *direct* jobs. Snedden (2007) estimated that the industry was worth around

GBP 50m in the islands and was generating some 1,250 jobs in total (direct and indirect). In addition, “people are waking up to the fact that the one industry (on the Western Isles) that has been stable for the last forty years is tourism”<sup>84</sup>. Table 1 also shows that the sector is dominated by trips from the rest of the UK, some 800 000 trips in 2009.

Some 75% of ‘tourist trips’ made in 2009 to the Western Isles were for holidays, with 14% as visits to friends and family (higher than for elsewhere in Highlands and Islands), many being former islanders returning to visit friends and family. Worthy of particular attention is the duration of visit data. Only 26% of Western Isles tourist trips from the UK are for 3 nights or fewer (compared to 65% for Scotland as a whole). This pattern is important because it reflects the fact that the islands have great difficulty in attracting the fast-growing day-trip and long-weekend sectors of the market. Lack of success with short-duration tourism is a serious issue and certainly the result of transport time and cost barriers: “access and reliability of access is a real problem, especially in winter (where there are also short daylight hours issues) – there are big differences between winter and summer sailing schedules. Sailings and flights can also be unreliable in winter”<sup>85</sup>. The Western Isles also have a serious *peak-load* challenge for tourism. The tourism is highly seasonal, being concentrated in the summer months from June to August. The list of top visitor attractions shows that local history and culture is very important for tourism. The top attractions are all museums and cultural sites (e.g. Gearannan Blackhouse Village and the Calanais Visitor Centre). The key assets are, however, not solely language and culture, but more importantly landscape and environment (Macpherson, 2009).

The need to lengthen the tourist season has led policy makers to try to expand fast-growth activity and cold-water tourism. Some key niche markets where the Western Isles are already successful and where future growth is eminently possible are food tourism, cycling (particularly recreational cycling rather than mountain biking), fieldsports (particularly game angling – estimated at 7 500 in 1999), sea kayaking, diving, sailing (with a surge in leisure craft visitors in 2008-09), golf, surfing and sea mammal watching (Taylor et al, 2010).

**Table 1: Key tourism statistics for the Western Isles and Scotland, 2007 and 2009**

Council area	UK tourists, 2009		Overseas tourists, 2009		Tourism-related employment, 2007	Tourism-related employment as % all employment, 2007
	No. trips(m)	£,m	No. trips (m)	£,m		
Highland	1.87	436	0.46	129	14 200	13.2
Western Isles	0.08	20	0.11	30	800	6.5
Orkney Isles	0.07	30			900	8.7
Shetland Isles	0.04	12			1 100	9.4
Scotland	12.46	2 736	2.54	1 369	208 800	8.6

Source: VisitScotland, *Tourism in Northern Scotland, 2009*

Of particular interest because of its growth globally in recent years is cruise tourism. The Western Isles have already carved out a small, but valuable niche. “Some 20-25 cruise ships call

<sup>84</sup> Private Sector Interviewee D

<sup>85</sup> Private Sector Interviewee A

*each year (and) some 10-11 000 visitors arrive on the cruise ships*<sup>86</sup>. Almost all the visits are day-stops, with only one operator staying over. The niche is likely to remain a small, but valuable one for the foreseeable future.

A key issue of continuing importance is the extent to which tourism is still hampered by transport costs. In an interesting piece of research, Taylor et al (2010) have analysed the effects of the first nine months (October 2008 to 2011) of the Road Equivalent Tariff (RET) pilot scheme on ferry trips by tourists. The RET scheme is a Scottish Government one, providing subsidies to reduce fares to and from the islands to a level where the costs would be equivalent to driving the distance on roads. This has led to significant real fare reductions on the main ferry routes. Ferry passenger numbers on the three main mainland routes rose 13-19%, while vehicle trips rose 24-26%. Equally striking was a surge in campervan trips (up between 61% and 144% on the three main ferry routes).

### **2.2.3 Textiles, cultural and creative industry niches**

The distinctive culture and heritage of the Western Isles has established a number of niche sectors generating export earnings and making local economic impacts which, while individually not on the scale of, say, tourism or fish farming, are nevertheless important to the local economy. *Textiles*, and in particular the production of world-famous *Harris Tweed*, remains an important export niche market. The 2003 Input-Output study estimated that some GBP 6.904 million of export earnings from textiles was accompanied by a high local output multiplier of 1.512. The Harris Tweed brand is strongly protected by UK law and the production methods are rigorously controlled to maintain quality and authenticity. Harris Tweed is a classic case of how small island communities can succeed by specialising on a high value, low bulk niche product for global export.

The islands have also been able to develop a diverse set of *cultural and creative industries*. These do not yet generate major export earnings. Nevertheless, partly through their interrelationship with the tourism sector (e.g. crafts, and events such as the Hebridean Celtic Festival), partly in their own right as export revenue earners, and partly because they are seen as bright prospect for the future, they have attracted considerable policy attention. It was estimated in 2004 that arts and craft sector activities, many operated through micro-businesses, had generated 177 full time equivalent jobs directly and perhaps up to 430 FTE jobs and GBP 4.7 million in household income through knock-on multiplier effects (Outer Hebrides Creative Industries Strategy, 2006-09).

### **2.2.4 Renewable energy**

Renewable energy has been identified as a major new driver of economic change for Scotland as a whole, as well as for the Western Isles themselves. Scotland is thought to have as much as 25% of Europe's wind energy potential and 10% of potential tidal power. Despite the great potential for renewable energy, the Western Isles remains heavily dependent on oil (64% of all energy consumption in 2004 – IPA Consulting, 2004), followed by imported electricity (18% - by undersea cable from the mainland). Local peat,

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<sup>86</sup> Ibid.

and imported gas and coal made up the rest. A certain amount of renewable energy capacity has now been put in (particularly onshore wind farms), especially on Lewis, but that the potential for the future is much greater, again with Lewis being the likely site for most market-led development. Interestingly, the Western Isles have great potential for almost a full array of renewable energy types – wind, marine (tidal and wave), bioenergy (especially kelp seaweed) and hydrogen technologies.

The new technologies self-evidently offer major opportunities for community-led and small-scale production of energy for on-island use, and are particularly important for the smaller and more peripheral communities currently still reliant on expensive imported fossil fuels. As a potential export niche market there are three main challenges:

- (a) The islands have existing undersea electricity cable links to the mainland, but the capacity available is small. A new combined electricity and broadband cable from Lewis to Little Loch Broom on the Scottish mainland would solve the problem, but would be immensely costly;
- (b) There are strong local concerns about the potential landscape impact of wind farms on tourism;
- (c) A new cable would strengthen Lewis' already large dominance in the sector, with the southern two island groups being left only with small scale and community projects.

### 2.3 The socio-economic context

Section 2.2 has shown that the Western Isles have successfully developed a series of niche sectors. But have these successes been sufficient? In a narrow sense they have not. The 2003 Input-Output Study shows that the islands were at that time running a large balance of payments deficit, and they undoubtedly remain in balance of payments deficit today. This section briefly reviews other socio-economic evidence of success or failure.

#### ***Demography***

In the inter-censal period 1991-2001 the fastest growth in population in the Highlands and Islands region was in Inverness & Nairn (6.6% growth), while The Western Isles experienced a 10.5% *fall* in population. Turning to the more recent 2001-2009 period, population loss in the Western Isles has eased but not reversed. By 2009 Inverness & Nairn had grown to 85 683, with the population of Inverness itself growing a massive 13.2% over the period 1999-2009 (Highland Council data drawing on General Register Office of Scotland small area statistics). This demonstrates just how much of a magnet the core of Highlands and Islands around Inverness has become. Population in the Western Isles continued to decline between 2001 and 2009, but at a much slower rate than in the 1990s (-1.02%). The situation in the Western Isles stands in stark contrast to both the Orkney and Shetland Isles where population expanded in the 2000s.

The Western Isles has therefore emerged as a small island society exhibiting significant *demographic weakness* (a major *'threat'* in SWOT terminology). This weakness is manifested as a combination of an ageing population (leading to low rates of natural population increase), exacerbated by migration trends. Between 2001 and 2008 the percentage of the Western Isles population aged 65 and over rose from 19.9% to 21.1%. Between 2001 and 2008 the

percentage aged 44 or less fell from 53% to 50% (General Register Office of Scotland data). *“The demographics for the Western Isles still look horrendous..... The issues are just as stark as before”*<sup>87</sup>.

The demographic picture is not all doom and gloom for the Western Isles. Migration patterns are complex. The bigger towns, such as Stornoway have benefited from in-migration from other parts of the region. In addition, all three islands NUTS3 regions (Orkney, Shetland and Western Isles) have also seen positive *gross* in-migration flows from the rest of the UK, often for life-style reasons. These flows have helped to offset gross out-migration from the islands. During 2007-2009 on average the Western Isles had a small positive net in-migration. This disguises, however, a more serious problem, namely the net loss of *young people*. *“The young are principally leaving because of the lack of jobs. A lot would come back if there were jobs”*<sup>88</sup>. *“We’ve educated (people) for export for years. And it’s right to enable people to go away, see the bright lights and study. But I worry the islands are not attracting them back”*<sup>89</sup>.

Taking the demographic trends as a whole for the Western Isles suggests that this threat will continue into the future. Between 2008 and 2033 it is projected that further population decline is likely in the Western Isles despite possible positive net migration (National Records of Scotland, *Demographic Factsheet Eilean Siar*). The continued loss of younger people is the root of the problem.

### ***Economic performance: GDP***

Turning to the economy, while the wider Highlands and Islands region has a lower GDP per capita than the UK average (EUR 25 000 per capita compared with the UK average of EUR 33 500 in 2007), it cannot be described as being particularly poor. Indeed, in 2007 its GDP per capita was virtually the same as the EU27 average. However, within the Highlands and Islands region the Western Isles has a relatively weak performance in terms of GDP per capita (second worst in the Highlands and Islands region at EUR 22 500 per capita in 2007) and with the second worst growth rate 1999-2007 (38.9% - unadjusted for inflation).

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<sup>87</sup> Public Sector Interviewee I

<sup>88</sup> Private Sector Interviewee C

<sup>89</sup> Private Sector Interviewee E

### ***Labour market performance***

Table 2 summarises a number of commonly-used indicators of the labour market.

**Table 2: Key labour market indicators, 2008 and 2009**

<i>Area</i>	<i>Unemployment rate, December 2009 (%)</i>	<i>Employment rate, 2008 (%)</i>	<i>Activity rate, 2008 (%)</i>	<i>% self-employed, 2008</i>
Caithness & Sutherland	3.8	77.5	80.3	12.0
Argyll & the Islands	4.8	78.9	82.9	12.2
Inner Moray Firth (including Inverness)	2.0	83.5	85.2	8.2
Moray	3.7	81.9	85.1	10.9
Western Isles	6.0	78.7	83.6	10.0
Orkney Isles	2.3	83.9	85.9	10.4
Shetland Isles	1.4	88.0	89.2	11.7
<i>Highlands &amp; Islands</i>	<i>3.2</i>	<i>81.6</i>	<i>84.3</i>	<i>10.5</i>
<i>Scotland</i>	<i>5.0</i>	<i>75.6</i>	<i>79.6</i>	<i>7.7</i>

*Source: Highlands and Islands Enterprise, Area Profiles, 2009*

The unemployment rate for the Highlands and Islands region as a whole in 2008 was low (3.2%) not only by EU27 standards (the region sharing in the wider UK low unemployment and higher employment rates of the UK), but was also relative to the UK as a whole and has been consistently lower than the overall Scotland average. Low unemployment for the Highlands and Islands region as a whole is mirrored by the region's consistently high *employment* rate (usually over 75% in most years) and high *activity* rate (also typically over 75%) prior to 2008.

Turning to the Western Isles, the picture is less rosy, although rather complex. Most striking is the high unemployment rate of 6.0%. This is the worst of all the Highlands and Islands sub-regions. Unemployment within the Western Isles is also more *seasonal* than for the Highlands and Islands region as a whole, being particularly high in the winter months. Unemployment is also highest on Lewis & Harris within the islands, and is higher among males than females.

The picture for employment rates, activity rates and percentage self-employed is not so unfavourable, although on all three of these measures, as Table 2 shows, the Western Isles perform less well than for Highlands and Islands as a whole. Self-employment rates are particularly interesting as the islands are close to the Highlands and Islands average. However, the self-employment rate for males is significantly higher than that for females (11.5% and 8.2% respectively). Moreover, when one examines business start-up rates, in 2008 the Western Isles registered 3.1 new business starts per 1 000 population. This is weaker than for the Highlands and Islands as a whole (4.0%). The Western Isles has a long standing problem of not generating enough new businesses to revitalise the local economy.

### ***Industrial structure***

By far the most striking feature of the Western Isles industrial structure is the *preponderance of employment in public administration, education and health* (42.6% of all employment in 2008 – 21.2% of males and 60% of females). This is much higher than for the Highlands and

Islands as a whole (32.8%). While all small island communities inevitably tend to have somewhat higher proportions of employment in public sector jobs, this is an unusually high figure. The scale of public sector employment in the Western Isles is both informative and disturbing. It is informative in that it shows more clearly than any other single statistic that despite the presence of a series of successful niche sectors, taken together these have not been able to produce enough employment to generate a successful economy: “*The Western Isles has struggled to come up with a..... set of successful sectors and crofting is important but not high income.... The Western Isles just does not have the same key sectors (as Orkney and Shetland)..... and must therefore work hard to get and keep viable sectors*”<sup>90</sup>.

### **Quality of life**

In addition to the economy of the Western Isles, it is important to look at social characteristics and ‘quality of life’. Table 3 sets out a number of indicators of education and quality of life. These show that the Western Isles has an enviable record when it comes to educational attainment. It also has a better quality of life across a whole range of dimensions than either the rest of the Highlands and Islands or Scotland as a whole. Quality of life is clearly a major asset for the islands for the future.

**Table 3: Education and quality of life indicators, 2008 and 2009**

	<i>Western Isles</i>	<i>Highlands &amp; Islands</i>	<i>Scotland</i>
<i>Education: % S4 roll gaining 5+ awards at Standard Grade 1-2 by end of S4</i>	39	38	34
<i>Education: % S4 roll gaining 3+ awards at Higher Grade A-C by the end of S6</i>	40	33	30
<i>Education: Percentage of school leavers entering higher and further education</i>	54	51	56
<i>Jobs: Percentage of school leavers becoming unemployed</i>	6	10	13
<i>Quality of life: % population rating area as ‘a very good place to live’</i>	76	69	52
<i>Quality of life: % population perceiving vandalism, graffiti and damage to property as a problem</i>	1	9	16
<i>Quality of life: Crime rate per 1,000 population</i>	369	575	749
<i>Quality of life: % of population living in most deprived 20% of Scottish data zones</i>	0	4.3	19.7
<i>Quality of life: Pupils per primary school class</i>	14.2	19.4	23.2
<i>Cost of living: House prices, 2008 (median value)</i>	£82 000	£117 750	£114 500

*Source: Highlands and Islands Enterprise, Area Profiles, 2009*

<sup>90</sup> Public Sector Interviewee A

On the downside, while house prices are cheaper on the islands, the wider cost of living, from food and drink through to the cost of utilities such as electricity and gas, as well as fuel for vehicles is considerably higher than in mainland Scotland. The 2003 *Rural Scotland Price Survey* found that the overall *island-urban price index* was -0.6% (i.e. Scottish islands actually had overall prices slightly *lower* than in Scottish cities). This was, however, almost entirely due to the cheaper house prices and rentals (17.4% lower on the islands than in cities). Virtually all other elements are more expensive on the islands – ranging from petrol and diesel (13% higher) to food and drink (e.g. fresh milk 31% higher and bread 63% higher).

Turning to ICT access, data exist 2008 for both percentage of households with internet access and percentage with broadband access. These show that in 2008 some 84% of the Highlands and Islands residents had internet access compared with a UK average of only 71%. An equally strong performance for the region is found with broadband access, with 77% of the Highlands and Islands residents having broadband access in 2008, compared to only 62% in the UK as a whole and an even smaller 58% for Scotland as a whole. Successive EU programmes have clearly helped in this. The 2007-13 Operational Programme does, however, identify considerable within-region variability in broadband coverage despite the gains made in 2000-06. It notes that broadband access remains low in the Western Isles compared to the rest of the Highlands and Islands.

## 2.4 How distinctive are the Western Isles among Scottish islands? A pilot cluster analysis.

As part of the socio-economic analysis it was decided to conduct an exploratory statistical cluster analysis in order to establish how distinctive (perhaps even ‘unique’) the Western Isles are compared with other Scottish islands. An unfortunate feature of islands research in the EU is the lack of comprehensive and harmonised statistics at the level of individual islands. Most European countries conduct decennial population censuses, and many of these will be producing in the next few years results for their 2010 censuses (or in the case of Scotland, 2011). These will eventually form an extremely valuable resource for researchers examining island regions. As the results for the 2011 census in Scotland were not available at the time of this study, analysis was conducted as a pilot exercise on 2001 census data. Annex 2 sets out the results of this analysis in detail.

Scotland’s General Register Office has produced results for a series of key demographic and labour market variables for 54 ‘island groups’. Most of these are single islands, but in a few cases very small ‘islands off islands’ have had to be aggregated in with a nearby larger island to protect confidentiality of individual families. It proved possible to assemble data for 19 demographic and labour market characteristics for the 54 islands and a further seven ‘geography’ variables (covering population sparsity, mountainous terrain and accessibility). A full list of these can be seen in Table A1 in Annex 2 of the report.

- Our cluster analysis identified six distinctive clusters among the 54 islands. The results show that the Western Isles do *not* fall out from the analysis as a free-standing, unique group. They are split between two of the six clusters. The main island of Lewis & Harris fell within a cluster which we have termed ‘*archipelago main islands*’ along with the main island of Orkney and the main island of Shetland. These exhibit better

performance than the other islands in Shetland, Orkney and the Western Isles and are very accessible (i.e. good direct air and sea links) though rather more remote from key markets. They are, however, heavily dependent on public sector jobs;

- The remaining smaller Western Isles islands fell within a larger group of west coast Scottish islands with similar characteristics. This, sadly, is one of the less well performing clusters of Scottish islands. They are also relatively more diversified compared to other island groups suggesting that they are perhaps not specialised enough on one or two high performing niche sectors such as tourism.



### **3. Policy responses: alignment with regional and national policies**

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The precise manner in which ERDF has been put to use in the Western Isles is examined in sections 4 and 5. Attention here is therefore concentrated on the wider regional (Highlands and Islands) and national (Scottish) policy context within which Western Isles strategy had to function. A key finding of this section is that a very close alignment has existed during both the 2000-06 and 2007-13 programmes between the ERDF strategy and that of the dominant regional-level stakeholder, Highlands and Islands Enterprise (HIE). Highlands & Islands Enterprise is the Scottish Government's regional development agency established specifically for the Highlands and Islands region (see below for more details). The section begins with an analysis of the manner in which geographical challenges are incorporated into the Highlands and Islands 2000-06 and 2007-13 ERDF programmes and how closely the programmes have been aligned with the Highlands & Islands Enterprise strategy. Section 3.3 then turns to the wider national (i.e. Scottish) policy context within which the programmes have been designed.

#### **3.1 The 2000-06 and 2007-13 ERDF programmes and their alignment with Highlands & Islands Enterprise strategy**

The Highlands and Islands region is unusual in that there has developed over time a distinctive *regional-level* policy system. By regional-level here is meant the Highlands and Islands NUTS2 region, which itself has been used as the eligible area for the 2000-2006 and 2007-2013 ERDF programmes. The commitment to a distinctive *regional-level* Highlands and Islands policy structure goes back many years. In 1965, a powerful and well funded Scottish Development Agency was established to act as a focus for regional development policy in Scotland. From the very start, however, it was recognised that the Highlands and Islands was such a distinctive region that the policy effort would need to be specially tailored for this particular part of Scotland. For this reason a separate Highlands & Islands Development Board was created at the same time as the Scottish Development Agency, with its own budget. The Board immediately upon its creation developed highly distinctive policy initiatives more appropriate for such a unique region. The Highlands and Islands region has therefore enjoyed some 46 years of special policies operated through the Board, and its modern successor, Highlands and Islands Enterprise.

The domestic policy context for the 2000-06 ERDF programme for the Highlands and Islands must also be seen in the light of the election in 1999 of the first Scottish Parliament since 1707. The 2000-06 Single Programming Document (SPD) was therefore drawn up at a time of rapid change, with virtually all of the powers relevant for regional policy being transferred from the UK Government's Scottish Office to the new Scottish Government. The domestic policy response for both the 2000-06 programme and the current 2007-13 programme is therefore essentially a Scottish one rather than a UK one.

### ***The analysis of geographical challenges in the 2000-06 SPD and alignment with Highlands & Islands Enterprise strategy***

The 2000-06 SPD undertook a detailed analysis of geographical challenges in the ex ante evaluation and in its various SWOT analyses. The 2000-06 SPD contained not only separate SWOT analyses at the level of 10 sub-regions (i.e. levels *at or below* NUTS3 for most of the region), but also conducted detailed socio-economic analysis as far as possible at NUTS3 or below. Taking the SPD and Programme Complement (PC) together, three key features stand out:

1. The overwhelming emphasis throughout is on *two* geographical characteristics: *peripherality* and *insularity*. ‘Sparsity’ of population appears from time to time, but usually as an accompaniment to the analysis of peripherality. There is only a single mention of mountains in the whole SPD;
2. The geographical characteristics are overwhelmingly seen as *problems* to be overcome. This is best seen in the various SWOT analyses conducted. Of the nine ‘strengths’ identified in the region-wide SWOT, *none* are geographical. By contrast, of the nine ‘weaknesses’, no fewer than *six* are essentially geographical characteristics: (a) ‘scarcity of population’, (b) ‘scattered islands and remote mainland communities’, (c) ‘peripherality’, (d) ‘transport costs and infrastructure gaps’, (e) ‘inhospitable terrain and climate’, but notice that even here mountainous terrain is not specifically mentioned, and (f) ‘fragile local economies’ (these are partially delineated using geographical characteristics – more on these later). Of the nine ‘opportunities’ identified, none are geographical characteristics. All of the 10 sub-regional SWOTs mirror this perception of geography as causing ‘problems’, with the twin issues of peripherality and insularity being extended in many of the island sub-regional SWOTs to include ‘multiple’ or ‘dual insularity’ (i.e. ‘islands off islands’);
3. Geographical characteristics did not appear in the SPD’s Vision Statement, but ‘to reduce the problems caused by peripherality and insularity’ did appear as one of six partnership goals (i.e. strategic objectives). Notice the emphasis on problems again. None of the Priorities or Measures within the programme were explicitly geographical in nature, but two ‘Area Priorities’ were established: (a) Fragile areas, and (b) Redevelopment areas. The latter are mainland areas, but the former were based on geographical characteristics and included the *whole of the Western Isles* in 2000-06.

### ***The analysis of geographical challenges in the 2007-2013 Operational Programme***

A similar approach to the ex ante evaluation and SWOT analysis was undertaken for the 2007-13 OP as was undertaken for the 2000-06 SPD. However, given a steep fall (halving) in funding between the two programmes, the analysis is less comprehensive than for 2000-06. Taking the ex ante evaluation and the single SWOT analysis (at the Highlands and Islands regional level only) together for the 2007-13 Operational Programme (OP):

1. Once again, as in the 2000-06 programme, it is *peripherality* and *insularity* which dominate, but insularity figures much less prominently in the 2007-13 ex ante evaluation while *sparsely populated areas* are given greater emphasis. Mountainous areas are again barely ever mentioned. The performance of the fragile areas is, however, given more prominence in the 2007-13 analysis;

2. As in the 2000-06 SPD, peripherality, sparse population and insularity are largely seen as problems, and not as strengths or opportunities. However, the language has subtly changed, from 'problems/weaknesses' to 'challenges', and hence the negative overtones are slipping away slowly;
3. New themes in the analysis were (a) depopulation of smaller outlying islands in island groups and other fragile areas, (b) significant in-migration to the main islands from the rest of the UK, reversing population decline in some of the islands, (c) more emphasis on the role of peripherality in impeding business and exporting, picking up more of the Lisbon Agenda, (d) a deeper analysis of the nature of settlement patterns caused by scattered sparse populations, and (e) a substantial analysis of the extent and issues faced in peripheral and fragile areas, showing a greater focus on these types of areas.

The 2007-13 OP, on the basis of the ex ante evaluation analysis, developed a detailed SWOT analysis for the region as a whole (but, as noted earlier, not for sub-regions such as the Western Isles). Three particular weaknesses deriving from the geographical characteristics of the region were separately identified:

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

The region's strengths, however, are identified as being many in number, particularly the unusually high quality *green environment and cultural heritage*. Other (non-geographical) strengths identified by the OP are good employment and activity rates, a better than expected demographic profile in terms of population loss, and a developing set of specialist research expertise. Finally, the OP identifies three key opportunities for the future: (a) renewable energy for new technology development (especially wind, marine and biomass), (b) renewable energy for local use, and (c) tourism based on the natural and cultural heritage.

The 2007-13 programme, though much smaller than the 2000-06 programme, exhibits in one respect a significant shift towards a greater recognition of geographical specificities. Whereas there were no Priorities or Measures in the 2000-06 programme focused on particular areas, in the 2007-13 programme one of the Priorities is explicitly geographical. The three Priorities in the 2007-13 Programme are: (1) Enhancing Business Competitiveness, Commercialization and Innovation, (2) Enhancing Key Drivers of Sustainable Growth, and (3) Enhancing Sustainable Growth of Peripheral and Fragile Areas.

Priority 3 is of particular interest to our study since it is a Priority *wholly focused on geographically challenged areas*. It was allocated 25% of the total budget for 2007-13. This Priority, as with the other Priorities shows a programme closely inter-twined with that of Highlands & Islands Enterprise, since it is the organisation's definitions of the fragile areas which apply. It should be noted, however, that we were told during interviews that whilst

the 2007-2013 programme uses the same definition as Highlands & Islands Enterprise of fragile areas, in practice in allocating funds as the programme has proceeded, a certain amount of pragmatic flexibility has been used in selecting boundaries for the fragile areas.

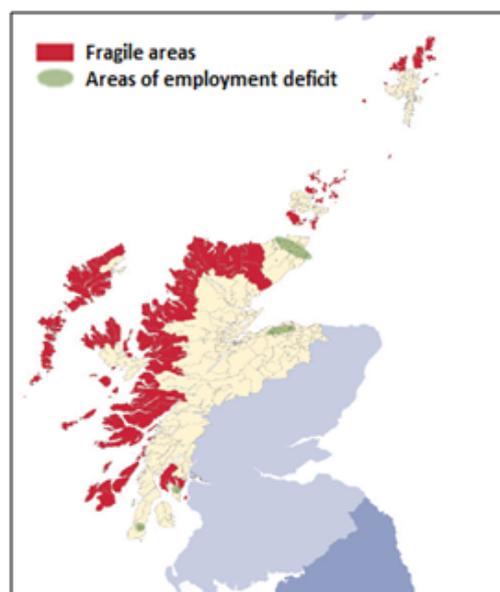
The criteria for selection of fragile areas in 2007-13 are shown in Table 4 below.

**Table 4: 'Fragile areas' as defined for the purposes of the 2007-2013 OP**

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

The shaded cells show the geographical characteristics. Note the dominance of *islandness* (including double-insularity), *remoteness* and *sparsity of population*. Figure 1 shows the 2007-13 fragile areas. Virtually all of the Western Isles, apart from Stornoway itself, are fragile areas (during the 2000-06 programme the whole of the Western Isles were a fragile area). In 2007-13 Highlands & Islands Enterprise has also identified several *employment deficit areas*, all of which (except one) are wholly on the mainland. These are based on labour market characteristics and do not encompass any parts of the Western Isles and are therefore not discussed further here.

**Figure 1: Peripheral and fragile areas (in red), 2007-13**



*Source: Highlands & Islands Enterprise*

The Highlands & Islands Enterprise definition of ‘fragile areas’ is identical to all intents and purposes with that adopted in the ERDF programmes. What we have here, therefore, is a case of an ERDF programme which is very closely coordinated with the regional development agency policy and, moreover, a case in which geographical characteristics are brought to bear to help to target available funding within the broader region.

Alignment between the ERDF programme and Highlands & Islands Enterprise strategy has not just been confined to the manner in which the geographical challenges are analysed and confronted. Highlands & Islands Enterprise thinking on what the key sectoral drivers of growth should be has also permeated both the 2000-06 SPD and the 2007-13 OP. The key sectors in 2000-06 SPD were identified as (1) oil & gas, (2) food & drink, (3) tourism, (4) high value-added manufacturing, and (5) ICT-based activities. These were the same as those for Highlands & Islands Enterprise at that time. In 2007-13 the OP key sectors were identified as: (1) renewable energy, (2) tourism and other culture-based industries, (3) food & drink, (4) forestry, (5) life/health (and other) sciences, and (6) support for nuclear decommissioning at Dounray on the mainland, again those around which Highlands & Islands Enterprise strategy is based.

It is pertinent to ask why the alignment of the ERDF programme with Highlands & Islands Enterprise strategy has been so close. Highlands & Islands Enterprise has developed unrivalled expertise in economic regeneration policy in the region. It also made available its considerable in-house technical expertise to the programmes, is a vital source of match funding, and has strong working relationships with all of the major local and regional stakeholders over the years. The close alignment of Highlands & Islands Enterprise and ERDF strategy was singled out by many interviewees: *“Highlands & Islands Enterprise wrote a fair amount of the SPD. The strategic driver of the SPD and OP has been Highlands & Islands Enterprise. Moreover, ERDF has been used to complement Highlands & Islands Enterprise initiatives and not just part-fund them”*<sup>91</sup>, and *“Highlands & Islands Enterprise involvement in the Structural Funds programmes is vital, both in terms of strategic development and in match funding. Very close links between Highlands & Islands Enterprise and the OP are therefore inevitable”*<sup>92</sup>.

The singling out of the fragile areas for a special Priority of their own is an interesting new step in integrating geographical characteristics into an ERDF programme for this region. Priority 3 is concerned with both social and economic sustainability, but in line with the Lisbon Agenda the Priority has a strong economic focus. The 2007-2013 OP picks out ‘sparse and widely dispersed population’, ‘insular and island communities’, ‘lack of access to services, jobs and training’, ‘isolation’ and ‘remote and peninsular communities’ as key challenges (note the first mention of ‘peninsularity’ as a geographical characteristic posing challenges). The fragile areas encompass around 18% of the population of the region. This Priority has also unusually sought to encourage the development of coordinated ERDF/ESF bids in the form of packages of assistance, allowing up to 10% of the ERDF budget for Priority 3 to be switched into the ESF-type activities as part of joint bids.

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<sup>91</sup> Local Authority Interviewee C

<sup>92</sup> Public Sector Interviewee A

### 3.2 Alignment of the ERDF programmes with national policies

The 2000-06 SPD sought to align itself with a number of newly-emerging Scottish strategic plans following devolution in 1999. The two initial key strategies were *Partnership for Scotland: an Agreement for the First Scottish Parliament*, and *Making It Work Together: A Programme for Government*. The *Partnership for Scotland* established the broad strategic parameters which have continued to today to guide the ERDF programmes, namely: (a) a focus on *enterprise policy*, training and lifelong learning, (b) a strong *social inclusion* element across all individual policies developed, (c) support for *rural communities* and the rural economy, and (d) a commitment to *environmentally sustainable* development. *Making It Work Together* directly built upon *Partnership for Scotland* by putting quantitative targets on the broad principles of the strategy and establishing a list of 10 key priorities ('people's priorities'), one of which was to 'support and enhance rural life, rural communities and the rural economy'.

In addition to the two path-breaking Scottish Executive strategic documents, the 2000-06 SPD also sought to align itself with a new *Scottish Agricultural Strategy* and a new *Scottish Fisheries Strategy*. As noted earlier, the Highlands and Islands region also in the 2000-06 period had a distinctive local context as a result of the existence of a regional development agency - Highlands & Islands Enterprise. Responsibility for Highlands & Islands Enterprise was transferred from the Scottish Office in 1999 to the new Scottish Government. A new Highlands & Islands Enterprise *Strategy for Enterprise Development* was produced in February 1999. The 2000-06 SPD quickly aligned itself extremely closely with the key priorities of the Highlands & Islands Enterprise, with a particular focus being established for: (a) Growing businesses, (b) Strengthening skills, and (c) Strengthening communities. In addition, the 2000-06 SPD was also developed within the context of a *Highland Community Plan*, drawn up by local stakeholders, and various local authority plans (e.g. the *Orkney Island Council Strategic Plan*). However, as has already been shown, what is most striking about both the 2000-06 SPD and the subsequent 2007-13 OP is how closely aligned are both the programme area boundaries and the strategic thrust with the Highlands & Islands Enterprise.

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

Within this over-arching national strategic plan, the 2007-13 OP has also sought to align itself with separate Scottish Government strategies for *Green Jobs* including renewable technologies (an important issue in the Highlands and Islands), a *Science Strategy* (in which the UHI is seen as an important component), *Securing a Renewable Future* (with renewable energy being of particular importance for the Highlands and Islands), a *National Transport Strategy*, and a *New Strategy for Scottish Tourism* (which stresses the importance of cultural and

natural assets for the Highlands and Islands part of the strategy). Moreover, Scotland also has a strategic plan for *Scotland's Culture* and a *National Plan for Gaelic*, the latter being of particular importance in the Highlands and Islands region. The core of the *National Plan for Gaelic* is to improve access by local residents to services in the Gaelic language.

Despite the close symbiosis between Highlands & Islands Enterprise and the ERDF programmes, it is important to recognise that many of the national (Scottish) government programmes remain extremely important for the Highlands and Islands region as a whole, and for the Western Isles in particular. From a Western Isles perspective, three of particular importance have been:

- (a) *Transport policy*. The Scottish Government's role in supporting transport in the Highlands and Islands has been fundamental for the region's economy. Government engagement in the Highlands and Islands transport is direct and extensive, with the main ferry companies being effectively government-owned, and with major transport infrastructure projects being heavily supported with public money. Calmac Ferries, Northline Ferries and the Shetland Line are all heavily subsidised, as are a number of air routes to smaller islands. The Western Isles, along with other parts of the Highlands and Islands region, currently also enjoys the benefits of substantial government-funded direct fare subsidies. The fare subsidies are allowed as derogations under EU competition policy (as 'lifeline services'), as are the subsidies for transport and ICT infrastructure projects. As has been shown in section 2, ferry fare subsidies are currently of particular interest because the Western Isles (along with the Inner Hebridean islands of Coll and Tiree) were selected for a pilot study of the effects of the introduction of a *Road Equivalent Tariff (RET)* system for calculating fares. The three mainland to Western Isles ferry routes (but not the within-islands short ferries) have been benefiting from RET since October 2008. Under RET the ferry fares are set at a level which would make the cost of the sea journey equivalent to what it would be if a road trip had been possible instead. As section 2 has shown, evaluation evidence (Halcrow Group, *RET Study: Interim Evaluation*, Edinburgh, 2010) shows that passenger and car trips have risen dramatically, especially during the summer months. An additional significant benefit for the Western Isles has been increased one-day recreational and shopping trips off-island by local residents. RET has benefited a full range of sectors other than tourism. For example, "*RET has significantly helped the fishing industry. It has cut some GBP 800 off the return cost of a lorry trip..... on a GBP 15-GBP 20 000 load. RET has also made it easier to access seafood exhibitions and product presentations*"<sup>93</sup>;
- (b) *Farming policy*. The Western Isles farmers benefit, of course, from the full range of EU and Scottish farming and rural development policies. A Scottish Government farming policy of particular importance on the islands relates to *crofting*, which involves a unique system of land tenure regulated by a distinct body of law aimed at ensuring its sustainability;
- (c) *Key sectors*. The Scottish Government's economic strategy identifies and provides extensive support (mostly via Scottish Enterprise and Highlands & Islands Enterprise) for a number of key sectors and industrial clusters. The Highlands and Islands region has benefited greatly from, in particular, national support for renewable energy, the life sciences sector (particularly biosciences and

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<sup>93</sup> Private Sector Interviewee B

pharmaceuticals), and tourism, where VisitScotland is charged with marketing and quality control, while Highlands & Islands Enterprise is charged with business development policy.

## 4. Relevance of ERDF Programmes

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In this section attention is focused on how *relevant* the Highlands and Islands ERDF programmes in 2000-06 and 2007-13 have been for the particular circumstances faced by the Western Isles. Section 4.1 seeks to assess how relevant the broader Highlands and Islands programme design has been for the Western Isles. Section 4.2 then turns to the *individual projects* funded at the level of the Western Isles in the current 2007-13 period.

### 4.1 The relevance of the 2000-06 and 2007-13 programmes

#### *The 2000-06 ERDF programme*

In terms of Priorities and Measures, the 2000-06 Highlands and Islands ERDF programme was very typical of its type in the UK at that time. Funding was focused on support for businesses and competitiveness (57% of funds being allocated to Priorities 1 and 2 – ‘Increasing Business Competitiveness’ and ‘Creating the Conditions for Regional Competitiveness’), and the various Measures within these two Priorities reveal a typical mix of mostly ‘softer’ types of business support. ‘Hard’ infrastructure project support is still apparent (e.g. 9% for serviced sites and premises for businesses and 19% for strategic investments in communications), but these elements are well down on what was committed to infrastructure in the 1994-99 Objective 1 Highlands and Islands programme. Unlike Priorities 1-3 (Priority 3 being the ESF funded ‘Human Resource Development’ priority), which can be found in ERDF programmes across the UK, Priority 4 was more distinctive (‘Assisting Rural Communities’). This was allocated a substantial 23% of all funding, with agriculture fund (EAGGF) and fisheries fund (FIFG) money being brought to bear alongside the ERDF. This Priority clearly reflects the geographical analysis underpinning the programme, and in particular the concerns with remoteness and small scattered communities (i.e. sparse population).

In common with virtually all other ERDF programmes in the UK at that time, the Highlands and Islands programme sought to concentrate funding on more dynamic key industrial sectors (called ‘key drivers’ in the programme), and on some 100-200 ‘high growth potential firms’ within these sectors. As noted earlier, the key sectors in 2000-06 were: (a) oil & gas, (2) food & drink, (3) tourism, (4) high value-added manufacturing, and (5) ICT-based activities.

In terms of the classification of policies for islands, mountainous and sparsely populated areas developed in the First Intermediate Report, the 2000-06 ERDF strategy can be best described as a combination of *reactive* and *proactive* policies to what were seen as problems posed by geography, but with *reactive* policies dominating.

The SWECO data base, created for DG Regional Policy in 2008, allows a comparison of the Highlands and Islands programme with other island, mountainous and sparsely populated regions across the EU. Programme spending is classified by types of ‘fields of intervention’. SWECO analysis for 2000-06 reveals a number of interesting features:

- (a) The Highlands and Islands programmes have successfully moved on from the preponderance of 'hard' infrastructure spending so common in Objective 1 regions across the EU. The proportion of ERDF committed to 'softer' Productive Environment support was 44.1% in the Highlands and Islands in 2000-06. The equivalent figure for other EU Objective 1 regions in 2000-06 was only 25.1%. The Highlands and Islands region in 2000-06 also devoted a greater share of ERDF to 'Productive Environment' support than other EU mountain areas (26.7%), island regions (31.5%) or sparsely populated areas (37.2%). In this sense the Highlands and Islands region is at a more 'mature' stage than most other island, mountainous or sparsely populated regions in the EU;
- (b) The commitment to supporting enterprises most suited to islands, and the small scattered communities which characterise the region's mountain and sparsely populated areas can be seen in the relatively high proportion of ERDF committed in the Highlands and Islands region to SMEs and the craft sector (35.6% compared to only 9.6% for EU Objective 1 programmes as a whole, 12.6% in mountain area programmes, 16.1% in other island regions and 19.2% in other SPAs);
- (c) It is interesting that while ERDF support in the Highlands and Islands in 2000-06 for transport infrastructure was pretty much on a par (31.9%) with other EU Objective 1 regions, the region chose to direct a higher share to telecommunications infrastructure and ICT (6.7% compared to an EU Objective 1 region average of only 3.2%, and with mountain areas, islands and SPAs all investing proportionately less than the Highlands and Islands). Once again this case study region appears to be more 'mature' in its strategy than other EU regions;
- (d) Energy Infrastructure too was quite heavily supported in the region (at 4.0% greater than other Objective 1 regions - a mere 1%, and greater than other mountain, island and SPA regions - 1%, 1.7% and 0.3% respectively).

Western Isles stakeholders were, of course, actively involved in drawing up the ERDF programme strategy, along with those from other parts of the Highlands and Islands region. But how well aligned was the 2000-06 Highlands and Islands strategy with local conditions in the Western Isles at that time? Table 5 compares the 2000-06 programme SWOT for the Highlands and Islands region as a whole with the SWOT undertaken by and for the Western Isles. The first thing to note is that the Highlands and Islands as a whole is seen as having more 'strengths' and 'opportunities' than the Western Isles. In particular, it can be seen that the Western Isles could not at that time, nor in the current period, take advantage of all five of the 'key driver' sectors being targeted at the higher Highlands and Islands regional level.

Table 5 shows that the Western Isles had some hopes in 2000-06 of benefiting significantly from oil & gas activities. In practice this has not materialised. Food & drink products were not Western Isles priorities, and ICT-based activities have been slow to materialise in any strength locally, as has high added value manufacturing (apart from in niches such as Harris Tweed textiles). Hence, among the five 'key drivers' in the 2000-06 Highlands and Islands programme only tourism, based on landscape, culture and heritage, figures prominently in the Western Isles. In addition, Table 5 shows that 'renewable energy' appears for the first time as a potential major opportunity for both the wider Highlands and Islands region and

the Western Isles. As shall be shown later, this has emerged as a much brighter prospect since 2007.

**Table 5: A comparison of Highlands and Islands and Western Isles SWOT components: 2000-06 SPD**

<i>Highlands &amp; Islands</i>	<i>Western Isles</i>
<b><i>Strengths</i></b>	<b><i>Strengths</i></b>
Natural and man-made heritage	High quality environment
Well educated and adaptable workforce	High educational attainment
Local culture and sense of community (especially Gaelic, Norse)	Identity and culture
Oil and oil-related activities	
High value, low volume niche industries	
Tele-service and IT activities	
Long established tourism	
High quality primary products (fish, agriculture)	
<b><i>Weaknesses</i></b>	<b><i>Weaknesses</i></b>
Scarcity of population	Small dispersed local markets, out migration
Scattered islands & remote mainland communities	Dual insularity
Low incomes	Social and geographical exclusion, high cost of living
Peripherality	
High cost transport and infrastructure gaps	High transport costs
Seasonality of employment	
Inhospitable terrain and climate	
Unemployment and underemployment	
Fragile local economies in peripheral and insular areas	Weak economic base
	High development costs
	Dependence on external markets
	Dependence on single employers
<b><i>Opportunities</i></b>	<b><i>Opportunities</i></b>
ICT developments	IT services
University of Highlands and Islands	
Nuclear de-commissioning (Dounray nuclear facility)	
Renewable energy	Renewable energy
Marine resources	Oil energy exploration and development
Environment and culture based tourism	Heritage and activity tourism, Gaelic development
Health care products and services	
Added value processing (based on fish and agriculture)	Added value processing
Forest products	
	Civil service dispersal
<b><i>Threats</i></b>	<b><i>Threats</i></b>
Decline of oil employment	
Decline of fish and agriculture employment	
Declining traditional tourism	
Loss of ICT competitiveness (especially infrastructure obsolescence)	
Increased tax on transport fuel	Increased transport costs
Loss of key manufacturers	
Population loss from peripheral areas	Continued population decline

*Sources: 2000-06 SPD and Programme Complement*



### *The 2007-13 programme*

Table 6 shows allocations by Priority. Figures are given just for the ERDF programme (the ESF programme has its own OP, although they are actually closely interlinked, as are EAFRD and EFF programmes). As can be seen, there are only *three* Priorities in the 2007-13 programme (the fourth being Technical Assistance).

**Table 6: Allocations by Priority, 2007-2013 programme, by Priority**

<i>By Priority Axis</i>	<i>Total (€)</i>	<i>ERDF (€)</i>	<i>National public funding (€)</i>
<b>1.</b> Enhancing Business Competitiveness, Commercialization and Innovation	118 815 828	47 526 332	71 289 496
<b>2.</b> Enhancing Key Drivers of Sustainable Growth	92 073 810	41 433 214	50 640 596
<b>3.</b> Enhancing Sustainable Growth of Peripheral and Fragile Areas	73 117 433	29 246 973	43 870 460
<b>4.</b> Technical Assistance	7 311 746	3 655 873	3 655 873
<i>2007-2013 Total</i>	<i>291 318 817</i>	<i>121 862 392</i>	<i>169 456 425</i>

*Source: 2007-13 ERDF OP*

Three key features are revealed by Table 6:

- The biggest allocation was made to Priority 1 (Enhancing Business Competitiveness, Commercialization and Innovation), taking 41% of the full budget. This Priority represents a fairly traditional set of policies. Priority 2 is also heavily funded (32% of the full budget). Here the focus is again narrowed, this time onto three ‘drivers of growth’: research & training (especially the University of the Highlands and Islands and its network of local colleges), other research and innovation infrastructure outside the University (e.g. the Marine Energy Centre in the Orkney Islands), and natural and cultural assets of the region (as an aid to expanding new cultural and creative industries as well as strengthening tourism). Priorities 1 and 2 have each been allocated more funding than Priority 3. This was a direct reflection of the fact that since Priorities 1 and 2 are more highly focused on Lisbon Agenda goals;
- The key sectors targeted by Priority 1 are: (a) renewable energy, (b) tourism and other culture-based industries, (c) food & drink, (d) forestry, (e) life/health (and other) sciences, and (f) support for nuclear de-commissioning at Dounray on the mainland. Renewable energy, life & health sciences and culture-based industries have emerged with stronger emphasis in the current programme than in 2000-06. Developing new products in food & drink and forestry has now been hived off to the Scottish Rural Development Programme, but support for these key sectors, including marketing, is still possible through ERDF;
- For the very first time we see a separate Priority devoted to areas with specific geographical characteristics – the “peripheral and fragile areas”. Priority 3 was allocated 25% of the total budget. The key purpose of Priority 3 is not to provide direct help to businesses in the fragile areas – that is left to Priority 1. Priority 3 is about bolstering fragile *communities*. It is designed to try to ensure “*that growth brought about by the first two*”

*(Priorities) is not concentrated exclusively in the growth areas of the regional economy (particularly the Inverness area), but that the benefits are distributed more widely throughout the region” (2007-13 ERDF OP, p.67). It was recognised at the outset that far less funding would be available for big transport and ICT projects than in previous programmes. Instead, “the 2007-13 Programme needs to target key small-scale infrastructure investment where specific issues of local accessibility are critical” (2007-13 ERDF OP, p.82). In other words, ‘gap filling’ projects are to be supported and not major strategic investments. Apart from these types of small infrastructure projects, Priority 3 is essentially a community-based Priority, with a greater emphasis on social and Community Economic Development initiatives.*

Analysis of the SWECO data base shows the following features of the 2007-13 ERDF commitments by ‘field of intervention’:

- (a) The 2007-13 programme continues the 2000-06 emphasis on supporting businesses and enterprise, particularly SMEs, with some 24% of the budget targeted at Entrepreneurship, although most of this (19%) is on fairly traditional types of help rather than firms directly linked to research and innovation or environmentally friendly products (8% and 2% respectively);
- (b) The programme is focused effort on Innovation and Research, particularly by supporting research centres and infrastructure (18% of the 36% focused on this field of intervention). Direct help to the firms themselves in this field remains limited (e.g. only 7% for firms directly linked to research and development).
- (c) Direct support for transport investment is limited in nature (9% of the budget), reflecting the more mature stage of the programme and the greater focus on business and enterprise;
- (d) The allocation of only 8% to tourism (and culture) which is an important sector in the region is somewhat less than one might expect. A small allocation is made explicitly for urban and rural regeneration (5%), although the rural communities do benefit through the other measures too.

As with the 2000-06 programme, the key question is how closely aligned the wider Highlands and Islands programme is to specifically Western Isles strategic thinking. Once again we see that the Western Isles realistically can target only a minority of the ‘key sectors’ identified at the Highlands and Islands region level (tourism and renewable energy in particular). Forestry is not a Western Isles priority, nor is life/health sciences or nuclear decommissioning. At the level of these broad sectors, therefore, the alignment of local priorities with wider Highlands and Islands ones is not close. However, there is more than enough flexibility in the 2007-13 programme to allow the Western Isles to pursue projects with ERDF funding in sectors where they have greater prospects of success. Comhairle nan Eilean Siar, in its regeneration strategy and through its Local Plan (2008) and Structure Plan (2003) is very clear on the key sectors it wishes to develop, and on the need to build up Stornoway as *“the world class entry point to the Outer Hebrides”* (Comhairle nan Eilean Siar website). The Outer Hebrides Community Planning Partnership (2009, 2010) shares in this same set of priorities.

From the perspective of Western Isles stakeholders, the key sectors are activity and heritage tourism (with, as already noted, a 'broad front' strategy of targeting up to ten tourism niches), renewable energy (marine, wind and biomass, for both local use and electricity export), fishing & aquaculture, creative & media activities (based in part on Gaelic language and cultural heritage), IT and broadband-based enterprises, together with continued protection of, and investment in traditional sectors which remain important to the islands (farming for sheep and cattle exports, fishing for shellfish for live export and Harris Tweed textiles). In addition, further ERDF investment in the UHI, both locally and in Inverness, is seen as key to reducing the serious demographic challenge facing the islands through the continued loss of its younger people.

The fragile communities Priority is of particular importance and is very much aligned with Western Isles strategic thinking. With all of the Western Isles except Stornoway being eligible for Priority 3, and with the strong community spirit and crofting heritage of the islands opening up new opportunities for social enterprise and community economic development, Priority 3 could not be better designed for the Western Isles.

However, in one final respect the 2007-13 Highlands and Islands programme strategy is poorly aligned with Western Isles strategic priorities. The sheer scale of the cut in the budget between 2000-06 and 2007-13 (by over a half), together with the move away from strategic 'hard' infrastructure projects towards 'softer' types of help has left the islands in something of a dilemma. Key infrastructure 'gaps' remain despite the huge investments of the 1994-99 and 2000-06 programmes. The Spinal Route of fixed links down through the islands still has two major gaps within it. In addition, the islands lack a suitable interconnector link for energy export to the national grid and also a good broadband link and on-island system.

## 4.2 ERDF interventions in the Western Isles in 2007-13

In section 4.1 it was argued that while the wider Highlands and Islands programme strategies in 2000-06 and 2007-13 have not been wholly relevant for Western Isles needs, there has been sufficient flexibility for the Western Isles to apply for what they need. In this part of the study an analysis is undertaken of ERDF projects approved during the 2007-13 programme in order to establish whether in fact this in fact has been the case. The 2007-13 programme is still under way and the results presented here are necessarily partial.

The focus of interest is not the actual detail of spending and impact, but rather the *nature* of the projects being approved. The emphasis in particular will be on whether the project is *reactive* to the geographical challenges, *proactive* or *environmentally sustainable* (i.e. the key categories of policy responses in island, mountainous and sparsely populated areas identified in the Second Intermediate Report), and which *niche sectors* are being targeted.

The approach adopted has been one of *classification* of the projects. Since any one project may address more than one type of geographical challenge, have elements which are both reactive and proactive, and target more than one sector, the classifications adopted are not

*mutually exclusive*. However, an attempt is made by examining detailed project summary files to distinguish between the main thrust of a project (by type of challenge faced etc) and less strong elements. The evidence presented in this part of the study has been collected from project approvals information kindly provided by the Highlands and Islands Structural Funds Partnership (HIPP).

Before presenting the results of the classification of projects exercise, it is important to note the point at which the 2007-13 Highlands and Islands programme was at the time of our study (August 2011). At that time around 89% of the available ERDF funds had been committed to 17 approved projects. It should be noted that these 17 projects exclude direct assistance provided to the Western Isles by the Strategic Development Bodies (SDBs) – Highlands & Islands Enterprise and the University.

Table 7 draws on the individual project summaries for the 17 projects approved to date, and seeks to develop a classification. As noted earlier, the classification is not a mutually exclusive one. We have sought, however, to make individual judgements on what the *main* purpose of each project is and to identify this (as a cross in the table). To see how the classification has been developed, consider project 1. This is a project called 'Connected Hebrides' with Comhairle nan Eilean Siar as the lead organisation. This builds on the successful Connected Hebrides project in the 2000-06 programme which involved considerable investment in broadband facilities in the islands. Scrutiny of the detailed project description in the PMC summary report shows that this is a 'softer' business support project (hence its Priority 1 categorisation), with a central team providing advice, consultancy and support for e-enterprises. A pilot e-Invoicing system will be established. In addition, Hebrides.tv will be developed as a broadband content and services exemplar project. Our analysis of this project suggests that whilst the provision of broadband infrastructure would be essentially a 'reactive' strategy, the new project is 'proactive – builds on a previous (reactive) project'. However, it does not fall into the category of 'pro-active – by making geography a directly positive virtue'. In addition, the project seems to us to fall also into the 'environmental sustainability' category of island strategies. Finally, it is clear that the project is targeting not only newer sectors, but also traditional niche sectors on the islands. We have not put this project down as having a 'sectoral focus on key target sectors' since although it may well be of value for those in sectors such as new forms of tourism, aquaculture and the like, none of these sectors is *specifically* targeted out by the project. We have repeated this procedure for each of the Western Isles projects approved to date and the results are shown in Table 7.

**Table 7: A classification of Western Isles approved projects at August 2011**

Characteristic	Projects																
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
Accessibility – communications within islands	X				X						X		X		X	X	X
Accessibility – communications off-island																	
Sparse population (average – e.g. super-sparsity)																	
Sparse population (scattered communities)	X			X						X	X		X		X	X	X
Islandness (e.g. ‘double insularity’)	X				X			X									
Mountainous terrain																	
Reactive - Infrastructure - Other					X												
Reactive – but builds on previous project (e.g. ‘gap filling’) - Infrastructure - Other	X										X		X		X	X	X
Proactive – makes a geographical characteristic a positive virtue Infrastructure Other																	
Proactive – exploits a natural or cultural asset - Infrastructure - Other				X	X		X	X	X	X							
Environmental sustainability - Infrastructure - Other	X			X													
Sectoral focus – general - Traditional sectors - Newer sectors	X	X			X	X		X	X	X	X	X		X			
Sectoral focus – key driver sectors - Renewable energy (community use) - Renewable energy (export) - New forms of tourism - Aquaculture - Creative and media industries - New Harris Tweed Opps.					X			X	X	X	X	X					

The results of this exercise are interesting:

- The projects are overwhelmingly targeted on improving *within-islands accessibility* (both transport and ICT) and on helping to meet the challenge of *scattered communities*. A couple of projects also address ‘double insularity’, but otherwise none of the other geographical characteristics figure;

- The projects fall into two roughly equal groups. Half are definitively *reactive*, but in the sense of building on a previous reactive project rather than new reactive projects in their own right. These are mainly ‘gap filling’ infrastructure projects seeking to enhance benefits from the major within-islands Spinal Route investments put in 1994-99 and 2000-06 programmes. The other half are *pro-active* in seeking to exploit natural and cultural assets. Note, however, that none can be described as being proactive in the sense of seeing geographical characteristics as a positive virtue to be exploited;
- The projects exhibit a welcome emphasis on newer niche sectors, with no fewer than 9 of the 17 projects falling into this category, although several of these also simultaneously target traditional niche sectors too. Most are essentially seeking to develop newer forms of tourism and recreation, and to a lesser extent the creative and media sectors. Renewable energy projects, particularly those for export rather than community energy sustainability are thin on the ground, as are other driver sectors;
- ‘Hard’ infrastructure projects continue to be extremely important in the Western Isles. Some 11 of the 17 projects contain infrastructure spending.

Table 8 sets out the results of a similar classificatory exercise undertaken for approved projects for the *whole Highlands and Islands region* (including the Western Isles) as at August 2011. The figures in the table are the percentages of all approved projects. Note that these again sum to greater than 100% as the classification is not a mutually exclusive one. It should also be noted that these figures are percentages of projects and not of spending across the projects. They exclude the Highlands & Islands Enterprise and the University Strategic Development Body activities (these are discussed separately below). The table shows clearly how it is accessibility and scattered communities which are seen as the key challenges in terms of the percentage of projects targeting them. Moreover, as can be seen, it is the more sub-regional transport (and to a lesser extent ICT) communications which are the focus in the 2007-13 programme rather than big region-wide schemes. The bigger and more strategic projects were conducted in earlier programmes and too little money is available this time around for the very large infrastructure projects.

Table 8 also shows a welcome focus on proactive projects, particularly those seeking to exploit natural and cultural assets. Whilst some 10.2% of the projects could be classified as ‘reactive infrastructure’, far more (28.4%) are ‘proactive infrastructure to exploit a natural or cultural asset’ – this reflects the maturity of the Highlands and Islands programme. A final feature of note is the strong emphasis in terms of numbers of projects on renewable energy (especially for community and local use) and new tourism and recreational market niches. These findings very much reflect the overall strategic stance at both the Highlands and Islands region as a whole and within the Western Isles: “*The overall strategy has been one of (a) directly addressing the key geographical challenges, particularly transport and IT/broadband communications, and (b) focusing on key sectors*”<sup>94</sup>.

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<sup>94</sup> Public Sector Interviewee A

**Table 8: Percentage of approved projects by type across the full Highlands & Islands region, as at August 2011**

<i>Characteristic</i>	<i>Percentage of Highlands and Islands approved projects</i>
Accessibility – communications within sub-region	22.7
Accessibility – communications across Highlands and Islands	4.5
Sparse population (average – e.g. super-sparsity)	0.0
Sparse population (scattered communities)	21.6
Islandness (e.g. ‘double insularity’)	10.2
Mountainous terrain	0.0
Reactive	
- Infrastructure	10.2
- Other	0.2
Reactive – but builds on previous project (e.g. ‘gap filling’)	
- Infrastructure	9.1
- Other	0.0
Proactive – makes a geographical characteristic a positive virtue	
- Infrastructure	0.0
- Other	0.0
Proactive – exploits a natural or cultural asset	
- Infrastructure	28.4
- Other	29.5
Environmental sustainability	
- Infrastructure	14.8
- Other	9.1
Sectoral focus – general	
- Traditional sectors	20.5
- Newer sectors	69.3
Sectoral focus – key driver sectors	
- Renewable energy (community use)	21.6
- Renewable energy (export)	6.8
- New forms of tourism and recreation	43.2
- Aquaculture	0
- Creative and media industries	8.0
- Textiles and other manufacturing	2.2
- E-businesses	4.5
- Life & health sciences	0.0
- Food & drink	2.3

As noted earlier, the 17 wholly within- Western Islands projects do not show the whole picture for two reasons: (a) the Western Isles also benefit directly from activities and schemes operated through the two Strategic Development Bodies – Highlands & Islands Enterprise and the University, and (b) pan-Highlands projects form a large part of the programme budget. Highlands & Islands Enterprise and the University make regular reports to the Program Monitoring Committee (PMC) and in these reports the sub-regional breakdown of activities is given.

Highlands & Islands Enterprise in its role as a Strategic Development Body makes two types of expenditures. Under capital spending for the provision of serviced sites and high-specification buildings for businesses, Highlands & Islands Enterprise has some

GBP 9.5 million of ERDF funding available. At the time of the latest Highlands & Islands Enterprise report to the Programme Monitoring Committee available to us (15 June 2011), none of the capital expenditure projects were being funded in the Western Isles. Highlands & Islands Enterprise informed us that there are substantial capital infrastructure works projected for the Arnish Construction yard at Stornoway, designed to help it to move into renewable energy construction activity, but that only Highlands & Islands Enterprise and not ERDF money would be used for this. On the revenue account side, Highlands & Islands Enterprise uses ERDF money to fund eight separate business support and innovation schemes. At the time of the 15 June report to the Programme Monitoring Committee, the sub-regional breakdown of enterprises and projects being assisted was as shown in Table 9 below.

**Table 9: Geographical spread of Highlands & Islands Enterprise revenue account schemes funded by ERDF, as at 15 June 2011**

<i>Area</i>	<i>HISEZ</i>	<i>CRESP</i>	<i>Business of Scale</i>	<i>Hi Grads</i>	<i>Creative Industries</i>	<i>Business Innovation Grants</i>	<i>CREATE</i>	<i>Hi-Links</i>
Shetland	2	2	0	10	1	2	0	19
Orkney	13	2	1	3	1	2	0	9
Western Isles	8	8	1	6	5	0	0	11
Moray	9	0	0	5	3	0	0	9
Caithness & Sutherland	15	4	0	9	4	3	0	11
Inner Moray Firth	77	1	3	21	11	6	5	43
Lochaber, Skye & Wester Ross	36	3	1	10	6	1	0	11
Argyll & the Islands	39	11	1	12	2	6	0	26
<b>Total</b>	<b>199</b>	<b>31</b>	<b>7</b>	<b>76</b>	<b>33</b>	<b>20</b>	<b>5</b>	<b>139</b>

*Source: Highlands & Islands Enterprise. All numbers of projects supported, except for HISEZ (number of social enterprises supported) and Hi-Links (number of interactions)*

HISEZ is the main support and development agency for social enterprises in the Highlands and Islands region and Highlands & Islands Enterprise has channelled its support for social enterprises through this body. CRESP (Community Renewable Energy Support) focuses on help for renewable energy projects Community Energy Scotland Limited operates this support on behalf of Highlands & Islands Enterprise. ‘Businesses of scale’ refers to support for investment projects costing GBP 1 million or more. ‘Hi-Grads’ is a scheme designed to help firms to take on graduates for their own innovation projects. ‘Creative Industries’ refers to the Creative Industries Development Programme to support innovation and growth in the creative industries, an important target sector in the Western Isles. Business Innovation Grants are designed for SMEs undertaking their own innovation projects. Hi-Links is a scheme designed to encourage direct links between academic

research centres and private firms. By 15 June 2011, Highlands & Islands Enterprise had committed GBP 3.94 million of ERDF money, a figure in fact slightly in excess of the original GBP 3.82 million budget.

The various Highlands & Islands Enterprise schemes both complement the individual within-islands projects discussed earlier, and also represent the principal route by which business support measures are brought to bear. While Table 9 must, of course, be viewed only as an interim set of outcomes for the Western Isles, two interesting features can be seen: (a) the Western Isles are doing quite well in terms of support for social enterprises, renewable energy and Hi-Links (between firms and research centres), and (b) most business support schemes are very 'demand-driven'. This tends to mean more applications and eligible projects are to be found in the more prosperous regions. The large numbers of firms and projects helped in the Inner Moray Firth sub-region (containing Inverness) is undoubtedly a reflection of this.

Turning to University, the second of the programme's two Strategic Development Bodies in the 2007-13 period, some 50% of ERDF funding for Priority 2 (Enhancing Key Drivers for Sustainable Growth) and 55% of ESF funding under its Priority 3 (Improving Access to Lifelong Learning) was made available to the University. The ERDF component has been concentrated on building up research capacity, the learning infrastructure (physical estates) and information technology infrastructure. ESF money is focused on course materials, curriculum development, learning and e-learning support services and schemes to increase participation among non-traditional groups of learners. It should be stressed that the University is not a 'distance learning' institution. Its business model is based on a network of 13 local campuses around the Highlands & Islands Enterprise region (including Lews Castle College in Stornoway) and considerable care has been taken to ensure that both the teaching units and research centres are spread around the region and not centralised in Inverness. Phase 1 of the University's Strategic Development Body programme ran from 2007-10 and was allocated some GBP 10 242 913 of ERDF funding (most, GBP 9 042 531, of which was for capital spending).

Unlike the Highlands & Islands Enterprise schemes, it makes much less sense to try to allocate University spending or activities as a Strategic Development Body sub-regionally to areas such as the Western Isles. In many ways this part of the programme acts as a set of pan-Highlands projects. As has been noted earlier, the Western Isles sees the development of the University itself and the various research and other projects associated with it as an important policy to try and retain more young people on the islands (i.e. to offset what is seen as the principal demographic challenge facing the islands). The local campus, Lews Castle College, is an important part of this, but so too are the other campuses and the Inverness centre. It was put to us by a number of interviewees on the islands that even if young people leave to study elsewhere in the University, they are more likely to return after graduation than if they had (as was previously the case) to study in the central belt of Scotland or elsewhere in the EU. Moreover, improved research excellence at the various specialist centres scattered across the Highlands and Islands region and funded through the University, together with better academic-business links, offer benefits for all parts of the Highlands and Islands and not just the local area where a centre is located.



## 5. Effectiveness of ERDF in Western Isles

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It is, of course, still much too early to try to assess how effective the 2007-13 ERDF programme has been since spending is still under way and will be for a number of years to come. In this section, therefore, attention is focused on the effectiveness of the 2000-06 programme (section 5.1) and on progress to date with the 2007-13 programme (section 5.2).

### 5.1 The 2000-06 programme

During 2000-06 a total EU funding of EUR 316 million was allocated for the whole of the Highlands and Islands region. ERDF funding comprised EUR 190 million (60%), the remainder being made up of ESF (19%), EAGGF (12%) and FIFG (9%) monies. During this period the region also benefited from funding from the Community Initiatives of Interreg, Leader and Equal. In terms of the effectiveness of the programme, it should be noted that the 2000-06 programme was a significant, but not a big one by either EU or Scottish Government standards. To put it in context, the EU funding as a whole comprised about 4.5% of the total public spending in the region for basic infrastructure, human resources and productive investment: *“a small, but significant proportion”* (2000-06 SPD, p.13). The previous 1994-99 Objective 1 programme was around twice as large as this.

No full ex post evaluation was conducted for the 2000-06 programme. The most recent formal evaluation reports available are therefore the mid-term evaluation produced in July 2003 (Fraser Associates, 2003) and a mid-term evaluation update conducted in December 2005 (Scottish Executive, 2005). Before examining the evaluation evidence for the 2000-06 programme, it is useful to briefly outline the key lessons identified by evaluations of earlier programmes, and particularly the large 1994-99 Highlands and Islands Objective 1 programme. The 1994-99 Objective 1 programme received high marks by evaluators for meeting or exceeding its monitoring targets and for being effectively managed, with good partnership operation and for exhibiting strong innovation and experimentation. The Western Isles did well out of the programme, obtaining some 18.2% of all structural funds monies (19.4% of ERDF plus EAGGF, and 14.0% of ESF), a figure well in excess of its population share of the region.

Within this broad picture of success, the evaluators did flag up some weaknesses (e.g. the need to avoid duplication of business support activities, the need for a stronger focus on horizontal themes). Perhaps most importantly from a Western Isles perspective, it was felt that there was a need for a closer integration of big infrastructure projects with other proposals being developed (e.g. the need to better integrate the Western Isles Spinal Route and other harbour and road improvements).

The mid-term evaluation of the 2000-06 ERDF programme (Fraser Associates, 2003) produced a number of key findings of particular relevance for the Western Isles:

- The programme was praised for a much improved ‘programming culture’ compared to 1994-99, in particular picking out “significant advances in justification, in strategy development, in targeting, in the quantification of outcomes, in the mainstreaming of equal opportunities and sustainable development to name but a few” (Fraser Associates, 2003, p.3). This is important not only because the Western Isles has shared in this process of improved planning, but also because it shows the value of successive ERDF programmes being used to steadily build up planning and administrative capacity;
- A greater need was identified for more coherent packages, designed “to reflect the spatial reality that the Highlands and Islands comprises a set of sub-regional economies with limited functional integration” (Fraser Associates, 2003, p.3). This is of direct relevance for the Western Isles;
- While all EU programmes take a while to build up a head of steam, the mid-term evaluation expressed particular concern at the slow pace at which key strategic infrastructure projects were materialising.

The mid-term evaluation update (Scottish Executive, 2005) added three further findings of interest to our study:

- Concerns were expressed about the up-take of EAGGF and FIFG elements of the programme, both of considerable importance to the Western Isles;
- Very strong demand in particular for Priority 1 money (business competitiveness, R&D and serviced sites and premises), combined with absorption problems in some Measures elsewhere, had led to pressures for virement. As shall be shown later, this is an issue which has re-emerged in 2007-13, suggesting systematic absorption problems in particular in the more communities-based projects;
- While the 2000-06 programme represented a small cut in spending *in real terms* on the 1994-99 programme, in two ways the programme was ‘punching above its weight’: (a) a series of “critical keystone projects” (Scottish Executive, 2005, p.6), such as the big transport infrastructure schemes, the University, broadband development and renewable energy; these offer the opportunity for sustained development long after the programme ended, and (b) significant direct impacts (e.g. 3,730 net new jobs – 2% of the region’s total employment). The ‘keystone projects’ finding is of particular interest to the Western Isles, which are unusually sensitive to developments *on the mainland of the Highlands and Islands*.

A HIPP (2006) summary review of the 2000-06 programme, undertaken at the moment the ERDF had become fully committed has provided detailed information of how the programme was finally implemented, including some evidence at the Western Isles level. Across the Highlands and Islands as a whole, 193 projects were approved with ERDF grant awards of GBP 129.7 million. ERDF awards were dominated by two types of organisations: the Enterprise Network (37% of spending and the highest grant per project) and local authorities (30%). Higher & further education took 10% (reflecting a heavy investment in the University), while the voluntary sector also took 10%. The remaining

13% was spread among an array of other public sector organisations (e.g. Forestry Commission, water authorities). The local authority role is interesting since the analysis shows that in every year except one it was dominated by transport schemes, especially under Measure 2.1 (Strategic Investments in Communications Infrastructure).

This reflects once again just how important 'reactive' policies based around mitigating the geographical challenges by improving transport links remain in the region. Findings of particular interest for the Western Isles were:

- The Western Isles was awarded projects to the value of GBP 15 775 376 (12% of the total). This suggests that targeting help on the more disadvantaged areas and the fragile areas within the Highlands and Islands would appear to have worked quite well. This conclusion was borne out by the finding that 46% of all the commitments were focused on local areas assessed as having the greatest 'need' (assessed on a five point scale). As we have seen, the Western Isles were wholly classified as a 'fragile area' in the 2000-06 programme;
- ERDF help for the Western Isles built up gradually to a peak in 2004, before falling away again as the projects were successively brought to fruition. Keystone projects in the Western Isles were investment in the Spinal Route (peaking in 2004 - GBP 3.6 million being awarded to complete the Spinal Route), investment in the Arnish marine fabrication yard, broadband development and investment in Leverburgh Harbour;
- Disentangling the impact of the programme on the Western Isles is difficult because of the scale of genuinely 'pan-Highland' projects. These were estimated at no less than GBP 32 873 492, or 24% of the total in 2000-06. Among these are many of the 'keystone' projects of the region. In the 2000-06 period these include a series of road, air and harbour projects, together with the University Millennium Institute and associated other University projects. The sheer extent of the 'pan-Highlands' projects poses problems for assessing the appropriateness and effectiveness of ERDF help for the Western Isles.

Reviews of the 2000-06 structural funds programmes in Scotland led to decisions to try to use the funds in a more *strategic* manner in the up-coming 2007-13 programme. In particular, two decision were taken, one of which was of particular importance in encouraging the Western Isles to develop a more distinctively sub-regional strategic approach. The two changes introduced for the 2007-13 programme were (a) a decision to create Strategic Development Bodies (SDBs) – Highlands & Islands Enterprise and the University in the case of the Highlands and Islands programme, and (b) to closely involve local Community Planning Partnerships (CPPs). It was hoped that not only would the 2007-13 programme be given more strategic coherence than in the past, but also that the CPPs would strengthen local partnership working. In examining the relevance of ERDF interventions in the Western Isles, it is therefore important to judge ERDF activity against the *local* CPP strategic vision.

The Outer Hebrides CPP (OHCPP) has a wider remit than just economic development, and in particular has a major role in coordinating public services provision. Nevertheless,

its view of the challenges facing the Western Isles and its strategic vision for the future are an important part of its role. The OHCPP partners comprise: the Association for Community Councils, Comhairle nan Eilean Siar, and representatives from Community Estate bodies, Co-Cheangal Innse Gall (Third Sector Interface), the Hebridean Housing Partnership, Highlands & Islands Enterprise, the Highlands and Islands Fire Rescue Services, Lews Castle College, NHS Eilean Siar, the Northern Constabulary, Skills Development Scotland, Scottish Natural Heritage and the youth sector.

The OHCPP *Single Outcome Agreement 2009-11* (OHCPP, 2009, 2010) provides a very clear presentation of how geographic challenges specifically impact on the Western Isles (as distinct from the Highlands and Islands region as a whole), and what the key thrust of the economic strategy for the future should be, namely:

- The main geographical challenges are *peripherality*, *insularity* and *super-sparsity* of population. In this respect the view of the main challenges is closely aligned with that for the Highlands and Islands as a whole. However, the islands are seen as having more extreme versions of these challenges;
- In addition to the geographical challenges, OHCPP see three key *demographic* challenges: an ageing population (driven in part by out-migration of young people), a gender imbalance caused by differential out-migration of females, and a declining population. Once again, these are seen as being more severe on the Western Isles than in most other parts of the Highlands and Islands;
- The islands are seen as having a weak economic base, with *too few* successful sectors and *too narrow* a range of sectors. Moreover, “*problems of population loss and economic performance are intertwined. The Outer Hebrides has a weak economic base which is concentrated on a narrow range of sectors. These sectors are insufficiently diverse to sustain a young, educated population and conversely there is a shortfall in those in the key migration range of 15-29 years*” (OHCPP, 2009, p.11). Hence demographic challenges are seen as dependent on the weak economic base;
- The key thrust of the economic strategy is therefore a two-fold one of *strengthening* the existing base, and seeking to *diversify* into new sectors. This is an interesting view in that it recognises that a traditional strategy response for most small islands – strong niche specialisation on only one or two sectors – is not seen as being the solution. Given the lack of very high value resources (e.g. oil) and the rather traditional nature of existing niches (“*which have fared poorly in recent years*” – OHCPP, 2009, p.12), this view is almost certainly a correct one when judged against our literature review (*First Intermediate Report*). The Western Isles at the present time therefore face that most difficult of all conundrums for small island economies: traditional niches in decline and a need to find new ones;
- CPP sees the main strategic assets (strengths) as: low business costs for new enterprises, an island-wide broadband network, and excellent natural and environmental resources. These in turn give rise to a strategic focus on the following niche sectors:
  - Renewable energy;
  - New forms of tourism;
  - Aquaculture;

- Creative industries and digital broadcasting (especially Gaelic-based cultural activities);
- New opportunities for the traditional Harris Tweed sector.

A recent formal evaluation of Scottish CPPs (Blake Stevenson, 2011) has been rather critical of most of the Highlands and Islands CPPs, although none of the individual CPPs such as OHCPP was singled out. The evaluation was critical of most Highlands and Islands CPPs for being less strategic in developing their plans than elsewhere in Scotland and for being slow off the mark in applying for ERDF funding in the 2007-13 programme. The model of delivery of Highlands and Islands CPPs was seen to be very different from those in the rest of Scotland. In particular, *“each CPP developed a broad set of proposals around themes or a geographical area and presented these as a plan which was submitted to HIPP. The approach was arguably less strategic than the approach taken by most CPPs in the Lowlands and Uplands”* (Blake Stevenson, 2011, p.49 – our italics). *“There seems to be a lack of strategic coherence to the plans, although some, such as Shetland, are stronger than others”* (Blake Stevenson, 2011, p.50). However, our own examination of the OHCPP plans suggests that it falls very much within mainstream thinking on development strategies for small islands and sparsely-populated areas. In this sense, the OHCPP plan has a coherent strategy. How successful the strategy will be is a much more difficult thing to gauge.

As previous sections have shown, each one of the niches singled out for strategic policy focus faces serious hurdles to be overcome (e.g. the need to be connected to the national grid for export of renewable energy). The islands have the advantage of a legacy of major infrastructure investments from past programmes. The challenge is to build on these to generate viable and financially and environmentally sustainable new niche industries.

It is possible, by using the Commission’s SWECO data base, to examine how the 2000-06 allocations were divided up amongst the various NUTS3 sub-regions within the Highlands and Islands region (see Table 10).

**Table 10: ERDF spending by NUTS3 sub-region; Highlands and Islands programme, 2000-06**

<i>Period</i>	<i>Programme</i>		
2000-06	<i>Objective 1 Special Phasing Out Transitional Programme for “Highlands and Islands”</i>		
<b>Region</b>		<b>Total spend (EUR million)</b>	<b>Per capita (EUR)</b>
UKM61	Caithness & Sutherland, Ross & Cromarty	41 (22%)	454
UKM62	Inverness, Nairn & Moray, Badenoch & Strathspey	60 (32%)	331
UKM63	Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute	53 (27%)	516
UKM64	Western Isles	13 (7%)	494
UKM65	Orkney Islands	11 (6%)	555
UKM66	Shetland Islands	12 (6%)	548
UKM6	<i>Highlands and Islands</i>	<i>190 (100%)</i>	<i>429</i>

*Notes: 1. Per capita commitments estimated using population as at 2007. Table refers to ERDF only*

Table 10 is of great interest since it shows that the 2000-06 programme, despite not containing any specifically geographically-targeted Priorities and with no sub-regional quotas, did succeed in practice in channelling more money to the island sub-regions. Orkney, Shetland and the Western Isles have been particularly favoured, while the core Inverness sub-region (UKM62) obtained the lowest per capita funding of all. The Western Isles attracted 27% of all the ERDF funding, and its per capita figure (€494) was above the Highlands and Islands average (€429).

## 5.2 The 2007-13 programme

For the 2007-2013 programming period, the Highlands and Islands region received a total of EUR 122 million from ERDF, with a further EUR 170 million expected from national and private match funding. This allocation is a decrease of 36% with respect to 2000-06, even before inflation is allowed for. The funding amounts during the 2007-13 period to only around 2% of all public spending, in other words less than half of what it was in 2000-06. This represents a major fall in ERDF spending in the region.

As noted earlier, since the 2007-13 programme remains an on-going one it is impossible to arrive at an overall assessment of its effectiveness and any conclusions must remain both interim and tentative at this stage. Table 11 shows the geographical spread of project approvals as at August 2011. As can be seen, the Western Isles has benefited in roughly equal proportions to Shetland and Orkney and well in excess of its population share. The programme is once again, as in 1994-99 and 2000-06, clearly succeeding in directing funding disproportionately away from the core Inverness region and towards the more peripheral areas. Note, however, the huge scale of 'pan-Highland' projects (46%).

**Table 11: Geographical spread of project awards under ERDF, by sub-region, August 2011**

<i>Sub-region</i>	<i>Percentage of total</i>
Western Isles	9
Argyll & Bute	8
Highland	14
Moray	2
North Ayrshire	0.3
Orkney Islands	10
Shetland Islands	11
Pan Highlands & Islands	46
<i>Total</i>	<i>100</i>

*Source: HIPP*

Table 12 shows progress towards attaining key targets, this time at mid-July 2011. These results are also fairly typical of what might be expected from the experience of previous programmes, with already complete or over-completion of the ‘softer’ business support targets (e.g. 260% for business advice/consultancy). In general, the overachievement of some indicators is due in large part to relative under-estimations at the time when the targets were set. New business starts and business turnover results are still rather low, perhaps reflecting the harsher macroeconomic conditions at present, and renewable energy and community target attainment is still low at this interim stage.

**Table 12: Progress towards meeting targets for monitoring indicators as at July 2011**

<i>Indicator</i>	<i>Type</i>	<i>Target</i>	<i>Forecast</i>	<i>% target met by forecast</i>	<i>Actual</i>	<i>% target met by actual</i>
Number of individuals and enterprises receiving advice/consultancy	Output	400	1 158	289.5	900	225.0
Number of enterprises receiving financial support	Output	50	356	712.0	130	260.0
Numbers of enterprises receiving support for e-commerce	Output	150	459	306.0	136	90.7
Number of enterprises receiving support for energy-saving and resource efficiency	Output	350	307	87.7	124	35.4
Number of enterprises receiving support through SDB (Highlands & Islands Enterprise)	Output	20	664	3 320.0	270	1 350.0
Area of business space created or modified (m <sup>2</sup> )	Output	12 100	118 251	977.3	7 415	61.3
Number of commercialisation activities	Output	15	154	1 026.7	188	1 253.3
Number of research facilities supported	Output	30	16	53.3	9	30.0
Number of e-learning/training facilities supported	Output	60	17	28.3	72	120.0
Number of RTD projects supported	Output	30	40	133.3	16	53.3
Number of renewable energy research projects supported	Output	10	15	150.0	4	40.0
Number of projects on the sustainable use of natural and cultural assets to develop new products and services	Output	70	44	62.9	10	14.3
Number of e-learning/childcare and other community facilities supported	Output	40	10	25.0	5	12.5
Number of transport projects supported	Output	15	17	113.3	7	46.7
Number of ICT infrastructure projects supported	Output	15	1	6.7	0	0
Number of renewable energy projects supported	Output	10	5	50.0	2	20.0
Number of social enterprises supported	Result	200	280	140.0	259	129.5
Number of new business starts resulting from support	Result	150	106	70.7	29	19.3
Number of e-commerce strategies developed	Result	100	192	192.0	174	174.0
Number of enterprises implementing environmental audits and energy saving/resource efficiency systems	Result	250	129	51.6	98	39.2
Increase in turnover in enterprises supported by SDB (Highlands & Islands Enterprise) -	Result	40	257	642.5	3	7.5

£m						
Number of new products and services developed	Result	10	142	1 420.0	114	1 140.0
Number of gross jobs created	Result	4 700	3 246	69.1	864	18.4
Number of patents filed	Result	20	1	5.0	0	0
Number of vocational training infrastructure projects supported	Result	10	11	110.0	7	70.0
Number of new products and services based on natural and cultural assets developed	Result	50	99	198.0	17	34.0

Source: HIPP data

Note: Forecasts were made after the targets were set

Table 13 sets out the position on overall spending for both ERDF and ESF as at August 2011. Focusing on ERDF, it can be seen that the vast bulk of monies have therefore now been committed. Table 13 also shows that Priority 1 (Enhancing Business Competitiveness, Commercialization and Innovation) is over-spent (by GBP 4.2 million), while Priority 2 (Enhancing Key Drivers of Sustainable Growth) and above all Priority 3 (Enhancing Growth of Peripheral and Fragile Communities) are under-spent. Virement has been necessary. The absorption problems with Priority 3 appear to have been the result several different forces: match funding has been an issue, particularly for the smaller communities based projects, higher EAFRD grant rates have proved more attractive than ERDF, and recent heavy cuts to local authority budgets have had an effect. Clearly, this was not ideal but did not really undermine the overall effectiveness of the programme.

**Table 13: ERDF and ESF financial commitments relative to targets as at August 2011**

Priority	Available euros	Available £ sterling	Rounds 1-4 approvals (£)	Round 5 approvals (£)	Round 6 approvals (£)	Funds remaining
<u>ERDF</u>						
Priority 1	47 526 332	40 413 548	23 693 106	17 654 220	3 300 000	-4 233 778
Priority 2	41 433 214	35 232 325	25 961 746	5 782 644	0	3 487 935
Priority 3	29 246 973	24 869 875	10 012 196	4 033 743	0	10 823 936
<b>Total ERDF</b>	<b>118 206 519</b>	<b>100 515 747</b>	<b>59 667 048</b>	<b>27 470 607</b>	<b>3 300 000</b>	<b>10 078 092</b>
<u>ESF</u>						
Priority 1	21 123 557	17 962 208	9 415 275	2 874 512	4 003 840	1 668 582
Priority 2	17 838 576	15 168 857	5 762 476	5 556 256	0	3 850 125
Priority 3	11 623 557	9 883 977	4 679 671	387 863	287 294	4 529 149
<b>Total ESF</b>	<b>50 585 690</b>	<b>43 015 043</b>	<b>19 857 422</b>	<b>8 818 631</b>	<b>4 291 134</b>	<b>10 047 856</b>

Source: HIPP website

Notes: 1. Exchange rate of €1.176: £1 used. 2. CPP approved plans included

## 6. Implementation and governance

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### 6.1 An evolving approach

The Highlands and Islands approach to governance and implementation of Structural Funds programmes has historically been one of administrative differentiation. In practice, that has involved constructing custom-built partnerships (comprised mainly of public and voluntary sector organizations), administrative units and programmes through which to allocate funds.

The role of Highland and Islands Structural Funds Partnership Ltd (HIPP) as the Programme Management Executive was very significant in co-ordinating the overall governance and implementation of the 2000-06 programme; in terms of managing the application process, issuing guidance on related issues, developing a work programme for consideration by the Programme Monitoring Committee, and monitoring and reporting on progress in programme implementation. Moreover, the programme's administrative infrastructure was designed to encourage an inclusive, partnership-based approach to both developing and implementing the 2000-06 programme, albeit within the confines of a competitive challenge-fund in which applications across all programme priorities would vie with others to secure ERDF funding.

In this regard, priority-specific advisory groups (mostly comprised of staff drawn from the programme's partner organisations with specialist expertise in particular priority areas) played a vital role in scoring applications against core and priority-specific assessment criteria and recommending whether or not to fund each application. This 'peer-assessment' of project applications lay at the heart of the implementation process and was crucial in determining which applications received funding and, ultimately, in shaping the implementation of the programme as a whole.

Further up the programme's decision-making hierarchy, a Management Committee (mostly comprised of partner organisation officers and with technical and research/intelligence skills) oversaw the running of the programme at somewhat closer operational proximity than the Programme Monitoring Committee which, along with the Scottish Government, set the overall direction of the programme in terms of governance and implementation.

The 2007-13 programme for the Highlands and islands marks an important departure from the wholly competitive challenge-fund approach of the previous programme in two important respects. Firstly, through the designation of both Highlands & Islands Enterprise and UHI as Strategic Delivery Bodies to which ERDF is allocated for revenue and capital business support (in Highlands & Islands Enterprise's case) and building research capacity and capital infrastructure investments (in UHI's case). Secondly, ERDF has been set aside for Community Planning Partnerships within the Highlands and Islands to provide a more integrated approach to supporting the most fragile areas in the region, with supported activities being focussed mainly on ERDF Priority 3. The Management Committee which existed in the 2000-06 model has been removed and the current

Programme Monitoring Committee is smaller than its predecessor body and, because of its composition, has become more strategic in its function<sup>95</sup>. A Programme Review Group, comprised of partnership organisation officers, provides technical expertise on a range of programme implementation and management issues.

The main driving force for the new 'mixed model' of challenge funding and targeted support via the two Strategic Delivery Bodies and Community Planning Partnerships was a recognition that a diminished overall level of funding for the 2007-13 programme, together with a reduced programme area, necessitated a more streamlined and strategic approach to both programme management and resource allocation than had been the case in the predecessor programme.

## 6.2 Influencing Programme Design

The Scottish Government's decision to write the 2007-13 Operational Programme for was partly to avoid some of the perceived pitfalls of the somewhat protracted planning process that had gone before. In particular, a collective desire to accommodate individual partners' priorities seems to have blunted some of the strategic focus of the 2000-06 programme. In the memorable phrase of one of our focus group participants, "*strategy was perceived as the enemy of inclusiveness*"<sup>96</sup>. Another focus group participant elaborated on that theme by alluding to the practical difficulties associated with engineering consensus by partnership:

*"The approach for the 2000-06 programme was watered down by the partnership. Planning was horrendous. It went on for months. Effectively it was a watered down approach to ensure everyone was satisfied"*<sup>97</sup>.

Much of the mobilisation to influence planning processes appears to be attributable to an institutional recognition within the Western Isles that its development challenges demand joined-up, pan-Western Isles responses. In that context, a number of our interviewees noted that the efforts of key individuals within Western Isles partner organisations have been significant in driving that agenda forward at the institutional level.

The importance for the Western Isles of engaging in pan-Highland institutional frameworks - particularly at local authority level - was also highlighted:

*"[the Council] has taken an active role in political leadership. [The Council's] politicians want to get involved and get round the table. There is a very open, pan-highland approach through the Highlands and Islands European Partnerships group. There is also the Highlands and Islands Convenors meeting. Officers are talking all the time. [There is] representation on every body you can think of"*<sup>98</sup>.

In addition to the above institutional frameworks which the Council accesses, the changed political landscape in Scotland, following devolution and the re-establishing of a Scottish

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<sup>95</sup> Public Sector Interviewee A

<sup>96</sup> Public Sector Interviewee G

<sup>97</sup> Public Sector Interviewee H

<sup>98</sup> Public Sector Interviewee J

Parliament, is cited as an important element of the ‘new politics’ within which both the current and previous structural funds programmes have been located. In turn, this is viewed as having important and potentially beneficial consequences for the Western Isles, as an interviewee observed:

*“[Post-devolution] there is a changed context for economic development. We seem to have a much closer relationship with Civil Servants and Ministers. They almost want us to get involved. It’s easier to get to them. Previously there was a hierarchical structure, but not so much now. ....There is a level of engagement there that’s ours to cultivate. That’s down to what approach we take ourselves. We want to develop these networks and relationships”<sup>99</sup>.*

### 6.3 Programme Implementation in Practice

The evolving nature of ERDF programme implementation during successive funding periods also needs to be considered within the context of a domestic regional development policy context which has been shaped by a number of important factors. These include the emergence of new implementation structures in the form of Community Planning Partnerships (discussed earlier in this report), a reconfiguring of Highlands & Islands Enterprise’s role and resources in carrying out its functions, and the impact of the financial crisis and subsequent recession on public sector funding in the region. We turn now to consideration of these issues through the lens of stakeholders’ experience in the Western Isles.

#### ***Community Planning Partnerships***

The introduction by the Scottish Government of Community Planning Partnerships (CPP) in 2007, together with Single Outcome Agreements, as the main mechanism for co-ordinating development policy at the sub-regional level has opened up a channel of engagement between the 2007-13 programme and NUTS3 regions. This is formally recognised in the setting aside of ERDF within the programme for allocation to projects emerging from individual CPPs’ applications. CPP has therefore been significant in terms of recasting the local co-ordination of development policy in the Western Isles, as was commented upon by a number of participants in our study. For example:

*“Now priorities are laid down for partners by Government strategy. Community planning and the Single Outcome Agreement are the main elements of the planning process. There is an area plan and priorities across a range of sectors in the area. So [community planning is] a mechanism for linking all sectoral strategies”<sup>100</sup>.*

The emphasis that is placed upon CPPs as co-ordinating mechanisms is interesting given what a number of our interviewees described as a refocusing and narrowing of priorities for particular public agencies as a result of the Scottish Government’s pursuit of its overarching policy objective of sustainable economic growth. One interviewee described the situation as follows:

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<sup>99</sup> Public Sector Interviewee J

<sup>100</sup> Public Sector Interviewee L

*“Each public sector agency’s remit is more tightly defined so there is less cross-over with other agencies.... Now there is Business Gateway and Skills Development Scotland. There are tighter priorities so less opportunity for joint projects. Highlands & Islands Enterprise partners the Council on many projects. For example, Stòras Uibhist’s ‘port of entry’ project. There are projects, but not from super-strategy. CPP and Single Outcome Agreements do define collective aspirations, but are not connected to the practical projects level.”<sup>101</sup>.*

The perception that the CPP provides a general direction of travel, as opposed to tangible projects, seems at odds with the introduction of a funding stream through the current ERDF programme precisely devoted to supporting projects emerging through the CPP planning structure. Nevertheless, the general observation concerning a clear delineation of public sector priorities is an important one in terms of its implications for cross-agency working. Indeed, clear demarcation lines, mostly driven by the Scottish Government, were highlighted during the field research for this report. Most of the large scale transport infrastructure projects are implemented by the Scottish Government and local authorities. In contrast, Information and Communications Technology infrastructure remains very much a partnership approach in which Highlands & Islands Enterprise takes a leading role. Business Gateway and the local authorities lead on business start-ups, whilst business development is mostly a Highlands & Islands Enterprise field of interest. Meanwhile, agriculture and fisheries are essentially Scottish Government-run sectoral policies. Community development/social inclusion policies are mainly the preserve of the voluntary sector with local authorities acting as the main training providers in this area<sup>102</sup>.

### ***Strategic Delivery Bodies***

As previously discussed in this report, Highlands & Islands Enterprise has historically had a very close relationship with successive structural funds programmes in the region, given its role as the Government’s economic development agency for the Highlands and Islands. However, concerns were raised during our field work for this study that reductions in the agency’s budget in recent years had curbed its effectiveness as an agency attuned to local (i.e. sub-regional) development needs. One interviewee stated:

*“Highlands & Islands Enterprise’s role is significant. You can’t expect to reduce Highlands & Islands Enterprise’s funding and not have an impact. Highlands & Islands Enterprise is really now an arm of Government when, before, it used to have a distinctive identity. Highlands & Islands Enterprise has been contracted into an arm of Government and left work for Local Authorities to pick up. Their changing role has a significant impact”<sup>103</sup>.*

The perceived loss of local identity on Highlands & Islands Enterprise’s part and its attribution to a centralising agenda driven by the Scottish Government is interesting insofar as it illuminates the shifting policy currents of regional development in the Highlands and Islands and the position which ERDF now occupies within that context. Viewed from this ‘centralising’ vantage point, the decision by the Scottish Government to establish

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<sup>101</sup> Public Sector Interviewee K

<sup>102</sup> Public Sector Interviewee A

<sup>103</sup> Public Sector Interviewee J

Highlands & Islands Enterprise as a Strategic Delivery Body is in keeping with efforts to ensure that a significant allocation of ERDF funding in the current programme is used to maximum effect to add value in pursuit of the Government's overall objective of sustainable economic growth. However, as the preceding quote indicates, not all stakeholders whom we interviewed in the Western Isles are necessarily convinced that Highlands & Islands Enterprise has the capacity to deliver as effectively on that agenda as was previously the case.

What does seem clear is that conferring Strategic Development Body status upon Highlands & Islands Enterprise has been beneficial in terms of its access to, and management of, ERDF funding in the current programming period. As one of our interviewees explained:

*“Having Highlands & Islands Enterprise as a Strategic Delivery Body is an excellent move. [Highlands & Islands Enterprise] can put a single application for European funding and have an award made on the basis of our local plan. [The organisation] has the discretion to deliver at [its own] hand. Block approvals to accredited public bodies are good as there are repeat applications. You know where you stand, so you can plan ahead regarding cash flow. You have time to discuss match finding with partners with the knowledge that ERDF funding is there. It’s a faster process for implementing projects”<sup>104</sup>.*

Similar benefits were also identified for the University of Highlands and Islands (UHI) in its role as a Strategic Delivery Body:

*“The 2007-13 programme has seen UHI given Strategic Development Body status. This gives a guaranteed % for ERDF and ESF for carefully agreed UHI areas of operation. As there are no competitor universities in the region Strategic Development Body does not confer an unfair advantage. UHI did a network plan and bid. There are two phases (Phase 1 – 2007-2010). [It is] now into Phase 2. Most money was spent in Phase 1. The plan is built around several themes (e.g. research capacity, more teaching facilities, IT infrastructure, new course materials (ESF), learner and Learning Centre Support etc). All the usual eligibility checks are applied”<sup>105</sup>.*

### ***Some residual implementation barriers***

For both Highlands & Islands Enterprise and UHI, the current programme's strategic shift in emphasis to directly support and add value to their core areas of activity appears to be working well on the whole. Yet there remain residual barriers which make it problematic for other organisations to engage in the current programme to their optimum level. For example, despite the growing importance of the voluntary sector and social enterprises in both partnership arrangements and policy implementation<sup>106</sup>, it is harder for what another interviewee called ‘the community sector’ to engage “because the programme structure is better designed for agencies which have time, resources and match funding to work through the process and deliver”<sup>107</sup>. Interestingly, both this interviewee and another study participant pointed to the significance of Leader funding at the sub-regional level, suggesting that it was more

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<sup>104</sup> Public Sector Interviewee L

<sup>105</sup> Public Sector Interviewee D

<sup>106</sup> Public Sector Interviewee A

<sup>107</sup> Third Sector Interviewee A

connected to the needs of individual communities than the much larger-scale mainstream ERDF programmes in the Highlands and Islands:

*“The Leader initiative has been very beneficial for the Western Isles. It is now more bureaucratic, but Leader allowed for local innovation and local decision-making. Projects may be seen as risky but they delivered results. Now it is going the same way as other programmes. Now it is less innovative, and there is a more substantial administrative burden. There is a significant budgetary cost. But that’s the price you pay for the funding”<sup>108</sup>.*

Various other issues are also viewed as barriers to successful engagement in the ERDF programmes. One increasingly significant issue in a time of economic austerity for the public sector relates to the difficulty in securing matched funding to go along with ERDF allocations. The timing of the programme can also be problematic, both in terms of the planning process (particularly in relation to the 2000-06 programme) and aspects of programme implementation. As one interviewee noted, *“The timing of the programme is a constraint. There is a lag element, so you can be 2 years in and the programme starts. Then there is a rush to get approvals towards end of programmes”<sup>109</sup>.*

The pressure to absorb funds which had been committed as the HIPP sought to ensure that its spending commitments were met in line with European Commission requirements was also mentioned by another interviewee.

Inevitably too, there are some reservations as to the bureaucracy associated with the ERDF programme and the appropriateness (or otherwise) of measurement indicators. As one interviewee stated:

*“If we hadn’t had that history of Structural Funds, there is a lot that wouldn’t have been achieved. What’s missing is that impact can only be measured properly some time down the line. I suspect that the impacts have not been analysed in the longer term”<sup>110</sup>.*

This is relatively well-trodden ground within the context of structural funds programmes across the EU and problems of performance measurement were captured in the mid-term evaluation update for the 2000-06 ERDF programme in the Highlands and Islands, which stated:

*“Stakeholder views on programme performance reflect less the progress of the programme with respect to its targets than a frustration with the system for measuring performance. Numerous comments were made about the inappropriateness of some indicators to particular measures, difficulties in aggregation across the programme as a whole, the timespan for suitable results and impacts to become manifest under some measures, the lack of proper account of ‘softer’ impacts (notably with respect to employability support) and the value of more qualitative, case-study approaches to assessment” (Scottish Executive, 2005).*

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<sup>108</sup> Public Sector Interviewee M

<sup>109</sup> Ibid.

<sup>110</sup> Third Sector Interviewee A

## 7. Conclusions

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Below are a summary of the main points that emerge from the Western Isles case study:

### 1) Geographical context

- *A combination of challenges.* Islandness, sparse population, peripherality, the linear ‘strung-out’ configuration of islands and the dispersed settlement pattern combine to challenge policy makers. Mountainous areas are, however, rare on the islands ;
- *All is not as it seems.* The Western Isles are long chain of over 100 inhabited and uninhabited islands. However, only 13 are inhabited, and have been linked most by bridges and causeways. It is therefore now, de facto, an archipelago of only three inhabited islands;
- *An unfortunate ‘accident of geography’.* Off-island geography is as important as on-island geography. The Western Isles are in the unfortunate position of facing a western coast of Scotland devoid of large towns and sparsely populated. From the small ferry terminal ports serving the islands to the region’s ‘capital’ (Inverness) it is a long drive through highly mountainous terrain;
- *A textbook case?* The Western Isles are a classic case of a small island response to geography. Exports are dominated by small number of niche market industries, all tailored to meet the challenges of geography;
- *Resource curse or cause for celebration?* The Western Isles lack fossil fuels, timber or valuable mineral deposits. However, in fishing and fish farming they have been able to exploit a local resource to excellent effect. The main catch, shellfish, is yet another classic island niche – high value and low transport cost;
- *Exploiting natural and cultural assets.* The various tourism and cultural & creative industry niche sectors on the islands exploit a rich landscape, historical and cultural (especially Gaelic) heritage. In its world-famous Harris Tweed textile industry the islands have exhibited yet another classic small island response to the challenges of geography – moving up the value added chain to produce a low weight, high value product;
- *Good but not good enough.* At EUR 22 500 per capita in 2007, GDP per capita would be the envy of many an EU Objective 1 region. However, the islands are running a large balance of payments deficit, labour market performance is weak, new firm formation rates are relatively low, and the loss of young people through out-migration is posing serious demographic challenges in the form of a falling and ageing population;
- *Not enough niches.* The islands have a number of highly successful niche sectors. These are, however, self-evidently insufficient to sustain full employment. The gap has had to be partially filled by public sector jobs, the biggest single job creating sector on the islands;
- *Great quality of life, but at a cost.* The islands score highly on almost all quality of life indicators and housing costs are relatively low. Costs of food, drink, fuel and a host of other consumer products are, however, higher than the mainland and public services are costly to deliver;

- *Demographic time bomb.* The islands face a most severe challenge from a falling and ageing population. In-migration flows have helped to offset this, but are not large enough to solve the problem.

## 2) Policy responses

- *Three main geographical challenges.* Of the various geographical characteristics, policy strategy has focused on three: peripherality (remoteness), islandness and the sparse, scattered population. These give rise to higher costs for both producers and consumers. Being mountainous is not seen as a major challenge;
- *Natural and cultural assets.* While geography is still seen largely as a problem, natural and cultural endowments are seen as critical assets for the future. For the Highlands and Islands region as a whole the key assets are the landscape and cultural heritage, the green environment, oil & gas, fish stocks and extensive areas of forest. The Western Isles lack forestry and oil & gas, but share the strategic focus on natural and cultural assets;
- *Fragile areas.* Peripherality, islandness and the scattered population have given rise to the concept of ‘fragile communities’, and ‘fragile areas’ as targets of particular policy help has emerged;
- *Highlands & Islands Enterprise synergy.* A striking feature of the region is the unusually close alignment of the ERDF strategy with that of the dominant regional-level enterprise agency, Highlands & Islands Enterprise;
- *National distinctiveness.* Scottish national Government policies continue to have a profound impact, and for sheer size dwarf the Structural Funds programmes.

## 3) Relevance of ERDF Programmes

- *General overall programme relevance.* The 2000-06 and 2007-13 ERDF programmes reflect wider geographical issues and focus on a wider range of key sectors than is relevant for the Western Isles. However, the programmes have been sufficiently flexible to allow the Western Isles to obtain funding more relevant to their own needs;
- *A maturing policy.* Policy has come a long way since the 1994-99 Objective 1 programme. As ERDF funding has fallen, the focus has switched from ‘hard’ infrastructure projects to more mature ‘softer’ business, enterprise and innovation policies, together with community and social enterprise encouragement. The region is ahead of most other EU mountain, island and SPA regions in this respect;
- *From reactive to pro-active policies.* Much of the policy is still ‘reactive’ to the challenges of geography. However, some movement to a more pro-active stance can be seen in the switch to ‘gap filling’ infrastructure policies and support for newer key sectors. Some of these, such as renewable energy and cultural and activity tourism, seek to build directly on geographical and natural assets. Others such as life sciences and biotechnology are less rooted in the geography;

- *A focus on within-islands accessibility and scattered communities.* Analysis of Western Isles 2007-13 projects approved to date shows that most were focused on two geographical characteristics – within-islands accessibility and help for small, scattered communities;
- *Still strongly reactive.* Analysis of Western Isles 2007-13 projects approved to date shows that around half of the Western Isles projects are reactive to the geographical challenges, but are reactive in a ‘second round’ sense of seeking to build on earlier programme big reactive projects (especially the Spinal Route);
- *Proactive to natural and cultural assets.* Our analysis of Western Isles projects approved to date shows that around half the projects are proactive, but none are proactive in the sense of making geography a ‘positive’. Rather, they seek to exploit the natural and cultural assets of the islands. There is a distinct focus on newer forms of tourism, with few renewable energy projects yet;
- *A Highlands and Islands consensus?* Our analysis of all Highlands and Islands ERDF projects approved to date shows strong similarities between what is happening on the islands and the wider Highlands and Islands programme. The focus of approved projects to date is very much on within-NUTS3 region accessibility and sparse population (scattered communities). Rather fewer Highlands and Islands projects seek to build on a previous reactive project, and rather more are targeting renewable energy. However, the Highlands and Islands projects are similar to those of the Western Isles in seeking to develop new forms of tourism building on the natural and cultural assets of the region.

#### 4) Effectiveness of ERDF Programmes

- *Successful programmes.* Previous evaluations of ERDF record success in attaining goals and improved administrative and partnership capacity over successive programmes. Of particular importance for the Western Isles is the finding that successive programmes have succeeded in directing more funds per capita to remoter and island sub-regions. The continued serious economic problems in the Western Isles do, however, suggest only slow progress towards greater development;
- *Rapidly falling commitments.* The effectiveness of ERDF interventions must be set against the backdrop of a rapidly falling ERDF allocation between 2000-06 and 2007-13. The current programme remains important in the region but is now equivalent to only around 2% of all public funding;
- *Successful progress in 2007-13.* The current programme is very much on target in allocating funds to projects and attaining its key monitoring targets. The only issue of concern to date has been under-allocation to Priority 1 (business and competitiveness) and ‘absorption’ problems with Priority 3 (communities and fragile areas), resulting in a need for virement and a loss in terms of effectiveness. However, this ‘absorption’ issue does not affect relevancy since the notion of fragile areas is a step towards a better consideration of the geographical features;
- *Community Planning Partnerships (CPP).* A recent Scottish Government evaluation has been rather critical of the strategic coherence of CPPs in the Highlands and Islands region. Our own analysis, however, suggests that the OHCPP has developed a strategic approach which is in tune with wider thinking on economic development strategy for small island economies.

## 5) Implementation and Governance

- *From differentiated implementation to a mixed model approach.* The 2007-13 ERDF programme has moved from a differentiated, competitive challenge fund delivery model to a mixed model approach. This transition has mainly been driven from the centre by the Scottish Government and is linked to funding, partnership and planning issues associated with the new programme;
- *Formal recognition of the significance of Highlands & Islands Enterprise and UHI in delivering on strategic priorities.* The conferring of Strategic Delivery Body status upon both Highlands & Islands Enterprise and UHI recognises their significance in delivering on key strategic priorities for the region in the current funding period. In Highlands & Islands Enterprise's case, it makes explicit a previously implicit relationship with ERDF programmes in the region and has enhanced the agency's flexibility in the administration of its ERDF allocations;
- *The role of Community Planning Partnerships as a driver for local policy cohesion.* The introduction of Community Planning Partnerships at the sub-regional level has supplanted previous mechanisms for coordinating development policy at that level. It is an important mechanism for allocating ERDF on a non-competitive basis, although it is too early to arrive at definitive conclusions as to CPP's impact in that regard within the Western Isles;
- *The influence of national policy priorities and a re-configuring of public agency roles.* The Scottish Government's overarching strategic policy objective of sustainable economic growth has led to more focused roles for public agencies in support of that objective. There is concern amongst some Western Isles stakeholders that Highlands & Islands Enterprise's local identity in the area has been eroded as a result of budgetary reductions and a perceived centralisation of its functions;
- *Match funding, programme bureaucracy and timing issues.* At a time of increasing fiscal stringency in the public sector, the challenge of securing match funding is proving ever more challenging. This is one factor which is contributing to difficulties in the Western Isles as regards absorption rates for ERDF funding. Programme bureaucracy and timing issues also present barriers to full engagement by some partner organisations in the implementation process.

## 8. Mini-case study

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### **Project Title: The Harris Tweed Investment Fund**

**Key words:** *Harris Tweed; Textiles; Partnership; Seasonality; Workforce Retention; Western Isles, United Kingdom*

### **Synthesis**

Harris Tweed is a premium, iconic brand which is globally recognised as a unique fabric produced in Western Isles. However, the industry faced a number of serious challenges which threatened the continued viability of production in the region, including the highly seasonal nature, exacerbated by a reduction in tweed production prior to 2009 as the industry underwent significant restructuring. Thus, in an attempt to support the sector, the Harris Tweed Investment Fund (HTIF) was established by the Scottish Government and Comhairle nan Eilean Siar (The Western Isles Council) in conjunction with the Harris Tweed Industry, partly supported by ERDF. This is a revolving loan fund designed precisely to address issues of seasonality and workforce retention in the Harris Tweed industry in the Western Isles of Scotland. In particular, the aim of the Investment Fund was to help retain highly skilled weavers and mill production staff in the industry as it restructured and repositioned itself prior to an anticipated increase in production from 2009 onwards.

The project was launched in January 2009 and is implemented on a partnership basis by **Comhairle nan Eilean Siar** (the organisation responsible for local government in the Western Isles), the **Harris Tweed Authority** (responsible for regulating and promoting the Harris Tweed industry), the **Association of Harris Tweed Weavers** (a representative organisation for the weaver workforce) and **Highlands and Islands Enterprise** (the Scottish Government's economic development agency for the region).

The Investment Fund's key activities involve the provision of capital to the Harris Tweed Mills to finance production of a fixed volume of the most popular tweed patterns during the off-peak production season. The main beneficiaries of the project are the Harris Tweed weavers who produce the Tweeds, as they are assured of employment during the 'off-peak' period of the production cycle. Other beneficiaries include the Harris Tweed mills, which can retain their production staff during this period as a result of support from the Investment Fund.

To date, the Investment Fund has resulted in 3 rounds of funding to the Harris Tweed sector and this has substantially increased Tweed production in the off-peak period and provided additional employment for a substantial number of the weaver workforce in this period. In addition, it has enabled mills to retain production staff during the off-peak period. The Investment Fund continues to operate and has been expanded in terms of the financial resources available to it as a result of the Fund's successful implementation to date. Comhairle nan Eilean Siar is considering whether to adopt the concept to other economic sectors within the region.

## Background information

**Member State:** United Kingdom

**Region:** Western Isles of Scotland

**ERDF Programme/Objective:** Highlands and Islands/Convergence

**ERDF Programming period:** 2007-13

**Funding:** Total ERDF – EUR 110 000/Regional – EUR 166 000.

### 1) Project Description

Harris Tweed is a premium, iconic brand which is globally recognised as a unique fabric. It is the world's only commercially produced hand-woven tweed and has been produced in the Western Isles of Scotland (predominantly on the islands of Harris and Lewis) for centuries, using traditional, non-mechanised processes. The Harris Tweed industry operates within a unique regulatory framework designed to ensure that all of the cloth produced as 'Harris Tweed' complies with a legal definition confirming its authenticity, as stipulated in the Harris Tweed Act 1993. This legislation defines Harris Tweed as that which:

*“has been handwoven by the islanders at their homes in the Outer Hebrides, finished in the Outer Hebrides, and made from pure virgin wool dyed and spun in the Outer Hebrides”.*

The highly seasonal nature of the Harris Tweed industry, exacerbated by a reduction in tweed production prior to 2009 as the industry underwent significant restructuring, resulted in the establishment of a Harris Tweed Investment Fund (HTIF) by the Scottish Government and Comhairle nan Eilean Siar (The Western Isles Council) in conjunction with the Harris Tweed Industry, partly supported by ERDF. The aim of the Investment Fund was to help retain highly skilled weavers and mill production staff in the industry as it restructured and repositioned itself prior to an anticipated increase in production from 2009 onwards.

The specific objectives of the project were as follows:

- To support the Harris Tweed industry to become increasingly market-led and responsive to market demand;
- To enable the mills to maintain production on a year-round basis and thereby reduce the problems associated with extreme seasonality, such as workforce retention and the attractiveness of the industry as a career option;
- To ensure access to tweeds to support small business producers and design houses to reduce the effects of the current downturn in production;
- To establish a scheme which will achieve these objectives without distorting the market or adding to the risk of over-supply.

The Harris Tweed Investment Fund's activities involve financing the production of a fixed volume of the most popular tweed patterns during the off-peak production season. All mills may apply to the Fund on an annual basis by a stipulated deadline. Mills must specify the following information in their applications:

- Type of tweeds to be produced (pattern, colour, volume, no of beams, etc.);
- Production timescale;
- Cost of order.

The HTIF pays 66% of the cost of the Tweed and participating mills are required to finance the remaining 34% of the cost of production. The operation of the HTIF is similar to that of a revolving loan fund in that mills must repay the investment from the HTIF upon sale of the tweeds, or by a specified date and in advance of any further funding round. Interest is charged on the investment in accordance with the European Reference Rate to ensure compliance with State Aid rules.

The main beneficiaries from the Investment Fund include:

- The two Harris Tweed mills which have sought investment through the Fund (Harris Tweed Hebrides and Harris Tweed Textiles);
- Approximately 100 of the total Harris Tweed workforce of 130 weavers who have had 'off-season' employment as a result of the HTIF being implemented.

The main results of the project have been the production of Harris Tweed by the mills during the 'off-season', thereby maintaining weaver and mill employment within the industry on a year-long basis during the production cycle.

No formal evaluation of the HTIF has yet been undertaken. However, the project has had an impact in helping the Mills to enhance their responsiveness to customer demand through the increase in production. It has also helped to retain the number of highly skilled weavers within the industry as a result of the 'off-season' weaving opportunities stimulated by the fund.

## 2) Political and Strategic Context

In line with textile manufacturing across the EU, output of Harris Tweed had been in decline over a number of years prior to 2009. A period of structural realignment within the Harris Tweed industry (changes in mill ownership, investment in new production facilities etc.) made it important to safeguard production capacity in the weaver population in advance of an anticipated upsurge in demand for tweed following this realignment.

Nationally, the future sustainability of the Harris Tweed industry is inextricably linked to Scottish textile industry's role as a driver for the Scottish Government's over-arching public policy goal of sustainable economic growth. In this regard, the importance of the sector is reinforced by Harris Tweed's iconic status as a globally recognised textile brand, in which the heritage and provenance of the product are increasingly seen as major contributors to strengthening its market position.

Regionally, the location of the Harris Tweed industry in a designated fragile economic area emphasises its strategic importance to the local economy of the Western Isles of Scotland. The industry provides direct employment to 134 people, thereby making it a significant contributor to the manufacturing sector in the Western Isles. Its strategic significance is further illustrated by the fact that over 100 self-employed weavers are sustained by the

industry, with indirect employment bringing the overall figure to 175 full time jobs. Moreover, the Harris Tweed industry also brings significant benefit to the tourism, heritage and creative sectors of the region. This is reflected in its contribution of GBP 3.9 million to GVA of the Western Isles in 2009.

These national and regional factors help to explain the unusual decision of the Scottish Government to lead an application for ERDF support, in conjunction with Comhairle nan Eilean Siar.

### 3) Implementation

- 3.1 Project Design and Planning

The idea for the Harris Tweed Investment Fund came from within the industry. This reflected concerns expressed by the mills that, at a time of industry restructuring and repositioning, it was vital to ensure that the current weaver workforce could be retained during the 'off-season' and also to encourage new weavers to enter the industry. Similarly, the Investment Fund was viewed as an important mechanism for attracting production staff to the mills who would view employment within the industry as a viable and sustainable long-term career option.

The Investment Fund was designed and planned by Comhairle nan Eilean Siar and the Scottish Government in collaboration with the Harris Tweed Industry Forum. This Forum was created in 2008 and it has important co-ordination and communication functions within the industry. Its objectives include to:

- collaborate to support and develop the industry;
- realise the potential for growth;
- plan ahead towards a shared vision for the future.

The Forum is chaired by the Leader of Comhairle nan Eilean Siar and is comprised of a range of public and private stakeholders with an interest in the industry. They include:

- The Harris Tweed Authority;
- Harris Tweed Hebrides;
- Harris Tweed Textiles (Manufacturing) Ltd;
- Harris Tweed Scotland Limited;
- The Association of Harris Tweed Weavers;
- The Harris Tweed Artisans Co-operative;
- Comhairle nan Eilean Siar;
- Highlands and Islands Enterprise;
- Scottish Government;
- Scottish Enterprise National Textiles Team;
- Scottish Development International.

- 3.2 Management, Monitoring and Evaluation System

Comhairle nan Eilean Siar has overall operational responsibility for management and monitoring of the Harris Tweed Investment Fund. To date, there have been three rounds of funding (including an initial pilot phase). Mills seeking investment from the HTIF are requested to submit an application form to Comhairle nan Eilean Siar which provides details of the type, volume and cost of the Tweeds which they wish to order from the Fund.

Submitted applications are considered by a Panel consisting of representatives of Comhairle nan Eilean Siar, the Association of Harris Tweed Weavers, the Harris Tweed Authority and Highlands and Islands Enterprise.

Representatives of the mills are invited to meet with the Panel in order to discuss their applications in more detail, so as to further appraise Panel members as to their production plans. The HTIF's operation as a revolving loan fund means that the applicants are expected to reimburse the Fund within an agreed timescale in order to enable future rounds of investment to proceed.

A further condition of support through the Fund is that specific distribution targets are met to ensure that weavers located throughout the Outer Hebrides receive HTIF-supported Tweeds to weave.

Monitoring of the project is undertaken by Comhairle nan Eilean Siar which tracks the quantity and distribution of woven Tweeds using a variety of quantitative data including Tweed piece numbers, meterage totals and weaver identification numbers. In addition, the Panel and the wider Harris Tweed Industry Forum receive periodic reports from Comhairle nan Eilean detailing progress in relation to implementation of the Fund and any related issues.

- 3.3 Governance: Partnership and Leadership

The concept of partnership is deeply ingrained within the project and is reflected in the governance arrangements which are in place to oversee the Fund's management and implementation. As explained in the previous section, the Comhairle has taken a leading role in that process and this has been augmented by the partnership-based Panel which considers applications for investment and also by the Harris Tweed Industry Forum.

- 3.4 Innovative Elements and Novel Approaches to Implementation

The concept of a revolving investment fund is highly innovative for the Harris Tweed industry and it offers a clear solution to the significant challenges of seasonality in relation to workforce retention with respect to weavers and production staff within the mills. In so doing, the Fund has also helped to enhance the position of the Harris Tweed within the highly competitive textiles industry.

The participation of the Scottish Government as the applicant organisation for ERDF funding in relation to the project is innovative and novel within the context of Scottish Structural Funds programmes. The decision of the Scottish Government to engage with

the sector in this way is a clear recognition of the strategic importance of the Harris Tweed industry to the local economy and the broader Scottish economy, given its status as an iconic Scottish brand.

The fund is also innovative in terms of encouraging further partnership working and closer dialogue between different stakeholders involved in the industry. The meetings between the Fund's Assessment Panel and representatives of the mills to discuss the latter's applications for investment, are a good example of how the Fund helps to build links between different industry stakeholders.

The decision to include specific criteria relating to the geographical spread of Tweed distribution to weavers is a further innovative element of the project. This illustrates the important role of the Investment Fund as a mechanism for contributing to the sustainability of the weaver workforce population throughout Lewis and Harris in the Western Isles.

- 3.5 Key Implementation Obstacles and Problem-solving Practices

The Harris Tweed Investment Fund is viewed as having been successful in terms of meeting its stated objectives. However, a number of implementation obstacles were encountered which required to be addressed as the project evolved. These included the following:

**Under-estimation of the time-frame required to establish and implement the Investment Fund.** The process of doing so took longer than anticipated. This was initially slightly problematic given that the Fund was time-critical in terms of addressing the 'off-peak' seasonality issue of the Harris Tweed production cycle. However, that issue was subsequently addressed so as to align the implementation of the Investment Fund with the production cycle.

**A need to build consensus amongst industry stakeholders as to the need for and value of the project.** The Harris Tweed Industry Forum was an important arena for encouraging dialogue between different stakeholders so as to ensure agreement in relation to pursuing ERDF funding in support of the Investment Fund.

**Ensuring that the Investment Fund did not breach EU rules in relation to State Aids.** Legal advice was provided by the Scottish Government that the proposed project would not be in contravention of EU rules in that regard.

In addition to the above, the decision to implement the Harris Tweed Investment Fund on a pilot project basis for the first round of funding was useful in identifying implementation issues to be addressed in advance of subsequent funding rounds.

#### 4) Project Results

To date, there have been three rounds of funding through the HTIF, which have provided the following results in terms of Tweed production:

- Pilot Round – GBP 190 000 – 20 500 metres;
- 2nd Round – GBP 230 000 – 23 200 metres;
- 3rd Round – GBP 235 000 – 23 737 metres.

The Investment Fund is considered by industry stakeholders to have had a significant impact in terms of addressing the challenges of seasonality in relation to the industry, as detailed in a document prepared by Comhairle nan Eilean Siar, which states:

*“Feedback from weavers and the producers regarding the scheme itself is extremely positive, and it is believed to have had a significant impact on reducing seasonality within the industry. This is evidenced by the capacity of one of the mills to retain levels of production staff over the winter months, making the industry a far more attractive employment option and increasing levels of staff retention.*

*Customers and agents know that the mill is in production all year round. This is a vital component of market confidence. It enables development of other markets, such as in furnishings which do not have a seasonal profile or have a different seasonal profile”* (Comhairle Nan Eilean Siar, Single Outcome Agreement Case-Study, 2010).

The positive results of the support provided through the Investment Fund were also noted by Harris Tweed Hebrides, one of the mills involved the production of Harris Tweed. It stated:

*“[The Harris Tweed Investment Fund] made a significant difference to extending the season, particularly for the weavers...this stock enabled sales of over GBP 400 000 to be achieved in 2011 which would otherwise have been lost, due to capacity constraints in the weaving pool, leaving customers who might have been lost to Harris Tweed forever...We have been successful in raising the market price of Harris Tweed, and the £10 per metre which the Fund contributes to the financing of stock is typically no more than 50% of the current selling price. We are therefore, quite properly, increasing our share of the financing each year”* (quoted in Comhairle nan Eilean Siar, Evaluation of Round 3 of HTIF allocations, 2011).

## 5) Sustainability and Transferability

- 5.1 Sustainability

The Harris Tweed Investment Fund is sustainable insofar as there is funding available to ensure its continuing operation. To date, that has been the case. Indeed, such has been its success as a revolving investment fund that there is now more money available to invest in Tweed production in the ‘off-peak’ season than was the case when the Fund was launched in January 2009. In turn, that reflects the customer demand for Tweed which the mills have been able to meet as a result of weaver and production staff workforce retention. Consequently, the Fund has played an important role in counteracting the adverse effects of seasonality on the industry by building stock and enabling the mills to respond to customer demand more quickly and flexibly than was previously possible.

- 5.2 Transferability

There is considerable scope for transferability of the innovative principles of the project to different contexts. For example, it may be possible to adopt such an approach for other areas of the textile industry in the UK and in other EU regions. Comhairle nan Eilean Siar is considering whether it may be possible to use a similar model to provide support to other key sectors within the local economy (for example in relation to fisheries) within the Western Isles.

Important aspects in determining the degree of transferability of the Harris Tweed Investment Fund concept to other contexts will include:

- The extent of support provided by national and local stakeholder organisations;
- The degree of flexibility available to manage and implement such a concept in practice;
- Demand from within the relevant economic sectors;
- Availability of sufficient finances to establish the project.

### Conclusions: Key Success Factors and Lessons Learned

The following are a number of key factors in determining the success of the Harris Tweed Investment Fund.

- The project was **demand-driven** from within the Harris Tweed Industry itself, after a clear need to address the negative impacts of seasonality upon weaver and production workforce was identified.
- There was a **strong partnership approach** evident in relation to developing the project and managing its implementation in practice. This was evident in terms of *vertical* partnership linkages between the Scottish Government and Comhairle nan Eilean Siar when developing the ERDF application for funding. It was also evident in terms of *horizontal* partnership linkages between Comhairle nan Eilean Siar, the Harris Tweed Authority, Harris Tweed Mills, Weavers Associations, and Government development agencies.
- **High level political support** from the Scottish Government was important in reinforcing the strategic significance of the project to the Harris Tweed industry in particular and the wider economy of the Western Isles in general.

Lessons learned as a result of the project include the following:

- It was important not to underestimate the time it would take to establish the project and proceed to its implementation phase.
- Conducting the project on a pilot basis was significant in ensuring that identifying issues to be rectified prior to full implementation.

- A simplified approach to the administration of the Investment Fund has helped to ensure its effective and efficient implementation, whilst upholding standards of good governance.

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## **Annex 1: Stakeholders consulted**

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Representatives of a number of public, private and third sector organisations were interviewed or participated in a focus group in the course of collecting primary data during the fieldwork phase of this case-study report. These participants are listed below. The symbol \* after individuals' names denotes that they were focus group participants (in alphabetical order).

Some interviewees (referred with letters in the document such as for instance *Public sector interviewee C* or *Private industry interviewee B*) wanted to stay anonymous

- Stuart Black, Director of Planning and Development, The Highland Council
- Angus Campbell, Council Leader, Comhairle nan Eilean Siar
- Rob Clarke, Head of Policy, Highlands and Islands Enterprise \*
- Ian Fordham, Chairman, Outer Hebrides Tourism Industry Association
- Frank Gaskell, Rural Analysis Associates \*
- Lorna Gregson-Macleod, Assistant Chief Executive, Highlands and Islands (Scotland) Structural Funds Partnership Ltd
- Lorna Macaulay, Chief Executive, Harris Tweed Authority
- Archie Macdonald, Area Manager, Highlands and Islands Enterprise Innse Gall
- Duncan Macinnes, Western Isles Fisheries Association
- Jane Maciver, Chief Executive Officer, Stornoway Port Authority
- Iain MacIver, Stornoway Trust
- Murdo Mackay, Development Manager, Comhairle nan Eilean Siar
- Joe Macphee, Head of Economic Development, Comhairle nan Eilean Siar
- Dennis Malone, Chief Executive Officer, Highlands and Islands (Scotland) Structural Funds Partnership Ltd \*
- Jim Millard, European Structural Funds Division, Scottish Government \*

- Donnie Morrison, Senior Development Manager, Highlands and Islands Enterprise Innse Gall
- Alasdair Nicholson, Chief Executive, Third Sector Hebrides
- Alastair Nicholson, Head of Planning and Partnerships, Highlands and Islands Enterprise
- Linda Stewart, Head of European Development, University of the Highlands and Islands \*

## **Annex 2: A pilot cluster analysis of 54 Scottish Island Groups, 2001**

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The General Register Office for Scotland have produced data for an array of 2001 Population Census variables for 54 separate inhabited islands and 'island groups'. The latter are small groupings of islands designed to aggregate nearby islands to protect confidentiality (i.e. to avoid individual persons or families being identifiable in the data) and to avoid 'small numbers' issues with data released. The data are therefore deliberately truncated to add in the very smallest islands with nearby larger neighbours. In practice this is not a severe problem as only the very smallest islands indeed are treated in this way and the vast majority of islands are separately identified.

Cluster analysis is a group of statistical methods which are designed to seek to separate 'cases' (the 54 islands in this study) into as homogeneous separate clusters as possible. By 'homogeneous' is meant similarity across the various 'cluster variables' brought to bear. Clusters of islands are separated out in a manner which ensures maximum within-cluster similarity and minimum across-cluster similarity. The results presented below utilise the most commonly used cluster analysis technique called Ward's method. This uses a measure of statistical 'distance' between islands and clusters called squared Euclidean distance. For fuller details of the cluster method and distance measures see Everitt, 1993. Ward's method is an agglomerative hierarchical technique, by which is meant that a cluster algorithm is used which begins with all 54 islands as separate clusters (with one member – or 'case' – in each). The algorithm then selects the two islands most similar (across all the cluster variables) and combines them, leaving now 53 clusters, 52 of which contain one island and one which contains two islands. The algorithm then proceeds to continue the process of successive clustering until eventually only a single cluster containing all 54 islands is left. A bottom-up/top-down method (agglomeration) is therefore used. The results are typically portrayed as a 'dendogram'. The dendogram from our cluster analysis is presented in Figure A1. The clustering process begins at the bottom of the graph – note that North Uist and South Uist were the first two islands grouped together. It then proceeds vertically up the graph until the top where a single cluster can be observed.

There is no 'right' way to select the best *number* of cluster to analyse. One can cut Figure A1 horizontally at any point of interest. A working rule-of-thumb is to select clusters for analysis so that they are as homogenous internally as possible. The length of each vertical line on the graph indicates how statistically 'different' successive clusters are from each other – the longer the line the better. Interestingly, and rather typically for this kind of analysis, a two-cluster solution looks 'best'. Unfortunately, choosing this would lead us to lose a lot of the detail of interest since so many islands would fall into each group. A six-cluster solution has therefore been chosen for analysis (the different coloured lines on Figure A1). This represents a compromise between wishing to examine smaller, more interesting sub-clusters and a desire to maximise homogeneity within each cluster.

The cluster analysis used to produce Figure A1 draws on Population Census variables which the literature review set out in the *First Intermediate Report* indicates may be important. These are demographic variables (e.g. population size of each island, net migration rates etc), together with a whole series of labour market characteristics (since economic characteristics are the focus of the study). In addition to these, a number of variables designed to measure selected geographical characteristics have also been included. These comprise are (in squared kilometres), whether an island is mountainous or not, and population density (to pick up sparseness of population). In addition, various measures of accessibility and remoteness have also been included since the literature review suggests these may be important for islands such as the Western Isles. Accessibility measures are 1/0 (or 'dummy') measures. 'Airmld' has a value of 1 if an island has a direct regular scheduled air service to a mainland airport (usually Glasgow, Inverness or Edinburgh), and zero otherwise. 'Seamld' takes a value of 1 if there is a direct, regular scheduled ferry service from the island to a mainland port. Finally, as measures of remoteness from key markets, in the absence of fully developed accessibility indexes as are available at NUTS3 level, simpler great circle distance (in kilometres) between island main settlements and Inverness, Glasgow (Scotland's largest city) and Brussels have been developed. The full list of variables is set out in Table A2.

As Figure A1 clearly shows, the islands fall neatly into six discrete clusters. These are surprisingly clear for a cluster analysis, suggesting rather distinctive groups of islands have indeed separated out and been identified. Table A1 shows how it is possible to analyse the nature of each of the six clusters. The columns of Table A1 represent each of the six clusters (with the colour as indicated on the dendrogram also listed). The rows of Table A1 represent each of the cluster variables used (for full definitions of the cluster variables see Annex 1). In order to facilitate understanding, the final column of Table A1 gives the average value for each cluster variable for all 54 islands taken as a whole. Within each cell of the table, where a particular cluster's average value *exceeds* that for all islands taken as a whole, the cell is shaded. For example, the average are for the seven islands in cluster 2 is 528 km<sup>2</sup>, in excess of the 54 island average of 188.8 persons per square km and hence the cell is shaded.

Looking down the columns in Table A1, three clusters stand out as having generally 'good' labour market characteristics (e.g. high employment rates, activity rates, working age populations, proportions in full-time and part-time work, and low unemployment rates). These are clusters 3, 5 and 6, with three, three and twelve islands respectively. Taking each in turn:

*Cluster 3 (Blue).* This comprises only three islands: Colonsay, Iona and Easdale. These are small (19.3 km<sup>2</sup> on average and with tiny populations (99 persons on average). All three are amongst the islands close in to the western mainland and among the least remote of the islands, although with very poor direct transport links to the mainland. They have an almost complete array of 'good' labour market characteristics – high employment and activity, for both males and females, and low unemployment rates. A clue to what sets this little cluster of so distinctively lies in the percentage of economically active persons in the hotel and restaurant sector. These are small, mostly inshore islands which for one reason or another have developed highly successful tourism industries. Iona is, of course, world

famous for its monastery and historical legacy. Easdale is a small island lying just off Seil, itself connected to the Scottish mainland by a bridge. It has developed a small, but highly successful tourism industry around its industrial slate mining heritage and other events (e.g. music, world stone skipping championship). Colonsay is the third of these highly successful small tourist islands. It has exploited its varied scenery and excellent beaches by setting up a network of holiday cottages, mostly through the Colonsay Estate. We have therefore labelled this small group as *Successful, specialist inshore tourist islands*.

*Cluster 5 (Mauve)*. This cluster also comprises only three islands. Once again this is a group with an array of 'good' labour market characteristics, being weak only in having low female self-employment rates, some out-migration and slightly higher than average long-term unemployment. The islands are very big (in both areas and populations). They are remoter than most islands, but have excellent direct sea and air access to the Scottish mainland. The membership of this distinctive cluster gives the game away – Mainland Orkney, Mainland Shetland and Lewis & Harris in the Western Isles. These are the islands containing the main towns of the three archipelagos and this explains both their relative success and their over-representation above all of public sector jobs (28.5% on average in public administration) and in manufacturing. We have termed this the *Archipelago main islands* cluster.

*Cluster 6 (Purple)* is a much larger cluster of 12 islands. No fewer than 11 of the 12 islands are Shetland islands. It is interesting that the cluster analysis has separated out these smaller Shetland islands as a distinctive cluster even though no archipelago variables or Shetland 'dummy' variables were included in the analysis. They are relatively remote islands and with poor direct air and sea links to the mainland of Scotland. Nevertheless, the labour market characteristics are generally 'good', apart from low self-employment rates. Unemployment rates are particularly low. These smaller Shetland islands have disproportionately large numbers working in fishing and manufacturing. This cluster shows that even the smallest, most remote and poorly connected of islands can succeed if the resource base is rich enough – Shetland has its oil as well as its fish and the cluster analysis has picked this out clearly. We have termed this the *Shetland oil and fish cluster*.

*Cluster 2 (Green)* is another of the small, but highly distinctive clusters, comprising only seven islands (Arran, Jura, Mull, Skye, Raasay, Coll and Eigg). These are mostly big, mountainous islands lying much closer to the Scottish mainland than Orkney, Shetland and the Western Isles. The hotels and restaurant sector is over-represented suggesting strong tourism industries (although not as dominant as cluster 3 islands). Agriculture is also important, though slightly under-represented overall (but with 9% in agriculture well above Scottish and UK averages). The labour market characteristics are mixed, but actually typical of tourism and farming areas – high rates of self-employment (both male and female) and high activity rates, but also with rather high unemployment rates typical of rather undiversified economies. We have termed this cluster the *Large, inshore tourism and farming islands*. Their attractions are enhanced by their mountainous terrain and their relative closeness to Inverness and Glasgow and excellent sea ferry links to the mainland.

*Cluster 1 (Yellow)* is a fairly large group of 10 islands. These are classic agriculturally-dependent islands. They are very small (43.4 square km on average and 278 persons), very poorly connected by air or sea to the mainland and rather remote from Glasgow. Above all,

they are highly dependent on agriculture (28.1% of economically active employees on average). They have generally 'poor' labour market and demographic characteristics – net out-migration, little tourism, low female employment and activity rates (but high male activity and employment rates, almost certainly in agriculture itself) and high unemployment. Only high self-employment rates are 'good', and these too are what one would expect in agriculturally-dependent islands. Interestingly, nine of the 10 are smaller Orkney islands (the other is Lismore), reflecting the fact that the Orkney Islands have some of the best farmland of all Scottish islands, but little in the way of oil or fish. We have termed these *Small, less accessible agricultural islands*.

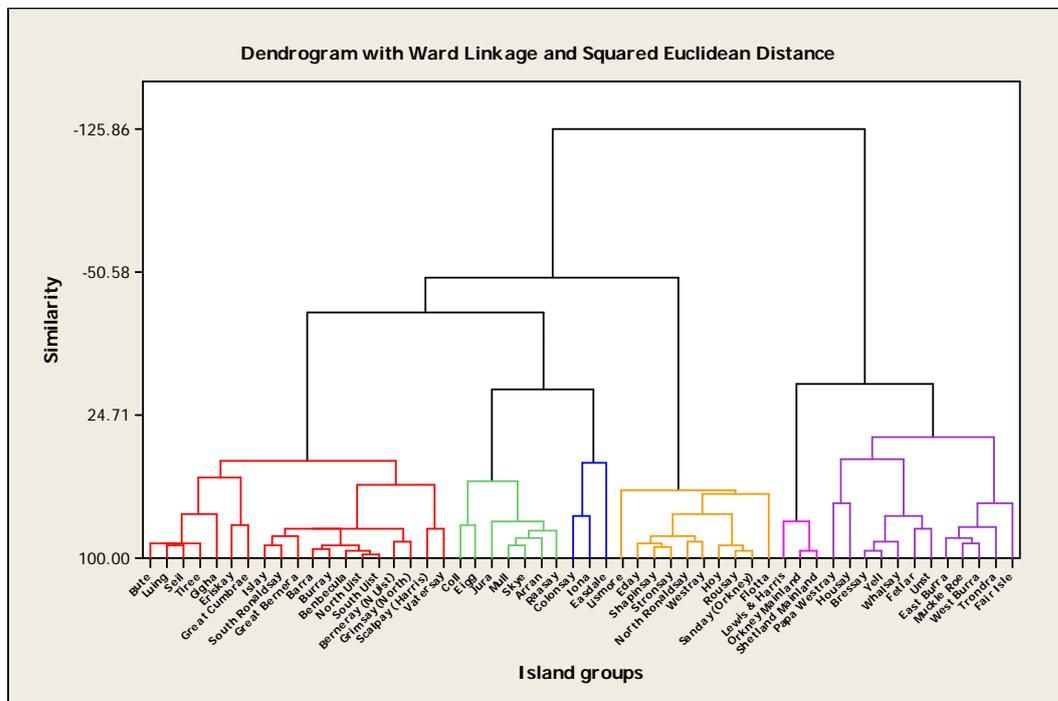
Finally, there is *cluster 1 (Red)*. This is made up of no fewer than 19 islands, including most of the Western Isles outside of Lewis & Harris, but also islands such as Bute, Islay, Luing, Gigha, Tiree and Seil. The cluster is made up of islands of varying size, but all are both less remote than other clusters and very well connected by both air and sea to mainland Scotland. Although these islands have clearly diversified away from agriculture and do quite well with fishing, some manufacturing and tourism, they are nevertheless much less successful than clusters 3, 5 and 6. Diversification is not therefore the panacea it is sometimes portrayed. Tourism specialising islands like clusters 2 or 3 do better. Employment rates, activity rates and workforce rates are all lower than average, and unemployment rates are higher. These islands have had to rely on higher than average employment in public administration. This cluster seems to be living proof that niche market specialisation makes for more successful island economies than diversification across too many sectors. We have termed this the *Diversified, accessible but underperforming* group.

**Table A1: Average values for individual clusters for each of the 27 cluster variables**

<i>Cluster variable</i>	<i>Cluster 1 (Red)</i>	<i>Cluster 2 (Green)</i>	<i>Cluster 3 (Blue)</i>	<i>Cluster 4 (Yellow)</i>	<i>Cluster 5 (Mauve)</i>	<i>Cluster 6 (Purple)</i>	<i>All islands</i>
<b>1. <u>Geographical characteristics</u></b>							
Area (Km <sup>2</sup> )	96.5	528.0	19.3	43.4	1,224.0	41.7	188.8
Mountainous (% islands in cluster)	0	85.7	0	0	0	0	11.1
Population density (persons per km <sup>2</sup> )	24.4	3.8	86.2	7.7	19.0	19.4	20.6
AIRMLD (% islands in cluster)	68.4	14.3	0	0	100.0	33.3	38.9
SEAMLD (% islands in cluster)	94.7	71.4	33.3	10.0	100.0	33.3	59.3
Distance Inverness (Km)	184.4	147.1	184.3	173.5	229.0	322.7	210.8
Distance Glasgow (Km)	188.3	124.3	104.0	291.0	358.3	458.8	263.9
Distance Brussels (Km)	1,002.6	957.9	924.7	1,007.6	1,097.7	1,102.1	1,020.8
<b>2. <u>Demographic and labour market characteristics</u></b>							
Population (Nos.)	1,135	2,526	99	278	17,611	373	1,845
Net migration rate per 100 population	0.2	-1.5	1.7	-5.6	-0.5	0.2	-1.1
Agriculture & forestry (% econ. active w'force)	6.1	9.2	9.0	28.1	3.8	4.2	10.2

Fishing (% econ. active w'force)	9.8	6.0	1.1	7.3	3.6	12.0	8.5
Manufacturing (% econ. active w'force)	8.3	7.5	3.8	6.0	9.0	11.5	8.2
Hotels & restaurants (% econ. active w'force)	8.2	12.8	22.6	3.6	5.6	4.1	7.7
Public administration (% econ. active w'force)	25.9	23.6	14.6	19.7	28.5	27.3	24.3
Male employment rate (%)	72.6	76.3	87.5	78.1	79.8	83.7	77.8
Female employment rate (%)	67.7	70.6	88.0	66.8	73.7	78.8	71.8
Working age population (%)	56.3	61.6	63.4	58.1	60.3	60.0	58.8
Male activity rate (%)	70.1	75.9	79.1	76.7	77.1	80.1	75.2
Female activity rate (%)	56.2	64.7	78.6	58.7	64.7	68.1	62.1
Males in f/t or p/t work (% econ. active)	39.9	39.3	46.8	30.6	55.9	50.7	41.8
Females in f/t or p/t work (% econ. active)	43.7	43.1	56.3	33.5	53.8	53.7	45.2
Males in self employment (% econ. active)	22.8	29.5	30.6	40.2	15.3	25.0	27.4
Females in self employment (% econ. active)	7.6	16.1	20.0	20.6	6.0	12.3	12.7
Male unemployment rate (%)	6.4	6.2	1.8	5.0	4.4	3.7	5.1
Female unemployment rate (%)	2.9	4.7	0.7	4.4	2.4	1.2	2.9
Long-term unemployment as % all unemployed	41.1	27.1	0	45.2	32.2	16.4	31.8
<i>Number of islands</i>	<i>19</i>	<i>7</i>	<i>3</i>	<i>10</i>	<i>3</i>	<i>12</i>	<i>54</i>

**Figure A1: Dendrogram of cluster analysis of 54 Scottish island groups, 2001**



**Table A2: Variables used in the cluster analysis**

<i>Variable</i>	<i>Definition</i>
Area	Square kilometres
Mountainous	1 = Under 50% of area mountainous (Nordregio definition); 0 = otherwise
Population density	Persons per square kilometre
Airmltd	1 = Regular direct, scheduled air link to mainland; 0 = otherwise
Seamld	1 = Regular direct, scheduled ferry link to mainland; 0 = otherwise
Distance to Inverness	Great circle from main population centre on island to Inverness: distance in kilometres
Distance to Glasgow	Great circle from main population centre on island to Glasgow: distance in kilometres
Distance to Brussels	Great circle from main population centre on island to Brussels: distance in kilometres
Population	Numbers, males plus females, all ages, 2001
Net migration	Net migration, gross in-migration minus gross out-migration, males plus females, 2001, expressed as a rate per 100 residents
Agriculture & forestry	Employment in sector as a percentage of all economically active 16-74 years of age, 2001
Fishing	Employment in sector as a percentage of all economically active 16-74 years of age, 2001
Manufacturing	Employment in sector as a percentage of all economically active 16-74 years of age, 2001
Hotels & Restaurants	Employment in sector as a percentage of all economically active 16-74 years of age, 2001; surrogate measure for tourism
Public administration	Employment in sector as a percentage of all economically active 16-74 years of age, 2001
Male employment rate	Males in all types of employment as percentage of all males of working age, 2001
Female employment rate	Females in all types of employment as percentage of all males of working age, 2001
Male activity rate	Economically active males as percentage of all females aged 16-74, 2001
Female activity rate	Economically active males as percentage of all males aged 16-74, 2001
Males in f/t and p/t employment	Males in full time or part time employment as percentage of economically active males 16-74, 2001
Females in f/t or p/t employment	Females in full time or part time employment as percentage of economically active females 16-74, 2001
Males in self employment	Self-employed males as a percentage of all economically active males aged 16-74, 2001
Females in self-employment	Self-employed females as a percentage of all economically active females aged 16-74, 2001
Male unemployment rate	Males unemployed among economically active as percentage of economically active males 16-74
Female unemployment rate	Females unemployed among economically active as percentage of economically active females 16-74
Long-term unemployment	Percentage of all unemployed amongst economically active who have been unemployed over 12 months, 2001