

Chapter 2

Regional Policy as a Tool to Enhance Portugal's Competitiveness

2.1. Introduction

Portugal faces an unprecedented opportunity to invest in long-term assets for competitiveness. The cyclical upsurge and the strong political commitment to pass structural reforms are offering a unique momentum for Portugal to catch up with higher-income countries before emerging players (such as new EU member states) take over. Public funding to do so, however, remains limited in the present period of fiscal deficit reduction. Policies to upgrade human capital and nurture knowledge-based activities must therefore be based on a particularly cautious choice of projects.

Regional policy stands out as a major tool to implement the competitiveness agenda in Portugal. Selecting the most appropriate actions for growth requires an exchange of information and insights between multiple actors, which is a difficult process to achieve without a regional policy. Activating growth levers such as university-firm linkages and environmental capital that are anchored in the different Portuguese regions will be pivotal to achieve the government's top priorities in terms of growth and job creation. Efforts to unlock regional competitive potential will also attend to national equity and cohesion concerns by triggering a dynamics of renewal in lagging regions. The Portuguese government's recent initiatives to better territorialise structural policies need to be further developed and to be coupled with appropriate mechanisms to capitalise on locally concentrated knowledge.

This chapter discusses to what extent regional policy can contribute to the overarching goal of building a more competitive Portugal. First, the chapter examines the progress made by Portugal on the path towards regional policy. Second, it turns to the role of regional policy as a tool to support an endogenous dynamics of innovation. Third, it looks at regional policy as a tool to ensure sustainable development.

2.2. Portugal on the path towards regional policy

For a long time, public measures known under the label of regional policy in Portugal have consisted mostly in the implementation of EU regional cohesion policy. As many other EU countries, Portugal gave priority to supporting poorer regions through massive transfers to finance infrastructure and basic public services, with a view to reduce regional income disparities. Yet today, low-density rural regions still lag behind larger urban regions and their declining productivity dims national growth prospects (see Chapter 1).

Recent years have marked a turning point in Portugal's history of regional policy. The latest shift of EU regional policy towards the Lisbon Strategy has called for significant adjustment in Portugal's practice of regional policy. When drafting its National Strategic Reference Framework (NSRF) – a comprehensive document required by the European Commission to assess how each country will use EU Structural Funds over the 2007-2013 programming period (Box 2.1) –, Portugal has been challenged to reposition its regional policy on a new mix of cohesion and competitiveness objectives. The Portuguese NSRF complied officially with EU requirements to earmark funds for Lisbon-related expenditure. The decision to streamline future investment down to three thematic Operational Programmes with proactive headings (Territorial Enhancement,¹ Human Capital, and Factors of Competitiveness) also demonstrates the government's will to upgrade the economy (Table 2.1). Yet, the new programming period is unfolding amid some concern over the right balance to be struck between equity and growth objectives, as indicated for example by some policymakers' reference to national research on distinct indices of "cohesion" and "competitiveness" (Figure 2.1 and Figure 2.2).

In parallel to EU-driven evolution, Portugal's recent explicit attempt to design a regional policy at the national level has been the reform of spatial planning. Portugal followed various OECD countries (such as France and Japan) in considering spatial planning as the closest policy to regional policy, due to the focus on the territorial distribution of resources and the specificities of different types of regions. After decades of limited use of spatial planning,² Portugal has just adopted a wide-ranging instrument called the National Spatial Policy Programme (NSPP), which aims at assessing the national territory, forecasting possible development trends, and proposing lines of action (Box 2.2).

Such recent strides have certainly brought Portugal closer to achieving an effective regional policy. First, the preparation of the NSRF for EU authorities and the elaboration of the NSPP on a national initiative have implied a phase of regional diagnosis aimed at identifying competitive advantages and development challenges across the country. For example, the NSRF includes an extensive analysis of regional disparities, cohesion, and competitiveness. Second, the NSRF and NSPP exercises triggered a useful process of discussion and consultation among different actors involved in regional development, both at the horizontal and the vertical level:

- *At the horizontal level:* initially imposed by the European regulation as a technical document, the NSRF (and more precisely, the Portuguese choice to streamline the 12 sectoral Operational Programmes under CSF III down to 3 Thematic Operational Programmes in the current NSRF) has stimulated interministerial dialogue in Portugal, namely via the creation of the NSRF Co-ordination Team within the central government.

Box 2.1. Portugal's National Strategic Reference Framework (NSRF 2007-2013)

After the European Council decided in spring 2005 to focus on re-launching the Lisbon Strategy, Community Strategic Guidelines for Cohesion (CSG) were adopted in 2006 and require future cohesion policy to target resources on three priorities: improving the attractiveness of member states, regions and cities; encouraging innovation, entrepreneurship, and the growth of the knowledge economy; and creating more and better jobs. In response, all member states have been preparing a National Strategic Reference Framework (NSRF), which describes how each country proposes to implement these priorities on its own territory.

The European Commission approved Portugal's NSRF on 2 July 2007. Portugal will receive 21.5 billion EUR of EU cohesion funding over the 2007-2013 programming period. In accordance with EU rules, at least 60% of the funding available for the "Convergence" objective and 75% of the "Regional Competitiveness and Employment" objective were earmarked for Lisbon-related investments (even going beyond the minimum threshold, since effective earmarked expenditures amount to 83% and 78% respectively).

The Portuguese NSRF proposes five national strategic priorities: to improve the population's skills; to promote sustainable growth; to guarantee social cohesion; to ensure the development of the territory and the cities; and to improve governance efficiency. Five structural principles of investment will apply: concentration; selectiveness; economic viability and financial sustainability; territorial cohesion; and strategic monitoring.

The five national strategic priorities will be implemented through a set of Operational Programmes:

- 3 Thematic Operational Programmes (OP): "Territorial Enhancement" (financed by the ERDF and the Cohesion Fund) to finance transport and environment projects; "Human Capital" (financed by the ESF) to promote human qualification; and "Factors of Competitiveness" (financed by the ERDF) to promote innovation and modernise the economy;
- 7 Regional Operational Programmes (ROP), one for each NUTS 2 region, including autonomous regions (financed by the ERDF);
- 2 Regional Operational Programmes (ROP), one for each autonomous region (financed by the ESF);
- 6 Territorial Co-operation Operational Programmes (cross-border, transnational, interregional);
- 2 Technical Assistance Operational Programmes (one financed by the ERDF and the other by the ESF).

Table 2.1. **Financial plan for NSRF 2007-2013 Operational Programmes**

Unit: million EUR (between brackets, % of total line)

		EU funds	National public funds	TOTAL public funds (EU + national)	TOTAL including private funds
Mainland	Human Potential	6147 (69.3%)	2636 (29.7%)	8783 (99.0%)	8868 (100%)
	Thematic OP for Human Potential	6147 (69.3%)	2636 (29.7%)	8783 (99.0%)	8868 (100%)
	Factors of Competitiveness	6008 (55.7%)	1437 (13.3%)	7445 (69.1%)	10780 (100%)
	Thematic OP for Factors of Competitiveness	3104 (54.8%)	686 (12.1%)	3789 (66.9%)	5661 (100%)
	Regional OP (mainland)	2905 (56.7%)	751 (14.7%)	3656 (71.4%)	5120 (100%)
	Territorial Enhancement	7518 (34.0%)	3163 (14.3%)	10681 (48.2%)	22144 (100%)
	ERDF	4458 (64.0%)	1852 (26.6%)	6310 (90.5%)	6969 (100%)
	Thematic OP for Territorial Enhancement	1599 (65.0%)	660 (26.8%)	2259 (91.9%)	2459 (100%)
	Regional OP (mainland)	2859 (63.4%)	1192 (26.4%)	4051 (89.8%)	4510 (100%)
	Cohesion Fund ¹	3060 (20.2%)	1311 (8.6%)	4371 (28.8%)	15176 (100%)
Autonomous Regions	Regional OP (autonomous regions)	1602 (70.1%)	444 (19.4%)	2046 (89.5%)	2285 (100%)
National	Technical Assistance	137 (85.1%)	24 (14.9%)	161 (100.0%)	161 (100%)
	Territorial Cooperation	99 (72.8%)	37 (27.2%)	136 (100.0%)	136 (100%)
	TOTAL	21511 (48.5%)	7741 (17.4%)	29253 (65.9%)	44374 (100%)

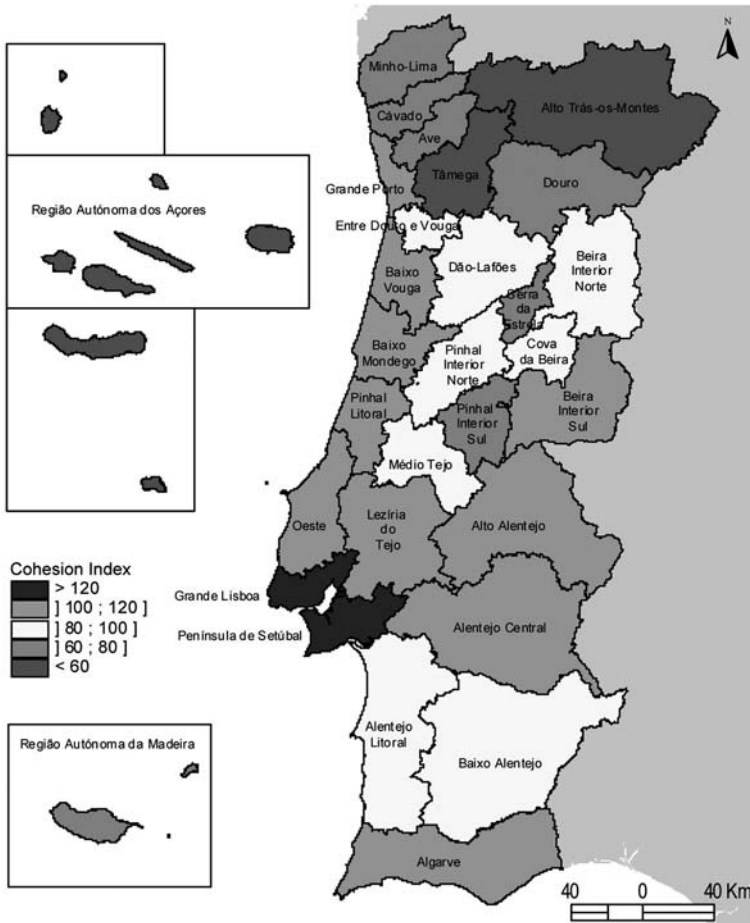
1. Including 170 million EUR of Cohesion Fund for the two autonomous regions.

Source: NSRF 2007-2013.

- At the vertical level: each of the NUTS 2 regions was asked to prepare its own “Regional Strategy 2015” under the direction of its CCDR (Commission for Regional Co-ordination and Development, deconcentrated body of the central government at the regional level in mainland territory); these regional strategic documents served as inputs to the Regional Operational Programmes (ROPs) and helped to adjust the Thematic Operational Programmes of the NSRF. The concomitant preparation of the NSPP and the Regional Spatial Plans (PROTs) has also increased interactions between national and regional levels.

Portugal was therefore able to use EU-related obligations to open up national policy-making practices. A recent OECD report on the European Union found that the European regional cohesion policy has had a positive impact overall but would need some reform in order to maximise its impact.³ The main areas for improvement include: i) clearer objectives for regional policy within the overall macroeconomic context of the EU, ii) better targeting of instruments to a more limited set of priorities, and iii) more effective implementation and performance management. In Portugal as in many EU countries, the translation of the Lisbon Agenda into concrete actions results in

Figure 2.1. **Map of Portuguese regions classified according to the “Cohesion” index**

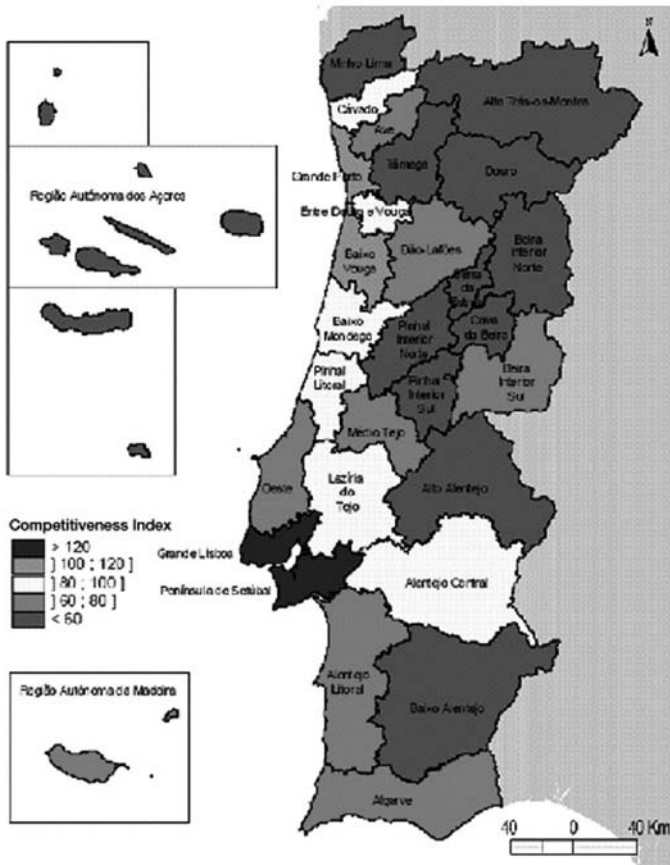


Note: The Cohesion index is a synthetic index, which is obtained from the average of 15 indicators reflecting social and economic cohesion at three stages: conditions, process and results. For more detailed information, please refer to Augusto Mateus (2005).

Source: Augusto Mateus 2005.

a wide range of programmes covering a diverse set of policy fields, which could make co-ordination and coherence difficult. The Portuguese government made laudable efforts to adopt a more transversal approach to regional development via the NSRF exercise. The diversity of plans and programmes related with

Figure 2.2. **Map of Portuguese regions classified according to the “Competitiveness” index**



Source: Own calculations (Cf. *As Grandes Questões Conceptuais e Metodológicas*, Volume I)

Note: The Competitiveness index is a synthetic index, which is obtained from the average of 20 indicators reflecting competitiveness at three stages: conditions, process and results. For more detailed information, please refer to Augusto Mateus (2005).

Source: Augusto Mateus 2005.

regional development in the current policy framework reflects the complex adjustment of sectoral plans to regional specificities (Table 2.2).

Building on this initial groundwork, Portugal could reflect on how this nascent regional policy links into national policy goals and what contribution the different strands of regional policy can expect to make to growth and structural change. Despite the recent pick-up in GDP growth, rising

Box 2.2. Portugal's National Spatial Policy Programme (NSPP)

The National Spatial Policy Programme (NSPP – *Programa Nacional da Política de Ordenamento do Território* or PNPOT in Portuguese) was designed as a tool to “know national territory; forecast its future; and act for spatial planning and territorial development”. After a task force was set up in February 2003, the technical proposal was put together in 2005, followed by a public participation process in 2006. The parliament voted the law approving the NSPP in July 2007 (published as Law No. 58/2007 on September 4th, 2007).

The NSPP is composed of two parts:

1. A report identified 24 “territorial and spatial planning challenges” (in terms of natural resources and risk management; urban and rural development; transportation, energy and climate change; territorial competitiveness; infrastructure and collective services; civic culture and spatial planning) and put forward a vision for Portugal 2025 (“a well-planned and sustainable territory; a competitive, integrated and open economy; an equitable territory; a creative society with a sense of citizenship”).
2. An action programme proposes 6 “strategic objectives” (preserve and value biodiversity, landscapes and cultural heritage; reinforce territorial competitiveness and international integration; promote the polycentric development of territories; ensure territorial equity in the provision of infrastructure and collective services; expand networks and ICT infrastructure; reinforce spatial planning quality and efficiency), in turn developed into 36 specific objectives and 197 measures.

At the same time, Regional Spatial Plans (*Plano Regional de Ordenamento do Território* or PROTs in Portuguese) are being prepared in order to cover all NUTS 2 regions. They are elaborated by the Commissions for Regional Co-ordination and Development (CCDRs), i.e. the deconcentrated bodies of the central government (Ministry for Environment, Spatial Planning and Regional Development) in the five mainland NUTS 2 regions, and by the regional governments in the two autonomous regions of Azores and Madeira. The CCDRs organise plenary and sectoral sessions to discuss the PROTs, and municipalities are invited to participate via commissions. The PROTs have a binding power over municipal development plans (PDMS) elaborated by municipalities.

Note: Further information about the Portuguese NSPP is available on www.territorioportugal.pt.

unemployment figures recall that the government's top priority lies in adjusting the national economic pattern to the demands of global competition. A reductionist understanding of regional policy as an isolated policy that only fulfils redistributive functions for the sake of equity would mean missing an

Table 2.2. **Examples of sectoral policies related with regional development in Portugal**

	Urban policy	Rural policy	Tourism policy	Environment policy		Infrastructure policy
Main plans/programmes	POLIS XXI ¹	National Strategic Plan – Rural Development ² (PRODER for the mainland; PRODERAM for Madeira; PRORURAL for Azores)	National Strategic Tourism Plan (PENT) ³	Municipal Waste Strategic Plan (PERSU II) ⁴	Strategic Plan for water supply and urban wastewater ⁵ (PEAASAR II)	High Speed Railway Plan Road network plan Logistic platforms plan Ports strategic guidelines Airports strategic guidelines ⁶
Ministry	Ministry for Environment, Spatial Planning and Regional Development: Secretary of State for Spatial Planning and Cities	Ministry for Agriculture, Rural Development and Fisheries Regional governments	Ministry for Economy and Innovation, Secretary of State for Tourism	Ministry for Environment, Spatial Planning and Regional Development: Secretary of State for Environment	Ministry for Environment, Spatial Planning and Regional Development	Ministry for Public Works, Transport and Communications
Time frame	2007-2015	2007-2013	2006-2015	2007-2016	2007-2013	
Territorial scope	Mainland	Mainland Autonomous regions	Mainland Autonomous regions	Mainland	Mainland	Mainland
Typology of areas/regions	3 types of areas: <ul style="list-style-type: none"> • Urban neighbourhoods • Networks of cities • City-regions 	3 typologies: <ul style="list-style-type: none"> • Typology of European regional policy: “Convergence” regions and “Competitiveness and Employment” regions. • Typology of defavoured zones (EU) – mountain areas, areas with specific handicaps and other defavoured areas. • Rural and non rural areas (Portuguese typology based on OECD methodology). 	Ongoing reform of the 19 “tourism regions”			5 regions and 18 districts for road plan and transport management by the civil service

Table 2.2. **Examples of sectoral policies related with regional development in Portugal (cont.)**

	Urban policy	Rural policy	Tourism policy	Environment policy	Infrastructure policy	
Key objectives/strategic principles	<ul style="list-style-type: none"> • Urban regeneration • Urban networks for competitiveness and innovation • Regional integration 	<p><i>Strategy objectives:</i></p> <ul style="list-style-type: none"> • Increasing the competitiveness of agricultural and forestry sectors • Promoting sustainability for rural areas and natural resources • Revitalising rural areas economically and socially <p><i>Transversal objectives:</i></p> <ul style="list-style-type: none"> • Reinforcing territorial and social cohesion • Promoting effective intervention in sectoral and territorial management from public, private and associated agents 	<p>Developing 10 strategic industries:</p> <ul style="list-style-type: none"> • gastronomy • cultural touring • well-being and health • nature • big events • residential tourism • city short breaks • golf • nautical sports • sun and beach 	<ul style="list-style-type: none"> • Promoting municipal waste prevention • Increasing municipal waste recycling levels • Diverting municipal waste from landfill 	<ul style="list-style-type: none"> • Providing water supply and wastewater services with quality and continuity • Providing sustainable public water supply and wastewater services • Promoting a tax policy including the total recovery of service costs taking in consideration the economic capacity of communities • Promoting the protection of environmental values • Increasing the percentage of population with access to water supply and wastewater services 	<p>Increasing the accessibility of territories and improving mobility of population, reducing time travel and reducing operational costs</p>
Budget	1.5 billion EUR	4.97 billion EUR	Not available at this stage	1 billion EUR	3.6 billion EUR	Not possible to estimate a total

1. More information available on: www.dgotdu.pt/PC.
2. More information available on: www.gppaa.min-agricultura.pt/drural/.
3. More information available on: www.turismodeportugal.pt/Português/turismodeportugal/estrategianacionalparaoturismo/Pages/EstrategiaNacionalparaoTurismo.aspx.
4. More information available on: www.maotdr.gov.pt/Admin/Files/Documents/PERSU.pdf.
5. More information available on: www.maotdr.gov.pt/Admin/Files/Documents/PEAASAR.pdf.
6. More information available on: www.moptyc.pt/.

opportunity to serve the overall goal of stronger national growth. In line with the “paradigm shift” debate within OECD countries, Portuguese regional policy could be used as a cross-cutting tool to implement and to empower a set of mutually reinforcing structural policies geared towards higher growth. In order to be effective, structural change needs to have strong and differentiated impact on Portuguese regions, which calls for a proactive role of regional policy. The following sections will discuss more in detail how regional policy could contribute to two major pillars of national development: innovation and sustainable development.

2.3. Regional policy as a tool to foster innovation

2.3.1. The emergence of a regional dimension in innovation policy

Portugal has started to address the previous lack of a consistent and systemic innovation policy at the national level. Growing awareness of the country's overall weak performances in terms of innovation, illustrated by benchmarking tools such as the European Innovation Scoreboard (EIS), has prompted the government to try to close the scientific and technological gap compared with other European countries. While innovation had often been a blurred responsibility between the Ministry for Economy and the Ministry for Science and Technology, it leapt recently to the forefront of the policy agenda. A National Council for Innovation will be created soon, to be chaired directly by the Prime Minister and based on three existing institutions (the Technology and Science Foundation, the Innovation Agency, and the IAPMEI-Institute for Small and Medium-Sized Firms and Investment).⁴ An earlier flagship initiative called the Technological Plan (*Plano Tecnológico*) also put forward a wide-ranging strategy to modernise the Portuguese economy and was generally welcomed as a promising package of long-overdue measures for competitiveness⁵ (Box 2.3).

Recent efforts to develop a stronger national innovation policy in Portugal will need to be supported by regional tools. While national innovation policy and regional policy were quite separate policy fields until recently, the reorientation of regional policy in many OECD countries has led to a more sophisticated awareness of regional innovation dynamics. Broadly speaking, the new approach to regional policy in the OECD focuses on making domestic firms more competitive, which in turn means emphasising innovation and better use of the knowledge available in the region. Portugal is no exception, particularly given the limited flows of FDI into the country and the need to support and develop competitive indigenous firms.

The emphasis on innovation in regional policy is mirrored by the increasing attention paid by science and technology policymakers to region-level sources of innovation and to place-based collaboration among a wide range of stakeholders. It was gradually recognised that innovation policy needs to act not only on the

Box 2.3. A horizontal innovation strategy: the Technological Plan (*Plano Tecnológico*)

The Technological Plan (*Plano Tecnológico*) is a flagship strategic agenda based on three lines of action:

- knowledge (not only higher education but also adult training and skill building);
- technology (e-government, ICT, broadband);
- innovation (adapting the productive fabric to the demands of the globalised economy).

Since it was presented publicly in November 2005, the Technological Plan was monitored and revised. An interministerial commission (composed of representatives from the main ministries involved) and an advisory council (including businessmen, academics and policymakers) were established to follow up on the implementation of the Technological Plan. It is currently being implemented through 112 measures covering the three lines of action (38 measures for knowledge, 24 measures for technology, 50 measures for innovation) and serving five transversal priorities (a strengthened scientific and technological base; a better organised competitive base; a modernised public administration; a favourable business environment; a qualified population). Examples of measures include:

- Placing Portugal on the front line of broadband coverage: the entire national territory has been covered with access to broadband Internet, notably all public schools (since January 2006) and 73% of public administration departments (2006 data).
- Helping families to have better access to information society via tax benefits and the Universal Mail Box.
- Strengthening the internationalisation of the scientific system: partnerships were signed with top-class US universities (e.g., MIT); a joint Portugal-Spain International Research Institute was set up.
- Making the labour market more efficient: the web portal NetEmprego was launched in June 2006 to facilitate job search.
- Simplifying relations between citizens and public administration: programmes such as SIMPLEX (administrative simplification) and PRACE (reform of public administration); Direct Social Security, Single Car Document (launched in October 2005), Citizen Card, Rapid Start-Up service (it is now possible to create a company in less than one hour).
- Supporting innovative companies: the incentives offered in the pre-existing programme PRIME (*Programa de Incentivos à Modernização da Economia*) were adjusted to support business clusters.
- Endowing companies with young and high-skilled managers: InovJovem programme (by June 2006, a total number of 1906 young management graduates had been oriented towards SMEs), InovContacto programme (a total number of 296 young graduates were offered an opportunity to work abroad in 2006).
- Preparing youth for the knowledge society: enhancing English classes in primary schools, promoting technological literacy via competence certificates, offering training programmes for teachers.
- Retraining active population: the *Novas Oportunidades* programme was strengthened; it now provides adult training courses and dual certificate courses, and it increased the number of validation and certification centres.

supply side (production of knowledge) but also on the demand side (diffusion and absorption of knowledge); not only on technological aspects (new products and processes) but also on organisational aspects. Such “soft” capital factors are by nature anchored in specific places. The general transition in orientation across the OECD can therefore be summarised as: i) a shift of goals from scientific basic research to innovation and commercialisation of research (with evaluation based on strategic and structural criteria, as opposed to purely scientific criteria), ii) less funding of individual R&D projects run by specific institutions and more emphasis on joint projects and research themes, and iii) stronger marketing of linked competencies across actors (business, research, governance).

In this regard, the Centres of Expertise programme in Finland offers a particularly inspirational experience (Box 2.4). Although Finland is different from Portugal in the sense that it invested much earlier and more generously in innovation, it provides an interesting perspective on how to serve efficiently a national priority (innovation) via region-based incentives, even in the absence of an elected regional level of government.

Portugal faces a window of opportunity to boost national innovation through regional policy. The current period offers Portugal a particularly appropriate time to act because most major plans will start to be implemented. For example, most of the impact of the Technological Plan is expected to materialise in the 2007-2013 programming period via the funding of the Operational Programme “Factors of Competitiveness” and the Regional Operational Programmes. Many sectoral plans related with regional development that were announced lately are also waiting to be translated into concrete measures over the next seven years or so (see previous Table 2.2).

2.3.2. Strengthening co-operation within the regional innovation system

A key policy issue in Portugal will be how to promote joint activities between publicly funded or managed knowledge assets and private firms. This is particularly required in Portugal considering the country’s extremely low levels of business R&D expenditure. Over the past few years, OECD countries introduced various measures to enhance collaboration between R&D institutions. According to the EU Trend Chart, such measures fall into four main categories: 1) fostering research consortia between science and technology organisations, universities and firms for the development of new products, processes and systems; 2) technology transfer offices; 3) industrial property support offices; and 4) specific instruments to promote co-operation between firms. These have had mixed results, with the industrial property support offices considered the most effective instrument at national level.

Inspired by the well-known experience of competitiveness poles (*pôles de compétitivité*) in France, the Portuguese government is currently working on an

Box 2.4. **Revealing place-based competitive capacities: the Centres of Expertise in Finland**

Finland's top-class position in numerous international competitiveness rankings is widely attributed to massive investment in R&D, innovation and education. Finland was among the first OECD countries to develop a national innovation system. The government's decision to set up a Science and Technology Policy Council – a key body chaired by the Prime Minister – demonstrates the powerful political drive towards innovation. The Centres of Expertise programme illustrated Finland's effort to move from a science and technology-focused innovation system towards a broader-based innovation system, building on local knowledge and in better connection with regional development concerns.

In response to the severe economic recession in the early 1990s, the government first established the Centres of Expertise programme in 1994 to create new jobs and promote training in knowledge-based sectors. The programme started as an urban policy initiative, with the first eight Centres being in the largest urban regions in Finland before the programme was expanded to smaller urban centres in 1999 and in 2003. From the very beginning, the key concept was to exploit the triple helix model of collaboration between university, industry and government, on the basis of local endogenous assets. Although the programme often worked in conjunction with regional technology centres or science parks, promoting sophisticated technology did not constitute a goal *per se*. The notion of expertise is not restricted to high technology, as some of the fields of expertise include tourism, culture or environment.

The Centres of Expertise programme is managed by an Interministerial Committee (administered by the Ministry of Interior's department of regional development). The Interministerial Committee launches a tendering process to select projects according to the calibre of expertise, the innovative nature and potential for growth of the proposed projects, the partnership among project participants, and a long-term regional commitment. The Centres compete for basic state funding, which forces them to continuously improve the quality of their project.

By the end of 2006, 22 Centres of Expertise were distributed across the country with 45 fields of expertise (ranging from biomaterials and high-tech metal to chamber music). Over 5 000 companies took part each year in the elaboration and implementation of the projects. Basic state funding was relatively small (approximately 50 million EUR in total) but it had an impressive leverage effect of more than ten to one (the total project volume for 1999-2006 was 578 million EUR). It was estimated that the programme generated 13 000 high-skilled new jobs and over 1 300 new businesses. From the central government's viewpoint, one of the programme's greatest advantages was that it boosted the efficiency of public spending by focusing limited resources on clearly defined regional strengths and by clarifying regional specialisations (therefore avoiding overlaps in R&D investment).

initiative called “Competitiveness and Technology Hubs”. One of the key challenges of the programme will be to build stronger links between public R&D and private industry, with a pivotal role to be played by research institutes, universities and higher education institutions. Looking across OECD countries where similar policies have been introduced, the methods used include: promoting co-location of R&D generators alongside private firms (in science parks and similar structures); promoting joint R&D and pushing universities and research labs to emphasise commercial applications; and supporting open innovation platforms and privately managed R&D centres.

Region-level innovation policy in Portugal will need to place a strong emphasis on collaborative (as opposed to individual) research projects. For example, the Knowledge Clusters in Japan and the Georgia Research Alliance programmes in the US both exploit universities as cluster hubs and they use research units within the university to develop multi-actor research projects.⁶ In most other programmes in OECD countries, if universities and research institutions are not the hub they are at least important network partners. There are also explicit requirements or preferences in project selection for a minimum number of actors of each type involved in these collaborative projects. At the same time, appropriate incentives need to be set up because some potential partners may be discouraged by the transaction costs involved and the possible ambiguities regarding intellectual property rights from joint projects involving both public and private actors.

2.3.3. Building on existing specialisations and clusters

The Portuguese economy has good opportunities to promote innovation by providing targeted public goods both in traditional and more advanced regional specialisations. The transition in regional policy towards capitalising upon local assets argues in favour of policies that strengthen existing regional specialisations and clusters. These specialisations and clusters are often based on collective advantages, accumulated skills and practices embedded in the local labour force, or draw on specific local resources or infrastructures. They are also contingent upon factors such as firm size and structure, the use of advanced technologies, and the use of networking as a business practice.

One appealing feature of the cluster approach in the context of regional policy is that it seems to be applied both in advanced regions with dense knowledge infrastructures and in non-core or former industrial regions. For example, in leading regions with a portfolio of economic activities, the policy goal is often to support specialisation in a subset of these sectors or clusters. In other regions where traditional manufacturing industries are strongly embedded, cluster policies are designed to help the region diversify into new activities or change the value structure of current specialisations. This shift in regional policy acknowledges that the industrial base in both leading and lagging regions is

undergoing transformation and the policies offer a way to improve the linkages and facilitate the transformation.

Like many large OECD metropolitan regions, the capital region of Lisbon obviously concentrates modern R&D complexes (such as the Tagus Park), top-level universities and pioneering firms – thereby producing and using most of new knowledge in Portugal. In contrast, the industrial region spread around Porto, for example, has displayed sluggish GDP growth and a persistent rise of unemployment over the past few years; but it hosts remarkable examples such as Guimarães, a medium-sized city that has strived to reverse the trend of industrial decline and to achieve a new development vision for itself (Box 2.5). This individual success story is not necessarily representative of all Portuguese regions' innovative capacity. However, it suggests that local actors possess unique knowledge about their region's intangible assets and are able to design creative solutions. This means that the central government's recent impetus to put in place a more systemic innovation policy does not need to start from scratch; it has local stepping stones to build on.

2.3.4. Focusing policy support to help restructure key sectors

Portugal has already seen some evidence of the major progress induced when a nation-wide economic policy meets locally embedded capabilities. A region sometimes hosts well-performing *producers* of knowledge (leading universities, in Coimbra, Minho, and Porto for example), or well-performing *users* of knowledge (dynamic SMEs, such as in those in Leiria specialised in ceramics, plastics and moulds); the two groups may even co-exist (for example, Aveiro is known for its active university and its SMEs excelling in ceramics, mechanic construction, automobile parts, and furniture) but without an appropriate interface to meet and exchange their respective knowledge. Carefully designed national support can trigger substantial improvement when it provides such missing linkages between local players. For example, a national economic development programme like the Programme of Incentives for the Modernisation of the Economy (*Programa de Incentivos à Modernização da Economia*, PRIME) successfully contributed to upgrading a traditional industry such as footwear by exploiting the geographic proximity of firms and their ability to collaborate (Box 2.6). Similarly, further advantage could be taken of other recent projects including the European Excellence Centre in Human Tissue Engineering in the Ave Park, the Iberian Centre of Nanotechnologies in Braga, the creation of the Nokia R&D Centre in Aveiro, and the co-operation processes that have been institutionalised between some university-industry interfaces (such as the INESC with the Fraunhofer Institute).

Replicating the success of the footwear initiatives depends on providing the right flexible supports to help firms cope with increased competition in their main markets and reach out to access new expanding markets outside Europe.

Box 2.5. A local strategy for renewal: the example of Guimarães

Guimarães is a medium-sized city of around 60 000 people, located in the Norte region (15 minutes from Braga, 30 minutes from Porto, 60 minutes from Galicia in Spain). Considered to be the historical cradle of the Portuguese nation, the city was classified as UNESCO heritage in 2001 but other parts of the old town continue to suffer from severe urban deterioration. Its traditional economic base has made the city particularly vulnerable to industrial decline and unemployment has soared (13.7%) well above the level in the Norte region (8.8%) and national average (7.6%). In order to respond to the need for a new development model, the municipal government launched a comprehensive strategy building on the city's various assets, ranging from arts and culture to science and technology.

In order to implement the vision of a **historical and cultural city**, the municipal government initiated an ambitious urban rehabilitation policy. It purchased land and former industrial facilities in particularly distressed areas and remodelled them into cultural amenities. For example, the Couros district (a 10-hectare area traditionally devoted to leather treatment and tanning, progressively abandoned to degradation and pollution) was refurbished into an impressive *Complexo Multifuncional de Couros* (including high-quality tourism hotels, educational facilities, and a cultural centre). Revamped by this forward-looking image, Guimarães was also chosen to represent Portugal's candidacy to host the European Cultural Capital 2012 and is currently working on fleshing out its project.

The University of Minho (created in 1974, around 5 500 students) worked in close collaboration with the municipal government to upgrade the city into a **science and technology city**. Several innovation centres are now operating in an effort to draw specifically from the city's historical assets (e.g., the Civil Engineering Centre specialised in the restoration of historical monuments and traditional building techniques) and from its previous economic base (e.g., the Living Lab specialised in e-mobile health, considering that the city is trying to overcome the crisis of the traditional textile industry by taking advantage of the workers' manual dexterity and develop a new industry of medical devices). A 10-hectare science and technology park called the AvePark will also open in January 2008 (www.avepark.pt). The project is based on a partnership between public and private shareholders (City of Guimarães: 51%; University of Minho 20%; other public actors: 10%; private actors: 19%).

A key factor of success was the **collaborative governance structure** that managed the new development strategy, which involved primarily the municipality of Guimarães and the University of Minho, but also the central government, the CCDR of Norte, and various representatives of the civil society and the business community (including geographers, designers, journalists, etc.).

Box 2.6. National support, local knowledge sharing: the successful example of the footwear association in Portugal

The Portuguese footwear industry is dominated by small and medium-sized firms, which are concentrated in the south of the Porto region in the Santa Maria da Feira-São João da Madeira-Oliveira de Azeméis area. Such firms usually lack the resources to carry out radical innovation. During the 2000-2006 period, the central government ran the PRIME programme (*Programa de Incentivos à Modernização da Economia*) to modernise the economy by upgrading traditional industries among other strategic axes. The programme was recognised as being particularly efficient in the case of the footwear industry because it put in place a comprehensive scheme of incentives that mostly supported the overall business environment (56% of the incentives, i.e. around 45 million EUR) compared with direct support to enterprises (44% of the incentives, i.e. around 35 million EUR). A key partner for the implementation of this programme was the national footwear association (APICCAPS*). This association has used the programme to help firms upgrade the skills of their workforce, for example by running an industry-specific training centre and conducting large-scale R&D projects that would benefit a wide array of member firms due to the economies of scale. The association also promoted proactive benchmarking by supporting visits to international fairs and exhibitions. Encouraging firms to develop a close relationship with customers, suppliers, competitors and institutions allowed for the constant introduction of changes in processes and product designs.

* See the Portuguese National Footwear Association's website on <http://www.apiccaps.pt>.

Regional and local level policymakers across the OECD see an increased demand for support from small and medium-sized firms that have strong technological capacity and are anxious to capture new markets. Successfully managing this transition is crucial for regions because in practice many supplier firms are vulnerable. Some are highly specialised and can sell their expertise to other companies in the same industry or cross over into other industries. Others, however, are contract manufacturers whose output can often be replicated at lower cost by producers in emerging economies. Such firms in local supplier networks need help to move their businesses out of basic product or commodity supply (which is now increasingly undertaken by firms in countries like China), and to upgrade into higher value or more specialised products. An example of a policy to upgrade existing firms and support labour force reconversion is the EDA Center for Economic Diversification in Michigan (US), which provides a range of services funded in part by the Department of Commerce and delivered through the University of Michigan (Box 2.7).

Box 2.7. EDA Center for Economic Diversification, Michigan

Funded in part by the US Department of Commerce, Economic Development Administration (EDA), the EDA University of Michigan Center for Economic Diversification was established to help the Michigan economy become more diversified. The Center's main goal is to assist communities and companies so that they become innovative, flexible, efficient and globally competitive. The support is provided through a range of analysis such as feasibility analyses, market analyses, strategic implementation, operations planning, and impact and performance analysis in five different areas: economic diversification, industrial facilities revitalisation, minority business development, professional education and training activities, and international exporting and global competitiveness.

Economic Diversification activities involve strategic and due diligence initiatives for local communities, firms and entrepreneurs in order to identify and analyse opportunities for economic and community development project, new technological and emerging industrial sectors as well as new market niches in traditional industrial sectors. *Industrial Facilities Revitalisation* activities are for example strategic advice for re-use of closed facilities. *Minority Business Development* is assistance to newly formed and minority-owned firms so that they can benefit from the technological, educational, and research resources of the University of Michigan. *Professional Education and Training* activities include: information, briefings, and seminars addressing corporate diversification as well as international market opportunities. The *International Exporting and Global Competitiveness* area supports companies with expertise and information resources available within the University of Michigan regarding new market opportunities.

In Portugal as in several OECD countries, policy action has tended to underestimate the role of small firms. Recent OECD research in three major global industries (ICT, automotive, and pharmaceuticals) shows clearly that in major global industries, the role of SMEs has not diminished; on the contrary, small firms are often the prime source of innovative ideas that are integrated into other products or brought to the market in their own right by large firms. There are diverse reasons for this, including:

- Many of the most important innovations in manufacturing are adapted from other sectors outside the main competences of the manufacturers in that sector (e.g., the increasing importance of computer software in cars, the use of data processing in biopharmaceuticals, etc.). In some cases, this demand for expertise is met by large companies such as Microsoft, which work extensively with car makers, but it is also an opportunity for SMEs that can often be more agile in adapting existing technologies.

- Large firms in R&D-intensive industries are seeing the productivity of their in-house research decline and are looking for ways to improve output and share risk, such as by cost sharing with SMEs instead of having to internalise product development.
- Small firms are often more aware of niches or emerging markets; for example, finding solutions to new legal or regulatory requirements.

A key dilemma for Portuguese regions will be how to invest in R&D in such a way that at least part of the benefit is captured within the region. With looser networks that involve firms with more global reach, it is unclear how to estimate the return on investment made by the public sector in support of private initiatives. At a strategic level, some OECD countries have created regional innovation system institutions that try to maintain links between different actors. For example, the Brainport initiative in the Eindhoven region (Netherlands) fulfils this system supporting function (Box 2.8).

Box 2.8. The Brainport initiative in Eindhoven, the Netherlands

Three comprehensive programmes have been initiated in the Eindhoven region during the past 15 years: Stimulus, Horizon, and most recently Brainport. The Brainport Programme aims to strengthen the economic development and the knowledge infrastructure of the Eindhoven-Leuven-Aachen triangle. It is public-private funded by its triple helix partners and is run in parallel with activities of the regional economic development agency (REDE). The initiative covers 21 municipalities in southeast Brabant but has a wider geographic scope than the boundaries of its constituent municipalities.

Brainport works as a development platform promoting vertical collaboration between governments and authorities on different levels. It also supports horizontal collaboration between companies and research and knowledge institutes within the region, and between different regions. The major role of Brainport Eindhoven is to enable and to facilitate strategic economic development. Issues on the agenda are: promotion of open innovation (collaboration on an international level between companies and research institutions), creation of centres of excellence, a balanced labour market, attracting venture capital, improvement of manufacturing companies' conditions in order to attract new investment, and strengthening the knowledge exchange between medium-sized and small firms.

2.3.5. Identifying local capacity in practice: the importance of programme design

Identifying and exploring further local strengths could be a decisive input to Portugal's innovation policy. Thanks to its broader view of the national territory as

a whole, the central government has the necessary insight to detect other potential good practices based on a synergetic local community (like Guimarães) or concentrated industries (like the footwear industry in the north). In this respect, the experience of other OECD countries shows that an incentive-based competitive process provides an efficient tool to foster valuable regional specialisations. A well-designed competitive process will not only encourage the disclosure of hidden capabilities in various territories and promote regional clustering experiences; in a relatively small country like Portugal, the selective support for projects could also help reduce sterile internal competition across regions on overlapping niches, and ultimately clarify the functional division of labour among regions in view of overall national competitiveness. For example, the new urban policy (POLIS XXI, mentioned earlier in Table 2.2) has started to encourage inter-urban complementarities by launching a competitive process to select five “urban networks” as a pilot phase of the programme (the “urban networks” must be based on a long-term vision and a strategic programme supported by a partnership between municipalities, firms, R&D centres, universities, entrepreneurial associations and other key urban actors).

Considering that the Competitiveness and Technology Hubs initiative is presently being sketched out, it is too early to evaluate its impact. The announced purpose is to identify the regions where innovative projects are located, to select the most convincing projects, and to concentrate public support on them. From the start, precautions are envisaged to avoid the frequent mistake of sprinkling scarce public resources in redundant regional specialisations. For example, there are concerns that too many regions might aspire to becoming a biotechnology pole, regardless of their own competitive advantages and realistic chances of success. The government has decided to check potential candidates first by organising a series of informal meetings with relevant regional and business actors, before launching a call for projects (ideally by the end of 2007). For example, the announced creation of the Health Competitiveness Pole in the North (involving excellence firms as BIAL and research centres of Minho, Porto, Coimbra and Lisbon) could be a promising initiative.

OECD experience suggests that different selection mechanisms may entail varying transaction costs, which can be compared with the benefits of different options. Selection mechanisms tend to be either competitive (based on an open competition, a call for proposals or similar) or non-competitive (the recipients are designated), top-down or bottom-up (Table 2.3 and Box 2.9). There are strategic reasons for using these different types of mechanisms based on parameters such as programme goals, policymaker knowledge about the provenance and quality of potential participants, and ambitions for leveraging additional funds.

Table 2.3. **Rationale for different selection mechanisms**

Mechanism	Rationale
Competitive	<ul style="list-style-type: none"> • When best participants not clear upfront • Gauge motivation of participants • Value of "label" effect • Longer term spillovers for groups not selected
Limited number	<ul style="list-style-type: none"> • Clear prioritisation of resources • Value of "label" effect
Top-down	<ul style="list-style-type: none"> • Clear targets (strategic, quantitatively identifiable) • Coherence with other programmes
Bottom-up	<ul style="list-style-type: none"> • When best or possible participants not clear upfront • Information best obtained by self-identification • Gauge motivation of participants
Combination	<ul style="list-style-type: none"> • Best choice in a pre-defined universe • Lower level of government best placed to select • Collaboration across levels of government required • Special additional considerations in cluster selection

Source: OECD (2007), *OECD Reviews of Regional Innovation, Competitive Regional Clusters, National Policy Approaches*, OECD, Paris.

2.3.6. Building linkages across regional innovation poles

Once identified and promoted, local innovative capabilities could yield more effective results if they are connected with each other and explore inter-regional complementarities. Pooling interrelated knowledge and helping firms to embrace larger markets via regional networking initiatives could compensate for the potential hollowing out of certain regions due to asymmetries of information and agglomeration economies. Finland, which is similar to Portugal with relatively small urban areas (apart from the capital), adopted proactive networking mechanisms to make the most of each region's expertise and use it to fuel nationwide growth: it reformed the Centres of Expertise Programme to give stronger focus on national and international networking, and it developed the Regional Centre Programme to promote a network of functional regions (Box 2.10). In Sweden, cross-sectoral cluster initiatives were encouraged, for example in packaging (bringing together pulp and paper, design, ICT, and surface technology). As an outcome of Visanu and the Invest in Sweden Agency, the National Packaging Project is run by the national research institute STFI Packforsk.⁷ In the US, the Georgia Research Alliance serves as the nexus of the regional innovation system across different high-technology clusters with a strong R&D focus.

These various experiences suggest that building linkages – both across sectors and across regions involved in related industries – not only helps to achieve critical mass but also to develop new business opportunities. The Portuguese government could go even further by helping regions to benchmark themselves against each other and within the European map of regional specialisations. For example, it could look into ways to connect its national

Box 2.9. Examples of competitive selection processes used in OECD countries

Most programmes that have a strong innovation focus in OECD countries used a competitive selection process. This is consistent with the purpose of such programmes, which is to support the highest quality proposed projects that are promising sources of economic growth. Examples of such programmes in OECD countries include Sweden's VINNVÄXT (150 applicants), the French *pôles de compétitivité* programme (105 applicants), Germany's BioRegio, InnoRegio and BioProfile programmes. The Georgia Research Alliance in the US does not have a one-time call for proposals but has an on-going competitive selection process. Even when lagging regions are an explicit target, some programmes include a competitive selection process to identify the best public investments within the target group. Germany's InnoRegio, while targeting the lagging Eastern *Länder*, selected only 23 out of 444 applying networks. Other programmes open to lagging regions also included a competitive process (e.g. the SPL programme in France).

The structure of these competitions often recognises that although there may be a critical mass of firms, many potential applicants to a competition would need time to prepare an effective application. As such, some programmes are based around a pre-selection or multi-stage selection process. For example, the Czech *Klastry* programme provides Phase 1 funding to the initiating group to identify other potential partners in the cluster initiative. Funding therefore covers studies and other expenses in the development of the group prior to the funding of more substantial collaboration. The first round of VINNVÄXT funding also included a two-stage process such that a subset of candidates received funding to further develop their proposals.

One of the explicit goals of Norway's Arena Innovative Networks was to have a highly flexible procedure for selection that allowed different points of entry. If an idea for a project needed development, the group could enter at Stage A and receive funding for a preliminary study. If the group was a bit more advanced, it could enter at Stage B directly with a preliminary project. If the initiative was truly advanced, it could enter at Stage C for a main project. A similar staged process was also used for the InnoRegio Programme in Germany.

Competitiveness and Technology Hubs programme with EU-related tools such as the Seventh Framework Programme (FP7) and the Technology Platforms.

In parallel with intangible linkages, synergies and interrelationships between different regional innovative poles could be further supported by more adequate connectivity and accessibility. Portugal has registered remarkable improvements in terms of infrastructure endowments over the last decades; yet it was often pointed out that past investments tended to concentrate vertically on the urban coast. Plans for future transport investment are attempting to better balance nation-wide coverage by emphasising more horizontal linkages

Box 2.10. Towards greater networking: the reform of the Centres of Expertise and the Regional Centre Programme in Finland

The reform of the Centres of Expertise

The Centres of Expertise have, almost without exception, attained a powerful regional – and often national – status. In the international arena, however, they still remained fairly small-scale operators. Following the initial phase focusing on the identification of regional development needs and the aggregation of expertise, there was growing awareness that international competition required greater visibility and larger critical mass. It was acknowledged that future success would depend on the regions' capacity to network with international top-level expertise hubs through concrete co-operation projects.

For the new 2007–2013 period, the programme remains a regional cluster model based on a tendering process, but with stronger focus on international and national networking. A new strategic concept called the Competence Cluster was introduced. A Competence Cluster means a group of 4-7 Centres of Expertise that are located in different areas, have complementary fields of expertise (which can be defined as a branch, technology, expertise or application), and form together a network to achieve common strategic objectives. Each Competence Cluster has a co-ordinator placed in one of the member Centres of Expertise. The co-ordinator is responsible for mutually approved tasks on a contractual basis. The Competence Cluster presents the advantage of pooling together currently scattered resources, increasing the critical mass required for R&D investment, and creating new channels of information and expertise distribution. The national alliance of the best Centres of Expertise diverts attention away from internal competition towards a common response to international competition. In December 2006, the Government approved 13 nationally significant Competence Clusters and 21 Centres of Expertise for the 2007-2013 period.

The Regional Centre Programme

The Regional Centre Programme (RCP) aims at establishing a co-operative network of regional centres covering every region and province in Finland. The programme is based on the premise that a network of regional centres will result in a better balanced development pattern and enhanced international competitiveness of the country as a whole. It is also a way for the government to clarify the division of labour within the country in order to facilitate an efficient allocation of public resources. The national strategy states that “each province must have at least one urban region which offers a competitive location for various types of business and a diversified local job market. In addition, the provinces must have successful smaller urban regions, strong municipal centres and rural regions, whose businesses are efficiently networked both within the province and outside” (Finnish government, 15 January 2004).

Box 2.10. Towards greater networking: the reform of the Centres of Expertise and the Regional Centre Programme in Finland (cont.)

The Ministry of Interior is responsible for the national co-ordination of the Regional Centre Programme. Municipalities apply for the programme in groups, and decide jointly on the management and co-ordination of the programme for their own region. The government finances up to 50% of the costs, while the applicant (group of municipalities) has to finance the remaining half. The Ministry of Interior orients the funding to the Regional Councils (joint municipal bodies), which supervise the implementation of the programme in their respective region. Regional Councils then issue the actual payments to the Regional Centres. The networks facilitate greater interplay between central and regional actors, businesses, the education sector, and the research community. Regional Centres exchange experiences on themes such as innovative action, prosperity, education and culture. Regional Centres in their respective networks focus on specific development needs and possibilities for different types of regions (e.g., large urban regions, industrial regions, rural regions).

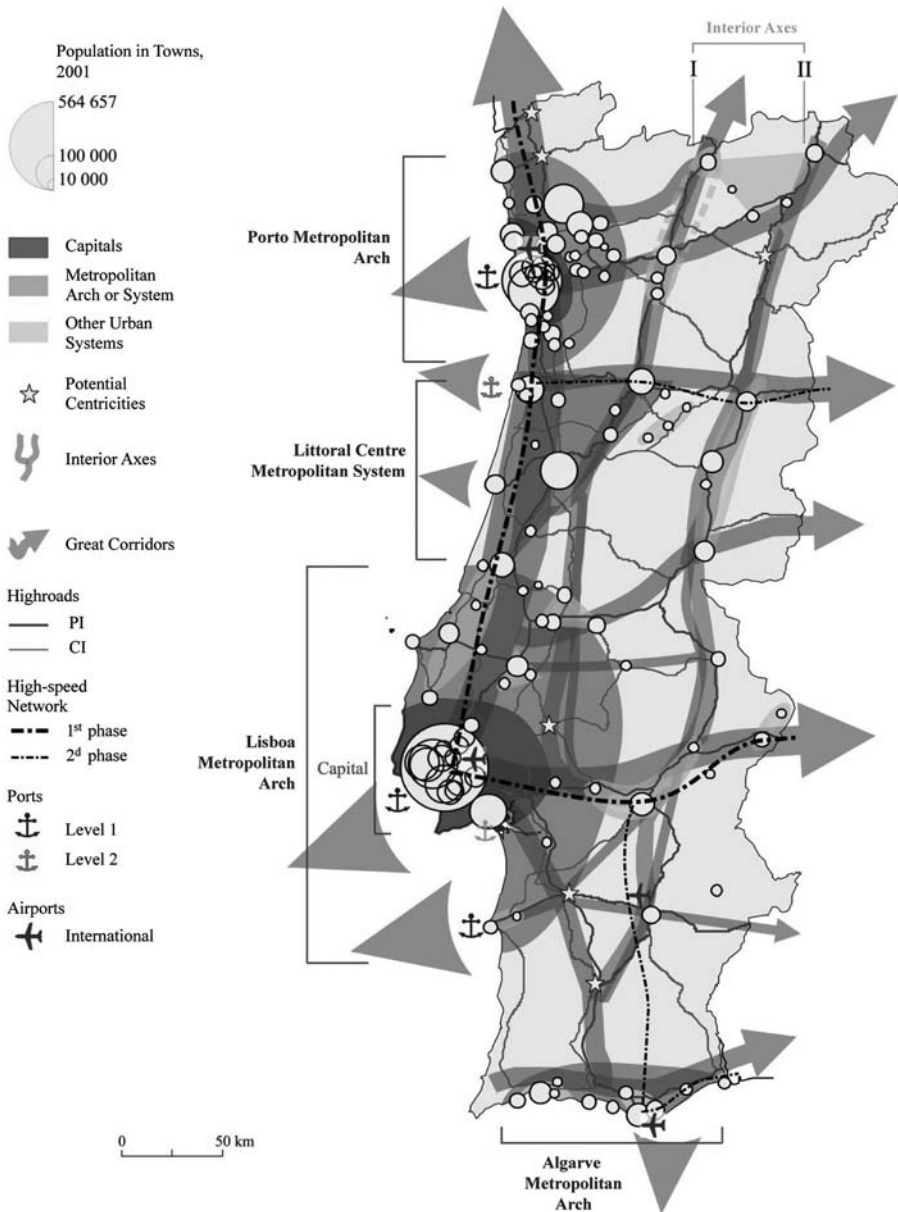
The number of regional centres went from 34 during the first programming cycle (2001-2006) to 35 during the forthcoming second cycle (2007-2010). The government's annual funding for the regional centres is about 9 million EUR, with an average of 240 000 EUR per centre and per year (ranging between 150 000 and 500 000 EUR). This financing covers management costs (e.g., administration, co-ordination, information and publicity). Substantial projects are financed by other sources such as the EU Structural Funds.

Evaluations indicated that the first cycle (2001-2006) had the following outcomes: municipalities became more aware of their own role with regard to the regeneration of their region; they have learnt to engage into goal-oriented co-operation by mutual agreement; private and public actors have strengthened their links; there were improvements in terms of intra-regional convergence, employment creation, and population increase (especially in small regional centres and medium-sized provincial centres). The second cycle (2007-2010) will focus on business-oriented development, specialised expertise, and new operating modes for innovative activities.

(Figure 2.3, Figure 2.4 and Figure 2.5). Cross-checking such plans with a map of inter-regional economic interdependencies (including cross-border) could help pinpoint key missing linkages, drive future physical investment into areas that indicate the greatest return on investment, and ultimately contribute to better balanced national development.

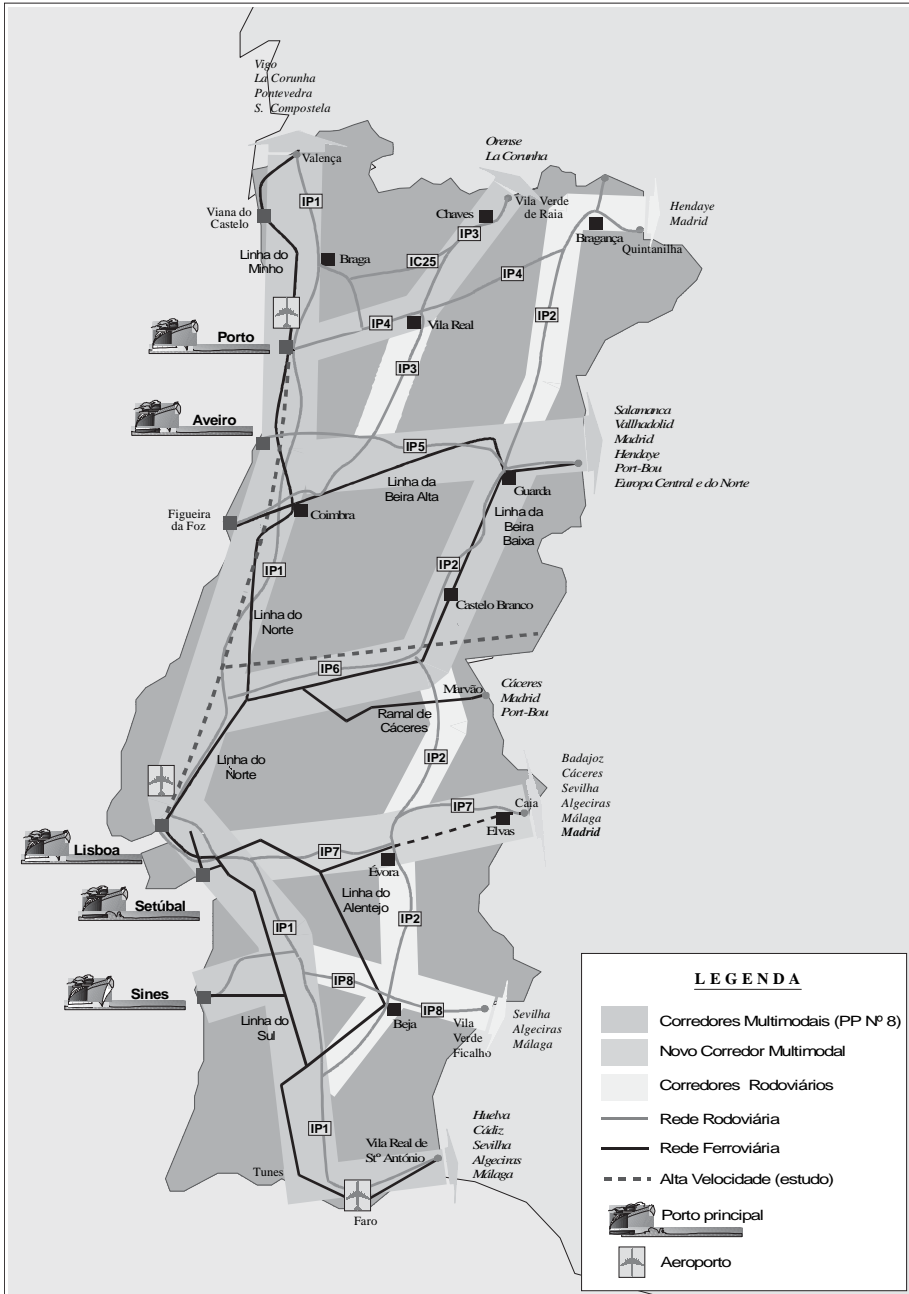
Efforts to re-launch the growth dynamics based on regional innovation, however, may run into a complex policy debate. Given its relatively compact geography, the Portuguese national territory was rapidly partitioned by

Figure 2.3. **Urban system and accessibility plan**

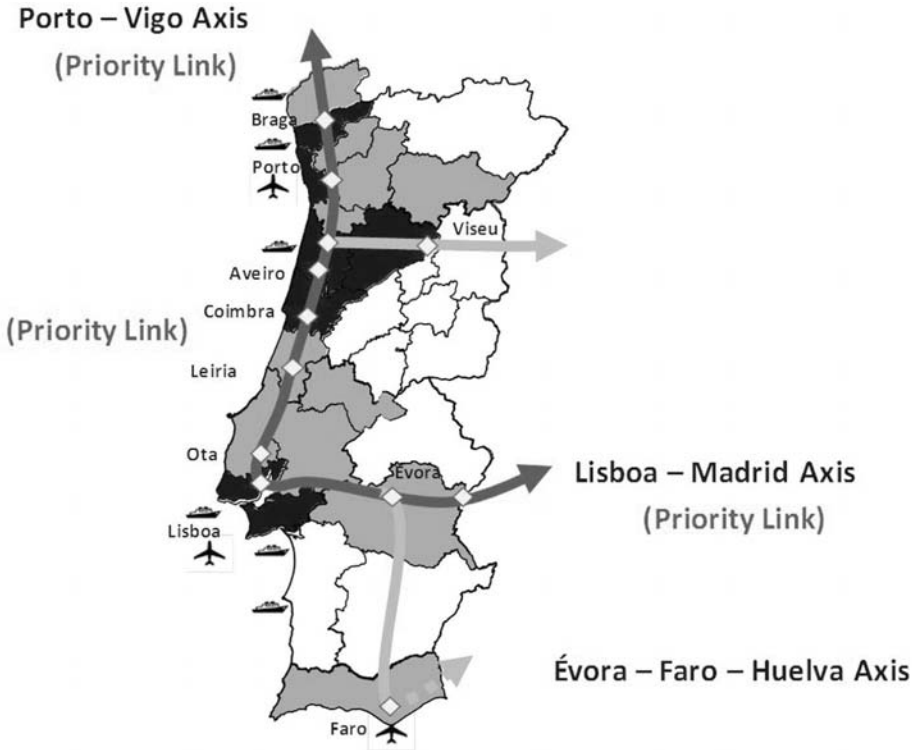


Source: National Spatial Policy Programme 2007.

Figure 2.4. Main transportation networks in Portugal



Source: POAT 2000-2006.

Figure 2.5. **Main investments planned for high-speed railway network**

Source: RAVE.

agglomeration effects, and there are mounting concerns over the possible eviction of certain disadvantaged regions out of the growth route. At a time when some OECD countries are struggling to curb the negative externalities of their rapid industrialisation (i.e., congestion, pollution) in view of new global challenges such as climate change, Portugal still owns relatively preserved environmental assets and territories to be developed. The following section suggests that regional policy can support the overall sustainable development of Portugal.

2.4. Regional policy as a tool to support sustainable development

Amidst recurrent calls for competitiveness-oriented measures, the future of certain regions (mostly rural) has emerged as an increasingly disconcerting policy issue in Portugal. In stark contrast with urbanised or urbanising areas, the majority of Portuguese rural areas are struggling against a typical vicious circle, which spirals respectively through the decline of traditional agriculture, accelerating population ageing, exodus of younger workers, persistent fall of population density, and the erosion of the critical mass required to maintain public services and nurture alternative economic activities.

A major difficulty stems from the fact that current sectoral policies tend to convey contradictory signals to economic agents in rural regions. For example, it is increasingly difficult to combine two opposing policy goals such as keeping farmers afloat in rural areas (a major preoccupation of the Ministry for Agriculture) and rationalising the offer of public services (priority of other ministries such as the Ministry for Education and the Ministry for Transport) (Table 2.4). The multi-dimensional nature of rural development challenges is also evident in the overlap between the Mainland Rural Development Programme (managed by the Ministry for Agriculture) and the various programmes to promote both competitiveness and cohesion in low-density areas (respectively PROVERE and the Multi-Purpose and Proximity Services Network, two very recent programmes prepared by the Ministry for Environment, Spatial Planning and Regional Development) (Box 2.11,

Table 2.4. **Example of policy dilemma in rural regions**

	Preserving rural territories	Rationalising public services
Objective	Helping farmers to remain in rural regions	Streamlining public service investment, focusing on a smaller number of units most capable to meet the needs of the population with higher quality service
Examples of measures involved	Providing income support to farmers	Closing schools that fail to pool a viable number of students Shutting down underexploited transport linkages
Ministries involved	Ministry for Agriculture	Ministry for Education Ministry for Transport
Main source of funding	EAFRD	Structural Funds and national funding

Box 2.11. **The Mainland Rural Development Programme**

The Mainland Rural Development Programme runs over the 2007-2013 period and focuses on low-density areas. It makes a distinction between three categories of zones: defavourised zones, Natura 2000 zones, and rural zones (with some obvious overlapping between the three categories: for example, 94% of “rural zones” are located in “defavourised zones”). The Mainland Rural Development Programme will be financed by the EAFRD (total of 3.5 billion EUR).

The Mainland Rural Development Programme proposes four lines of action: “promoting competitiveness; promoting knowledge and skill development; promoting sustainable rural development; and promoting the economic dynamisation of the rural world”.

Box 2.12 and Box 2.13). Current doubts about the chances of survival of the Portuguese rural world illustrate the failure of a mono-sectoral approach to address complex development issues on the long term.

**Box 2.12. Exploiting endogenous resources
in low-density areas: the PROVERE programme**

PROVERE (Programme for the Economic Valorisation of Endogenous Resources) is a programme promoted by the Secretary of State for Regional Development of the Ministry for Environment, Spatial Planning and Regional Development. The programme is still in an embryonic phase of preparation and many aspects remain to be determined. The ultimate objective is to offer selective support for bottom-up initiatives that valorise specific local resources, mainly in low-density areas (although the area does not have to be continuous, considering the weakness of the institutional fabric).

The envisaged methodology is based on a call for projects, a pre-selection of preliminary projects, an evaluation of the projects by "peering committees" composed of experts and representatives of Ministries, and a final selection of projects. Projects are planned to be financed by the Operational Programmes of the NSRF 2007-2013.

**Box 2.13. Rationalising the supply of basic public services
in low-density areas: the Multi-Purpose
and Proximity Services Network**

The Multi-Purpose and Proximity Services Network is an initiative promoted by the Secretary of State for Spatial Planning and Cities of the Ministry for Environment, Spatial Planning and Regional Development in co-operation with other government bodies. The initiative aims at implementing an innovative method to provide basic public services in low-density, less favoured areas. Public services concerned are education, health, employment and social security, agriculture and rural development, environment, administrative/legal/fiscal issues. The planned network includes a combination of mobile service units (travelling in a vehicle equipped with the Internet), fixed multi-service centres (face-to-face attendance and call centre), and the Internet. Each mobile service unit consists of a multi-skilled team that received specific training. Governance of the local projects will involve municipalities (municipal councils), CCDRs, and local development associations. Around 40 Multi-Purpose and Proximity Services projects are expected to be implemented through the 2007-2013 Regional Operational Programmes (Norte: 15; Centro: 15; Alentejo: 7; Algarve: 3).

One of the most realistic options could be to increase people's mobility so as to facilitate their access to concentrated public services, while encouraging local actors to build on endogenous resources and develop alternative economic activities.⁸ In addition to the fact that Portugal is a relatively small country, the considerable expansion of transport infrastructure during the three EU Community Support Frameworks (1989-1993, 1994-1999, 2000-2006) has translated into even shorter distances between the different regions (see the "virtual deformation" of the national territory in Figure 2.6). Portugal could turn the geographic proximity of its regions into a national asset to foster a network of functional economic regions. This restructuring approach needs to be combined with efforts to synchronise the supply of public services (*e.g.*, not closing unsustainable schools before making sure that a 'concentrated' school in an adjacent area is available to take over the students).

A major avenue for rural development could be to explore territorial attractiveness. Besides authoritative economic studies that concluded that the tourism sector could offer an alternative source of regional growth in Portugal,⁹ the experience of other OECD countries shows that rural regions are increasingly developing a strategy of differentiation and looking into ways to valorise their unique amenities.¹⁰ On top of their general qualities (*i.e.*, green spaces, pollution-free air, lower cost of housing, etc.), Portuguese rural regions could further tap their unique history and traditions to develop activities related with cultural and rustic tourism (as opposed to beach tourism, which displayed signs of saturation in the south, for example). Sport and leisure tourism also offers interesting options as long as it meets strict environmental standards (to avoid problems raised by the rapid development of golf tourism in the Algarve region). There are additional opportunities to capitalise on the brand of the Iberian peninsula through cross-border collaboration (*e.g.*, following the example of the Euro-region linking the north of Portugal and the region of Galicia in Spain). Continuous exchange of information between central and local actors could help the former to complement their knowledge on the overall potential tourism offer (Figure 2.7) and help the latter to find appropriate niches based on differentiated assets.

Recent nation-wide reforms to encourage entrepreneurship and streamline administrative procedures will help to liberate further creative energy in devitalised regions and should be actively promoted. For example, the possibility to set up a new firm in less than one hour (the "On the Spot Firm" initiative launched in 2006) is expected to introduce a more responsive business culture and marks a significant step forward, considering that Portugal used to display the highest obstacles to business creation among OECD countries until recent years but registered noticeable progress (Table 2.5).

A better diffusion of information about existing cases of local renewal could trigger similar initiatives in other parts of Portugal.

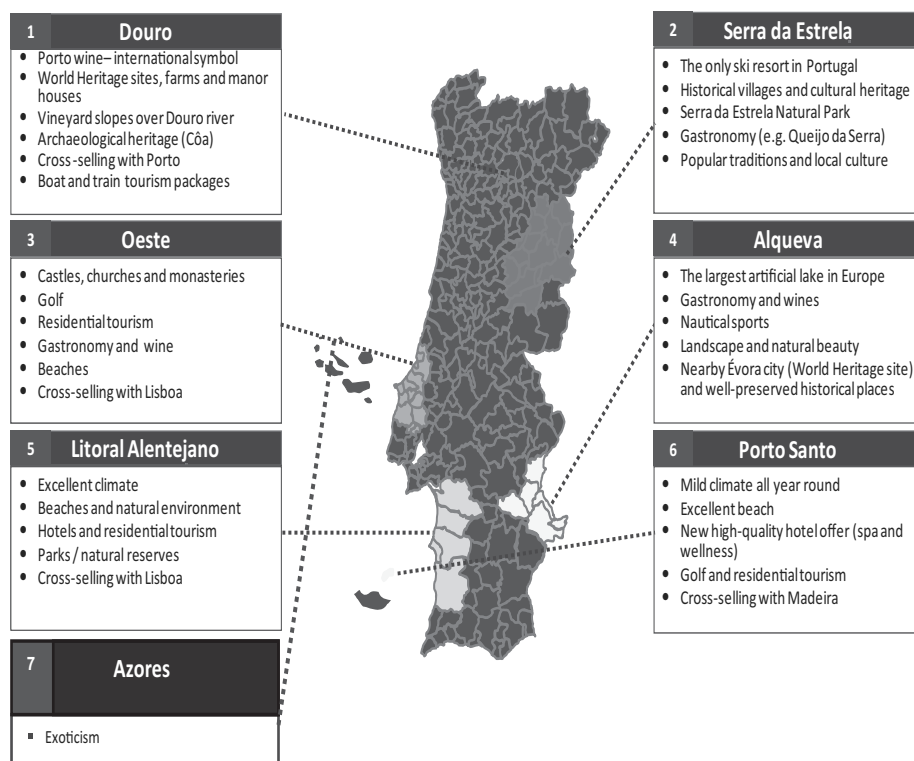
Figure 2.6. **Map of virtual deformation 1986-2006 due to reduction of travel time**



Note: Distances between provincial capitals and Lisbon were reduced in the exact proportion of the reduction of real travel time between 1986 and 2006. This map was produced following the Model of Analysis and Strategic Planning of the National Road Network, supported by computer application for Transport Planning EMME2.

Source: Estradas de Portugal, EPE published in INE, Portugal 20 Years of European Integration (2007).

Figure 2.7. National plan on regional distribution of tourism offer



Source: National Strategic Tourism Plan 2006-2015.

Table 2.5. Cost of business creation in 2007

	Number of procedures	Time (number of days)	Cost (% of per capita income)
Spain	10	47	15.1
Germany	9	18	5.7
Italy	9	13	18.7
Portugal	7	7	3.4
Netherlands	6	10	6
UK	6	13	0.8
US	6	6	0.7
France	5	7	1.1
Denmark	4	6	0
Finland	3	14	1
Canada	2	3	0.9
OECD	6	14.9	5.1

Source: World Bank (www.doingbusiness.org).

By sharing evidence of what was done elsewhere, regions could gain the necessary confidence to break the spiral of decline and to search proactive solutions. The first step in this direction for policymakers is to create new positive expectations among agents. In practice, a few exceptional examples of dynamic rural regions in Portugal are already visible and could be more broadly communicated through a process of inter-regional learning. The city of Mértola, located in a remote and low-density part of Alentejo, illustrates clearly how local leadership was able to promote trust in local potential, encourage citizen participation, foster the creation of interfaces, and facilitate the exchange of experiences (Box 2.14). On the long term, helping weaker regions to capitalise on existing social capital could be a less costly and more effective policy option than *ad hoc* cash injections, which might perpetuate a pattern of overreliance on public funding.

Box 2.14. Searching for endogenous development potential in low-density areas: the example of Mértola

Mértola is a small city of around 8 000 inhabitants located in the region of Alentejo. The city suffers from many problems commonly encountered in rural regions (ageing population, unemployment, lack of critical mass) but the municipal government refused to consider such problems as a fatality. Mértola does not aim at being just a “surviving territory”, but it ambitions to become a “developing territory” that shapes its own future. Drawing on its history, the municipal government decided to create a new development vision according to the motto “roots in the past, eyes in the future”. In order to achieve this objective, local actors are collaborating to develop a new economic pattern based on local assets (*e.g.*, tourism, traditional products, social economy, renewable energy). There are efforts to rationalise settlement patterns (less cities but bigger) and develop new urban-rural networks. Significant investment is devoted to territorial marketing, notably to consolidate Mértola’s image as a hub of Islamic history and art in Portugal (museum, festival, etc.).

This endogenous development approach was supported by a practical modernisation of governance mechanisms. In particular, the municipal government works in close collaboration with ADPM, a local non-profit development association for the protection of Mértola’s heritage. The association staff is composed of around 30-40 people, who are remunerated via EU-funded projects. The main objective of ADPM is to defend Mértola’s endogenous resources (knowledge about local potential) and to bridge the gap between public and private sectors. They have launched several successful initiatives (Monte do Vento for education, Cria(c)tivos for investment in the rural world, Terras do Pulo do Lobo).

Portugal should seize the opportunity of developing new rural activities to serve overall sustainable development objectives. Some rural regions have taken promising initiatives to develop alternative activities based on specific regional potential, such as the wine sector in the Douro region or the agro-food industry in the Alentejo, and the government is usefully backing such projects by promoting them *vis-à-vis* domestic and international investors (Box 2.15). The government has also sponsored a few very large projects such as the Alqueva lake tourism venture in the Alentejo under the form of strategic projects of national interest called PIN (Box 2.16). This type of projects can be compared with similar initiatives in France for example (Box 2.17). Beyond indispensable efforts to co-ordinate environmental and economic concerns, further action to develop weak regions calls for additional considerations. For example, PIN projects tend to focus primarily on large-scale investment. It would be equally important to carefully monitor to what extent such investment builds on local endogenous assets and what mechanisms could help embed external knowledge and trigger spin-offs in the local economic

Box 2.15. The Alqueva Irrigation Project

The Alqueva Multi-Purpose Project (EFMA) has been recognised as being of potential national interest in the Alentejo region. It has an agricultural component called the Alqueva Irrigation Project, which will cover approximately 110 000 hectares in Alentejo Central and Baixo Alentejo.

Once in full use, the Alqueva Irrigation Project will promote the implementation of competitive agricultural systems, which are expected to have a significant economic and social impact on the region and on the country as a whole. The potential wealth created by the Alqueva Irrigation Project was estimated at approximately 300 million EUR per year, which represents 48% of the regional agricultural output (Alentejo) and 9% of the national agricultural output (2005 estimates). The additional employment generated might reach 1 000 to 3 000 annual labour units. The Alqueva Irrigation Project is thus expected to help settle population in Alentejo by diversifying employment opportunities and increasing wealth creation.

In terms of the environment, the Alqueva Irrigation Project will be implemented in a way that will be compatible with the sustainable use of resources and in compliance with existing natural values. It is expected to help tackle desertification by promoting a sustainable use of soils by resident rural population that directly or indirectly benefits from irrigation.

The Alqueva Irrigation Project (secondary irrigation infrastructures) is co-financed by the EU through the EAFRD (PRODER – Rural Development Programme – Mainland Portugal).

Box 2.16. The creation of the AICEP and PIN projects

Following the general reform of public administration in Portugal (PRACE programme), the recent merger between API (Portuguese Agency for Investment) and ICEP (Institute for Investment, Trade and Tourism) into the AICEP (Business Development Agency) was considered a useful move to better integrate FDI and trade policies.

The AICEP will continue to oversee the projects of national interest (PIN). There are currently 63 PIN projects in Portugal (as of the end of 2006), which are estimated to account for 13.4 billion EUR and more than 55 700 jobs. Almost half of the PIN projects focus on tourism (49%), while the remaining half is distributed among energy (16%), chemical and petrochemical (8%) and pulp and paper (6%) industries. Regionally, Alentejo and Lisbon represent 71% of total investment value and the highest job creation figures (40 000 jobs) (Table 2.6).

PIN projects must fulfill criteria related to their scale (their value must be above 25 million EUR) and their nature (structural investment projects, with evidenced value-added). The Committee for Evaluation and Follow-Up is composed of top-level officials from various entities (representatives from the Prime Minister, the Ministry for Economy, the Ministry for Environment, the President of the Environmental Institute, the Directorate General for spatial planning and urban policy) and meets every two weeks to monitor the environmental sustainability of the projects.

Table 2.6. PIN projects

	Number of projects	Value of investment (million EUR)	% of total	Number of jobs	% of total	Unemployment rate
Norte	9	1 133	8.5	7 707	13.8	8.4
Centro	12	1 150	8.6	1 345	2.4	5.1
Lisbon	11	3 421	25.6	25 606	46.0	8.1
Alentejo	21	6 116	45.8	15 263	27.4	8.9
Algarve	9	1 432	10.7	5 786	10.4	5
Madeira	1	113	0.8	n.a.		5

Source: PIN team, INE, Employment Statistics, 2nd trimester of 2006.

fabric, rather than pursuing one-shot investment that “travels light” and leaves little durable benefit behind. The link between policies for regional economic development, spatial planning, environmental sustainability, investment attraction but also decentralisation needs to be investigated more carefully, as shown by the example of France (Box 2.18).

Box 2.17. Supporting specific strategic projects: the *Opérations d'Intérêt National* (OIN) in France

The concept of *Opérations d'Intérêt National* (OIN) was created in 1983 at a time when the French government was decentralising urban planning competencies and at the same time facing the challenge to maintain the State's prerogatives regarding strategic territories. According to urban planning laws, when the central government designates an area as an OIN, the municipalities located within this area lose part of their own competencies in urban planning. This means that the central government gains stronger influence on the local planning process. Due to the key role of the central government, the OIN project is usually managed by a public agency that oversees the territory covered by the OIN. In 2007, about 10 OIN projects are being implemented.

Box 2.18. Better articulating FDI policy and regional economic development policy: the example of the Invest in France Agency (*Agence Française pour les Investissements Internationaux*, AFII)

In France, concern over potential contradictions between FDI policy and spatial planning policy was tackled by the recent reformulation of the Invest in France Agency's mandate. The objectives of the Invest in France Agency (*Agence Française pour les Investissements Internationaux*, AFII) now include explicitly spatial planning issues and the economic development of less developed territories or territories and firms undergoing a crisis.

AFII was established in 2001. At that time, it reported to the Minister of the Economy, Finance and Industry, and to the Minister of Regional Development. The Agency's objective is to attract long-term international investments that generate economic growth and employment opportunities. Its responsibilities include promoting the French territory to international investors and opinion leaders, prospecting internationally mobile investment projects, acting as a broker between investing businesses and local authorities, economic development organisations, government bodies and service providers, co-ordinating site selection proposals presented to the French regions, monitoring international investment flows and site selection factors.

The Agency collaborates with local authorities and with the support of partners in the business community. Currently, 60 people staff the Invest in France Agency's Paris headquarters, while an additional 80 work for its international network of 22 field offices, also called Invest in France Agencies.

Within the Agency's headquarters, the Committee for the Orientation and Follow-up of the Projects (*Comité d'Orientation et de Suivi des Projets*, COSPE) is in charge of identifying the sites that are best able to meet the investing

**Box 2.18. Better articulating FDI policy
and regional economic development policy:
the example of the Invest in France Agency
(Agence Française pour les Investissements Internationaux, AFII)
(cont.)**

company's requirements. In addition to specialists from the Agency itself, the Committee's members include representatives of DIACT, the Ministry of Industry, the Foreign Trade Division of the Ministry of Economy and Finance, regional economic development bodies, the corporate community, and other actors involved. The Committee meets at least once a week, and whenever urgent information on a specific project is required.

The Agency is managed by a President and a Board of Directors, which includes seven representatives of various ministries (including the Ministry of Economy, Finance and Employment, the Ministry of Regional Development, the Ministry of Foreign Affairs, the Ministry of Technology), four representatives of local authorities, four members with special expertise in international investment, and two representatives elected by the Agency's staff.

In November 2006, four new strategic priorities were formulated, among which two are related with spatial planning and economic development targeting high value-added territories as well as less developed territories:

- “actively participate in spatial planning policy by fostering innovation and growth of the competitiveness poles on the one hand, and supporting the diversification of industry in fragile territories, regarding international competition, on the other hand”;
- “give foreign investors a better knowledge of the economic and social reforms implemented by the French government”.

In addition, two major measures have been taken to facilitate policy integration.

First, DIACT has become a member of the committee in charge of analysing foreign investment projects. It contributes its knowledge on the state of development of the different territories and it makes suggestions to match investment projects and specific territories. AFII is free to propose these suggestions to the regions, which then make the final decision. Regions are aware that they compete with other French and European regions, and they have to evaluate the advantages and risks they take by proposing a less dynamic territory within their region.

Second, AFII is now participating in the intersectoral committee for economic mutations, in which all ministries come together on a weekly basis to examine companies or territories that are confronted with particular difficulties. AFII can therefore share information with government policymakers about a foreign investor they know that may be interested in bailing out these companies or territories.

2.5. Conclusion

Portugal stands at a decisive crossroads on its development path. The country enjoys a unique location at the south-western tip of the EU and privileged access to envied markets such as Latin America and Africa. It has substantial potential to increase its productivity and to specialise in sustainable development-oriented activities. Building on past achievements (e.g., physical infrastructure, basic education), it could give a fresh impetus to innovation and consolidate its catching-up process towards knowledge-based economy, or risk to let emerging economies tackle its position on low-end products. In a context of EU enlargement where the 2007-2013 programming period might offer the last external support to nurture endogenous growth capacity, the government will need to pass salutary reforms. Regional policy will help send a powerful stimulus into the economy and liberate local creativity. The Portuguese territory should no longer host an accidental collision of sectoral policies but become a field to foster an integrated strategy for growth and collective improvement. During the elaboration of recent reforms, the government showed strong commitment towards a renewed agenda for competitiveness compatible with environmentally sustainable development; such efforts need to be pursued throughout the implementation phase. The following chapter will discuss the governance mechanisms required in regional policy to bring various actors together, to promote capacity building, and to ensure overall policy coherence.

Notes

1. "Territorial Enhancement" will mostly fund projects in transport and environment.
2. In the past, the effective impact of sectoral policies in terms of spatial planning was not monitored thoroughly.
3. See OECD (2007), *Economic Survey of the European Union*, OECD, Paris.
4. This ongoing initiative is expected to be completed in early 2008.
5. The close link between the Technological Plan and the Lisbon Strategy also translated into a positive institutional reform that placed both under the responsibility of a new co-ordination cabinet (GCELPT, *Gabinete de Coordenação da Estratégia de Lisboa e do Plano Tecnológico*), which reports directly to the Prime Minister.
6. More detailed information on these examples in OECD (2007), *OECD Reviews of Regional Innovation, Competitive Regional Clusters, National Policy Approaches*, OECD, Paris.
7. More detailed information is available on the STFI website (www.stfi.se).
8. Regional development policies need to adapt to the fact that it will be extremely difficult to reverse demographic trends in low-density areas in the near future before a new demographic cycle begins.
9. For example, see article from Elias Soukiazis and Sara Proença "Tourism as an Alternative Source of Regional Growth in Portugal", *Documento de Trabalho*, September N°34, Coimbra 2005.
10. See OECD (2006), *The New Rural Paradigm*, OECD, Paris.

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AICEP	Business Development Agency of Portugal
CCDR	Commissions for Regional Co-ordination and Development
ERDF	European Regional Development Fund
ESF	European Social Fund
GCELPT	Cabinet for the Co-ordination of the Lisbon Strategy and the Technological Plan
NSPP	National Spatial Policy Programme
NSRF	National Strategic Reference Framework
OP	Operational Programme
PIN	Projects of National Interest
PRACE	Programme for the Reform of Public Administration
PRIME	Programme of Incentives for the Modernisation of the Economy
PROT	Regional Spatial Plans
PROVERE	Programme for the Economic Valorisation of Endogenous Resources
ROP	Regional Operational Programme



From:
OECD Territorial Reviews: Portugal 2008

Access the complete publication at:
<https://doi.org/10.1787/9789264008977-en>

Please cite this chapter as:

OECD (2008), "Regional Policy as a Tool to Enhance Portugal's Competitiveness", in *OECD Territorial Reviews: Portugal 2008*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/9789264008977-4-en>

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