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Assessment and Recommendations*

* The analysis in this report is based on information available at end-2005.

France and its regions are faced with structural problems…

In recent years, the slowdown in growth and difficulties in strengthening the competitiveness of the French economy have led the government to pay more attention to the country's structural weaknesses. These include recurring problems of high unemployment, poor performance in net business creation, scant R&D investment in the private sector, and an insufficient ability of firms to co-operate. These problems affect all regions to a greater or lesser degree, impairing their capacity for growth and job creation.

… but adjustments have been made and new sources of growth are being exploited

At the same time, the situation in the territories has not remained static. For example, the population has been shifting towards regions in the West and the South. Several major cities are experiencing faster job market growth than Paris in the highly-skilled categories, and they are playing a significant role in the country's economic development. Even though the knowledge economy is still very polarised territorially, Ile-de-France, but other regions as well, such as Provence-Alpes-Côte d'Azur, Rhône-Alpes, Midi-Pyrénées and Aquitaine, are deriving more and more benefit from their specialisation in this field. New development opportunities are also appearing in many rural areas, fuelled by the arrival of new populations, even in the most isolated areas. As a rule, the dynamics differ from one territory to another. Their trajectories often diverge sharply, even between neighbouring local labour markets or within the same administrative region.

Regional policy, previously geared heavily towards infrastructure and territorial planning, now focuses more on regional competitiveness

Against this backdrop, regional policy has evolved by adapting its responses to the different situations in the territories. Clearly, it still relies on large projects, on strengthening infrastructure to link isolated areas and on public investment in urban transport. However, now that the national territory enjoys modern transport and telecommunications infrastructure and a relatively dense networks of motorways and high-speed train lines, regional policy is making use of new instruments as well. It is now focusing on competitiveness in the regions, and on exploiting untapped development potential, *inter alia* to create alternative sources of growth in regions from which industries have moved away. As well as the traditional goals of balance, accessibility and equalisation, based on redistributive instruments and direct aid to regions in difficulty, new mechanisms are now in place that are open to participation by business, promoting incentives for investment (by means of calls for proposals) and seeking to improve local synergies with the potential to generate growth.

With decentralisation, this policy is increasingly being implemented in partnership with the different levels of government

DATAR – recently renamed DIACT (Interministerial Agency for Territorial Planning and Competitiveness) – and the Ministries responsible for this policy are no longer the only players in this area. The governance structures on which regional policy relies were reformed by a decentralisation movement initiated in the 1980s and recently bolstered by a second wave of laws. The French system of governance is characterised by both a multiplicity of participants and the fact that a major role is still reserved for central government. Decentralisation has nonetheless led to institutional innovations that allow hierarchical relationships to be replaced by a more partnership-based approach to regional policy. Co-operation between the State and local authorities is in fact crucial for ensuring that actions taken are consistent. This shift amounts to an opening up of dialogue between the players and a receptiveness of public policy-makers to a culture of joint decisions and negotiations.

At both national and territorial level, government action to promote competitiveness aims to tap the development potential of all regions. Here, there are three main priorities:

Given the problems of employment and weakened growth, the expansion of regional development strategy is a key issue for the national as well as regional and local authorities. Just as important as consolidating the dynamics of growth in the leading regions, and especially in the capital region, is to identify and exploit the competitive advantages of other regions. In order to do this, three priorities for action have been adopted: *a)* fostering innovation and dissemination of knowledge to modernise territorial economies and strengthen their competitive capacities, developing synergies between businesses and public and private research centres; *b)* identifying real sources of development in urban and rural areas and helping territories undergoing restructuring to relaunch their economies on a sound footing (in this regard, the increasingly diverse range of profiles between isolated rural and large metropolitan areas calls for more diversified approaches so as to tailor regional policies to local and regional specificities and interactions between rural and urban environments); and *c)* improving access to infrastructure in areas where there is still a deficiency, in particular in the field of information and communication technologies, and especially competitive access to broadband.

a) The first priority is in line with the government's new strategic approach on regional clusters:

The promotion of clusters and their links with public research institutes is an important aspect of regional competitiveness policy. It consists of a new strategic approach that seeks to target untapped potential in terms of business co-operation and collaboration between firms and the research system. Based on the concepts of business clusters and innovation systems, the *poles of competitiveness scheme* is the centrepiece of the policy, offering possibilities for rectifying the lack of innovation and co-operation that often characterises French business, in particular by seeking to activate clusters. This regional vision of economic development confers important roles on local authorities in a number of areas: fostering contacts between the players, supplementing government financing and supporting new programmes.

Even if public/private research partnerships had already been getting government support before the poles of competitiveness scheme came into being, the scheme is giving major impetus to joint R&D and innovation

In the past, the government had already taken many initiatives to foster partnership between public-sector research and business, mostly on a territorial basis. These included 1999 legislation creating networks of research and technological innovation (RRITs), technological research teams in universities (ERTs) and regional public incubators. In comparison with all these measures, the poles of competitiveness scheme holds out several

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advantages: *a)* it is clearly anchored in regions; *b)* it is a substantial effort, given the number of projects and the budgets announced; *c)* it is business-led; and *d)* it incorporates the systemic nature of innovation by bringing together a large number of stakeholders.

There are nevertheless a number of questions that arise regarding procedural complexity and financing

The initial call for projects to identify these poles of competitiveness was a complete success. In all of France, 105 applications were filed, in spite of the complexity of the governance systems to be set up, the participation of multiple private- and public-sector players, and an especially short time frame (November 2004-February 2005) for preparing applications. But this good start does not preclude certain risks for subsequent phases. It should be noted that:

1. The central government validated in principle 55 of the 66 proposed framework agreements concerning the selected poles of competitiveness (two were merged) at the October 2005 meeting of the Interministerial Committee [now called Interministerial Committee for Territorial Development and Competitiveness (CIACT)]. Nine more agreements were added to the list at the December 2005 CIACT meeting. These public/private partnership agreements stipulate the geographical limits of the "poles", enable sub-national authorities to be part of the governance system, and provide information on strategy. It is important that such frameworks be flexible enough to adjust to market demands and enable firms to manage their projects in a suitable environment. It is also important that the State be able to play its role effectively by making funding visible and public administration more reactive.
2. The number of poles is now practically quadruple what was initially projected (while the budget has only doubled). As a result, funding could be spread too thin. Even if there are plans to give favourable treatment to poles classified as "global", for example by exempting them from employers' contributions for workers in the field of R&D (exemptions account for less than 20 % of the funding) and granting them research posts, the leeway would seem to be limited.
3. In this context, support for projects not selected in the first round is somewhat paradoxical. It would seem necessary above all to analyse in detail the reasons for failure, to avoid any windfall effects or the application of non-economic criteria, and also to assess the extent to which some of these projects should fall under the local cluster (SPL) scheme.

4. For the moment, apart from a few poles located in border regions (*e.g.* BioValley in Alsace), none of them have a truly European dimension. However, many large firms and multinational companies are partners within these poles. It is important that they be able to help foster international co-operation.

The scheme will be able to achieve its objectives only if the government makes sure it is integrated into the overall mechanism for promoting innovation in the regions, increases the involvement of innovative SMEs in the poles of competitiveness and strengthens public/private research synergies within the scheme

Apart from these issues of implementation and programme size, it is vital, to increase the chances of success and to capitalise on the scheme's present momentum, first, to ensure consistency with competitiveness policies that are not specifically territorial in nature. Several planning agencies have been set up, such as the National Research Agency (ANR), the Industrial Innovation Agency (AII) and the SME agency (OSEO). These agencies must help finance poles of competitiveness in concert with the *Caisse des dépôts et consignations*. Nonetheless, at this stage policy co-ordination between these bodies is still unclear, as is the role of the future High Council for Science and Technology (*Haut conseil de la science et de la technologie*). Second, it is important to ensure that SMEs and innovative businesses are properly represented in the poles, and especially on their management boards. Small firms are in many cases a decisive creative force and a major player in the design of new products. In order to facilitate their participation on a long-term basis, it would be useful to allow regional risk capital funds, as well as institutions specialised in financing innovation, to become an integral part of the poles. Third, it is necessary to ascertain optimal conditions for the development of co-operation between public and private research. Many countries have given a high priority to this objective within their regional innovation policies through wide-ranging reforms granting increased autonomy to universities (Japan, Denmark), efforts to enhance the quality and visibility of public research (Switzerland, Norway, United Kingdom) or increased funding for regional innovation systems (Sweden, Poland). In France, public research institutions could be prompted to improve their communication policies and enhance familiarity with their research and the results obtained, particularly amongst local firms. The recent call for public research institutes working in partnership with the private sector to submit their candidacies for attribution of the new label "Carnot institute" is a first step towards recognition of the importance of such work. The central government could also give more direct encouragement to joint research and its applications by granting aid, provided the resultant distortion of competition was minimised. In the academic sector, which has so far been influenced little by the culture of innovation and has been preoccupied with funding problems, involvement in regional development and participation in poles of competitiveness could be favoured by combating institutional fragmentation, and in particular by expanding collaboration with IUTs (technical colleges) and specialised schools, *e.g.* within the framework of polytechnic institutes (already set up within a number of regional academic districts) or poles of research and higher education (PRES), if not campuses.

b) Second priority: competitiveness policies for urban and rural areas

In the past, policies for rural and urban territories were primarily defensive (social solutions for deprived urban neighbourhoods; targeting of older and more sparsely populated rural agricultural areas). The focus is now shifting towards sustainable development and economic growth. Urban policy, and especially the future metropolitan contracts, places increasing emphasis on the attractiveness and accessibility of cities, town planning, teaching, research and culture in an urban environment. More attention is also being paid to links between cities and rural areas, which are being thought of more and more as interdependent categories. For example, the 2004 law on rural areas paves the way for a revision of the rural revitalisation zones (ZRRs), allowing small urban centres to be included in this zoning, thus incorporating their economic roles. Initiatives to develop cities and country areas are still dispersed and would gain from focusing more on business creation and co-operation amongst firms. In areas in decline or in the process of restructuring, it would be better to concentrate on a small number of priorities rather than risk having measures spread too thin. Moreover, it would seem crucial that a substantial share of the funding for restructuring in these regions (*contrats de site* or *plans d'aide aux restructurations),* or for efforts to prevent or anticipate economic transformation, should be earmarked for worker training. Human resources are usually the least mobile factor. Upgrading skills facilitates the necessary redeployment and encourages entrepreneurship, thereby fostering not only direct investment but also job creation as well. In distressed urban and rural areas, the government's priority is access to public services. It is currently redefining this notion and introducing the concept of "services of general interest" or "services to the public". Recourse to new information and communication technologies is making new experiments possible. It is important to learn from successful experiments and adopt good practises, not only in remote rural areas, but also in disadvantaged neighbourhoods on the outskirts of cities. Guaranteeing access to interregional transport or postal services can be costly in sparsely populated regions. Here then, there must be a clear stipulation of how costs are to be assigned, and of the respective roles of the relevant authorities and operators.

c) Broadband is the government's third priority

The involvement of sub-national authorities in delivering broadband means that the growth of digital services in the territories can go forward on a competitive basis. Broadband is not only a way to support competitiveness in the poles of developed regions, but also a means of opening up less-advanced ones. The regulatory authority and the government quite rightly put just as much emphasis on competition between providers as on connection itself as a tool for developing the competitiveness of business users. This means that territorial authorities are now major players in broadband infrastructure development, and as such they are helping to extend the possibilities for competitive services on the networks being set up with their encouragement. In the process, they have acquired competences and are taking more and more of an interest in ensuring that markets work properly. It should be possible to sustain the momentum insofar as the products available to some players, and SMEs in particular, are generally less competitive. Nonetheless, the rules governing public action in the realm of broadband could do with clarification, good practices should be widely disseminated to local authorities and the orientation towards infrastructure deployment should not lead to neglect the support for the spread of services.

If this new regional policy is to be clearly understood, it needs to be seen in the complex framework of the French system of multi-level governance

In implementing these various regional competitiveness policies, the multi-level governance structure that exists in France plays an important role. The country has a large number of levels of public action: the State, the regions (26), the *départements* (100), and the municipalities or communes (36 560), to which should be added the supranational level of action (European bodies), interdepartmental action (in mountain areas, for example) and above all inter-municipal action (with over 17 000 groupings, if one counts the 2 525 public inter-municipal co-operation bodies and 14 500 unions of communes

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(*syndicats de communes*). Vertically, there are thus seven levels of administration in France and over 50 000 institutional players (not counting the entities known as "*pays*" – see below). This multiplicity of public institutions undoubtedly generates very substantial additional costs. However, many other Member countries practise forms of governance that are complex and even informal. The multiplication of levels and the complexity of institutions are not a defect *per se*, but they do make co-ordination essential.

Decentralisation has until now been superimposed on a parallel network of central-government administrative outposts in the regions and départements

Beyond its accumulation of levels of decision-making, the French system presents one unique feature: the co-existence, in a highly structured way, of levels of government that are decentralised (in the sense of being "elected by local voters") and levels that are "deconcentrated" (by which is meant the presence of the central government and its ministries in the regions and the *départements*). This "parallelism" could prompt the local authorities to transcend a staff transfer approach and create new public-sector jobs. Unlike many other Member countries, France has indeed registered an increase in public-sector jobs over more than a decade, particularly at the local-authority level. Moreover, this trend gives rise to a somewhat ambiguous perception of decentralisation. This becomes clear when one considers the very important role played by the prefects (*préfets*) *i)*; the still somewhat ill-defined role of the regions *ii)*; or the rather narrow latitude available to territorial authorities *iii)*.

The role of the prefect has expanded…

i) With the new laws on decentralisation, regional prefects (*préfets de région*) become the linchpins for central government action in a region, responsible for co-ordinating the departments grouped around them and for overseeing the coherence of the measures adopted in their territory. A prefect must also lead the dialogue and negotiations with elected bodies and their officers. French prefects are thus one response to a problem encountered in a large number of OECD countries – that of inter-ministerial co-ordination of regional policies. They also exercise a vertical co-ordination function, not only between the various local players but also between those players and the central government. However, while offering an undisputed advantage in terms of regional-policy coherence, the new reforms have increased the powers of the prefect in the regions and *départements*.

… but there has been no clear confirmation of the strategic role of the regions, especially with regard to economic development

ii) The State does not yet seem to have followed through on all the implications of the recent creation of regional entities (which are only 20 years old). Policy action is still shared between the municipalities, *départements*, regions and central government, with no real clarity as to the prerogatives of the regional level. The regions are described, for example, as "co-ordinators" of economic development rather than as being "responsible" for it. A study of the data for 2002 shows that all three levels of sub-national authorities were very active in this area, essentially through a variety of aid to business. The rationalisation of such aid by means of strategies conducted at the proper level and avoiding dispersion is being done at the regional level through initiatives characterised by a sort of operational, if not political, vacuum. Here, some regions can count on the existence of highly developed social capital in their territory, and on broad-based support for the common good. In the context of French decentralisation, the Regional Councils can thus assert their desire to co-ordinate actions and to support the definition of joint strategies covering the whole of the territory they administer, and to do so alongside all of the other public players involved. At present, a variety of documents are produced by Regional Councils and sub-regional authorities in connection with the negotiation of planning contracts, medium-term economic strategy or long-term territorial development. It is recommended that efforts be made to ensure consistency amongst the resultant strategies in order to enhance the effectiveness of the proposed actions.

The leeway of territorial authorities seems limited, and uneven from one level to another

iii) Central government seems to be by far the greatest financial contributor to the territorial authorities. Furthermore, it might be emphasised that the nature of their budgets and mandatory responsibilities do not leave the various levels of government with the same types of decisions. One of the features of the French regional system is that a Regional Council has a much smaller budget (and staff) than does the council of a *département* (the "General Council"). Its primary role is to formulate the region's medium-term economic strategy, while a General Council is responsible more for social policy, and particularly for managing social affairs and maintenance. The involvement of the municipalities is focused more on local neighbourhood matters (urban traffic, primary schools, etc.). The municipal and *département* levels therefore seem to be specialised around the management of public services that are very heavy consumers of labour and redistributive budgets, and which offer very little leeway, while the regions are geared more towards formulating strategies.

While the contractual forms of regional policy have facilitated vertical co-ordination of activities, their mechanics, and especially those of State-Region planning contracts, could be improved, with particular regard to clarity of objectives, selectivity of actions, the role of public-sector players and, above all, assessing the results of the policy implemented

Whatever the degree of latitude of the different levels of government, it is generally agreed that co-ordination has been made possible and improved by the institution of contractual relations between them. With respect to regional policy, State-Region Planning Contracts (CPERs) are the flagship mechanism for public action, and an instrument whose usefulness is recognised by all partners. Today a discussion is underway as to how, after twenty years of existence, the mechanics of the contracts could be reformed for greater effectiveness. The aims are: to streamline objectives *a)* and priorities *b)*, improve financing procedures *c)*, better define the respective roles of each level of government *d)*, strengthen coherency *e)* and re-assess time frames *f)* and methods of evaluation *g)*:

a) Until now, CPERs have had two objectives: first, regional development; and second, to achieve a degree of equalisation in the situations of regions having the widest gaps in terms of wealth, growth and jobs. These two objectives of competitiveness and equity do not seem easy to reconcile at national level. In practice, it is difficult to consider a negotiated budget as a relevant tool for equalisation (the usual aim being to seek neutrality by applying formulae that are the same for everyone). Today, some take the view that the equity objective could be limited to the territorial segment of planning contracts, *i.e.* essentially the contracts for "*pays*" and "agglomerations". But the result of this might be to limit the support of the central government and the regions to social cohesion projects of "*pays*" and "agglomerations" rather than economic development initiatives.

b) The shift in planning contracts towards much larger budgets, incorporation of all ministries and a wider variety of local players has led to a proliferation of subjects and projects. It would therefore seem necessary to re-centre planning contracts on a small number of confederating themes, but without reverting to the initial vision of the CPERs, which was essentially geared towards the financing of physical infrastructure.

c) One complaint often levelled at the central government is a failure to honour its CPER commitments. No contract is worth anything unless there is a credible degree of commitment by the parties. It has been suggested that projected CPER funding should form part of the annual Budget Act. Such a solution might prove difficult, however, *inter alia* insofar as planning contracts are multi-annual and territorial.

d) CPERs also illustrate the need to clarify the prerogatives of regional bodies. In practice, to acknowledge that the region plays the leading role in contract negotiations and implementation, while respecting the desires of lower-level authorities and maintaining the central government in the simultaneous roles of partner and impartial arbiter, is a complex exercise in governance.

e) As emphasised in earlier work (OECD, 2005), the contracts are a way of upholding the State's important role in regional policy, and thus of ensuring the level of consistency of actions taken, while at the same time allowing for local initiative and putting local knowledge to good use. This raises the question of whether it would be better to revert to drawing up a strategic document at central level, or whether this would compromise the dynamism of local initiatives.

f) The duration of the contracts is another subject of debate. Their extension, over time, from 5 to 7 years has served mainly to cope with delays in the completion of contract projects. With regard to the most recent CPER, it would appear that even this extension may not be enough, and that the budgets will not be spent (or even available) or the actions taken in the timeframe stated at the outset. The ideal would be a mechanism that would allow projects to be handled in a structural time-frame in line with European levels, and, at the same time, to assess the degree of completion and possibly introduce variations over time.

g) Lastly, if these questions are difficult to answer, the main reason is a failure to co-ordinate effective evaluation of the CPERs at the central level. Clearly, there have been many evaluation studies, but they provide no guidance for decision-making because they are too piecemeal. Reforms are underway at DIACT to improve the consolidation of information obtained from experience in the various regions. Moving in this direction is crucial if performance-based incentive mechanisms are to be put in place, as is done at the European level and in countries such as Italy.

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In the realm of horizontal relations, the policy followed has strongly encouraged municipalities to work together, and the emergence of "project territories" has been fostered in a way that is consistent with efforts to spur territorial competitiveness

Because there are so many municipalities, many of them small, the French authorities are also faced with problems of horizontal co-ordination at the local level. Government has sought to reduce this institutional fragmentation, which often prevents municipalities from playing a meaningful role in terms of growth, competitiveness or efficient delivery of public services. To this end, the State has devised a very active policy to encourage voluntary co-operation between the municipalities, which aims to instil an inter-municipal approach to management. Alongside this policy is a determination to develop what are known as "project territories" – the "*pays*", the clear purpose of which is to transcend administrative boundaries so that territorial strategies can be formulated.

From this standpoint, support for inter-municipal efforts can be deemed a success, but certain problems remain

Incentives (in the form of grants from the State and harmonisation of local tax revenues based on the business tax) have borne fruit, and the vast majority of municipalities are today part of inter-municipal co-operation structures (EPCIs). The scope of inter-municipal co-operation has expanded considerably, *inter alia* to take charge of environmental costs. In many cases, it has been able to finance major capital investment and manage facilities. But the cost/benefit ratio of these new structures is often subject to question, as is the suitability of their territorial boundaries. Furthermore, the rise of EPCIs has not called any other institutional levels into question. It is especially difficult to reconcile the shift towards inter-municipal undertakings with the continuing power of the *départements*, particularly in metropolitan areas.

*Along the same lines, the "*pays*" are an interesting institutional innovation, but their contractual environment could benefit from rationalisation*

The underlying logic of the "*pays*" is to base territorial action on synergies between willing local players, and at the same time to match the boundaries for these unifying projects to functional areas. This policy has clearly developed, but not in an even manner throughout France as a whole. These "*pays*" are not an additional, cumbersome institutional level; on the contrary, when co-operation and local dynamics work well, they can offer a genuine means of unblocking the system's complexities through local action. They do, however, appear to suffer from structural difficulties in terms of the resources at their disposal, prompting the recommendation that they be preserved and given legitimacy as part of the CPER envelope. In addition, the co-existence of two distinct mechanisms ("agglomeration" contracts and contracts for "*pays*") to deal with urban and rural areas is debatable. A single "territorial contract" based on functional areas and synergy between local players, irrespective of the type of territory involved, could increase their effectiveness.

The fact that metropolitan areas are now gaining recognition is a good thing, but there is concern that, as with the "pays"*, it will prove difficult for this territorial level to find its place*

Lastly, it would seem that the issue of the cities as engines of growth for the country is still being largely ignored. Cities are identified in terms of their size as specific players in inter-municipal mechanisms, but they have not yet been given their own missions and budgets under modernised governance structures. The new "metropolitan contract" programme is evidence of the willingness of the French authorities to move forward in this regard. Originally set up on the basis of an initial request for proposals, this programme is growing, but it deserves to be given substantial resources so that metropolitan areas can be not only recognised, but above all confirmed as requiring the mobilisation of effective governance structures, geared to a quest for competitiveness. By targeting both urban centres and their periphery and tackling disparities of proximity in the same governance mechanism, the legitimacy of metropolitan contracts could be enhanced. Here again, this development could be impeded by existing institutional frameworks, if not by the lack thereof, whether at the inter-municipal level or, especially, that of the *départements* (especially in Ile-de-France, which is in fact not yet covered by metropolitan contracts).

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*These local partnerships (inter-municipal undertakings, "*pays*", metropolitan areas) were formulated to better reflect economic reality in the territories. They must now be given clear areas of responsibility and suitable instruments,* inter alia *to stimulate innovation and competitiveness*

All these regroupings have an important role to play in economic support and territorial development. Their proximity to businesses and their knowledge of the economic environment and local and regional research institutions put them in a good position to identify local competitive advantages and promote synergies between the players. The regions and other territorial authorities, including the more flexible structures of "*pays*" and metropolitan areas, can provide services to businesses, in particular in the form of incentives to work together (arranging contacts, training, incubators, science parks, investment in risk capital funds). One other way for territorial authorities to strengthen competitiveness and attract outside investment is by promoting the image of the territory or helping it to achieve special recognition in a particular field. To this end, the authorities should be allowed to draw up plans for science, technology and innovation in the territories. Innovation schemes could become a section in the planning contracts, or even in the SRDEs (*i.e.* strategic medium-term plans formulated by the Regional Councils). The goal would be to integrate the poles of competitiveness into the broader framework of regional innovation systems and to allow the poles to be co-ordinated as part of the region as a whole. It would also be necessary, given the proliferation of aid for innovation being directed at small businesses, to provide a clearer definition of the role of the regions in this regard.

Evaluation systems must be improved before regional policy governance can be extended

In sum, many institutional innovations have been developed, but their impact on policy is rarely assessed. Efforts to capitalise on local experience and integrate territorial authorities into the regional policy machinery often founder because of low visibility and often nonexistent benchmarking. Better internalisation of the culture of evaluation at this level, but at central level as well, would enable the obstacles to effective vertical and horizontal co-operation to be better understood, and ways found to remedy them. For the moment, the emphasis is more on evaluation techniques than on implementing the results. It would also be advisable to find ways of spreading good practices. Lastly, by generalising evaluation procedures and building on the dynamism of successful local experiences, there could be a move away from a culture of public action based largely on requests for proposals and towards introduction of policy initiatives grounded in compilation of results achieved.

This would also make it possible to take advantage of the many areas of autonomy resulting from the current territorial set-up, and to formulate a more bottom-up regional policy

The above portrayal of the players in France's multi-level governance provides clear evidence of the great complexity of procedures and mechanisms, which stems to a great extent from two apparently contradictory factors: a high level of institutional inertia (on the part of the existing framework) going hand in hand with high levels of institutional creativity (burgeoning local initiatives, new mechanisms, etc.). This finding would suggest that institutional change is out of step with economic, and probably social, changes. This discrepancy could at first glance be seen as significantly hampering the formulation of effective regional development policies. However, it leaves room for local and regional initiatives that are highly relevant, and that transcend existing structures to bring development to the territories. The success of the call for proposals on "poles of competitiveness" bears witness to this capacity of local players, in a sense, to rise above institutional structures. It also shows that one of the most important functions of regional policy is to free local capacities for innovation and job creation, stimulate the mobilisation of players (businesses, research centres and territorial authorities) and ensure an adequate supply of public goods.

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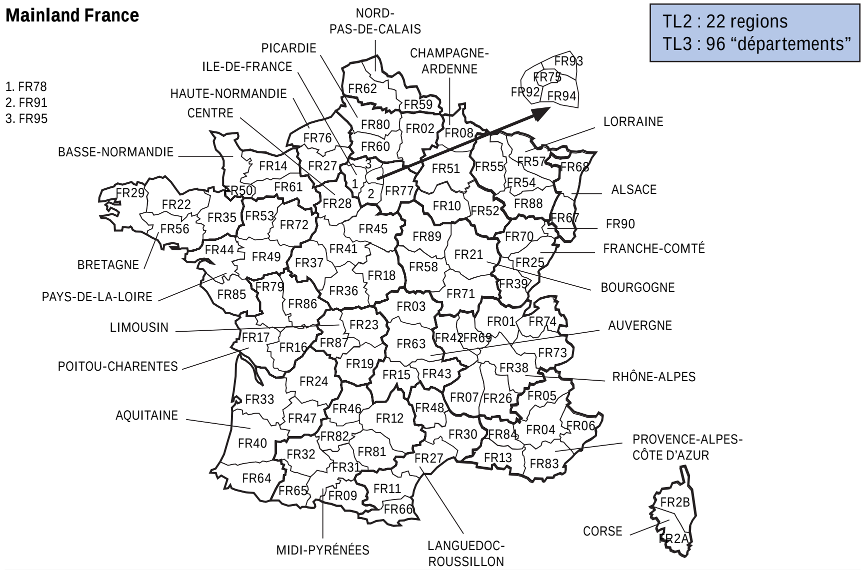
Chapter 1

Trends and Challenges in the Territories

Map 1.1. **French regions at territorial level 2 and 3**



Territorial levels 2 and 3

FR10 – ILE-DE-FRANCE
- FR75 – Paris
- FR77 – Seine-et-Marne
- FR78 – Yvelines
- FR91 – Essonne
- FR92 – Hauts-de-Seine
- FR93 – Seine-Saint-Denis
- FR94 – Val-de-Marne
- FR95 – Val-d'Oise

FR21 – CHAMPAGNE-ARDENNE
- FR08 – Ardennes
- FR10 – Aube
- FR51 – Marne
- FR52 – Haute-Marne

FR22 – PICARDIE
- FR02 – Aisne
- FR60 – Oise
- FR80 – Somme

FR23 – HAUTE-NORMANDIE
- FR27 – Eure
- FR76 – Seine-Maritime

FR24 – CENTRE
- FR18 – Cher
- FR28 – Eure-et-Loir
- FR36 – Indre
- FR37 – Indre-et-Loire
- FR41 – Loir-et-Cher
- FR45 – Loiret

FR25 – BASSE-NORMANDIE
- FR14 – Calvados
- FR50 – Manche
- FR61 – Orne

FR26 – BOURGOGNE
- FR21 – Côte-d'Or
- FR58 – Nièvre
- FR71 – Saône-et-Loire
- FR89 – Yonne

FR30– NORD-PAS-DE-CALAIS
- FR59 – Nord
- FR62 – Pas-de-Calais

FR41 – LORRAINE
- FR54 – Meurthe-et-Moselle
- FR55 – Meuse
- FR57 – Moselle
- FR88 – Vosges

FR42 – ALSACE
- FR67 – Bas-Rhin
- FR68 – Haut-Rhin

FR43 – FRANCHE-COMTÉ
- FR25 – Doubs
- FR39 – Jura
- FR70 – Haute-Saône
- FR90 – Territoire de Belfort

FR51 – PAYS-DE-LA-LOIRE
- FR44 – Loire-Atlantique
- FR49 – Maine-et-Loire
- FR53 – Mayenne
- FR72 – Sarthe
- FR85 – Vendée

FR52 – BRETAGNE
- FR22 – Côte-d'Armor
- FR29 – Finistère
- FR35 – Ille-et-Vilaine
- FR56 – Morbihan

FR53 – POITOU-CHARENTES
- FR16 – Charente
- FR17 – Charente-Maritime
- FR79 – Deux-Sèvres
- FR86 – Vienne

FR61 – AQUITAINE
- FR24 – Dordogne
- FR33 – Gironde
- FR40 – Landes
- FR47 – Lot-et-Garonne
- FR64 – Pyrénées-Atlantique

FR62 – MIDI-PYRÉNÉES
- FR09 – Ariège
- FR12 – Aveyron
- FR31 – Haute-Garonne
- FR32 – Gers
- FR46 – Lot
- FR65 – Hautes-Pyrénées
- FR81 – Tarn
- FR82 – Tarn-et-Garonne

FR63 – LIMOUSIN
- FR19 – Corrèze
- FR23 – Creuse
- FR87 – Haute-Vienne

FR71 – RHÔNES-ALPES
- FR01 – Ain
- FR07 – Ardèche
- FR26 – Drôme
- FR38 – Isère
- FR42 – Loire
- FR73 – Savoie
- FR74 – Haute-Savoie

FR72 – AUVERGNE
- FR03 – Allier
- FR15 – Cantal
- FR43 – Haute-Loire
- FR63 – Puy-de-Dôme

FR81 – LANGUEDOC-ROUSSILLON
- FR11 – Aude
- FR30 – Gard
- FR34 – Hérault
- FR48 – Lozère
- FR66 – Pyrénées-Orientales

FR82 – PROVENCE-ALPES-CÔTE D'AZUR
- FR04 – Alpes-de-Haute-Provence
- FR05 – Hautes-Alpes
- FR06 – Alpes-Maritimes
- FR13 – Bouches-du-Rhône
- FR83 – Var
- FR84 – Vaucluse

FR83 – CORSE
- FR2A – Corse-du-Sud
- FR2B – Haute-Corse

Source: OECD-TDS.

1.1. Introduction

France has a singular spatial and economic profile characterised by a dominant capital region, active peripheral regions and an intermediate zone where growth is slower and the population density relatively low. This situation is not static, however. In economic and demographic terms, for example, significant trends have been apparent for at least the past ten years, namely: higher growth rates in regions and cities other than Paris, improvements in rural areas, rising residential growth dynamics.

While these trends make it possible to promote a more balanced form of spatial development, make better use of land and increase the scope for exploiting development opportunities in the regions, regional growth dynamics continue to contend with obstacles of a structural nature. Unemployment has remained high throughout the country for several decades, and the structure of the labour market is marked by low rates of employment for young people and the oldest category of workers. There is therefore significant under-used potential in the territories and commitment to innovative sectors is often held back by rigid employment markets. Many regions have therefore primarily opted to specialise in mature sectors where industrial relations are stable, investment in information technology is limited and growth in productivity is relatively slow.

The trajectories of the regions also depend upon their own particular comparative advantages and weaknesses. Against the current background of open borders these factors are becoming more critical. As a result, the performance of many regions and territories in terms of enterprise creation, investment in R&D or cluster expansion is either average or poor. Apart from the structural policies that have been implemented, reducing these barriers to growth and regional competitiveness is one of the main challenges the government now faces. Policies implemented to remedy these difficulties exhibit a strong regional and often local dimension. The new approach takes into consideration the trends towards a greater diversity of subregional territories that tend to amplify in the last period.

1.2. Regional characteristics and trends

Redeployment towards regions in the South and West

"Paris and the French desert" was how the French geographer Jean-François Gravier tersely described the territory of France in 1947.[1] Almost 60 years after this phenomenon was first identified, and 40 or so years after the elevation of eight major provincial cities (Toulouse, Lille, Nancy, Strasbourg, Lyon, Nantes, Bordeaux and Marseille) to the rank of "counter-weight metropolitan areas", the supremacy of the capital over the rest of the country still remains marked. Ile-de-France – the region where the capital is located – still remains the largest conglomeration by far in the country, accounting for 28% of GDP and no less than 44% of total R&D expenditure.[2] Furthermore, it is still the top-ranked European region in terms of GDP and population ahead of Lombardy and Greater London, and the third-ranked region in terms of GDP per capita behind Bavaria and Greater London.

However, even though the Ile-de-France continues to play a predominant role both within the country and at the European level, the past few years have seen a process of redeployment towards other regions, notably in the West and South of France. This observation holds true for both the population and the labour market. Several major cities, the drivers of growth in these dynamic regions, are experiencing faster growth in the employment market than Paris and are gaining a significant weight in the economic development of the country.

Between 1990 and 2001, GDP growth rates were higher in Paris than in the peripheral regions to the south and the west – Pays-de-la-Loire, Brittany, Languedoc-Roussillon, Aquitaine, Midi-Pyrénées (Provence-Alpes-Côte d'Azur) and Corsica. Map 1.2 illustrates the net trend in these regions in terms of GDP and job creation, "thereby attenuating the traditional East-West divides in the productive geography of France" (DATAR, 2005). For example, it is worth noting the growth in the contribution of Languedoc-Roussillon to national GDP, thereby propelling the region from 14th to 11th place and raising Midi-Pyrénées from 10th to 8th place.

The fact that growth remains higher in most of the regions that border neighbouring countries suggests that the process of European integration and globalisation currently under way, together with the dynamic growth in housing markets in these regions, are two parameters which may well influence the growth dynamics. It would seem that the most readily accessible regions are currently exploiting their favourable geographical position and that this is a major asset for these prosperous regions. For example, the ability to attract foreign direct investment (FDI), which may be seen as an indicator of the relative competitiveness of regions within the same country, shows that the peripheral border regions, as well as the capital, are those that are most attractive to foreign investors.[3]

In terms of population, the regions reporting the highest growth rates have primarily achieved this as a result of a positive migration balance, both during the period 1990 to 1999 (Languedoc-Roussillon, Provence-Alpes-Côte d'Azur) and the period 1999 to 2003 (Languedoc-Roussillon again, Midi-Pyrénées, Aquitaine, Corsica, Brittany and, with a lower rate of growth, Poitou-Charentes). The Rhône-Alpes, Pays-de-la-Loire and Alsace regions have reported natural change and migration balances above the national average since 1990. As a general rule, a trend would seem to be emerging towards the

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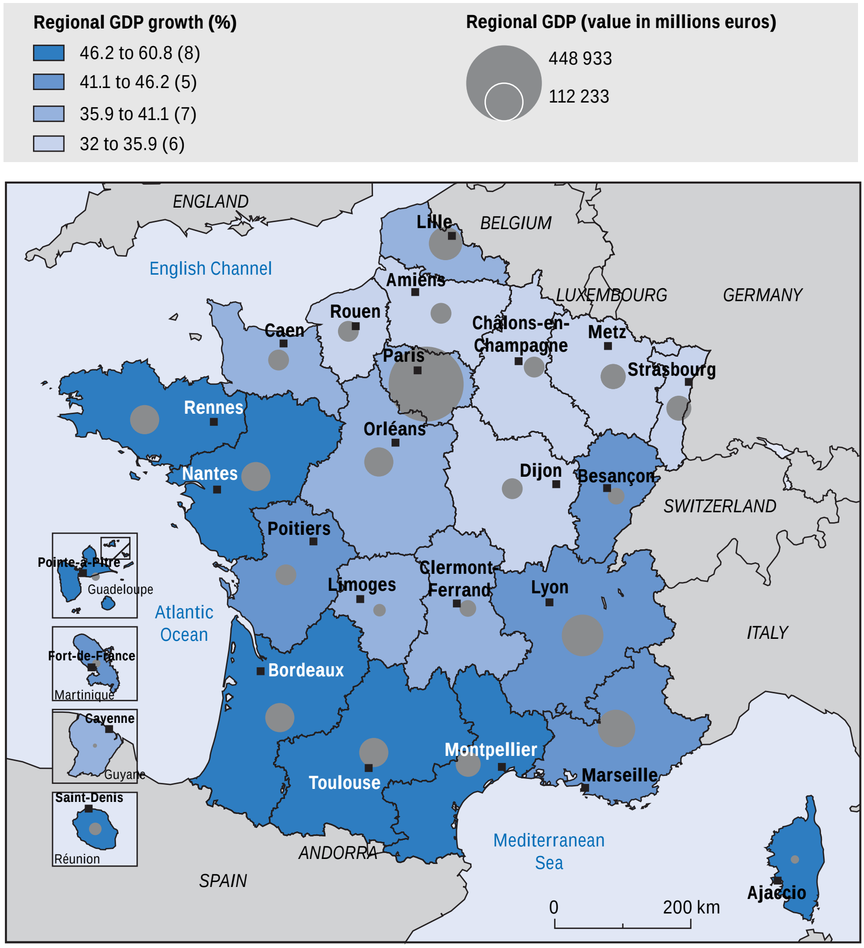
Map 1.2. **Evolution and GDP value (between 1990 and 2002)**



Source: INSEE (2003), valeur 2001 pour les DOM, DATAR – Observatoire des Territoires.

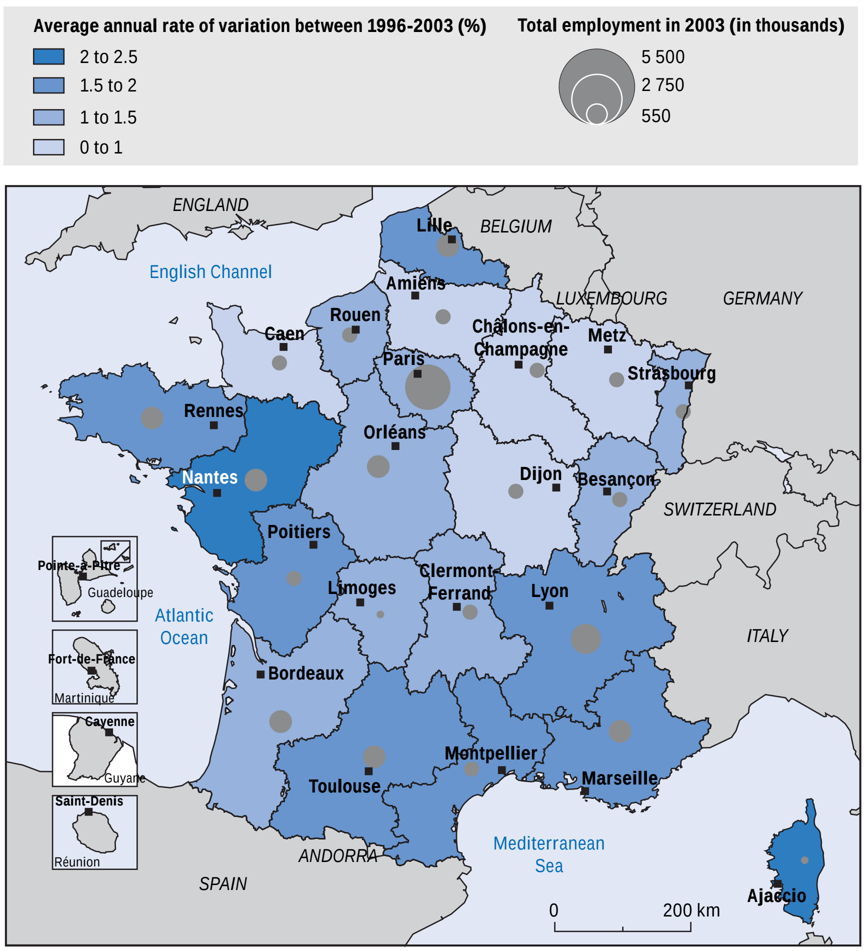
formation of an increasingly sharp divide between the North, East and Ile-de-France regions, whose overall balance is negative, and the West and the South where all regions have a large positive balance.[4]

Regardless of how positive the redistribution of population may be, its impacts must not be over-estimated. The growth performances of French regions have often remained below those of many European regions. Among the top 50 European regions ranked by GDP in 2002, the highest-ranked French region in terms of growth rate during the period 1995 to 2002, Brittany, only managed to reach 17th place. Only six other regions, namely Pays-de-la-Loire, Aquitaine, Provence-Alpes-Côte d'Azur, Rhône-Alpes, Ile-de-France and Nord-Pas-de-Calais, are included in this ranking. Even though the rebalancing process is a significant advance, uncertainties still remain over the competitiveness of French regions at the international level.

Employment and labour markets: territorial heterogeneity

Employment statistics confirm these trends (see Map 1.3). At national level, the French performance remains below the European average (EU with 15 countries) and in particular below the UK, Spain or Nordic countries figures (apart from Sweden). Within France the growth rates of the South and West regions during the 1996-2003 period have been above the national average

Map 1.3. **Employment and variation between 1996-2003**



Source: INSEE, DATAR – Observatoire des Territoires, 25 mai 2005.

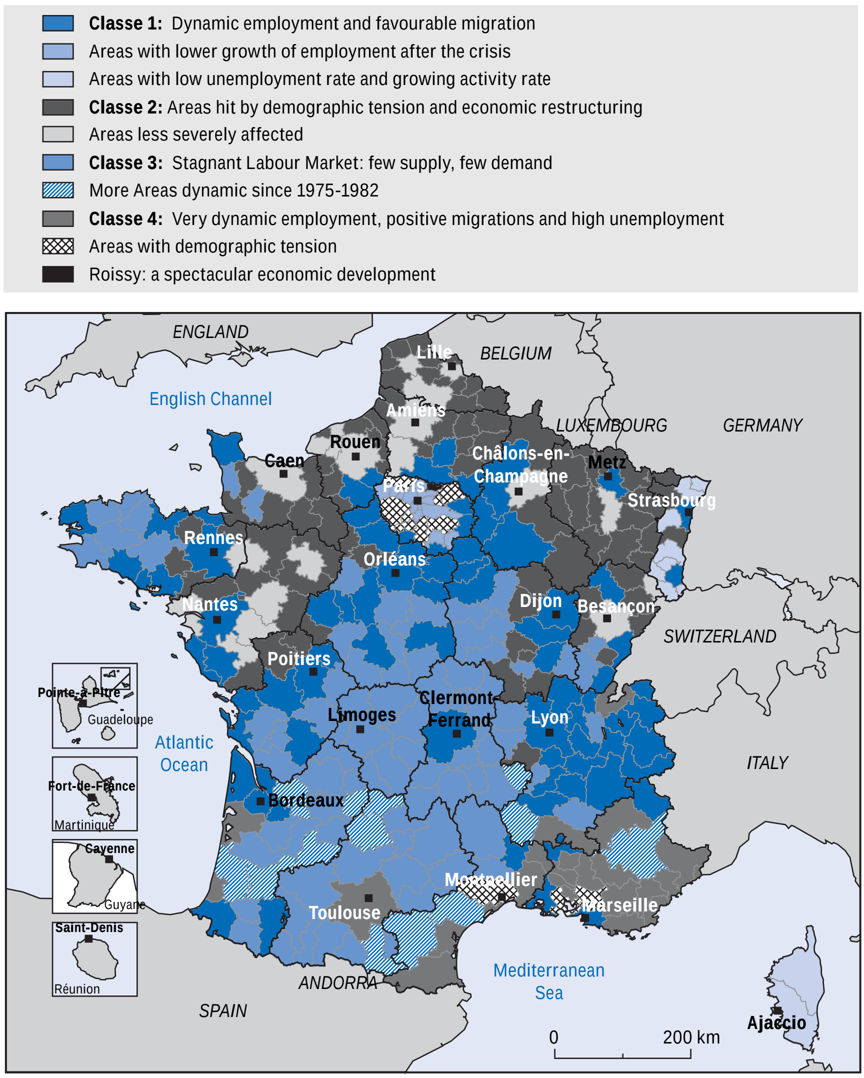
(+1.4%): Corsica (+2.5%), Languedoc-Roussillon, Provence-Alpes-Côte d'Azur, Pays-de-la-Loire (+2.0%), Brittany (+1.9%), Midi-Pyrénées (+1.7%). It is also worth noting that the regions in the Centre and East of France – Limousin and Auvergne, Picardy, Champagne-Ardenne, Burgundy and Lorraine – have been less affected by the rebalancing process and are growing at a markedly lower pace.

At a more detailed territorial level and taking into account a longer period (1962-1999) the results are a little different, without challenging the trends described above. Map 1.4 below identifies more precisely areas with employment growth and those where development has been less dynamic and reveals the major change that has taken place in regional labour markets. One can distinguish:

- Employment zones mainly located around Paris and in the Rhône-Alpes region and around such cities as Bordeaux, Rennes, La Rochelle, Biarritz, Brest or Tours where urban sprawl has been accompanied with positive migration and dynamic employment creation.
- The North, Centre West and East of the country: *i.e.* mainly areas under strong demographic pressure that have been affected by economic restructuring.
- Most non-urban areas of the South West, where the labour market is flat and where labour supply and demand are low.
- Lastly, regions where employment is highly dynamic and the migration balances are positive but unable to meet demand for employment. This type of market is predominant in Provence-Alpes-Côte d'Azur, Languedoc-Roussillon and Center Brittany.

In these labour markets, dynamic employment can co-exist alongside relatively high rates of unemployment. This applies in particular to a large stretch of the Mediterranean coastline, chiefly due to positive migration (see Box 1.1 and Map 1.5). Likewise, areas where activity is low can report relatively low rates of unemployment due to low demand as a result, for example, of the emigration of workers and ageing of the population (certain regions in the Centre). The highly productive areas in the North and Lorraine have markedly higher than average rates due to the decline in employment in industry and to a large working population in which positive natural change is higher than the negative migration balance. Lastly, there are dynamic areas which obviously have a low rate of unemployment, rising employment in the tertiary sector and good attractive housing (Rennes region, central Alsace). The highest rates of unemployment are usually observed in urban regions. In contrast, five basically rural *départements* (Ain, Aveyron, Mayenne, Lozère and the Jura) have the lowest unemployment rates. At this level, the overseas *départements* remain the regions the worst affected with rates well above 30%.

Map 1.4. **Employment zones and trends in labour markets between 1962 and 1999**



Source: Claire Warzée (2003), *L'évolution des marchés locaux du travail de 1962 à 1999: quatre grands types de zones d'emploi*, INSEE Première No. 908 – July.

As illustrated above, issues relating to territorial cohesion are addressed more at the level, of the employment or residential basin and, more generally, at the sub-regional level. The combined effects of residential choices made at different times of life and according to living standard levels with the rationales for the location of more or less skilled activities sometimes lead to

Box 1.1. **Labour markets, unemployment levels, employment rates and activity rates**

According to EUROSTAT data, the rate of unemployment reported in France during the 1st quarter of 2005 (10.2%) was higher than that of the EU-25. Unemployment is lowest in the West and the Centre (Brittany, Pays-de-la-Loire, Auvergne and Limousin), amounting to around 8%, and is highest in the North and the South (Nord-Pas-de-Calais, Languedoc-Roussillon and Provence-Alpes-Côte d'Azur) where it stands at around 12% to 13%. Despite higher unemployment rates than the rest of Europe, the territorial concentration of unemployment in France is slightly below the OECD average. The geographical concentration index, in particular, is lower than that of the United Kingdom, Spain and Italy. While regional disparities in terms of unemployment are moderate from the standpoint of international standards, this does not mean to say that they are negligible. This is borne out by the fact that regional rates have risen everywhere over the past few decades.[1]

The share of the working age population in employment is one of the lowest in the OECD area, characterised by the small number of young and old workers. Fewer than one out of four young people are in employment, and only one out of three workers between the ages of 55 and 65 has a job, which indicates the existence of a substantial potential that is not being exploited. The low rates of economic activity,[2] besides being one of the long-term characteristics of the French labour market, have fallen continuously since 1981. Alsace, Lorraine and Languedoc-Roussillon are the only regions where they have recovered between 1981 and 2001. In 2001, some 55% of the French population was economically active. The differences between regions are substantial. Ile-de-France (62%), Alsace (59%) and the Rhône-Alpes region (57.7%) are those which reported the highest rates of participation in the labour market. In contrast, less than a third of the population was economically active in Corsica.

Moreover, the French labour market suffers from low rates of employment (percentage of people aged 15 to 64 years in employment in the same age bracket). Between 1996 and 2001, these rates have risen significantly from 60% to 63% at the national level following the introduction of policies aimed at reintegrating young people and poorly skilled workers into the labour market. However, regional disparities in this respect have also become wider (the coefficient of variation has risen from 8.6% to 8.9%). Ile-de-France and Alsace have the highest rates of employment, two thirds of the population aged between 15 and 64 years were in employment in 2001. The regions at the bottom of the table were Corsica (42%), Nord-Pas-de-Calais (54%) and Languedoc-Roussillon (55%), whose rates of employment were well below the national average.

Box 1.1. **Labour markets, unemployment levels, employment rates and activity rates** *(cont.)*

The high rate of unemployment among young people (under 25 years of age) is a constant problem in the French labour market. While the rate of unemployment for the population as a whole in 2003 was close to the EU-25 average, the percentage of people under the age of 25 years who were unemployed was even higher in France. As might be expected, the situation is even worse in regions which have high rates of unemployment. Consequently, around half of young people under 25 years of age living in Guadeloupe, Réunion and Martinique are unemployed. In metropolitan France, Nord-Pas-de-Calais has the highest rate of youth unemployment (27.9%) and Burgundy the lowest (14%). It does seem clear, however, that the problem is widespread and that all territories are affected. Consequently, unemployment among people under 25 years of age remains substantial even in the more vigorous economies in the West and South and in rural regions where overall unemployment rates are moderate.

1. *OECD Regions at a Glance*, 2005.
2. Percentage of the population in work.

a marked differentiation between local and even neighbouring areas, which calls for the adoption of specific policies, namely conflict between residential and productive areas, declining rural areas, and vulnerable districts continuing to exist within urban areas.

Increased European and international competition for the Ile-de-France region

The Ile-de-France region is ranked 16th in the OECD classification of 66 metropolitan regions with more than two million inhabitants and 3rd in the classification of European metropolitan areas (ranked by GDP per capita) – see Table 1.1. However, growth in GDP per capita for the Ile-de-France region between 1995 and 2002 amounted to merely 2.1%, which is substantially less than metropolitan areas such as London, Manchester, Stockholm, Rome or Madrid (Figure 1.1).

Competition between major metropolitan regions has increased both in Europe and worldwide, with each region developing specific strategies to promote growth in the most viable firms and attract new activities. While the Ile-de-France region is genuinely well placed to attract foreign firms and FDI, this favourable position is vulnerable to competition from other metropolitan areas. The capital region has a number of strengths notably in the field of research and innovation (the high technology sectors employ 700 000 people, with 50% in the service sector) but it is still handicapped by scattered R&D

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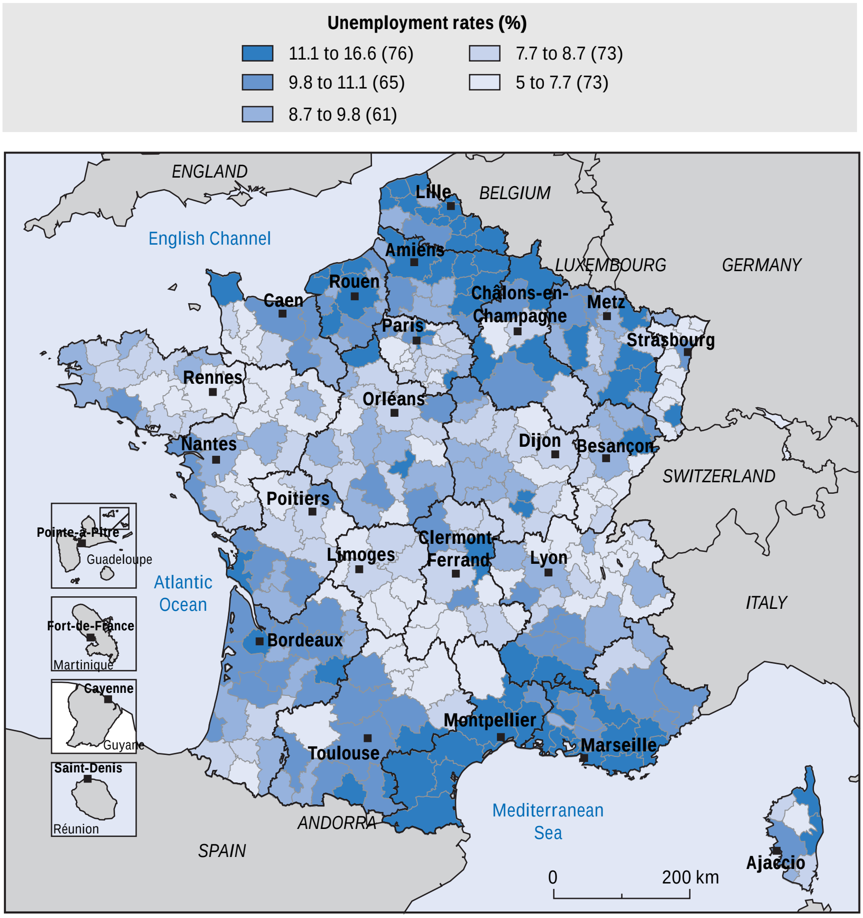
Map 1.5. **Unemployment rates**



Source: INSEE (2005, 2e trimestre) – chaque DOM est considéré comme une zone d'emploi à part entière. DATAR – Observatoire des Territoires.

efforts, insufficient cooperation between firms and research institutions and relatively low level of reactivity of enterprise.[5] Even if the productivity of Ile-de-France manpower is high (placing the capital at the 6th rank among the 66 metropolitan regions listed below), the region is now in terms of GDP per capita lagging behind London and Munich and Milan is coming close.

It remains that, given the weight of the Ile-de-France region in the French economy (notably concentrating 45% of most qualified jobs in the country) (DATAR, 2003) and given the role of Paris as an international city, increasing the competitiveness of the capital region is a crucial issue for French regional policy.

Table 1.1. **GDP per capita of 66 metropolitan regions in the OECD area**

	Metropolitan region	Year	Population	Real GDP per capita (USD PPP)	National GDP per capita (USD PPP)	Regional/ national ratio	Rank by GDP per capita
USA	Boston	2002	3 304 030	80 780	36 121	2.24	1
USA	San Francisco	2002	1 673 765	66 079	36 121	1.83	2
USA	Seattle	2002	2 433 901	49 673	36 121	1.38	3
USA	New York	2002	9 185 826	48 869	36 121	1.35	4
USA	Denver	2002	2 158 288	46 750	36 121	1.29	5
Japan	Tokyo	2001	12 138 000	46 555	26 493	1.76	6
USA	Washington	2002	5 162 029	45 815	36 121	1.27	7
USA	Dallas	2002	3 689 427	45 237	36 121	1.25	8
USA	San Diego	2002	2 813 678	44 426	36 121	1.23	9
Germany	Region Munich-Ingolstadt	2002	2 936 300	44 285	26 613	1.66	10
UK	London	2002	7 371 200	43 295	26 954	1.61	11
USA	Los Angeles	2002	9 630 575	42 677	36 121	1.18	12
USA	Houston	2002	4 346 443	42 656	36 121	1.18	13
USA	Minneapolis-St Paul	2002	3 056 652	42 170	36 121	1.17	14
USA	Chicago	2002	8 290 146	42 158	36 121	1.17	15
France	**Ile-de-France**	**2002**	**11 106 700**	**42 004**	**26 955**	**1.56**	**16**
Italy	Milan	2002	3 713 400	41 856	27 028	1.55	17
USA	Atlanta	2002	4 310 754	41 269	36 121	1.14	18
USA	Portland-Vancouver	2002	1 986 486	38 712	36 121	1.07	19
USA	Baltimore	2002	2 653 817	38 661	36 121	1.07	20
USA	Philadelphia	2002	4 989 901	38 538	36 121	1.07	21
USA	Phoenix	2002	3 259 000	38 325	36 121	1.06	22
Germany	Darmstadt	2002	3 755 000	37 556	26 613	1.41	23
USA	Cleveland	2002	2 204 453	37 334	36 121	1.03	24
Sweden	Stockholm	2002	1 844 700	37 066	26 901	1.38	25
USA	Pittsburgh	2002	2 278 401	36 868	36 121	1.02	26
USA	Detroit	2002	4 404 088	36 716	36 121	1.02	27
USA	Tampa-St-Petersburg	2002	2 441 379	35 840	36 121	0.99	28
USA	St-Louis	2002	2 588 142	35 624	36 121	0.99	29
Germany	Region Hamburg	2002	3 108 000	35 565	26 613	1.34	30
Canada	Toronto	2003	5 114 549	34 505	31 070	1.11	31
Netherlands	Noord-Holland	2002	2 566 300	34 485	29 517	1.17	32
Italy	Rome	2002	3 714 000	33 702	27 028	1.25	33
Germany	Stuttgart	2002	3 975 100	33 576	26 613	1.26	34
USA	Miami	2002	2 286 228	33 111	36 121	0.92	35
Italy	Turin	2002	2 168 800	32 518	27 028	1.20	36
Japan	Aichi	2001	7 087 000	31 660	26 493	1.20	37
Germany	Karlsruhe	2002	2 708 300	31 254	26 613	1.17	38
Germany	Rheinland	2002	6 652 100	31 221	26 613	1.17	39

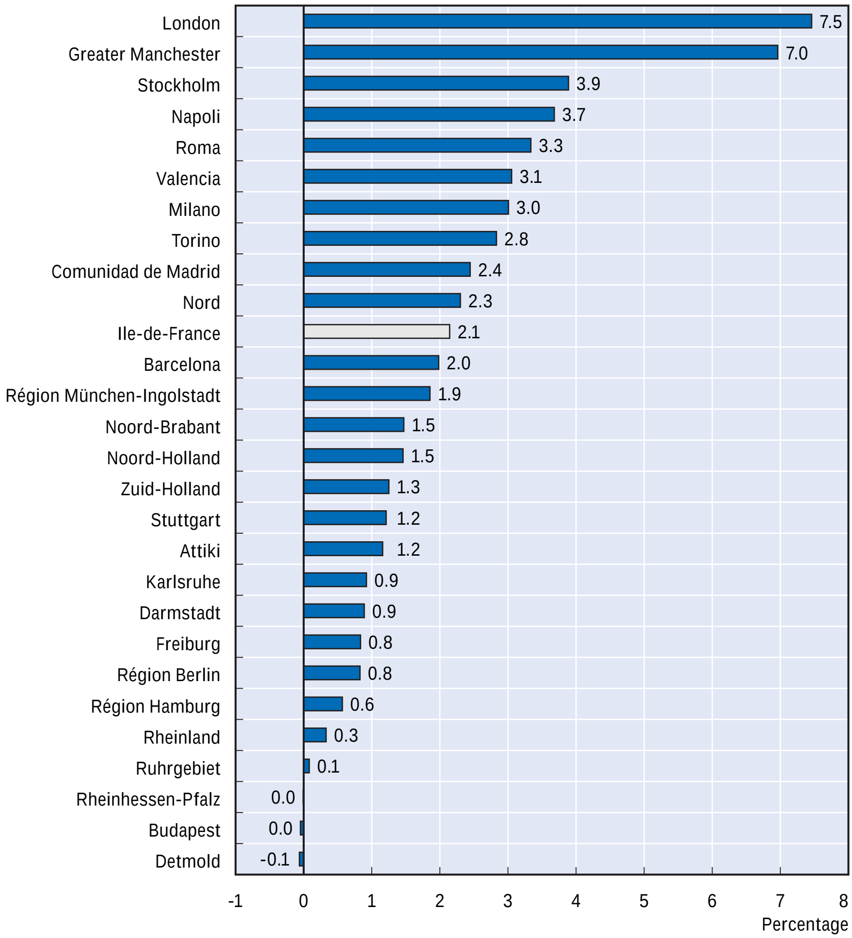
Table 1.1. **GDP per capita of 66 metropolitan regions in the OECD area** *(cont.)*

	Metropolitan region	Year	Population	Real GDP per capita (USD PPP)	National GDP per capita (USD PPP)	Regional/ national ratio	Rank by GDP per capita
Netherlands	Zuid-Holland	2002	3 431 900	30 772	29 517	1.04	40
Japan	Osaka	2001	8 818 000	29 866	26 493	1.13	41
Spain	Comunidad de Madrid	2002	5 499 800	29 548	22 061	1.34	42
Canada	Vancouver	2003	2 140 602	29 345	31 070	0.94	43
Netherlands	Noord-Brabant	2002	2 395 700	29 211	29 517	0.99	44
Canada	Montreal	2003	3 577 386	28 750	31 070	0.93	45
Germany	Freiburg	2002	2 163 600	26 333	26 613	0.99	46
Spain	Barcelona	2002	4 854 000	25 934	22 061	1.18	47
Germany	Detmold	2002	2 066 200	25 543	26 613	0.96	48
Germany	Rheinhessen-Pfalz	2002	2 013 500	25 164	26 613	0.95	49
UK	Greater Manchester	2002	2 522 500	24 916	26 954	0.92	50
Japan	Kanagawa	2001	8 570 000	23 872	26 493	0.90	51
Korea	Seoul	2003	10 024 308	23 622	20 516	1.33	52
Germany	Ruhrgebiet	2002	6 747 000	23 553	26 613	0.89	53
France	Nord	2002	2 564 300	23 189	26 955	0.86	54
Hungary	Budapest	2002	2 826 900	22 700	13 848	1.64	55
Japan	Fukuoka	2001	5 032 000	22 161	26 493	0.84	56
Spain	Valencia	2002	2 238 700	22 037	22 061	1.00	57
Germany	Region Berlin	2002	5 101 000	21 769	26 613	0.82	58
Japan	Chiba	2001	5 968 000	21 448	26 493	0.81	59
Korea	Gyeonggi	2003	9 846 778	19 204	20 516	1.08	60
Japan	Saitama	2001	6 978 000	18 955	26 493	0.72	61
Greece	Attiki	2002	3 910 100	18 136	17 100	1.06	62
Korea	Incheon	2003	2 615 133	18 044	20 516	1.02	63
Italy	Naples	2002	3 067 900	17 364	27 028	0.64	64
Korea	Busan	2003	3 685 290	15 627	20 516	0.88	65
Korea	Daegu	2003	2 547 231	12 911	20 516	0.73	66

Notes: 1) Data for European regions have been taken from Eurostat level TL2 or TL3 statistics; 2) data for Japan and Korea are those published by national statistics offices; 3) data on the metropolitan population have been taken from the American Community Survey 2002 Profile of the US Census Bureau, which is limited to households and which excludes the population living in institutions, colleges, dormitories and other groups; 4) statistics for the population of Minneapolis-St. Paul, MN-WI MSA have been taken from the Real Estate Centre at Texas A&M University *www.recenter.tamu.edu/*) 5) data for Portland-Vancouver, OR-WA PMSA have been taken from the Metro Regional Data Book (January 2005) *www.metro-region.org*; 6) population data for Phoenix-Mesa MSA have been taken from the Greater Phoenix Economic Council *www.gpec.org*; 7) data for Washington D.C. PMSA and Baltimore PMSA have been taken from the Federation for American Immigration Reform: Metro Area Fact sheet *www.fairus.org*; and 8) GDP data for US metropolitan regions are those published by the US Conference of Mayors *www.usmayors.org*.

Source: OECD Territorial database and EUROSTAT.

Figure 1.1. **Growth in GDP per capita in selected regions (1995-2002)**



Source: EUROSTAT.

Development of French metropolitan regions outside the Ile-de-France region

The migratory dynamic outside the Ile-de-France region has a major impact on provincial metropolitan areas and on national urban policy towards metropolitan areas.

The trend in the population of 354 urban areas between 1954 and 1999 reflects the exceptional period of expansion that all cities have experienced. Half of all urban areas grew by at least 50% and fifty or so of them even saw their population double (DATAR, 2005). Most metropolitan regions have grown faster than Paris since 1975, notably in the South-East of the country and,

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more recently, the West. At present, 80% of the French population lives in a city and over 60% in an urban area with more than 100 000 inhabitants. Some of these cities (for example, Lyon, Lille, Nice and Strasbourg) are starting to emerge as regional centres at the European level, thanks to their good accessibility, their cultural dynamism and the on-going diversification of their economic base

Nevertheless, despite this growth, the size of French cities, with the exception of Paris, remains small compared with that of cities in other European countries. They only rank in fourth place in terms of major European cities (see Box 1.2). Consequently, no French city – apart from Paris – ranks as a "world" metropolitan area in the DATAR classification (Class 1, see Table 1.2). In general most cities (above 200 000 inhabitants) do not reach the performances of the large urban centres in Europe, often because of their weaknesses in financial services, their insufficient scientific standing and their modest activities with regard to fairs and international congresses.

The 78 French urban areas with over 100 000 inhabitants account for 84% of high-level metropolitan jobs (DATAR, 2005), that is to say jobs that are the most closely related to the knowledge, innovation and decision-making economy.[6] The Paris urban area is a special case, however, in that. Although it has experienced an aggregate loss of jobs between 1990 and 1999 (–0.6% in nine years), it has in contrast gained during this period a large number of high-level metropolitan jobs (+11.7%).

Recognition of the vital contribution made by cities to national economic development has led to a recent shift in French regional policy in which the economic competitiveness of major metropolitan areas is supported more actively. Consequently, DATAR has recently started to implement a policy

Box 1.2. **DATAR classification of 180 European cities**

A study commissioned by DATAR has established an overall classification for 180 European cities on the basis of their standing and influence (accessibility, presence of major groups, financial services, urban tourism, research, number of congresses, culture, population trends, etc.). The scale of the analysis is that of the agglomeration, measured in terms of the continuity of the urban environment.

This study classifies European cities into seven categories: 1) world-ranked metropolitan areas; 2) major European metropolitan areas; 3) European metropolitan areas; 4) major European cities; 5) potential major European cities; 6) confirmed major national cities; 7) other major national cities (see Table 1.2).

Table 1.2. **Standing of European cities – Breakdown of cities by country and by class**

	Classe country							Total by country
	1 (world-ranked)	2	3	4	5	6	7	
Germany			2	4	4	7	17	**34**
Austria			1			2	1	**4**
Belgium			1		1	1	3	**6**
Denmark				1				**1**
Spain		1	1		6	6	8	**22**
Finland				1			2	**3**
France	1			3	7	9	10	**30**
Greece				1	1			**2**
Ireland				1				**1**
Italy		1	1	1	4	7	8	**22**
Luxembourg					1			**1**
Norway				1				**1**
Netherlands		1			2	2	7	**12**
Portugal			1		1			**2**
United Kingdom	1				5	3	22	**31**
Sweden			1		1		1	**3**
Switzerland				2	1	2		**5**
Total by class	**2**	**3**	**8**	**15**	**34**	**39**	**79**	**180**

Source: "Les villes européennes. Analyse comparative", Céline Rozenblat, Patricia Cicille, Paris; La Documentation Française (DATAR, 2003), 94p.

towards metropolitan projects aimed at encouraging co-operation between major "agglomerations" and at stimulating the factors that can help the sphere of influence of metropolitan areas expand more rapidly (see Chapter 2).

Renewed signs of vigour in some rural areas

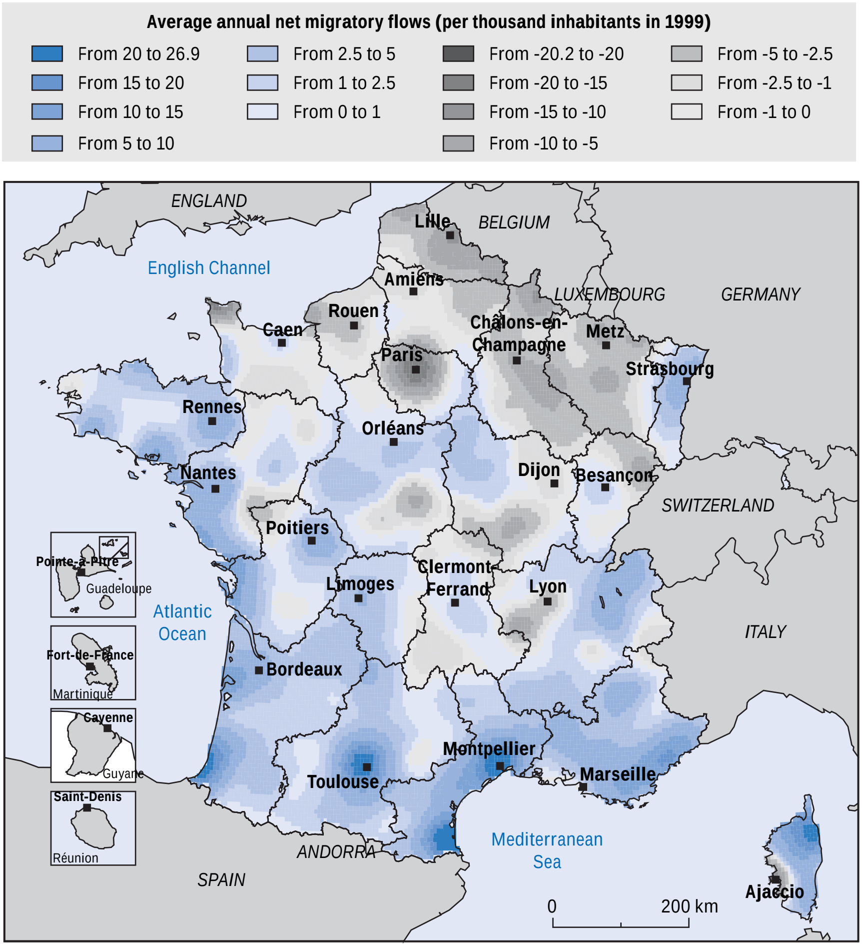
The other major trend that may be seen is the renewed vigour of a number of rural regions. These signs of growth and vitality are driven by the arrival of new populations, even in isolated territories. Rural areas have potential in terms of their attractiveness (living environment, quality of food, protection of the environment), and even the scope they offer for improving competitiveness services, teleworking, entrepreneurship, amenities, green tourism). The rural landscape is therefore far less uniform than in the past, prompting efforts to diversify rural policy.

It should be noted that, despite the continuous decline in employment in agriculture, rural areas reported net gains in employment over the period 1990-1999, with strong growth in services. The resilience of industry in such areas is also worth noting. Its presence can be very important in rural areas (over 40% of employment in a quarter of rural basins) and relatively evenly spread. This resilience may be attributed to several factors: special local skills and lower wages, capacity to organise local networks of firms (local clusters), etc. However, it is clear that regions with traditional farming activities or traditional manufacturing industries where population density has fallen significantly are faced with pressing problems. At the same time, other types of region, including those with major manufacturing sectors (agro-food, but also other sectors such as tourism), are doing well.

According to the DATAR 2003 report: *Quelle France rurale pour 2020? (Rural France in 2020?)* this positive demographic trend is driven by two main processes. Firstly, there is the growing impact of periurban development (see Map 1.6). During the ten-year period from 1990 to 1999, the periurban population increased from 8.8 million to 12.25 million. Over 75% of these new arrivals took up residence in communes formerly classified as rural (around 5 000 communes).[7] The second trend is the more widespread increase in population in predominantly rural areas, primarily due to the arrival of new residents.[8] Between 1990 and 1999, the migration balance of predominantly rural areas was strongly positive (+254 000 inhabitants), whereas the rate of natural change was increasingly negative (187 000 more deaths than births during the same period). More importantly, this outnumbering of departures by new arrivals is no longer observed solely in rural areas on the periphery of urban areas but can also be seen in the rural communes the furthest away from urban centres. For the first time, the migration balance of so-called isolated rural areas (in the sense in which INSEE uses the term) has become positive (+0.29% a year over the decade 1990-1999), mainly due to the arrival of new residents, both of working age and retired, and sometimes of foreign origin.[9] The longstanding pessimism over the future of rural areas in France has to some extent been replaced by one of cautious optimism for the future. The population of predominantly rural areas in France in 1999 has recovered to the 1962 level, and over half of rural municipalities experienced net growth in population over the period 1990 to 1999 (INSEE, 2000).[10] This trend appears to have consolidated since then. One remarkable development in recent years in the only two French regions to have reported negative natural change (Auvergne and Limousin) is that the population is starting to increase again in response to a sharp increase in their attractiveness.

The breakdown of internal migration by age of migrants in 1999 lends support to the hypothesis of a trend towards greater mobility, but also reflects the important dimension of migrants' age as a determining factor in the nature/direction of migration. For example, no fewer than 69 *départements* experienced a decline in the number of 14-24 year olds between 1990 and 1999 as a result of young people leaving. This category of the population usually

Map 1.6. **Significant migrations between 1990 and 1999**



Source: J.M. Zaninetti, d'après INSEE. DATAR – Observatoire des Territoires, 31 mai 2005.

leaves to pursue studies or find employment, which can have a major impact on the rate of population growth. The Ile-de-France region plays a central role in these movements since it was the origin or destination of 40% of all inter-regional migratory flows between 1999 and 2003, in different directions according to the age of the migrant. Ile-de-France, like Alsace, another region with a negative net balance, continues to act as a strong magnet for young people pursuing their education or seeking their first job. Conversely, in regions in the West whose aggregate balance is positive, the balance for young adults remains negative. Only four regions in the South, namely Midi-Pyrénées, Languedoc-Roussillon, Provence-Alpes-Côte d'Azur and Rhône-

Alpes, have a positive balance for young people between the ages of 20 and 29. As a general rule, rural regions do appear, however, to offer fewer openings to young people aged 15-24 than urban regions in that only five rural regions reported gains through net internal migratory flows in this age bracket.

In contrast, rural *départements* appear to be more attractive to people of working age (25-64 years). Thirty-nine of them reported population gains as a result of net migratory movements within this age bracket. This is also the case for 20 intermediate *départements*. Var (located on the South East coast), in particular, is the *département* that has most benefited from the arrival of people of working age (5.2%). On the other hand, all urban *départements* (save two) have lost a share of their population within this age bracket. Moreover, Var was also the *département* that reported the strongest growth in population (1.6%) as a result of the arrival of elderly people during the 1990s. Eighteen other intermediate *départements* gained population through the return of people aged over 65, although the latter were mainly attracted by rural areas. No fewer than 51 rural *départements* reported positive inflows of retirees, Alpes-Maritimes being the sole urban territory to have experienced a comparable trend.

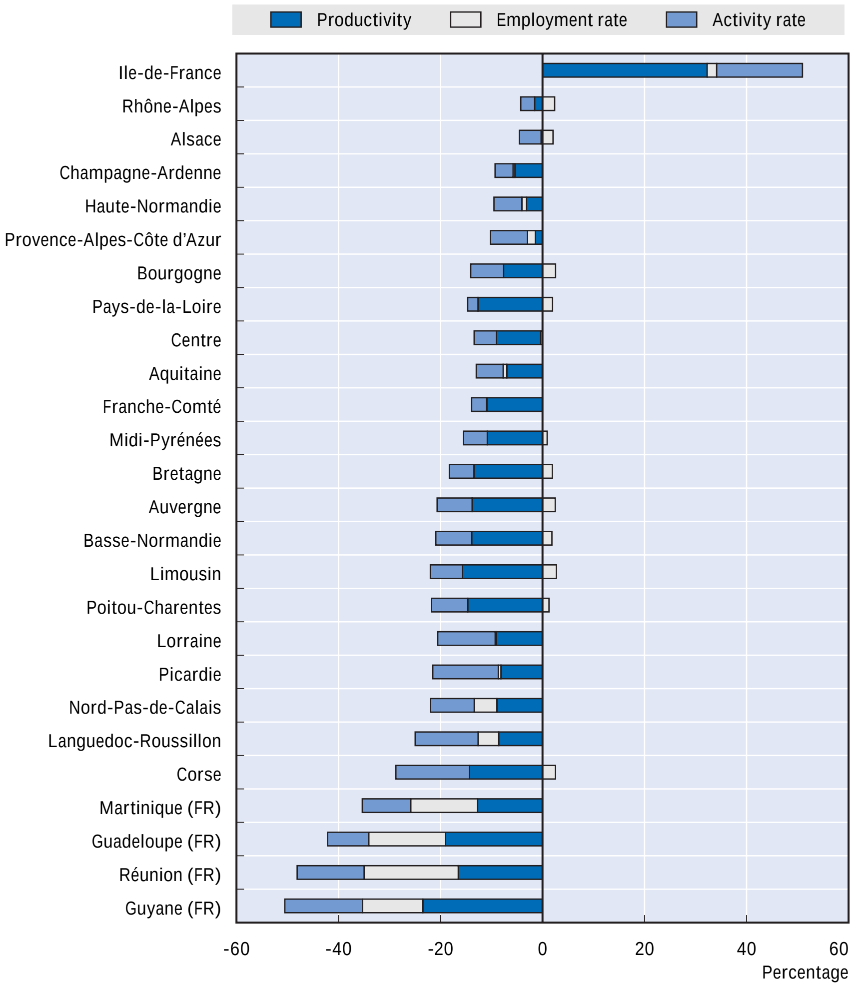
1.3. Economic performances of France and its regions

These territorial trends reflect a certain degree of consolidation of the territorial cohesion of the country, at least at the regional level. Indeed, international comparisons show that the geographical concentration of GDP is relatively modest and below the OECD average. Nonetheless, the economic performance of France is heavily dependent on a small number of regions. Four regions (Ile-de-France Rhône-Alpes, Provence-Alpes-Côte d'Azur and Nord-Pas-de-Calais) account for half of national output. Disposable income, in contrast, is more evenly distributed than GDP per capita as a result of transfer policies. Recent territorial redeployment has increased this trend, which may become stronger in the future as a result of population ageing.

Differences in GDP per capita

In 2002, Ile-de-France was the sole region to report GDP per capita higher than the national average, by no less than 51% (see Figure 1.2). This high level of GDP would primarily appear to be attributable to two factors: labour productivity – which explains the positive difference in GDP per capita of 32% compared with the national average – and rate of activity (+17%). In fact, the contribution of the rate of employment to GDP per capita in the Ile-de-France (+2%) is in line with that of some regions (Alsace, Rhône-Alpes, Pays-de-la-Loire, Brittany, Basse-Normandie) and even below that of others (Auvergne, Burgundy

Figure 1.2. **Breakdown of differences in GDP per capita between regions**

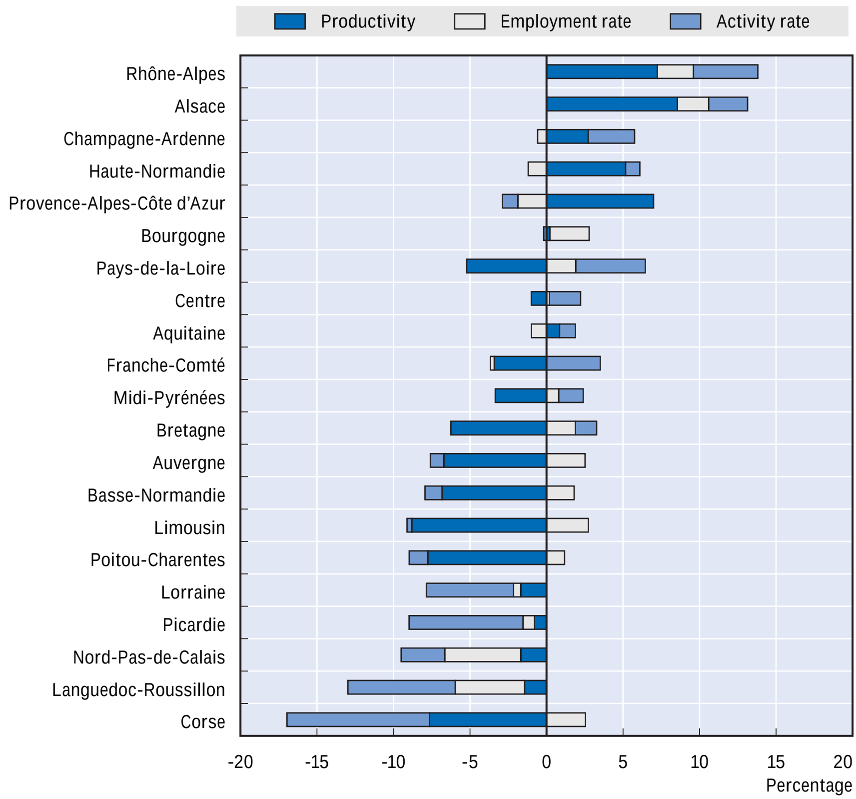


Source: OECD Territorial database (see Annex 1.A1 to this chapter).

and Corsica), where the rate of employment would seem to explain a positive difference of 3% in GDP per capita compared with the national average.

The size of the difference between the Ile-de-France region on the one hand and the overseas *départements* on the other conceals major structural differences. For this reason, these regions are not taken into account in Figure 1.3 which shows that most regions with an above average GDP per capita owe this performance to their high level of productivity. Pays-de-la-Loire and Franche-Comté are the sole regions where good rates of employment and activity compensate by a lower level of productivity.

Figure 1.3. **Breakdown of differences in GDP per capita between regions (excluding Ile-de-France and overseas departments)**

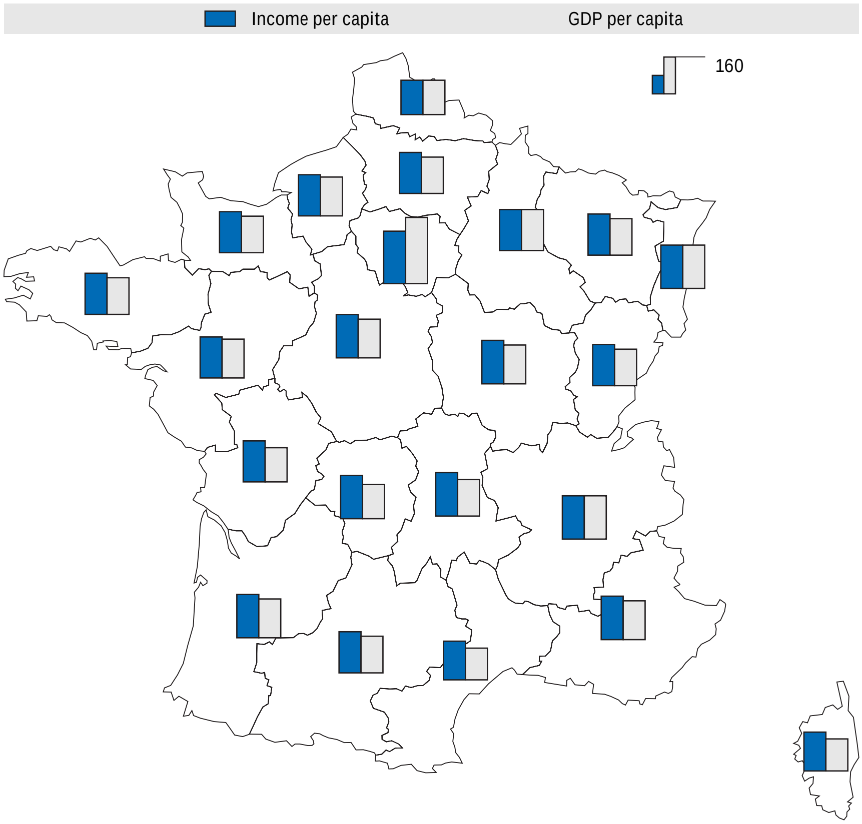


Source: OECD Territorial database.

The regions with a below-average GDP per capita can be divided into two groups. The first (from Midi-Pyrénées to Limousin) is characterized by a negative difference in GDP moderated by an above-average rate of employment (as well as by an above average rate of activity in Midi-Pyrénées and Brittany) which counterbalances a very low level of productivity. The second group, on the other hand, which is characterised by a smaller productivity difference have a GDP per capita that is substantially higher than average due to very low rates of employment and, above all, activity.

Impact of redistribution policies

Regional disparities are less important for disposable income, as a result of redistribution mechanisms. While the Ile-de-France region accounts for a third of national output, it only captures 20% of national income. As Map 1.7 shows, Map 1.7. **Regional disposable income vs. GDP per capita, 1998**



Source: The statistics for per capita income and income by region were provided by INSEE, *Division des Statistiques Régionales, Locales et Urbaines (SEC95)*, and those for per capita income by EUROSTAT.

by comparing regional GDP per capita with the disposable regional income per capita, apart from Ile-de-France, only Alsace and the Rhône-Alpes regions have a GDP per capita higher than per capita income. However, in both cases the difference is minimal (1 to 2%). Regions with surplus income contribute to redistribution through the equalization mechanisms operated through the State budget and taxes. The inhabitants of the Ile-de-France region therefore enjoy salaries and property income that are almost 50% higher than the per capita national average, although their payments in the form of social contributions and taxes are also respectively 35% and 69% higher. As a result, gross per capita disposable income in Ile-de-France is only 22% above the national average. In contrast, there are several regions where cash benefits are above the national average (Limousin, Auvergne, Burgundy, etc.), as well as regions where per capita payments of taxes and social contributions are well below the national average (overseas *départements*). This spatial differential is reflected in increased gross disposable income in such regions.

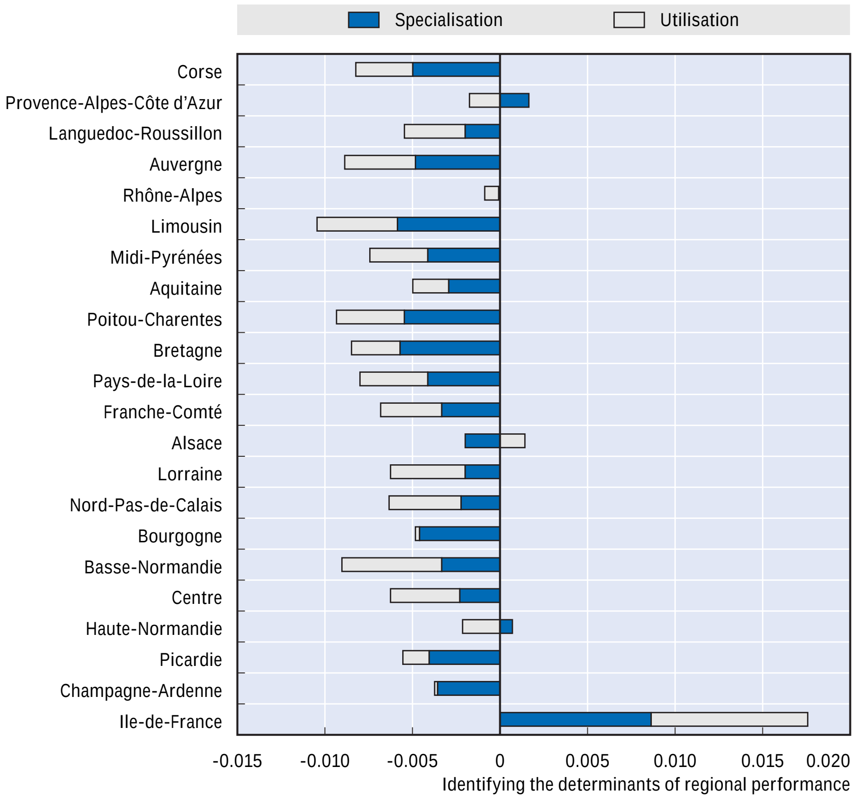
Transfers (pensions, social benefits, minimum income) account for a significant share of regional disposable incomes, with figures varying from 24.8% of total regional income for the capital region to 35.8% for Languedoc-Roussillon and Limousin. In that context, more people have been able to select their location of residence separately from their place of work and to relocate in rural areas thus triggering off a new demand for local services. While these trends have implications for rural policies, these residential dynamics need to be considered in their systemic dimension and attention should also be directed to the regions that support this transfer of income.

1.4. The main challenges

The factors that affect GDP per capita – productivity, infrastructure, entrepreneurship or labour skills – are the principal preoccupations of the authorities. Some regions are evidently better endowed than others in those factors, and disparities can be significant, for example, with regard to spending on innovation, access to the knowledge economy, to broadband infrastructures or the social capital for active entrepreneurship. In order to be efficient, competitiveness policies need to adjust to local and regional conditions. Key factors and productivity dynamics have to be analysed in detail in order to identify the structural particularities of the country and the degree of variation between regions, and to determine what the main challenges are.

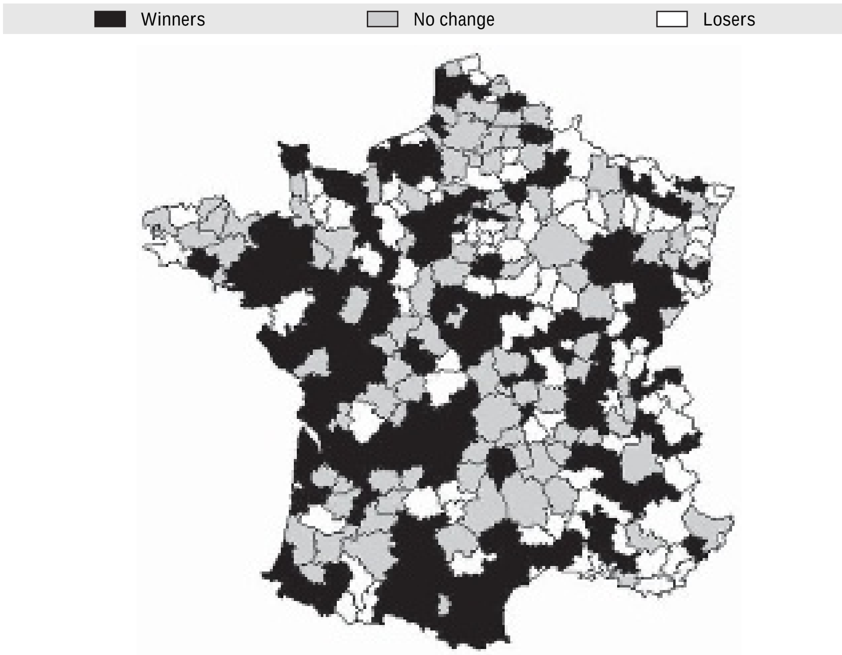
The differences between regional productivity and average national productivity may be the outcome of two parameters: specialisation in high (or low) value-added sectors and/or better utilisation (or under-utilisation) of available resources (technology, infrastructure, etc.). Figure 1.4 provides a breakdown of the impacts of these two parameters at the regional level (TL2) on the basis of disaggregated data for employment in 36 sectors. In 2000, solely the Ile-de-France region reported productivity levels above the national average. This positive result is due almost as much to specialisation in high value-added sectors as to better utilization of available resources. In contrast, the other regions are handicapped by their specialisation in less productive branches (except for Provence-Alpes-Côte d'Azur and Haute-Normandie) and the existence of untapped resources (except for Alsace). Specialisation in low productivity sectors is a critical problem in Corsica, Auvergne, Limousin, Poitou-Charentes, Brittany, Burgundy, Picardy and Champagne-Ardenne, whereas the existence of untapped resources is a greater problem in Lorraine, Nord-Pas-de-Calais, Basse-Normandie, Centre and Haute-Normandie.

Figure 1.4. **Breakdown of differences between regional productivity levels and the national average at territorial level 2 in 2000**



Source: INSEE, *Identifying the Determinants of Regional Performance in France*, 2004.

The type of specialisation and its effects on productivity affect international competitiveness. A study by the Commissariat général du plan[11] proposes that employment zones be classed by their degree of vulnerability to international competition, by cross-correlating the rate of export and import coverage with the type of labour used (Map 1.8). The degree of vulnerability of locations is defined according to the degree to which activities are exposed to international competition. On the whole, the weakest employment zones are relatively limited in terms of both the number of zones and the number of jobs (40 zones and less than 7% of national employment). Within this group, thirteen zones have the double handicap of being highly vulnerable to international trade (with over 30% of employment in very high risk activities), as well as having unhelpful structural characteristics (notably sectoral specialisation, establishments with little autonomy, productive units that use low-level technology, abundant poorly skilled workers). Conversely, Map 1.8. **Three types of employment zone**



Source: Commissariat général du plan. Rapport sur la Localisation des Activités Économiques et les Stratégies de l'État, Juin 2005.

almost 4 out of 10 employment zones have a proportion of jobs in activities likely to benefit from international trade that is above the national average. This positive conclusion with regard to the capacity of French regions to remain competitive also emerges from an OECD study[12] which shows that the increase in France's degree of international openness during the period 1980-1999, measured in terms of international trade in goods and services,[13] is significantly associated with an increased rate of GDP growth in 23 *départements*.

On the other hand, it would seem that the vulnerability of territories to relocations cannot be readily assessed. Although in recent years relocations appear to have had a limited impact on industrial employment (0.35% of industrial employment on average according to a study by INSEE), some employment zones have nonetheless been harder hit.[14] The same study estimates that over 10% of employment in six zones and 5% in thirty zones has apparently been affected by relocations. However, the impacts remain low in the rest of the territory (France has 352 employment zones). Furthermore, the poorest zones or those with the highest rate of unemployment do not appear to have been more affected than rich zones with low unemployment.

Infrastructure

Infrastructure seems to be less of a driver of regional development, in terms of the rebalancing process, than in the past. The central position that France occupies in Europe has already been capitalised upon through the construction of a very extensive and modern transport network. The major infrastructure projects that have been implemented to create high-speed rail and road links between Paris and many regional cities as part of a concerted development effort appear to have borne fruit. In contrast, improving existing networks in order to support the trends towards rebalancing and opening up to Europe and international markets remains a key factor in competitiveness and attractiveness. Accordingly, according to forecasts made by DATAR, the road network can be developed in the following two respects: 1) ensure the fluidity of traffic along the main transit routes from North to South, Benelux-Paris-Bordeaux-Spain, on the one hand, and Benelux/Germany-Metz-Lyon-Italy/Spain on the other; and 2) finish building the main East-West motorways in order to improve links between the Atlantic seaboard and the major centres in Europe. The improvement and development of rail infrastructure are designed to meet three objectives: 1) promote the creation of a European rail network for passengers (TGV) and freight (European freight corridors), notably through new links to Germany (TGV Eastern Europe and TGV Rhine-Rhône), Italy (new link between Lyon and Turin) and Spain; 2) continue the development of the high-speed network to ensure better services to regional metropolitan centres; and 3) improve service to major cities that may not be connected to the high-speed network.

The major challenge, as for most OECD member countries, lies in the information society, access to information and communication technologies and, in the short term, high-speed Internet access. At first sight, it would seem that France has caught up its lag in the provision of access to the high-speed network in its territory. With 24 million Internet users and 7.9 high-speed subscribers as of 30 June 2005, compared with 6.5 million high-speed subscribers (of which 6.1 million ADSL lines) as of 1 January 2005, 3.6 million at the end of 2003 and 500 000 in mid-2002, France is in the vanguard of European countries. With an ADSL penetration rate of 16% in terms of the number of lines compared to the total population, France is now above the European average (15%), behind Denmark, the Netherlands and Belgium but ahead of the United Kingdom and Germany. In practice the penetration rate is 25% of households and 10% of the population. The number of xDSL lines is growing at a rate of 12.9% per quarter. The replacement of low-speed access with high-speed access is continuing. Several technologies provide access to high-speed Internet.[15] The general public accounts for the bulk of xDSL and cable subscriptions, whereas other technologies are aimed more at business customers. While wireless Internet technologies were still non-existent

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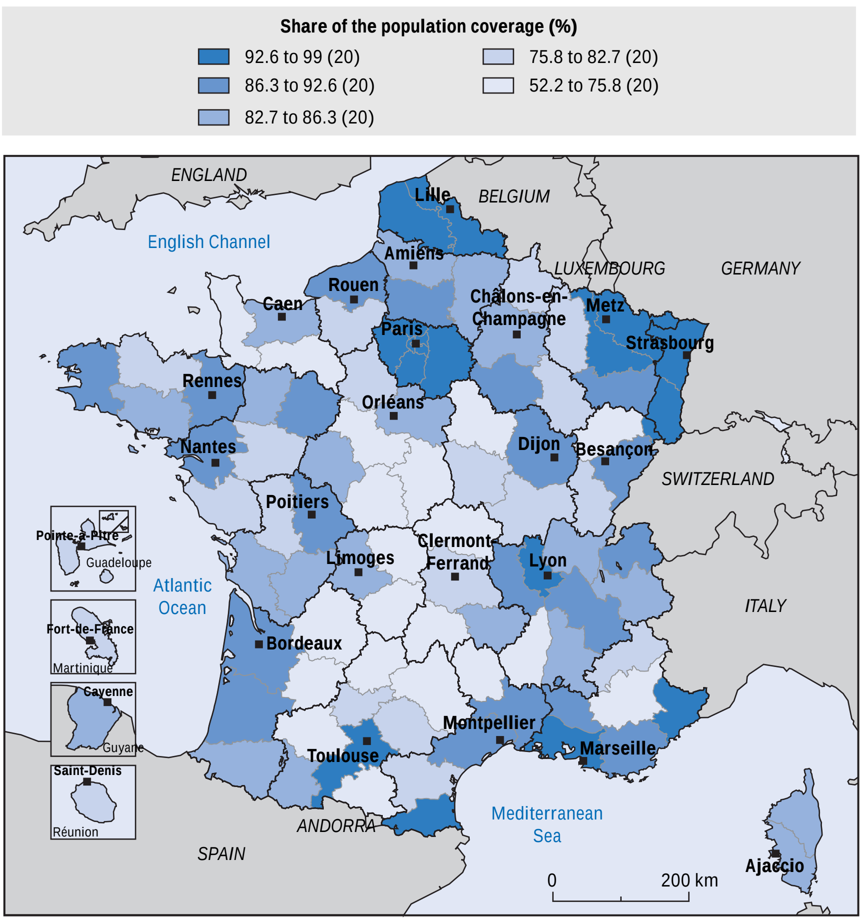
in 2002, 5% of Internet users now have a wireless Internet connection in their own homes. France is showing a genuine flair for innovation in this area in that there are now over 2 500 “hot spots” open to the public, and the country is ranked third in the world for Wifi equipment after the United States and the United Kingdom. In spite of these successes, many areas remain enclaved and in particular numerous rural areas are still not connected with the broadband network. The country has not yet reached a satisfactory territorial coverage for broadband (see Map 1.9).

Map 1.9. **Broadband territorial coverage (December 2004)**



Source: ORTEL(c) (TACTIS/IDATE) (2004), décembre. DATAR – Observatoire des Territoires.

Innovation

As a result of sectoral specialisation and infrastructure, productivity is closely linked to the capacity of regions to innovate and apply technologies.

According to a study by OST, although indicators of per capita patent applications show that France's innovation balance is lower than that of smaller countries (such as Finland or Sweden), size alone ranks France in the top three in the EU15 in terms of science and technology (ST) skills. Despite a decline in its share of ST activities in the EU15 (from 18.8% in 1995 to 16.5% in 2001), France advanced from third to second place behind Germany (33% in 2001) ahead of the United Kingdom (13.5% in 2001).[16] The number of triad patent families (patents filed with the European Patent Office, the US Patent and Trademark Office and the Japanese Patent Office) confirms that France ranks behind Japan, Germany and the United States, but ahead of the United Kingdom, Italy and Spain.[17]

In the same study at the regional level, Ile-de-France is ranked first among regions within the European Union, with Rhône-Alpes, Provence-Alpes-Côte d'Azur and Midi-Pyrénées ranked in sixth, fifteenth and thirtieth positions respectively. The Ile-de-France is ranked first in all regional classifications in all areas of competitiveness apart from textiles. However, the aggregate indicator for the region has plummeted by almost 20%, between 1995 and 2001, whereas the regions of Oberbayern and Stuttgart, ranked second and third respectively in the aggregate indicator classification, have risen by 25.3% and 22.6%. Furthermore, only four French regions (in the order Ile-de-France, Rhône-Alpes, Provence-Alpes-Côte d'Azur and Midi-Pyrénées) are ranked in the top fifty places, compared with eighteen (out of forty-one) for Germany. In addition, whereas Rhône-Alpes has dropped three places and Midi-Pyrénées five, other European regions such as Catalonia (which has gained 14 places and is now ranked twenty-ninth just ahead of Midi-Pyrénées) are growing vigorously. In contrast, the Rhône-Alpes was ranked third in the classification for nuclear and renewable energies, and the Midi-Pyrénées region seventeenth for aeronautics.

Territorial concentration remains fairly high, with the four regions of Ile-de-France, Rhône-Alpes, Provence-Alpes-Côte d'Azur and Midi-Pyrénées well in the lead. Two aspects of this concentration are worth noting:

1. Technological skills tend to be more concentrated that scientific skills.[18] Although scientific skills in the Ile-de-France and Rhône-Alpes regions account for 36% and 12% respectively of the national total, their respective shares are higher in terms of technological skills and amount to 43.5% and 16%. The lower spatial concentration of scientific skills might be related to the research conducted by public bodies, which generally tend to outnumber private research facilities in peripheral regions. However,

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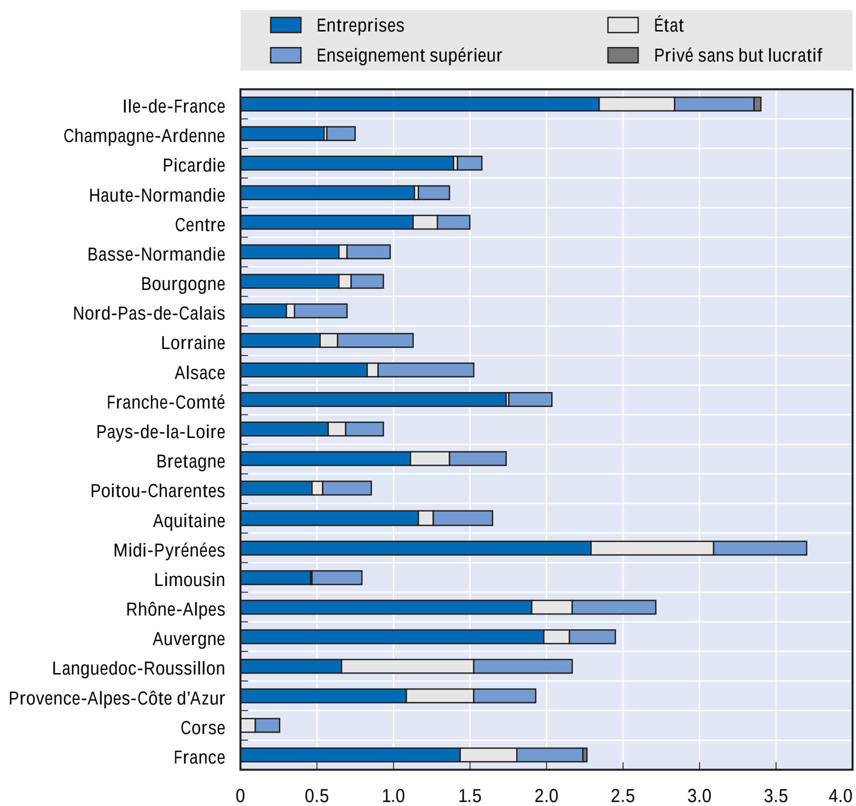
considerable regional variations may also be seen in terms of R&D intensity and the territorial distribution of researchers.[19]

2. The largest share of R&D expenditure in regions such as Midi-Pyrénées (69%), Provence-Alpes-Côte-d'Azur (66%), Aquitaine (61%) is allocated to high-tech industries. In other regions such as Champagne-Ardenne (36%) or Basse-Normandie (20%), the investment in high technology is much lower and a fifth of the budget is allocated to low-tech sectors (Figure 1.5 and Table 1.3).

R&D activities and production activities do not necessarily coincide, both because many productive activities do not necessarily make use of research for their development and also because the reach of R&D activities extends well beyond the area of the region in which they are located. Innovation activities do however assume greater importance in all sectors of the economy

Figure 1.5. **R&D expenditure at territorial level 2, 2002**

As a percentage of GDP



Source: Ministère de l'Éducation nationale et l'Enseignement supérieur et de la Recherche (Ministry of Education and Research).

Table 1.3. **Breakdown of R&D expenditure by firms by technological intensity of the sector at territorial level 2 in 2001**

As a percentage of total R&D expenditure

	A	B	C	D	E	F	Total
Ile-de-France	35	40	2	2	6	15	100
Champagne-Ardenne	15	30	13	36	3	2	100
Picardy	4	66	19	9	1	2	100
Haute-Normandie	32	48	15	3	1	1	100
Centre	26	42	11	9	4	8	100
Basse-Normandie	n.a.	n.a.	3	20	2	20	100
Burgundy	22	52	16	6	1	4	100
Nord-Pas-de-Calais	9	37	18	17	7	12	100
Lorraine	5	39	42	5	2	6	100
Alsace	25	49	5	13	2	7	100
Franche-Comté	9	85	2	1	0	3	100
Pays-de-la-Loire	49	20	11	8	5	7	100
Brittany	44	11	3	3	1	37	100
Poitou-Charentes	17	62	n.a.	n.a.	n.a.	4	100
Aquitaine	61	15	1	4	10	10	100
Midi-Pyrénées	69	19	2	1	4	6	100
Limousin	11	77	3	4	3	3	100
Rhône-Alpes	38	36	11	4	1	10	100
Auvergne	n.a.	n.a.	n.a.	n.a.	n.a.	1	100
Languedoc-Roussillon	4	63	2	2	13	16	100
Provence-Alpes-Côte-d'Azur	66	16	2	1	2	13	100
Corsica and overseas regions	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	100
France	36	36	7	4	4	12	100

A = high-tech manufacturing industries.
B = medium-tech manufacturing industries.
C = medium to low tech manufacturing industries.
D = low-tech manufacturing industries.
E = primary sector, energy and construction.
F = services.
Other information on the classification of sectors by technology intensity is to be found in the *STI Scoreboard 2003* published by the OECD. To respect statistical confidentiality, disaggregated data for several regions are not available (n.a.), while Corsica and the overseas départements and territories, where R&D activity is very low, have been amalgamated.

Source: Ministère de l'Éducation nationale et l'Enseignement supérieur et de la Recherche (Ministry of Education and Research).

and shed light on the crucial role played by synergies based on the proximity of research and development and production activities by technological field. Ultimately, it might prove necessary to remedy this divide or spatial disequilibrium. This need for new connections should have major implications for regional policies (closer ties to regional university research, network development, promotion of inter-regional co-operation).

As shown in the DATAR report, *La France puissance industrielle* (2003), the issue of decoupling industrial and scientific specialisations poses problems that differ from one region to another. The report identifies five groups of regions to characterise the balance between innovation and production capabilities in their own specific territory:

1. regions combining extensive scientific and technological expertise with substantial industrial potential: Ile-de-France et Rhône-Alpes;
2. regions exhibiting this type of balance between components with a markedly lower volume of activity: Lorraine, Bretagne, Centre;
3. regions whose industrial potential is relatively greater than their scientific and technological potential: Pays-de-la-Loire, Nord-Pas-de-Calais, Picardy, Haute-Normandie, Franche-Comté, Champagne-Ardenne, Burgundy, Aquitaine, Alsace;
4. regions where science and technology is more important than industry: Languedoc-Roussillon, Midi-Pyrénées;
5. regions with less activity in these fields: Limousin, Basse-Normandie, Auvergne.

Entrepreneurship

Renewal of the region enterprise base is not only a stimulus for innovation and emergence of industrial activities but also a driver of employment and wealth creation at national and regional level. Given the average ranking of the country for firm formation it is a main challenge for regional growth and national competitiveness policy. In France, the number of business owners in comparison to the labour force is among the lowest in the OECD area (less than 10% in 1998). Furthermore it declined steadily between 1974 and 1998.[20] Nonetheless, there are significant territorial variations regarding business culture. In 2002, predominantly urban regions demonstrated a ratio of establishments per inhabitant (5.6%) well above the national average (4.7%), while rural and intermediate regions were lagging (4.3% and 4.2% respectively). The thicker density of establishments in urban regions was due to the more intense presence of small establishments without salaried employees (Table 1.4). In contrast, the business structure of rural and intermediate regions was characterised by the higher shares (around 40%) of establishments offering employment to 1-9 salary earners. Regarding the shares of establishments of larger size there was almost no variation among the three regional types. Paris (13.1%) followed by Guadeloupe (9.2%) and Corse-du-Sud (7.8%) displayed the highest levels of entrepreneurship culture, while Nord (3.1%), Aisne (3.1%) and Pas-de-Calais (2.9%) were at the bottom of the relevant list.

Table 1.4. **Distribution of establishments' population by size and type of region at territorial level 3, 2002**

Regional type	A (%)	B (%)	C (%)	D (%)	E (%)	F (%)	G (%)	Total (%)
Predominantly urban regions	60	32	4	3	1	0	0	100
Intermediate regions	52	39	4	3	1	0	0	100
Predominantly rural regions	52	40	4	3	1	0	0	100

A = establishments with no salaried employees.
B = establishments with 1 to 9 salaried employees.
C = establishments with 10 to 19 salaried employees.
D = establishments with 20 to 49 salaried employees.
E = establishments with 50 to 249 salaried employees.
F = establishments with 250 to 499 salaried employees.
G = establishments with more than 500 salaried employees.
Guadeloupe, Martinique, Guyane and Réunion are not included in the calculations.
Source: INSEE, répertoire SIRENE.

The formation of new businesses in France have grown significantly after 2002. After a minor slump between the years 1997 and 1999 the pace of new firm formation accelerated with around 175000 new enterprises being created annually over the period 2000-2002. Recent studies indicate that this positive trend continued in 2003 and 2004.[21] Construction, commerce and services to enterprises were the sectors accounting for of the new business creations during the period 2002-2004. The most performing *départments* (in terms of annual rates of pure creation of enterprises) include La Réunion (11.6%), Seine-Saint-Denis (10.1%), Guyane (9.9%), Paris (9.2%) and Guadeloupe (9%). In contrast, new firm formation was lower in predominantly rural units (the last 24 places in the relevant list were occupied by rural areas) with Cantal (3.6%) and Indre (4.2%) deviating the most from the national average (7.2%).The government has initiated for several years an active policy to stimulate firm formation through fiscal rebates, administrative simplifications and the definition of the young innovative enterprise status which gives a particularly advantageous fiscal treatment to this category of firms (see the 2003 innovation plan and the Dutreil law) which bear its fruit. The increasing level of bankruptcy since 2001 is a more preoccupying issue that pinpoint a recurrent problem in the country, the difficulty of very young firms to find capital for their development.

Skills

In 2002 the educational attainment of the French adult population (25 to 64 year olds) was just below 11 years.[22] This figure was placing France in the 23rd position in the OECD area, well below countries such as Germany, the US or the UK, but above Italy and Spain. Nevertheless, the share of the adult population with tertiary education was around 25%, a value not dissimilar to that of Germany and the United Kingdom. Despite the relatively high

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proportion of population with a tertiary qualification there are considerable regional differences in skills. Graduates are concentrated in Ile-de-France. Paris (44%), Hauts-de-Seine (35%) and Yvelines (30%) display the highest rates of population with tertiary education. In contrast, the fraction of graduates to adult population is 10% or less in Ardennes, Creuse, Indre, Haute-Marne, Nièvre and Orne. Similarly from Table 1.5, it is evident that the presence of graduates is stronger in urban regions (25%) than in intermediate (17%) or rural (13%). Rural regions tend to have higher proportions of population with no diplomas (22%) or only primary level education (21%), while lower fractions of the population fall into these categories in intermediate (20 and 17% respectively) and urban regions (18% and 14%).

Table 1.5. **Distribution of adult population by levels of education and type of region**

Per cent of adult population

Type of region	No diploma	Level 1	Level 2	Levels 3-4	Levels 5-6	Total
Predominantly urban regions	18	14	30	13	25	100
Intermediate regions	20	17	35	12	17	100
Predominantly rural regions	22	21	34	11	13	100

Notes: Guadeloupe, Martinique, Guyane and Réunion are not included in the calculations.
Level 1 = primary education.
Level 2 = lower secondary education.
Levels 3-4 = upper secondary and post-secondary non-tertiary education.
Levels 5-6 = tertiary education. The education levels correspond to the categories of the International Standard Classification of Education (ISCED 97).

Source: INSEE.

Some inequalities were also observed across "zones d'emploi" in the qualifications of the personnel in industrial professions during the period 1990-1999.[23] Although regional convergence trends were recorded regarding the employees with general qualifications, the employees with superior qualifications remained dispersed. Similarly, no correlation was found between the initial level or the change in the qualification level of the territories and the evolution of employment figures. There was significant variation in the individual trajectories of "zones d'emploi" in relation to skills and employment dynamics.

1.5. Conclusions

The above analysis has described the new landscape in France. While in the past there was a particularly noticeable concentration of the population and employment in the capital region, the mobility of the workforce has increased with preference being given to the regions and peripheral cities as part of a residential driving force that in many cases is governed by transfer mechanisms. Even though this rebalancing process is incomplete, it is significant and has produced a certain degree of deconcentration of employment. In the current context, attention is therefore directed at elements that might invigorate the French economy and in particular the innovation capacity of territories and modes of local government that might help to speed up development. A limited number of regions appear as the engines for national growth and in particular the capital region. Supporting their competitiveness is an important objective for the central government. The following two chapters will therefore examine regional strategies towards these regions and towards the others and evaluate the initiatives for a better co-operation between the different levels of government in order to respond to the current challenges of competition.

Notes

1. See Gravier.
2. 2001 statistics, source: INSEE.
3. The Ile-de-France (12.6%) and Nord-Pas-de-Calais (11.8%) attract the largest share of FDI, which is mainly directed towards the car industry, services and new information and communications technologies (ICTs). The Rhône-Alpes region (9.4%) has regularly ranked among the five leading beneficiary regions over the past six years, and the electronics and telecommunications sectors have consolidated the position of the Provence-Alpes-Côte d'Azur region (7.7%) since 2000. Two border regions in the North-East of the country – Lorraine (7.9%) and Alsace (7%) – complete this list of the regions that attract the largest shares of FDI.
4. The population dynamic of the Ile-de-France, Nord-Pas-de-Calais and Haute-Normandie regions, all three of which have a large migratory deficit, is basically related to a higher than average natural population growth balance.
5. See the Groupe Olivier report, June 2004, *cf. www.groupe-olivier.org*.
6. INSEE has identified eleven "senior metropolitan functions" found primarily in major urban areas which epitomise vigour and project a positive image in order to classify the sphere of influence of major cities. In addition to IT-related technologies, such functions include *inter alia* banking and transport. Related jobs are: *a)* artistic and highly-skilled artistic employment; *b)* management and highly-skilled jobs in IT; *c)* IT engineers and managers in industry; *d)* R&D engineers and managers in industry; *e)* public-sector researchers, senior positions in research establishments and higher education; and *f)* managers of firms supplying services to industry, post and telecommunications engineers and managers.
7. As the DATAR report notes, the borders between rural and urban areas are somewhat blurred and the results are strongly influenced by the criteria used. France uses the concept of urban areas and areas of employment in rural areas which gives priority to the relationship between work and home. The concept of living basins relates more to the supply of services and yields higher figures for rural areas by including small and medium-sized cities. Similarly, some periurban areas surrounding major urban areas have population densities and levels of service supply comparable to those in certain rural areas.

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8. *Quelle France rurale pour 2020 ?* DATAR, 2003.

9. This trend must be viewed with caution since the demographic analysis based on a different type of zoning, namely living basins (INSEE 2003), shows that out of 605 living basins whose population declined between 1990 and 1999, 60% could attribute this decline to the migration balance or to the combined effect of a negative migration balance and negative natural change. Within these basins, whose combined population amounts to around 4.4 million, outflows exceeded inflows by 150 000 between 1990 and 1999.

10. See INSEE Première, No. 726 (July 2000).

11. Localisation of Economic Activities and State Strategies, June 2005.

12. Globalisation And Regional Performances: The Effect Of Trade Openness, GOV/TDPC/TI (2003)4.

13. The degree of international openness of a country is measured as the sum of the value of its exports and imports as a percentage of GDP.

14. See *Délocalisations et réductions d'effectifs dans l'industrie française,* P. Aubert and P. Sillard. Direction des Études et Synthèses Économiques INSEE. This study measures relocation presumptions. Relocations are detected when employment declines or disappears within an establishment while at the same time the imports by the group holding the establishment increase for the type of good concerned.

15. xDSL (primarily ADSL) technologies which use the traditional telephone connection; cable which uses the traditional telephone connection; cable which is naturally preferred for high-speed applications in countries with dense cable coverage; fibre optics links to the home (FTTH, Fibre To The Home) which is preferred by some actors; wireless technologies which are constantly evolving with WiFi (radius of up to 100 m), now followed by WiMax (radius of up to 20 km) and others which may strongly encroach on the so-called third generation of telephones; satellite access which offers slower speeds but universal coverage.

16. Observatoire des Sciences et des Techniques, *Éléments pour une analyse cartographique comparative: Les pôles de compétitivité en Europe,* 2003.

17. However, its contribution has not been the same in all eleven of the areas of competitiveness analysed. It was higher (17.6%) in educational software and lower in textiles (13.6%). In the fields of micro-electronics, telecommunications and optical IT, its contribution was lower that the average French share (15.9% and 15.7% respectively).

18. Scientific skills have been assessed in different fields including biotechnologies, medical science, physics, engineering sciences, mathematics and computer sciences. For each of these fields, skills in the regions have been measured by the share of scientific publications produced by the region. For technological skills, the fields that have been reviewed are the following: electronic/informatics, scientific instruments, materials and chemistry, biotech, industrial processes, transport and equipment and construction and public works. The indicator used is the number of patents that have been filed by inventors in the region to the European patent Office.

19. The Midi-Pyrénées and Ile-de-France regions devote 3.7% and 3.4% of their GDP to R&D, whereas expenditure on R&D in Corsica amounts to less than 0.3%. These regional differences became less pronounced between 1997 and 2002 (the coefficient of variation fell from 0.54 to 0.53) as a result of changes to the spatial allocation of higher education and public research.

20. *OECD Science, Technology and Industry Outlook*: Drivers of Growth: Information Technology, Innovation and Entrepreneurship, Special Edition 2001.
21. Virginie Fabre (2005) La hausse des créations d'entreprises se poursuit en 2004, INSEE Première No. 1002 – January 2005.
22. OECD, *Education at a Glance*, 2004, Paris, France.
23. See Frédéric Lainé, Bernard Morel and Michel Le Marois (2004) "*La qualification des métiers industriels dans les années 1990 : Évolution de la qualification et dynamique de l'emploi sur le territoire*" (Industrial activities and skills during the 90's: trends in skills and employment change in regions), Observatoire des Territoires, (DATAR). Provisional version. December 2004.

ANNEX 1.A1

Explaining regional economic performance: breakdown of GDP per capita

Economic performance varies significantly from one region to another. Only ten *départements* reported GDP per capita above the national average that of the 86 others remained below the national average. There are several reasons for this, some of which relate to the fundamental attributes of regional economies which determine whether the latter or more or less competitive, while another reason lies in the way in which regional populations and GDP are measured. Starting with the latter factor, it can be argued that alternating migratory flows have distorted the overall picture of spatial inequality. By living in one region and working in another, commuters increase the number of inhabitants (and reduce the GDP per capita) of the region in which they reside, while at the same time increasing the GDP (and therefore the GDP per capita) of the region in which they work. It is therefore important to take account of the impact of this form of migration in inter-regional comparisons of GDP per capita. Nevertheless, inter-regional differences in this indicator can also be a sign of regional disparities relating to basic economic aspect. Regional economies where labour productivity is higher usually report higher levels of GDP per capita. This high productivity may be attributable to specialisation in high value-added activities or better use of available resources (physical capital, human capital, etc.).

Similarly, employment rates reflect the efficiency of regional labour markets, with those regions that perform well usually reporting high rates. Lastly and above all, all things being equal, GDP per capita will be higher in regions where a large share of the population is economically active. Activity rates correspond not only to demographic parameters of the population (age structure, for example), but also to certain aspects of social development (activity rates for women, etc.).

The influence of the above-mentioned factors on GDP per capita can be analysed by breaking down the variable into these elements. GDP per capita (in logarithms) for a region can be expressed as follows:

$$\frac{GDPi}{Pi} = \frac{GDPi}{EWi} + \frac{EWi}{LFWi} + \frac{LFWi}{LFRi} + \frac{LFRi}{Pi} \qquad \text{Equation 1}$$

Where P, EW, LFW and LFR respectively represent the population, employment in the region of work, the working population in the region of work and the working population in the region of residence. According to equation 1, the difference between GDP per capita (in logarithms) for a given region and the national average should be equal to:

Difference in per capita GDP = Difference in productivity + Difference between employment rates + Alternating migration rate + Difference between activity rates

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Chapter 2

Territorial Strategies and Competitiveness Policies

2.1. Introduction

The main object of French regional policy for many years was to promote the even distribution of production and employment across the country. Successive governments sought, in particular, to reduce the excessive predominance of the area around the capital and focused on enabling the regions that had been lagging behind, in western and central France, to catch up, as well as on the development gap between urban and rural areas. For the most part, this was a directive rather than an incentive-based regional planning policy that promoted spatial renewal, infrastructure and public investment in disadvantaged areas. This approach, prominent during the "thirty glorious years" after the Second World War, was also characterised by the concentration of decision-making at central level, while the regions implemented the policies in a passive manner. Regional development was at that time part of the National Plan, with national strategy being implemented by the DATAR. From this standpoint, governance was seen as a matter of hierarchy, with local authorities functioning to some degree as "agents" for central government, which alone could decide on policy.

For the past twenty years, in France as in other developed countries, there has been a shift in regional and land-use planning policy. Socio-economic conditions are very different now from those prevailing in the early 80s, which had produced new patterns of economic activity and housing. Several studies have in fact emphasized that factors of competitiveness are becoming more and more regional in nature, making it necessary to take action at that level to stimulate growth and employment. Regional development policy today consists in providing support for projects by the sub-national authorities, and in targeting economic development. While most countries continue to pursue policies based on the redistribution of wealth in order to maintain the supply of public services at local and regional level, regional policy now increasingly seeks to better exploit a region's potential, regardless of its features, and make it more competitive. The French strategy is in line with this pattern.

The development of European regional policy has also provided a new context for regional policies, as well as trans-national structures for the activities of regional and local authorities. The regions have become the building blocks of a competitive Europe, and are now seen as the appropriate level for building partnerships between local elected representatives, the State and the European authorities. Even if central government continues to play a dominant role in the regions through the government *préfets* and deconcentrated services (in other words those situated in the regions and not in Paris) which handle the local implementation of ministerial policies, new relationships have grown up with the sub-national tiers of government. The latter are seeing the scope of their decision-making powers expand, while the mandate of central government is increasingly based on incentivising and coordination rather than on hierarchical management.

Traditional regional policy

Under the strategy reflected in the framework laws on regional planning, enacted in 1995 and 1999,[1] regional policy sought to address, as it still does today, themes suggested by the geography of the country (relatively low density, surface area, dispersal of the major centres of population), its position (as a trading hub, with extensive border regions and coastlines) and the challenges confronting its economic fabric and its regions (growing internationalisation, remote areas, the rural exodus, problem neighbourhoods, industrial restructuring). Furthermore, the diversity of the regions and their performance, and the government's determination to remedy spatial disparities, have also given rise to initiatives intended to promote equal opportunities for every region. Central government policy is primarily based on budget matching and infrastructure financing. The incentives it offers are based on two instruments: zoning, and the regional planning premium (*prime à l'aménagement du territoire*, or PAT). Reductions in social contributions, tax incentives and direct aid are features of the machinery in place, which are commensurate with the degree of economic and social disadvantage in the area concerned, for instance sensitive urban areas or rural priority areas. The PAT rewards the creation of employment in areas of low economic development with a premium for every job created. These instruments constitute the foundation for policies on disadvantaged areas. They are a means of tapping into significant funding (for example under the mechanisms for the reconversion of declining industrial sites).[2]

While there is little evidence to distinguish this regional development policy from the standard policies implemented by the other member States, France is singular in one respect: its significant use of contracts involving different tiers of government or different public actors in the same tier. This is because the decentralisation that occurred after 1982 gave new powers to sub-national bodies, with regional policy becoming a responsibility shared with central government. To ensure coherence between the public initiatives in this field, a framework for co-operation was drawn up. The most characteristic form of such contract is the State/Region Planning Contract (*contrat de plan État/région*, or CPER) that can also be signed with other authorities, for instance *agglomérations* or urban areas, regional parks, or designated areas). With the march of decentralisation, the regions have been given more weight in decision-making, and the scope of these contracts has been extended to cover not only infrastructure and industrial modernisation, but also other areas of government policy.

Moreover, the CPERs are at the interface between national land-use planning policy and European policy on structural funding. European policy is based on subsidiarity, in the sense that it supplements national initiatives and cannot be a substitute for them. Commission funding is awarded on the basis of the plan and requests for assistance from the member States (DOCUP). In France it is DIACT that acts as an interface between the regional *préfets* and the Commission departments working in this area (see Box 2.1). As the CPERs have been put in place in line with the structural funds and, since they call for the same types of initiatives, full partnerships are possible, provided that regional requests meet EU requirements regarding diagnostic assessments, evaluations of strengths and weaknesses, and consistency with European goals.

In this respect it is only logical to consider the Commission as a supra-national level of decision-making, playing a role in steering French policy not only directly via the structural funds but in some cases too in shaping national policy on the various facets of regional policy. With regard to rural affairs, for instance, the perspective put forward by the Commission from the mid-1990s of promoting sustainable development as an alternative to "productivist" agriculture has served as a guiding principle for French rural policy. The implementation of interregional or cross-border programmes (INTERREG) has also prompted the central authorities to deliberate on these issues. Finally, the experience of Community programmes has helped to spread their style and methods, and has considerably improved the quality of national evaluation procedures.

In the long-term, and with the advent of enlargement, however, significant reductions can be expected in European funding in metropolitan France. Changes in the allocation of the European budget could also diminish its impact. These factors may possibly lead to an increase in regional spending on competitiveness, research and innovation (new Objective 2) and give added support to the Lisbon strategy (increase in funds allocated to the 6th Framework Programme, and a further increase for the 7th).[3]

The new territorial policy

Already present in embryonic form in the 1999 Act, and subsequently illustrated in some of the CIADT, particularly in 2002 (see Box 2.2), a new regional competitiveness policy has been added to the existing regional measures and policies. There are various reasons why this policy has appeared. First, competition in the industrialised countries is increasingly centred on the knowledge economy and the use of new technologies. It is now believed that almost 50% of industrial output derives from sectors whose activity is based on

Box 2.1. **The role of DIACT (former DATAR) in French regional policy**

At central level, the regional agency DATAR, now called DIACT[1] continues to shape French regional policy, as it has done since the 1960s. Given the reallocation of responsibilities between the central, regional and departmental tiers of government, it is increasingly being cast in the role of negotiator. The agency has lost some of local affiliates (the *Missions interministérielles spécifiques*, SDR), and also part of its financial leverage.[2] Less centralist and inverventionist than in the past, DIACT is once more focusing on its strategic functions.

The agency enjoys powers of influence as a result of its interministerial dimension. In this respect, it is a body with no equivalent outside France. Its role as co-ordinator in drawing up planning contracts and interfacing with the Commission also requires that it represent national and supra-national bodies. Furthermore, the host of entities at sub-national level, including groups of municipalities/communes in various forms, *pays*, departments, and regions, and of legal instruments places DIACT at the centre of a complex network of institutional interactions, and reinforces its position as the inevitable interlocutor on all issues requiring sound knowledge of the various areas. DIACT budget nonetheless represents only a very small part of the French budget for regional planning.[3] In practice, it is the main Ministries, for example of Infrastructure, of Agriculture and the Interior that shoulder the greatest share of financing.[4] Originally reporting to the Prime Minister, DIACT has since been placed under various ministerial umbrellas, the most recent being the Ministry of the Interior to which it was attached in 2005. These changes in supervisory bodies, reflecting the priorities of successive governments, have made its role a complex one.

1. In October 2005, DATAR was renamed DIACT (Délégation interministérielle à l'aménagement et la compétitivité des territoires).
2. See P. Mazet, Aménagement du territoire, Armand Colin, Paris 2000.
3. A small percentage of total public financing for territorial amenities. The budget for the *Fonds national d'aménagement et de développement du territoire* (FNADT) does not exceed € 50 million.
4. Respectively 35% and 21% of State funding for 2005 for the two leading ministries.

knowledge. The circulation of this knowledge and its incorporation into new products are often local and regional. The dynamism and competitiveness of the regions are not, however, based exclusively on R&D. It is crucial to combine initiatives to promote synergies in research, knowledge and industry in the more advanced regions, and also to be in a better position to mobilise the potential that exists in other regions if there is to be a better spread of innovation, and better support for employment and growth, particularly since numerous reports (*cf.* Fontagne/Lorenzi, Aghion/Cohen), the OST (*Office de la*

Box 2.2. **Subjects discussed at recent meetings of the Interministerial Comittees for Territorial Planning and Competitiveness (CIACT)***

2000 February:	Sustainable development in coastal areas and maritime safety.
May:	Plans for community services, Planning Contracts, Relocation of public employment, Specific regional measures.
2001 June:	Regional balance, industrial conversion areas, modernising public services, Information society, vulnerable areas.
2002 December:	New directions, Greater role for large cities, Poles of excellence, Equal opportunities for regions.
2003 May:	Site contracts and revitalisation of specific regions.
September:	Rural world (territorial engineering, access to public services, reducing the digital divide, airline routes, land management, peri-urban areas, zoning, new populations, upland areas).
December:	Reform of planning contracts, metropolitan strategies, transport infrastructure, Access to broadband Internet.
2004 September:	Poles of competitiveness, support for broadband, new coastal policy, regional measures.
2005 July:	Poles of competitiveness, territorial measures.
October:	Poles of competitiveness (designation of 55 poles), preparing for economic change, Public/Private Partnerships, transport Infrastructure, regional measures.
December:	Poles of competitiveness (designation of 9 poles).

* Formerly Interministerial Committee for Regional Planning and Development (CIADT).

science et de la technologie) indicators and the innovation scoreboards of the OECD and the EU confirm not only that the French economy does not have sufficient capacity for innovation, but also that it is losing ground in terms of its national and regional rankings in this field (see also Chapter 1).

In this context, the government has put a machinery in place to foster competitiveness in the regions. This chapter will confine itself to analysing the impact this has had, and the outlook for the future. Public policy focuses mainly on three areas:

a) regional and local clusters. Public initiatives are aimed at fostering projects that promote clustering and cooperation between enterprises in the traditional sectors through local production systems, or SPLs (*systèmes productifs locaux*), and stronger ties with local public or private research and training systems in higher value-added, R&D-intensive fields. This policy of clusters, based on local synergies and the exchange of knowledge, underpins the poles of competitiveness programme launched in the autumn of 2004 (Section 2). This regional vision also gives local authorities a major role to play, not only in supplementing government funding but also in financing complementary initiatives. The programme recently designated 67 poles with sound innovation potential, 15 of which were recognised as being of international stature.

b) Urban and rural areas are now more heterogeneous categories, and their competitive potential is better assessed in terms of migration patterns, for instance. Urban policy, once confined to social problems and deprived neighbourhoods, appears to be evolving as it introduces *contrats d'agglomération* (development contracts between groups of urban municipalities and central government) and the future *contrats métropolitains* (a similar formula used for the larger cities, see Section 3 below). Central and local government authorities are also modernising the tools they use in rural areas, as well as in regions vulnerable to offshoring/relocation and restructuring, for example by introducing *contrats de site* (contracts between central government and a particular area to promote its redevelopment). "Creative destruction" management is taking new forms in these areas. In particular, the drive to anticipate future change is starting to make its mark as a central feature of government policy (Section 3).

c) Digital infrastructure policies. Even though problems remain with regard to logistics hubs and in some cases accessibility and transversal links, in most areas of infrastructure it is thought that delays in supply have been made up[4] and a degree of balance has been achieved across the country. For some kinds of information technology, on the other hand, national coverage has not been fully achieved by a long way, and competitive conditions could be improved. This is particularly true of broadband, an aspect of connectivity that can affect how businesses operate and compete. It is addressed in Section 4.

2.2. Regional industrial competitiveness policy and the cluster policy

Enhancing the value of SMEs: local production systems (SPLs)

While France does not have such a varied palette of industrial districts as those found in Italy, nor their industrial clout (40% of Italy's manufacturing output and over 50% of its exports), it has devised forms of local governance for groups of firms that do bear some resemblance (local production systems). Many of these date back a very long way, having survived in spite of the lack of intermediary institutions to strengthen their environment and of a lack of professionalism on the part of managers' associations, even the local Chambers of Commerce. Often focused on low-tech activities, these local production systems are located on the periphery of the central regions and in semi-rural areas (Savoie, Rhône-Alpes, Vendée, Southern Alsace, and Eastern Brittany).[5] Others have grown up around major companies that place orders with them. Studies by P. Veltz have shown how, under the influence of Europeanisation and globalisation in the major corporations, SME subcontractors undergo a process of adaptation and then seek to diversify their production and client base. They have furthermore often managed to regroup into forms that are closer to horizontal integration and networks than their previous vertical relationships.[6] In numerous regional cities and capitals (such as Rennes, Nantes, Toulouse and Strasbourg), the provision of public goods by central and local government, or even the private sector (associations, cooperative networks, supply of information, training programmes and infrastructure) has been a decisive factor in the consolidation of local production systems in the regions.

The advantages of SPLs are well known (higher productivity than individual firms, greater export capabilities, lower transaction costs).[7] Markets, however, often fail to generate local clusters where the potential exists, and it is left to governments to help latent SPLs into existence. A variety of approaches are used by the authorities, many of them deconcentrated. They seek to activate clusters, promote forms of governance (networks, discussion forums, facilitation structures) and encourage investment in local enterprise clusters.

The fact remains that the priority given to SMEs and small business clusters in French policy is a relatively recent phenomenon. This is because for many years government policy, and in particular industrial policy, was affected by the influence of big business.[8] It was thought that a business had to be sufficiently large to even aspire to be internationally competitive and break into the export markets. Thus, during the "thirty glorious years", the industrial strategy based on the idea of re-establishing a balance between the regions consisted above all of inducing the major corporations to relocate to less developed areas.

The policy became more favourable to SMEs during the period of crisis in the traditional industries, when the internationalisation of the major corporations, begun in the 1980s, intensified, but there was no increase in the visibility of SPLs. In the old industrial regions, the State began by engaging in policies to defend employment and transfer revenue which proved unsustainable in the long term, but gradually these gave way to attempts at diversification. While a certain amount of aid was channelled towards SMEs in different fields (training, consulting, management, access to technology,

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design), its impact was diminished by the fact that they were widely dispersed, their technical centres were weak and the environment was not very conducive to entrepreneurship. These policies were not aimed at developing links between firms. While this concept of collaboration between firms was more prevalent in technopoles, they did not produce real clusters of firms with a strong potential for cooperation. Often set up by central and local government for reasons of image and with no detailed analysis of demand, technopoles have had only limited success. There has been very little impact on SMEs. The investments required are heavy and the take-off threshold is often far in the future.

During this period of economic redeployment and gradually opening borders, the role played by SMEs nonetheless increased substantially (small and medium enterprises accounted for 53% of jobs and 40% of investment by the end of the 1990s). Even though many of them are the subsidiaries of major businesses and have modernised under their wing, more than one third (of enterprises employing between 200 and 499 persons) are independent firms with in many cases both local and regional markets, occupying niche markets or acting as subcontractors for larger firms.[9]

Recent initiatives

The policy pursued by the government consisted in, on the one hand recognising the SPL phenomenon and, on the other, designating a certain number of local production systems and giving them limited assistance for joint activities. This was not a matter of setting up new local production systems but increasing the level of cooperation and optimising the running of existing SPLs. The specifications for the two tenders put out by the DATAR in 1998 and 1999 included clear selection criteria: the region concerned had to have not only a concentration of activities but also a dense network of inter-firm links, one or more facilitation structures and operators qualified to foster interaction between firms. Funding was targeted mainly at "light" cluster management costs: facilitation, audits, website creation, internal communications, studies and diagnostic assessments, and to a more limited extent, commercial initiatives or innovation.

The economic assistance provided seems to have had beneficial economic and regional effects according to the various evaluations carried out.[10] The cost to the State budget has been very modest: € 3.6 million (over 96 projects adopted), even if these were often supplemented by co-financing from structural funds and by public and private partners. In addition, the selection process resulted in good coverage over the country (though still relatively weighted towards Midi-Pyrénées, Rhône-Alpes, Franche-Comté and Auvergne, with Ile de France significantly underrepresented). It also confirmed how the SPL phenomenon is flourishing in the major regional cities. Numerous production systems have however remained outside the sample that receives incentives. One identification study showed that there were around 680 pairings of employment areas/business sectors that could be considered as potential SPLs.[11] Lastly, analyses were carried out confirming that, in the clusters set up as SPLs, the figure for job creation from 1993 to 2001 was 9%, compared with 5.7% in the equivalent sectors. To conclude, the SPL policy launched at the end of the 1990s had only limited ambitions, but it does seem to have achieved what it set out to do. Amongst other things, it has encouraged networking and given decisive support to local efforts to mobilise businesses and local authorities. The latter have often worked to see these initiatives become an integral part of planning contracts and structural funds.

The question now is how to pursue and follow up these measures, particularly so as to capitalise on the momentum already achieved. DATAR policy has always been directed mainly at financing and promoting cooperation among local production systems. Even though the French SPLs are smaller and more geographically dispersed than their counterparts in Germany, the United Kingdom and Italy, their impact on regional economic performance could be enhanced. The support awarded by the National Regional Planning Fund (*Fonds national d'aménagement du territoire*, or FNADT) has contributed especially to the emergence of local leaders, to increased visibility for firms and the associations those firms have founded, and to improvements in regional governance. The authorities might wish to give fresh impetus to the SPL policy by focusing on the collective goods and services that are the main comparative advantage of these clusters. As experience in other countries has shown, these policies have a variety of tools at their disposal (including diagnostic assessments and bench-marking, setting up associations, organising service provision, and marketing the region). Initiatives targeted on specialised training, entrepreneurship or exports could be added in order to reinforce and lend greater stability to the ties already forged under the initial call for projects. Already at the CIADT meeting in September 2004, the government set aside a budget of € 4 million for new measures.

Reinforcing the links between enterprises and research: the emergence of poles of competitiveness

Although there is some continuity with the large SPLs (21 have put themselves forward as poles of competitiveness), the poles of competitiveness approach is more ambitious. It consists of supporting what are often poorly-organised clusters bringing together research centres, knowledge institutions and entities with industrial capability, synchronising economic development with that of research, and creating the necessary alliances with businesses in the regions (see Box 2.3).

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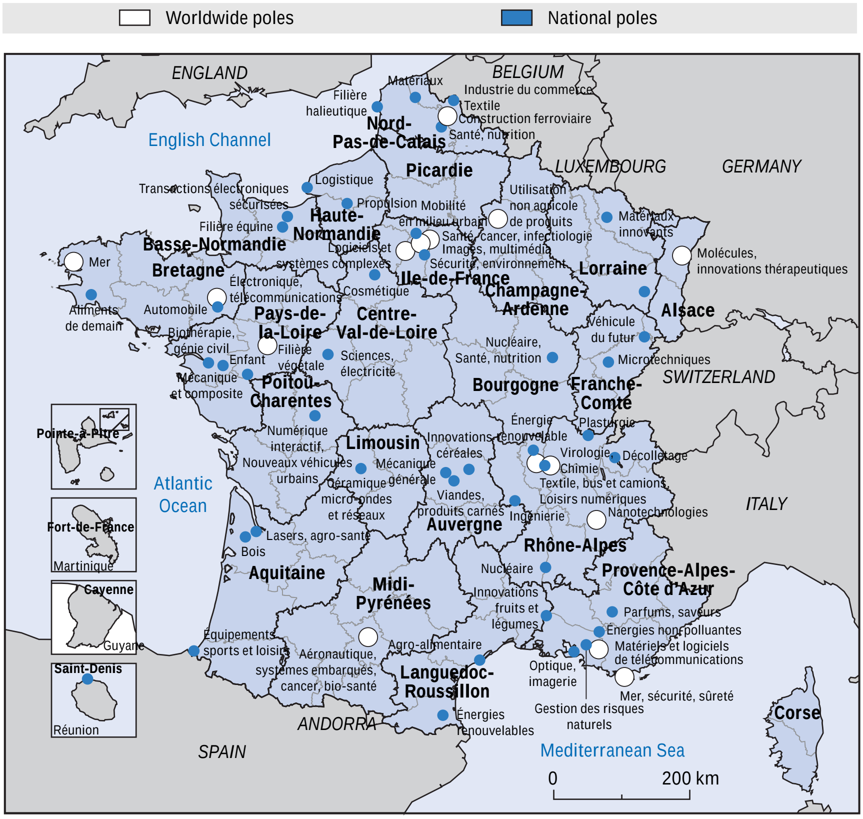
Box 2.3. **The characteristics of poles of competitiveness**

Poles are made up of all the economic agents: businesses, research and testing centres, basic and further training organisations which, through their activities, help to ensure that there is a satisfactory range of products and services available on the market, and implement joint projects. The goal within a variable geographical area is to achieve a critical economic, scientific and technical mass, in order to maintain and enhance the dynamism and attraction of the areas in question. In order to identify these poles, a tender for projects was put out that closed in February 2005. 67 poles were designated in July 2005, 6 of which were worldwide poles, 9 poles with high international visibility, and 52 regional or national poles (see Map 2.1). For 2005-2007, the State is planning to earmark € 1.5 billion to be used in launching and supporting poles of competitiveness. Partners associated with designated poles will have the benefit of three types of non-exclusive incentive measures: public subsidies, tax exemptions and lower social contributions, financing schemes and specific guarantees. Businesses located within one of the pole's R&D zones, as recognised by the *Conseil d'État,* will benefit from exemptions from contributions and lower payroll taxes (50% for SMEs, 25% for others) when they take part in the pole's projects. Also available to complement the funds intended to co-finance projects in the poles will be loans for amenities, joint action and engineering initiatives (up to a total of € 36 million). The CIADT has also decided to support the expansion of broadband in the poles. It has allocated € 1 million for SMEs that take digital technology on board. The government will, in addition, be allocating € 2 million to the development of a business intelligence system for these poles of competitiveness.

In a sense, there are precedents for the poles of competitiveness strategy, and it complements other measures that are already up and running. While public research programmes have often been used as an equalising factor between the regions, since 1995 there had been a marked willingness to pool resources. One sign of this was the investment in the genetics poles (following the example of Évry) and the poles for cancer, and the resources focused on nanotechnologies in Grenoble (CNED).[12] Subsequently, however, a tendency has emerged to add on further mechanisms. Technological research teams (ERT) have been established to strengthen the role and improve the perception of university research groups working in partnership with the business sector (there are 95 of them now). Then there are the 80 technology hubs designed to improve SME access to technologies.[13] Since 2000, 20 national centres for technological research (CNRT) have been designated to promote collaboration between university laboratories and industrial research centres in fields of

Map 2.1. **The 67 poles of competitiveness**



Comment: The positions of the poles shown here are approximate. They are based on the address of the person who submitted the file, but do not show exactly what area each pole covers.

regional excellence, as in Toulouse. And finally there are the new networks of technological research and innovation (RRIT) which finance cooperative projects led by SMEs, large firms and public laboratories, which are nonetheless relatively narrow in their subject-areas. These networks have benefited from substantial funding (€ 300 million between 1998 and 2002).

A further challenge for the regions and their poles of competitiveness is to exploit to the full the innovation potential offered by the findings of public research, and to promote multidisciplinarity and a mix in R&D. In France this work is made more difficult by the compartmentalised nature of public research (with divisions between education and research, the major research institutions and the universities, the universities and the "*grandes écoles*" – see Box 2.4). At the present time, the capacity of the Public Research Institutions (OPR) and the universities to meet the demands of industry is

Box 2.4. **Special features and performance of the French research system (SFR)**

One primary feature of this system is the major role played by the public sector in the way research is organised and carried out. The public sector invests over 1% of GDP in R&D (ranking second in Europe). Another important aspect is its fragmentation. In practice, there are several distinct categories of public institution carrying out R&D:

- Public scientific and technical research establishments (EPST) such as the CNRS (Research in general), INRA (Agronomics) and INSERM (biology).
- Public institutions of an industrial and commercial nature (EPIC) such as ANVAR, CNES (Space), CEA (Atomic energy) and IFREMER (Marine sciences).
- Universities (which number 85 and fall under the Ministry for National Education).
- The prestigious *grandes écoles*: in the field of science and engineering such as ENS and the *École Polytechnique*, government , such as the *École Nationale d'Administration*, and business such as HEC or ESSEC.
- Non profit-making research institutions such as the *Institut Pasteur*.

This system draws a distinction, first, between teaching (universities) and research (public research establishments). This explains why academic research is often the poor relation where public R&D is concerned. This is confirmed by the existence of a second distinction between universities and the *grandes écoles*, with the latter creaming off the elite through a rigorous selection process. The third distinction is a reflection of more traditional divergences between the short or mid-term imperatives of industrial research and the longer-term ones of the public sector. Co-operation between academic research and businesses is especially underdeveloped (research under contract with enterprises in 2002 amounted to only 3.5% of R&D carried on by higher education institutions, this figure being a good deal lower than the corresponding one for the United Kingdom (10%) and the other main European countries).

In addition, the divide between *grandes écoles* and universities does not make it any easier for researchers to enter the private sector. The *grandes écoles* have a tradition of close relations with enterprise and the private sector and it is easy for their students to move into high-level posts there. Given their size, the volume of research is limited, but it is highly geared to the needs of industry. The reverse is true in the universities where PHDs have more difficulty finding openings in business, and the best of them often turn to the public sector.

Box 2.4. **Special features and performance of the French research system (SFR)** *(cont.)*

The SFR for most research structures dates back to the post-War years. (Some of the universities and *écoles* are much older still, however). It has seen a number of changes (especially that of the status of the researcher, with the 1982 Law) which have increased its existing rigidity and meant that the research community is ageing. In spite of these imbalances, France achieved an average performance within Europe (4th place) for DIRD: 2.23% of GDP in 2002, an increase over the previous year. Admittedly it is still a long way behind the Lisbon objectives and the performance of the United States, Korea or Japan. But its rankings are still broadly speaking above the European average, especially when it comes to employment in high-tech services, public spending on R&D (20% of which relates to defence), spending on information technology or the numbers of scientists and engineers (though the numbers of researchers is now increasing only very slowly). Even though its performance where patents are concerned is lower than the European average, it is worth pointing out that good results have been obtained in the biotechnology sector as well as in the information technology sector. Statistics in this area are, however, difficult to interpret.

limited by the fact that researchers have the status of civil servants, and also by the fact that, to a large extent, they control the committees responsible for drawing up research projects. Furthermore, many research teams are mixed (Universities/CNRS), which makes it more complicated to manage laboratories and relations with industry. University heads have very little autonomy, which also limits their ability to put strategies in place and commit to cooperative R&D projects with industry. Lastly, the rigidity of employment regulations is becoming more and more of an inhibition to contractual arrangements between partners in the public and private sectors. However, there are many institutions that work with non profit-making associations that can hire staff on standard private-sector contracts.

In this context, the poles of competitiveness open up new perspectives and contrast with the "vertical" and sector-based approaches used in the past. First and foremost, their approach is territorial and interministerial. It is also a bottom-up approach. The targets are projects defined by the players themselves. No single model is imposed *a priori* as to the form these projects should take. Some poles are focused on technological development (R&D), others have a more industrial dimension and put the accent on productivity and bringing to market, but all of them are partnerships acting in the interests of innovation. In this sense, they are different from science parks or technopoles. That being so, it might be hoped that cross-fertilisation would result from the mere juxtaposition of innovating firms, research centres and higher education institutions. This has in fact happened in a good many cases, but relatively slowly.[14] It took almost two decades and heavy public investment before the best-known technolopole, Sophia Antipolis, became really successful. On the other hand, designated poles are for the most part operational, especially those that are worldwide poles or those with international visibility.[15] It is interesting to note, furthermore, that the chosen poles have maintained a strong regional dimension (see Map 2.1). Lastly, the funds deployed by the government are substantial: approximately € 400 million over three years, coming out of the general budget, with 800 million provided by agencies and 300 million representing exemption from social contributions and taxes. These funds can be supplemented, furthermore, by funding from local authorities and the European Union.

In the field of cluster policy, many member countries have built up a wealth of experience and perfected interesting *modus operandi* (see Box 2.5 for examples) (*Specialisation)*. Even if the programmes share similar overall objectives to those of the poles of competitiveness and are based on the triple helix model: interaction between the firms, research and the different levels of government, they are often specialised (in SMEs in the case of the centres of expertise in Finland, academic R&D in Japan, science parks in the United Kingdom). The target number of clusters is in general more limited, even taking account of the effects of the size of the different countries. As an example, the Council of Competitiveness in the United States recommended that the federal government creates "innovation hot spots" in the next five years but suggested a rather low number (10), even though this was regarded as a minimum. (C*oordination*) Furthermore, the programmes place great emphasis not only on the way the clusters are controlled and guided, but also on cooperation between ministries where a number of them are involved. In the case of Japan, coordination between the two programmes is handled by national forums and by setting up councils for the promotion of regional clusters. 12 of these have been set up. (C*omplementary reform*) – It is also interesting to note that in Japan in 2004 there was a reform of the national public universities which resulted in their being separated from central government (their staff no longer having the status of civil servants) and that a number of measures were taken at the same time to promote their role in collaborative regional research and development. (*Selection*) – In Sweden and Finland efforts are being made to prepare the ground and to steer academic research towards the needs of industry and the clusters by imposing conditions for financing or for designation as centres of excellence. The potential centres are in competition and not all of them are selected. (*Continuity of initiatives*) – In a general sense, it is acknowledged in most

Box 2.5. **Examples of initiatives to promote clusters and co-operation between players**

National programmes

Japan has launched two major programmes. The first programme, managed by MEXT (Ministry of Education) targets the universities which are encouraged to work with local industries and financing bodies to bring new technologies to the market. The programme is aimed at reforming the R&D centres and improving the flow of knowledge by setting up networks and granting start-up subsidies for joint activities. For each knowledge cluster, activities are managed by a lead organisation (usually an R&D centre). A team of science and technology coordinators and experts runs the cluster, mainly by organising forums and seminars. They advise participants as to priorities, obtaining patents and marketing. MEXT will be investing 410 million dollars over 5 years spread over 18 designated clusters and 5 exploratory clusters.

The second, run by METI, is designed to capitalise on the existing endogenous capabilities of 19 major regions and in particular their R&D structures and their characteristic industrial features. Its object is to provide support: *a)* for exchanges and cooperation between the university, industry and the government; *b)* for the development of technologies for local application; c) for the setting up of structures to provide training to entrepreneurs. Civil servants from the regional offices of METI (about 500 people) cooperate with 5 800 SMEs and researchers from more than 220 universities under this programme. Local authorities and their staff are also involved, as well as local incubators. METI is devoting US$350 million to this over a period of 4 years.

In *Sweden,* the Centres of Competence programme is aimed at reinforcing interactions between universities and industry and structuring them around poles of excellence with a critical mass of resources enabling a better fit between the science technology infrastructures and the needs of industry. In order to ensure that the Centres of Competence provide an adequate response to industry needs, part of their financing must come out of the universities' own coffers, and the industries taking part in the programme must second members of their staff to the centres. One particular aspect of this programme is that firms receiving aid from the centres must collaborate with other firms operating in the same technology categories. VINNOVA has set up 28 Centres of Competence with approximately 160 firms participating.

In Germany, regional policy falls within the framework of an agreement between the Federal Government and the Länder known as the GA (*Gemeinschaftausgabe*) or joint programme for the improvement of regional economic structures. The object of this programme is to help with the financing of commercial and public investments intended for the municipalities. Since January 2005, the GA has also offered aid to cooperation networks and for the management of clusters. Support can be made available at regional and supra regional level for collaboration between businesses and associated institutions to promote their cooperation, develop information

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Box 2.5. **Examples of initiatives to promote clusters and co-operation between players** *(cont.)*

networks, increase the transfer of technology, incorporate outside knowledge into their innovation processes, facilitate access to the know-how of other enterprises, and develop the competitiveness of SMEs. The Länder can cover part of the costs up to € 300 000 per project (up to 500 000 if there are more than 5 partners). Staff costs and the cost of fitting out the superstructure of the cluster are eligible, but running costs are not. Public financing may not exceed 70% of the eligible costs.

In *Korea,* a network of 37 regional university research centres has been set up to improve cooperation between universities and SMEs in the regions. They aim to improve the quality of research in the higher education sector and to make this research more accessible to SMEs. They also aim to offer services to SMEs in the form of technical advice, joint R&D projects and training seminars and give them access to scientific amenities.

Regional programmes

The Scottish Enterprise Agency (SE) was one of the very first to study the potential of clusters and to start up a support policy in the early 1990s. The Agency has worked with clusters that are often quite mature and determined to develop their internal links and cooperation with the public sector. SE has developed a range of initiatives with 15 clusters chosen for their significant impact on Scotland's competitiveness and their sensitivity, and because of the capacity of Scottish Enterprise to add value in that field. The sectors covered are not only those of high-tech and urban clusters but also include traditional activities with a strong rural dimension such as agribusiness, forestry or tourism. Through the Cluster Action Plan the agency has spent € 360 million under this programme in 6 years. The measures implemented are very varied, and include the setting up of forums, advice and innovation methods, and support for incubators, or aid to infrastructures essential for the cluster. This aid is provided via the 12 local offices of the SE.

In Catalonia, the regional government has the necessary competence to implement R&D policies. It acts through the regional Ministry for Education (DURSI), the Management Agency for Universities and Research, AGAUR, and via the Centre for Innovation and Development of Businesses (CIDEM). A number of initiatives have been taken with regard to clusters to facilitate market access, draw up approved designations and enhance the quality of products. In fields of production suffering severe competition from countries with low labour costs, niche research has been given priority. Under the innovation plan, a network of 70 centres supporting technological innovation (Xarxa IT network) has been set up in the different universities. For designated centres, the regional government finances the provision of lawyers for three years, and also gives support for research contracts entered into with businesses.*

* To obtain this approval, the centres have to be managed by a professor with an enterprise mentality. They must draw up and implement a commercial strategy based on professionalism and they must not be in competition with private enterprises.

countries that aid programmes for the clusters will need time before they have any effect. They extend over periods very often longer than 5 years in order to be effective. In the case of cooperation between firms and universities, the establishment of new, specialised centres makes it easier for firms to find their way to the right interlocutor. We should note that, according to some studies, the presence of at least one large firm in the cluster often enables relations with the universities to be placed on a more consistent footing.[16] (*Budget*) – Lastly, giving support to clusters requires staff (intermediaries, facilitators) and thus often substantial budgets. Cost-benefit analyses and market-based performance assessment are common practice, and necessary if these operations are to be properly conducted.

Articulating poles of competitiveness with research and innovation policies: an ongoing process

As the government has announced, it will be using the budgets of the Ministries (Industry, Research, Agriculture and Defence)[17] in order to finance the poles (to the tune of 400 million). These ministries will be allowed to redirect up to 30% of their budgets to fund the poles. A number of agencies will also be required to contribute in order to provide more than half of the support envisaged. In addition to the *Caisse des dépôts et consignations* (CDC) and Oseo (formed by the merger of ANVAR and the BDPME), there is the newly-established Industrial Innovation Agency (AII) and the National Research Agency (ANR) (see Box 2.6) that came into existence in February 2005. These agencies will provide funds in the form of subsidies that could be supplemented by private financing and repayable advances (as well as from their own funds and aid for amenities for the CDC).

New measures and institutional changes

The ongoing reform of public research, its orientation towards strategic sectors for the national economy and the correction of certain dysfunctions in the financing system should improve the environment of the poles of competitiveness and have a beneficial impact on their working. In this area, the Audit Office in its 2003 report noted the instability of subsidies for public R&D.[18] It also expressed concern about the growth in incentive financing, aimed specifically at directing laboratories towards the priority subjects defined by the Ministry, and thus tending to make these institutions reactive.[19] These criticisms, sustained by heated debate throughout 2004 with the research community about the research budget, the creation of posts and the role of basic research opened the way for a new law on the programming of research (LOPR). This legislation, currently still at the drafting stage, could result in support for the creation of poles of research and higher education (PRES) as well as tax exemptions, and make it easier for local authorities to

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Box 2.6. **The creation of the National Research Agency (ANR) and of the Industrial Innovation Agency (AII)**

1. The ANR, a funded agency, became operational in February 2005 and is intended to rationalise the financing of R&D programmes (for example RRITs), allow more focus on national priorities and ensure support for the most creative research teams. Scientific committees made up of at least ⅓ of foreign researchers will be set up to select projects. The Agency will not finance institutions but projects using funds allocated in the form of a package (for operating, staff or investment costs). The Agency wants a lightweight structure without a laboratory, but one that is ready to innovate. An envelope of € 200 million will be available in order to stimulate the creativity of researchers and finance the most promising projects outside the traditional areas. It is envisaged that ANR might finance projects coming from the poles of competitiveness, as long as these fall within its usual procedures.
2. The AII. Set up in August 2005, the mission of the Industrial Innovation Agency (AII) is to foster and support programmes which will drive industrial innovation (PMIIs). This covers research and development projects of from 3 to 5 years, worth upwards of € 50 million, the purpose of which is to bring new products to the worldwide market within a 5 to 15 year timeframe. These major programmes are piloted by an industry leader or a consortium, and bring together businesses, major groups and SMEs, as well as public research bodies. The AII has been given € 2 billion for its first two years. It will be looking as a matter of course for partnerships with other European countries, in order to achieve critical mass at the global level.

become involved in the field of research. According to indications emerging from the ongoing debate, local authorities could be given scope to sign agreements with the PRES especially to fund facilities, endow the pole with regional research chairs and offer regional contracts to doctoral students writing their theses. A pole agreement signed with the authorities will set forth the objectives of this new structure, what resources it has at its disposal and how its performance will be assessed. An approved standard for research parks could eventually be put in place, and these would include incubators, business nurseries and private R&D laboratories. Preferably situated in the vicinity of the PRES, they could strengthen certain poles of competitiveness which are predominantly technological.

To date, the lack of any university reform and the financing difficulties encountered by higher education institutions, together with the brain drain, have weakened the contribution made to co-operative research by centres of higher education and meant they have had a limited presence in the poles. There are some who advocate changes in the workings and supervision of the universities (*cf.* the Blanc report). For the moment, the universities have neither the size nor the visibility of the high-calibre foreign universities and they are not sufficiently tied in to the local institutional and industrial systems. Only the best among them (for example the 8 to 15 premier establishments in the mainly scientific or medical field) are beginning to introduce strategic management, notably under their four-year contracts with the State. The present degree of latitude for experimentation might, however, generate new opportunities (cooperation between universities, territorial or subject-based groupings, raising awareness among academics of the world of business). Certain technology universities are members of European consortia (for example the University of Compiègne) and have become specialised in spin-offs and the innovation culture, but they are very few in number. Following a call for projects organised by the Minister for Research, entrepreneurship centres (*maisons de l'entrepreneuriat*) have been set up, shared by several higher education facilities and providing information on businesses and support for enterprise creation. The successful projects have been initiated in the following regions: Auvergne, Limousin, Nord-Pas-de-Calais, Pays-de-la-Loire, Poitou-Charente and Provence-Alpes-Côte d'Azur. The 1999 law (Loi Allègre) further strengthened this machinery by encouraging the setting up of Industrial and Commercial Departments (SAIC) in public research centres and universities. The introduction of intermediation structures could certainly facilitate access to the research departments of the higher education institutions or public R&D bodies. As experience abroad has shown, these structures are capable of overcoming the reservations of the world of industry, often ill-informed about academic research, and help it to define its own requirements as to R&D services. In order to move forward in this area, however, far-reaching policies are required that can provide both incentives and the appropriate framework.

The enterprise low level of demand for research also betrays an insufficient level of commitment on the part of the private sector to spending on R&D. According to the Beffa Report, French industry is too specialised in the low-tech sectors, which are themselves facing stiff competition on the international market. The report considers that tax credits are no longer sufficient and may be too thinly spread, and suggests that a number of major programmes should be launched, managed by a new industrial innovation agency taking a top-down approach. The conclusions of the report have been endorsed by the government and the agency has been set up (see Box 2.6), but its organisation has not yet been completely finalised. This demand-led approach would give a major role to large enterprises. Many of the subjects to be addressed by the agency coincide with those of the poles (biotechnology, nanotechnology, energy). The extent to which it will allocate funds to some of the poles and how its programme will complement those of the poles, has not yet been defined.

Poles of competitiveness: the regional dimension

Although the aim of the government is to encourage the dynamics that can be generated around the regional poles, at the same time it sees the need to concentrate sufficient funds on a few major regional innovation systems that appear to be engines of competitiveness.[20] In France there are only a small number of regions with an economic base and a specialisation based on the knowledge sectors sufficient to allow them to develop efficient and diversified regional innovation systems: Ile-de-France, Midi-Pyrénées, Aquitaine, Rhône-Alpes and Provence-Alpes-Côte d'Azur (see Box 2.7). The six French worldwide poles are also to be found in these regions, which account for almost 54% of French GDP.

In the framework of these regional innovation systems, local authorities have a useful role to play in coordinating and supporting the poles in particular to favour the merging of technologies. The involvement of local and regional authorities is greater in the leading regional systems (where the research section in the planning contracts exceeds 15%), and innovation agencies are beginning to appear (*e.g.* in Aquitaine and Midi-Pyrénées). The role of the local authorities could be equally important for the national and regional poles, because the ability of the regions to match funding will be decisive, given the number of poles and the priorities granted to the 15 poles with international visibility. Up to the present time, the regions have performed unevenly in terms of fostering and promoting innovation and they have not invested much in R&D (only 1.4% of public research and development investment). In some of them, the development agencies have handled particularly complex applications for the status of pole. In others, some local authorities have shown particular commitment, especially the *départements*. Some of these regions intend to put innovation schemes in place (*e.g.* Rhône-Alpes). Decentralised services have also devised strategies for research and education under the PASER programme.

Now that the poles have been selected, the local authorities can become involved in their management and provide services for the enterprises located there. Given the mobility of these enterprises, closer ties within the pole will depend partly on the capacity of the urban areas and regions to provide or maintain the facilities and amenities that may be useful to firms, including training centres and services geared to their needs, business parks, enterprise zones, and forums for dialogue between the members of the pole. Good local policy will be a competitive asset for the pole, as will the agreement between central government and the various local authorities as to how to proceed.

Box 2.7. **Three examples of major regional innovation systems in France**

The *Ile-de-France system* based on multi- specialisation is practically dominant across all sectors but sometimes in decline, especially with regard to patents. Almost 62 000 researchers are working in the Ile-de-France, accounting among other things for 42.5% of those employed in private research. Even if public sector staffing levels have reduced in relative terms, the higher education and research section in the planning contracts represents nearly 25% of general work done in this field and is one of the largest items in the CPER (20.3% of all contract-based funding awarded by central government to this region). This marked specialisation in R&D goes hand in hand with a heavy concentration of industrial SMEs, especially in the high-tech sector. These businesses wish to take advantage of the proximity of public research centres and major enterprises especially in electronics, telecommunications and computers. These sectors have greatly benefited from the central government policy of major high-tech programmes. The region is often considered as France's innovation centre.

The lead activities in the capital region include the car manufacturing sector, communications equipment, pharmacy, precision instruments and computer services. While many of these innovative sectors are dominated by big business, there are a number of clusters of small or very small enterprises that are especially competitive, in particular the clothing industry district (Le Sentier) which combines *haute couture* and ready-to-wear, and the video games sector which has furthermore been designated as a pole of competitiveness in the region.

The region is undergoing some particularly interesting developments. A huge restructuring process is going on, and as recent works have shown,* productivity is increasing strongly and the Ile-de-France share of French GDP is stable. Industrial production is flowing back into the region especially in the traditional sectors. At the same time, policies for relocating researchers and research centres have favoured the emergence of competing poles. But they have also weakened the region, especially considering that it is for the most part the younger teams who have left for the provinces. The Regional Council has greatly increased its spending on research, concentrating on amenities and structuring projects. While the restructuring of the military-industrial complex, which is extensive in the the Île-de-France region, has led to reorganisation, there is an impressive concentration of SMEs, large firms and research centres , notably in the "Science City" of Ile-de-France Sud. To date, this has not translated into better performance in the field of patents and scientific production (*cf.* Chapter 1).

* Davezies, 1998; Beckouche, 1999.

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Box 2.7. **Three examples of major regional innovation systems in France** *(cont.)*

The *Grenoble system* is more concentrated and maybe more efficient, based as it is on good relations between major bodies and industry and also universities and industry, supported by regional aid. This system had its origins in the presence not only of national research centres (CNRS, CEA/LETI) but also of private R&D laboratories such as those of Pechiney, France Telecom, Bull and Air Liquide. Grenoble has also attracted a large number of foreign companies which have installed research capabilities there, like ST Microelectronics (now allied with Philips and Motorola), Sun Microsystems, Arjo Wiggins and Xerox. This situation, combined with the large number of foreign students working in the universities and schools of Grenoble, has given the regional innovation system a strong international dimension. This is further reinforced by the presence of a number of international research organisations which have large facilities there (one example is the Institut Laue/Langevin). More than any other region in France, Grenoble is characterised by an excellent research environment, an economic and technical vision shared by the various partners and a high level of social capital very favourable to cooperation between individuals. Systemic coordination is strong, made easier by the presence of numerous business associations, forums and industry clubs. This model has all the characteristics of a number of innovative European regions like Stuttgart, Cambridge or Eindhoven/Leuwen.

The *Toulouse system* is more narrowly based, carried mainly by the aerospace industry and the ICTs. One could include in this category Marseille and Nice Sophia-Antipolis in the field of microelectronics and software. These are regions where the scientific potential has, in a way, developed faster than the industrial activity. Decentralised as a result of a relocation policy dating back to the 1960s, the Toulouse aerospace pole developed over a period of 20 years. The arrival of two major aeronautical firms helped to concentrate a number of subcontractors in the region. The CNES and Aérospatial organised their relations with their subcontractors and encouraged local engineers to create firms and finance research at the University. The development of a local cluster in Toulouse coincided with the growth of the city, which gained 120 000 inhabitants between 1990 and 1999. A series of local and regional collaborative organisations were set up specifically in order to put together new projects and bolster ties with those involved, particularly between the university, the engineering schools, and industry. The Midi-Pyrénées region, thanks to the Toulouse pole, invests heavily in R&D, in a proportion similar to that of the Ile-de-France (3.7%). The region is the second French region for aeronautics. The innovation capability is highly concentrated in the urban area which accounts for almost half of the region's GDP. The regional authorities promote enterprise creation, particularly as a means of closing the territorial gap between the urban area and the rest of the region, which has been affected by restructuring in the traditional industries and by demographic stagnation.

In summary

Poles of competitiveness offer numerous advantages: regional initiatives, industrial "piggy-backing", interaction with research and education, significant size. By their very nature they can set favourable dynamics in motion. They also constitute a real-life market study, which can provide firms with extremely useful information as to the capacity available in terms of research, networks and the potential for innovation. Over time, new participants might join the ranks of the "founders" and maintain the virtuous circle of growth in place.

Poles seem to be able to bring down certain barriers and spread a new spirit of cooperation. The inclusion of SMEs, and in particular innovative SMEs, in a designated pole can facilitate their access to risk-capital markets. What is more, in many poles the major enterprises are often positioned as integrators at the end of the chain, and thus as consumers of the intermediary goods produced by the start-ups; this can have a stabilising effect on the very innovative SMEs and reinforce the impact of government incentives.

Collaboration with the higher education institutions seems more difficult as long as there is no real innovation culture within these institutions and changes have not been made to grant them more autonomy. The poles of competitiveness are experimental. It is to be hoped that the success of the regions with substantial social capital will operate as a factor for change in the others.

The role of catalyst played by State agencies such as OSEO/ANVAR and the local authorities remains crucial, even if it is industry that constitutes the driving force for the poles, particularly in terms of supporting start-ups and SMEs. As the experience of the cluster management boards has shown, small firms often have difficulty in making their voice heard at cluster management level.

The external relations of the pole could be every bit as important as the internal ties. Firms and groups in particular often maintain R&D partnerships with enterprises outside the region or even the country, as was shown in a recent study of 1 600 companies (Ministry for National Education). In order to optimise innovations, accelerate their introduction to the market and the frequency with which they occur, poles will be all the more effective if they can also capitalise on their external ties.

2.3. Policies for urban and rural areas and for regions undergoing restructuring

Urban competitiveness policies

Changes in France's policy on towns and cities can be viewed as the urban version of the regional policy shift described above. Until the 1970s, France's urban policy goals were essentially quantitative. They sought to promote the construction of as much housing as possible. This approach led, to some extent, to problems of spatial segregation which had to be addressed in

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the 1980s with targeted initiatives. In some areas these took the form of new infrastructure and social and environmental measures (rehabilitation of large estates, neighbourhood social development).[21]

The rationale behind urban policy today is to progress beyond merely renovating problem neighbourhoods and, using comprehensive development plans, foster genuine social and urban development in these "disadvantaged" areas that are home to 5 million people.[22] This policy led to the creation of urban "free zones" in 1996, as well as the recent emphasis on economic development. At a broader level, it is French urban policy as a whole that has been shifting, since the end of the 1990s, towards an approach based more on the competitiveness of urban areas, partly due to their increasing economic weight.

Increasing use is also being made of spatial planning tools to improve competitiveness. For the past 2-3 years, France has seen an unprecedented revival in planning. The SRU law of 13 December 2000 provided newer planning tools for use in urban and rural development projects. Examples include territorial coherence scheme (*Schéma de cohérence territoriale*, or SCOT), which replace the former *Schémas directeurs* and cover entire catchment areas (see Annex 2.A1 to this chapter).

Central government also sets out its priorities in its Territorial Planning Directives (DTA). Five of these concern metropolitan areas, and seek to provide better support for urban and economic development (northern Alps, the Lyon conurbation, the Marseille conurbation, Alpes-Maritimes, and the mining area in Lorraine). Planning policy is another policy tool. Central government supports, in partnership with the local authorities, a whole series of instruments (in particular the *établissements publics fonciers*, or land corporations, and the *établissements publics d'aménagement*, or public planning entities, which have a mandate to strengthen specific areas of European importance or allow the redevelopment of regions that have undergone rapid economic change (Lorraine, Nord-Pas-de-Calais).

This new emphasis on competitive urban areas is even clearer in the new procedures such as agglomeration contracts and metropolitan projects. Contracts between central government and cities, urban areas and agglomerations provide more scope for multi-annual agreements, and goals can be more clearly defined. They are the very foundation of urban policy governance in France. However, their interaction and the regular addition of new strata go to make this policy difficult to grasp, as well as diluting responsibility. The approach based on support for economic competitiveness is still too compartmentalised and piecemeal, especially because the contracts do not yet really cover the functional economic area as a whole and this limits their impact. The forthcoming introduction of metropolitan contracts (as from 2007) will, however, be a major step towards recognising functional economic areas.

City contracts

City contracts (which reflect a commitment on the part of one or more local and central authorities to jointly implement a multi-annual programme, designed to deal with the most disadvantaged neighbourhoods areas at urban area or municipal level) were introduced under the 1993 Urban Revival Plan. They aim at promoting a comprehensive strategy rather than the previous sector-specific policy. City contracts are first and foremost viewed as contributing to urban social development. More than 1 300 neighbourhoods and six million inhabitants are now benefiting from the initiatives introduced under the 247 city contracts.

Their economic dimension is relatively insignificant, but it has grown as encouragement has been given for city contracts to extend to inter-communal areas. It was with these city contracts that the need gradually came to be acknowledged for special efforts to be concentrated on urban living, and for far-reaching and sustainable change in the living conditions of city-dwellers. Hence the first of the great urban projects (GPUs) in 1990 followed by others, 14 in all by the end of 1999. Faced with the limits of the GPUs – too often implemented, according to the Interministerial Delegation on Cities (DIV), as major urban-planning exercises, masking the social and economic issues involved – the decision was taken to replace them, starting in 2000, with 110 major city projects and urban renewal schemes, more numerous, more ambitious and an integral part of the city contracts. These seek, among other things, to promote social revitalisation and upgrading, in order to restore the economic value of such areas. They include schemes to introduce public and community services, make certain districts less isolated and incorporate them into the urban area (improving transport, improving the distribution of urban functions across the area) and breathing new life into the economy (reinforcing the existing fabric, assisting local people creating business).

The urban "free zones" (ZFUs)

The 1996 Urban Revival Pact (1996-1998), introduced as part of a programme of affirmative action on behalf of specific urban areas in difficulty, was a more significant effort to tackle their disadvantages from an economic perspective. In particular, it set up the mechanism of the urban "free zones" (ZFUs). The 44 ZFUs (0.8 million inhabitants in 1999) were designated by decree by the *Conseil d'État*, "taking account of the factors that will attract enterprises or foster the development of economic activity". The principle of the ZFUs is to offer reductions in taxes and social contributions to businesses that set up in these zones and recruit at least 20% of their personnel from those living in the ZFU (or in other sensitive urban zones (ZUS)[23] in the same urban area).

Several reports, including the report to Parliament by the Minister for Cities in July 2001, the urban policy report by the Audit Office in 2002 and the information report by the Senate Commission for Economic Affairs and Planning in July 2002, give a favourable assessment of this policy, in terms of enterprise and job creation and of investment achievement. They also emphasise the technical problems involved in precisely gauging the specific impact or cost-effectiveness of the attendant tax and social exemption measures.

In its report the Senate noted the following results:

- In 2002, the number of enterprises set up or relocated exceeded 12 000 in the ZFUs (against 2000 in 1996). The number of new jobs compared with 1996 exceeded 46 000, two-thirds of which were newly created, whereas the goal had been to create 10 000. The number of assisted jobs in the ZFUs for enterprises with fewer than 50 salaried employees ranged from 60 000 to 65 000. And nine- tenths of all such jobs were based on open-ended contracts.
- The clause on recruitment from the ZFUs (set at a minimum of 20% of jobs from the recruitment of the third assisted employee) was being complied with, because the employment rate for locals ranged from 25 to 30%.
- The estimated total amount of public and private investment in the ZFUs, which had a multiplier effect on local economic activity, exceeded FF 22 billion in five years.

According to experts from the DIV, the ZFU effect is very clear in that the number of businesses in the ZFUs grew by almost 40% from 1999 to 2002, *i.e.* six times the figure for urban areas with a sensitive urban zone. The very strong growth in establishments providing business services (in particular in consulting and assistance, which doubled in number between 1999 and 2002, from 1 800 to over 3 700) is the most striking feature of the ZFUs. Businesses in the field of building, wholesale trade and real estate also rose in number (DIV, 2004 report). The number of salaried staff employed by establishments in ZFUs, according to ACOSS, had reached 81 300 by 31 December 2003, an increase of 4% on the end of 2001.

However, it should be noted that the latest enterprises to set up in the ZFUs are most often concentrated on the edges of the ZFUs, because of the lack of sites available in the more central districts. It is therefore on the periphery of these areas that economic development is the most marked, and the impact of the ZFUs on the more central areas is limited.

The generally favourable assessment of the first generation of ZFUs prompted the government in 2003 to give the current list of 44 free zones a five-year extension and broaden the scheme further. As from 1 January 2004, a regime of tax and social exemptions for the 41 new free zones was created under the framework law of 1 August 2003 on urban renewal. It grants 5-year tax exemptions to small enterprises with fewer than 50 employees that set up business in ZUS districts, provided that one-third of the jobs created go to people living in problem neighbourhoods in the larger urban area.[24]

Given the results obtained, the Senate considers the cost of this policy to be reasonable, when the amount of exemptions is compared with the transformation they have achieved in these areas.[25] However, this view is not unanimously shared, and the cost of ZFU-related measures is regularly criticised. According to one study by Ernst and Young, carried out in June 2000 on the basis of information supplied by the steering and monitoring committees for the Association of urban "free zones", the average cost of tax and social exemptions for one job in a ZFU (whether created, transferred or already existing) ranges from FF 33 753 (€ 5 158) to FF 44 832 (€ 6 838). However, the ability of ZFUs to create jobs in the long term is often questioned.

To date, urban policy has not markedly closed gap in development and inequality between the ZUS areas and the rest of the country. Between the two national population censuses (1994 and 1999), the rate of unemployment in the ZUS rose from 18.9% to 25.4% (as against the national averages of 12.8% and 10.8%). 43.6% of job-seekers from these areas were unskilled.

Experts from the *Délégation* (DIV) recommend that the focus should now be on the image of problem neighbourhoods and their relationship with the rest of the city. They advocate collaboration with the private sector in this field. They also take the view that maintaining local public services is crucial to life in these neighbourhoods and to making them attractive. There is evidence, however, that semi-urban zones in the Ile-de-France and more generally on the edges of other major urban "agglomeration" are relatively deprived compared with the rest of France. They have fewer than half the number of public services centres (*maisons de services publics*).

Urban policy, economic development and "agglomeration" contracts

With the "agglomeration" communities, a more integrated and all-inclusive vision of the cities now prevails.[26] These communities were created to ensure a better match between urban economic development areas and France's administrative boundaries. Set up in the wake of the 1999 Law on inter-municipal cooperation and the LOADDT, they can be the subject of "agglomeration" agreements between central government and the local authorities, thereby coming under the "territorial component" of the State-region planning contracts, the sub-regional component of CPERs in the project areas. Out of 169 urban "agglomerations" ("agglomerations" and urban communities) eligible for these contracts, 94 had signed such contracts by 1 January 2005.

The *projet d'agglomération*, a project drawn up for the area by the local authorities, is the foundation for such contracts. It provides not only for closer ties of interdependence between the various parts of the city, tighter control

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over urban sprawl and improvements to quality of life in the city, but also for the implementation of a strategy based on development priorities.

In this field, the larger urban areas have a more generalist approach: while they offer numerous skilled jobs, they are also characterised by a variety of economic sectors. Diversifying the economic base of towns and cities is the best insurance against the kind of sudden restructuring that hits some sectors of the economy from time to time (Jacquier, 2001). Specialisation is largely found in the smaller urban areas. Most urban "agglomerations" seek to position themselves in the forefront of one or more sectors of activity by setting up or developing poles of excellence, in other words a concentration of businesses in one area that work in the same industry, offer the same skills or make the same product, and have links with higher institutions in the field of education, research and innovation. One form of specialisation is reflected in the profiles of the technopoles in Montpellier, Rennes and Grenoble where some of the higher-skilled urban employment is provided by public/private research partnerships within the information technology and telecoms industries. The predominance of heavy industry is to be found in the medium-sized urban areas in the North and the East (DATAR, 2004). Table 2.1 indicates the poles of excellence identified in some French cities.

Table 2.1. **Poles of excellence and industries identified in "agglomeration" projects**

"Agglomeration"	Poles of excellence and industries identified in "agglomeration" projects
Arras	• Transport – logistics and NTIC pole, creation of an agribusiness pole • Tourism, culture and leisure industry
Belfort	• Pole of excellence in transport and energy
Bordeaux	• Electric vehicles pole • Vineyards and wine pole
Brest	• Maritime and oceanography pole • ICT and electronics industry, IAA
Dijon	• Pole for contemporary art • Logistics and tourism industries
Dunkerque	• Industrial environment and energy pole
Le Havre	• Logistics and port facilities pole
Lille	• NICT and digital pole • Textiles, agribusiness, tourism industries
Lyon	• Environment and sustainable development pole • Cancer treatment pole • Fashion and design industry • Video games cluster
Rennes	• Pole of excellence in sport
Nancy	• Information technology and telecommunications, eco-industries, medical instruments and biomaterials
Tarbes	• Electronics and high-powered electronics, aeronautics

Source: ETD, *L'approche économique des projets de territoire*, December 2003.

Questions of employment and integration are dealt with relatively infrequently in "agglomeration" contracts. This no doubt has something to do with the host of players and the boundaries in which they can operate, or the legitimacy of the urban area's role in this field.

Few "agglomeration" contracts include a full and detailed diagnosis of the economic situation. The survey carried out by ETD in 2003 levelled criticism at the poor quality and numbers of indicators used, the use of short-term statistics, the failure to make comparisons, and the limited number of analyses concerning the existing structure of the local economy (industries, savoir-faire and potential for development). These aspects are often obscured by a focus on hastily-compiled lists of benefits conducive to exogenous development (*a priori* appeal, infrastructure, business parks, broadband access). Only in a few cases was there a full diagnosis annexed to the plan, or any real summary, including an overview of the main economic factors that would throw light on the strategic options chosen. Too often, then, "agglomeration" contract goals are vague and imprecise, and this could compromise the careful tracking of the funds invested and the *ex post* evaluation of contract performance.

Support for competitive metropolitan areas

The "agglomeration" contracts formula has its limits, to the extent that the municipalities in the functional region are not always all part of the inter-municipal structures of these urban areas. The French government, acting through DIACT, thus decided to undertake as from 2003[27] a policy of active support for the "grandes métropoles" or major urban "agglomerations",[28] which match more closely the boundaries of functional economic areas than the area covered by "agglomeration" contracts. These metropolitan areas are defined by DIACT as areas with a minimum of 500 000 inhabitants, which include at least one urban area with a population greater than around 200 000 and also a number of average sized cities (see Map 2.2 and table). The key idea is to back cooperation between urban areas in a single metropolis in order to support the more dynamic parts of the area, strengthen their "leadership role in the regional economies" and help to raise them to a level at which they can compete with other world cities.

In 1999, the fifteen major urban areas with the highest levels of skilled metropolitan employment were the same as in 1990 and the first six were in the same order: Paris, Grenoble, Toulouse, Montpellier, Lyon, Strasbourg, Rennes, Nantes, Bordeaux, Marseille, Aix-en-Provence, Nice, Annecy, Lille, Orleans and Nancy. Today they account for 38% of the population, 42% of jobs and, above all, as in 1990, 68% of skilled metropolitan employment in mainland France. Leaving aside the very special case of Paris, their growth in demographic and employment terms, averaged over nine years, is stronger than that of the other urban areas in absolute as well as relative terms.

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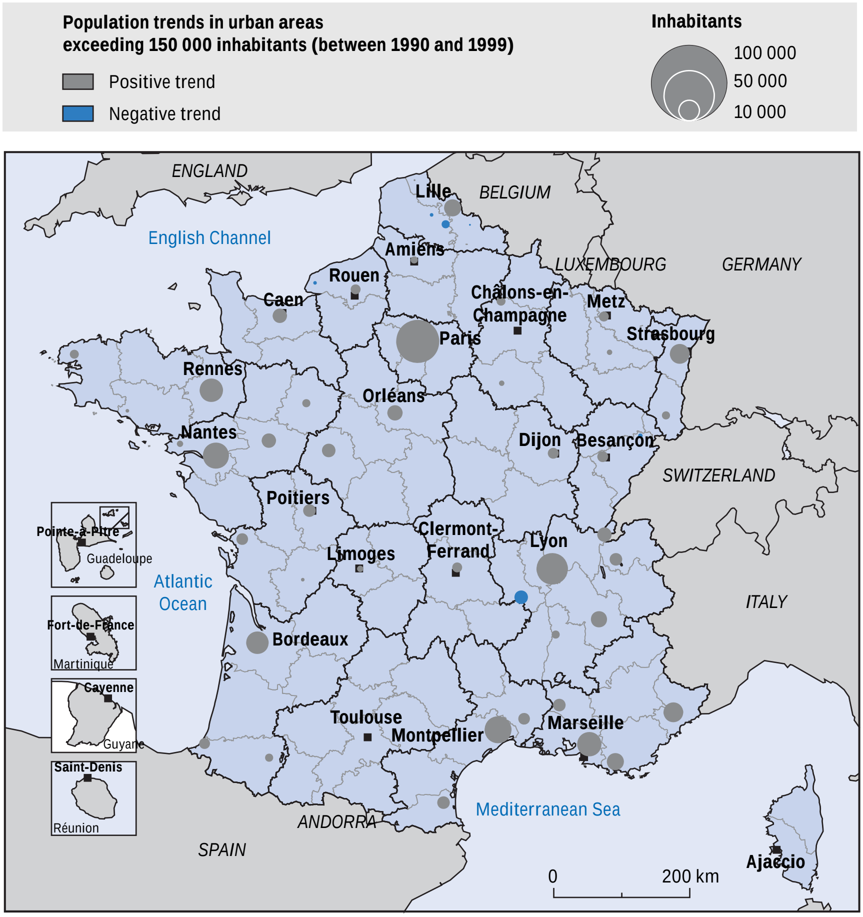
Map 2.2. **Trends in the numbers of inhabitants in urban areas**



Number of inhabitants in the 20 most populated urban areas in 1999

Paris	11 174 743	Douai-Lens	552 682
Lyon	1 648 216	Rennes	521 188
Marseille-Aix-en-Provence	1 516 340	Rouen	518 316
Lille	1 143 125	Grenoble	514 559
Toulouse	964 797	Montpellier	459 916
Nice	933 080	Metz	429 588
Bordeaux	925 253	Nancy	410 508
Nantes	711 120	Clermont-Ferrand	409 558
Strasbourg	612 104	Valenciennes	399 677
Toulon	564 823		

Source: INSEE-RGP.

The policy adopted in December 2003 targets the factors that accelerate the outreach of metropolitan areas, in particular:

- Economic outreach: new business districts, freeing up State-owned land, business development abroad, logistic platforms of European interest;
- Location of public service employment: provisional multi-year programmes for the location of each Ministry, relocation announcements;
- Accessibility: better overland accessibility to airports, support for air links within and beyond Europe.

The size of the budgets to be assigned to these "metropolitan contracts" expected in 2006 have not been disclosed. These contracts appear to be wide-ranging: appeal, public employment, accessibility, urban engineering, education, research and culture, and there is a risk that funds will be diluted. Since metropolitan areas do not usually reach the required size (apart from Paris), one first step is to encourage them to group together. Two tenders put out for metropolitan co-operation have already selected fifteen groups of cities, but the funds available are modest. The poles of competitiveness located for the most part in metropolitan areas will probably give some impetus, but the success of this policy could depend above all on local leaders and the funds they are able to invest in the contracts.

Yet the principle of supporting the leading urban areas is widely accepted, for they are considered to be real "dynamos" at the heart of the national economic system, as the British government has also recently noted with regard to its own country (DATAR, 2005). As well as the United Kingdom, a number of OECD countries such as Finland, the Netherlands and Switzerland share this viewpoint (see Box 2.8) and are trying to change their angle of approach by thinking in terms of functional economic areas. Initiatives include assistance for business parks, public investment in transport and incentives for metropolitan co-operation. The latter can take many different forms, depending on how ambitious the goals are and whether the desire for integration is weak or strong. Flexible and progressive approaches are often favoured, so as not to upset current practice or the political balance.

By contrast, some countries focus their urban policy around balanced regional development and practise policies of redistribution starting from the metropolitan areas. In Sweden, the central government is reluctant to create around Stockholm a metropolitan region which would account for one third of the Swedish population and 40% of GDP. Sweden's urban policy (entitled "Metropolitan initiative") in fact deals only with areas of social deprivation and covers 24 such areas in the framework of "contracts" (local development agreements). The focus is on action at neighbourhood level and on social issues. It is thus very different from a metropolitan policy, which would seek to

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Box 2.8. **Two examples of urban competitiveness policy**

***a)* the *Northern Way Strategy* in the United Kingdom**

The United Kingdom wants to reduce the competitiveness gap between the South of England and the regions in the North by leveraging the strategic role of the cities (Manchester, Leeds, Merseyside, Central Lancashire, Sheffield, Hull, the Humber, Tyne & Wear and the Tees Valley). £100 million have been set aside for the Northern Way Strategy programme in order to give support to the cities' economic competitiveness cooperation. This involves, among other things, strengthening the connections between these cities so as to create an "urban region ", a real engine for the region as a whole.

The Northern Way is a growth strategy to increase the prosperity of the North and reduce the productivity gap of £29 billion with the rest of the country. It acknowledges the key role played by big cities in regional competitiveness especially because of the urban dimension of the knowledge economy and the importance of its contribution to national growth. The report also emphasises the importance of public investments and of effective multi-governance in order to achieve satisfactory levels of interregional development and get good leverage by using private funds.

The report insists on three points. First, a conceptual leap is necessary in order to better understand the links between the growth of cities and that of the surrounding region. Then, it is important to improve the consistency between territorial planning and competitiveness policies in the northern region. Lastly, new steps are necessary to put in place balanced governance of the different parts of the North of England region.

***b)* Finland**

In January 2005 the Finnish government began to draw up a series of policies in favour of the principal urban areas, which relates to nine cities in Finland (Helsinki, Tampere, Turku, Oulu, Jyväskylä, Kuopio, Lahti, Lappeenranta Imatra and Vaasa). The main objectives of this policy are to support the visibility and competitiveness of these cities, by increasing their individual specialisation to bring about a better division of labour in the country. The idea is that development of urban zones can be of benefit to the region as a whole. These policies also aim to ensure better coordination of existing programmes, by integrating all facets of urban development (infrastructure, housing, social policy, innovation, economic policies). These measures are ambitious, but they require proper coordination at the central government level.

Source: ODPM 2004 and *Territorial Review of Finland*, 2005.

promote international appeal and economic vitality, with the aim of a project at the functional level of the metropolitan area. In Korea, as in Sweden, central government favours a policy of balanced regional development. A number of initiatives have been taken to limit the expansion of Seoul. A law passed in 1982 restricts, for example, the construction of new factories and new offices, as well as the establishment of new universities in the capital region (Capital Region Readjustment Planning Act, 1982). The policy aimed at limiting the extension of Seoul is viewed as one component in the policy for regional competitiveness, in that it contributes to long-term improvement in the quality of life, a vital pre-requisite for the region's appeal, and can thus allow for more targeted and selective types of economic development.

Revitalisation of rural areas

More aggressive and differentiated policies

The trends described in Chapter 1 (demographic upswing, accentuation of peri-urbanisation) have modified the approach of rural policy. In a general sense, the positive signals coming from a number of rural areas encourage a less "defensive" stance, concentrating on curbing decline, and a focus on the new perspectives which are appearing. They also encourage the adjustment of policies to fit the type of rural area concerned, its problems and its potential, rather than assuming that most, if not all, rural areas are in a state of decline.

Whereas in the past rural areas were expected above all to supply the needs of the population for food, they now have new functions which can benefit the population as a whole. There has been spectacular growth in the residential function, the development of which has mainly been based on peri-urbanisation and urban sprawl. The productive function has held its own and is diversifying, first in agriculture which, despite its decline, has kept its hold on the land and, second, in non-farm activities, which are expanding as businesses set up mainly in the peri-urban areas, following industrial decentralisation. Alongside the productive function, consumer-related functions are developing (residential and recreational), as well as functions drawing on the natural environment. Rural areas are becoming multifunctional and different in type. The DATAR report "*Quelle France rurale pour 2020*?" draws distinctions between "urban countryside" where natural and agricultural spaces should be preserved in the face of urban sprawl, "very fragile countryside areas", which are in demographic decline and require backing, and the "new countryside areas" where the dynamics that are emerging require support.

The DATAR report places particular emphasis on the need to renew and strengthen the various "affirmative action" programmes for the benefit of the more backward regions. More than 7.6 million French people live in

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population catchment areas ("*bassins de vie*" as categorised by INSEE in 2003) that are in decline. Given that the funds available for disadvantaged regions have little chance of increasing in the future, the accent should be put on making better use of the great variety of instruments already in place. Many of the most disadvantaged regions are situated in three or four overlapping zones (*e.g.* ZRRs, Objective 1 and 5b zones, deprived agricultural zones, Territorial planning premium (PAT) zones). They are also priority areas in the State/region planning contracts (CPERs). In the past, these instruments were highly compartmentalised.

For those regions where there is clear potential for growth, the DATAR report maintains that the accent should be on attracting new populations, and making sure newcomers put down roots in the locality. Newcomers represent significant potential because, among the 1.8 million new residents who left an urban area for the countryside between 1990 and 1999, over 800 000 accounted for 14% of the labour force in the rural environment but also 21% of the intermediate professions and 30% of managerial staff. These newcomers create demand for new and improved services, and those services then attract more newcomers. They contribute to local development and can foster entrepreneurship. In the United Kingdom where similar demographic trends have been noted in rural areas, studies have shown how they attract people setting up businesses.

This strategy is also part of a broader vision, that of a new form of spatial occupancy that is driven by residential rather than industrial dynamics. In this case, the choice of residence is made regardless of workplace location, or at least much more so than in the past. According to a report on the location of economic activities (Plan 2005), if the choice of residence can be at least partially freed from the constraints of access to the workplace, this could give rise to a concomitant increase in service sector jobs in the short term, and, in the medium term, attract enterprises in certain fields of activity. This assumes, above all, that growth will be faster in areas where the quality of life is better (*e.g.* mild climate, quality environment, small urban areas, peaceful rural setting). This trend towards the development of a residential economy has already been invoked to explain the good performance in terms of incomes in parts of southern and western France. The fact remains that, important though these residential dynamics are, they still clearly depend on income transfer mechanisms and on mobility.

The issue is therefore to identify and above all anticipate the needs of rural populations. In reality, needs vary according to the type of region. Improved access to transport infrastructures is still a major problem for a good many rural territories, where the enclave phenomenon is still a well-known and difficult issue, even if a certain number of motorways are being extended. Accessibility issues are even more resonant in territories where mobility is low because of age or low incomes. As a correlation, people are leaving settlements in the more remote areas and settling in built-up centres where they can find at least the basic services. This is often accompanied by a very low rate of housing occupancy. ICT coverage too is still very uneven, for reasons dealt with elsewhere in this report. Finally, the quality of the environment and questions of land use can be particularly important in areas with a strong tourist industry. The diversity of issues specific to the regions suggests a more flexible approach when drawing up policies: these should concentrate on providing the local authorities with tools allowing them to provide the specific services and amenities that the newcomers are looking for.

The palette of rural policies is a particularly varied one in France. For decades, the State put in place a large number of tools to foster rural development. According to one Plan report (Commissariat du Plan, 2003), there are no fewer than 59 operational mechanisms directly concerned with rural development, with an average annual expenditure estimated at € 2.3 billion (or € 177 per inhabitant). In a general sense these tools have "mainly benefited old, extensive forms of rural agriculture and semi-rural areas, but has done far less for peri-urban areas and industrial rural areas".

At the European level, rural development has, with Agenda 2000, become the second pillar of the CAP. The Rural Development Regulation (EC No. 1257/99) has been transposed by France into a National Plan for Rural Development (PDRN). Its goal is clearly directed towards sustainable rural development. Apart from traditional measures, such as compensatory indemnities for deprived areas, or support for the installation of young farmers, the PDRN contains three major innovations: the integration of forestry measures, the importance given to the agro-environment, and the setting up of the Territorial Exploitation Contract (CTE)[29] with the intention of encouraging agriculture to become multifunctional.

As with all national policies, the French rural development policy forms part of the national strategy for sustainable development (SNDD). It shares the same goals: reconciling economic development, social justice and the protection of health and the environment through solidarity between generations and between the various parts of the country. Its preferred form of action is participation, the key to sustainable development since it ensures that it will be accepted and continue to be of lasting effect.

The new rural law

In this perspective, the CIADT of 3 September 2003 defines the main themes of rural policy, in line with the basic thrust set by DATAR:

- to expand the development of rented accommodation, by promoting the implementation of the OPAH housing improvement programme (*opération programmée d'amélioration de l'habitat*) in the more disadvantaged rural areas,

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and support the private rental market, government-funded or otherwise, by using different tax measures (tax exemptions, income tax rebates);

- to promote the development of services, by creating an environment that will foster the provision of "one-stop shops" for public services (development of public service centres and public-private partnerships);
- to support the development of telecommunications infrastructures (broadband, mobile telephony).

Several measures have been adopted following that CIADT, under a broader rural package made up of provisions from the various instruments, in particular the Economic Initiative Law and the draft framework law on local finances.

The CIADT also led to the adoption of a new law on rural revitalisation, promulgated by the President of the Republic on 23 February 2005. This law acknowledges a new situation: the rural world is no longer regarded as being synonymous with the world of agriculture, even though the latter plays a central role in the countryside. The law was also presented as a "toolkit" for rural players, and for the different types of countryside. The principal aim was to consolidate the existing systems by strengthening certain incentive measures (for the construction and renovation of housing, the creation of businesses, attracting the liberal professions, above all doctors and veterinary surgeons) and to improve the institutional framework so as to better coordinate existing mechanisms.[30]

The final wording, adopted after a process lasting over a year (3 700 amendments were discussed) was the outcome of extremely heated parliamentary debate.[31] It has 240 articles, compared with only 76 in the original bill. At the outset, the measures were based on the guidelines laid down by the CIADT. They dealt with the strengthening of incentives in the fields of building, housing and enterprise creation. As the debate went on, numerous other subjects, such as hunting, wine advertising and the price of fruit and vegetables were added. The fleshing-out of the text throughout the discussions is evidence of the vital importance of the subject matter covered by this law, as well as the diverse nature of rural issues. It shows the privileged place that rural policy continues to occupy in the French landscape.

In order to adapt the measures and promote co-ordination, the law provides for a review of rural revitalisation zones (ZRRs), which were set up more than ten years ago.[32] The new ZRR zoning plan seeks to take account of developments in rural areas in recent years, and in particular:

- co-operation between municipalities and communes. When ZRRs were rolled out, there was little such co-operation. The government now takes the view that the EPCIs (Public establishment for inter-municipal cooperation, see Chapter 3) are the appropriate level for putting in place local development measures, and the municipalities/communes have to take part in order to benefit from the advantages offered by the status of ZRR;

- integration of small town development. Management of the measures linked by the EPCIs to ZRR zoning allow for better integration of small urban centres in the apparatus of rural development. According to DATAR and CGP reports, these small towns play the role of hubs within the economies of the rural zones, but up to now they have not really been targeted by rural development policy. In some cases, the designation of ZRRs in the non-urban zones close to these small towns has given rise to "migration" in order to benefit from the tax advantages. With the integration of urban areas into ZRR zoning plans, these towns could gradually become sites that will concentrate economic activity and public services.

The renewal of ZRRs is also intended to improve the co-ordination of measures specific to rural development with other programmes coming under other institutional frameworks, in particular of an inter-municipal and contract-based nature (above all the "Pays"). For example, the emphasis is on aid to rural towns of small or medium size (between 4 000 and 35 000 inhabitants) via specific programmes financing projects coordinated by the CDC and DIACT (call for proposals in early 2005) and the extension of incentive measures seeking to promote rural enterprises in the ZRRs. The small cities must also seek to integrate small centres into the broader development strategies, such as those drawn up under the "Pays" schemes.[33]

Government policy on public services in rural areas

Again, the issue for rural areas is no longer confined to just maintaining the populations in place but is increasingly broadening to encompass the need for action to keep the territory attractive and competitive. Thus, some local authorities affirm that there is serious territorial competition in attracting new residents. This competition is based mainly on the availability of specific public services (or services considered as such): the quality of infrastructure and transport facilities (a certain number of concessions to urban life are acceptable, if these amenities make the chosen area less remote); the availability of homes to rent or buy becomes critical even in some peripheral areas (see Box 2.9 on the trends in the rural property market); the existence of accessible medical structures (on this subject, territorial competition between local authorities means attracting health professionals by offering appealing working conditions. It is inconceivable to attract highly-skilled, high-income residents, even less so businesses and their employees, without guaranteeing they will have adequate, quality access to a range of "basic" services (including health, education, security and culture), to which they then proceed to contribute, moreover, by paying their local taxes.

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Box 2.9. **Trends in the rural land market**

The very great increase in non-agricultural demand for this land calls for responses in terms of housing policy. Rural areas suffer from a large deficit in rented accommodation, coupled with a very great increase in land value, especially in areas considered now to be far from the centres (data from the national federation for land improvement companies -*Fédération nationale des sociétés d'aménagement foncier et d'établissement rural)*. For instance, the average price of rural transactions has increased by 95% in 7 years, but by much more in some regions (such as North-East France, some Alpine regions, the Causses and the Cévennes in the Gard region, and wooded areas in Anjou and central Brittany). In Provence-Alpes-Côte d'Azur, this increase may exceed 150%. In fact three major zones are affected: Brittany and Normandy, then Poitou Charente, Aquitaine, Limousin and the Midi-Pyrénées, and finally south-eastern France. The average age of buyers is around 44, and 86% of them are French (the majority of purchases take place within the *départements* (which in this case means for the most part the choice of a principal place of residence further away from one's place of work) as against 99% in 1999. The vast majority of foreign buyers are Europeans, in particular British and Irish. Some regions have also seen highly concentrated "group" demand (as in the Morvan region which attracts large numbers of Dutch). The very rural zones are more affected today than in the past, showing that buyers are making new trade-offs, between property prices and travelling distances. The authorities are accordingly offering incentives to rent out existing housing , which may favour local economic development.

The State's responses to these questions are based on the following elements which go to make up a new rural policy for 1 January 2006, in response to the "indispensable modernisation of the government's territorial networks and those of enterprises with public service networks".[34]

a) A policy of experimentation: following the signing of a national agreement between central government, French mayors as represented by the AMF (*Association des maires de France*) and the operators of 15 major public services (with the exception of education which has its own system), the decision was taken to carry out experiments with a view to studying new ways of organising public services in the framework of local co-operation. The *préfet* was given a great deal of latitude in carrying out these experiments, which had very flexible mechanisms and were to begin at once. The "specifications" for the experiments consisted in targeting public services that were vulnerable and under threat, which meant especially those in rural territories; ensuring that the financial structure of the project was sufficient to make it viable; making users the focus of the exercise, notably by spending a lot of time on co-operation and training; improving service provision through the use of new technologies, and finally giving preference to local partnerships (between decentralised services and local authorities, and between the various bodies with a public service mandate) (see Box 2.10).

b) The national conference of public services in rural areas (*Conférence nationale des services publics en milieu rural*) was set up by the Prime Minister in February 2005. It is made up for the most part of elected representatives, chaired by a mayor, and includes representatives from the socio-professional world, the major public services enterprises and also the Ministries most directly concerned. This conference must put forward innovative solutions to the Government, so that an adequate and efficient service can be maintained without impeding the necessary modernisation efforts. It must submit its proposals for implementation early 2006. It is organised into four working groups convened by the DIACT.[35] One major pitfall is that of financing these operations, thus of negotiating with the main operators on how they will be compensated for responding to the public service imperatives. The possibility of making a fund available so that national solidarity can be expressed in the form of equalisation grants has been raised by some elected representatives.

c) The law of 2005 on the development of rural territories contains an important article, Article 106, which sets up new machinery to guarantee "equal access to public services".[36] The objectives relative to the level of service to be expected by users will be laid down by the Government and local dialogue (with the elected representatives and their associations) about these objectives will be set up by the *préfe*t. As a result of local dialogue, the departmental public service committees "*commissions départementales des services publics*" (known as departmental committees for the organisation and modernisation of the public services) will be reintroduced under the aegis of the *préfet*s, who will be given a central role as organisers and arbiters. The *préfets* will be given the option of suspending implementation of any reorganisation project they consider contrary to locally recognised objectives, until the matter can be decided by the relevant Minister.

d) During this period of study and negotiation a moratorium was declared in response to discontent on the part of rural elected representatives. Thus, during the period, no reorganisation involving the cancellation or significant reduction in public services in rural areas may go ahead, except where the elected representatives concerned have given their express agreement. This applies to plans to close primary and lower secondary schools.

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Box 2.10. **Examples of experiments and results: public services centres (one stop shops), mobile services and e-government**

In Charente, four one-stop shop reception points were set up on a partnership basis. These structures provide permanent services in isolated rural areas. The partnership brings together decentralised State services, local authorities and public service operators. Some organisms pool their staff who are trained to provide information on the services provided by all of the operators taking part (*e.g.* family allowances, health insurance and social security). Also in Charente, the reorganisation of emergency medical services, in close partnership with health professionals, is proving its worth. In Savoie, where it is difficult to travel around the mountainous areas, a system of *à la carte* public transport services has been brought in, and the joint office (*syndicat mixte*) running the regional nature park is also to introduce broadband access with an on-line services portal in a reception centre, involving the intermunicipal authority, the departmental council (*conseil général)* and the decentralised State employment services. Where results are concerned, these experiments have led to a list of proposals that have been taken up in the bill on the development of rural areas: organising local co-operation, multi-tasking by staff in the public services centres, and increased scope for holding a public as well as a private job concurrently in the small rural municipalities, as well as ways in which local authorities can attract and retain health professionals. Apparently when there are too many partners, the public service centres find it hard to break even. On the other hand, the more flexible structures of reception points, often located in town halls, seem to be satisfactory. Although these experiments were mostly conducted by the *départements* it is at the level of residential catchment areas or labour-market areas that they seem to work best, and would therefore benefit from being run at inter-municipal level. Because of its success the experiment was extended to new *départements* at the end of 2004.

Developments in some public services in rural areas

1. *The postal service (La Poste).* This has undergone major changes. Postal services are being reviewed in the light of their opening up to European competition which will be completed in 2009.[37] Locally, *La Poste* is both a public enterprise for mail delivery and a bank with a growing number of services. As the leading local public service, it has committed to reorganising its network into what are now 17 000 points of contact. If they are not profitable, more than one third of the 14 000 post offices could be transferred to town halls[38] or to private enterprise.[39] Today 62% of the points of contact in the network are located in municipalities with fewer

than 2 000 inhabitants who represent less than 26% of the population, while 40% of French people live in urban zones with only 13% of all post offices. While the presence of postal services throughout the country is a central issue there is a strong will in this public enterprise to rationalise its management. The rules set forth in the Law mean that not more than 10% of the population of a *département* may be at a distance of more than 5 km from the closest access to the network (meaning, in principle, a 20-minute car journey at most). As well as this accessibility rule, there is the setting up of a national territorial equalisation fund (supplemented by the professional tax allowance from which *La Poste* benefits, € 150 million intended to facilitate its role in territorial improvement) and also the setting up of a legal body, the departmental committee on the presence of postal services (*Commission départementale de présence postale*) made up of elected representatives and State representatives (which is to work together with the departmental public service committees mentioned above). One of the strategies envisaged by *La Poste* involves signing agreements with other enterprises entrusted with a public service mission in order to reduce the costs of its presence in rural areas (for example by selling SNCF rail tickets in those communes where there is no station).

2. *Rail transport services.* The closure of some secondary or interregional railway lines is the subject of recurring debate in France. Confronted by a structural deficit, the operator (the SNCF) wants to abandon some transversal lines (the *Corail* trains) considered as highly loss-making if the public authorities do not shoulder those costs not covered by demand. In the aftermath of the decentralisation process, the management of the regional express trains (TER) was handed over to the regions after a pilot experiment in six regions. While to some extent this transfer of power has been a success, marked by significant growth in demand in numerous regions especially in Alsace and the Pays-de-la-Loire, the fact remains that the regions have invested heavily in modernising and managing the services. The central government considers that the problem of the secondary lines is part of the debate with the local authorities. Some raise the issue of that citizens should have equal rights to public services. The operator is facing ever-keener competition with other means of transport and the opening up of its own network to competition is on the agenda.

3. *Primary schools.* The "schools map" and the allocation of primary teachers in particular in rural areas is another field that raises questions of equity and co-operation. This map is drawn up at the beginning of each school year by a working group using educational demographic criteria, as well as social and territorial criteria. At each level (national, academic authority and departmental), a joint body evaluates the strategic implications of the map. The allocation of teachers is done in a similar way, but also uses indicators of overall teacher-to-pupil ratios and of problems relating to school

structures. This is a cumbersome system and it does not have universal support. The government is looking at more flexible systems which would involve the elected representatives much more, and take into account the diversity of the *départements* and the regions.

Government initiatives in the regions undergoing restructuring

Introduction

During the past 25 years, the share of industry in the national economy has been maintained, and the substantial losses of jobs in industry have been more than compensated for by the creation of jobs in services. The DATAR report *"la France: puissance industrielle (2003)"* ("France: an industrial power") nonetheless emphasises that the geographical concentration of the productive base of the national economy has become more pronounced. This polarisation process has had very major consequences for a large number of French regions, especially rural areas, in terms of economic restructuring. Today, the government considers that trends in national and world economies mean that these regional changes are becoming a permanent process. In the past, industrial restructuring concerned one sector in particular decline, like shipbuilding or iron and steel. The ultimate objective of the current policy is to "support" territories faced with ongoing economic change, and predict where the next problems might arise and what their economic impact might be. The term "support", while somewhat vague, thus includes measures to promote this (social and economic) adjustment. This section presents the development of the policy to support restructuring in industrial areas.

The more this policy of support moves away from the model of large-scale regional restructuring prevalent from the 1960s to the 1980s towards more localised interventions, the clearer it becomes that it is difficult to separate industrial restructurings from other initiatives designed to improve the economic performance and social functioning of the regions, especially as to rural policy and some aspects of urban policy.[40] The importance of support for the territories is also visible in relation to competitiveness policy. The government is essentially faced with the dilemma of trying not to create a divide between the "competitive" regions, some of which have poles of competitiveness, and the others. The poles of competitiveness policy is explicitly presented by the authorities as a strategy that includes support for local areas as a complementary feature.

Support policies

One of the clearest messages of the report "*La France: puissance industrielle*" lies in its emphasis on "industrial change" rather than de-industrialisation. Previously, restructuring problems were largely linked to upheavals in heavy industry, especially steel, shipbuilding and mining, as well as highly labour-intensive sectors such as textiles. In Lorraine alone, more than 160 000 jobs were lost in these fields of activity over the last thirty years. These massive job cuts were symptomatic of radical change, driven at the same time by technological advances and keener competition from producers in low-wage countries, but they affected only a relatively limited number of sectors. The policy adopted in the face of this situation is known as the "poles of conversion" policy. It placed great importance on large-scale government intervention, involving for instance the purchase and rehabilitation of industrial sites and the setting up of new business areas in the region, along with incentives for new investors and new business start-ups, pre-retirement aid and programmes for vocational retraining. In numerous cases, the enterprises concerned were wholly or partly State-owned, which made it easier to implement integrated programmes such as the "poles of conversion".

The fact that a certain number of affected regions have found a new lease of life attests that these conversion projects have often had favourable effects. The "re-industrialisation" of Lorraine was mentioned recently in a Senate report: a skilled labour market, available land, a good geographical situation and sound infrastructures have meant that, in spite of the job losses in heavy industry, the region has not experienced de-industrialisation but has become specialised in new fields (equipment, cars). While the rate of employment in industry is 4% less than before the restructuring of heavy industry, it is still 4% higher than the national average, and the unemployment rate is close to the national average. Aside from a more diversified economy, new employment structures have also appeared, such as cross-border employment with Luxembourg. The fact that the region has attracted new enterprises to sites associated with large-scale restructurings (Allied Signals at Longwy, Clarion at Pompey, Thyssen-Krupp in the factory abandoned by Daewoo at Fameck for example) also shows that the "poles of conversion" policy has to some degree succeeded in restoring credibility to these regions as industrial sites.

The "heavy industry, public enterprise" phase of the transformation of manufacturing industry is now over. The Senate report emphasises that the new industrial context is substantially different and, in many respects, less open to being influenced by public policies. Observers such as the European Restructuring Monitor[41] still list substantial cases of restructuring in France, which in this regard ranked second behind the United Kingdom in 2004 (see Table 2.2). But these restructuring operations are however markedly different in nature from those taking place ten or fifteen years ago. They involve more numerous but smaller-scale production sites and they affect a very wide range of economic sectors. Often, they are internal restructurings rather than closures or business relocations in the strict sense of the term with different impacts on employment (see Table 2.3). Perhaps the most

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Table 2.2. **Restructurings in EU countries (jobs lost and jobs created) 2004**

	Number of restructurings	% of restructurings	Number of jobs expected to be lost	As a % of jobs lost in the EU	Number of jobs expected to be created	As a % of jobs created in the EU
United Kingdom	180	21.15	115 431	23.97	25 758	31.69
France	143	16.8	83 695	17.38	22 177	27.28
Germany	93	10.93	75 299	15.63	2 850	3.51
Poland	80	9.4	65 141	13.52	15 303	18.83
Netherlands	62	7.29	19 394	4.03	110	0.14
Slovak Republic	44	5.17	4 697	0.98	9 916	12.2
Belgium	43	5.05	59 023	12.25	150	0.18
Sweden	41	4.82	8 699	1.81	400	0.49
Spain	37	4.35	15 483	3.21	2 000	2.46
Ireland	24	2.82	4 912	1.02	1 430	1.76
Portugal	24	2.82	7 086	1.47	0	0
Italy	23	2.7	10 725	2.23	0	0
Finland	20	2.35	4 411	0.92	0	0
Austria	19	2.23	3 287	0.68	1 190	1.46
Denmark	16	1.88	3 124	0.65	0	0
Luxembourg	1	0.12	1 000	0.21	0	0
Czech Republic	1	0.12	250	0.05	0	0

Source: European Restructuring Monitor. The numbers concern cases where jobs lost or created exceed 100 or represent more than 10% of the workforce in enterprises of more than 250 employees.

Table 2.3. **Effects of different forms of restructuring on employment**

Type of restructuring	As % of job losses envisaged
Internal restructuring	81.3
Bankruptcy/closure	9.4
Expansion of operations	0
Relocation	3.7
Merger-acquisition	4.1
Outsourcing	1.6
Other	0.1

Source: European Restructuring Monitor.

important factor is that they apply less to enterprises with a direct link to the State and more to private enterprises, often under foreign control. This being so, there is far less scope for the government to exert any influence and give any assistance, owing to the rules on accountability and on State aid.

The geographical spread of restructurings has also extended. As a general rule, the areas most affected are those with the highest concentrations of jobs in the specific sectors. More isolated enterprises or groups of enterprises in the sectors undermined by strong competitive pressures are the ones that appear very vulnerable. A report by the DATAR classified the various labour-market areas in France as a function of eleven indicators used to assess their current situation (4 indicators), their vulnerability/threat (3 indicators), and their potential (3 indicators). It emerges from that evaluation that 206 areas out of 348 are satisfactory, 73 require some follow-up, with problems threatening to arise in the medium term, and 69 are faced with immediate problems of restructuring. Among the last two categories, four main categories of labour-market area were identified, each of which presents its own special problems:

- narrow labour-market areas that are geographically isolated;
- mid-sized areas, where industrial employment plays an important role;
- areas in average-sized cities;
- areas in large conurbations.

The debate on how government should react to industrial change has also been heavily influenced by two related problems. The first is the public debate about the problem of offshoring and relocation; the second is the problem of how the overall legal framework applies to restructuring, an issue brought into the limelight by relocation and other forms of restructuring.

Management of offshoring/relocation and business restructuring

Problems in obtaining reliable data have prevented any really clear discussion of this issue. Statistics are difficult to gather, because there are usually two aspects to the issue of moving production facilities: conquering new markets (which can be assimilated to FDI), and serving existing markets (which comes much closer to the definition of relocation).[42] According to one recent estimate, some 10% of investments of French origin abroad can be classed as relocation (about € 300 million between 1998 and 2002). As for job losses, a number of studies come up with low estimates, even of less than 1% of total jobs in industry.[43] What is more, it clearly appears that the relocation of some segments in the chain of production of an enterprise can have a very positive impact on its results in general, and therefore on the stability of the jobs preserved, in its country of origin and elsewhere.[44] For example, according to the Foreign Economic Relations Office (*Direction des relations économiques extérieures*, or DREE), the ten industrial sectors that invested most abroad between 1997 and 2000 (relocation and direct investment taken together) have created more than 100 000 new jobs during the same period.

Be that as it may, even if the real economic fallout from business relocation is limited, if not negligible, at national level, it can in many cases have a considerable impact on the region concerned. The government is

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therefore under great pressure to take measures to prevent such moves and curb the negative impact they have on the regional economies.

The obligation on the employer to help with the redeployment of the workers laid off and with the revitalisation of the territory impacted by the restructuring clearly marks France out from the other countries in the European Union. It shows that there is a process of shared responsibility, in which the business initiating the restructuring and the public sector actors faced with its effects work together. As for the internal consultation and co-operation procedures provided for by law and in collective labour agreements, they allow the parties concerned to discuss the most favourable terms for the operation in hand, but also to lay down the groundwork for or strengthen the anticipatory management of economic change and the necessary adaptability on the part of the workforce. The cooperation and negotiation process has been strengthened recently by including scope to reach agreements on methods (Law of 18 January 2005).

The other particular feature of the French system is the relatively low priority it gives to compensation payments. In most other EU countries, the amounts of money paid out are usually higher. In France, the level of compensation payable to employees made redundant for economic reasons is fixed by the applicable law and collective labour agreements. The redeployment process is long and only partly effective. A report by INSEE (1992) suggests an overall success rate of 50% over 12 months, with 15% of the persons concerned finding a stable job in the year following their redundancy. Apart from the general difficulties that can arise in a regional job market, (low level of economic diversity, high rate of unemployment) other aggravating factors can be expected for those newly made redundant for economic reasons. These include the number of people concerned, the lack of hiring capacity on the part of the subcontractor companies who are themselves impacted by the restructuring, worker skills and competences made "obsolete" by the lack of adequate upgrading and training during their working lives, and inadequate procedures for recognising experience acquired on the job.

A government mission that recently looked into the issue of economic changes found that the steps taken to manage industrial restructurings are ineffective despite the considerable sums spent on them (as much on handling industrial restructuring as on attracting new industries). The mission concluded that an effective mechanism for following up economic restructurings must include three main elements (the emphasis being clearly on the first):

- an anticipatory mechanism at the level of individual labour-market areas and/or individual sectors;
- management of individual restructuring operation;
- revitalisation of the labour-market areas involved.

The Interministerial Committees for Regional Planning and Development of December 2002 and May 2003 emphasised that anticipation and prevention must be the cornerstones of any policy destined to manage economic change. These functions were conferred on the Interministerial Mission on Economic Change (*Mission interministérielle sur les mutations économiques*, or MIME) set up in 2003. Its role consists firstly of analysing economic changes and forecasting the ways in which these will affect the different sectors and regions. At central level, the Ministries of Employment and Industry have been asked to provide it with information about developments in the sectors and industries undergoing radical restructuring. At the regional level, the creation of a number of regional "observatories" or monitoring units is provided for – the first of them was set up in the Pays-de-la-Loire in 2003. The second major function of MIME consists of facilitating the coordination between the different Ministries and the regional and local authorities in cases where intervention is necessary, especially in those where the restructuring of an industry or the closure of a large enterprise is likely to have profound and major repercussions at regional or local level. In general, such situations authorise the central government to invoke its "mission for national solidarity" which allows different Ministries to offer their assistance. The role of MIME is to coordinate proposals from central government with the steps being taken at regional or local level.

In order to implement its support policy, the government has put action plans into effect in the labour-market areas strongly hit by economic changes. These plans are the subject of contracts (known as territorial contracts) with the local authorities concerned for the labour-market areas particularly affected by restructuring and generally associated with one particular enterprise. They are handled at national level by the DIACT and, for sites involving GIAT-Industries (defence), in association with the Interministerial Delegation for Defence Restructuring (DIRD). It is interesting to note that the name of the programme makes no reference to an ultimate objective (retraining or restructuring for example). Nine contracts of this type were put in place after the CIADT of May 2003, with the express goal of creating 7 000 to 8 000 new jobs. They were linked to the closure of certain large enterprises, especially Metaleurop (Pas-de-Calais), Daewoo (Longwy, Meurthe-et-Moselle), ACT Manufacturing (Maine-et-Loire), Matra Automobile (Loir-et-Cher) and GIAT Industries (five sites). Two other contracts were also drawn up to benefit the *départements* of Vosges and Aube as victims of the more general decline in the textile industry. Since then, a number of similar contracts, agreements and plans of action have been signed for other vulnerable regions, either in connection with the restructuring of a given enterprise, as with Péchiney in the Pays de Foix (Haute-Ariège), or in the framework of a more general restructuring (employment catchment areas of Roubaix-Tourcoing-Vallée de Lys, Sud-Ardèche, Sud-Tarn, as examples).

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The amount of support available under these contracts and action plans varies with the scale of the operation – from € 17 million at Longwy, site of the Daewoo production factory, up to € 70 million for the overall restructuring plan for the Vosges. The cost per job is estimated at around € 40 000 – 50 000. In all cases, the financing of these contracts is partnership-based: one component, generally around 25%, comprises new funds from central government, with a similar portion being financed by the EU; the remainder comes from the planning contracts, the local authorities and other partners (such as CCI). In this way, a substantial part of the financing is not new money, but comes from redirecting funds within the region.

In order to improve the cohesion between the work on anticipating economic change coordinated by the MIME and the re-vitalisation plans handled by the DIACT, it was decided in 2005 to regroup all these functions under the DIACT, while at the same time strengthening the role of the Minister for the Economy, Finance and Industry in monitoring and anticipating problems in each industry.

2.4. Policies on broadband[45]

Territorial planning was for a long time viewed as providing the area with amenities, the principal if not the only object of which was the supply of essential services: water, energy, and transport. This was carried out by the State or the local authorities in the territory (*départements* and municipalities/communes) within the public service framework, whose rules and economy were set down in the case-law of the *Conseil d'État* which put citizen's access to public services before short-term profitability. The latest operations in terms of water supply and rural electrification were completed towards the mid 1970s, along with a major telecommunications modernisation programme. After that, the motorways programme was the priority for the public authorities which were anxious to make up the ground lost by France in this area.

Starting in the 1990s – the crisis in public finances led successive governments to share the burden of providing and running public amenities with the local authorities and the private sector; this produced a wave of denationalisations of public enterprises and the accelerated transfer of responsibility and competences to the regions, which were by then in a better position to raise taxes independently.

Against this background, the arrival of new communication technologies led the French authorities to opt for free competition starting in 1996 (albeit under pressure from the Commission). This policy, which concerns in particular national policy on mobile phones and broadband Internet access, requires a dual function: one, that of regulation, to ensure that there is a satisfactory level of competition, is carried out by an independent body, the

Regulatory Authority for Electronic Communications and the Postal Service (ARCEP, previously *Autorité de régulation des télécommunications*, or ART). The other function is territorial, aimed at closing the "digital divide" between those areas where coverage is profitable and the rest of the country, and it is performed by the sub-national authorities with the support of DIACT, under the Law of September 2004 (Article L 1425-1 of the Local Authorities Code, which authorises them to become telecommunications operators).

Broadband is a crucial factor for the various regions and their different user segments: enterprises (multinationals, SMEs and very small businesses), the local public institutions (hospitals, colleges, administrative departments) and the general public. Broadband technologies must thus be viewed as "local development tools" (Ullman, 2005) creating new economic and social dynamics. The conviction today seems to be gaining ground among subnational authorities that information technologies and broadband in particular have a role to play in the attractiveness and competitiveness of their areas. Lack of access to these technologies would be a clear handicap for poles of competitiveness, given the rapid growth in exchange of data and information on the networks by customers, subcontractors and research centres in the knowledge-based sectors of the economy, trade and finance.

As the *Caisse des dépôts et consignations* pointed out in June 2004[46] "seven years after being opened up to competition, sub-national authorities say that their territory is still not in a position to choose when faced with the services on offer, or that it does not have broadband services to offer at competitive prices". The telecommunications operators are looking at areas as customer catchment areas and are not necessarily going to take the steps to upgrade them. The economic conditions under which they operate lead them to concentrate on the areas that are profitable.

According to the views of a growing number of subnational authorities, true competition can only happen with the rollout of neutral, open and "reciprocal" infrastructures. A similar observation has been made by other OECD member countries (*e.g.* the United States, Canada, Italy and Sweden). In France the regions along with other local authorities are increasingly demanding genuine "competitive equity" throughout the country, in other words basic digital conditions (quality, price and variety) enabling broadband to perform its role in fostering development throughout the country (Association des Régions de France, 2005).

The state of play

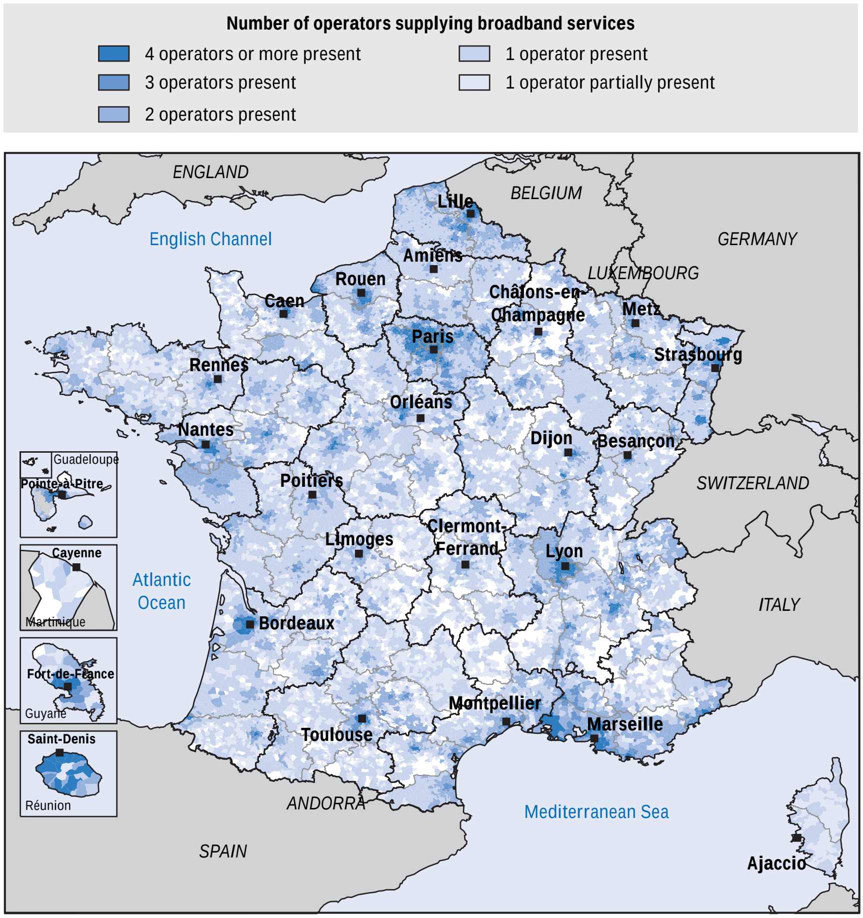
The initial impression is that France has largely made up for its delay in the provision of broadband throughout the country with 7.9 million subscribers (June 2005) and a level of penetration of 16% of households (*cf.* Chapter 1). Even where price is concerned, where competition in terms of charges is particularly fierce, France is in second place in Europe for the average price of a 512 Kbits/second connection (€ 28), behind Estonia, which makes it far less expensive than Germany (€ 42) or the United Kingdom (€ 40). It is interesting to note that these market conditions both in terms of price and speed often seem to surpass those available to the American consumer.[47] It is in triple play provision (Internet access, IP telephony and television) that France stands out, with the lowest charges of any of the major industrialised countries (see also Chapter 1). This pricing context is one of the reasons for the rapid growth of broadband.

The success of unbundling (*dégroupage*) is one of the main spurs to the development of broadband (see Annex 2.A2). With an increase of 28% during the first quarter of 2005, unbundling is continuing to grow steadily, though this continues to be led to some extent by partial rather than total unbundling. The development of total unbundling is still modest, with 13% of new lines supplied during this period, or just below 20 000 new lines per month.[48] Thanks to unbundling, competition is present in the densely populated urban zones but has not yet taken hold in the rural areas.[49] As at mid-2004, 19 300 municipalities had, potentially, total or partial access to permanent Internet connections for a total of 83% of the population. However, there are still large areas with low population density that do not as yet have broadband, particularly rural communes and districts that are a long way from the switching centres (see Map 2.3).

These results stem to a very large extent from the opening up of the telecommunications sector to competition and voluntary regulation. The appearance of new entrants has produced threefold competition in products, services and prices, forcing the historically dominant operator (France Télécom) to offer new products and lower its prices. The Competition Council has itself made a decisive contribution, by issuing decision in disputes between the new entrants and the incumbent operator, especially as to the implementation of unbundling. These results can also be ascribed to a novel public policy which will be discussed below.

Today, broadband could amount to a service of general economic interest, from the European Union standpoint. However, access to and use of broadband are not evenly spread, and the term digital divide is used to describe: "the gap between individuals, households, businesses, and geographic areas at different socio-economic levels both with regard to their opportunities to access information and communication technologies (ICTs) and to their use of the Internet for a wide variety of activities. The digital divide reflects various differences among and within countries" (OECD, 2001, p. 5). Today in France, disparities between different parts of the country are not confined to broadband access. They essentially reflect a digital divide in competition.

Map 2.3. **Broadband deployment**



National policies for promoting broadband

These policies first emerged in the late 1990s: they are not the product of a pre-determined strategic initiative with one central objective so much as of a progressive and incremental process. The CIADT of 14 September 2004 mentions an ambitious policy aiming to connect all municipalities to broadband networks by 2007 and to reach 10 million subscribers, as well as offering very fast broadband (> 100 Mb/s) in business parks and some large urban areas (by giving DIACT a mandate for some of the work involved in achieving that goal here). This policy originated as the State withdrew from the telecommunications infrastructures under 1996 Law, which opened the French market up to competition, in line with similar developments in many countries at the time.

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While digital coverage aims to provide every area with access to broadband, digital upgrade aims to provide each operator with equal access throughout the country. Focusing on local competitiveness, this strategy goes beyond digital coverage by introducing the element of competition. This is because an area's competitiveness depends on the diversity of service provision and prices available. Thanks to competition, SMEs can obtain the best prices for their broadband needs. As for private individuals, they can have access to a full range of services combining telephony, television and broadband Internet. Policies tend to mirror this, by inciting operators to invest in areas where there is no access, and seeking to strengthen competition where an operator is already present.

The Law of 21 June 2004 on Trust in the Digital Economy (LCEN) expressly recognises the competence of the subnational authorities in the field of telecommunications: it now authorises their involvement[50] provided that it is to develop infrastructure that will encourage competition.

In this context the government resolved to encourage the process of creating new infrastructures, by urging the local authorities to set up open infrastructures with the methodological and financial help of the CDC (the *Caisse des dépôts et consignations*, a financial public agency that supports investment projects by sub-national authorities) and by mobilising a support fund, endowed with European funding, for the deployment of broadband. As for methodology, the CDC has recommended a formal contractual framework, that of the Public Services Delegation (*Délégation de services publics*, or DSP).[51] Under this system, a consortium is selected, after a tender process, to construct and operate (concession form) or simply operate (leasing form) an infrastructure network in the territory. The concession form is the one most frequently used in projects supported by the CDC. The public and private sectors share the investment (typically 50/50) and the consortium is given a mandate for a period that can be as long as 15 or 20 years. These mechanisms are criticised for being somewhat cumbersome, both in their implementation and in their functioning in a sector characterised by its great dynamism and capacity to react to changing market conditions. However, they are the engines of the process of upgrading the territorial infrastructural amenities: today the *départements* are the most likely to implement DSP-type initiatives, mainly because they are the primary interlocutors for the municipalities/communes. At the regional level, regional authorities with only a few *départements* (Alsace, Limousin) have emerged as the most active and efficient in developing coherent projects covering the whole of their territory.

The backbone networks seem to display all the problems that affect the networks where broadband has no competition. In practice, while access by competing operators to the local loop can be made possible by unbundling (which is progressively spreading over the territory) and while the competing operators have often rolled out long distance carrier networks (where the market is highly competitive), the incumbent operator remains dominant in the intervening sector of backbone networks. The *Caisse des dépôts (*CDC), like the *Autorité de régulation des communications électroniques et des postes (*ARCEP), thus support the local authorities in their business of offering this type of backbone network to competing operators. DIACT also undertakes initiatives as part of its support for experimentation, especially via calls for tenders for the installation of alternatives broadband technologies (WiFi + satellite + CPL).[52]

As well as these national bodies there is a supra-national level, because the European Union, especially since the Lisbon summit, has made the information society one of the priority themes for the Regional Policy DG. On two occasions, the European Commission has reviewed the machinery in place in France (in the Hautes-Pyrenées and the Limousin) and confirmed the possibility of support from the ERDF structural fund. Since the CIADT meeting on 14 September 2004, the State has mobilised € 100 million in European funds for backbone infrastructure of this type. Moreover, the issue of "digital technologies" might also be one part of the Leader +, Urban II or Interreg agreements, or the Ten Telcom, e-content and Safer programmes. Furthermore, it is precisely the subject of the Regional Programmes of Innovative Actions (*Programme régional actions innovatrices)* aimed at helping the least developed regions to upgrade their technology, but also at promoting regional cohesion and competitiveness via an integrated approach to economic, environmental, cultural and social issues.

Local authority strategies

Sustained by the DIACT and the CDC with support from ARCEP, digital upgrading around the country depends, to a large extent, on the involvement of the local territorial authorities. At the outset, most of them did not wish to become involved in telecommunications: they were expecting the incumbent operator (with whom they had over time developed a close relationship) to make the necessary investments. Gradually, a number of local authorities began to invest increasingly in this new regional-development goal to upgrade their areas and support local economic and social development by creating the missing link between the local loop and regional trunk lines, so as to be able to offer the operators a large market that is currently non-existent or does not have a suitable basis. In a more general sense, a variety of strategies have been adopted by local governments:

- the signature of service contracts based on group orders to meet the needs of local government and the public sector (for example in Brittany);
- the deployment of broadband backbone infrastructures (for example in Limousin, Pyrenées-Atlantiques);

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- the signature of agreements (*e.g.* "*département innovant*"*)* with the operators to increase use, leaving it to the operators to develop access;
- the development of access networks, especially based on alternative technologies tested with support from the DIACT, or as a complement to operator networks (for example in Seine-et-Marne, Alpes-Maritimes);
- the development of broadband-based services for local individuals and firms.

The situation is still evolving, with frequency allocations ongoing that are designed to cover the territory with WIMAX technology, which may for the first time be allocated to local authorities, or with the study being conducted by the Ministry of Industry on national coverage regarding very high speed connections, for example using fibre optic connections to buildings.

For operators in competition with the incumbent operator, the existence of public infrastructure represents a major saving in investment, bearing in mind that the cost of the physical networks is by far the biggest item in the budget (civil engineering, laying cables). It can thus turn out to be a positive sum game because, for the local authorities across the country, there are various arguments in favour of their involvement (Ullman, 2005):

- broadband is a comparative advantage (or an essential precondition) capable of attracting and retaining businesses, training and educating individuals, or even maximising the efficiency of the public services;
- the development cost of broadband is relatively low compared with the costs involved in building a roundabout, a stretch of road, or renovating a school, and it thus becomes a question of choosing local policy priorities ;
- finally, broadband is not confined to a single sector but affects all areas of public service, including education, training, health, the economy, social aspects, employment and government.

It is tempting for local authorities to place bulk public-sector orders in order to obtain the leverage they need to induce one or more operators to invest in their area. This type of approach is, however, still difficult to implement effectively. In practice they are faced with a situation, in the public service procurement context, in which such a contract is likely to be awarded to the incumbent operator. That operator is better placed than any of the others, because, for example, it can interconnect all the public sites. Not only does it win this type of contract but it also finds, in public resources, the means of reinforcing its infrastructure and its competitive position (see Box 2.11 on Brittany). On the other hand, investment in infrastructure does carry various risks, including the cost of the investment and the difficulty in marketing in sparsely populated areas, which inevitably accompany any involvement in a rapidly changing industry.

Box 2.11. **The case of Brittany**

Brittany was the first French region to take an interest in the development of broadband networks at this territorial level. The research sector, where telecommunications play a major role, was decisive in the analysis. The chosen scheme consisted in putting in place a model that combined demand by the public services and the research community in order to prompt an operator to invest in broadband coverage for the Region.

A European tender process was launched and the incumbent operator, which itself had major research centres in the Region (in Rennes and Lannion) won the contract (€ 48 million, of which just over € 30 million were to come from the Region over 6 years). An association, Mégalis, was set up covering the local Breton sub-national authorities (the region, the four *départements* and 25 towns) and the association of Breton hospitals.

Mégalis took on a dual role, in that it acted as: 1) contract arranger for the local authorities and the operator France Télécom, 2) an enabler addressing public needs and uses, taking significant initiatives in the healthcare sector. In consideration for the contract with Mégalis, France Télécom undertook to develop optical infrastructures in the Region. The scheme assumed that the rollout of broadband infrastructures and services would indirectly benefit businesses simply by its availability.

Research centres, universities, public services all connected up to the Mégalis network, which was not just a network in the service sense but was also viewed as a genuine asset for the Region, as a physical network would be. In consideration for their joining the association and participating in the financing package, partners were given preferential rates which, at the time, were around half the market price.

This network was vital for research centres, which accounted for some 4% of all French research, a significant figure given that the Île de France region accounts for 40%. Participation by Breton research structures in international projects has increased over the past years. Staffing levels at the principal research centre in the new technologies sector have grown by 30% over the past 4 years. This growth is obviously not due to the broadband networks alone but, had they not been available, it would have been significantly curbed and the research teams would have gone elsewhere.

While the Region's strategy via Mégalis has lived up to the expectations of the public sector and the research community, it has not yet really taken off on the business side. The indirect benefits from the promotion of broadband have not really become apparent. As the operator of the Mégalis network, France Télécom could not be asked to initiate the development of supply-side competition. Today, as the contract between Mégalis and the incumbent operator is coming to an end, the situation appears to be improving. New players have installed their own infrastructure – although this is limited to major trunk lines – and France Télécom is proving very willing to provide towns with ADSL coverage.

Is this sufficient, or will the Region or the other local authorities have to embark on an aggressive new policy? That is the issue at hand, which the Region intends to address in the near future.

A complex decision

The local authorities are caught between caution and their determination to act. They feel they are on legitimate ground but not entirely and they wish to promote coverage of the territory and diversity of the offering without venturing on to unfamiliar terrain. To do this they must find ways of attracting operators who, whatever happens, will be the ones to develop the services. The question is how to persuade these operators to invest when the market conditions appear less than ideal. The principal operators seem to favour what are thought to be the most profitable investments on unbundled lines (see the case of the operator Free using totally unbundled lines). But, this will not be enough for those areas that are still not unbundled. In order to roll out unbundled ADSL products, an operator therefore needs an infrastructure that allows it to implement an economically viable model.

Attracting competing operators therefore requires a guarantee that infrastructures will be made available to them. On the one hand, the local authorities want to see infrastructure and services deployed, and are increasingly ready to invest while at the same time weighing up the risks. On the other, private players want to market their services by looking for the profitability they need if they are to expand. Public-private partnerships (PPPs) would seem to offer the solution best suited to this dual dilemma: shared investments, shared risks, increased coverage, and growth in local services. While the benefits seem clear, the operating methods of these partnerships appear still to be the subject of debate. Faced with these choices, there is today a clear policy preference, one that emerges from the documents produced by the ARCEP or the CDC, for supporting investments by local authorities in backbone networks. This choice by the local authorities has moreover provoked a response on the part of the incumbent operator, which in late 2004 committed to an ambitious deployment plan. This response may have convinced some local authorities to give up their own plans for new publicly-developed infrastructures, or their choice of alternative technologies (see, in the case of WiFi, Fautero, Fernandez and Puel, 2005).

In November 2004, the European Commission approved the public financing of broadband projects in the Pyrénées-Atlantiques *département,* Scotland and the Midlands. In the case of the Pyrénées-Atlantiques project (see Box 2.12) the Commission decided that, in some circumstances, the public co-financing of an open broadband infrastructure was the fulfilment of an economic service of general interest obligation, and not aid. In the case of the two United Kingdom projects, the Commission stated that the two sets of aid concerning the supply of broadband services were compatible, considering that the subsidies were necessary for the deployment of these services in rural and isolated areas which did not have access. This appears to validate the dual notion that broadband is an

Box 2.12. **The case of the Pyrénées-Atlantique**

The *Conseil général* of the Pyrénées-Atlantique *département* has undertaken a huge project to provide the area with the infrastructure for broadband coverage. This is one of the more marked examples of local authority commitment to promoting infrastructure.

The *Communauté d'agglomération* in charge of the urban area of Pau led the way as early as 2001, when a plan was drawn up with the ambitious objective of providing the inhabitants with 100 Mbps connections for around € 30. A tender was put out and a broadband network rolled out as part of a public-private partnership. The Pau initiative attracted a good deal of interest and set off reactions among different tiers of local authorities in France.

One was the *Conseil général* for *Pyrénées-Atlantique* which is based in Pau. Since the principal city had its own infrastructure, the aim of the *départemen*t was to see the whole of the area benefit from broadband services. The département is noted for its vast rural and mountainous areas. It was soon realised that the operators alone could not roll out the new services throughout the *départemen*t, apart from the major metropolitan and coastal areas.

Studies showed that it was in their interest to put an open infrastructure in place that could be used by all the operators in the market as well as local users, on financial terms that were favourable to the development of services. A group was chosen in the framework of a "*Délégation de service public (*DSP)" in accordance with the new provisions of French law that allow a degree of intervention by the local territorial authorities in the telecommunications sector. The set-up provides for investment of € 62 million between 2004 and 2006, 68% of which will come from public players (the *Département*, the Region, and Europe).

The *département* sought to establish close ties with the European Commission in putting forward its dossier. It therefore integrated the guidelines laid down by the European Commission into its analysis, and had a number of meetings with the various Directorates-General in the Commission: Regional Policy, Competition, Markets and INFSO. In so doing, the *département* complied with the basic criteria, which are: 1) A regional strategic framework, 2) A geographic target, 3) Technological neutrality, 4) Open access, 5) Public ownership.

Thus the Pyrénées-Atlantique project obtained the approval of the European Commission. It is cited as an example and its image has given it greater legitimacy among all players, both public and private. This seal of approval is an indication of the public-private partnership approach that the Commission wants to promote with regard to Economic Services of General Interest, to which it expressly refers.

essential local service, and that public interventionism in the field, particularly by local and regional authorities, is legitimate. However, it leaves room for a wide variety of institutional options for the implementation and use of such a service.

The role of the Regions

The Regions were until recently mainly interested in the question of developing research networks using broadband. The Regions all have at least one metropolitan and/or regional backbone hub linked in to RENATER[53] that interconnects educational and research establishments, and even other local public institutions (including town halls and hospitals).[54] As early as 2003, the government began stressing the need to coordinate initiatives and to involve the Regions. This is what the regional authorities are currently engaged upon. Some of them are involved in the services markets and, where necessary, giving financial support to the projects undertaken by local authorities (Bretagne, Franche-Comté, Ile-de-France, Pays-de-la-Loire, Picardie, Provence-Alpes-Cote d'Azur, Rhône-Alpes). Some wish to remain active in research networks (Basse et Haute-Normandie, Champagne-Ardenne, Centre). Others are committing to infrastructure projects based on DSP-type partnerships (Alsace, Corse, Limousin, Poitou-Charentes). Finally, there are those whose are mainly targeting the primary goal of regional consistency (Aquitaine, Auvergne, Bourgogne, Midi-Pyrénées, Nord-Pas-de-Calais). The Regions thus have an important role to play but it may vary with the profile of their area. Some are playing a leadership role in their areas (as in Alsace, see Box 2.13, or Limousin), while others have a strategy of supporting local projects (as in Picardie) or act as "observer-coordinator" (as in Midi-Pyrénées). These strategies must also be capable of inclusion in planning documentation (the State-Region Planning Contracts and also DOCUP for European funding).

However, this outline is not set in stone. Following the regional elections in 2004, some Regions have decided to redefine their strategies. Broadband is now their number one priority in the new technology sector.[55] For the Association of French Regions, "broadband should become a raw material made available to their inhabitants, businesses and public services on an affordable and lasting basis"[56] (ARF, 2005).

The Regions which, via their association (the ARF), subscribe to the idea that competition alone can bring about effective conditions of access to broadband in their areas, want to see policy develop in (at least) two main directions:

- on the one hand they are asking for an increase in the support fund for broadband deployment, set up by the CIADT in December 2003, but which does not appear to have been given any financing since that time.

- on the other, they are seeking recognition for their mandate to ensure consistency between the various networks and broadband development projects being set up in their areas.

Box 2.13. **The Alsace Region**

Priorities for Alsace are geared to the world of economics: broadband is clearly viewed as a driver for local development (and of support for regional identity). The three dimensions to this strategy involve: *a)* deploying infrastructure and seeking consistency of access across the region, *b)* training economic players (enterprises) and seeking synergy between the enterprises/ research community with the help of broadband, and *c)* creating a dynamic and innovative identity based on a programme (the images pole) that will bring together all of the activities and players involved in the new technologies and the audiovisual field, with a view to developing a pole of competences, providers and users, on this theme.

As to infrastructure, in 2003 the Regional Council of Alsace adopted an infrastructure plan linking thirty towns and cities in the region (large, medium and small) seeking to make optimal use of the existing networks, especially cable. The two *départements* (Haut-Rhin and Bas-Rhin) within the Alsace region have become closely associated with this initiative. Rather than seeking to establish equal access throughout the area, the Regional Council opted, at least in the early stages, to promote economic competitiveness. It is worth noting that Alsace is the third most urbanised region in France with the best coverage in terms of new technology after the Ile-de-France and Nord-Pas-de-Calais. The Bas-Rhin is the *département* with the second largest cable network. The rural areas have a dense network of attractive small towns which are dynamic in demographic terms. The "classic" digital divide between urban and rural areas is less pronounced here than elsewhere.

Source: Based on Ullman, 2004.

Notes

1. The 1999 Framework Law on Regional Planning and Sustainable Development (*Loi d'orientation pour l'aménagement et le développement durable du territoire*, or LOADDT) incorporates the provisions of the 1995 law and introduces some changes. In particular, the law enshrines a long term vision in that it sets out a long term outline for public services in 8 fields (higher education and research, culture, health, information and communications, passenger and goods transport, energy and natural and rural spaces. The accent is on the following objectives: mobilising territories for development, compensating for the disadvantages of rural and urban areas, bringing together rural territories and urban areas across the *pays*

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(a new territorial structure), developing metropolitan areas of international significance, increasing cooperation between players at national level and taking greater account of the European dimension.

2. The CIADT meetings in 2002 and 2003 allocated € 280 and € 120 million, respectively, to support economic change in labour-market areas hit by severe restructuring or affected by structural weakness.

3. Community Programme for Research and Development (PCRD): 6th PCRD = 2002-2006, 7th PCRD = 2007-2011.

4. In numerous areas, including road network density, motorways, telephony and railway networks, France now ranks above the European average or compares favourably with other countries. Investment is still required for the creation of corridors and also for sustainable development through a change of mode from road to rail and inland waterways and to improve access to areas without transport links.

5. For example shoes at Cholet, spectacles at Oyonnax, specialised machine tools "décolletage" in the Arve valley or cutlery in Thiers.

6. See Veltz 2000.

7. In this way it can improve its capacity management by redistributing orders sent to firms whose order books are full. These systems are able to capture the agglomeration economies analysed by A. Marshall and his followers, mobilise their local and regional dimension and adopt a joint approach, for example in winning markets. As shown in a study by the *Banco d'Italia* and analyses by METI and the Japanese SME Agency, districts generate additional wealth for the local and regional economies to which they belong.

8. This policy was facilitated by the close relations in France between the major public and private enterprises and the central administration, and by the fact that their managers come from the same schools. At that time it was easy for the senior civil servants in charge of regional policy to influence investment decisions on expanding and locating large businesses. This process resulted in significant investment, particularly in the medium to high tech areas (automobiles, electronics, telecommunications, aeronautics, defence) for example in Brittany, Midi-Pyrénées, Centre, Nord-Pas-de-Calais, Provence and Alpes-Côte d'Azur. Because of the privatisation process, and increased competition between the regions for investments within the European framework and beyond and because of the limits set on government aid in international negotiations, regional policies can no longer decisively influence the strategies of major firms to locate their operations in regions that are less dynamic or in difficulty.

9. See Aniello and le Gales 2001.

10. See especially the Reverdy study.

11. The identification of clusters of specialised firms was based on 4 criteria: their number – at least 5 in the same branch; employees – at least 100 in the same activity; enterprise density per km^2 – at least twice the national average; and specialisation – higher than the French average. See P. Pommier, *La politique française des systèmes productifs locaux*. Copenhagen June 2003.

12. The genetics pole model (*i.e.* setting up poles of competitiveness in the biotechnology field) has proved difficult to transfer.

13. Other institutions helping firms to collaborate with universities include the Centres for Innovation and Technology Transfers (CRITT) (there are more than 200 of them all over the country) and Technological Development Networks (RDT).

14. There are some 50 technopoles poles in France. About half are thought to be performing well.

15. In that context, results could be obtained in a relatively short period of time. Many poles of competitiveness of world standard were already operating before the DATAR programme was launched. For example Minalogic in Grenoble was established 20 years ago, around the Engineering Schools and the J. Fourier University. As a result of synergies between these education institutions and private corporations, many firms were created in a relatively small area. This has become attractive and numerous foreign firms (including Philips and Motorola) have located their business activities there.

16. According to one study by two American economists, Agrawal and Cockburn, out of 268 metropolitan areas in the United States, the presence of one large enterprise (the principal tenant) has a positive effect on the quality of relations between universities and industrial R&D.

17. The Defence Ministry participates in the policy on poles of competitiveness, which are the favoured environment for dual research programmes supported by this Ministry. Among the projects adopted, 7 concern defence-related activities, especially in the context of industrial, research and technology policy: the fields involved are space-aeronautics, energy, images and networks, complex systems, composite materials, microtechnologies and biotechnologies.

18. While the Audit office emphasised the progress made towards contract-based arrangements between the Ministry and the EPST, it noted *inter alia* that while there had been a great increase in joint initiatives (from € 35 million in 1995 to 400 million in 2003), the funds financing these initiatives, the Technical Research Fund (FRT) and the National Science Fund (FNS) had pursued changing goals. Although it had shifted in 1999 towards financing innovative enterprises, the FRT for example continued to appear as a major source of university laboratory budgets and of EPST and their recurrent financing rather than just one element in a mixed R&D environment. The report noted furthermore, that these incentive initiatives were the subject of *ad hoc* evaluation by the Ministry of Research. However, given the lack of any framework for these evaluations, they were of limited use, and it was not possible to have any kind of overview of these programmes.

19. These appropriations differ from the recurring credits that finance “fixed costs”. They are allocated under the process of calls for proposals to put in place research teams, promote interdisciplinary work, and support young researchers.

20. The concept of regional innovation systems (RIS) describes a concentration of interdependent firms within the same or adjacent industrial sectors in a small geographic area. A RIS can stretch across several sectors and clusters as long as their constituent firms interact. At the same time clusters can develop close links with knowledge organisation outside the RIS (Asheim, 2004).

21. Within the framework of the State Region Planning Contracts (1984-1988), 150 cities cooperate with the central government to combat physical, economic and social deterioration within 148 urban districts through District Social Development (DSQ) conventions.

22. Source: *www.ville.gouv.fr/infos/ville/index.html*.

23. Sensitive urban areas (*Zones urbaines sensibles* or ZUS) are characterised by the presence of large areas or districts where housing has deteriorated, and by a marked imbalance between housing and jobs.

24. By contrast with what was seen in 1997 with the former urban "free zones", for the present there seem to be few transfers of businesses or of jobs to the 41 new urban free zones. The estimated figures, mostly net job creations, for the first six months ranged from 800 to 1 200 jobs approximately (DIV, 2004 report). However, it should be noted that for the ZFUs created in 1997, the fastest rates of net job creation were often reached three years after the urban free zones were opened (DIV, 2004).

25. Exemptions from social contributions came to more than 221 million euros (1 450 million francs) for the first ten months of 2001, as against 242 million euros (1588 million francs) in 2000. Tax exemption stood at around 141.78 million euros (930 million francs) for 2002.

26. A number of communes with a combined population of over 50 000 forming a single urban area but not an enclave around a number of core communities of more than 15 000 inhabitants can constitute an "agglomeration". The border must in any event be validated by the *préfet*.

27. CIADT 18 December 2003.

28. According to Marcel Roncayolo, a metropolis is "a very large city, both in terms of the size of its population and that of the urban region it feeds, in terms of its economic, political, social and cultural weight as well as its power to attract and spread outwards" (Marcel Roncayolo, in DATAR, 2004).

29. CTE: a contract-based system for individual farms, which includes both an environmental and a social/economic component.

30. Under the new legislation, places with tourism and local crafts can now be treated like industrial areas (eligibility for reductions in tax on construction costs, tax exemptions for a period of up to five years and, with the agreement of the local authorities, exemption from local tax). There are a number of mainly tax-related instruments to promote the renovation of property (OPAH), priority being given to the construction or renovation of buildings for the rental market (the Robien Law) which is thought to be underused in rural area and consequently curbing economic activity.

31. Within the framework of an all-party commission.

32. A number of special types of aid for rural regions have been put in place since 1995, based on the rural priority development territories (TRDP) and the rural revitalisation zones (ZRR). These special areas, covering almost one third of the national territory and 4.5 million inhabitants, were created in the light of funding programmes under Objective 5b of the European Structural Fund for the period 1994-1999.

33. The complexity regarding these institutions and programmes is clear from the calls for proposals process, which emphasises that the projects put forward must target a zone covered by the ZRR, which must also be a priority pole under the CPER, clearly integrated into the machinery for the Pays, etc.

34. Prime Minister's circular – letter to the *préfets* of 3 March 2005.

35. Group 1: local cooperation, Group 2: definition of needs and service provision, Group 3: Awareness and diffusion of innovative actions, Group 4: Financing and grouping of services.

36. Law n° 2005 – 157 of 23 February 2005.

37. Law n° 2005 – 516 of 20 May 2005 on the regulation of postal activity.

38. Postal agencies in the communes are negotiated with the AMF. New agencies will provide 95% of the services of a post office in terms of mail, parcels and financial services. Under the new conventions, the commune receives compensation for undertaking to open the agency for 60 h per month. This is increased if the agency is in an area classed as sensitive, or is housed on premises belonging to the group of municipalities.

39. However, at the beginning of June 2005, *La Poste* signed a protocol of agreement with tradesmen and artisans (newsagents and also grocery stores, drapers, restaurants, bakeries, etc.) whose "indirect" network of postal services (the *relais poste*) consists of 574 traders, in exchange for monthly payments (loaded according to the zones and also including a commission on some sales). As a result, opening hours are much longer because they generally coincide with the opening hours of the trader.

40. For example, rural areas show high levels of employment in industry (more than twice the levels recorded jointly in agriculture and the agro-industry, reaching 40% in some regions). Rural France also has a substantial number of small labour-market areas which are mostly industrial in nature.

41. The European Restructuring Monitor (ERM) is the information service of the European Foundation for the Improvement of Living and Working Conditions. Their analyses use a network of national correspondents in European countries. These compile information on restructuring gleaned from the specialist press.

42. The definition of offshoring/relocation generally emphasises the transfer abroad of the activity of an enterprise, whose production is thereafter imported. As such, this procedure is essentially a way of reducing costs by choosing a production site where costs are lower than those at the previous production site. When an operation is set up in another country in order to exploit new markets, the term FDI (Foreign Direct Investment) is more appropriate. The most vulnerable sectors are highly developed industries that are labour-intensive (textiles, leather, mass produced electronics, etc.) and the beneficiary countries are essentially those of North Africa, Central and Eastern Europe, India and China. Other examples include the offshoring/relocation of services, for instance French-speaking call centres in the Maghreb.

43. These numbers are dependant on the timeframe considered and the method chosen. Some studies by the *Direction des relations économiques extérieures* or the Senate give slightly higher estimates but not more than a few percentage points.

44. The Senate report emphasises this point.

45. The notion of "broadband" refers to an area of technological innovation that is growing (at the pace of innovations in the sector as to speed and quality) and which allows fast and permanent Internet connection.

46. In the interim report produced by the Department for digital provision in the territories.

47. Competition between cable and phone companies in the US has so far been slow in improving offerings for DSL (Digital Subscription Line) services. See "High speed? Not in the US. Jesse Drucker. The *Wall Street Journal* Europe. November 2005".

48. By 1 April 2005, France Télécom had delivered 904 switching centres to the operators involved in the unbundling, 890 of them in mainland France and 14 in the DOM, to enable them to install their own unbundling equipment.

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49. For an overview of the implications of Internet in rural areas see OECD, 2001 *Information and Communication Technologies and Rural Development.*

50. Effective nonetheless – generally via third party structures run by local public players – in almost all European, North American or Asian countries.

51. The DSP regime provides a clear framework that allows local authorities to hand over to private enterprise a service under their responsibility: water, refuse collection, public transport. In the absence of any structure such as "Utilities", this regime provides a clear framework for the management of structuring services to be transferred to the private sector.

52. Carrier currents, where power lines are used to transmit communications.

53. RENATER = National Telecommunications Network for Technology, Education and Research.

54. The financing of university networks linked to RENATER is a recurring theme in the planning contracts for the different regions. Other broadband projects come under different programmes: "massif" for the Pyrénées region, European "innovative actions" programme for Alsace, etc.

55. Benchmarking carried out by ITEMS International for the Pays-de-la-Loire region.

56. General Assembly of the ARF on 9 March 2005.

ANNEX 2.A1

Territorial coherence schemes (SCOT)

Table 2.A1.1. **Trends in the number of schemes from 2003 to 2005**

Number of schemes	2003	2004	2005
SCOT being drawn up	108	161	177
Scheme being revised	37	39	42
Scheme approved	121	114	112

Table 2.A1.2. **Trends in the number of *communes* in a scheme from 2003 to 2005**

Number of communes	2003	2004	2005
SCOT being drawn up	4 113	6 911	7 628
SCOT being revised	1 740	2 006	2 231
Scheme approved	3 919	3 870	3 692

Table 2.A1.3. **Trends in the population covered by a scheme from 2003 to 2005**

Population	2003	2004	2005
SCOT being drawn up	9 385 582	16 154 643	17 815 176
Scheme being revised	5 947 885	6 272 616	6 733 683
Scheme approved	12 870 016	12 346 709	12 052 466

Table 2.A1.4. **Trends in the area covered by a scheme from 2003 to 2005**

Area covered in km^2	2003	2004	2005
SCOT being drawn up	67 555	107 404	116 523
Scheme being revised	23 258	26 418	28 860
Scheme approved	46 739	45 728	44 764

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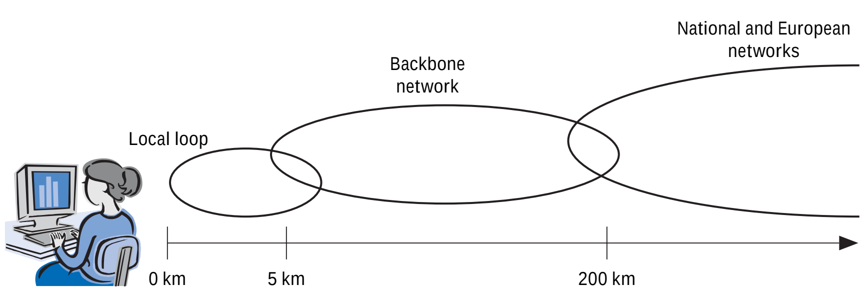
ANNEX 2.A2

Unbundling local loops and connecting grids

The local loop is the name given to the segment of the telecom network that lies between the local telephone exchange and the subscriber. In general, the local loop is composed of a pair of copper cables. Local networks in France are owned by France Télécom and it is economically impossible for a competitor to fully replicate the FT network. However, it is strategically important for a new operator to have direct access to the local network as it enables the operator to manage the network connection to its clients from one end to the other, and to offer differentiated services. It has, therefore, been affirmed at European level that the historical operator should provide its competitors with direct access to local loops. This unbundling of the local loop can be considered in two ways:

- Total unbundling means that full access to the local loop, in which case all frequencies are opened to other operators, and the end user is no longer connected to FT but to the network of the new operator.
- Partial unbundling means that only the high frequency part of the band is given to the new operator, so it can establish an ADSL service, for instance.



Source: ARCEP (ex-ART) and ARF.

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Chapter 3

Multilevel Governance Geared to Co-operation

3.1. Introduction

The shift in French regional policy toward focussing more squarely on strengthening territorial competitiveness while maintaining national cohesion poses some major challenges of governance. Do policymakers involved with territorial development have coherent and effective powers, financial resources and experience? In particular, can they support the urban dynamics that are apparent not only in Ile-de-France but in many provincial territories? Can they help better-endowed rural territories to undertake competitive development projects? These are the questions facing public officials who, since the early 1980s, have seen profound changes in terms of decentralisation and in the relations between levels of government.

In order to understand the particular features of the system and to analyse the advantages and difficulties inherent in it, this chapter looks first at the changes brought about by successive waves of decentralisation, in institutional and financial terms. The issue of vertical relationships is then examined, on the basis of a device that is well known but appears to be undergoing change: the so-called "State-region planning contracts" (*contrats de plan État-région*). Finally, the third section analyses the instruments introduced to address the institutional fragmentation of territories, and in particular the consequences of the very high number of communes.

3.2. The main thrusts of decentralisation

Levels of administration and their shifting responsibilities

At the beginning of the 1980s, policy was still essentially in thrall to a centralised approach. Awareness of this situation led to the reforms of 1982. The decentralisation then undertaken was designed to bring public administration closer to the people and to reinforce local democracy, while at the same time rationalising the administration itself. Thus, the central government transferred responsibility in "blocks", seeking to allocate homogeneous blocks of responsibilities at the appropriate level. In addition, in 1986, the regional councils were elected by direct universal suffrage. It may also be noted that the regional audit courts were created in 1982. There is now one for each region and they are empowered to audit all subnational governments (*collectivités territoriales*) within their geographic zone. They are indeed symbolic of the evolution in local autonomy, where *a priori* control has been replaced by *a posteriori* review.

Although this first stage, or "Act I", of the decentralisation process does not seem to have achieved all its objectives, it brought a profound change to the French political and administrative system and gave a further boost to subnational government. In practice, however, the transfer of responsibilities has not been complete: quite apart from the basic functions of the central government (justice, currency, etc.), none of the territorial responsibilities can be considered exclusive. Moreover, these trends have not yet called into question the existing structures of subnational governance. In effect there seems to have been a compromise between a strong tendency to maintain traditional governance structures (central government, department and commune) and the desire for a new model where the region's role would be reinforced (at the expense of the departments) and where the number of communes would be drastically reduced (through highly structured inter-communalities, *intercommunalités*).

This initial stage was followed more recently by what is generally called "Act II" of the decentralisation process, with the new legislation of 2003 and 2004.[1] Those laws not only reinforced the transfer of powers and responsibilities (to the departments, the regions and very marginally to the communes)[2] but also entailed a constitutional reform. The region is now recognised in the Constitution. Moreover, the financial autonomy that subnational governments already enjoyed (in the form of freely disposable resources) seems to have been reinforced. The law now provides that taxes and other own-revenue sources must represent "a determined portion of all resources". Finally, the transfer of responsibilities from the central government must be accompanied by the allocation of equivalent resources (just as for the creation or expansion of responsibilities that entail increased spending). The blocks of responsibilities are now allocated in the following manner (according to a schedule covering the period 2005 to 2008):

- economic development and vocational training are essentially assigned to the regions, as is territorial planning;
- major infrastructure projects (ports, airports) are assigned to the departments (*départements*) or the regions, as appropriate;
- roads are assigned to the *départements*;
- social services, including health and services to the elderly, fall essentially to the *departments;*
- education and culture are shared among the different levels.

Local economic players are also associated with these provisions. On one hand, the chambers of commerce and industry may be consulted in the preparation of large-scale projects. On the other hand, the regions can count on the CESR (Regional Economic and Social Council), representing businesses, labour organisations, associations and individuals involved in regional development, for advice.

In fact most of the responsibilities are shared (except for vocational training which is a regional competence) according to an allocation that may be very clear, but is sometimes less so (see Annex 3.A1, regional and departmental responsibilities). Education represents a case where this sharing is very specific: the central government retains responsibility for teaching, recruitment, management and remuneration of school personnel and university, while subnational governments assume investment and maintenance responsibilities for the primary schools (communes), the *colleges (*departments), and the high schools or *lycées (*regions), with transfer of technical personnel in the two last cases. However, the pattern is not as clear for other shared responsibilities, and even if there is an assigned co-ordination role, such as the region has in the case of economic development, this can conflict with the freedom of action at each level (see Annex 3.A2 on economic development initiatives taken in 2002 by the various types of subnational government).This situation is the consequence of the constitutional principle of absence of hierarchy among subnational authorities (*non-tutelle d'une collectivité territoriale sur l'autre*).

Compared to recent decentralisation moves in Italy and Spain, the French reforms have not resulted in any institutional primacy for the region (Jégouzo, 2005). In Italy, for example, regional powers were greatly expanded between 1995 and 2002.[3] The Constitutional Act of 2001 enshrines the principle of subsidiarity that now governs the sharing of responsibilities between central government and subnational government, where the central State retains only those powers strictly spelled out by law. The sharing of responsibilities thus seems to be much more clear-cut than in France. As to the financing of activities, in Spain the devolution of responsibilities to the regions went hand-in-hand with a substantial boost to their budgets: the autonomous communities (equivalent to regions) saw their budgets rise from € 56 billion in 2001 to € 88 billion in 2002, a jump of more than 50% (Dexia, 2004). By way of illustration, the current revenues of French subnational governments were supposed to rise from € 137.5 billion in 2003 to € 156.5 billion in 2005 (for an increase of 13% during a time when there was a significant transfer of responsibilities, Dexia 2005).

The central government maintains an important role

At the regional and departmental levels, central government services coexist with those of subnational governments. At the communal level, the mayor is both the chief executive of the commune and an agent of the central government, with respect to certain powers (civil registry, elections organisation, etc.). The central State maintains a local presence not only through the prefects (region and department) but also through the deconcentrated territorial offices of the various Ministries placed under the authority of the prefects, and which form the highly developed network of administrative offices at the regional, interdepartmental and sub-departmental level. The prefects' authority is confined to the deconcentrated services of central government administrations, excluding education, administration of justice, and tax collection.

This structure is more nearly comparable to that of other unitary countries with a centralised tradition than to federal or quasi-federal countries (see Box 3.1). For example, equivalents to the prefectures are to be found in the United Kingdom, in Japan and in Sweden, but they do not fulfil a "dual representation" role as do the French prefectures, which represent the central government alongside sub-national government. The Japanese prefects have significant powers (although they do not co-ordinate the activities of all the ministries), but there is no regional structure; the powers of Swedish governors (prefects) are closely circumscribed by the municipalities, and those of the elected regional authorities are still limited; in England, representation of the central government at the regional level, where different ministries are housed in the regional "Government Offices", is not reflected in any elected regional structure (and moreover there is only limited inter-ministerial co-ordination at subnational level, since this task is in the hands of the Office of the Deputy Prime Minister rather than of regional governors or prefects).

The prefects are appointed by the President of the Republic and represent the State within the departments and regions.[4] The regional prefects play a crucial role. Recent legislation on decentralisation, while granting constitutional recognition and greater powers to the elected regional councils, has sought at the same time to make the regionally deconcentrated State administrative apparatus more efficient. The services provided by the various ministries at the regional level are currently grouped in eight categories, and the regional prefect is responsible for co-ordinating policies for these categories (education and training, public management and economic development, infrastructure-transportation-housing, public health and social cohesion, agriculture and the rural economy, environment and sustainable development, employment and vocational opportunities, culture). In addition to the teams placed under their authority, there is now a new determination on the part of the State to give the regional prefects a role in guiding and co-ordinating the departmental prefects, although French law does not provide for any formal hierarchy among prefects. The duties of the prefects are not limited to co-ordinating the implementation of centrally decided government policies: they are also responsible for defining State strategies at the regional level (see Table 3.1). This new stage of decentralisation therefore also seems to have reinforced the role of the regional prefects, in terms of greater deconcentration.

Box 3.1. **Features of decentralisation in the United Kingdom**

Government in the United Kingdom is centralised but not uniformly so. Institutions differ from one region to the next, and the number of administrative levels is not the same in urban and rural areas.

Thus, the "Nations" under the responsibility of the government at Westminster have elected regional structures: Scotland, Wales (no legislative powers) and Northern Ireland (where devolution is currently on hold). This level of government is not elected in the regions of England itself, however, where there seems little demand for greater local democracy: in a recent referendum, a proposal to introduce an elected regional assembly for the North East (Newcastle region) was overwhelmingly defeated.

To this variety of regional status must be added the variety of local situations. The process of merging the communes has left only one decision-making level for urban areas, where the Council is the "Unitary Authority". Rural areas have "County Councils" under which fall the more numerous "District Councils". Finally, there are still some "parishes" in different places, with limited powers.

These different levels betray overlapping powers and the central government's presence is so strong as to suggest a tendency towards "prefectoralisation" (via the "Government Offices"), driven essentially by the weakness of subnational government. In fact, the Government Offices are to prepare "Regional Emphasis Documents" addressed to the Treasury and identifying priority areas for government spending in the regions. Their chief task however is to implement central government policies and the responsible ministry maintains control over each set of expenditures. The question of reducing the central government role in the delivery of local public services appears to focus essentially on using private operators rather than deconcentrated public units. This same tendency is apparent in the debate over the definition of regional strategies. The Regional Development Agencies (RDA) are councils made up of local business representatives and members of public commissions, are appointed by the central government. Their task is to prepare a document, the "Regional Economic Strategy" (RES), heavily focused on economic development and competitiveness issues (financing for these bodies comes from the Department of Trade and Industry). There are a number of agencies that oversee the work of this structure and other "QUANGOS" ("Quasi-Autonomous Non-Governmental Organisations" that deliver public services and whose members, although often from the private sector, are appointed by the State) and in particular the Government Offices that have sectoral responsibility.

Regionalisation thus seems more the product of iterative processes than of any co-ordinated plan. The system is characterised both by a high degree of centralisation and by the fragmented intervention of many players. The absence of an elected regional level contributes to this complexity, and regional governance thus relies on a great variety of organisations ranging from government agencies (appointed) to "quangos" (also appointed) and a wide assortment of arrangements between local and regional authorities and private players.

Table 3.1. **Deconcentration and decentralisation: schematic presentation of deconcentrated services of State administrations and subnational governments**

	Deconcentrated services of central government administrations	Subnational governments
Regions (26)	Regional prefect	President of the Regional Council
	Secretary-General for regional affairs	General directorate of services
	Deconcentrated services	Directorates (education, economic development, communications, etc.)
	(Regional directorates for infrastructure, housing, agriculture, education, etc.)	Economic and Social Council (representatives of businesses, unions, associations and qualified individuals)
Departments (100)	Departmental prefect	President of the General Council
	Secretary-general of the prefecture Sub-prefects "*d'Arrondissement*"	General directorate of services
	Deconcentrated services (departmental directorates: Infrastructure, housing, etc.)	Directorates (roads, communication, environment, social assistance, agriculture, culture and tourism, education, etc.)
Municipalities (36 560)	Mayors	

Deconcentration: The State transfers certain powers exercised centrally by the central administrations (implementation of public policies, administrative decisions) to the subnational level, regional prefectures, departmental prefectures, deconcentrated services.
Decentralisation: The State transfers the exercise of certain powers to elected subnational governments (regions, departments, communes).

The process of decentralisation seeks to achieve greater efficiency in public expenditure. Consequently, any transfer of responsibility must be accompanied by a transfer of the necessary personnel to accomplish the tasks devolved. The new powers assigned to subnational governments are accompanied by transfers of personnel from central government agencies. Will those personnel transfers be sufficient? Many such transfers are now underway: technical, operating and service staff (TOS) of local education establishments, to the regions and departments; and technical staff of the departmental infrastructure directorates (deconcentrated services of the Ministry of Infrastructure) to the departments confirm the new distribution of responsibilities in these fields (see Box 3.2). This has not led, however, to the elimination of certain delegations (deconcentrated services of the central government).

This picture of the shifting role played by the central government in the regions has to be supplemented by a presentation of DIACT (Délégation Interministérielle à l'Aménagement et à la Compétitivité des Territoires)

Box 3.2. **Employment trends in the subnational public service (fonction publique territoriale)**

According to the report from the Public Employment Observatory (*Observatoire de l'emploi public*), the subnational public service employed 1.02 million persons in 1980, and slightly more than 1.4 million in 2001, for an increase of 30% over that period. By way of comparison, the national public service (central State civil servants, 2.409 million employees in 2001) grew by only 23% over that time. This tendency is likely to be accentuated with the creation of new subnational government jobs as responsibilities are transferred, essentially to the regions and departments. The situation report of November 2004 from the National Centre for the Territorial Public Service (CNFTP) shows a staffing increase of 2 to 3% in 2004 for all levels of subnational government.

It is important to note that, while the management category (A) accounted for more than 49% of civil servants in the central government in 2001, the great majority (nearly 78%, according to the Public Employment Observatory) of civil servants at the subnational level are in the non-management category (C).

Moreover, there are obstacles to moving between the national and subnational civil services.

For these reasons, the regions and departments seem to be recruiting most of their managers externally, thereby creating new jobs.

Source: Dexia February 2005.

(ex-DATAR, Office for Territorial Development and Regional Action), an inter-ministerial agency reporting to the Prime Minister and responsible for regional policy co-ordination (see Box 3.3). However current reforms seem to lessen the co-ordination function of DIACT. In fact, strategic proposals put forward by the prefects for their regions are currently reviewed by a national committee co-chaired by the Ministry responsible for State Reform (the Budget Ministry) and the Ministry of the Interior and Territorial Planning. The secretary-general of government organises interministerial meetings where the various ministries agree on central government strategy in each region.

Measures to counter territorial fragmentation

France has a huge number of communes (more than 36 000, representing 40% of all the communes of the 25 European Union members); at the same time those communes have on average fewer inhabitants than do those of any country in Europe except the Czech Republic (1 600). While the first

Box 3.3. DIACT (ex-DATAR) organisation and activities

DIACT provides secretariat services and prepares documents for the Interministerial Committee on Territorial Planning and Competitiveness (CIACT), chaired by the Prime Minister. This committee decides territorial planning policy guidelines and measures.

DIACT is also the prime partner of the regions. These partnerships were recently extended to the European level, and will be strengthened by the decentralisation process now underway in France. They involve:

- Preparation, implementation and monitoring of the State-Region Planning Contracts (CPER), in which the central government and the regions agree on strategic priorities. For each contract, an action plan is adopted and the respective financial commitments are set. For the fourth generation of contracts (2000/2006) central government expenditure will amount to € 18.3 billion. An equivalent amount will be provided by the regional authorities.
- The interface with Europe: DIACT serves as liaison between the European Commission, the French government (at the central and regional levels), subnational governments and other bodies concerned with European regional policy. France was allocated more than €16 billion for the period 2000/2006 within this framework.
- Implementation of territorial development policies. Along with the National Fund for Territorial Planning and Development (FNADT), which finances measures that serve broad objectives, the DIACT supports its activities with a specific assistance mechanism for enterprise development: the Territorial Planning Bonus (PAT). It is also involved in promoting clusters and the so-called "competitiveness hubs" (*pôles de compétitivité*).

DIACT also conduct studies and performs monitoring and forward planning activities within its fields of competence.

Organisation of DIACT

DIACT consists of five teams responsible for specific areas: regional development; local development (although urban policy is entrusted to the *Délégation Interministérielle de la Ville,* which is part of the Ministry of Employment, Social Cohesion and Housing) and rural policy; economic development and attractiveness; the central government's territorial policies and sustainable development; and European affairs and international relations, to which may be added the monitoring and forward planning units, and a General Secretariat.

Box 3.3. **DIACT (ex-DATAR) organisation and activities** *(cont.)*

Specific trained personnel for industrialisation and development in some areas and in mountain regions assist DIACT. In addition, DIACT contributed to the creation of the French Agency for Foreign Investments (AFII) and its abroad offices (New York, Boston, Chicago, Los Angeles...) aiming at identifying possible investors. DIACT is still responsible of this agency jointly with the Ministry of Finance, Economy and Industry.

The National Territorial Planning and Development Fund

The instrument for financing CIACT decisions is the FNADT. This fund supports projects to encourage employment and attract industry to territories, as well as to promote their natural and cultural heritage. FNADT also provides funding for projects that use information and communication technologies. It consists of three units, handling:

- implementation of CIACT decisions;
- financing of planning contracts and interregional activities;
- contributing to the establishment of public services and local efforts at inter-municipal co-operation level.

decentralisation laws of 1982 addressed responsibilities, resources and oversight for subnational governments, they did not deal with the issues posed by the consecutive subdivision of local government. Yet the small size of the communes poses some major disadvantages in terms of efficiency (in particular the narrowness of the tax base and the inadequacy of financial resources for carrying out their responsibilities). The device of "inter-communality" (*intercommunalité*) was selected as the most effective way of gradually reforming French territorial institutions, through a series of laws adopted during the 1990s (and in particular the law of 12 July 1999). There were inter-communal structures of long-standing, but the French authorities were determined to redraw the map and the manner in which municipalities relate to each other. This policy was very successful in terms of the spread of inter-communal structures and today the local administrative organisation is being completely overhauled under the impact of the inter-communality reform (see Section 3).

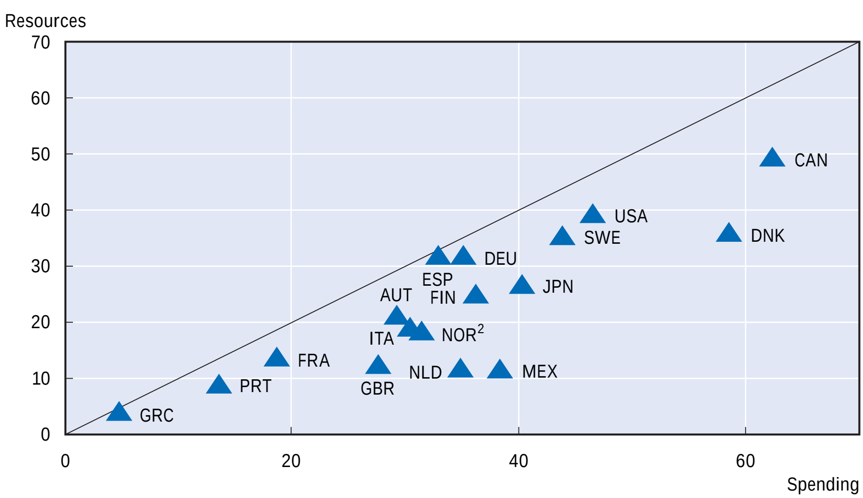
Subnational government finances and fiscal relations with the State

By bringing public decision-making closer to the people, decentralisation is intended to improve the efficiency of public spending by giving subnational government more room for manoeuvre. This is being achieved not only by reforming institutional mandates, the allocation of responsibilities, and relationships between the different levels of government, but also by strengthening the financial position of subnational governments and changing their budgetary and fiscal relations with the central government. The following paragraphs examine the current situation of subnational governments in France.

In 2003, subnational governments were responsible for 20% of public spending nationwide (nearly 10% of GDP), while they raised 15% of revenues (see Figure 3.1). Despite 20 years of decentralisation, they carried much less financial weight than their equivalents in most other OECD countries. In some countries, indeed, subnational levels of government have much greater spending autonomy, with responsibility for important sectors such as health and unemployment benefits, balanced by greater revenue autonomy through their ability to impose local income taxes. Yet in all countries examined, transfers from the central government exceed local revenues in importance, or are equivalent to them, as in Canada. The figures for France, however, are changing as a result of the second wave of decentralisation, with the increased devolution of spending.

Figure 3.1. **Subnational government share in total public revenues and spending**

Per cent, 2003[1]



Note: Revenues consist of direct and indirect taxes and levies that flow to local and regional governments. Expenditures are measured as a percentage of general public spending. Transfers are shown at net value.

1. Or last available year: 2000 for Japan, 2002 for Denmark and Mexico.
2. Mainland only: data do not cover revenue from oil production.

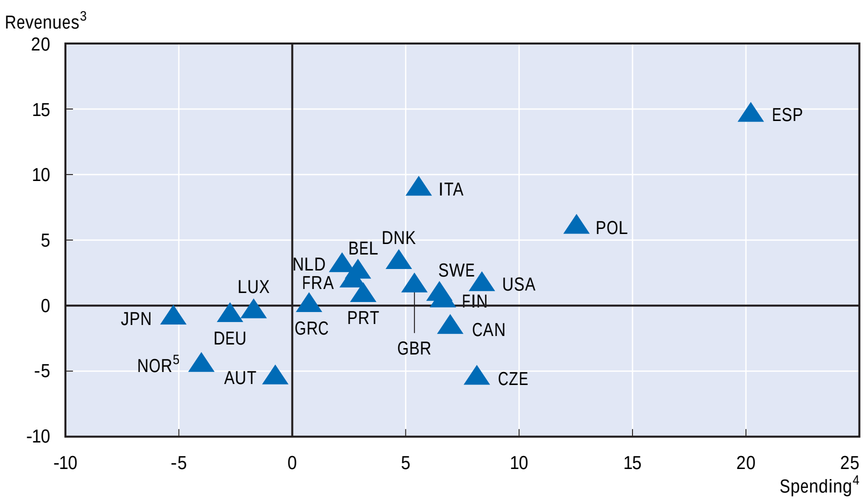
Source: OECD, *National Accounts*; Statistics Norway; Statistics Canada; US Bureau of Economic Analysis.

The impact of decentralisation can be seen in the changes in the subnational government share of total public revenues and expenditures (see Figure 3.2). Since data are available only to 2003, this shift is very small in the case of France, while in two neighbouring countries that had made radical changes by that date, Spain and Italy, subnational fiscal autonomy has risen sharply. In Spain, in particular, the subnational levels of government have seen their spending budgets jumped by more than 20%.

Own resources, transfers, and reform of the equalisation system

The resources of subnational governments consist of tax revenues, State financial assistance, transfers from the European Union and other governments, and service charges and levies. This list is supplemented by the proceeds of loans for financing investments. In 2002, the last year for which definitive data from subnational government accounts (communes, departments and regions) are available, the budget amounted to € 137 billion (see Table 3.2).

Figure 3.2. **Decentralisation in OECD countries: change expressed in percentage points, 1985[1]-2003[2]**

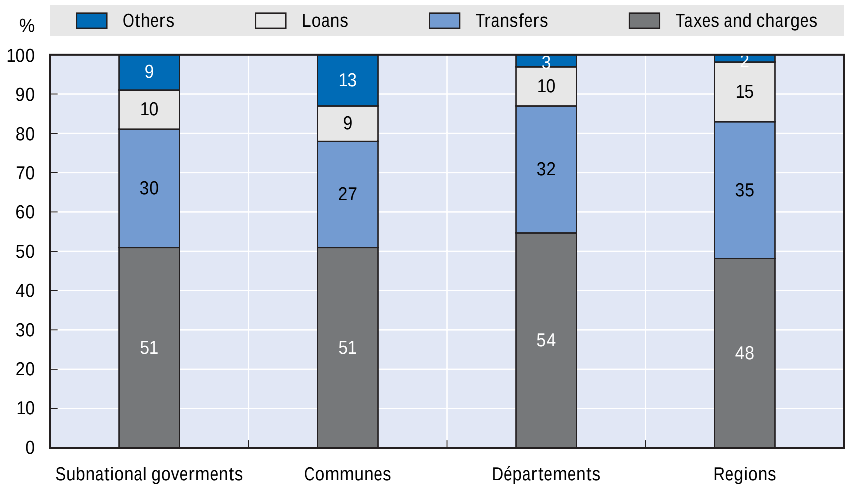


Note: Decentralisation is measured by the changes in the share of subnational governments in total public revenues and spending.

1. Or earliest year available: 1987 for the United Kingdom, 1989 for Canada, 1990 for Japan, Luxembourg and the Netherlands, 1991 for Germany, 1993 for Sweden, 1994 for Finland, 1995 for Austria, Belgium, the Czech Republic, Denmark, Greece, Poland, Portugal and Spain.
2. Or latest year available: 2000 for Japan and 2002 for Denmark.
3. Excluding transfers received from other levels of government.
4. Excluding transfers paid to other levels of government.
5. The share of subnational revenues is expressed in per cent of total government mainland revenues.

Source: OECD, *National Accounts*; Statistics Norway; Statistics Canada; US Bureau of Economic Analysis.

Table 3.2. **Subnational government revenues, 2002**



Source: Direction Générale des Collectivités Locales, Ministère de l'Intérieur, 2005.

There are four direct local taxes: the occupancy tax, the developed property tax, the undeveloped property tax, and the business tax (*taxe professionnelle*). Each commune, department and region fixes the rates it will apply to the tax base for these for taxes (CNFTP, 2002). The business tax is the most important one, accounting for nearly half of subnational revenues.[5] In fact, the yields from these four taxes vary greatly, from less than € 1 billion for the undeveloped property tax to more than € 23 billion (in 2004) for the business tax (Ministère de l'Intérieur, DGCL, 2005). The levying of these local taxes is distributed in different ways among the various levels of government: occupancy tax (communes, inter-communalities, and departments), developed and undeveloped property taxes (communes, inter-communalities, departments and regions) and the business tax (communes, inter-communalities, departments and regions).

There are thus multiple layers of rate-setting (most frequently, each level will add an additional margin to the common tax), in addition to the central government, which establishes the rules. There are ceilings in effect (*e.g.* the communes' property and occupancy taxes may not be more than 2.5 times the national average for 2004) and a specific principle that of the "linkage of rates" intended to control rate increases. These rules are numerous and technical. One solution to the complexity of the local tax system might be to move towards "fiscal specialisation" where one single level of government would be assigned the power to set each tax (avoiding wherever possible any intervention by the central government). Some recent reforms have pointed in this direction, by removing the occupancy tax from the regions and the business tax from those communes that are members of inter-communalities that have opted for a single business tax. However, adopting a strict rule of "one local tax for one level of subnational government" poses the risk of dependency on a single tax source. This move deserves to be carefully analysed. Comparing this option with the one adopted in neighbouring countries sharing similar basic conditions (initially unitary system, three-level structure of subnational government, heavy waves of decentralisation), it will be seen that in Spain taxes are specialised (with exception), while in Italy they are shared (in particular, income tax surcharges).

Local taxes have been the subject of constant adjustments since the late 1960s, in an attempt to steer the burden away from salaries and wages. Reforms have focused on selective relief (*e.g.* exemption of the salary base from the business tax, capping the occupancy tax as a function of income), compensated by the State (rather than any substantial reform, see Guengant, 2005). In 2004, the State financed half of the business tax and around a third of the occupancy tax and the undeveloped property tax. In effect, the State pays these offsets at a fixed rate (that for the fiscal year or the year of relief): this is something that the budget office insists on. The developed property tax is the only local tax that is paid almost in its entirety by local taxpayers. These offsets are however a burden on the central government budget and the rules for compensation and for indexing subnational government revenues do not seem consistent with the current drive for productivity and economy in public spending.

With these findings in hand, and especially in light of the constitutional reform of 2003, there should be no further resort to the old compensation methods. Indeed, during preparation of the 2006 budget, it has been decided to transfer a portion of central government tax revenues, rather than a budgetary subsidy, to cover the new local responsibilities. The domestic consumption tax on petroleum products (TIPP) for the regions and the special tax on motor vehicle insurance policies for the departments (totalling € 547 million in 2005 and € 1.2 billion in 2006) are allocated in this way. Consideration is being given to letting subnational governments modify the rate for these taxes, at least for the TIPP. It would seem, then, that there is a shift away from the tendency to transfer budgetary resources to subnational governments, in favour of a tax transfer. In Spain, the share of tax transfers in subnational revenues rose with the granting of tax revenue transfers to the autonomous communities in 2002 and to the major cities in 2004. In return, overall subsidies to the autonomous communities have declined and those to the major cities have been eliminated. France seems to be moving in this direction at the present time, although the Constitution still requires that the transfer or creation of new responsibilities must be fully offset by the State (in particular through the allocation of budgetary resources).

Central government grants, on the other hand, have a further economic objective, which is fiscal equalisation. In 2005, the budget law raised to more than € 62 billion the financial transfers to subnational governments, of which € 39.2 billion went to operating transfers (essentially the global operating grant, *dotation globale de fonctionnement* or DGF, of € 37.9 billion), € 6.4 billion went to capital grants, € 4 billion to finance the transfer of responsibilities, and € 12.5 billion to offset tax exemptions and relief. The DGF can be broken into two major parts: a lump sum to finance local public services (calculated as a certain amount per head based on demographic factors, and a small amount per hectare, based on the surface area of the communes) and to offset certain tax revenues; and an "equalisation" portion that includes the "urban solidarity grant" (DSU), the "rural solidarity grant" (DSR), and the "national equalisation grant" (DNP).

The great bulk of central government transfers to the subnational levels are non-earmarked, leaving the subnational authorities great freedom of action in spending them. However, this freedom is constrained by constitutional responsibilities for providing local public services (see the analysis of subnational government expenditure below). Among the most important grants is the DGF, the "global operating grant", which was recently overhauled to "globalise" it by rolling into it a number of previously separate grants and offsets. While this move is consistent with the desire for simplification, it nevertheless tends to obscure the purposes of the transfer (financing, compensation and equalisation) and to ratify the disconnection between the local tax effort and local revenues (since the transfer includes a portion to compensate for local tax relief, awarded for equalisation purposes).

A recent assessment of the equalisation impacts of these provisions, commissioned by the *Commissariat général du plan,* found that the lump-sum portion of the DGF has a greater overall equalising impact, because of the volume committed, than the specific provisions to this end, even if the latter are more effective (Gilbert and Guengant, 2004) (see Box 3.4). On the whole, the equalisation system is having a positive and growing impact. But at the same time there are still great disparities in that impact between communes, although the differentials between departments and especially between regions are less pronounced. An important lesson from that study is that the marked progress in reducing interregional disparities is due essentially to the elimination of taxes, with the resulting reduction in inequalities and sharp growth in compensatory grants. Thus it is not so much the success of the equalisation provisions but rather the removal of the regions' fiscal autonomy that seems to be promoting convergence in their resources.

Box 3.4. **Evaluation and evolution of the French equalisation system**

There are great disparities in terms of fiscal potential and local charges between different local governments at the same level, and in particular between communes.* Thus, the fiscal wealth of the richest 1% of communes is 44 times higher, per capita, than that of the poorest 1% of communes. The policy challenge is to offset differences in local governments' purchasing power in terms of local public services. The French equalisation system is based on three principles: the aim is to achieve equality of purchasing power, and hence of fiscal wealth corrected by local charges; equalisation does not seek absolute equality but rather progressively greater equality through national transfers; and finally, the financing of equalisation is based on recycling financial compensation paid by the central government to offset local taxes eliminated or reduced and expenses incurred through the devolution of responsibilities. A recent study (and one that had a strong impact) showed that the overall correction rate after payment of subsidies amounted to 40% of wealth gaps. One-third of this can certainly be attributed to explicit equalisation transfers, but, more importantly, two-thirds is due to other grants, where redistribution is not the primary objective: compensation for taxes abolished or for burdens transferred.

The constitutional act of 28 March 2003 makes equalisation a constitutional obligation. The DGF, the "global operating grant", which is the pivotal point in the financial relations between the central government and local governments, has been doubled following the reforms contained in the 2004 finance law, and now amounts to € 36.7 billion after the inclusion of grants and fiscal offsets that were separate from that fund. The "globalisation" of the DGF (which essentially means the inclusion of previous separate offsets) and the increase in its volume has also been accompanied by resort to some innovative devices. The first was the move, in 1991, to supplement the vertical forms of equalisation with horizontal forms (from the wealthier collectivities to the poor ones): between departments, and then through the regional solidarity fund (FSRIF) between the communes of Ile of France. The introduction of the TPU ("single business tax") at the inter-communality level may be said to have contributed to this enhanced equalisation by smoothing out business tax rates and revenues across all partner communes. Moreover, within the inter-communality grant, the "equalisation fraction" represents 85% of the volume, distributed according to the wealth criteria of the intercommunalities. Yet even this is not regarded as sufficient. A major reform was made through the 2005 finance law, with its shift from the notion of "fiscal potential" to that of "financial potential".

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Box 3.4. **Evaluation and evolution of the French equalisation system** *(cont.)*

The idea is to expand the base for calculating the resources of the various communes or the various departments before equalisation by adding the amount received through permanent and predictable transfers, as if these grants (the bulk of which originated in the offset of former local taxes) were generated locally. This change is viewed as a way to take better account of wealth disparities between communes, because it modifies the eligibility criteria for the equalisation portion of the transfers.

* Fiscal potential: the yield per capita of the four direct taxes that a local government would obtain if it imposed average national rates instead of its own rates.
Local charges index: an indicator of the cost to the user for the supply of local public services. It is evaluated indirectly using various criteria (demographic, social, economic and geographic) that are deemed to exert an influence on local government spending and that in this way tend to generate inequalities.

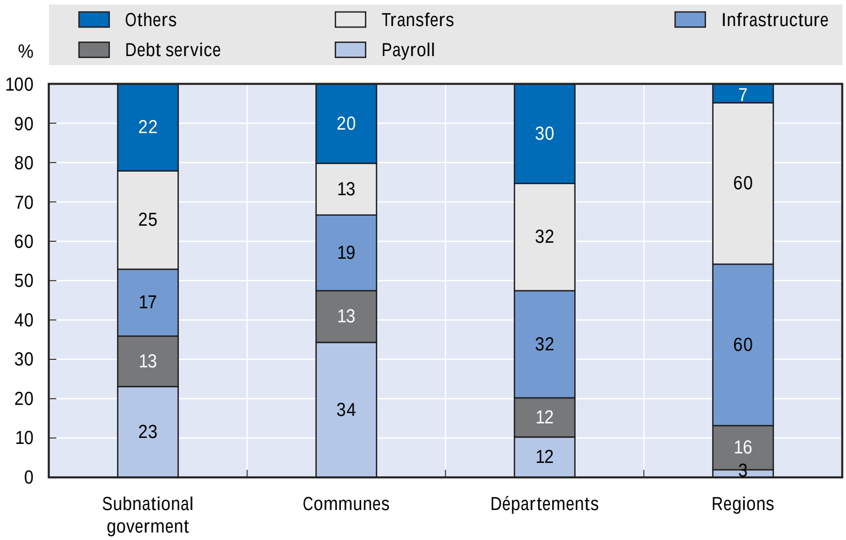
Source: Gilbert et Guengant, 2004 and Philot, 2005

Subnational government spending

While resources are structured in much the same way at the different levels of subnational government, the spending structure varies considerably (see Table 3.3). The departments are increasingly responsible for delivering social assistance: this accounted for 15% of their spending in 2002 and is expected to reach 45% in 2004, with decentralisation of the minimum income guarantee (*revenu minimum d'insertion*, RMI: 10%), and the personal independence benefit (*allocation personnalisée d'autonomie*, APA: 8%). To this responsibility must be added roads (14%), "economic services" (10%) and the colleges (8%). The regions finance the high schools or *lycées* (22% of their spending in 2002), vocational training (15%), passenger rail transport (14%), transport and telecommunications (12%) and "economic action" (6%). It is clear, moreover, that the regions transfer a significant portion of their budget to subregional governments, and that their payroll expenditures were still very modest in 2002.

The expenditure items of subnational governments can be identified under two broad headings: mandatory spending and optional spending. Subnational governments are required to budget for the spending required of them by law (which may be imposed by the prefect). Mandatory spending covers a broad field and results from decisions over which they have no control (payroll hikes imposed by civil-service wage accords, environmental and safety standards, etc.). These burdens limit the manoeuvring room of local officials when it comes to discretionary spending. It should be noted however that, according to INSEE, subnational governments were responsible in 2002 for 71% of non defense public capital investments.

Table 3.3. **Subnational government spending, 2002**



Source: Direction Générale des Collectivités Locales, Ministère de l'Intérieur, 2005

3.3. Co-ordination between levels of government

Co-ordination among the different levels of government is a key question for regional policy, in light of such factors as institutional autonomy, the multiplicity of players, financial dependence, and shared responsibilities. To address this need, the French authorities have instituted "public action contracts" (*contrats d'action publique*) and have promoted a partnership approach in defining regional policy strategies.

Public action contracts

For more than 20 years, in fact since the decentralisation process began in 1980, France has been developing and experimenting with "public action contracts" as a means of putting public policies on a contractual basis, promoting co-operation, and breaking down barriers between the many players – central and subnational, private and public (Gaudin, 2005). The initial rationale for this approach included the emergence of new areas of activity beyond the conventional public policy fields (for example the environment), and the increasingly crosscutting nature of many issues (for example, the linkages between social and urban policies, economic action, and cultural policies and their impact on local development). This called for new forms of co-operation and partnership, which were distilled in the public action contracts. The implementation of the "blocks of responsibilities" was thus often associated

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with contracts such as the State-region planning contracts designed to decentralise economic planning, to regionalise the financing of major public works, and to encourage negotiation as a new tool for public intervention.

"Putting public policies on a contractual basis was thus seen as a means of 're-stitching' the fragments of public intervention that were scattered by decentralisation in the 1980s, or more precisely of articulating them among the policy sectors and the diversified levels of responsibility, ranging from the commune to the central government, without resorting again to centralisation and the classic hierarchical relationships" (Gaudin, *op. cit.*, p. 217, our translation). As early as the 1970s there were experiments with "city contracts" (*contrats de ville*) between the State and mid-sized urban communes for the renovation of city centres. This period also saw the negotiation of the first *chartes de pays* ("charters" for the "*pays*") and contracts for upgrading the housing stock. The overall objective of these initiatives was to empower subnational governments by enlisting them in projects jointly defined and financed under a contractual relationship with the State.

The notion of "contract" is itself controversial. Public action contracts are in fact multi-faceted procedures that were used first by the central government and then by subnational governments and by the European Union in a great variety of public policy sectors, sometimes combining public and private players, sometimes only public players, and designed to overcome administrative segregation, to broaden the field of cofinancing, or to delegate responsibilities. The all-embracing nature of the term "contract" is probably excessive. It boils down to a minimum procedural form that is often unclear in its implementation. What is specific about this procedure in the end is that it gives form (often more political than legal) to partnership commitments: a form that from the legal viewpoint stands midway between the conventional institution (public co-operation establishment or *établissement public de coopération*, public interest grouping or *groupement d'intérêt public* for example) and a contract under private law.

The preparation of regional policy strategies

The involvement of all players (in particular the ministries concerned) in preparing central government strategies for the regions is based on the following principles: the process must reflect the viewpoints of many stakeholders, it must proceed by negotiation (rather than by fiat or by consensus), and it must preserve the central government's decision-making power. There are two regional strategy documents that represent two different viewpoints.

- *The strategy document of the regional prefect.* Following in-depth discussion organised by the regional prefect, medium-term programmes are adopted at the regional level. Their preparation involves the heads of the deconcentrated ministerial services and the departmental prefects. External advice (from subnational governments, universities, consultants, regional economic and social councils, etc.) is generally solicited in assessing the territory's strengths and weaknesses. The prefect, acting under his own responsibility, submits a document that has been known since 2004 as the *Projet d'action stratégique de l'État en région* (PASER) or "Project for State regional strategy", with a three-year time horizon, laying out strategic considerations and priorities for territorial action. A "National PASER Monitoring Committee" (*Comité national de suivi des PASER*), co-chaired by the minister responsible for State reform and the Ministry of the Interior, which is today also responsible for territorial planning, serves as the framework in which the central ministries define State strategy in each region, in collaboration with the regional prefect. This tool, which has a quasi-contractual status committing the central ministries, is particularly useful for preparing future contractual arrangements with subnational governments, or simply for developing partnerships. With its objectives and performance indicators, the PASER is also a tool for conducting and evaluating the State's main territorial policies (in the spirit of the new budget law, the LOLF).[6]

- *The strategy document of the Regional Council.* At the same time, the regional council draws up its own medium-term planning document, the "regional territorial planning master plan" (*Schéma régional d'aménagement du territoire*, or SRADT). It is assisted in this task by the Economic and Social Council, comprised of business and labour representatives and academics. The document contains a forward-looking analysis and a "regional charter", together with a series of maps, and serves as a reference for other subnational governments and public agencies.
- Moreover, by virtue of the law of 13 August 2004 on local responsibilities and freedoms, the regions are entitled to draw up a *Regional Economic Development Master Plan* (*Schéma régional de développement économique* or SRDE), on an experimental basis for five years (to 31 December 2009), in collaboration with other local governments, inter-communal structures and local economic players such as the chambers of commerce and industry. According to the law, when an exploratory SRDE (regional economic development plan) is adopted by a region, the region has the power, by derogation from the state, to allocate the resources that the plan provides for enterprises. A convention is agreed between the state, the region and, where relevant, other local authorities in which the objectives of the plan are defined as well as the financial resources contributed by each of the parties.[7]

The two regional strategy documents prepared by the regional prefect and the regional council are fundamental steps that, despite their differences (three-year *versus* medium-term horizon) make it possible to identify the main areas of common interest. They establish the needed basis for negotiation of the planning contracts between the State and the regions. Moreover, European financing can only be incorporated into these contracts upon presentation of the strategy documents (see the following section on the State-region planning contracts). French planning thus relies today almost exclusively on the regional level, given the responsibilities of the elected regional councils and the role assigned to the regional prefects. It is these two players that negotiate the planning contracts between the State and the region. Over the last 20 years, French planning has thus evolved from "fully central" to "fully regional".

Reforming the State-region planning contracts (CPER)

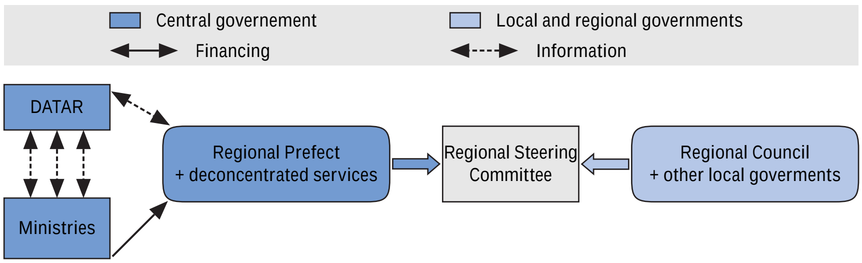
Background and features of the current mechanism

The CPER became the strategic instrument for regional development policy in 1984, only two years after it was created by the law of 29 July 1982 on planning reform. These contracts have been negotiated with all regions since 1984, for periods of five to seven years (the current contract runs from 2000 to 2006). These are detailed documents that present all the programmes and measures that will be carried out over a given period. The central government and the region co-finance projects defined in them: the most recent contracts may call for contributions from other local governments and from the European structural funds as well. They include a financial appendix specifying each party's financial commitment for the period involved. The CPERs do not necessarily imply budgetary transfers between central and subnational governments; rather, they generally focus on the responsibilities and commitments of each party, while providing a detailed description of the purposes of each measure.

While the first contracts were essentially devoted to infrastructure projects and industrial modernisation, those of the three subsequent generations have addressed a much broader range of questions, including grants for regional innovation and economic development and incentives for territorial initiatives. Since the 1990s, the budget allocated to these contracts has jumped spectacularly by more than 45% for each new generation of contracts. Thus, the amount for the 2000/2006 CPER is triple that allocated in 1984/1989 (see Annex 3.A3). The central government has also attempted to give the more disadvantaged regions the ability to compete on an equal footing by providing a larger share of funding through the contracts (which it has seen as an equalisation tool) as a function of their unemployment rates, their employment prospects, and their budgetary capacity indicators. The idea has been to promote local development by using the contracts as a supplement to other more conventional programmes based on redistribution transfers.

Implementation of the contracts requires participation by different agents: the central, regional and local authorities, their representatives, and some intermediation bodies:

Figure 3.3. **Contracts of plan outstanding**



The planning contract is the culmination of a long process based on the mutual commitment of two groups of stakeholders: 1) the elected local and regional authorities, and the "development agents" in the region (businesses, associations, etc.), under the co-ordination of the regional authorities, and 2) the regional prefect, who serves as the "intermediation agent", and liaison with the regional offices of the central ministries. These two groups together implement and monitor the planning contracts through a regional steering committee (*comité régional de pilotage*). The State's commitments are carried out by the Regional Administration Committee (CAR), which is responsible, inside the regional steering committee, for programming State investments in the region. The draft contracts, negotiated at the regional level, are co-ordinated by DIACT, which serves as liaison between the ministries and the regional prefects and prepares the final submission to the Prime Minister prior to approval of the contracts. It is important to note that, under the current contracts, when it comes to "territorial development" it is the inter-municipal bodies that prepare the horizontal territorial projects that require approval at the regional level.

For the current contracts, the regional prefectures worked out a preliminary draft in 1998/99 in the form of a "summary action plan" (*plan d'action synthétique*), highlighting the strategic priorities emerging from the consultations conducted by the regional prefects and the regional councils. An initial decision was then taken at the national level to allocate a financing envelope to each regional prefect covering national governmental priorities, to be supplemented later by a second envelope to take account of regional priorities. Based on this initial State mandate, negotiations then took place between the regional prefecture and the regional council (accompanied by the departments and major municipalities, depending on the region). The outcome of these negotiations was referred back to the central government,

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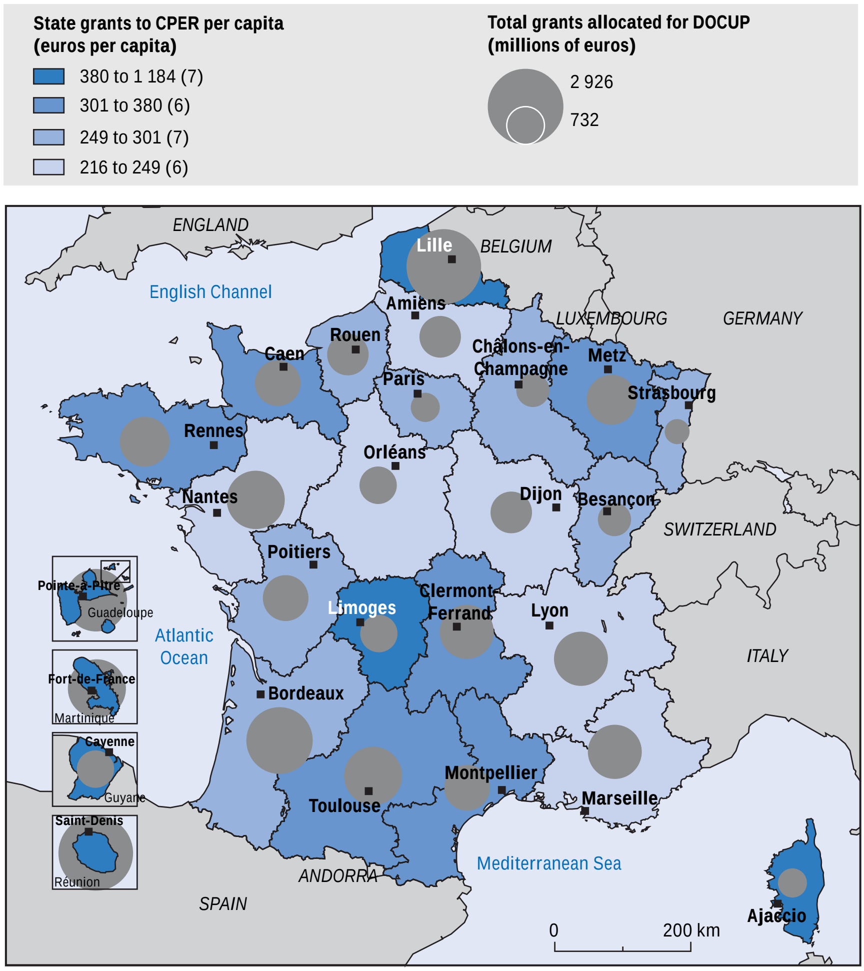
which then establish the amount of the second envelope. Thus, in principle the State can block certain programmes but, except for the large-scale projects that are generally identified during the negotiations stage, it is rarely involved in the projects identified in these programmes themselves. These result from the selection of projects at the regional level, which is often a matter of intense competition. This rivalry effectively ensures that the hard-won funds will be actually committed at the local level. Yet the process is not written in stone, and if types or lists of projects (sometimes exceeding possible commitments) appear on each budgetary line it is for the purpose of giving the partners some flexibility in reaching agreement.

Current status

The current contract (2000/2006) continues the trend to higher and more varied budgets. Today, the budget is bigger and the regional share slightly exceeds that of the central government. Public investment under these contracts represents about 15% of the central government's civil investment budget and 30% of the regional councils' capital budgets. The State contribution varies from 39% (Ile-de-France) to more than 63% (Limousin), reflecting its efforts to help the poorer and less competitive regions in catching up (see Map 3.1). The ministries that contribute most to the regional programmes under these contracts are the Ministry of Infrastructure, Transport and Housing (40%) followed by the Ministry of Education (17%) and the Ministry of Agriculture (9%) (see Annex 3.A4). In fact, however, there are nearly 20 ministries participating today in the State-region planning contracts. The trend toward contracts covering ever more fields and involving ever more financial resources also reflects the demands of the regions, eager to build infrastructure (roads, university campuses, etc.) and to pursue policies to promote regional development. By contributing financially to these tasks, the regions are able to speed up implementation and to have a say in decisions that were formerly beyond their purview.

The planning contracts now in effect, which are to run for seven years in order to coincide with European programmes and thereby improve their co-ordination, are structured in different ways according to the region, but reflect the three broad horizontal priorities set by the government: employment creation, sustainable development, and reduction of social and territorial inequalities. Priority is also given to "soft" functions (education, research and development, ICTs, etc.) as well as infrastructure other than roads (the share going to rail infrastructure has risen significantly). These State-region contracts contain a regional component consisting of actions of interest to the entire regional territory, as well as a territorial component intended to finance sub-regional actions defined in contracts with the *pays* or with urban areas through the "agglomeration" contracts (*contrats d'agglomération*). In principle, at least 25%

Map 3.1. **State region planning contracts and European structural funds**



Source: DATAR.

of the regional budget contract is supposed to be earmarked for this territorial component (see following section). These planning contracts also contain an interregional component for projects and programmes of interest to several regions (for example, contracts covering a specific mountain range, the *contrats de massifs montagneux*). These raise € 830 million from the central government, supplementing the € 17.5 billion earmarked for the regional contracts.

The distribution of contract funds by area reflects the differentiated nature of the tool. The CPERs are primarily instruments for supporting or, depending on the point of view, for transferring to subnational governments the responsibility for large-scale investments that the State can no longer afford in light of its budget difficulties. Thus the central government is contracting out nearly all of its road transport operations, while the budget item devoted to employment, for example in Rhône-Alpes, represents only 1% of what the prefecture spends on employment in this region.

Financing of the CPER and co-ordination with European structural funds

The funds allocated to the CPER are appropriations under "ordinary law": there is no reserve fund or any supplementary appropriations. However, they may involve the creation of their own budget lines, rather than simply earmarking a portion of existing budgets. For example, earmarking led the Rhône-Alpes region, in the context of the last CPER, to devote its budget of € 1.4 billion essentially to three objectives: transport and communication infrastructure, urban policies, and higher education (primarily for physical facilities). This absence of allocable budget room at the central level prevents inclusion of support for the territorial aspect in ministerial envelopes. The *pays* are therefore primarily supported by the (fungible) funds available to DIACT (FNADT). This also poses a problem: when a Ministry's budget line is heavily contractualised (as was the case until now for roads) there is no further room for manoeuvre at the central level: an economic shock that cuts the budget will have a direct impact on the CPER and thus on the activities planned.

CPER allocations from the State in the regions have risen from € 10.7 billion (CPER 1984/88) to € 33.6 billion (CPER 2000/2006). Overall, this amount is today shared equally by the State and the regions. The overall amount is supplemented by a minimum of € 5.8 billion paid by other local governments (a figure derived from some CPERs specifying the expected contribution of other governments: departments, communes, inter-communalities). The State devotes € 2.4 billion on average each year to the latest planning contracts, *versus* € 4.8 billion per year to the regional DGF (the main transfer) and, most importantly, € 56 billion for all State transfers to all subnational governments. The low level of financing for the planning contracts, compared with total State expenditures on subnational government, needs to be qualified: as noted above in the discussion of investment, the share represented by the planning contracts constitutes in effect nearly 15% of the central government's civil investment budget, and some of the items in that budget are devoted almost entirely to the planning contracts. When it comes to equalisation, the State's determination to use the CPER as an instrument for reducing disparities is clear in the distribution of the envelopes by region (see Annex 3.A5.). This subject however deserves further discussion (see below).

Co-financing provided by the State for the planning contracts provides incentives for the development of partnership projects, in particular with other local public players. The contribution goes to projects that are deemed strategic in this regard. Yet this *ex ante* incentive is not paired with any *ex post* incentive. There are no penalties for late implementation of the contracts, nor is there any bonus for particularly effective performance. The central government is itself remiss in paying its commitments. This at least is the opinion of the Finance Committee of the National Assembly (Parliament), based on the fact that as of 30 December 2004 the State had delegated less than 55% of appropriations instead of more than 70%, as it was supposed to have done by that date, meaning that it was running a year and a half late.

This absence of any control device stands in sharp contrast to the measures that apply to the European structural funds: the "sunset clause" allows the Commission to "claw back" the funds it has committed if the member State does not spend them on the target programme within two years following the commitment. Actual misuse of the funds can be referred to the supervisory institutions (inspections by the Commission, European Court of Auditors). Finally, the European Union has the device of the performance reserve, whereby 4% of the initial envelope is withheld for distribution to projects that effectively meet their established objectives. The basic impact of this device is to instil a culture of monitoring and evaluation in local partner institutions. It has induced the Italian authorities to add a supplementary reserve of 6% for their contribution to projects co-financed by the European Union: 10% of the initial envelope for projects supported by the European Commission in Italy is thus held in reserve and is released only if performance at midterm is satisfactory (according to indicators that are identified at the outset but that may differ between Rome and Brussels). While there are some shortcomings to these mechanisms (in particular the problem of identifying neutral performance criteria), they are worth exploring as incentive tools.

The link with the European funds is real enough. In fact, the CPER time frames have been brought into conformity with those of European regional policy. This has allowed the two instruments to be prepared simultaneously, meaning that strategies should be in principle convergent (see Map 3.1 above). Yet the two operate separately thereafter, inasmuch as eligible operations will not necessarily be the same. There is very little co-financing by FEDER and CPER, and little in the way of national contributions to European financing can be found in the CPER. On this point, it should be recalled that transport infrastructure is not eligible under Objective 2. Thus, it is estimated that only a sixth of financing serves objectives that are common to the European programmes and to the CPER (comparison of Objective 2/CPER mainland France). A significant reform is now underway for the next European programmes, and this could well have an impact on future CPERs. The Commission expects member States to prepare a national strategic frame of reference that will underscore the link between community priorities and national and regional priorities. This document could provide support for both instruments.

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Evaluation

There has been no overall evaluation of the planning contracts procedure: budgets and objectives may have been listed and one element or another of contractualised policies may have been evaluated *ad hoc*, region by region, but the performance of the contractual device itself has not been addressed in any study with figures attached to it. Evaluation has been deliberately left to the regional level, using a procedure established by the government, while the central level is limited to a role of co-ordination, training, encouragement and financing of regional evaluations. Thus it is at the regional level that matters for evaluation are decided, in partnership between the State and each region.

At the same time, financial data for monitoring performance under the planning contracts are consolidated at the national level by DIACT, but they are based on a compulsory reporting approach and the only comparable information they contain is on the degree of central government spending committed *versus* planned. The paradox here is that, in fact, there are many evaluations but they are all *ad hoc* , focusing only on segments of public policy that vary from region to region. Thus, the regional prefectures and the regional councils have their own in-house evaluation teams, but it is virtually impossible to synthesise the results, except perhaps when different projects are undertaken in different regions with the same objective.

On 1 January 2005 DATAR took over the task of evaluating the CPER from the *Commissariat général du plan* (another agency that falls under the Prime Minister, responsible for forward planning, recently broken up). In fact, since 2000 there have been some 300 separate regional evaluations (50 *ex ante* and mid-term DOCUP European evaluations and 230 regional evaluations relating to different aspects of the CPER), which betray a variety of themes and methods. The objective of DIACT is to draw up an overall balance sheet from these evaluations and from those dealing with the DOCUP and other regional policy funds. It also seeks to formalise what might become the evaluation component to be built into future CPERs. The procedures for evaluating the DOCUP, which are strictly time- and content-bound, have led DIACT to introduce real tools for evaluation training and activities among the regional management authorities. With this tool, *ex ante* evaluation is a condition for obtaining European approval; the interim evaluation is a condition for accessing the performance reserve and for any midterm revisions; and the final evaluation is often considered as an important tool for determining the strategy for the next European contracts. DIACT's supporting mission is thus focused largely on this final evaluation, while evaluation procedures are regarded as tools for enhancing local competence. The Community evaluations have thus played a key role in instilling a more rigorous culture of evaluation, something that it is particularly important to build into the next CPER arrangements (see also Box 3.5).

Box 3.5. **Advantages and disadvantages of contractual arrangements between levels of government**

From the standpoint of multi-level governance, contractual arrangements have the following advantages:

- Link regional and local policies to national priorities. As such, contractual arrangements are measures accompanying further decentralisation while maintaining consistency in public policy making and implementation;
- Contribute to building local capacity. In contractual arrangements, the "sub" level of government is not being looked upon as the mere recipient of a mandate granted to it. On the contrary, it is made responsible by virtue of its participation in decision-making and in the learning process. Therefore, these arrangements require a high level of participation, knowledge and competence on the part of local representatives.
- Although less explicitly, perform a legitimatisation function. Whereas government by command is no longer practised, contractual arrangements offer an opportunity for governments to submit their policies to the agreement of other authorities, which will have to comply with them, and to re-legitimise their authority through negotiation. This legitimisation effect is both relevant for the central and the regional level.
- Help handling institutional fragmentation. Contractual arrangements are meant to constitute a useful tool for improving co-ordination between different ministries acting at local level. As such, they are more developed in more fragmented systems (France, Italy, Spain), where they tend to turn into an all-purpose instrument, than in more integrated systems (Germany, the Netherlands), where they tend to focus on specific purposes and have a more limited scope.
- Stabilisation of relationships. Since the contract sets out long – term commitments, it allows each party to anticipate the decisions of its counterparts with more certainty. Even if this is not a guarantee, it reduces opportunistic behaviour and political risk to a minimum. Since most contractual arrangements involve financial commitments over several years they help overcome the drawbacks of the annual budgetary principle.
- Contracts allow the burden of big projects and complex programmes to be shared, making possible the kind of operation which could not have been undertaken by an isolated government level.
- The contract is one of the procedures possible to get partners involved. Sharing the burden is also sharing the risks. This means not only the financial ones, but also the political risks in case of difficulties: political criticism will not be possible from all those involved jointly. Therefore, contractual arrangements work as a kind of reassurance. However this impact is limited to the implementation contracts because decision making still belongs to the central levels.

Box 3.5. **Advantages and disadvantages of contractual arrangements between levels of government** *(cont.)*

Contracts nevertheless have many drawbacks:

- They involve a high cost in terms of negotiation and execution (transaction costs), and they risk being based on imperfect information. To avoid "moral hazard risks", long periods of consultation, preparation and negotiation are necessary before a contract can be drawn up. In France, the "upstream" phase took two years for the preparation of the present round of planning contracts between the State and the regions *(Contrats de plan État-régions)* (from 1998 to 2000 for 7-year contracts from 2000 to 2006). In Italy, contractual procedures involve stringent selection between projects in order to secure funding.
- User countries say that they tend to proliferate (France, Italy, and Spain). In France, for example, the last generation of contracts involved 170 action categories, 200 budget chapters and nearly 20 ministries.
- The ministries in charge in the different countries seem reluctant to give up their prerogatives.
- While these negotiated mechanisms are supposed to allow a greater degree of flexibility than a hierarchical distribution of obligations, they may prove unresponsive to change where the parties are rigidly committed to fixed long-term programmes.
- Another problem concerns the question of whether grants from the higher level of government should supply capital formation and/or current expenditure. The support of capital formation without the support of current expenditures linked to capital formation neglects the dynamic relationship between capital and current expenditures. Receiving regions may not be in a position to pay the current expenditure after they have invested in fixed capital, or they may neglect maintenance in order to obtain more capital grants in the future. Moreover, many development programmes aim at "soft" infrastructure but are technically or financially not considered capital formation, and thus receive no grants. In such a case, a bias towards capital grants neglects the formation of soft capital like capacity building or construction of regional knowledge systems.

Source: Taken from *Building Competitive Regions*, OECD 2005, pages 83-84.

To date, the evaluation of the CPER has sparked feverish activity in response to a number of regional questions. Yet the regional studies that have been conducted, interesting though they may be from the regional viewpoint, are of limited use at the central level because of the great variety of issues and methodologies. Fresh from the experience of evaluating European regional programmes, DIACT is now working with its counterparts responsible for evaluating planning contracts (the secretariats of the regional prefectures and the regional councils) to organise the pooling of experience with evaluation and to co-ordinate the next set of specifications. For example, work has begun on evaluating all the innovation promotion activities of the various CPERs. A summary assessment of the evaluations conducted since 2002 was made available in the autumn of 2005. Yet while the prefectures and the regions have reinforced their human resources for purposes of these evaluations, it seems that few such resources are available at the central level.

Outstanding issues

The CPERs are facing a number of problems relating to:

- *Commitment at the central level*: a "freely" negotiated contract does not necessarily guarantee financing, as demonstrated by the problems in getting the central level to respect its commitments.
- *The risk of scattering appropriations too thinly*: since 1998 the *Cour des comptes* (Audit Office) has been complaining of the lack of focus in CPER objectives, and the frequently too long and too varied catalogues of activities.
- *Incentives*: it is very rare for one of the parties to bring administrative action for default, and except for one case the plaintif has always been a third-party. It is true that neither the central government nor the region has any interest in turning to the courts over a dispute, if only because such proceedings are so time-consuming. Essentially, they are forced to co-operate by virtue of their legal competences. Thus they have nothing to gain by going to court over a given issue, at the expense of their ongoing relationship.
- *The transparency of the programmes and their implementation*: as programmes are implemented, the shifting nature of actual activities *vis-à-vis* initial commitments, which are often designed for their public relations impact, can give the impression of inconsistency. The legal and financial complexity of contractual policies is growing, and this can generate a sense of obfuscation in decisions and in their consequences.
- *The lack of any real evaluation*: without a pooling of experience and know-how, it will be impossible to identify best practices and disseminate them to other territories. Moreover, it will be difficult under the circumstances to prepare the kinds of evaluations that will meet concerns of national and not just regional interest.

One question deserves special attention: it has to do with reconciling the drive for equalisation with a device such as the planning contract. How can these contracts be made to play a role in equalisation? They are, on one hand, negotiated (which is inconsistent with maintaining neutrality in the compensation offered by the central government), while on the other hand they affect the productive potential itself (*i.e.* the basic local conditions), whereas in principle equalisation is intended to offset differences of outcomes and not of means.

Coming reforms

A number of criticisms have been levelled at the planning contracts, relating to cumbersome procedures, lack of transparency, complexity, the scattering of appropriations, and non-performance of commitments. The French authorities are well aware of these problems and have been engaged since 2004 in broad consultations with various representative bodies: National Assembly and Senate, Economic and Social Council, and the major representative associations. The outcomes of those consultations were distilled in a March 2005 report that sets out the following proposals:

- The planning contracts should be drawn up only after a national framework elaboration.
- The planning contracts should be more selective and should focus on a few themes, national and regional at the same time.
- Partners must respect their commitments more rigorously.
- The region should remain a prime partner but it should not be an exclusive partner.
- The planning contracts should have a sufficiently long implementation period, from five to seven years.
- The planning contracts should retain a "territorial component" but this should relate only to the weaker territories and only to issues dealt with in the planning contracts.
- Finally, management and evaluation of the planning contracts should be improved.

There is broad consensus that, with these improvements, the planning contracts will remain an essential device for ensuring the coherence of public projects and decentralisation support measures. A decision on their reform is, planned for 2006.

3.4. Bringing the communes together and developing a territorial project approach to address institutional fragmentation

There are two contrasting approaches to government action in the territories: one is to bring government services closer to the user public, which involves notions of equity, efficiency and economies of scale, and the other is a regional development approach that relies on notions of strategy, participation and competitiveness (and implies some differentiation in policies and outcomes among territories). In France the various mechanisms – those of decentralisation discussed in the first section and those designed to regroup the communes, covered in this section – represent different institutional responses to each of these expectations.

The technical objective, which is to help the smaller communes afford their citizens better access to public services (which they cannot provide on their own) was selected during implementation of the first formulas for inter-communal co-operation. Since 1992, the direction of the political and economic debate has shifted with the introduction of inter-communality as the best solution to territorial organisation. The communities of communes (*communautés de communes*) and the communities of cities (*communautés de villes*) were created to respond to clearly defined objectives of economic development and territorial planning. In these "management-oriented" inter-communal structures ("*de gestion*"), the communes delegate certain powers, which they are then no longer authorised to exercise. They are also encouraged to pool their resources (single business tax, TPU) in order to provide the inter-communal structure with sufficient and permanent financing for exercising the powers deconcentrated to it.

The planning or "project-oriented" inter-communality ("*de projet*") reflects a different approach. While the communes are again united within an inter-communal structure (*pays, agglomération*), the objective is not to run communal affairs but to prepare a common territorial plan covering all component communes and involving all local stakeholders, in order better to address economic and social realities. This plan is then converted into action, often within the framework of the territorial component of the State-region planning contracts. However, the articulation of these "project-oriented" inter-communalities with the "management" ones is still inadequate to guarantee the effectiveness or coherence of this new level of subregional territorial planning.

The "management-oriented inter-communality"

A brief background

With more than 36 000 communes, France is in a unique position, standing in sharp contrast with other OECD member States that have pursued a policy of deliberately merging municipalities. Thus, the former West Germany reduced the number of its municipalities from 240 386 to 8 501 between 1965 and 1975; the United Kingdom reduced 1 549 districts to 454 municipalities in 1972; the number of communes in Belgium shrank from 2 359 to 589 (in two stages, 1970 and 1977, a process that is now to be pursued further in the Walloon region); Sweden cut the number from 2 500 to 279, in 1952 and then in 1973. Italy has only 8 104 communes, Spain 8 089, Greece 133 and Portugal 308. Japan has adopted an active policy of merging municipalities, the number of which fell from some 10 000 in 1945 to 3 472 in 1961. Denmark is currently implementing a new policy for reinforcing mergers by targeting 100 communes in 2007. Yet the "French exception" is most visible in rural areas: in some other countries there has been a trend to the subdivision of urban municipalities equivalent to that in France.

Inter-communality has long been adopted as a way of responding to the obvious need to work together in creating services, facilities and infrastructure, a need that reflects both the great number of sparsely populated rural communes and the emergence of the urban "agglomerations" (strings of adjacent or neighbouring municipalities). Within mainland France (excluding the overseas departments) there are around 32 000 communes with fewer than 2 000 inhabitants, which means that 89% of the communes hold only slightly more than a quarter of the population. Moreover, there are some 25 000 communes with fewer than 700 inhabitants (71% of communes with only 13.5% of the population). By contrast, there are 103 urban communes with more than 50 000 people, 36 communes with more than 100 000, five communes with more than 300 000 (Paris, Lyon, Marseille, Toulouse and Nice), while only Paris (2 147 857) and Marseille (807 071) have more than 800 000 people (Bernard-Gélabert, 2003). The problem lays not so much in the number of communes as in their size, and more specifically in their capacity to carry out their responsibilities.

Inter-communality is a long-standing tradition in France. Initially it sought to overcome the drawbacks of communal proliferation by creating associations to fulfil technical functions: it was for this purpose that the *syndicats intercommunaux à vocation unique* ("single-purpose inter-communal associations" or "syndicates", SIVU) were created in 1890. Multi-purpose syndicates (SIVOM) became possible in 1959. Both types of association still exist today. It was only in 1966 that the "urban community" was created to address the problems associated with the large metropolitan areas. The urban community is a highly integrated form of co-operation to which a dozen different responsibilities must be transferred. Four urban communities have thus been created without consultation, which constitutes an exception, in the large metropolitan areas of Bordeaux, Lille, Strasbourg and Marseille.

Inter-communality in France has been historically characterised by a voluntary linking of communes (with the virtual absence of merger policies) and by a distinction between urban and rural territories in the responsibilities that must be shared. Thus, the city communities (*communautés de ville*) appeared in 1992 as the first inter-communal structure with their own taxing power, which they exercise through an additional levy on top of the taxes imposed by the various partner communes. That same year saw the institution of the "communities of communes", for rural territories. The law of 12 July 1999 attempted to systematise those structures with fiscal powers. There are now three types of such structures: communities of communes (*communautés de communes*, groupings of small rural communes), "agglomeration" communities (*communautés d'agglomération*, which must cover at least 50 000 people centred on a commune or municipality of at least 15 000 and are obliged to impose the single business tax, and which replace the "city communities"), and finally the urban communities (*communautés urbaines*, which must have 500 000 people, and which are being added to the existing urban communities).

When it comes to the allocation of responsibilities:

- The urban communities have six blocks of responsibilities transferred by the communes: economic, social and cultural development, housing and urban planning, city government policy and public services, and environmental protection and improvement.
- The agglomeration communities are required to exercise four blocks of responsibilities relating to economic development, land-use planning, social balance and housing, and city government policies.
- The communities of communes are not subject to such a strict allocation of responsibilities.

The 1992 law also instituted within each department a departmental commission for inter-communal co-operation (CDCI). The CDCI consists of elected municipal officials (60%), representatives of the EPCI (*établissement public de coopération intercommunale,* 20%), members of the general council (department level – 15%), and members of the regional council (5%). The CDCI can make proposals for strengthening inter-communality, and the prefect must consult it on any initiative to create an EPCI. The CDCI, the main role of which was to determine the best scope for inter-communal structures, has today a less important role, because so much of French territory is now covered by inter-communal arrangements. These commissions have not disappeared, however, and some of the provisions of the latest decentralisation law could lead to their revival.

Administration and transfer of responsibilities

A group of communes constitutes a "public establishment for inter-communal co-operation" (EPCI), distinct from the levels of subnational government, *i.e.* the commune, the department and the region. A grouping of communes, whatever its degree of institutional and fiscal integration, will not however replace the communes that comprise it. The fundamental principles that differentiate the EPCI from the subnational authorities are: the specialisation principle (in contrast to the communes, which have general responsibilities, the groupings have limited, specialised and, initially, exclusive powers), indirect representation (the EPCI are administered by delegates of the municipal councils of member communes) and compulsory State involvement in their creation (while EPCIs are nearly always created at the behest of the communes, they can only obtain legal recognition once the prefect has signed the decree creating them).

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The transfer of responsibilities typically flows upstream from the communes to the inter-communal structure, and may be increased depending on the type of commune. The formula proposed in 1999 was based on the exclusive nature of responsibilities between member communes and the inter-communal structure. The 2004 law, the second decentralisation act, softened the initial principles. Henceforth, within any mandated responsibility, the notion of "community interest" must specify what falls to the community and what remains in the hands of the communes. Moreover, the allocation of responsibilities can now flow from the inter-communality to certain communes that thereby specialise in certain services. Finally, the law provides a temporary window (to 1 January 2005) for communes to withdraw from their inter-communality (in fact, the prefects have authorised only four withdrawals out of 16 applications).

At the beginning of January 2005, there were 2 525 EPCIs covering 32 311 communes (88% of French communes) or 52 million people (84%) (see Table 3.4 and Map 3.2). Some regions have seen a burgeoning of intercommunal structures (Bretagne, Nord-Pas-de-Calais, Limousin, Basse-Normandie, Haute-Normandie, Pays-de-la-Loire, and Poitou-Charentes: see Annex 3.A7). Since 2 000, with the changes introduced by the 1999 law, the number of groupings has exploded (see Annex 3.A8). The impact of the incentives from the central government is thus very clear, even if the introduction of the EPCI is far from eliminating resort to "syndicates": the number of SIVOM fell from 2 472 in 1992 to 1 500 in 2005, and the number of SIVU from 14 885 in 1999 to 13 500 in 2005.

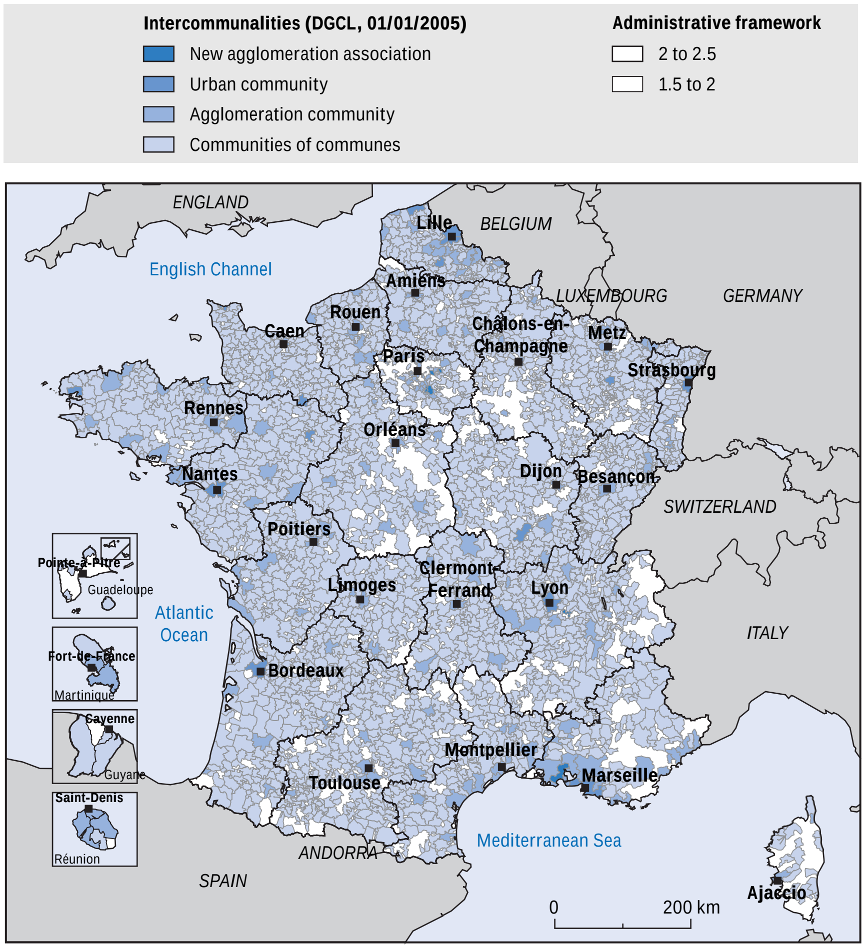
Funding and financial incentives from the central government

The fiscal resources of the EPCI consist either of budgetary contributions from the communes (for the syndicates) or their own taxation powers (for the EPCI). These taxation powers are either additional (consisting of a supplementary levy on top of local taxes) or exclusive, in which case the business tax, the most important local tax, is attributed no longer to the member communes but to the inter-communality alone, which establishes the rate and collects the tax. This system of imposing a single business tax on

Table 3.4. **Inter-communal establishments (EPCI) in France at 1 January 2005**

	Number of EPCI	Number of communes	Population
Communities of communes	2 343	29 172	25 297 156
Agglomeration communities	162	2 750	20 391 934
Urban communities	14	355	6 210 939
New agglomeration association	6	34	352 573
Total	**2 525**	**32 311**	**52 252 602**

Map 3.2. **EPCIs with fiscal powers as of 1 January 2005**



Source: Ministère de l'Intérieur, Direction générale des collectivités locales.

the entire community is now the dominant system for urban inter-communality.[8] The 1999 law gives the member communes of an EPCI with fiscal powers 10 years to harmonise their business tax rates. Each member commune receives compensation, commensurate with the proceeds of the business tax that it was receiving, in an amount that is decided in the first year and cannot be changed thereafter. In 2003, such compensation accounted for nearly half of the groupings' tax revenues. The TPU is therefore sometimes regarded as an equalisation mechanism at the local level.

To encourage the communes to team up, the State decided in 1999 to increase the basic grant, the DGF, to local authorities forming an EPCI, with an "inter-communality grant" (*dotation d'intercommunalité*). Awarding the grant to communes that accepted the principle of the Single Business Tax (TPU) served two central government objectives: that of promoting inter-communality, as well as that of harmonising the business tax rates in order to avoid counterproductive competition among communes in attracting businesses. The incentives for communes to team up can also take other forms than additional State transfers: in Japan, for example, the approach has been exactly the reverse: new responsibilities have been deconcentrated without equivalent accompanying budget transfer, and this has encouraged the municipalities to group together to support them (see OECD, 2005, *Territorial Review of Japan*). Yet in these cases as well, they enjoy favourable financial treatment by the central government.

Results

The quantitative efficiency of the incentives in the 1999 law is undeniable. That law in fact produced an outcome that is very rare in France: it eliminated some obsolete decision-making levels when the new mechanisms were introduced (thus the "city communities" and the "district communities" disappeared with the creation of the "agglomeration" communities). However (see the report of the Economic and Social Council, 2005), this has produced great discrepancies in the resources and the forms that the communes have accorded the inter-communal level, ranging from a "hollow shell" to a fully integrated community.

In terms of the primary field of intervention, it seems that the inter-communal structure bears the bulk of public environment spending (under the expenditure headings of water, garbage and urban environment), reflecting the drive for economies of scale. This is particularly noteworthy because, except for the urban communities, this responsibility is not legally binding. In fact, "need makes law": the negative externalities of pollution and the cost of treatment facilities (the cost of purification plants and waste treatment facilities has doubled in 10 years under the impact of new standards) are such that the scale at which these services are offered has had to be expanded through regrouping.

The purpose of an inter-communal structure is to make major investments and to run large-scale facilities. Formerly, every commune created its own industrial and craft zones, its own office parks and shopping centres, and competed with neighbouring communes for the business tax. Firms could easily take advantage of this competition to extract temporary exemptions. In the cultural area as well, there was no co-ordination when it came to creating or maintaining a theatre or conservatory. The advent of inter-communality has strengthened the impact of the efforts made by these groupings. Yet in France as elsewhere (Switzerland, Finland, etc., see OECD 2005), the cost savings from grouping municipalities are as yet unproven. This reflects the difficulty in reducing payrolls as well as the initial costs that inter-communality generates by allowing the partner communes to make collective investments that could not be envisaged earlier. An evaluation of inter-communality performance thus runs up against the fact that by combining, municipalities no longer do the same things, which indeed can be very salutary in terms of the quality of public services.

A recent report by the National Assembly's committee of inquiry on local fiscal trends (the "Mariton" Report, 2005), while noting that the growth in inter-communal spending could be due both to service improvements and to the inefficient overlapping of structures, highlighted the following problems: the transfer of responsibilities to the inter-communal structures has not been accompanied by any reduction in spending by the communes; two-level management (communal and inter-communal) often results in overlaps and additional administrative costs; the pursuit of inter-communality has often led to the creation of new positions meaning that, despite the transfer of personnel, payroll costs have risen; and as they have grown, inter-communal structures have tended to raise local taxes across-the-board. Hence the inter-communal landscape remains extremely complicated. A recent report of the *Cour des comptes* also underlined the problems of inter-communality in France in achieving its main aims (Cour des comptes, 2005).

Outstanding issues

Transparency and democratic representation. Arguments are constantly heard in favour of instituting direct election of members of the inter-communal council. Because some EPCIs now have taxing powers, it would seem natural that their leaders should be accountable to the citizenry. Moreover, while political power remains in City Hall, the financial leadership is now in the hands of the communities. For example, the budget for the City of Lille in 2000 stood at slightly less than € 300 million, compared to € 1.3 billion for the Urban Community of Lille (CUDL). Yet various public opinion surveys measuring perceptions of local government show that a great majority of French people remain loyal to the commune, which for them is a symbol of local democracy. People's attachment to their commune is indeed a phenomenon that is not specifically French, as various European examples attest (Rotterdam, Finnish municipalities, etc., see OECD 2005 *op. cit.*).

There are also some shortcomings in the process for appointing communal representatives to the community council. Because of threshold effects, no one member commune may hold more than half of the seats, which leads to situations where the larger communes (and in particular the central city) are underrepresented in favour of the less populous peripheral communes. Yet on this point it is interesting to look at the origin of the presidents of the inter-communal councils: for the agglomeration communities and the urban communities, the profile of the president is that of a male, most often the mayor of the central city (57%) or at least an elected councillor of the central city (76.5%), who also carries national mandates or functions but who chairs an inter-communal assembly where his own commune is underrepresented. In fact, the central cities in these communities hold on average only 31% of seats on the community council, although they represent 49% of the total population. Representation falls well short of 50% even for those central cities whose population exceeds 50% by a wide margin (Heumel, 2005). Thus, negotiations to establish inter-communality have often involved a trade-off where the central city sacrificed its demographic weight against assurance of the presidency.

Co-operation versus negotiation. Commune groupings are regularly criticised from two quarters: from the richer communes that do not want to share their wealth (these are not necessarily centre-city communes but may also include peripheral ones that have been able to attract large shopping centres paying hefty business taxes), and from the peripheral communes that fear loss of their power. Yet while the current revenues of the agglomeration communities derive 77% from the business tax, more than two-thirds of that tax flows back to the communes so they can continue to cover their current expenses. This "refund" is accomplished through compensation payments (for 57% of the business tax) and the "solidarity grant", an internal equalisation device that the inter-communality pays the member communes, prorated to their wealth. The financial interaction between the communes and the inter-communal structure thus works in favour of the communes rather than of the inter-communal vision of territorial development.

The capital region is lagging behind. Inter-communality is much weaker in the Paris region than elsewhere. Only the most "rural" department of this region, Seine et Marne, shows a high degree of inter-communality. 46% of the 1281 municipalities of Ile-de-France have more than 2000 residents, compared to 15% nationwide. The specific features of the socioeconomic and institutional fabric of this region leave little room for conventional inter-communality. In fact, the Ile-de-France betrays sharp economic and social disparities that constitute a real brake on the development of inter-communality (Economic and Social Council, 2005). Its territories are highly specialised: investment and high value-added activities are concentrated in some, while social and economic problems are concentrated in others.

The "Project-oriented inter-communality" and the contractualisation of territories

The pays

It was DATAR that, in the late 1970s, proposed the *pays* as a response to the quest for territorial development projects designed at the scale of an economically and socially significant zone. Yet it was their recognition by the 1995 and 1999 laws that gave them a real boost. The *pays* is neither an administrative entity nor a subnational government, but rather a territory that exhibits geographic, cultural, economic and social cohesion, and where the component communes prepare a joint vision or "project" for their future, relating particularly to economic development and local services.

A *pays* may be constituted at the initiative of communes or groups of communes, which must then adopt a charter (*charte de pays*). That charter takes into account existing local dynamics and supports development plans, focused on reinforcing reciprocal solidarity between the city and the countryside. A sustainable development council, composed of economic, social, cultural and association representatives, must be created and involved in preparing the charter. The charter contains three elements: a diagnosis, strategic themes, and cartographic documents. It must contain a presentation of the territory's geography and its prospects, and must propose options and priorities. Even if the *pays* is not really a *subnational authority*, this hybrid structure helps to deepen inter-communality and the borders of the *pays* must moreover respect those of the local inter-communalities, constituting thereby a kind of "inter-inter-communality". These features make the *pays* akin to the notion of the "micro-region" that has been adopted in some member countries, such as the Czech Republic and Mexico (OECD, 2005) in response to different needs: sparking synergy among local public and private stakeholders, preparing development strategies at a pertinent territorial scale, and improving the delivery of public services.

The latest national survey by *Entreprises, Territoires and Développement* (ETD) listed 343 *pays* initiatives in France as of 1 May 2005 (278 *pays* recognised and 65 *pays* planned) compared with 158 at 1 September 2004. This record growth rate reflects the deadline for the signature of territorial contracts under the territorial component of the State-region planning contracts, which was initially set at 31 December 2004 (and was extended to 30 June 2005: see below). Thus there are 237 *pays* contracts signed in 20 regions. Among these *pays* are 15 interregional *pays*. Annex 3.A9 demonstrates the great variety of regional approaches with respect to *pays* (see the case of Brittany in Box 3.6). There are in fact three types of *pays*: those corresponding to historical territories of co-operation (such as Brittany), those initiated by local economic agents seeking a project support base, and those resulting from political initiatives of subnational governments (not only the member communes but also the departments and the regions) in order to encourage participation by various local players in long-term undertakings (see for example the Box 3.7 on the *pays* of Nivernais Morvan).

Box 3.6. **Brittany, the "region of the pays"**

Inter-communal co-operation, partnership between local governments and civil society, and participatory practices have long been rooted in the history, sociology and mindset of certain regions or micro-regions. In the West of France, self-help traditions, co-operative farming networks, voluntary associations, and the reciprocal familiarity of local players have constituted fertile ground for the development of territorial visions and policies (DATAR, 2002). Today the entire population of Brittany belongs to one *pays* or another (there are 21 of them in the region, each with contractual arrangements under the territorial component of the planning contracts, see below), a situation that is unique among French regions (although the Limousin is close, at 99%). This region is also characterised by a high propensity to develop mixed contracts (*de pays* and *d'agglomération*) and even to establish "articulation conventions" between urban (agglomeration) contracts and rural (*pays*) contracts. Brittany has thereby derived a dynamic institutional image as a "land of co-operation" that has been able to grasp opportunities for governance in order to support its development. How can this peculiar feature be explained? (See *CESR de Bretagne*, February 2005). It would seem that the attachment to institutional forms of co-operation is of long standing in Brittany. As early as the 1950s a joint public-private lobby group, the *Comité d'études et de liaison des intérêts bretons* (CELIB), set out to mobilise the region's stakeholders around projects to promote Brittany's development and to defend its interests *vis-à-vis* the national authorities. A determined defender of the regional identity, CELIB quickly sought as well to identify home-grown means for developing the region. The institutional proposals of various associations were grafted onto existing co-operation arrangements. "*Pays*" arrangements are thus often seen in Brittany as official recognition of partnerships that are already in place. This culture of co-operation is reinforced by two elements that explain the strength of the territorial outlook in Brittany: the fact that there are no very small communes, and the existence of regional council policies that support inter-communality. The region in fact is deeply involved in ensuring planning consistency among them.

The regional nature parks (PNR)

These were created by a decree of 1 March 1967 as a means to promote rural revival. A park will be organised around a development plan based on preserving the natural, cultural and human heritage (popular traditions, techniques and know-how). This plan will be set forth in a charter that establishes objectives, guidelines and implementation measures. The park's boundaries will be negotiated among all partners and will coincide with those of the communes that voluntarily subscribe to the charter. In 2005 there are 44 PNRs covering more than 7 million hectares (12% of the territory), 3 690 communes and more than 3 000 000 people. Forest covers 37% of the total surface area, and nearly 40% is farmland. Some of these parks have long served as inter-communal structures in practice, with a tradition of co-operation among the communes located within its borders. They may also be partners of the State or of the region within the territorial component of the planning contracts.

Territorial contracts: contrats de pays and contrats d'agglomération

A *pays* can be formalised in a contract with the State and the region (and sometimes the department). The circular of 18 December 2002 dealing with the State-region planning contracts stipulates that the territorial component, targeted at *pays*, agglomerations, regional nature parks, city networks and city contracts, "is intended to represent an indicative amount of 25% of State appropriations for the CPER", which, applied to a State commitment of € 17.607 billion over 2000/2006 represents some € 4.4 billion. Yet it is difficult at this stage to assess how this instruction has been translated into practice, for neither the planning contracts nor the territorial contracts, for the most part, explicitly identify contractual appropriations devoted to these policies. This territorial aspect concerns essentially the *pays* and the agglomerations. The contract thus constitutes a source of financing for both the *pays* and the agglomerations. Moreover, in regions eligible for European programmes, the "structural funds" can be used to support territorial strategies developed by the *pays* (objective 1, Leader + programme) (DATAR, 2002). But for the *pays*, the contract implies more specifically a kind of institutional validation since the *pays*, by becoming a "partner" of the State, is thereby legitimised. The contract allows the territory to claim a strategic vision and constitutes the means for making the *charte de pays* operational.

These flexible rules for shared financial resources can spark a "subsidy race". In practice, it seems that most of the subsidies come from the national fund for territorial planning and development (FNADT, a kind of "DATAR budget") that in principle allows leverage for innovative or crosscutting projects as well as for consolidating the territorial management mechanism (promotion, engineering). The regions have funds of equivalent kinds. Such financing is required essentially to build and make available to the *pays* the skills needed for creating synergy and developing social capital among territorial mission leaders, with a profile of project managers and of promoters (see Box 3.7).

What does the *agglomeration contract* add to the existing inter-communal structure? Beyond supplementary sources of financing, the contract also serves as a means for conveying legitimacy on the inter-communal level in

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Box 3.7. The variety of activities and dynamics in a rural pays. The example of Nivernais Morvan

The Nivernais Morvan *pays* embraces eight communities of communes (22 communes). It has adopted a *charte de pays*, and it signed a *contrat de pays* in January 2003 with the State, the Burgundy region, and the General Council of the Nièvre department. This *pays* illustrates the boost that such a structure can give a territory. Rather than a catalogue of activities, all the projects fall within a comprehensive development programme designed to help the territory cope with a recent demographic reversal whereby, after having gradually lost population like many other rural territories, it has recently seen an influx of new arrivals. These are members of the management class and their families, teleworkers, liberal professionals, promoters of tourism projects and of agricultural diversification, and people of foreign origin (particularly Dutch). In order to perpetuate this trend, living conditions and local amenities will have to be improved. This involves not only organising to make public services available but also encouraging the creation of businesses and jobs, as well as a process of collective learning. Activities are thus focused both on increasing the territory's competitiveness and on maintaining the delivery of local public services (in particular one-stop service centres with ICT connections to departmental offices and national agencies). There are 7 broad areas of activity:

- Economic development, employment and housing.
- Tourism development.
- The development of agriculture that is diversified and appropriate to local resources.
- Local health-care services.
- Education and recreation for the young.
- Development of a cultural policy.
- Access to and instruction in ICTs.

The *pays* is seen as a structure for promoting and evaluating projects, for intermediation with financing partners, and for communication. It has an extremely slim structure, with very few employees and small budgets. In this context, projects can only be undertaken through partnerships. For each of them, specific solutions must be found, starting with a systematic search for financial arrangements, mobilisation of skills, etc. The way these structures operate often challenges the practices of established institutions (inter-municipal councils, general councils, regional councils and prefectures). The "*pays*" team enjoys strong support, however, from the public and from elected officials (especially those of the department and the region), as well as the deconcentrated ministry offices. The inter-communalities play a key role here because of their possibility for being organised, for providing engineering, and for serving as a financial lever. Moreover, close links have been established with the Morvan Regional Park, which for long was the only "inter-communal" entity in the region (covering several communal and departmental territories), but is today focused on environmental, cultural and territorial labelling issues.

Box 3.7. **The variety of activities and dynamics in a rural pays. The example of Nivernais Morvan** *(cont.)*

The creation of this device was a cumbersome affair. Hundreds of local stakeholders met for more than a year in thematic workshops in order to come up with a common charter and a universally agreed perimeter for the *pays*. Several more months were then needed to negotiate each of the "action files" in four-part commissions that involved the municipalities, the department, the region and the central government (through the deconcentrated ministry offices within the prefecture secretariat). The time needed for these negotiations, typical of any co-operative initiative, does not seem to be the main limitation to the device. The Nivernais Morvan *pays*, like many other *pays*, faces budgetary uncertainties, exacerbated by uncertainty over the reform to the State-region planning contracts, and the difficulty in putting together financing (the *pays* rarely have a fungible envelope, project management is often subject to direct interference by individual contributors, the ministry offices, the prefecture, the general council and the regional council). In addition to these financial and technical engineering resources, there is also a need for promotion and training skills. Because the *pays* serves as a funding catalyst, the partner communes are often viewed as a possible additional budget source (in fact, 99% of the Nivernais Morvan *pays* budget comes from external subsidies and only 1% from the partner communes). The members of the different councils (inter-communality, the Park, the *pays*, etc.) often turn out to be the same people.

territorial governance, not only *vis-à-vis* the higher levels of government (State, region, department) but also *vis-à-vis* the communes located within the territory (Fouchier, 2003). Moreover, the development council entails the active involvement of economic, cultural, social and association representatives who work together with elected officials to define and implement development projects. Box 3.8 illustrates the main activities covered by the agglomeration contracts with respect to economic development.

The boundaries of pays and urban-rural linkages

The idea is to make the *pays* a framework for overall development within a territory that is pertinent but that cannot be created by fiat (Brochereux, 2004). Articulation between geographic, economic, cultural and administrative territory is often complicated. Those who think in terms of *pays* define them as an area of solidarity between cities and the countryside. Overall, the territories so designated are less urban than France as a whole, for only 39% of the population of the *pays* lives in an urban area of more than

Box 3.8. **Economic development activities in the agglomeration contracts (ETD, 2003)**

- *Attracting businesses* (planning and establishment of activity zones, plants, business chambers, industrial parks, etc.). Measures of this kind, aimed primarily at exogenous development, are the most common.
- *Higher education, research, training and employment.* This field of action is represented in most contracts by varying but important resources. Bordeaux and Rennes have given it priority, allocating nearly a quarter of total funding to higher education, research and the scientific culture. Nancy, Belfort, Creusot-Montceau and Dijon have also earmarked a major portion of their economic envelope to this field.
- *Local economic diversification* (clusters, centres of excellence, business creation, nurseries, incubators). These activities, directed more towards endogenous development, receive large amounts of funding in only a few contracts. One example is Lyon, where nearly half of total contract funds go to the three sectors of fashion, video games and environment, plus the *Cancéropôle* (cancer centre).
- *Transportation infrastructure and digital networks.* Major investments in transportation, whether for goods or passengers, are concentrated in a few contracts. Examples are Bordeaux and Rennes, which have made accessibility a priority for their economic development.

Source: ETD, *L'approche économique des projets de territoire*, December 2003.

50 000 inhabitants, a proportion that is however still significant. There are frequent complaints about the compartmentalisation of contractual provisions, where *pays* are confined to rural areas and agglomerations to urban ones. Annex 3.A10 illustrates the fact that there are significant numbers of *pays* in urban zones and that such initiatives are far from exclusive to rural areas. As with any other EPCI, the agglomeration can be included in the charter and in the *contrat de pays*. The documents may also be associated with the SCOT (*Schéma de cohérence territoriale*), a land-use planning tool prepared by elected representatives and reviewed at least every 10 years.[9]

The *charte de pays* and the SCOT may have convergent purposes, as policy tools for planning and development designed to give a strategic vision to a strengthened inter-communality. Indeed, they may be exactly congruent, and the issues they address sometimes converge in numerous areas (settling new arrivals, peri-urban agriculture, landscape protection, etc.). The *charte de pays* is supposed to lead to a contractual relationship with other partners for the financing of development projects. The SCOT makes it possible to organise land-use planning within a territory, to frame communal urban development documents, and to consolidate sectoral policies (local housing programme, urban mobility plan, commercial development plan). The SCOT and the *pays* charter are thus frequently supplementary. When the territories overlap, the land-use planning and sustainable development provisions of the SCOT are reinforced by the territorial planning already in place, with reciprocal adaptation and updating. At the end of 2004, 124 SCOTs covered all or part of 126 *pays*; 18 of them coincided precisely with the boundaries of the *pays*. At the same time, 40% of *pays* are covered by a SCOT.

If the agglomeration has already negotiated a contract with the State and wishes to join a *pays,* the problems of articulation are settled case-by-case. A new concept has emerged in practice for reconciling the agglomeration with its periphery, the "urban *pays*". In an "urban *pays*", the agglomeration and the *pays* support each other and the *pays* charter is prepared at the same time as the agglomeration contract. The future trend may well be towards a single territory for rural and urban areas, one that goes beyond the *pays* and the agglomeration. For example, in the recent contracts with Brest, Morlaix and Rennes the agglomeration and *pays* scales are closely combined, with "inter-linking" contracts. This approach has received strong support from Brittany and has been accepted by the State in a convention for application of the territorial component of the planning contracts. The concept of "urban *pays*" however begs the question of the respective contents in the *charte de pays* and the agglomeration contracts.

The co-operation issue

The interest of the *pays* is essentially to support partnership between local stakeholders, public and private, for achieving shared objectives. This makes it possible to mobilise the skills and funds of various partners and thus to overcome the problems encountered by local governments which on their own would not have the means to take on such projects.Yet these co-operative initiatives are time-consuming and have high transaction costs (OECD, 2005). Cumbersome procedures are an obstacle that crops up frequently in local debate because they make the process of preparing the *charte de pays* so complex. The overriding concern to involve all parties, however democratic its inspiration, means that it takes about two years on average to prepare a charter. While multiple consultations may be a measure of democracy and transparency, and may help to disseminate a shared vision of the territory, the role of the development council has been modest in the first contracts signed (DATAR, 2004), because of the lengthy discussions demanded by the negotiation process and the mutual learning curve involved.

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Relations between "management-oriented" and "project-oriented" inter-communalities

The *pays* seems to be the *ad hoc* territory for spatial organisation and management because it stands at the junction of numerous governmental options and local expectations. Within those territories where inter-communality is weak, the *pays* approach often leads to the creation of an EPCI (Brochereux, 2004). It has also been found that the *pays* can transcend departmental and regional boundaries to represent true "functional areas" generated by economic activities and communication hubs. This is less true for the administrative boundaries which, while seemingly intangible, were already established two centuries ago. The *pays* thus constitutes a venue for strategic and co-operative consideration about the organisation of services, because its vision is more attuned to local realities. The division of France into a growing number of *pays* is however running up against the historic subnational unit of the French nation, the *département*. Moreover, the fact that French subnational governments are increasingly dependent on central government transfers makes it difficult for the Ministry of the Interior, which distributes these funds, to recognise the legitimacy of these hybrid territories, the boundaries of which are established not from above but solely through local initiatives.

Contractual recognition and support of metropolitan areas

As an extension to the preceding issues, the emergence of the metropolitan area points to two new directions in French urban policy: 1) a refocusing on the metropolitan areas, which were passed over by Act II of decentralisation; and 2) reaffirmed support for the economic competitiveness of fast-growing urban hubs (see Box 3.9). The issue goes well beyond the objectives and the confines of urban policy and involves encouraging the economic development of large metropolitan areas, an approach already begun in the agglomeration contracts. Basically, the government approach foresees the emergence of horizontal forms of co-operation that resemble inter-communal arrangements but at a broader scale.

The metropolitan approach has already proven its worth by kick-starting metropolitan co-operation (see Map 3.3). The cities of the *Sillon lorrain*, for example, have adopted a common vision of the future that is helping to diminish rivalry between Metz and Nancy. Accelerated co-operation can also be seen in the Marseilles-Aix metropolitan area, and among the cities of the Côte d'Azur.

Some important issues remain in abeyance, in particular the articulation between the different generations of contracts, and more especially between the State-region planning contracts, their territorial component, and the

Box 3.9. **Recognising metropolitan areas: the first step towards the next generation of contracts**

The creation of metropolitan contracts is supposed to unfold in three phases: *i)* a government call for proposals for engineering stronger metropolitan co-operation; *ii)* a metropolitan plan, prepared by governments (2005/2006); *iii)* introduction of a metropolitan contract as of 2007, based on very specific activities.

A panel chaired by DATAR (now known as DIACT) and consisting of experts and central directors of the ministries concerned undertook the selection of metropolitan projects between January and June 2005. Fifteen metropolitan areas were selected to compete for State financing in order to prepare a metropolitan plan .These are:

- the *Sillon lorrain* (agglomerations of Nancy, Metz, Épinal and Thionville);
- the *métropole normande* (agglomerations of Caen, Rouen and Le Havre);
- the *métropole Loire-Bretagne* (agglomerations of Nantes, Rennes, Saint-Nazaire, Angers and Brest);
- the *métropole* covering Marseilles and Aix-en-Provence;
- the *métropole Côte d'Azur* (agglomerations of Nice, Antibes, Menton, Grasse and Cannes);
- the French-German border agglomeration, formed by Strasbourg and the Ortenaukreis which are combined in a planned European district;
- the Toulouse metropolitan area;
- the Little metropolitan area;
- the conférence des villes-centres et agglomérations de Rhône-Alpes;
- the Lyon urban region and the Alpine trench;
- the French-Valais-Geneva *métropole;*
- the Clermont-Auvergne *métropole;*
- Sarrebrück – Moselle Est;
- the Côte d'Opale – Flanders – Western Belgium metropolitan area;
- the Rhine-Rhone metropolitan network.

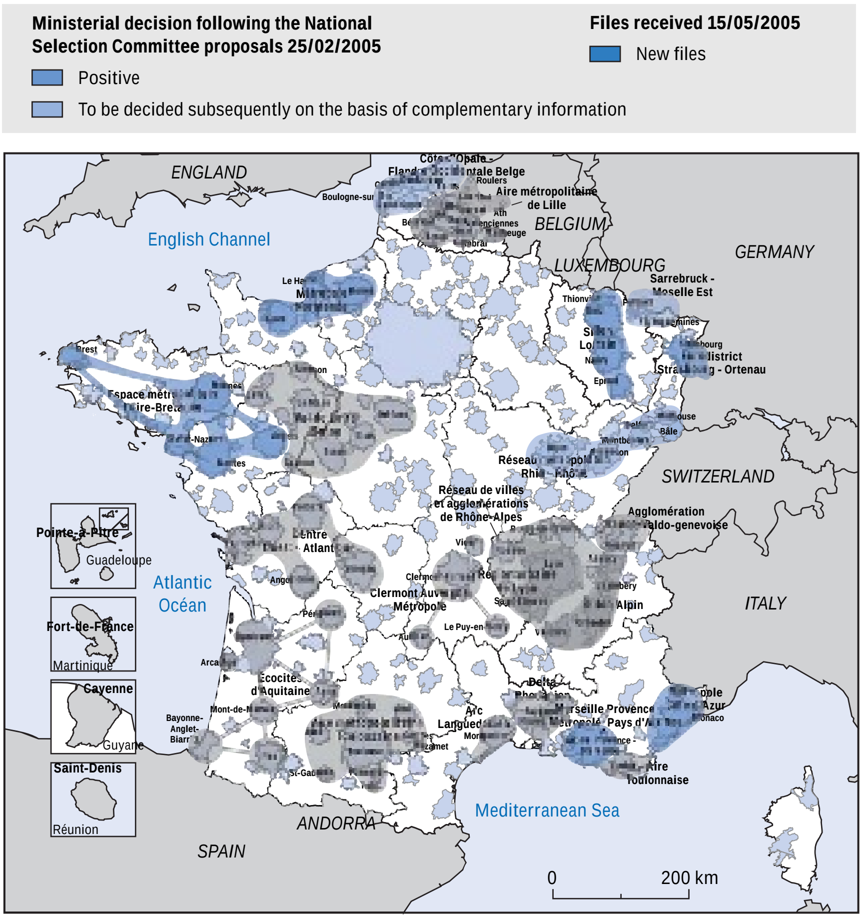
Six of these 15 metropolitan areas have the distinction of constituting cross-border territories (Aire métropolitaine de Lille, Région métropolitaine Côte d'Opale-Flandre occidentale, Sarrebrück-Moselle Est, Eurodistrict Strasbourg-Ortenau, Réseau Métropolitain Rhin-Rhône, Métropole franco-genevoise) and two of them have been invited to build this dimension into their metropolitan proposal now being prepared (the Sillon lorrain with Luxembourg, the Côte d'Azur with Italy and Monaco).

Box 3.9. **Recognising metropolitan areas: the first step towards the next generation of contracts** *(cont.)*

DIACT and the regional prefects will work with the selected metropolitan areas in preparing their projects, mobilising financial support and enlisting the central government ministries. The 15 metropolitan areas selected will receive an overall budget of € 3.5 million covering 2005 and 2006. That time will be primarily devoted to preparing the metropolitan projects. The deconcentrated State ministry offices placed under the authority of the regional prefects will also contribute. DIACT expects to introduce a national support mechanism in partnership with the ministries, associations of elected officials, and the national technical agencies concerned in order to help the chosen metropolitan areas exchange good practices during the project preparation phase.

metropolitan contracts. Whether or not the CPER should be made comprehensive has not yet been decided. Articulation between the agglomeration contracts also poses a problem: these contracts contain a component for "support to the development of metropolitan areas", which is supposed to disappear in favour of the metropolitan contracts, but here again nothing has been officially decided. The addition of a new layer of contracts will require great care to avoid overlapping and to preserve the transparency of urban policy in France, the complexity of which has been frequently criticised, notably by the *Cour des comptes* in its 2002 report on urban policy. These institutional hesitations should not however diminish interest in recognising the metropolitan areas as key players in territorial competitiveness.

Map 3.3. **Results of the call for metropolitan proposals: winning metropolitan areas (June 2005)**



Source: DATAR.

Notes

1. The Constitutional Law of 28 March 2003 and the Law on local freedoms and responsibilities of 13 August 2004.
2. The communes have general responsibilities within their territory, in addition to their specific responsibilities for providing local services (assistance to individuals, communal roads, police, environment – waste management, water treatment. etc.).
3. Health care, agriculture, spatial planning, environment, roads, vocational training, economic development, and regional railways.
4. See Decree 2004-374 of 29 April 2004 on the powers of the prefects.

5. There has been much debate recently about the business tax, because of its alleged inequity and its impact on business location. No clear decision has yet emerged from that debate.
6. The PASED, the equivalent at the departmental level of the PASER, must be consistent with the PASER and is not examined by the central ministries.
7. See the Law dated 13 August 2004 and Annex 2 of the circular dated 25th March 2005.
8. Since the 1999 law, all the EPCIs with TPU can opt for a supplementary household tax, known as the "*fiscalité mixte*", which allows the grouping to collect the occupancy and property taxes in addition to the business tax. However this choice remains very rare.
9. The SCOT was introduced by the Solidarity and Urban Renewal Law (SRU) of 13 December 2000.

ANNEX 3.A1

Responsibilities of regions and departments

Responsibilities of the regions

Economic development	Co-ordination role in economic development Full responsibility for vocational training Registration of apprenticeship contracts Management of in-house training and of individual and collective employment training programmes Co-ordination of information and settlement programmes for new arrivals Co-ordination of tourism policies and assistance
Roads and large-scale infrastructure	Development and maintenance of fishing ports Preparation of a master plan for infrastructure and transportation Responsibility for school transportation in Ile-de-France Management of European Union programmes (on an experimental basis)
Social services, solidarity and housing	Participation in the financing of health facilities Responsibility for social and paramedical trainings Definition of a regional health programme
Education and culture	High school buildings and facilities Technical, operating and service staff (TOS) of high schools Ownership of historic monuments, heritage inventory

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Responsibilities of the *départements*

Economic development	May provide subsidies (alone or jointly) for SMEs, commerce and crafts
Roads and large-scale infrastructure	Creation, management and maintenance of airfields (on-demand) Creation, management and maintenance of fishing ports Establishment of non-urban transportation services Ownership and management of 20,000 km of national highways; use of highway tolls for financing and construction of express highways
Social services, Solidarity and housing	Assistance in the construction of rural social housing Departmental plans for low-income housing Solidarity Fund for Housing (FSL) Departmental master plan for social and medical services Co-ordination of assistance to indigents Assistance fund for at-risk youth (FAJ) Social and medical assistance for the elderly, definition of a master plan to increase human and material resources for care for the elderly Responsibility for local information and co-ordination centres (CLIC) Education assistance measures (on an experimental basis) Management of minimum income programmes (RMI/RMA) beginning 2004
Education and culture	Buildings and facilities of the *collèges* Technical, operating and service staff (TOS) of the *collèges* Definition of areas for the *collèges* School health programmes Ownership of historical monuments (on-demand) Management of works and restoration subsidies for historic monuments Departmental master plan for art education

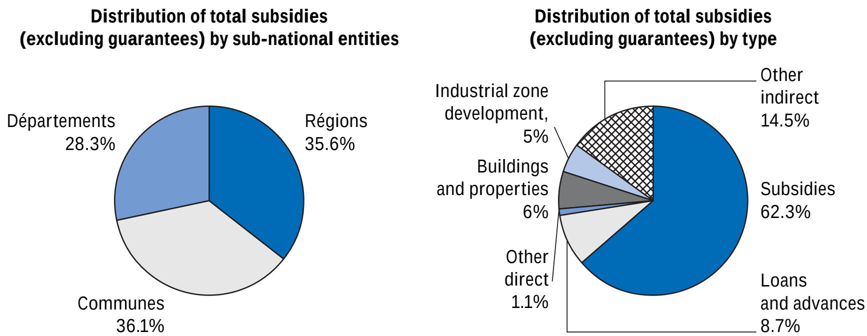
ANNEX 3.A2

The specific case of economic development

	Regions	Departments	Communes and Groupings
Economic development	Co-ordination role in economic development	May provide subsidies (alone or jointly) for SMEs, commerce and crafts	May provide subsidies (alone or jointly) for SMEs, commerce and crafts
	Full responsibility for adult vocational training, in particular grants from the Adult Vocational Training Association (AFPA)		
	Registration of apprenticeship contracts and for the declaration prior to hiring under an apprenticeship contract		
	Management, by delegation from the State, of in-house training (SAE) and of individual and collective employment training (SIFE) programmes		
	Co-ordination of information and settlement policies for new arrivals		
	Co-ordination of tourism policies		May create tourism offices as public industrial and commercial establishments
	Licensing and classification of tourism facilities and organisations		

Source: Fonrojet, S. (2004) " Territoires et nouvelles compétences, L'Organisation territoriale: quelle répartition des compétences ? "*Cahiers français* No. 318, p. 27.

Figure 3.A2.1. **Type of subsidies to business (2002)**
(Source Ministère de l'Intérieur, DGCL)



Types of subsidies to businesses: assistance to SMEs, training firms, certain agricultural businesses. These subsidies fall under the European Community's "de minimis" rule: subsidies not exceeding a ceiling of € 100 000 over a period of three years do not affect trade between member States nor do they distort or threaten to distort competition. They also concern, of course, the "competitiveness programme" for granting aid to businesses, admitted under the general code of subnational governments. This refers, in particular, to supporting SME investments in productive apparatus up to a maximum of 25% and assisting with innovation and "soft" investment up to a maximum of 50%. Finally, some regional support measures for ICT development may fall within this framework.

ANNEX 3.A3

Commitments of the State and the regional councils to each generation of CPER (in millions of EUR)

Region	CPER 1984-1988		CPER 1989-1993		CPER 1994-1999		CPER 2000-2006	
	State	Regional Council	State	Regional Council	State	Regional Council	State	Regional Council
Alsace	170.29	109.61	257.44	317.89	343.57	228.95	453.840	426.055
Aquitaine	325.94	203.21	328.02	233.02	464.6	389.28	722.760	719.161
Auvergne	149.4	81.41	206.72	106.87	374.26	164.04	407.038	268.798
Bourgogne	144.06	97.57	236.31	152.89	315.48	238.63	376.167	331.861
Bretagne	297.12	149.1	554.58	285.63	792.64	458.49	907.071	653.189
Centre	128.06	88.42	240.64	166.49	365.68	274.41	548.968	500.338
Champagne-Ardenne	90.71	69.36	203.21	200.01	274.35	203.63	367.249	377.747
Corse	129.58	54.88	76.53	49.55	105.95	88.48	248.644	231.036
Franche-Comté	139.8	86.59	207	197.62	276.01	181.48	335.693	285.851
Ile-de-France	1 103.43	1 305.27	1 299.17	1 747.1	1 701.24	3 545.23	2 994.860	4 667.532
Languedoc-Roussillon	316.03	129.58	397.39	215.75	562.57	352.95	691.356	618.970
Limousin	109.92	48.17	172.16	98.27	234.98	133.5	327.612	187.924
Lorraine	466.19	159.92	496.21	290.89	669.05	527.92	816.882	681.462
Midi-Pyrénées	246.21	126.08	511.47	286.76	643.24	440.15	854.171	813.811
Nord-Pas-de-Calais	681.75	375.33	1 011.16	650.93	1 260.94	767.5	1 532.112	1 043.635
Basse-Normandie	118.76	74.24	252.23	197.92	338.96	323.68	539.517	764.049
Haute-Normandie	77.6	79.73	221.65	202.19	346.88	378.36	497.136	524.882
Pays-de-la-Loire	214.19	150.16	304.27	214.05	454.01	321.7	694.274	623.082
Picardie	297.12	156.26	325.02	260.2	380.12	364.66	459.176	482.344
Poitou-Charentes	160.07	86.44	248.37	314.52	385.62	268.74	488.751	430.589
Provence-Alpes-Côte d’Azur	630.68	406.12	435.97	354.63	664.6	486.31	1 115.317	1 070.467

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Region	CPER 1984-1988		CPER 1989-1993		CPER 1994-1999		CPER 2000-2006	
	State	Regional Council	State	Regional Council	State	Regional Council	State	Regional Council
Rhône-Alpes	386.15	231.11	580.39	394.95	785.1	705.4	1 271.577	1 243.222
Bassin parisien	–				50.77			
Total	**6 383.06**	**4 268.57**	**8 626.89**	**6 938.13**	**11 790.62**	**10 843.47**	**16 650.171**	**16 946.005**
Total State + Region		**10 651.63**		**15 565.02**		**22 634.09**		**33 596.176**

Source: DIACT.

ANNEX 3.A4

Share of different ministries in the planning contracts (in millions of EUR)

	CPER 1994-1999 (excl. TOM)		CPER 2000-2006		Change in envelopes between 1994-1999 and 2000-2006 (%)
	Amount	Share relative to all ministries (%)	Amount	Share relative to all ministries (%)	
Agriculture and fisheries	1 140.78	8.92	1 474.26	8.42	+29.23
Foreign affairs and co-operation	10.41	0.08	19.89	0.11	+91.07
Culture	223.31	1.75	387.07	2.21	+73.33
Defense and Veterans' Affairs	1.34	0.01	80.49	0.46	+5 900.00
National Education, *of which:*	2 136.12	16.70	3 013.76	17.21	+41.09
Tertiary education and research	1 979.94	15.48	2 770.53	15.82	+39.93
Grade-School education	156.17	1.22	243.23	1.39	+55.75
Employment and vocational training	605.56	4.73	822.16	4.70	+33.77
Cities	533.83	4.17	1 237.28	7.07	+131.77
Health and welfare	368.56	2.88	428.06	2.44	+16.15
Environment	198.49	1.55	489.80	2.80	+146.76
Infrastructure, *of which:*	5 880.84	45.97	7 145.51	40.81	+21.50
Roads	4 161.42	32.53	4 184.34	23.90	+0.55
Other modes of transport and miscellaneous	825.76	6.46	2 501.14	14.28	+202.89
Housing and Urban Development	850.75	6.65	343.56	1.96	–59.62
Tourism	42.91	0.34	116.47	0.67	+171.40
FNADT: territorial planning	716.21	5.60	1 117.45	6.38	+56.02
Economy, Finance and Industry, *of which:*	725.38	5.67	913.78	5.22	+25.97
Industry	648.91	5.07	759.81	4.34	+17.09
Foreign trade	36.22	0.28	63.60	0.36	+75.59
SMEs, commerce, crafts	40.25	0.31	90.22	0.52	+124.17
Youth and sports	23.33	0.18	123.64	0.71	+429.89

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	CPER 1994-1999 (excl. TOM)		CPER 2000-2006		Change in envelopes between 1994-1999 and 2000-2006 (%)
	Amount	Share relative to all ministries (%)	Amount	Share relative to all ministries (%)	
Justice	0.53		48.56	0.28	+9 131.88
Overseas	154.20	1.21	208.25	1.19	+35.05
Miscellaneous, including common charges	73.16	0.57	0.18	0.001	–99.75
Total	**12 792.04**		**17 510.00**		**+36.88**

The amounts in € shown in this document have no contractual force. Official figures in francs have been converted at an exchange rate of 1 €= 6.55957 francs).

Source: DIACT.

ANNEX 3.A5

State-region planning contracts 2000-2006: relative share by signatory, excluding TOMs, interregional programmes and large programmes (in thousands of EUR)

	State		Regional Council		Total
	Amount	Relative share (%)	Amount	Relative share (%)	
Alsace	453 840.724	51.58	426 055.366	48.42	879 896.091
Aquitaine	722 760.791	50.12	719 161.469	49.88	1 441 922.260
Auvergne	407 038.876	60.23	268 798.107	39.77	675 836.983
Bourgogne	376 167.950	53.13	331 861.235	46.87	708 029.185
Bretagne	907 071.653	58.14	653 189.157	41.86	1 560 260.810
Centre	548 968.911	52.32	500 337.675	47.68	1 049 306.586
Champagne-Ardenne	367 249.683	49.30	377 747.474	50.70	744 997.157
Corse	248 644.347	51.84	231 036.486	48.16	479 680.833
Franche-Comté	335 692.736	54.01	285 851.054	45.99	621 543.790
Ile-de-France[1]	2 994 860.944	39.09	4 667 531.561	60.91	7 662 392.504
Languedoc-Roussillon	691 356.293	52.76	618 970.451	47.24	1 310 326.744
Limousin	327 612.938	63.55	187 923.904	36.45	515 536.842
Lorraine	816 882.814	54.52	681 462.352	45.48	1 498 345.166
Midi-Pyrénées	854 171.844	51.21	813 810.966	48.79	1 667 982.810
Nord-Pas-de-Calais	1 532 112.623	59.48	1 043 635.482	40.52	2 575 748.105
Basse-Normandie	539 517.072	41.39	764 049.473	58.61	1 303 566.545
Haute-Normandie	497 136.245	48.64	524 881.966	51.36	1 022 018.212
Pays-de-la-Loire	694 274.167	52.70	623 082.255	47.30	1 317 356.423
Picardie	459 176.440	48.77	482 343.660	51.23	941 520.100
Poitou-Charentes	488 751.549	53.16	430 589.200	46.84	919 340.749
Provence-Alpes-Cote d'Azur	1 115 317.010	51.03	1 070 466.509	48.97	2 185 783.519
Rhône-Alpes	1 271 577.253	50.56	1 243 221.736	49.44	2 514 798.988
Total Metropolitan France	16 650 182.863	49.56	16 946 007.539	50.44	33 596 90.401

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	State		Regional Council		Total
	Amount	Relative share (%)	Amount	Relative share (%)	
Guadeloupe	195 744.538	47.71	214 495.767	52.29	410 240.305
Guyane	186 140.250	60.69	120 587.173	39.31	306 727.423
Martinique	170 590.450	41.26	242 858.145	58.74	413 448.595
Réunion	307 337.219	57.25	229 470.834	42.75	536 808.053
Total DOM	859 812.457	51.57	807 411.919	48.43	1 667 224.376
Grand total	**17 509 995.320**	**49.65**	**17 753 419.457**	**50.35**	**35 263 14.777**

The amounts in € shown in this document have no contractual force. Official figures in francs have been converted at an exchange rate of 1 € = 6.55957 francs)

1. State: includes 686 020 of the former FARIF (*Fonds d'aménagement régional de l'Ile-de-France*)

Source: DIACT.

ANNEX 3.A6

Responsibilities of groupings of communes with fiscal powers

A. Communautés de communes

Exercise of most of the mandatory and optional responsibilities transferred under each bloc is subject to recognition of "community interest" (*intérêt communautaire*), which is set at the qualified majority required for creation of the *communauté de communes* (art. 5214-16 IV du CGCT).

It is important therefore to define:

1. the group of responsibilities;
2. the responsibilities within these groups;
3. the actions taken, subject to the definition of community interest.

	Blocs of mandatory responsibilities	Optional responsibilities	Elective responsibilities
Communautés de communes with additional taxing powers	Art. 5214-16 I, CGCT 1) spatial planning; 2) economic development activities of community interest.	I. may choose between the following four blocs of responsibilities: (art. 5214-16 II CGCT) 1) environmental protection and improvement, under departmental master plans as necessary; 2) public housing and living conditions 3) creation and maintenance of roads of community interest; 4) construction, maintenance and operation of cultural and sporting facilities and preschool and elementary education facilities of community interest II. Choice of optional responsibilities: (art. 5214-16 III) this choice is made by the qualified majority required for the creation of the community.	Elective responsibilities. By executive decision or when there is a statutory change in the qualified majority (art. L. 5211-17)

Note: when the transfer of responsibilities meets the conditions established by law and has been duly approved by the Community Council and by the qualified majority of the municipal councils, the prefect, who in this case must order the transfer of responsibilities, may issue a decree to this effect even prior to expiry of the three months during which the municipal councils are to express their view. Where Art. L. 5211-17 of the CGCT is applicable, the prefect has sole jurisdiction and does not have to wait for 3 months before issuing a decree (CE, Commune de Laveyron, 3 May 2002).

	Blocs of mandatory responsibilities	Optional responsibilities	Elective ("*facultative*") responsibilities
Communautés de communes levying the T.P.U. (Single Business Tax)	Art. 5214-16 I. 2° of the CGCT 1) spatial planning; 2) economic development activities of community interest, including planning, management and maintenance of industrial, commercial, tertiary, craft, tourism, port or airport facilities (specify which).	Idem	Idem

B. Communautés d'agglomération and communautés urbaines

When exercise of the mandatory and optional responsibilities of the *communautés d'agglomération* and of the mandatory responsibilities of the *communautés urbaines* is subject to recognition of their community interest, that interest is determined by a two-thirds majority of the community council.

	Mandatory responsibilities	Optional responsibilities
Communautés d'agglomération	Art. 5216-5 I of CGCT: **1) economic development:** *a)* creation, management and maintenance of industrial, commercial, tertiary, craft, tourism, port or airport facilities of community interest; *b)* economic development activities of community interest; **2) community spatial planning:** SCOT and sector master plan; creation and use of ZAC of community interest ; organisation of urban transit; **3) community social housing supply:** *a)* local housing programme; *b)* social housing policy; *c)* financial assistance and activities to promote social housing; *d)* low-income housing; *e)* land reserves for social housing policy; *f)* improvement of the building stock of community interest; **4) urban development policy:** *a)* contractual arrangements for urban development, local development, and economic and social services of community interest; *b)* local arrangements for crime prevention.	Art. L5216-5 II of CGCT **I. the community must exercise at least three of the following five responsibilities:** 1) road maintenance and improvement; parking lot creation and management; 2) sanitation ; 3) water supply ; 4) protection and improvement of the environment and living conditions; air and noise pollution control, removal and recovery of household wastes and similar wastes, or part thereof; 5) Construction, maintenance and management of cultural and sporting facilities of community interest. Art. L5216-5 II of CGCT **II. Choice of optional responsibilities:** this choice is made by decision of the municipal councils of the interest in communes, subject to qualified majority provisions.

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Mandatory responsibilities (the urban community does not have optional responsibilities)	
Communautés urbaines	Art. L5215-20 I of the CGCT: 1) economic, social and cultural development within the community: *a)* industrial, commercial, tertiary, craft, tourist, port and airport facilities; *b)* economic development activities; *c)* cultural, social, educational and sporting facilities of community interest; *d)* lycées and collèges. 2) community spatial planning: *a)* SCOT and sector master plan; PLU; ZAC of community interest; constitution of land reserves of community interest; *b)* organisation of urban transit; creation and maintenance of community roads, signage and parking lots; *c)* overall planning and determination of planning sectors. 3) community social housing: *a)* local housing programme; *b)* social housing policy; financial assistance to social housing; promotion of social housing; housing for persons displaced by social housing projects; *c)* housing improvement in rehabilitation programmes of community interest. 4) urban policy within the community: *a)* contractual arrangements for urban and local development and economic and social services; *b)* crime prevention. 5) management of collective services: *a)* water and sanitation; *b)* creation and expansion of cemeteries and crematoriums; *c)* slaughterhouses and markets of national interest; *d)* fire and rescue services. 6) protection and improvement of the environment and living conditions: *a)* removal and recovery of household and similar wastes; *b)* air pollution; *c)* noise pollution.

Apart from these mandatory and optional responsibilities, elective responsibilities may be transferred to the *communautés d'agglomération* and to the *communautés urbaines* by executive decision or when the statutes are modified.

As well, the CGCT provides for the possibility that these communities may exercise all or a portion of social assistance responsibilities, provided there is a convention with the department.

ANNEX 3.A7

Distribution of groupings with fiscal powers, by region

	At 1 January 2005	
	Population of the grouping	% of regional population
Alsace	1 693 695	95.6
Aquitaine	2 828 244	93.3
Auvergne	1 308 822	96.1
Bourgogne	1 501 589	89.8
Bretagne	2 980 747	97.4
Centre	2 162 146	85.6
Champagne-Ardenne	1 204 621	86.6
Corse	188 584	69.7
Franche-Comté	1 125 316	96.8
Ile-de-France	4 869 915	43.7
Languedoc-Roussillon	2 266 029	94.8
Limousin	722 332	97.2
Lorraine	2 175 478	91.2
Midi-Pyrénées	2 431 188	90.3
Nord-Pas-de-Calais	4 020 684	98.7
Basse-Normandie	1 440 935	97.5
Haute-Normandie	1 810 072	99.1
Pays-de-la-Loire	3 309 532	98.3
Picardie	1 828 154	95.6
Poitou-Charentes	1 700 110	98.5
Provence-Alpes-Côte d'Azur	4 109 119	89.0
Rhône-Alpes	5 233 878	89.7
Régions d'Outre-Mer	1 341 412	78.7
Total	**52 252 602**	**84.1**

Population data are taken from the 1999 census, corrected by supplementary censuses as necessary.

Source: Ministère de l'Intérieur, de la Sécurité intérieure et des Libertés locales, Direction générale des collectivités locales.

ANNEX 3.A8

Growth of EPCI with taxing powers, 01/01/1999 to 01/01/2005

	1999	2004	2005
Communautés urbaines			
Number of groupings	12	14	14
Number of communes	309	355	355
Population in groupings	4 638 381	6 209 160	6 210 939
Of which TPU			
Number of groupings	–	11	11
Number of communes	–	322	322
Population in groupings	–	5 870 605	5 872 185
Communautés d'agglomération			
Number of groupings	–	155	162
Number of communes	–	2 632	2 750
Population in groupings	–	19 712 134	20 391 934
Communautés de communes			
Number of groupings	1 347	2 286	2 343
Number of communes	15 200	28 403	29 172
Population in groupings	18 049 741	24 479 442	25 297 156
Of which TPU			
Number of groupings	93	856	922
Number of communes	863	10 374	11 281
Population in groupings	2 784 341	11 824 215	12 816 340
Syndicats d'agglomération nouvelle			
Number of groupings	9	6	6
Number of communes	51	34	34
Population in groupings	715 025	346 460	352 573

ANNEX 3.A9

The pays by region in 2005

	Population covered by a recognised or planned *pays* (%)
Ile-de-France	0.2
Corse	7
Provence-Alpes-Côte d'Azur[1]	15
Rhône-Alpes[1]	21
Martinique	28
Picardie[1]	28
Nord-Pas-de-Calais	34
Lorraine[1]	42
Haute-Normandie[1]	51
Bourgogne[1]	53
Pays-de-la-Loire[1]	53
Poitou-Charentes	58
Languedoc-Roussillon[1]	60
Midi-Pyrénées[1]	63
Centre[1]	70
Alsace[1]	71
Auvergne[1]	73
Aquitaine[1]	74
Champagne-Ardenne[1]	74
Franche-Comté[1]	83
Basse-Normandie[1]	93
Limousin[1]	99
Bretagne[1]	100

1. Region concerned with one (or several) inter-regional *pays*.

Source: ETD (Entreprise Territoire et Développement).

ANNEX 3.A10

Pays and urban areas in 2005

	Portion of the population of urban areas living in a *pays* (%)	Portion of the population of urban areas living in an *agglomération* not part of a *pays* (%)	Portion of the population of urban areas not part of a *pays* or an *agglomération* (%)
Alsace	60	35	4
Aquitaine	63	36	1
Auvergne	79	16	5
Basse-Normandie	95	0	5
Bourgogne	38	39	23
Bretagne	100	0	0
Centre	55	40	5
Champagne-Ardenne	64	29	6
Corse	0	73	27
Franche-Comté	74	23	3
Haute-Normandie	42	49	10
Ile-de-France	0	28	72
Languedoc-Roussillon	52	38	9
Limousin	100	0	0
Lorraine	30	43	27
Midi-Pyrénées	48	43	10
Nord-Pas-de-Calais	26	66	8
Pays-de-la-Loire	50	40	10
Picardie	23	30	47
Poitou-Charentes	34	57	9
Provence-Alpes-Côte d'Azur	8	76	16
Rhône-Alpes	15	53	33
National[1]	32	40	28

1. Mainland France.

Source: ETD (Entreprises Territoires et Développement).

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Liste of acronyms

ADSL	Asymmetric Digital Subscriber Line
AII	Agence pour l'Innovation Industrielle (Agency for Industrial Innovation)
AMF	Association des Maires de France (Association of French Mayors)
ANR	Agence Nationale de la Recherche (National Agency for Research)
ANVAR	Agence Nationale de Valorisation de la Recherche (French Innovation Agency)
ARCEP	Autorité de Régulation des Communications Électroniques et des Postes (Regulatory Body for Electronic Communications and Post Office Matters)
ARF	Association des Régions de France (Association of French Regions)
CAR	Comité d'Administration Régional (Regional Management Committee)
CDC	Caisse des Dépôts et Consignations (A State owned financial institutions performing public interest missions)
CDCI	Comité Interdépartemental de Coopération Intercommunale (Departmental Commission for intercommunal cooperation)
CEA	Commissariat à l'Énergie Atomique (Atomic Energy Authority)
CESR	Conseil Économique et Social Régional (Regional Economic and Social Council)
CGCT	Code Général des Collectivités Territoriales (Regulatory framework for local authorities)
CGP	Commissariat Général du Plan (National Plan Commission)
CIACT	Comité Interministériel à l'Aménagement et à la Compétitivité des Territoires (Interministerial Committee for Territorial Competitiveness and Planning)
CNES	Centre National d'Études Spatiales (National Space Research Institute)
CNFPT	Centre National de la Fonction Publique (Public Sector National Center

CNRS Centre National de la Recherche Scientifique (National Center for Scientific Research)

CNRT Centre National de Recherche Technologique (National Centre for Technological Research)

CPER Contrat de Plan État-Région (State/Region Planning Contract)

CRITT Centre Régional pour l'Innovation et le Transfert de Technologies (Regional Centre for Innovation and Technology Transfer)

CTE Contrat Territorial d'Exploitation (Territorial Contract in rural areas)

DGCL Direction Générale des Collectivités Locales (Directorate General for Local Affairs from the Ministry of Interior)

DGF Dotation Globale de Fonctionnement (Global Operating Grant)

DIACT Délégation Interministérielle à l'Aménagement et à la Compétitivité des Territoires (French Regional Agency)

DIV Délégation Interministérielle à la Ville (Interministerial Commission for City Policy)

DNP Dotation Nationale de Péréquation (National Equalisation Grant)

DOCUP Document Unique de Programmation (EU Regional Programming Document)

DREE Direction des Relations Économiques Extérieures (Foreign Economic Relations Office)

DSP Délégation de Service Public (Public Services Delegation)

DSR Dotation de Solidarité Rurale (Rural Solidarity Grant)

DSU Dotation de Solidarité Urbaine (Urban Solidarity Grant)

DTA Directive Territoriale d'Aménagement (Territorial Planning Directive)

ENA Ecole Nationale d'Administration

ENS Ecole Normale Supérieure

EPCI Etablissement Public de Coopération Intercommunale (Public Establishment for Intermunicipal Cooperation)

EPIC Etablissement Public à Caractère Industriel et Commercial (Public Institution of an Industrial and Commercial Nature)

EPST Etablissement Public Scientifique et Technique (Public Scientific and Technical Research Establishment)

ERT Equipe de Recherche Technologique (Technological Research Team)

ERM European Restructuring Monitor

FNADT Fonds National d'Aménagement et de Développement des Territoires (National Fund for Territorial Planning and Development)

GPU Grand Programme Urbain (Large Urban Projects)

IFREMER Institut Français de Recherche pour l'Exploitation de la Mer (French National Maritime Research Institute)

INRA Institut National de la Recherche Agronomique (National Institute for Agronomy Research)

INSEE Institut National de la Statistique et des Études Économiques (National Institut for Statistics and Economic Studies)

INSERM Institut National de la Santé et de la Recherche Médicale (National Institut for Health and Medical Research)

LETI Laboratoire d'Électronique de Technologies de l'Information (Laboratory for Électronic and Information Technologies)

LOADDT Loi d'Orientation, d'Aménagement et de Développement Durable des Territoires (Law on Planning and Sustainable Territorial Development)

LOLF Loi Organique Relative aux Lois de Finance (New Budget Law)

LOPR Loi d'Orientation et de Programmation de la Recherche (Law on Research)

NTIC Nouvelles Technologies de l'Information et des Communications (New Information and Communication Technologies)

OPAH Opération Programmée d'Amélioration de l'Habitat (Housing Improvement Programme)

OPR Organisme Public de Recherche (Public Research Organisation)

OST Observatoire de la Science et de la Technologie (Science and Technology Observatory)

PASED Projet d'Action Stratégique de l'État dans les Départements (Proposed State Strategy for "Département")

PASER Projet d'Action Stratégique de l'État en Régions (Proposed State regional Strategy)

PAT Prime à l'Aménagement du Territoire (Regional Planning Premium)

PCRD Programme Communautaire de Recherche et Développement (EU R&D Programme)

PNDR Plan National de Développement Rural (Rural National Development Plan)

PNR Parc Naturel Régional (Regional Nature Park)

PRAI Programme Régional d'Actions Innovatrices (Innovative Action Regional Programme)

PRES Pôle de Recherche et d'Enseignement Supérieur (Pole of Research and Higher Education)

RDT Réseau de Développement Technologique (Technological Development Network)

RENATER Réseau National de Télécommunications pour la Technologie, l'Enseignement et la Recherche (National Telecommunication Network for Technology, Training and Research)

RRIT Réseau de Recherche et d'Innovation Technologique (Technological Innovation and Research Network)

SAIC Service d'Activités Industrielles et Commerciales (Industrial and Commercial Department within Universities)

SCOT Schéma de Cohérence Territoriale (Territorial Consistency Scheme)

SIVOM Syndicat Intercommunal à Vocation Multiple (Multi Purpose Intercommunal Association)

SIVU Syndicat Intercommunal à Vocation Unique (Single Purpose Intercommunal Association)

SRADT Schéma Régional d'Aménagement et de Développement du Territoire (Regional Territorial Planning Master Plan)

SRDE Schéma Régional de Développement Économique (Regional Economic Development Master Plan)

SRU (Loi) Loi Solidarité et Renouveau Urbain (Solidarity and Urban Renewal Act)

SPL Système Productif Local (Local Production System)

TER Train Express Régional (Regional Train)

TGV Train à Grande Vitesse (High Speed Train)

TIPP Taxe Intérieure sur les Produits Pétroliers (Domestic Tax on Oil Products)

TRDP Territoires Ruraux de Développement Prioritaire (Priority Rural Areas)

TPU Taxe Professionnelle Unique (Single Business Tax)

ZFU Zone Franche Urbaine (Urban Free Zone)

ZRR Zone de Revitalisation Rurale (Rural Revitalisation Zone)

ZUS Zone Urbaine Sensible (Distressed urban Zone)

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After several decades of implementation of regional policies, France seems to be reaping the benefits of its efforts to promote a more balanced distribution of population and activities throughout the country. Western and southern regions are catching up, several large cities are now developing more rapidly than the capital region and many rural areas are showing signs of vitality. Nevertheless, this new balance remains fragile, with many regions lagging in terms of competitiveness, reflected by their inability to put to full use their manpower, entrepreneurial capacities and potential for firm co-operation.

The main goal of the government's regional policies is now to strengthen economic performance in regions. While continuing to support the development of transport and communication infrastructures – notably to increase the access to broadband – the priority is on innovation and engaging new markets. This strategy, underpinned by the poles of competitiveness programme launched in 2004, should pay off provided that the government avoids building complex assistance systems and a multitude of support measures. Co-ordination between the different levels of government has also been improved via State/Region planning contracts. And inter-communal co-operation policy has led to the regrouping of a vast majority of French municipalities. Furthermore, the new thrust in decentralisation has given more importance to local and regional government initiatives. However, regional policy management could benefit from more transparency and efficiency if more rigorous and action-oriented evaluation procedures were built into regional policies and programmes.

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