DOES THE NEW ECONOMY CALL FOR A NEW REGIONAL POLICY CONCEPT ?

Opportunities for Regional Development Agencies!

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November 2000

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FOREWORD

Certainties About the Uncertainties of the Early 21st Century

The common consequence of globalisation, trade internationalisation and the development of the Internet is a greater degree of uncertainty in areas such as trade stability, production loci, currency flows and even population movements. The only certainty left is that uncertainty will grow. Project and product life cycles will become shorter and so change will happen both deeper and faster. Businessmen and public decision-makers will have considerably less time to take decisions while, the time dimension being equal, competitiveness or development gaps will grow if public policies fail to supply appropriate answers immediately.

Regardless of the new economy, there will be a need to change regional economic development intervention systems.

The public sector has always—if belatedly—adapted and then adopted the private sector's management methods. This will be true with the emergence of the new economy too. But this time around, the delay might have catastrophic consequences for those regions that fail—knowingly or unwittingly—to step up the redeployment process.

Below are a few stimulating, original ideas—read or overheard—that have shaped to a large degree the thoughts contained in this working document, whose purpose is to nurture a debate on the future of local/regional development policies in the context of an emerging new economy—with knowledge, telecommunications and the globalisation of trade as its pillars—while attempting to cater for part of the public opinion's aspirations in the social field and with respect to sustainable development.

a) It takes the public sector varying amounts of time to assimilate the private sector's management methods, so we should watch out for change and prepare to take it on board.

b) The public sector needs to factor social acceptance of certain costs into the equation of its efforts to maximise cost-effectiveness, which means that it is out of the question to select the option that offers maximum cost-effectiveness regardless of circumstances.

c) The new economy is not just about massive investment in the stock of new businesses. Like any other novelty, it generates opportunities and hazards.

According to the principle defined under a) and b) above, we have to accept that the new regional economy cannot simply be an issue of subsidies and financial transfers from the centre to the regions or an improvement of the efficiency of this type of economic development financing mechanism.

d) Regional economic development does not solely depend on a region's capacity to absorb external funds that are granted more or less generously, but rather on its ability to generate financial flows and thereby secure a sound fiscal base.

e) Regional development is a collective learning process aimed at making the best of a territory's physical and human assets.

f) In an economy that globalises, the local level is more and more important—provided that it becomes professional and progressively changes into a skills centre—because it can be a valuable beacon and a confidence builder.

g) Innovation happens when a new product, service or process is launched on the market. This statement is true whether in the commercial, non-commercial or public sector.

h) The new economy will substitute knowledge-based networks and complementary partnerships[1] for existing power-based hierarchies. The era of fragmented public services offers is doubtless over.

i) "Small is beautiful" is now an old-fashioned concept and is fighting a losing battle against mottoes such as "if you cannot beat them, join them!" or even "networking is great".

j) The strength of a chain is defined by its weakest link. In order for regional development policies to make effectiveness and efficiency gains, policy designers and decision-makers have to think in terms of value chains rather than links.

k) The new economy does away with time and space constraints.

A review of the *modus operandi* of public intervention in a fast-changing environment can be a major opportunity for development agencies in that they are both a privileged locus for the implementation of a new form of governance and at a crossroads between the public and private sectors.

[1] Christian Poncelet, *Les enjeux du siècle à venir*, Le Figaro, 26 June 2000.

I. BACKGROUND AND QUESTIONS ON THE ABILITY OF CURRENT REGIONAL POLICIES TO MAKE UP FOR THE SHORTCOMINGS OF THE NEW ECONOMY

Introduction

Public policies can no longer afford to ignore the effects of globalisation and the growing impact of the "Net economy" and knowledge-based society.

International bodies (G7, European Union) and States are taking action—or at the very least issuing statements—to the avail of preserving the population's confidence in their ability to manage new situations as they arise under pressure from these constraints. But, in certain fields—such as the fight against unemployment—, national policies are limited.

So it is legitimate to ponder the consequences and adjustments that will be required at regional or local level to make the best of opportunities or to control the potential damage created by these new influencing factors.

In other words, the following questions need to be answered:
™ Does the new economy call for one or more new regional strategies?
™ Will the new economy have a different impact according to specific regional features?

The definition of the new economy is not limited to the development of information and communication technologies. It should also consider the following concepts:
- globalisation of trade
- knowledge-based society
- sustainable development
- technical, technological and managerial innovation.

These concepts all:
- require high levels of capital investment
- have a shorter decision-making time scale than the so-called traditional economy
- are exempt of strong geographical roots
- call for skilled and flexible human resources.

The main issues relating to the adjustment of regional development practices to the new economy appear to be the following:
- the modus operandi of today's regional policy essentially consists in reacting to or curing industrial problems instead of tackling intangible or prospective problems
- regions that are less developed today do not seem *a priori* to be equipped to take a quantum leap in development and move from the status of less-favoured region in the traditional economy to that of a strong region in the new economy
- regions in crisis do not have the financial assets required to make the basic investments that are vital to make a full entrance in the new economy
- current regional policy is confined within rigid administrative geographical limits that reflect village-pump mentalities rather than spatial planning considerations.

New Economy, Spatial Planning and Current Regional Policies

What are the main and immediate consequences of the new economy for spatial planning? There appear to be six:

- distances are shorter and geographical boundaries lower,
- competition between territories is stronger,
- there is a growing need to meet demand in real time,
- there is a rising need for a trained, skilled and flexible population,
- more regional capital is needed for investment in infrastructure, training and education, production and innovation (when the trend is now for financial flows to become international),
- regions have to be able to increase and accelerate business creations whilst perpetuating and developing existing companies.

Finally, there will be a greater need, at regional level, to control the interactions between macroeconomic trends on the one hand and meso- or even microeconomic action on the other hand. In other words, is small still beautiful and will "small and beautiful" networks be able to hold out against "big and global" ?

The main shortcomings of traditional regional economic policy systems appear to be as follows:

™ Absence of mid-term vision and sound governance. This materialises into a number of regions seeming to revel in a permanent state of assistance or seeking to become chronically subsidised (cf. the European Union's structural policy) and founding their economic intervention system on assistance (granting of subsidies) rather than on financial engineering dynamism. Most regions also suffer because the public or public/private offer of support services—for the socio-economic fabric of society in general and for businesses in particular—is heavily fragmented.

™ Evaluation mechanisms that are actually a form of financial control over public expenditure—in order to ensure the availability of finance in the future—rather than dynamic management systems.

™ Problems managing projects with a strong immaterial component.

™ A tendency to privatise the benefits of economic growth, then only to ask the public sector to cut down the impact of the next recession. A double consequence of this situation is that regional policies are not included in strategic thinking undertaken when the economy is healthy and that their function in even placed on standby when economic circumstances are most favourable.

™ Absence of a fully packaged territorial supply to support endogenous and exogenous investors.

™ Conservatism in the selection of regions that are eligible to regional subsidies. Ever since its creation, the European Regional Development fund (ERDF) has been managed essentially according to the following principles:

- Farming- or industry-based aggregates, when Europe's economic future can only be founded on a services economy, the knowledge-based society and innovation.

- Subsidiarity—or even Community financing for regional policies that are actually national—instead of a bold European policy. Overall, as far as regional policy is concerned, the European Union has been unable—or unwilling—to develop an educational method that capitalises on the lessons learned from Community initiative programmes and the pilot or innovative projects co-financed under former Article 10 of the ERDF. The same statement can be made about former Article 6 of the European Social Fund (ESF) and about former Article 2 of EAGGF-Guidance.
- The adoption of curative—rather than prospective—regional strategies. It is useful to observe that, over three Structural Funds generations, the European Union has managed to initiate curative action for the steel, shipbuilding and coal industries (RECHAR, RENAVAL and RESIDER I and II outside ERDF quotas[2]), but has failed or been unwilling to get the Member States to make funds available to the regions for initiatives in areas such as the information society, innovation, research, the knowledge-based society or even the development of the European area. The fact that a number of regions focused their lobbying efforts on RESTRUCT[3]—an essentially curative initiative—instead of on *e*-Region or @-Region, innovative regions, or even Regentrepreneurship or Knowledge Region, is evidence enough.
  The same is true of urban lobbying: urban areas became eligible under ERDF Objective II mainstreaming for 2000-2006, on top of which they were confirmed in their conservative and curative approach by the European Parliament with initiative URBAN II.
  It would be advisable for European policies to—at long last—think in terms of projects that are in the interest of the Community, so that taxpayers' money is used to visibly improve European Union cohesion.
  Annex I considers the stakes of Europe's structural policies beyond 2006.
- Hidebound financial programming: budgets are distributed at the beginning of programming periods and no funds are reserved to react curatively or prospectively to unforeseen events.

In terms of regional economic development, it would probably be simplistic to focus on just one element of the net-economy when in fact it is based on the four segments below:

- Infrastructures
- Applications
- Intermediaries
- Commerce.

For each of those segments, there is a need to develop specific elements of regional strategy and to pay attention to potential interactions between the various segments in order to invest in them or attract new local operators in each segment of the new economy.

[2] The same statement can be made about the ESF and rural development.
[3] Lobbying by industrial regions that won over the support of the European Parliament and Committee of the Regions for the 2000–2006 programming period, but not the endorsement of the European Commission nor of the Council.

The Weightless Economy

The factors determining the market value of a business involved in the new economy (information technologies, software, and biotechnology) are increasingly influenced by intangible assets (capacity for innovation, human capital, patents, etc.).

The diagram below tries to establish a parallel between the assets representing new types of added value in private businesses (Diagram A) and those of a region (Diagram B).

Diagram A: Factors influencing the market value of a company

Market value

Tangible assets

- Land
- Real estate
- Cash

Intangible assets

Human capital

- Expertise
- Education
- Training
- Innovation

Structural capital

- Culture
- Patents
- Copyrights
- Information systems

Customer capital

- Brand
- Customer relations
- Supplier relations
- Regulations

Source: Bob Downes, British Telecom

Diagram B: Factors influencing the value of a region[4]

Value of the region

Tangible assets

- Basic Infrastructures
- Enterprise zones
- Real estate

Intangible assets

Human capital

- Education
- Training
- Entrepreneurship
- Capacity for innovation

Structural capital

- Financial engineering
- Intermediary organisations
- Regional prospective
- Economic watch
- Support services

Networking capital

- Governance
- Clusters
- Public/private partnerships
- Quality of life
- Attractiveness for foreign investors

In the future, regional policies will have to look both for improved complementarity between the tangible and intangible sides of economic development and for a stronger regional anchoring of intangible factors (i.e. prevent business relocations and the outflow of local savings and promote the return of citizens trained elsewhere and of talented persons, etc.).

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4 Diagram derived from Bob Downes's proposed model to evaluate businesses tabled at CUED's yearly conference in Atlanta in September 2000

New Economy and Availability of Capital at Local Level

The new economy will have a sizeable impact on the availability of capital for local initiatives, including for SMEs. This belief is based on the following observations:

- The liberalisation of the financial sector has led to mergers and acquisitions which have removed decision-makers from local situations and specific circumstances and driven businesses to seek activities with ever higher yields that cannot be obtained with the kind of—inevitably—small funding required for local projects.

- The development of electronic banking and stock trading will free small savers and other investors from geographical constraints. The development of this part of the Internet will compound the effects of the flight of local savings and will make it even more difficult to mobilise local assets for local projects.

- As a result of the development of *e*-banking, a number of local bank subsidiaries will disappear and with them, the personal relationship between bankers and businessmen. This situation will make SME access to banking products even more difficult.

- The new economy requires ever more substantial financial volumes, which in turn makes small-size local projects less interesting.

- Public authorities are more aware of the need to save ailing businesses than of the usefulness of strengthening their portfolio of businesses.

Socialism and Social-Liberalism

The market economy is accepted by most political schools of thought today. Henceforth, managers of public or semi-public bodies all have to consider the future of their organisation in terms of the added value that they can contribute to this inevitable phenomenon, failing of which it will appear, in the eyes of the community, as expensive overhead in the new economy's trading account!

The role of public services will change deeply in years to come, and change will not simply involve administrative simplification or even a reform of administrative services. The authorities will of course have to continue framing the development of the new economy in order to avoid certain abuses, but they will also increasingly have to specialise, either to make up for the failings of private enterprise or to ensure the solvency of certain services in areas where they are long in developing. This new role of public services will also have an impact on regional development and on how regional economic development strategies should be designed and delivered.

Spiralling Costs of Take-Overs

Takeover bids are currently the most fashionable method among businessmen to achieve global status. POEs are reaching incredible amounts. According to the French newspaper *Les Echos*[5], the ten largest mergers announced in 1999 amounted to a total of nearly MEUR 600,000. By way of comparison, the European Union's regional policy budget commitment for 1999 was MEUR 15,500.

The communication budget of an SME such as *Cdiscount*—a French business specialising in Internet sales of cultural products—amounted to EUR 4 million/year in 1998 and 1999, which is minute compared to the million visitors and 70,000 customers its site attracts every month, for a turnover of EUR 1.25 million in September 2000, against EUR 0.85 million the previous month.

By way of example, below are the advertising budgets[6] of a few French dot.com companies over a six-month period (November 1999—April 2000):

NAME	BUSINESS SEGMENT	MEUR
Houra.fr	Online Supermarket	10.0
Fimatex.fr	Financial Services	4.5
Travelprice.com	Travel Agent	2.7
Kelkoo.fr	Price Comparisons	2.0
Immostreet.com	Real Estate	1.9
Spray.fr	Portal	1.7
Boursorama.fr	Financial Information	1.7

It is worth recording, by way of anecdote, that the cost of buying a good football player[7] is around MEUR 10, which hardly compares with the MEUR 9 spent by the European Union on the protection of its architectural heritage in 1999! Following the Bosman ruling, it might be advisable for the European Union to establish a specific Community tax on the trade of labour in order to protect, say… its cultural heritage.

Also worth noting is that, for 2000–2004 alone, television channels will pay rights amounting to a total of EUR 3.3 billion to broadcast English football matches (Premier League, Cup and National Team matches). For the record, Manchester United's turnover is EUR 193 million!

As of 25 July 2000, the ten largest football transactions amounted to MEUR 370, i.e. more than the funds earmarked for innovative actions under the ERDF's 2000–2006 programming period. All ten deals were with or between Spanish and Italian football clubs, i.e. two countries that account for more than 30% of the Structural Funds for this same period.

[5] *Les Echos de 1999,* 7–8 January 2000.
[6] *Le Journal du Dimanche* (F), 08 October 2000
[7] A player such as Anelka (F) costs MEUR 33.5, Italy's Vieri is worth MEUR 46.4, Crespo of Argentina runs as high as MEUR 56.8 and Portugal's Luis Figo culminates at MEUR 61.7. Between the four of them, they are worth more than research programmes such as "Environment and Health", "Marine Ecosystems" or "Nuclear Fission".

The enormous proportions of these economic transactions stress how tight local and regional authorities' margin for manoeuvre is and the vital need to develop synergies and so generate the critical mass required to leverage a significant impact with their action.

The boom in amounts invested in the net-economy has had positive consequences in at least one field: the states' financial culture. Indeed, instead of granting public monopolies—and the support subsidies that are generally associated to those—, Ministers of Finance now licence mobile phone network operators against access duties, which serves to show that it is both possible and profitable to leave a culture of subsidies to enter the world of project engineering! What is true for the phone today should become true of other public services as well. One might also wonder why mobile phone network operators have to pay national, instead of regional, licenses.
The income generated from the sales of UMTS licences reached EUR 38.5 billion in the United Kingdom and EUR 50.8 billion in Germany, i.e. roughly the equivalent of the European Union's budget for an entire year. Around the same time, *Deutsche Telekom* paid MEUR 54.700 to acquire US Company *Voice Stream*, i.e. USD 20.000 per subscriber. Had Europe been in a position to auction transnational licenses, it could have generated enough resources to considerably strengthen its budget for subsidies to regions whose telecom sector is poorly developed.

Still on the trivial side, it seems that the management of agricultural issues is taking precedence over consideration for other problems. This is how Great Britain spent around UKP 4 billion (± EUR 6.83 billion) trying to eradicate the mad cow disease by removing 4.8 million cows from human consumption channels[8]—which represents a processing cost of around EUR 1,430 per cow—when the United Kingdom's total subsidies under Objectives 2 & 3 of the Structural Funds for the 2000–2006 programming period amount to EUR 3,989 million and EUR 4,589 million respectively.

[8] Financial Times, 26.10.00

***e*-Commerce and Regions**

After a period of stock market adjustment, it is evident that the new economy will continue to grow and influence economic life.

Businesses will prosper if, as in the traditional economy, they are innovative, develop a strong management or generate substantial, contents-based, added value.

According to an article published in *Le Monde* (26 June 1999)[9], the stakes of the Internet will be affected by the following wide-ranging evolution, which will obviously not be neutral in terms of business support policies.

- *The inevitable boom in online sales. Sooner or later, when they overcome their cultural and technological reluctance, French consumers—suspicious and poorly equipped as they are—will come to appreciate the quality and size of the supply and send their flowers and buy their CDs and screwdrivers mostly online. Who will manage to attract them?*

- *The empires will strike back. The giants, who are currently positioning themselves on the Net (TF1, France Télécom, Vivendi, etc.) will generate a growing flow, aided by such sheer financial firepower that they will eventually overshadow many of their 'robot' rivals. Start-ups whose business model is based solely on a computerised service (price comparisons, etc.) will suffer greatly from the competition imposed by giants with the ability to invest heavily in order to meet all the 'robot' needs of mass superhighway consumers, from e-mail to online auctions.*

- *Confronted with those giants, those who manage to specialise in 'delicatessen'—intelligent, hard-to-duplicate products—will considerably improve their chances of survival and growth. Based on services with a strong contents and an original approach, with an emphasis on shared interest or affect, they will offer Internet users the little extra something that online sales sites lack. Such sites will be visited as much for what they offer (information, entertainment, commonality, computer services) as for what they sell. From e-advertising to e-commerce—and of course a fabulous marketing potential in terms of collecting information about users—, their development model will be powerful and, more importantly, viable.*

As for the rest… Well, they will simply vanish. (…) The new economy can no longer escape the laws of gravity: no value without a hyperrealistic development model.

E-commerce is often quite restrictively summarised using two acronyms—B2B and B2C—when its impact would in fact be more usefully portrayed using a matrix containing six columns and four lines to account for the various relations between the public and private sectors and also to embrace the whole picture of a global e-commerce market. This matrix is as follows:

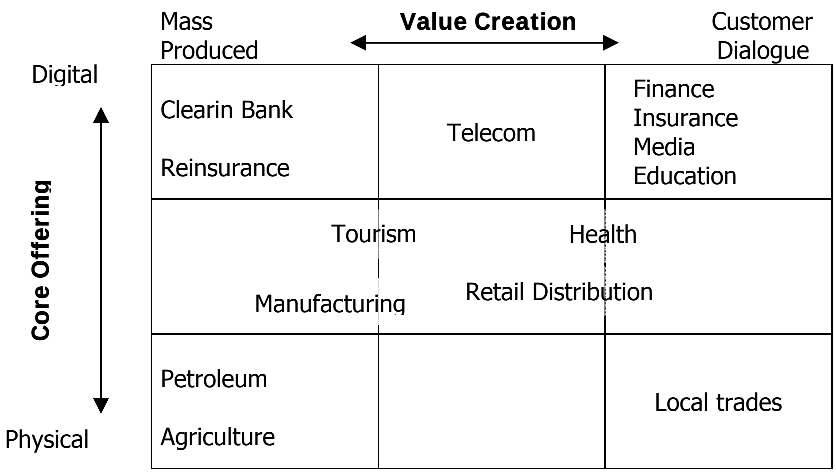
[9] Article signed by Cyrille Minso, Associate manager, Net@lerte.

	Businesses	Public Administrations	Intermediary Organisations	Retail	Consumers	Employees
Businesses	B2B	B2A	B2I	B2R	B2C	B2E
Public Administrations	A2B	A2A	A2I	-	A2C	-
Intermediary Organisations	I2B	I2A	I2I	-	I2C	-
Consumers	C2B	C2A	C2I	-	C2C	-

E-commerce namely draws its power from the following situations:

- Large markets
- Fragmented supply chains
- Expensive information updates and product price comparisons
- High wages for manpower in general services.

E-commerce is influenced by the networking of suppliers and customers. The more sensitive the market segment is to networking, the stronger its impact, as shown by C. Fellenstein and R. Wood's[10] evaluation below.



Electronic commerce—and more specifically "B2C" (Business to Consumers)—is in many ways just a re-invention or redefinition of mail order. The development of this kind of activity at regional level will very much depend on how efficiently logistics issues are solved locally. This problem needs to be addressed both from the point of view of the relationship between businesses and their customers (delivery of orders) and from the angle of a region's competitive advantage, i.e. its accessibility. Moreover, this type of commerce calls for dispatching areas or buildings in addition to industrial installations.

10 C. Fellenstein &R. Wood, *E-commerce, Global E-business and E-societies* , Prentice Hall PTR, 2000 (ISBN 0-13-084846-8), p. 17

These considerations do not *a priori* plead in favour of peripheral regions, one of their main disadvantages being their remoteness (issues of time and accessibility) and its consequence: higher transport costs.

Examples of disadvantaged peripheral regions in terms of costs:
DHL price for transport of a …kg-package between … and …

The premise that B2C is actually just mail order based on another medium than a paper catalogue can be illustrated with the example of JBC, a Belgian ready-to-wear company. The charge and lead-times for delivery are as follows:
- By mail: EUR 3.72 in 7 days
- By express mail: EUR 11.16 in 2 days
- Delivery at shop: free of charge within 3 to 10 days

For the record, *3 Suisses*—a mail-order business operating in Belgium too—offers the following solutions and charges:
- a flat charge of EUR 4.19 for delivery
- EUR 4.19 for delivery at a *Relais 3 Suisses* within 24 hours
- EUR 10.88 for delivery at home within 24 hours.

According to the results of a Belgian survey[11], it appears that the main issues with e-commerce these days—whether in B2C or B2B—, are the following:

• Late delivery	20.6%	42.1%
• Extortionate supplements	10.4%	22.7%
• Inaccurate deliveries	4.5%	12.9%
• Wrong credit-card charging	4.2%	9.9%
• Orders paid but not delivered	3.7%	3.9%

In order to solve late delivery issues, new businesses are emerging that specialise in same-day deliveries and establish partnerships with a variety of businesses that specialise both in e-storage and physical product delivery.

In addition to the logistical factors developed above, *e*-commerce as an industry requires very high levels of capitalisation and is arguably based on a fabric of new businesses with a strong potential for growth. In these fields, as in the case of the logistics supply, regions that are peripheral or structurally less developed have more disadvantages than assets to compete with.

It should be noted that electronic trade between businesses (B2B) is growing far more rapidly that *e*-commerce between businesses and final users (B2C) and many alliances are being signed for B2B under the name "business forums". This trend needs to be taken into consideration at regional level when it comes to support services for businesses. Instead of being customised, the latter will likely have to evolve into "collective sectoral[12] support services". Notable among business forums created during the first half of 2000[13] are Rubbernetwork, with Goodyear, Michelin, Cooper, Pirelli and Sumitomo as its partners or Covisint with G.M., Ford, Daimler-Chrysler and Renault-Nissan. Such forums exist in sectors such as retail, oil, car parts, IT, chemicals, food and drinks, etc.

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[11] Quoted by Bizz, October 2000, p. 53, from *Internet commercial – Grid Consulting 2000*
[12] See DATAR's experiment (F) under the name "local productive systems".
[13] *Les Echos*, 07 June 2000, p. 79.

The development of B2B e-commerce also calls for a review of just-in-time deliveries (JIT) as a concept, and therefore requires a reconsideration of business establishment decisions. In the future, will parts suppliers tend to settle down near the hubs of express delivery organisations (their forward logistics centres) instead of where their main contractors' production lines are located, as is the case these days? In other words when it comes to attracting foreign investors to one's region, is it not more advisable, in terms of multiplying the potential for future activities, to attract companies such as DHL or Federal Express, rather than the odd manufacturer?

The main industries currently covered by e-commerce are listed in two tables below. Regional economic development managers should use these lists to anticipate the new economy's possible impact on their region's social and economic fabric in terms of businesses, infrastructures, subcontracting chains and business networks.

E-commerce Sensitive Sectors

B2B

- Computers and consumer electronics
- Cars
- Chemicals
- Utilities
- Financial services
- Logistics and storage
- Office equipment
- Food and drinks
- Pharmaceuticals
- Business trips
- Aeronautics and defence
- Construction
- Heavy industry
- Capital goods
- Telecom equipment

B2C

- Books and music
- Travel[14]
- Banking / Insurance
- Online stock trading
- Gifts
- Games

The state of development of e-commerce can also be measured in terms of online advertising volumes. During the first half of 2000, the main advertisers[15] were:
- Internet businesses, games publishers and carriers
- Mail order companies
- Banks
- IT firms
- Tourism and transport companies

[14] Lufthansa estimates ticketing costs at roughly EUR 94/unit on average, compared to just EUR 2.3 per ticket sold online.
[15] Source : *Les Echos*, 19.10.00

New Economy and Human Resources

The new economy, especially in its "Internet" and "Knowledge-Based Society" arms, will essentially feed on human resource excellence and entrepreneurship. It should be stressed that less-developed or peripheral regions generally have relatively few competitive advantages in these two domains and therefore have cause for worry in terms of their ability to rapidly appropriate the key features of the new economy that would enable them to compete with the most dynamic regions.

It is therefore in their best strategic interest to devise as soon as possible an integrated strategy centred around the mobilisation of endogenous resources that can stimulate the emergence of a local/regional knowledge-based, innovative and enterprising society.

It is notable that both the Internet-based economy on the one hand and the globalisation of the economy and the knowledge-based society on the other hand call for new computer and language literacy, two fields that are covered in school curricula that are managed at national—rather than regional—level. So regions do not have any practical tools to anticipate on their future skills requirements through education and have to make up for this lack with ad hoc vocational training offers.

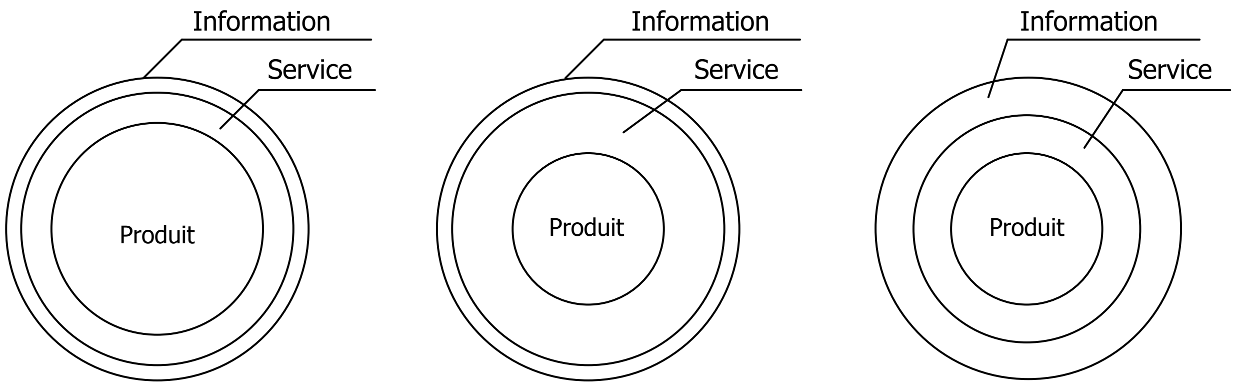
Moreover, the various parts of our definition of the new economy require, at all levels of society, a strong capacity to undertake and innovate, i.e. commercialise ideas that are original, whether in terms of the products or services or in terms of the marketing process. Needless to say such abilities rarely feature in school curricula.

At regional level, the ability to undertake and innovate generally rests as much on local culture, quality educational systems and the presence of centres of excellence as on the degree of openness of both the population and businesses towards the outside world.

Having raised these issues, it should be added that it is more than likely that the new economy will only serve to magnify the weaknesses of regions already identified as being vulnerable in an industrial economy.

The Knowledge-Based Society

The emergence of the information and knowledge-based society means that the intangible component of the offer is growing. In the traditional economy, businesses sell physical products, whereas in the service-based economy, a number of services are sold with goods (after sales, advice, etc.). In the knowledge-based and information economy, the offer becomes even more complex and intangible. It combines more and more knowledge with additional skills and more customised services to the client. This evolution can be represented graphically[16] as follows:



Product-based economy | Service-based economy | Information and knowledge-based economy

Over time, the emergence of the knowledge-based economy will raise the issues of how to manage the sheer mass of information and its volatility as well as how to generate value out of information or intangible capital. This challenge will soon call for the development, both within businesses and at the level of regional development stakeholders, of *knowledge management*[17] (KM, aka *knowledge highways* by analogy with the *information highways*, i.e. the Internet). As of early 2000, few businesses were equipped with a *knowledge manager*, whose tasks would include:

- promoting collective thinking V. individual thinking (the latter was pushed to the fore by Taylorism);
- changing company culture, organisation and management to derive a competitive advantage from the sharing of, and capitalisation upon, a business or organisation's knowledge.

If *knowledge management* grows in importance in private businesses, intermediary organisations will be called upon to design services in the fields of:

4 Economic intelligence
4 Advice to SMEs relating to *knowledge management*
4 Networking schemes for SMEs that have neither the ability nor the kind of resources required to afford a *knowledge manager*[18]

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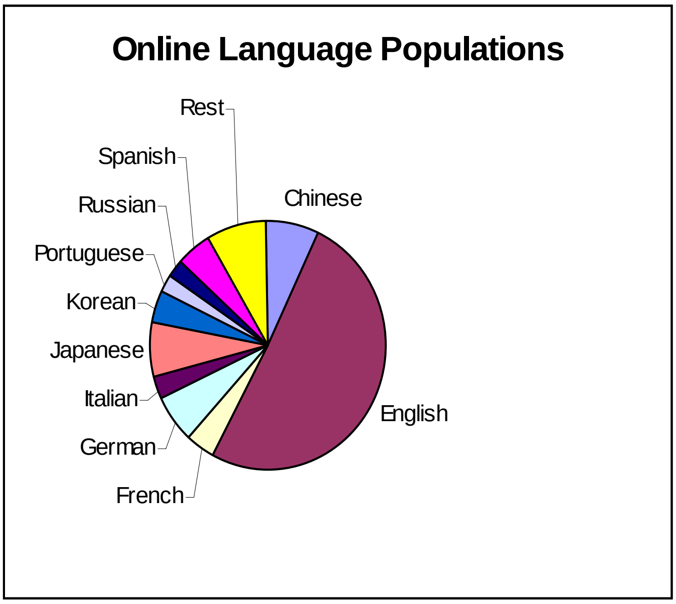
16 *CM International: Performance N° 6: Quelles stratégies pour quel e-business ?*
17 See *Le Figaro Management*, 23 October 2000, pp. 75–77
18 Cf. expérience de la C.C.I.R. de Bretagne et de son plan BRH+, Bretagne Ressources Humaines

For the non-English speaking countries, the knowledge-based society also means permanent and growing investment into language skills. Needless to say that English is the dominant language in RTD and new technologies. This statement is confirmed by the results of a survey published by Global Reach[19], consultants who analysed statistics on PCs connected to the Internet per country and language used. This study shows that 49.9% of Internet users surf in English. No other language accounts for more than 8% of Web users (Chinese: 7.6%, Japanese: 7.2%, German: 5.9%).

Online Language Populations	
Chinese	7.6%
English	49.9%
French	4.0%
German	5.9%
Italian	3.2%
Japanese	7.2%
Korean	4.1%
Portuguese	2.5%
Russian	2.4%
Spanish	5.0%
Others	8.2%



19 Site web www.greach.com

Sustainable Development

At regional level, the concept of sustainable development prompts a number of observations relating to the following themes:

™ How are environmental issues taken into account at each stage of regional development programming and delivery?

™ How can the environmental management of industrial parks be improved? Is it useful to consider ISO 14000 certification for industrial parks?

™ Is it possible for regional actors to stimulate and encourage regional businesses to exchange waste, thereby turning one company's waste into the another's raw materials?

™ Is it conceivable to set up green industrial parks, i.e. parks in which waste processing is a common service managed on an equal footing—both in terms of its nature and its priority status—with energy, water or telecommunications?

™ Is it feasible to foster the emergence, at regional level, of an industry or sector based on environmental products and services that are independent from the markets generated by ever more complicated legislation?

Negative Consequences of Globalisation

ILO Director General J. Somavia indicated in February 2000[20] that the social impact of globalisation meant excessively precarious working conditions, a higher incidence of poverty and more social exclusion. He vigorously criticised what he calls "*the casino economy*" and considered that "*we must admit that if market forces do not match the population's priorities, nothing can work*". "*We used to think*", he added, "*that if you have an economy that works, welfare will follow. This is no longer true*". He went on to say that "*the rising tide of social exclusion is more than enough to explain resistance to globalisation*".

Mr Somavia's statement was made in the context of the relationship between developed and developing countries but it could be considered a warning to businesses and developed economies. Indeed, there have been several examples of stock skyrocketing when companies made simultaneous announcements of mass redundancies and massive profits[21]. This proves beyond a shadow of a doubt that capitalism is no longer in tune with social considerations.

[20] UNCTAD – Bangkok meeting.
[21] When *Unilever* announced on 22 February 2000 that it was to lay off 25,000 (10% of its payroll), its share immediately went up 3% on the London Stock Exchange.

Conclusions

In short, it seems that the new economy means potential marginalisation for some regions. Those most at risk of such marginalisation are the ones presenting the following features:

- Absence of logistical infrastructure and support services to accommodate the development of Internet-based commercial activities (telecommunications and physical distribution of products).
- A diffuse business community. Both the internet-based economy and the knowledge-based society require regular supplies of new businesses or spin-offs of existing companies. At regional level, the development of these segments of the economy calls for a strengthening of entrepreneurship among the entire population.
- Lack of available language and computer skills.
- Inadequate business support schemes in intangible fields. Many regionally-oriented support programmes are still geared towards an industrial economy. In other words, they focus on tangible assets and on the requirement of guarantees before loans are granted.
- Inappropriate capital sourcing, both public and private, to sustain an Internet- and knowledge-based economy. Such capital is needed both for businesses themselves and for public investment in infrastructure and vocational training.

To these considerations must be added social concerns within regions. The new economy sponsors individualism, thereby severing social links while contributing to the isolation of disadvantaged groups. Indeed, it is unlikely that the new economy will promote the emergence of new forms of solidarity such as the "resto du cœur" ("restaurants of the heart").

II. AVENUES FOR REFLECTION

Introduction

Prospective solutions to the issues listed above would have to include concepts such as:

- ™ Developing integrated sectoral strategies (innovation, information society, entrepreneurship, …)
- ™ Integrating support services for potential businesses and businessmen
- ™ Creating new forms of public/private partnerships
- ™ Developing financial engineering as a substitute for the subsidies culture
- ™ Strengthening partnership links among all actors involved in endogenous development
- ™ Refining regional tools for long-term forecasting, technological watch, economic intelligence, etc.
- ™ Improving how universities and high schools are integrated in society and the economy
- ™ Considering intangible elements in the evaluation of businesses that receive subsidies
- ™ Improving and speeding up decision-making among public bodies
- ™ Capitalising on unique regional features
- ™ Stimulating strategic transnational regional partnerships.

These are all parts of a solution to the challenges posed by the new economy. They will require a new form of territorial governance that can only be successful if all key regional actors not only share the same vision for the future of their region but also agree to the pooling of their assets in order to deliver that vision. This cannot be done without leadership and calls for an end to sterile competition among territorial actors who are only defending ancient local privileges and income that have become obsolete because of globalisation.

Faced with the new economy, regional actors will have to choose, at least theoretically, between a limited set of four options:

- turning in on themselves
- conservatism ('let us face issues as they crop up')
- full integration in the new environment
- searching for a new territorial identity based on those specific economic and societal features that hold potential added value.

The third option—full integration in the new economic order—can open the door to the drawbacks of trade globalisation, to the relocation of decision-making centres and therefore of the criteria used to determine profitability requirements for local production tools. In other words, regions can be faced, at any point in time and rather brutally, with the closure of a production unit that was considered vital and which according to local indicators was healthy (see Renault Vilvoorde (B) and Bombardier Manage (B), whose production units were deemed profitable both by the trade unions and local social and economic actors until—and even after—they were closed).

Of course, improved regional specialisation does not mean turning in on oneself, it means looking for competitive advantages that make the best of globalisation based on specific or unique regional market niches.

Obviously, the concept of regional specialisation described below includes notions such as clusters, local productive systems and industrial districts.

Specialisation of the Regional Productive Fabric, Clusters and Other Strategic Regional Alliances

Specialisation of the regional productive structure can be considered a local response to:
- products that become common-place and production tools that are geographically interchangeable due to the globalisation of the economy;
- the countries' inability to prevent or manage the negative or adverse effects of globalisation (see above, the statements about conservatism in regional public policies, slow decisions, etc.).
- the public and decision-makers' growing willingness to make sure that their community's development is sustainable, i.e. that it reconciles economic efficiency, environmental protection and social cohesion.

Regional specialisation should hinge on:
- a detailed and objective analysis of regional potential,
- a consensus among local actors as to what can be done with this potential,
- strong public/private partnerships,
- a suitable provision of collective support services—which means substituting a project-based regional approach for the existing counter-based policy,
- efficient regional marketing. External regional promotion and action to foster a regional identity (regionalism) inside should be the prime forms of intervention. Territorial promotion should be replaced by a packaged territorial offer integrating a geographical dimension, a human skills dimension and an attractive living environment. In this way, the territorial offer should broadcast the image of a region that provides the scene for success in any new economic and human endeavour.
  This regional marketing creed draws its inspiration from the communication strategies of large businesses that increasingly focus on a few flagship brands with a strong identity and reputation—both with customers and employees. Similarly, it would be advisable for regions to concentrate their external communication efforts on a strong image and to focus their internal communication on a feeling of belonging to a dynamic entity that will convince foreign businessmen or decision-makers to re-invest in the region, stimulate the mobilisation of local resources—including local savings—for endogenous projects, or strengthen entrepreneurship among the local people.

Regional specialisation can be based on a unique product—even in the most traditional sectors (food and drinks, horticulture, …)—or on the sophistication of ordinary products (e.g. Italian textile and ready-to-wear fashion). The new economy will provide opportunities for product positioning based on new or existing market niches (the multimedia industry in Angoulême [F] and voice recognition products in the Flanders Language Valley, Ieper [B]).

Regional specialisation can also rest on notions such as the social economy, sustainable development, or even the non-commercial sector (economy based on services to people). Is it really unthinkable for activities to evolve that—much like spa resorts—allow people to regenerate themselves again professionally thanks to dedicated amenities and a customised vocational re-training package?

Would it equally be unthinkable to develop merchandising—in much the same fashion as some sports club? Regional merchandising would be based on an easily recognisable logo and would be rooted in a franchise distribution network and/or marketing scheme that makes use of the opportunities offered by the Internet, the media—dedicated television channels, for example—and its expatriates.

Regional merchandising may also inspire some large industrial groups. This is for example how Peugeot[22] recently established centres called "Peugeot Avenue" in several cities (Paris, Berlin, São Paulo), in which the company does not sell cars but instead defends its values, manages a French restaurant and organises exhibitions that mix Peugeot cars with *art de vivre* (fashion, cinema, etc.). Other companies (e.g. Renault, Nike, Sony, Shiseido) have already gone in the same direction. This concept could be a source of inspiration for regions. They could for instance associate with flagship companies installed in their area.

The various links of a value chain of regional specialisation can be presented as follows:

Education and training systems Specialised suppliers Specialised services	Common services	Production	Distribution Specialised logistics	Joint Marketing	Customers

Public authorities and intermediate organisations have to network all actors and develop non-competitive joint services that foster constant innovation in the sector.

Regional innovation can also be a way of improving excellence among local businesses at regional market level, thereby providing the stepping stone required to conquer global markets. If Internet-based business forums become widespread, there will be far-reaching consequences for subcontracting in terms of market reorganisation to facilitate diversification or the restructuring of those who are rejected by this new system. One solution for those businesses will be to develop a local market in which they will have to prove their excellence before they can hope to secure a foothold in the global networks that will have emerged either spontaneously or under pressure from multinationals.

Is it useful for regions to position themselves on the cultural tourism market niche as part of their efforts relating to the knowledge-based society? This type of tourism can be assimilated to a specialisation of the socio-economic fabric.

In the long run, will cultural tourism be more closely related to economic development? If so, regions can consider promoting concepts such as[23]:

- Festivals and other cultural events (Lorient, Aix-en-Provence, Salzburg, Bayreuth, Spa, La Rochelle, Le Puy-du-Fou, etc.)
- Theme parks, whether for amusement or pseudo-scientific education purposes (Futuroscope, Oceanopolis, Vulcania, etc.)

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22 *Les Echos*, 26 June 2000, p. 66.

23 Cf. Articles publiés dans Le Figaro du 31.7.00 au 4.8.00

- Heritage valorisation
- Managing towns or villages like museums (Mont-Saint-Michel, Carcassonne, Riquewihr, Les Baux-de-Provence, Redu, etc.)

Needs Analysis

The analysis of the true needs of economic development programme recipients consists, as is done in marketing, in making the final user the focal point of strategic considerations. In this respect, the Net economy offers new opportunities in that it allows an ever-greater degree of customisation in the relationship between supplier and client. Are there lessons to be learned there in terms of regional economic development and in the field of business support services?

A priori, the needs of public intervention beneficiaries can fit in three different categories:

- obvious
- expressed—generally financial
- actual.

Increasingly, attention needs to be given both to the needs analysis and to designing programmes that liaise between obvious and actual needs, in order to engineer answers that meet—and are relevant to—the expectations of the final user. All too often, regional or local public policy design is based on a perception of obvious rather than actual needs. This definitely explains, at least in part, why certain measures that are eligible under the Structural Funds are underused and also why programmes in favour of SMEs are many and overlapping.

This reasoning could be applied to the formulation of regional policy priorities[24]. It would be interesting to know what the rationale was behind the selection of themes made for Community initiative programmes and innovative actions financed under the European Union's structural policy or why it was decided, as part of preparations for the future multiannual programme in favour of businesses (2001-2005), to keep Euro Info Centres and drop initiatives INTERPRISE and IBEX.

In the field of economic development, there is clearly a need to distinguish between the individual and collective needs of beneficiaries. Once this distinction is made, it is easier to formulate action plans and to decide which actors are best able to deliver them.

Regional development policies could probably show better cost-effectiveness and cost/efficiency ratios if they made up for private sector shortcomings or lacks with collective sectoral action—and a customised offer of support services—instead of individual support to final recipients.

In traditional commerce, promotion is based on a message that has to reach the masses. With the arrival of the Internet, it has become possible to customise information and even products. Experts have developed the CRM concept (Customer Relationship Management[25]) which they define as "*a commercial strategy aimed at maximising profitability, revenue and customer satisfaction* ".

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[24] It is notable that the Davos Forum does not have an equivalent in the field of regional development policies, that Council of Ministers meetings are informal and that no Commissioner for Regional Development has been a big political name for over fifteen years.

[25] *Financial Times*, 07 June 2000, *E-Business : Focus on CRM.*

This trend in the private sector will progressively have to be taken on board by the public sector. Nevertheless, the quest for profitability in the field of regional economic development has to factor the social acceptability of certain costs into the equation.

Obviously, the unit cost of regional public intervention will differ according to:
- the specifics of the place of delivery,
- the objectives,
- the purpose.

Economic Intelligence[26]

A logic of governance—of fruitful co-operation among actors of local and regional economic development—will progressively prevail because a number of actors simply will no longer have the size required to be significant operators in a global economy.

Economic intelligence may prove useful in reversing this trend, provided that information is interpreted—if not produced—collectively to achieve common goals or deliver common projects and also provided that it helps managing know-how assets, seizing opportunities and sharing risk, together.

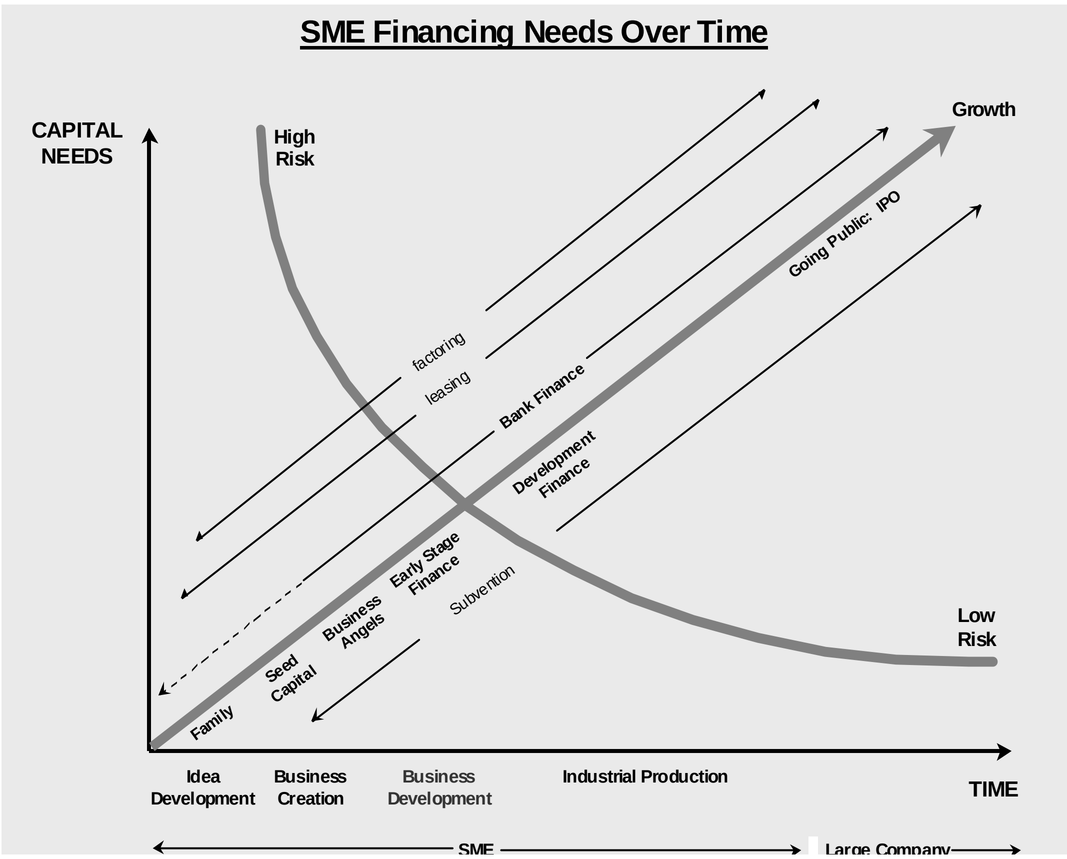
In practice, economic intelligence has to become a way of thinking and acting to move from a logic of adjustment to external constraints to one of collective internal anticipation.

26 *Intelligence économique et mondialisation*, Inter-régions, January–February 2000.

Local Financing

The globalisation of the economy and the boom in transaction sizes have resulted in a shrinking of the offer of capital in the relatively small amounts required by businesses. But local businesses are large consumers of such capital. It is therefore up to the authorities to design schemes whereby SMEs can access financial instruments and to find ways to step in where the private capital market is failing.

Below is a graphical representation of this phenomenon. The table overleaf illustrates the relative size of contributions by the various actors and products in the business financing cycle.



Source : Adaptation par EURADA du graphique de R. Aernoudt

Relative Importance of Various Types of Financial Instruments in Total Investment During a Business's Life-Cycle

Business concept design		Start-up		Growth		Industrialisation of production	
Relatives Friends	EUR 11 500*	Seed capital	EUR 650,000 **	Venture capital	EUR 2,300,000(a)	Euro N.M.	EUR 2,100,000 to EUR 642,000,000*****
		Early stage	EUR 700,000 **			Trade Sale	EUR 3,400,000**
		Proximity capital and loan without interest and/or guarantee	EUR 5,000 to EUR 50,000***			EASDAQ	EUR 2,000,000 to EUR 281,000,000*****
		Micro-Credits	EUR 3,000 to EUR 10,000				
		Social Economy	EUR 2,000 to EUR 160,000				
		Business Angels	EUR 50,000 to EUR 300,000				
		Regional Venture Capital	EUR 15,000 to EUR 250,000****				
		Venture Capital Large Companies in Redeployment	EUR 25,000 EUR 250,000				

*	Average minimum equity required to set up a private limited company
**	After the intervention of an EVCA member venture capital company
***	Loans on trust and/or without interest granted by local initiative platforms in France
****	Data for France
*****	Average: MEUR 30
(a)	Average investment made by the EVCA members

Regional economy specialisation will also require the development of local financing services, as it is unlikely that global fund managers will be sensitive to—or even interested in—the specifics of any given region. Therefore, it will be essential to mobilise local savings (Business Angels and other owners of savings and capital). As suggested below, it will be equally vital to equip regions with self-regenerating loan funds instead of perpetuating grant-fund based subsidies.

Subsidies V. Project Finance Engineering

In several sections of the present document, we have criticised the "aid and subsidies" culture that prevails in regional economic development these days.

It is both useful and imperative that we take stock of the situation and determine the cost and limitations of this very real disposition. It seems quite clear that subsidies are both very costly in terms of the efficiency of public intervention (they must be repeated every year as the schemes are grants) and extremely perverted (they tend to support projects whose profitability and viability are questionable). Moreover, they provide administrative security because audits are performed on the funding that is spent rather than on the economic—or social—profitability of projects.

Therefore, it is essential to consider the best way of equipping regions with capital funds that have a high potential for self-regeneration. It would be useful to specify that interventions from supraregional levels should be limited to the commitment of budgets to set up regional/local loan and guarantee funds (see in Annex II the note on "*A Case for European Union Support to the Setting Up of Regional Seed Loan Funds for SMEs*", which describes a scenario that could apply in other fields, including local infrastructures of all kinds).

In addition to the means required to finance immaterial factors (human resources, innovation, etc.), there is a growing need to integrate in regional economic development policies the substitution of an economy financed by the maximisation of return on investment for an economy financed by banks or all types of state aids. This namely means that businessmen have to accept other shareholders and forgo any feelings of paternity or exclusive ownership of the company they set up.

There is also a need to develop a new method to evaluate the internal cost-effectiveness of the various public forms of intervention and of the projects put together by beneficiaries. Internal cost-effectiveness should be measured against the number of months of return on investment using the tax return generated by the projected intervention as a benchmark. Indeed, all investments, subsidies and loans generate tax revenue, either directly or indirectly (VAT, indirect taxes, income taxes on new or preserved jobs, etc.). In any public action, it would be interesting to measure the ratio between investment and fiscal revenue. Projects with a less favourable ratio could still be selected even if they show social costs that are higher than comparable or competing projects, provided that those costs are justified.

Local Services

As shown in the two examples below, globalisation does not mean thinking local has necessarily become old-fashioned:

1. The advent of just-in-time production systems is prompting subcontractors to move closer to the assembly lines operated by large groups.
2. The development of electronic commerce calls for the setting up of high-performance local distribution networks. In such a system, buyers may no longer care where the goods they want are produced or marketed, but they will still want them to be delivered fast. Internet-based sales companies can grow only if they can rely on efficient delivery and after-sales services, a concept that has yet to materialise at regional level. This need for proximity will doubtless provide a significant competitive advantage for large retail and distribution groups compared to new businesses that venture into the non-specialised retail sector.

Furthermore, it is likely that some consumers will resist the trivialisation of products and services linked to the globalisation of the economy and that know-how will emerge at local level in terms of the customisation of certain types of products or services, which could potentially lead to the constitution of portfolios of regional activities with a strong added value and then to a reflection on the specialisation of the local productive fabric, which was covered in an earlier section of this chapter.

Community and Ethical Economy

The concept of ethical development is closely related to that of sustainable development. It applies to regional development both in developed countries and in transition or developing economies. The community economy is not a pervasive concept yet, but it is no longer just experimental.

Born out of a desire to identify new forms of solidarity at local level, this concept clearly deserves increasing attention in a number of regions looking for alternatives to globalisation.

It should be said that in addition to initiatives that can be labelled as "market niches"—such as Banque Triodos or the Max Havelaar Foundation—a number of large financial holdings have set up ethical investment funds and over a thousand European companies are members of EBNSC (European Business Network for Social Cohesion). Of course, for some of these businesses, their yearly membership fee of a European association is the price of a clear conscience, but others consider it an investment in prospective public-private partnerships that they intend to draw the highest profit from but that have yet to be invented at local level.

Public/Private Partnerships

This notion, which takes different forms in different countries, is bound to evolve and become widespread in the near future. This evolution is conditioned by the arrival in the political spectrum of a "social-liberal" or "liberal-social" culture that will, over time, impact both the role of public services in society and how they are delivered.

Currently, public/private partnerships refer to practices such as:

- the public sector consults the private sector
- the private sector is represented in the management bodies of public or semi-public organisations
- paternalism: the public sector delivers action in favour of the private sector
- participation by both sectors in joint action
- third-party account management: the private sector makes funds available for the public sector to carry out projects of public interest.

Beyond public/private partnerships as defined above, it would certainly be useful to consider other types of partner-like relationships at local and regional level, namely with the semi-public sector, i.e. universities and other high-schools, research centres, airports, public services providers. Equally, local and regional authorities will progressively have to design strategies to promote partnerships between private businesses in order to stimulate the emergence of inter-company networks (clusters, industrial districts, local productive systems, etc.).

e-Regio

Besides a strategy for the information society, it will be in the interest of all local/regional authorities to consider the following questions carefully:

™ Should a business incubator be set up with a specific focus on companies embarking on the Net economy? If so, how are the needs of both businesses and the region to be detected? Should there be a critical mass of pre-existing ICT businesses or, on the contrary, can this option serve to make up for a lack of such businesses?

™ Should the setting up of a specialised services centre be promoted in which small businesses could occasionally or on a "shared access" basis carry out Net economy-type operations without necessarily having to invest in this field? This centre could for example provide services to small businesses that could not otherwise meet the specifications of large businesses in terms of online invoicing, online quotations, etc.

™ How can intermediary organisations recommend to local businesses to show a positive attitude vis-à-vis e-business, be it individually or in co-operation with other local companies? Is it in the interest of advisers to develop tools to determine how ready local businesses are for e-business? (See the specific section on business support services and e-commerce).

™ How could online[27] marketing operations be organised with potential mobile investors? This possibility could be overlooked if B2B become widespread and changes how businesses invest in others. Will multimedia soon become a precious tool in the search for potential investors or will it turn out to be just another gadget used by local and regional authorities for communication purposes? What role will e-mail play in the customisation of contacts? What means need to be procured in order to promote web sites or prompt decision-makers to visit them?

™ Can it sponsor or promote the emergence of "*online regions*" with a web site that is intended to advertise a "territorial package" that is as exhaustive as possible in terms of economic potential? The promoters of such a site could draw their inspiration from the site of Bofferding[28], a Luxembourg brewer who, in addition to selling its products online (on an interactive site), regularly draws the winner of a free pack of beer among correct answers to a quiz, proposes e-cards (branded virtual postcards that visitors can send to their friends), a news page (factory tour announcements, press releases, pub openings, etc.), a virtual tour of the factory and tips for beer drinkers.

™ Is it conceivable to develop the concept of Internet-based purchasing platforms for public authorities? Following the example of purchasing platforms set up by businesses, such an *e*-Regio-purchasing site would pool services ordered from local/regional authority departments and other organisations based in the region in order to negotiate lower prices and pass savings down to local actors. The purchasing power of local and regional authorities would become a vector of development and a tool with which local actors might gain collective access to first-class equipment that they could not afford individually. This type of portal has been operating on a much larger scale in France since June 2000 under the name *projetlocal.net*[29]. This French B2B portal for the public

[27] Optimal marketing is based on four different crafts: (1) optimised referencing by search engines; (2) membership [partnerships with other sites]; (3) interactive advertising [creativity and strategy]; (4) permission marketing [net users fill in their address to receive e-mail advertising]. (*Le Figaro*, 10 July 2000).

[28] *Le Républicain Lorrain*, 21 July 2000.

[29] Press release by Dexia Banque (B)

sector could be extended to include other countries. *Projetlocal.net* is a merchant B2B platform where local government can buy goods and services.

Moreover, the *e*-Regio has to somehow allow for the social aspects of the Net economy. Starting from the double assumption that economic development must be a factor of integration on the one hand and that the Internet promotes individualism and therefore destroys social networks on the other hand, it is essential for any local/regional strategy that is anchored in the information society to integrate those considerations and include an *e*-social or *e*-solidarity[30] strand.

A response to these questions may have been given by the Walloon Region (B)[31]. In September 2000, it launched an initiative with the following business support tools:

- Assistance for the development of e-commerce web sites. Support is granted only if the site includes online invoicing and payment functions.
- Procurement of e-business managers.
- Assistance for the development of sectoral portals. The first one will probably be dedicated to the wood industry.
- The establishment of an incubator for new economy start-ups.
- Improved use of the regional fibre optics network through its connection to dedicated industrial areas.

[30] In September 2000, the French Junior Minister to the Community Economy announced the establishment of an EUR 8 million Internet-based Community Fund to support the creation of community start-ups, i.e. organisations that integrate the use of new technologies in the production of goods or services with a social finality.

[31] Le Soir, 23–24 September 2000

The Internet and the Marketing Departments of Businesses

Even though Internet sales only account for a small part of total sales, the development of the Internet will soon change the key area of business marketing.

This statement is supported by the following realisations[32]:

- The Web offers new opportunities, such as the dissemination of online product catalogues, virtual market places, portals allowing complementary businesses to offer integrated product packages, auction sites, collection and archiving of precious information about competition prices and visitors, purchasing platforms, etc.
- E-commerce will change sales functions and bring in new added value in terms of sales supports and advice, sales force training, increased merchandising and customer loyalty efforts.
- From now on, salesmen will have to focus on efficient point of sale sell-out, i.e. they will be freed from negotiating orders—those will be managed automatically by EDI or online purchasing systems—and will have more time to ensure that more and more products are actually sold at point of sale.
- The Internet also allows retailers to have a clearer picture of their operational environment. This is how Celtipharm.com, an Internet-based business, has near exhaustive intelligence about the 22,500 French chemists, e.g. their turnover, specialisation, location near a retirement home or crèche—and therefore the profile of potential customers and the chemists' likely supply patterns.

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32 *Les Echos*, 11 October 2000, *Dossier Management – Force commerciale : Les vendeurs déstabilisés par l'Internet*

Business Support Services and E-Commerce

Needless to say, the emergence of e-commerce bears an impact on how businesses are organised, mainly due to the following constraints:

a) Bringing new market relations into play (developing new services, building customer loyalty, placing information systems at the heart of customer relations, re-engineering marketing functions, etc.);
b) Ensuring site visibility;
c) Generating solvent and recurrent demand;
d) Developing partnerships;
e) Changing the supply and retail chains;
f) Shortening product lifecycles
g) Modifying customer portfolio segmentation. Literature suggests the following categories:
   - Technologically motivated customers
   - Customers with a positive attitude towards technology
   - Technology is a revenue builder
h) How mature is the segment of the economy in which the company operates?
   C. Fellenstein and R. Wood[33] propose to evaluate maturity using the following table:

	WEB		E-BUSINESS			
Degree of ownership	Awareness	Presence	Pilot	Ownership	Process investment	Integration
Attitude	Use of the Internet for internal purposes	Creation of a Web site	Access to the mainframe (on a read-only basis)	Transactions with the mainframe	Development of basic activities	Redefinition of basic activities

Do intermediary organisations offering advice to businesses have the expertise required to raise awareness among local SMEs as to the management changes they need to bring about in order to deal with the possible consequences of e-commerce?

Indeed, e-commerce can impact on a business's supply chain in three direct and distinctive ways:

a) The value chain collapses. E-business can lead to intermediaries being excluded from the value chain. (What are travel agents going to do when airlines come online with their own ticketing services?)
b) The value chain is redefined. e-business will lead to the outsourcing of additional functions and to the marketing of new specialised services that will insert in the traditional value chain (e.g. the same-day-delivery concept)
c) The emergence of new forms of inter-company partnerships, including between companies that are competitors in the traditional economy (online/virtual sectoral purchasing platforms).

[33] C. Fellenstein & R.Wood, *Exploring E-Commerce – Global E-business and E-societies*

E-Readiness for SMEs

One service that can be developed by intermediary organisations consists in advising SMEs as they prepare for e-commerce. To do this, a checklist seems a useful method. Below is an example of such a checklist.

However, the following parameters need to be considered beforehand:

™ **Learning About e-commerce: The Stages of the Process**

The existing literature[34] shows that most businesses go through the following stages as they become e-businesses:

4 Advertising pamphlet-style web sites promoting products and services
4 Interaction with customers (e-mail, etc.)
4 Facilitation of commercial transactions
4 One-to-one relationships
4 Re-engineering of business operational methods
4 Community of interests (interaction with the value or supply chain).

It should also be borne in mind that each sector of the economy develops at its own rhythm. Businesses need to position themselves individually against both the five generic stages mentioned above and the level of development reached in the sector they belong to.

™ **Business Positioning**

An analytical grid needs to be developed that takes into account the type of market in which businesses operate. A tentative segmentation could be as follows:

a) Businesses operating on the local market with private final consumers as their customers (B2C);
b) Businesses operating on the local market with customer portfolios composed of private consumers—some interested in buying on-line and others not—and whose suppliers might impose an on-line relationship (B2B);
c) Subcontractors or links in a value chain, i.e. businesses that are squeezed between suppliers who are involved in B2B e-commerce and customers who are interested in establishing B2B e-commerce links;
d) Businesses operating in a sector where e-commerce (in this case direct B2C) is an opportunity to bypass intermediaries, i.e. traditional commercial distribution channels;

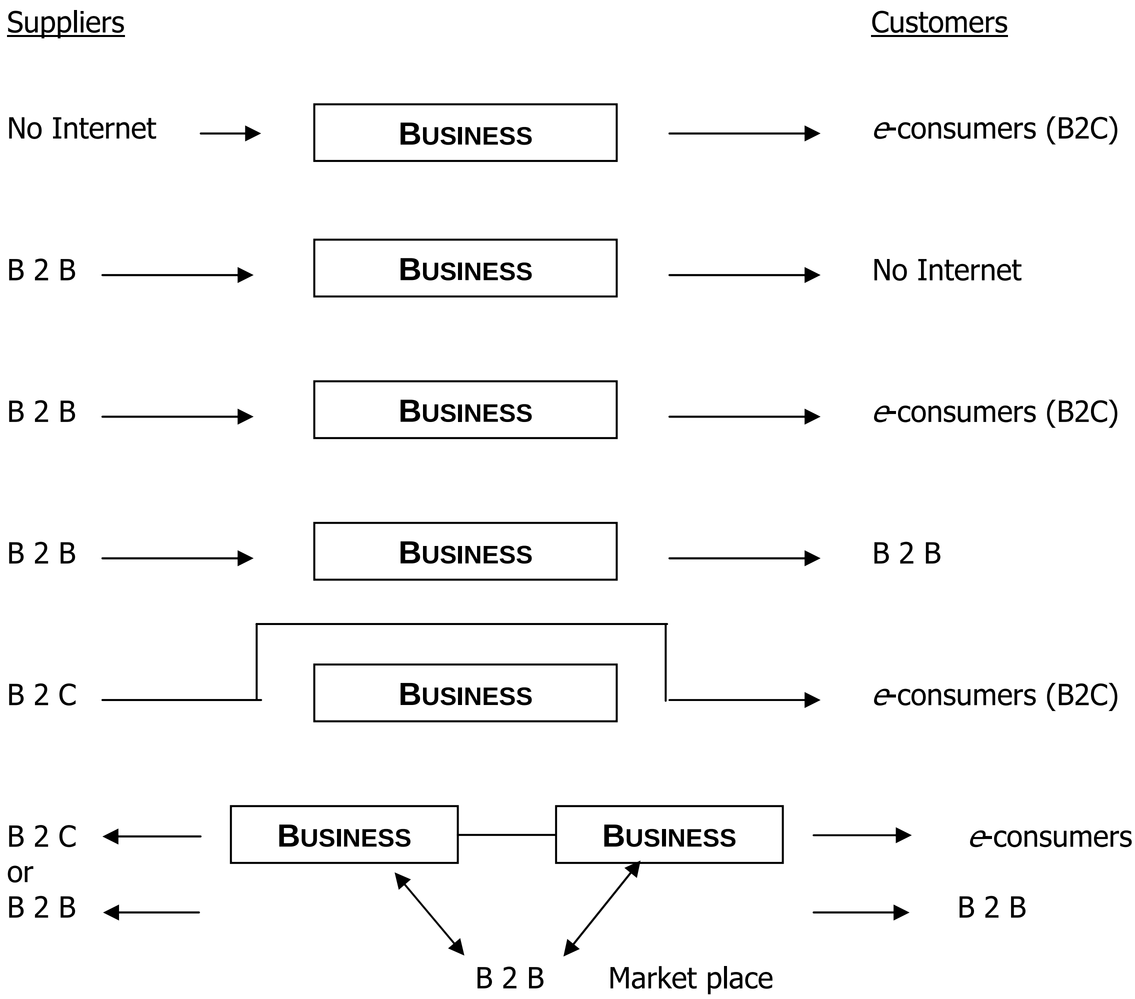
Businesses with an interest in developing new forms of co-operation, including with their traditional competitors, in order to create virtual marketplaces (Internet-based trading platforms).

These platforms are Web sites that match sellers with buyers. In literature, a distinction is made between vertical platforms that operate in a specific industry (automobile, chemicals, chemists', etc.) and horizontal platforms that are organised to supply products or services that can potentially interest many different operators (office equipment, ticketing, etc.). The advantage of vertical platforms is that they

[34] See "Strategies for success in the e-economy : Net ready @" by A. Hartmann & J. Sifonis, McGrall Hill

allow businesses to buy all the components they need from one single point of entry (one-stop shopping concept). Business consultants should consider those platforms.

GRAPHICAL REPRESENTATION OF E-BUSINESS POSITIONING



Advice services have to be differentiated according to whether the need for businesses to specialise in e-business originates in a desire to meet customer expectations or rather in the need to meet supplier requirements or to adjust to market changes.

™ **New Skills Required To Become an e-business**

New skills to be acquired locally in order to improve business e-readiness can namely relate to the functions below:

4 Web specialists, i.e. web site, portal and platform authors/developers
4 On-line marketing
4 Site animation to enhance surfer/customer loyalty
4 Secure transactions.

™ **CHECKLIST**

Below is a model checklist tabled at the CUED's yearly conference held in Atlanta in September 2000. This checklist will serve as a basis for an ad hoc working group set up by EURADA to consider the development of its own model.

E-COMMERCE READINESS ASSESSMENT
Is your chamber ready to reap the rewards of the Internet ?

Categories: 1. The Basics
2. Maximizing Gains
3. State-of-the-Art Stuff

	Yes	No
THE BASICS		
1. An active web site is up and running		
2. We change the site at least weekly		
3. The site is linked to related sites		
4. Our address and phone are prominently featured		
5. The name of at least one person is provided with e-mail address		
6. Every web site visitor visit is asked to take some action		
MAXIMIZING GAINS		
7. No more than "3 clicks" take a visitor to his desired page		
8. We humanize our site with bios and photos of chamber leaders and key employees		
9. We use CRM software to track individual member preferences and interests		
10. Our Privacy Policy is clear and linked from our Home Page		
11. E-mail addresses for key staff people are displayed and all e-mails are answered within 24 hours		
12. Members may have their web sites linked from ours		
13. Our Web Master is considered one of our most important employees and rewarded accordingly		
14. We ask permission before we sharemember names or information		
STATE-OF-THE-ART STUFF		
15. Members may "personalize" their chamber home page to feature items of special interest to them		
16. Other products, services or activities (such as a special luncheon) are suggested relating to individual member interests		

17. All transactions are followed up with an acknowledgement and invitation to return 18. Sound and streaming video are used somewhere on our web site 19. Members can share information on community issues on message boards or in special chat rooms 20. Non members can "log in" as members without obligation 21. E-mail newsletters and updates are available on request 22. We use online surveys to assess member and community interest in special issues 23. We offer "instant messaging" or immediate telephone callback from a real person 24. We're scalable and can handle a large increase in volume		

New economy : Industrial Real Estate and e-telligent Site

The requirements of the new economy—i.e.:
- same-day delivery
- refocusing of companies on their core business
- delocalisation of certain productions
- relocation of logistics centres closer to major thoroughfares and consumption centres—

influence logistics and the type of industrial facilities required.

In some regions such as Ile de France, a new type of industrial sites is emerging. These are called *post-production* centres and their aim is to:
- tailor products to the specific requirements of the final user (e.g. Dell Computer)
- adjust products to the needs of the country of consumption
- adapt packaging, etc.

The industrial facilities required are quite large (40,000–70,000 sq. m.) and have to be well connected to airport platforms and to integrate telecom infrastructure.

In the United States[35], it seems that e-telligent industrial sites share the following characteristics:
- high-standard telecom networks
- highly skilled manpower
- flexible tenancies
- host town/region is viewed as hi-tech
- access to support services and to a network of companies operating in industries that are complementary.

It seems that several US States have established units that are dedicated to attracting dot.com businesses and that specific incentives are provided. These cover business finance (in some cases against company shares), staff training, free accommodation, rebates on power and telecom prices, etc. More radically, the state of Rhode Island offers tax exemptions to the employees of software producers, the city of Oakland received stock options in exchange for accommodating Webvan and a city in Oregon changed its name to Half.com as a token of gratitude for a dot.com business that settled down there and recruited locals.

Finally, a few words about eGroup, a US company that specialises in physical e-commerce infrastructures (buildings and co-location facilities). eGroup divides the e-business environment into five different segments:

- Web development environments – These environments demand spaces that are fluid, dynamic, and energetic. They require the flexibility to accommodate teaming and gathering spaces, enclaves, individual work stations, community centers, hoteling, toudh-down spaces, and info centers.
- Internet Data Centers (IDC) – For start-up Internet companies, these facilities have significant business benefits, they require the ability to enable collaborating companies to

[35] See *Business Facilities*, June 2000, pp. 28-31, E-*telligent sites for dot.coms*

increase the speed, while decreasing the costs of communications and information sharing.

- Carrier Hotels – This is a new space concept which houses many IDCs under one roof. Dark fiber, running between the IDCs, give the "tenants" reliable access to each other and to a local carrier. They offer the free, instant connectivity that raises the bar on"speed to market" capabilities.
- Network Operations Centers – These provide the global network management environment that allows employees to perform many different activities, from providing network support to running a help desk efficiently and comfortably.
- Communications Facilities for Internet Service Providers (ISP)) – Provides the fiber "point of presence" and digital subscriber lines needed to provide the speed these types of companies must offer their users.

Regional Networks

For small and medium-sized entities—local/regional authorities, businesses and organisations—, the answer to globalisation will involve networking or the negotiation of strategic alliances. This type of behaviour will make it possible to achieve the critical mass required to successfully face large competitors and meet their increasingly global and standardised requirements as well as the demands of the consumers whom they condition. Even where regions manage to specialise their offer of products or services, networking will be necessary for operators to be competitive.

This trend has an impact on subcontracting, which also moves towards co-contracting and industrial partnership concepts.

Synergies Between Regions

As indicated in the introduction and repeated in the section on economic intelligence, *small is beautiful* is not a saying of the past. It will be up to regional authorities to develop synergies with both neighbouring and distant regions.

Localism has to make way for regionalism and regionalism has to rely on cross-regional strategic partnerships.

The European Union has been promoting cross-regional partnerships for many years, but in a way that is too circumstantial (motivated by co-financing) and support has not been sufficiently valorised or capitalised. This type of partnership has all too rarely been integrated in the strategies of towns and regions themselves, which definitely—and unfortunately—justifies the perpetuation of Community initiative Interreg in the Structural Funds, to the detriment, as mentioned earlier, of more innovative initiatives.

III. REGIONAL GOVERNANCE

Introduction

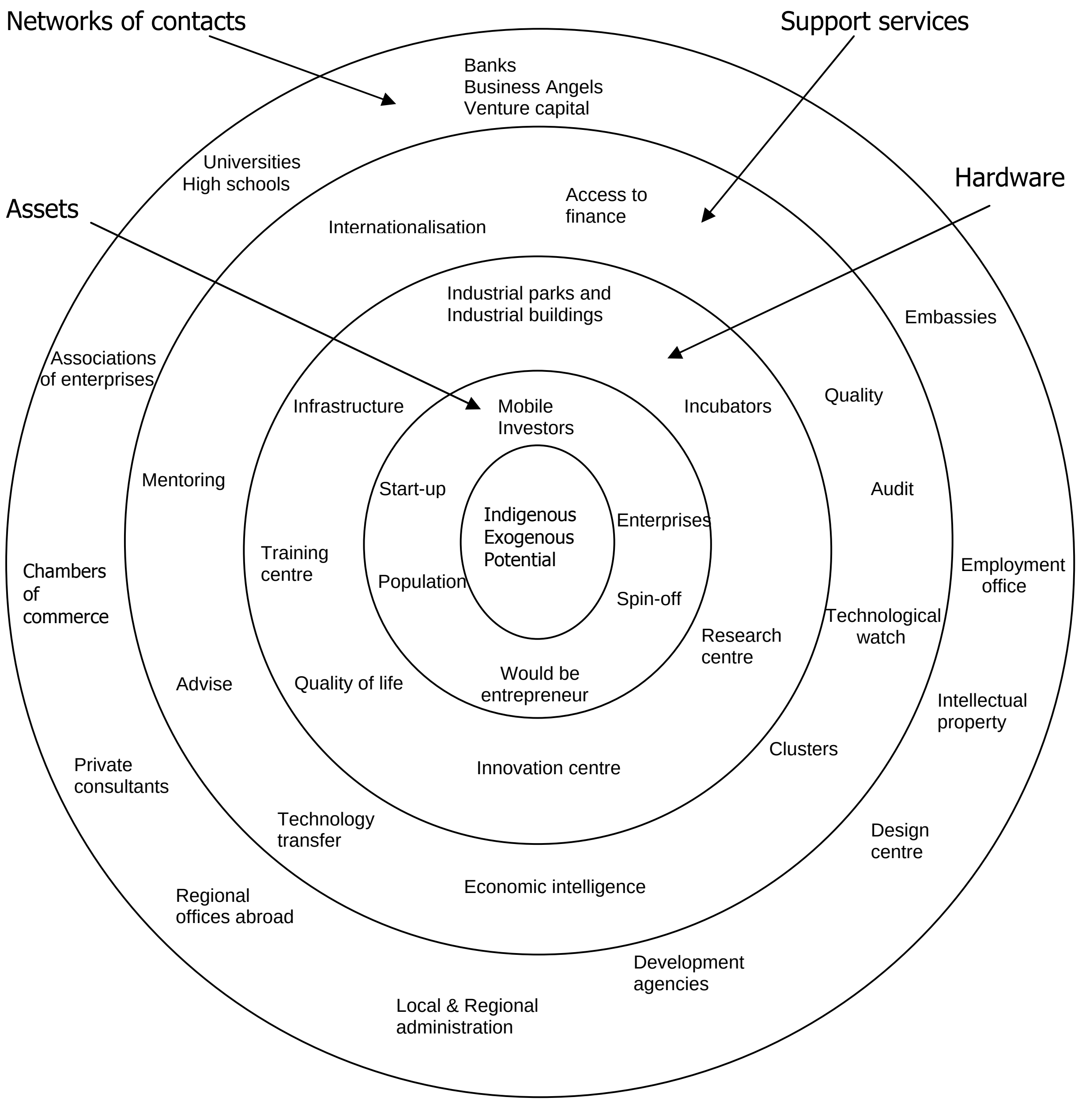
For a variety of reasons, a strong fragmentation of economic development support services can be observed in all countries. This fragmentation is the result of factors such as:

- Overlapping intervention planes. Regionalisation within countries indirectly results in a piling up rather than a transfer of power and responsibility, as well as in an accumulation of controls. In some cases, deregulation is even enforced with new legislation.
- Multiplication of operators. New bodies are being set up all the time—with the freedom of association as an excuse—for the purpose of stimulating new activities and re-integrating the socially excluded into mainstream economic life.
- Compartmentalised Community and national policies. There exists no superministry of economic development, neither at European nor at Member States level. Each ministry or administration embarks upon its own policies, which are then implemented in given territories by each department's privileged networks, without consideration for the need to be congruent in the enforcement of policies at local level.
- Boom in the number of support programmes. For each new problem, the public administration has got into the habit of developing a new support instrument instead of adjusting or reformulating the objectives of existing programmes. Each programme is geared toward—or taken up by—structures of a specific type, some of which are even set up for the sole purpose en inveigling the subsidies attached to them.

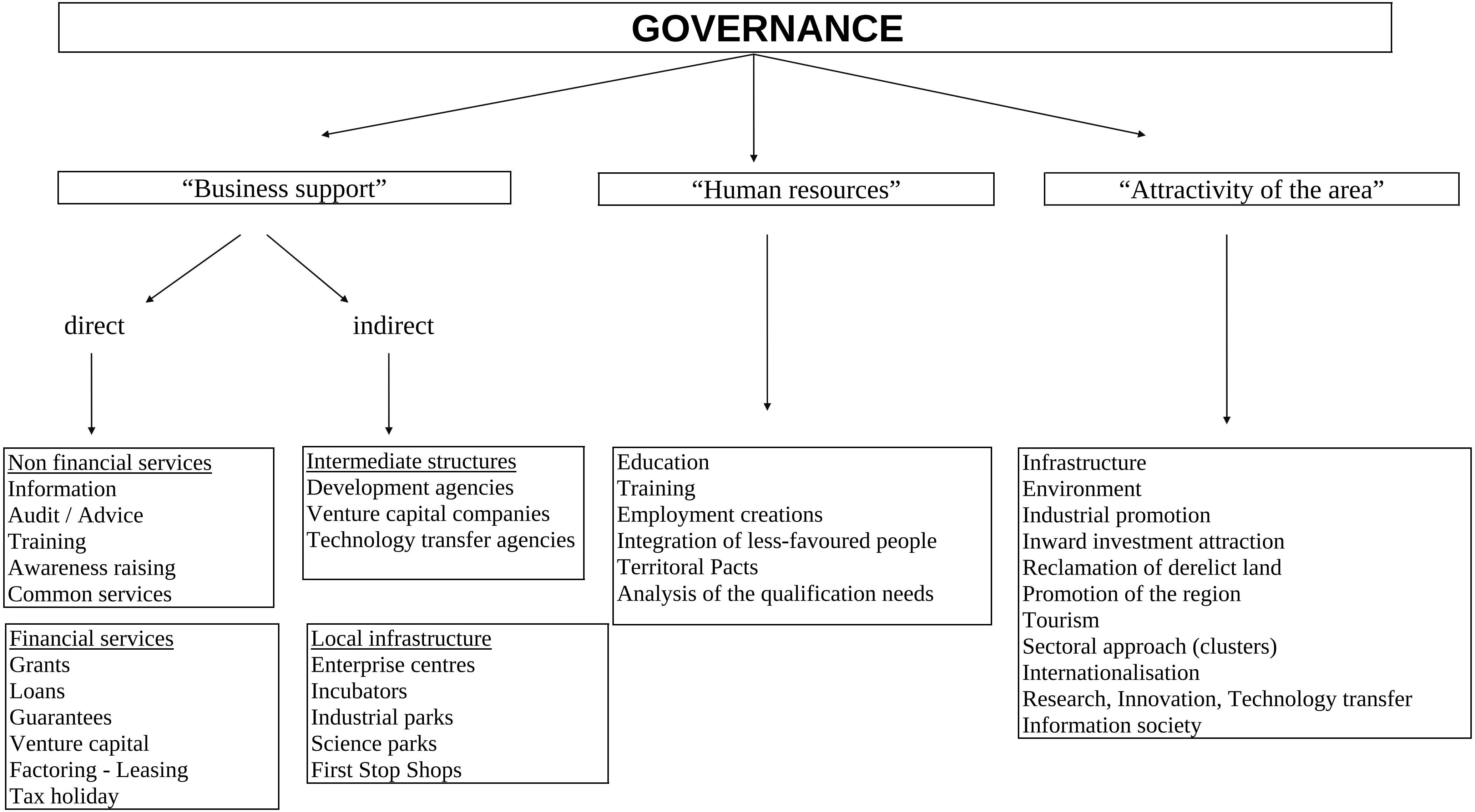
The two diagrams below are intended to show:

- the scattering of functions linked to economic development based on endogenous and exogenous development,
- an ideal development model.

The Wheel of Local Development



Source: EURADA


GOVERNANCE
“Business support”
“Human resources”
“Attractivity of the area”
direct
indirect
Non financial services
Information
Audit / Advice
Training
Awareness raising
Common services
Financial services
Grants
Loans
Guarantees
Venture capital
Factoring - Leasing
Tax holiday
Intermediate structures
Development agencies
Venture capital companies
Technology transfer agencies
Local infrastructure
Enterprise centres
Incubators
Industrial parks
Science parks
First Stop Shops
Education
Training
Employment creations
Integration of less-favoured people
Territoral Pacts
Analysis of the qualification needs
Infrastructure
Environment
Industrial promotion
Inward investment attraction
Reclamation of derelict land
Promotion of the region
Tourism
Sectoral approach (clusters)
Internationalisation
Research, Innovation, Technology transfer
Information society

Definition

Governance of a territory is the ability of key private and public actors to:

- build an organisational consensus in order to define common objectives in the field of regional economic development,
- agree a common vision for the future of their territory,
- agree on the means to be contributed by each partner in order to reach the objectives defined together.

So, governance is a far more complicated process than the pursuit of so-called democratic legitimacy or the decentralisation of the responsibility for economic development.

There is growing awareness of the need to back specific regional features as an alternative to economic standardisation and globalisation, and governance will increasingly become a decisive component of regional economic development.

It is worth noting that innovative actions RIS-RITTS and RISI and the local/regional pacts that were promoted and funded from the European Union's Structural Funds have made it possible to experiment with, and proved the relevance of, a form of governance that applies to the adoption of structural regional strategies.

Governance can also be an interesting concept to use when it comes to defining a vision for a geographical area that does not overlap a region or a country's administrative boundaries. In this case, it is to be regretted that the INTERREG programmes—also co-financed by the European Union—were not defined from a consensus-building effort, or at least not to any significant degree, and therefore amount only to a neat display of local priorities placed side by side with funding being allocated on the basis of national budgets spent domestically.

Using private sector management as a reference, governance has to mean the specialisation of public sector activities based on their core skills. This can involve subcontracting and even outsourcing some of their roles. In this framework, the roles and missions of the various intermediary bodies are most important. Equally, sound governance can be synonymous with support services integration and the end of fragmented and competing local/regional bodies whose areas of competence are all too often overlapping. There should be systematic support for the emergence of first advisory stop shops, whose role is to identify actual business needs and refer businessmen to the intermediary organisation(s) that can best supply the expertise required to meet those needs.

In this field too, there is no choice but to criticise the role played by European Commission services that care for the size of a territory's provision only insofar as it helps multiply outlets for subsidies to its own networks which, in addition to being inefficient, contribute to an ever more fragmented provision. Moreover, there is ample reason to wonder whether the decision to perpetuate Euro Info Centres within the European Union is not tantamount to recognising that, eight years into its existence, the European Union's Single Market is a failure. Indeed, how is it intellectually possible to justify that the information businessmen need has to be divided into two separate packages, national and European, when it is a well-known fact that most of the rules that apply to businesses are decided at European level? The decision to maintain Euro Info Centres as part of the new multiannual enterprise and entrepreneurship programme for 2001–2005 is in itself evidence of deep-rooted conservatism in the policies described above.

Governance will eventually require a form of organisation that resembles local/regional public-private partnerships based on quality and mutual trust.

Sound governance can be described organically as follows:

Key actors and decision-makers

↓

Consensus about local / regional development

↓

Integrated sectoral strategies

- Endogenous potential
- Human resources
- Attractiveness of the area vis-à-vis the outside

↓

First advisory shop structure

↓

Specialised services structure

↓

Economic operators

Sound governance should also be about ensuring that the vision developed for a region becomes reality. This means that the values linked to that vision have to be demonstrated and turned into action that helps deliver the expected result.

Governance Best Practices

A method to implement a regionally-integrated sectoral strategy—Showcases: RISI & RIS-RITTS innovative regions.

The foundation of the methodology uses the five stages below:
1. Setting up of a steering committee and joint definition of targets
2. Analysis of actual business needs
3. Objective analysis of the regional range of business support services
4. Drawing up of the strategic plan
5. Implementation of the plan.

It is recommended, as part of this methodology, to use the services of local and international consultants.

It is unanimously recognised that stage 1 in the process is the key to success in the rest of the enterprise.
It is also accepted that the effort should quite rapidly lead to the implementation of pilot projects that succeed in making the plan visible.

In addition to RITTS-RIS and RISI projects, examples of efficient governance are emerging in several regions, such as the regional textile & clothing plan in Nord-Pas de Calais[36]. As part of this plan, the Region, the Direction Régionale de l'Institut Textile de France, the trade unions, as well as business representatives, have adopted a three-year plan and a budget of nearly MEUR 9 for potential traditional sector-based market niches (house environment and clothing) or more technical niches on the fringe of the textile, clothing and retail sectors (transport, medicine, stretch and easy-to-iron fabric). A substantial share of regional subsidies will go to human resources. This approach will be applied to the steel and car parts industries as well.

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[36] *Nord Eclair*, 16–17 July 2000, p. 3.

Absence of Sound Governance

It should be pointed out that even though, in recent years, Europe has progressively become aware of its lack of development in the field of entrepreneurship compared to the US, none of its Directorates-General has taken any steps to promote an integrated regional approach. Quite the opposite: each DG defends its own concept of, or approach to, entrepreneurship and therefore protects and maintains fragmentation in the provision of support services. Not a single European Commission service with which we have been in touch has mobilised to test a new approach based on the above-mentioned RIS-RITTS exercises, even though their status as best governance practices is established.

Foundation of an Integrated Regional Approach to the Stimulation of Entrepreneurship

Pre Start-Up

Creating Awareness And Culture

- Media
- Schools programme
- Case studies
- Personal enterprise
- Seminar/events

Sources

- SMEs
- R&D
- Universities
- Unemployed
- Craftsmen
- Special groups

Support Agencies

- Measures
- Skills
- SME Observatory
- First stop shop

Business Support Infrastructure

- Smart buildings
- Incubators
- Appropriate environment
- Facilitating access

ENTREPRENEURSHIP

Finance

- Banks
- Seed/Venture capital
- Business Angels
- Guarantees
- Exit routes

Information

- Economic intelligence
- Technology
- Trends
- Business opportunities
- Business validation

Training

- Technology and entrepreneurship
- Market research
- Business plans
- Finance

Post Start-Up (1-2years)

Mentoring

- Practical hands-on advice from experienced practitioners and specialists
- Management practice workshops

Networking

- Formal and informal networks
- Sub-supplier networks
- Focus groups on key development areas

Source : EURADA (ad-hoc WG on Entrepreneurship)

Factors Influencing Governance

One obstacle to overcome in the implementation of a new form of governance relates to explicit or implicit reservations among the administrative strongholds that have evolved as a result of the multiplication of intermediary bodies, as well as their overlapping roles and missions. The resulting frustrations can be overcome only if all actors agree the need to make their skills available to achieve the targets defined together for the region's future.

The authorities can solve these divisions by:

- signing mission-specific contracts with intermediary bodies instead of granting them yearly operational subsidies
- organising a "first stop advisory shop" system that refers client businesses to the intermediary organisation(s) with the best expertise available to meet their needs. This *per se* means that no single intermediary body can claim to offer the full range of services to all businesses in a region. As a concept, first stop advisory shops promote the sharing of skills and the networking of intermediary organisations rather than the concentration of skills in a single structure. As part of this approach, complementarity between the private and public sectors should also be taken into account.

In addition to populism and the dilution of responsibility described above, there are other obstacles in the way of reformed regional governance:

- resistance to change. It is a fact that support for ailing businesses—with media coverage and trade union backing—often mobilises funding faster that innovation, for example
- regional public bodies find it difficult to anticipate the needs of the private sector
- fashion: local and regional authorities were once desperate to set up their own industrial park and these days, they all want a science park, a call centre or a cluster
- it is difficult to distinguish between obvious, latent, expressed and actual business needs. Adequate responses are therefore hard to formulate, and it is difficult to develop the tools that businesses are most in need of.

Governance also means making the end user of regional economic development action the focus of all discussions and efforts. Sometimes, it is difficult to supply an accurate definition of this final user of regional economic development. In an attempt to be exhaustive, we have identified the four target groups below:

- elected representatives (they want to be re-elected)
- businessmen and businesses
- potential investors
- the population as a whole (they want jobs and an improved standard of living).

Sound governance should also provide for efficient time management, both in the decision-making process and in the enforcement of decisions. It is a fact that globalisation and the advent of the Internet and knowledge-based society have led to significantly faster product and business lifecycles and considerably shorter time-to-market delays. In order to be efficient, business support decisions have to adjust not only to contents, but also to time-related factors.

This acceleration of time creates a problem in the implementation of regional development policies: remedial-type action taken as part of traditional policies takes 10 to 12 years to produce its effect, while regions that want to operate in the new economy will only have two or three years—at most—to adapt.

There is also a need to consider at which territory unit level economic development intervention should ideally take place, and to design measures that have to be delivered at national, regional, subregional and local level. Obviously, a number of regional development policy decisions and actions have to be decided and implemented according to different critical mass depending on targets and capacity requirements. Governance and cross-regional co-operation/partnership will have to be accurately defined in order to maximise the cost-effectiveness of public intervention, whether required, desired or planned.

Intermediary Bodies and Governance

The role of intermediary organisations in regional economic development should consist in:

- ™ Identifying regional strengths and weaknesses
- ™ Framing a vision for regional economic development that is both desirable and endorsed by key actors
- ™ Objectively and accurately analysing the actual needs of local businesses (audit centres)
- ™ Providing an interface between obvious and actual needs
- ™ Stepping in where the private sector fails
- ™ Providing leadership to stimulate the emergence of new local services and ensure their solvency.

It is important to maintain a range of public or semi-public support services in order to:

- offer non-profitable services
- propose services outside the framework of the third sector
- provide visibility for local/regional policies and their delivery
- interpret decisions taken by the authorities
- anticipate on future needs
- ensure flexible and speedy delivery of actions.

Once services have become mature and solvent, intermediary bodies may invoice part of them.

In the future, public intermediaries will have to seek to propose ever more innovative collective services and leave customised services to associative intermediary bodies. This reasoning could be one of the consequences of the concepts of socio-economic fabric specialisation and sound governance detailed above.

In a nutshell, the future of public intermediary bodies is in the delivery of actions with the ability to:

- anticipate actual needs
- factor in educational objectives
- structure/organise the actors of a given economic segment or productive channel
- have a partnership-building initiative as its basis.

The strengthening of intermediary organisations takes the same route as outsourcing processes identified in the private sector. Outsourcing enables businesses to focus their resources and energy on their core skills. The same should apply to regional development policies with administrations providing direction and vision and intermediaries delivering that vision under the administration's control.

The emergence of a new regional economic development policy will no doubt stimulate intermediaries to come up with a new, ideal product mix that will try to reconcile requirements such as:

- job creation
- spatial planning
- stimulation of the endogenous potential
- globalisation of the economy

- advent of the information society
- need to innovate
- improved efficiency and effectiveness of public intervention.

Finally, in order to transition between a classical, industrial-type economy and an economy based on services, innovation and knowledge, intermediary bodies will have to adjust their methods of intervention in order to factor this evolution into their equation and so offer technological watch and economic intelligence schemes that are supportive of a regional socio-economic fabric that is often made up of SMEs that can ill afford such services.

Moreover, intermediary bodies will have to be able to perform operational tasks that are visible on a daily basis while simultaneously being involved in strategic and sectoral planning endeavours that will be ever more essential but whose effects can only be felt in the mid run.

IV. TRANSITION BETWEEN TRADITIONAL REGIONAL ECONOMIC POLICIES AND REGIONAL DEVELOPMENT POLICIES THAT SERVE THE NEW ECONOMY

Innovating in Regional Development — Lessons Learned from the Private Sector

Asking the question of innovation in regional economic development, it is possible to attempt to draw a parallel with technological development. Assuming that it involves both the production process and the product itself—and that innovation can be the result of technological transfer—it can be postulated that, as applied to regional economic development:

™ The process is improved governance,
™ The product is a range of support services that are adjusted to the actual needs of beneficiaries
™ Technological transfer takes the form of cross-regional co-operation.

This document contains many references to both governance and business support services, so there is no need to discuss those in detail in this chapter. Nevertheless, it is useful to recall that the transfer of expertise between regions is all too often hindered by cultural differences that make it impossible to simply reproduce a region's experiences or established best practices in other regions. Therefore, it would be advisable to foster:

- the ability to formulate know-how needs
- the identification of innovation items that are transferable
- the "learn-by-doing" approach rather than franchising or consulting[37]
  In order to stimulate hands-on experience, benchmarking—if used correctly—is a most interesting tool, as it helps understanding which measures make a contribution to the improvement of the efficiency of a scheme. It becomes possible, once the source of improved efficiency is identified, to modify parameters, gain efficiency and achieve a higher level of performance. It is possible to use benchmarking in support services, innovation, vocational training, etc.

It is also interesting to compare competitiveness in a business and in a region. At business level, the search for competitiveness gains focuses on growth in the value chain and on preferential treatment of customers. At this point, it is useful to recall a basic principle of mechanical physics: *a chain can only be as strong as its weakest link*. Thus, in the field of regional economic development, there will be a need to constantly seek to optimise the balance between the following factors, even though they may be contradictory in essence:

- top-down and bottom-up approaches
- centralisation and outsourcing of the delivery of public support measures
- interventionism and partnership
- passive stance and project engineering
- conservatism and innovation
- efficiency and effectiveness of support programmes
- diversification/sprinkling and concentration of support measures (there are reportedly over 300 different support measures in Wallonia [B]).

In his book *"L'avantage compétitif"* (1985), Mr Porter identified ten factors of business competitiveness. It should be possible to formulate such a model for regional economic development and use it as an impact indicator for all economic development programmes (see two tentative models below).

[37] The *tutoring* or *coaching* approach seems better adjusted.

Any business support programme should detail its impact both according to the factors in Mr Porter's model and against the parameters of the derived competitiveness model introduced above, thereby establishing its added value compared to existing measures. Such an exercise would have the advantage of valorising new initiatives and of benchmarking them against existing initiatives in order to avoid duplication and to standardise an approach to support services.

BUSINESS ORGANISATION AND VALUE CHAIN

Source : Michael Porter : *Competitive Advantage*

REGIONAL DEVELOPMENT AND VALUE CHAIN

Source: EURADA, adapted from Michael Porter: *Competitive Advantage*

Economic Development plc

A number of fundamentals of the economy have changed for good, i.e.:

- 4 trade has become global,
- 4 the information society is now a fact of life: being local is no longer an option and time has accelerated,
- 4 social liberal thinking or social-liberalism with a touch of green is gaining ground,
- 4 aspirations to sustainable development are high.

Therefore, is its not time for public intermediary organisations to mutate into businesses with economic and social development in their area of influence as their flagship product?

Once this postulate is accepted, there is a need to reconcile the operational model of mainstream businesses with that of economic development enterprises and seek to identify what productivity gains can be generated.

The basic role of mainstream businesses consists is creating adding value by processing raw materials into products. If the product does not meet consumer requirements, its added value becomes nil. This sanction, often implacable and merciless, forces operators to innovate constantly in order to survive.

The transfer of this mainstream business model—an extremely simplistic one at this stage—to enterprises in the development sector requires a detailed analysis of five parameters:

- raw materials
- production process
- added value
- customer satisfaction
- cash flow.

Additionally, consideration is needed for a few cost centres that are part and parcel of any production process, i.e.:

- overhead
- research and development
- management.

The raw material of regional development can be subdivided into:

- basic infrastructures
- human skills
- entrepreneurship among the population
- managerial skills among local decision-makers and representatives of decentralised authorities acting on behalf of national administrations
- availability of endogenous resources
- availability of financial resources, either in-house or transferred.

Clearly, the input can be either tangible or intangible, available locally or imported. Imported input often fluctuates, which creates uncertainty in the mid-run about supply safety and prices.
Some of the human input can be assimilated to fixed-term supply contracts which are often binding, i.e. the people cannot be changed (e.g. between two elections or between appointments of civil servants who represent the national authority in the region).

The production process consists in turning endogenous resources into a broader regional tax base.

The technology involved will consist in trying to get all local actors to adhere to a shared regional strategy (business plan).

The tools—or even the technology—available to economic development enterprises include:

- consensus-building
- partnership
- networking
- availability of local infrastructures
- financial engineering.

As for the finished products, they take the form of:

- an integrated strategy
- collective support services
- clustering.

The added value of the production process should be:

- an improved business environment
- the maximisation of available resources
- a matching of the offer and demand of supported services, as formulated by local stakeholders
- a streamlining of support services.

Evaluating customer satisfaction is often an ambiguous exercise in economic development, in the sense that the latter can deal with the aspirations of both the authorities and the business community. But these two groups may have different ambitions. Maybe the authorities should once and for all be considered not as customers but rather like the shareholders of economic development. In this way, public sector satisfaction can be guaranteed only if the private sector offers a return on investment, i.e. if businesses put to the best possible use the products and services that are made available to them.

The cash flow of regional development should be measured in terms of the tax revenue generated by local businessmen. Two parameters should be considered or, if need be, developed: measurements of the income tax and VAT revenue generated at regional level.

The performance of Economic Development plc could then be evaluated on the basis of:

4 annual growth in the total revenue generated from the two taxes mentioned above
4 the balance between the expenditure incurred as part of efforts to support economic development and the increase in the tax income generated during the year.

Taking this approach one step further, organisations in charge of development should be entitled to payment in a form not unlike stock options, i.e. they should stand to gain from a local economy that is thriving. Profit-sharing could take the form of a share of the tax revenue generated by local businesses. The central government could channel this percentage back to the regional budget, thereby allowing regions to invest in new actions or perpetuate existing initiatives whose added value is established or that have functioned to the full satisfaction of both their customers and their shareholders.

Table Reconciling Support for a Traditional Regional Economy and a New Regional Economy

In practice, a number of concepts linked to the delivery of regional development policies are changing. However, this evolution is often fragmented and rarely pervasive. A number of measures are still not widely used.

Change results from the modification of the fundamental axioms that govern how businesses operate as they transition between the industrial era and the new economy. The table below lists some of those changes.

Industrial Era	Knowledge Era
• Added value is generated by efficiency • Investment in production units • Inventory • Product orientation • Mass production • Mechanisation • Long product lifecycles • Local production units • Careful planning • Initial training of human resources • Competitive environment	• Added value is generated by creativeness • Investment in innovation • Information • Customer services • Flexible production • Digitisation • Short product lifecycles • Globalisation • Change and innovation • Continuous training of human resources • Networks and co-operation

The table below is an attempt to reconcile the concepts that guided regional policies in support of industrial economies—or economies in transition following industrial decline—on the one hand, and concepts that should underpin support in a global or knowledge-based economy on the other hand.

Table Reconciling Regional Development Tools and Concepts
Based on the Traditional and New Economies

Concepts	Traditional Economy	New economy
Basic infrastructure	Power, water, roads, rail, ports, airports	Telecommunications, multi-modal platforms
Local Infrastructure	Industrial parks Incubators Science parks	Logistics areas Internet incubators Virtual networks of excellency centres
Human Resources	Education and training Integration of disadvantaged people Vocational (re)training	Knowledge Lifelong learning Anticipation of business needs
Business Support Regime	Subsidies, tax relief Customised support (advice centres) Audits, advice	Financial engineering Collective forms of support Mentoring/Tutoring
Regional Investment Attraction Potential	Business creation Search for mobile investment Competitive advantages	Entrepreneurship Territorial offer Co-operation among businesses, Clusters
Public Authority Roles	Business support Valorisation of local resources Public services Evaluation Priorities Reconversion	Partnership, Governance, Regional prospective studies, Technological watch, Economic Intelligence Sustainable development Public-Private partnerships Benchmarking Cost/Benefit ratio of public expenditure Integrated strategies Innovation

New Economy and Evaluation of Business Potential

It has been emphasised in several sections of this document that business support policies will have to better integrate the immaterial factors that are the currency of knowledge-based businesses.

Below is a table with the main differences in the criteria used to evaluate how successful and survivable businesses are according to their affiliation to traditional segments of the economy or to the knowledge-based society. This evolution should be reflected in public support schemes.

Businesses Operating in Traditional Segments	Businesses Operating in the Knowledge-Based Society
Previous balance sheets are indicative of future trends	Business project and plan are key in giving businessmen credibility. Evaluation is based on knowledge and how it is leveraged
Both management and products are visible	Markets are both global and emerging (no historical reference)
Controlled growth. Both shareholders and partners—including financial—are stable	Strong external growth is a must. Partners become extremely volatile (stability in financial partnerships is not desirable)
Investment is mostly tangible (factories, machinery)	Investment is mostly immaterial (knowledge, innovation)

ANNEX I

THE EUROPEAN UNION'S REGIONAL POLICY BEYOND 2006

BACKGROUND

For a variety of reasons the Community's regional policy is coming under scrutiny:

a) Worries as to the potential impact of the enlargement.
b) Consideration of the phasing out of the Structural Funds and beyond.

Besides, the European Commission is drafting European documents, on the one hand about economic and social cohesion trends[1] and on the other hand about governance[2].
Finally, a number of organisations have already launched debates about the future of Europe's regional policy[3].
Below are some thoughts about this issue.

POLITICAL STAKES

In view of the level of development in the candidate countries, the enlargement of the European Union will generate substantial financial requirements.

Population

EU 15	373,000,000 inhabitants
EU 27	475,000,000 inhabitants
EU 28[4]	538,000,000 inhabitants

Pop. (12 candidate countries[5]):	100,900,000 inhabitants
Pop. (in Objective 1&2 countries[6]):	149,200,000 inhabitants

Population in the 12 candidate countries / Population in Objective 1&2 countries = 66.6%

Objective 1 budget (2000-2006)	EUR 135,900 million
Objective 2 budget (2000-2006)	EUR 22,500 million

Average subsidies *per capita*

Objective 1 regions	EUR 1,643/inhabitant/year
Objective 2 regions	EUR 330/inhabitant/year

[1] 2nd periodic report
[2] White Paper co-ordinated by J. Vignon
[3] CPMR, High level groups, etc.
[4] Including Turkey
[5] 13 countries, i.e. 164,300,000 inhabitants
[6] 68.21 million under Objective 2 and 82.70 million under Objective 1

Projection of budget requirements for a Europe with 27 Member States, with all remaining otherwise equal and all accession countries becoming Objective 1 territory: EUR 166,000 million—and even EUR 270,000 million with 28 Member States.

MACROECONOMIC CONTEXT

4 Will economic growth and long-term prospects for higher levels of employment in Europe influence the debate on the future of the Structural Funds beyond 2006?

4 Should the value of the Euro and Europe's energy bill be factored into the equation of future decisions about the Structural Funds, to account for possible losses of competitiveness in the regions?

4 What role will the new economy and the knowledge-based society play in regional competitiveness and how much can they contribute to the structural policy?

4 The notion of "peripherality" inside the European Union will undergo dramatic changes following the current enlargement process.

4 Will the current eligibility criteria still be relevant in 2007, bearing in mind intervening structural and economic changes in the European Union?

CULTURAL STAKES

Is the enlargement an opportunity for the European Union or will it revive old apprehensions and the fear of the unknown?

Some politicians believe that their territory's eligibility to the Structural Funds is part of the "acquis communautaire" and that such eligibility in a seal of quality when in fact it denotes a structural or administrative inability to jump-start or speed up a process of economic development in their region.

Should a new interregional "solidarity" objective be added to the list of Structural Funds objectives?

How can the expectation of assistance in the candidate countries be reconciled with similar requirements remaining in some regions of the European Union?

How substantially can the wealthiest Member States of the European Union be expected to be net contributors to the Community budget? Could an analysis of the impact in non-recipient Member States of investment in Structural Funds recipient countries change the "accountant" perception of EU budget utilisation that prevails in some finance ministries[7]?

ADMINISTRATIVE STAKES

- How could the Structural Funds be better leveraged?
- Should a separate administrative organisation be maintained or should the various units that currently manage the funds be merged together at Commission level?
- Are the current *modus operandi* still relevant? For memory, they were defined in 1986–1988. The next programming period will start some two decades later.
- Currently, the European Commission gives subsidies to bodies that in turn offer grants. Would it not be advisable to promote an alternative approach whereby regional development banks would be set up in the new Member States?
- When the European Union was enlarged to the South, the IMPs (Integrated Mediterranean Programmes) were set up, while the new Objective 6 was created at the time of the enlargement towards Scandinavia. Should the enlargement towards the East lead to the emergence of a new concept?
- Do the candidate countries have the administrative skills required for optimum management of the administrative procedures involved?
- Can the current trend toward transferring powers from national to local government be applied to the candidate countries? Will management decentralisation, as introduced in the Structural Funds regulation for 2000-2006, be considered "acquis communautaire" or will special arrangements be taken for its implementation in the candidate countries?
- Would a "musical chair" scenario be possible when it comes to eligibility to the Structural Funds, whereby the following could happen:
  - the candidate countries become Objective 1 territories
  - the current Objective 1 regions become Objective 2 regions and
  - the current Objective 2 regions are no longer eligible, except to ESF-style measures aimed at improving their ability to enter the knowledge-based society by means of specific vocational training actions?

[7] It is said that out of every EUR 100 spent in Portugal as part of the Structural Funds effort, EUR 40 are recycled back into the economies of other Member States, e.g. EUR 28 in Greece!

In budget terms, based on the average *per capita* cost of Objectives 1&2, it is possible to come up with the following estimate:

Objective 1 (EU-26, candidates)	EUR 166,000 million
Objective 2 (ex-Objective 1)	EUR 28,000 million
Objective 3 (ex-Objective 2)[8]	EUR 25,000 million
	EUR 219,000 million

For memory, in 2000–2006, the total budget for Objectives 1, 2 and 3 is EUR 183,564 million. The budget would therefore have to be increased by around 19%.

In view of the fact that it would be quite unrealistic to consider that the regions of the new Member States would be in a position to absorb all of the structural subsidies, it could for example be postulated that the average structural aid *per capita* should amount to two thirds of current subsidies under Objective 1. The distribution between Objectives 1, 2 and 3—as defined above—would then be:

Objective 1	EUR 110,000 million
Objective 2	EUR 84,000 million[9]
Objective 3	EUR 25,000 million
	EUR 219,000 million

TECHNICAL CONSIDERATIONS ABOUT IMPLEMENTATION

4 Should the Community's policy aim to close the gap between Member States of the European Union, between regions of the European Union, or even between regions within Member States?

4 What is the relevant size of a region, both in terms of solving regional economic problems (entire NUTS 2 – NUTS 3 blocks, or only part of them?) and in terms of geographical significance (spatial planning)?

4 Would it not be useful for Community law to clarify the notion of "Community interest projects" instead of publishing more or less exhaustive lists of eligible projects?

4 How can the European Union ensure that the real needs of its regions are taken into account both in the formulation of regional policy (CIP, innovative actions, etc.) and in the planning and delivery thereof?

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8 This amount is equivalent to the entire Objective 3 for 2000–2006

9 With the overall population in Objective 1 regions stable at current levels, the average cost would then be EUR 1,016/inhabitant V. EUR 1,643/inhabitant for 2000–2006 and EUR 945/inhabitant in 1994–1999.

- Should Europe's development policy be monolithic or sectoral? Should it help regions seize development opportunities or should it merely remedy failures?

COMPLEMENTARITY IN COMMUNITY POLICIES

- What role should be attributed to the competition policy? Should it be regulatory in nature and avoid that the wealthier Member States depart from the rules of competition, lest they disrupt the natural flow of direct investments; or should it be more of an auxiliary function, stepping in for the Community's regional policy in areas that are not eligible to the ERDF?

- Should the Common Agricultural Policy be turned into a rural development policy or stay within its current confines, i.e. supporting the prices of agricultural products? Should the CAP be regionalised?

- Would it be meaningful to regionalise Europe's RTD policy or would it be preferable, in view of its rather limited budget, to consider that the only objective of an RTD policy should be the pursuit of excellence at European level?

- Would it not be advisable to promote a Community initiative on entrepreneurship?

- Where will Europe's environment policy fit in an enlarged European Union?

- Will market forces be sufficiently powerful to extend to all regions the advantages of the information society?

- Should Europe's energy policy not have a regional vision for the potential of renewable energies?

THE REGIONAL POLICY'S PLAYING FIELD

- In a vastly larger Europe, should "regional policy" still be the operative term or would "spatial planning" provide a better umbrella?

- Does the emergence of phenomena such as globalisation, the knowledge-based society and e-commerce call for a textbook approach to regional development or, conversely, does it emphasise the need to act in terms of spatial planning?

- What role will towns, cities and rural communities play in the regional policy in the future?

- What would be the ideal "product mix" between investment in infrastructure, human resources and entrepreneurship?

4 What is the added value of the European Union to regions that not eligible

A Case for European Union Support to the Setting up of Regional Seed Loan Funds for SMEs

0. Background

1. The emphasis on entrepreneurship and micro businesses in Europe was reiterated at the Lisbon Summit.

2. Structural Funds guidance documents for 2000-2006 insist that financial engineering actions should be a privileged form of support for SME.

3. Recommendation #4 of the Roundtable of Bankers and SMEs suggests the substitution of alternative sources of finance for the subsidies granted pursuant of the Structural Funds.

1. Context

1. European businesses are chronically under-funded and find it difficult to secure bank loans.

2. Every year, sizeable public funds are wasted in direct or indirect subsidies for businesses.

3. A number of regions find it difficult to mobilise finance for start-ups or innovative businesses.

4. Structural Funds-eligible regions anticipate problems with available finance at regional level when they are no longer eligible.

Therefore, it would be useful to consider ways of equipping regions with SME seed loan funds to help them leverage equity whilst ensuring an interesting cost-effectiveness ratio for public funds.

2. Exposition of Motives

Important sums are invested by the authorities in the form of subsidies, even though this method has no positive mid-run impact in terms of a solution to the fundamental issue of the shortage of seed capital for new businesses.

From a regional perspective, subsidy is a costly mechanism in that it must be repeated every year.

Subsidies are not necessarily attractive to dynamic businesses and therefore, they tend to distort competition in that they often support projects whose profitability would otherwise not be guaranteed.

Subsidy suppliers (public authorities) see their available resources dwindle by the year without any prospect for restoring them dynamically.
In the case of the Structural Funds, phasing out is a blow when it could in fact be cushioned and spread out over a longer period of time if part of the ERDF funding for example were earmarked for the setting up of regional loan funds, e.g. seed loan funds for SMEs—including micro-businesses.

Below is a simulation of the impact of such a proposal for the substitution of regional seed loan funds for existing subsidies.

3. Objective

To redirect part of the money invested by public authorities as direct or indirect subsidies for the equipment of regional seed loan funds.

4. The Case for Setting up Regional Seed Loan Funds

Regional seed loan funds:
- expand a region's available assets in terms of venture capital support for start-ups
- improve overall project quality: competitive businesses cannot afford to wait for requests for subsidies to go through administrative channels
- force public authorities to verify that projects are economically viable because repayment is in their interest and *will* depend on it
- substantially improve the cost-effectiveness ratio of public intervention.

The efficiency of subsidies is often measured against the rate of commitment of available funding whereas in the case of a loan mechanism, it is measured against the rate of loan settlement.

5. Modus operandi

- Regional seed loan funds would be operated by semi-public regional intermediaries.
- Beneficiaries of seed loans would be newly set-up businesses (< 5 years), including micro-businesses.
- Loans would be granted for a maximum of four years and would be interest free (or at a rate equal to inflation) and refundable at the end of the period.
- The maximum amount would depend on the businessman's own contribution plus that of a possible business angel.
- The fund should set up a guarantee scheme to make up for part of the losses incurred as a result of possible bankruptcies among loan recipients
- As an absolute prerequisite, loans should be granted only to businessmen who agree to be coached by an experienced businessman or business angel
- Loans would probably range between EUR 25,000 and EUR 75,000

6. The Case for Interest-Free Loans

1. Subsidies are interest free too.
2. The scheme acts in a section of the market that is not covered by the private sector (business angels, venture capital, or banks).
3. The French experience with loans-on-trust (interest free and without guarantee, with support) has shown how useful they are in supporting new businesses. The same is true of Scandinavian and German micro-credit schemes.

7. Leverage and public/private partnerships

Improving business capitalisation with public intervention will open new markets for banks because it will reduce the risk represented by undercapitalised businesses. Moreover, seed loan recipients will be more mature after four years—duration of the loan—and therefore in a better position to attract growth capital that will likely come from banks or venture capital firms, i.e. the private sector.

8. Mechanism for Financing Regional Funds and for the Administrative Management of Public Intervention (European Union and Member States)

It is often said that the European Commission and/or national administrations (in the Member States) experience difficulties in supporting financial engineering mechanisms because they are not in a position to close the accounts at the end of programming periods due to the fact that public funding is not exhausted since it is regularly pumped back into the business financing loop. It is easy to counter this argument with the following reasoning: if public sponsors (European Union and Member States) grant subsidies for the purpose of setting up or fuelling a regional seed loan fund, their contribution contractually ends as soon as that fund is up and running, and so the administrative file can be closed as planned at the end of the programming period, provided that all the earmarked funding has actually been given out. Indeed, it should be underscored that the funding authority is not lending the money to the regional fund but actually providing it with the means to act as a supplier of credit.

9. A Model for Regional Seed Loan Funds

I. Parameters

1. The fund is fuelled by the ERDF and the Member State during the six years of the 2000-2006 programming period
2. Loans are granted for four years and repayable when they fall due
3. Loans are interest free
4. The fund keeps 5% of available assets to set up a guarantee scheme
5. 75% is considered an acceptable repayment rate, allowing for bankruptcies, inflation and possibly management overhead.

II. Consequences

1. Total investment after twelve years, i.e. two normal ERDF programming periods, is double that of the traditional "grant-fund" subsidies system (see Table I below).
2. A Member State's investment in the fund is recouped after 14 to 15 years through VAT. In other words, intervention takes the form of an advance by the State to the regions.
3. This mechanism considerably improves the cost-effectiveness ratio of public expenditure, as seed loans schemes are five times cheaper to operate than subsidies schemes!
4. During years 13 to 18, the amounts invested would still be 50% higher than Community subsidies.

Table I: Model for regional seed loan funds

Year	European Union	Member State	Total	Guarantee scheme		Investments		VAT Recovered (20%)
				Yearly contribution	Available	Available	Invested	
I	50	50	100	5	5	95	95	19
II	50	50	100	5	10	95	95	19
III	50	50	100	5	15	95	95	19
IV	50	50	100	5	20	95	95	19
V	50	50	100	9	24	171*	162	32
VI	50	50	100	9	28	171	162	32
Total P1	300	300	600			722	704	140
VII	-	-	-	4	27		72	14
VII	-	-	-	4	26	76**	72	14
IX	-	-	-	7	24	76	123	24
X	-	-	-	7	22	130	123	24
XI	-	-	-	3	21	130	55	10
XII	-	-	-	3	20	58	55	11
						58		
Total P2						524	500	98
P1 + P2	300	300	600				1,204	238

(*) i.e. 95 + 5 guarantee fund intervention + 71 (95 x 0.75)

(**) i.e. 5 guarantee fund intervention + 71

10. Data per European Union Member States on the Implementation of a Seed Loan Scheme

I. Parameters

1. 25% of the above-mentioned intervention is used to finance regional seed loan funds (see Table II).
2. The scenario outlined under the heading "model for regional seed loan funds with figures" (see 8. Above) is applied to the amounts derived from the above set of parameters.

II. Consequences

1. 12 years into the operation, investments by seed loan funds would rival the total of Structural Funds money earmarked by the Member States for SME support during the entire 1994-1999 programming period.
2. According to the Member States, after 12 years, seed loan funds would have invested 9 to 193 times more than SME CIPs during the 1994-1999 programming period.
3. The funds could lend EUR 75,000 to potentially around 350,000 companies.
   For the record, some 7,000 businesses are supported by venture capital firms yearly and the French "plateformes d'initiative locale" have supported around 400 businesses with loans-on-trust in 1999. With seed loan funds financed by the Structural Funds as described above, it should be possible to offer support to an additional 2,500 companies.

Tableau II: Data per European Union Member State on the implementation of a seed loan scheme

Member State	Estimate of Structural Funds intervention for SMEs 1994-1999	Estimate of yearly average (in MEUR)		Available funds: Structural Funds + Member States (50% + 50%)	Amounts invested per Member State in seed loans after six years	Number of businesses supported with a EUR 75,000 loan after six years	Ratio Funds Invested / SME CIPs
		Σ	25%				
B	766,000,000	128	32.00	64.00	768,000,000	10,240	62
DK	223,000,000	37	9.25	18.50	222,000,000	2,960	85
D	6,900,000,000	1,150	287.50	575.00	6,900,000,000	92,000	36
GR	3,240,000,000	540	135.00	270.00	3,240,000,000	43,200	39
E	2,300,000,000	383	97.75	191.50	2,298,000,000	30,640	9
F	1,300,000,000	217	54.25	108.50	1,302,000,000	17,360	22
IRL	975,000,000	163	40.75	81.50	978,000,000	13,040	34
I	4,700,000,000	783	195.75	391.50	4,698,000,000	62,640	24
L	7,000,000	1	0.25	0.50	7,000,000	100	18
NL	418,000,000	70	17.50	35.00	420,000,000	5,600	40
A	89,000,000	22	5.50	110.00	132,000,000	1,760	34
P	2,700,000,000	450	112.50	225.00	2,700,000,000	36,000	193
FIN	93,000,000	23	5.80	11.60	139,000,000	1,853	13
S	400,000,000	100	25.00	50.00	600,000,000	8,000	35
UK	2,400,000,000	400	100.00	200.00	2,400,000,000	32,000	35

11. Impact of Altering a Number of Model Parameters

1. It is possible to make regional funds more sustainable by increasing the share of funding earmarked for guarantee schemes.
   If 25% is used to establish a guarantee scheme and 75% goes to loans, the amounts invested are of around 600 for each six-year period, i.e. the total amount of the investment. If the distribution is 20/80, investment reaches 640, i.e. a somewhat better multiplying effect.

2. The cumulative effect of investment in the regional fund would be improved with investments in the fund planned over a period of 12 years (i.e. two programming periods). It would be useful to consider such an approach for the funds to be allocated to regions in the accession countries (see Table III below).
   This contribution, taking the form of subsidies to a regional seed loan fund over 12 years, is also useful in planning the phasing out of support, as over years 13 through 18, investment still reaches 938 (as opposed to 600 only with traditional "grant fund" subsidies, or even 0 if regions are no longer eligible), and 630 yet during years 19 through 24.

Table III: 12-year investment model

Year	European Union	Member State	Σ	Investment
I	50	50	100	95
II	50	50	100	95
III	50	50	100	95
IV	50	50	100	95
V	50	50	100	171
VI	50	50	100	171
Σ P1	300	300	600	722
VII	50	50	100	171
VIII	50	50	100	171
IX	50	50	100	227
X	50	50	100	227
XI	50	50	100	227
XII	50	50	100	227
Σ P2	300	300	600	1,250
Σ P1 + P2	600	600	1,200	1,972

12. Lopping off of variations in available funds

1. The proposed model has the disadvantage of making large sums available for loans in years 5 and 6. This is due to the fact that reimbursed loans stack up with public funds. This side effect could be avoided by earmarking EU and State contributions in years 5 and 6 for the setting up of the guarantee fund, with the following advantages:
   - The full amount available can be allocated as loans in years 1 through 4;
   - For another six years, years 7 through 12—i.e. the phasing out period—, the funds available would be unchanged and equal, as shown in the table below.

Table IV: Lopping off—Option I

Year	EU	MS	Σ	Investment	Reimburseme nt	Guarantee fund
I	50	50	100	100	-	-
II	50	50	100	100	-	-
III	50	50	100	100	-	-
IV	50	50	100	100	-	-
V	50	50	100	100	75	
VI	50	50	100	100	75	75*
Σ P1	300	300	600	600	150	150
VII				100	75	-
VIII				100	75	125
IX				100	75	100
X				100	75	75
XI				100	75	50
XII				100	75	25
						-

2. Should provisioning of the fund be for a 12-year period, it would be possible to stabilise available funding at level 100 by asking the European Union and Member States to contribute only to the reconstitution of the guarantee scheme (see table below), in which case the fund's life can be extended for another six years.

Table V: Lopping off—Option II

Year	EU	MS	Σ	Investment	Reimbursement	Guarantee fund
I	50	50	100	100	75	-
II	50	50	100	100	75	-
III	50	50	100	100	75	-
IV	50	50	100	100	75	-
V	50	50	100	100	75	75
VI	50	50	100	100	75	150
Σ T1	300	300	600	600		
VII	12.5	12.5	25	100	75	150
VIII	12.5	12.5	25	100	75	150
IX	12.5	12.5	25	100	75	150
X	12.5	12.5	25	100	75	150
XI	12.5	12.5	25	100	75	150
XII	12.5	12.5	25	100	75	150
Σ T2	75.0	75.0	150	600	75	
XIII	-	-	-	100	75	125
XIV	-	-	-	100	75	100
XV	-	-	-	100	75	75
XVI	-	-	-	100	75	50
XVII	-	-	-	100	75	25
XVIII	-	-	-	100	75	-
Σ T1+ T2+T3	375.0	375.0	750	1,800		

13. Conclusions

1. The competent services of the European Commission (DG Regio and DG Enterprise, as well as the EIB and EIF) should carefully examine the feasibility of Community support for regional seed loan funds.

2. Regional organisations with existing such regional schemes—e.g. France Initiative Réseau (F), Deutsche Ausgleichsbank (D), ALMI (S), Finnvera (FIN), South West Investment Group (UK)—should be benchmarked.

3. In order to optimise the scheme or the share of Structural Funds (25%) to be invested into such funds, simulations of parameter alterations should be run on loan duration and repayment periods and/or rate of reimbursement and/or share of funds earmarked for guarantee schemes, or even maximum loan amounts. Besides, it would be useful to assess the impact of investing Structural Funds over 12 years, namely in the context of aids for the accession countries.

4. Should insurmountable administrative obstacles prevent the generalisation of this tool, seed loan funds could be replaced by the acquisition of stock.