

OECD Regional Development Studies

Place-Based Policies for the Future



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Foreword

Across the OECD and the EU, inequalities within countries remain large and, in many countries, they continue to grow, weighing down on resilience, competitiveness and well-being. Recent shocks, including the COVID-19 pandemic, the energy and cost of living crises, and shifts in global value chains, have highlighted the risks and vulnerabilities of existing socio-economic models. They have also increased understanding of the need and urgency to address other long-standing risks and transitions – including from climate change, technology and demography – and their strong asymmetric impacts within countries.

Place-based policies can target local needs and mobilise local assets by better recognising the unique characteristics of each place. By ensuring strategies and investments are more effectively targeted, these policies can foster enhanced competitiveness, sustainability and inclusiveness, and ultimately the resilience of economies to leverage opportunities of transitions and to manage shocks.

This report, developed through a collaboration between the OECD and the European Commission, provides a synthesis of current knowledge on place-based policies. It draws on insights from a series of high-level expert workshops held in 2023, reflecting the latest academic research and policy discussions on the topic. The report emphasises the need for well-coordinated and multi-dimensional policy action that engages all levels of government, as well as broader stakeholders. It calls for more forward-looking policies that promote sustainable and resilient development. It highlights the importance of robust and evidence-based policymaking, supported by effective monitoring and evaluation.

As we look towards the future, place-based policies will continue to play a crucial role. This report offers valuable guidance on how these policies can be designed and implemented to maximise their impact in, and for all regions. We hope that policy makers, practitioners and researchers alike will find this report a useful resource in their efforts to create more inclusive, sustainable and resilient societies.

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The workshops and final publication were co-ordinated by Courtenay Wheeler (CFE/RDG) and Andrés Fuentes (CFE/EDS), under the joint supervision of Dorothée Allain-Dupré, Head of Regional Development and Multi-level Governance Division of CFE and Rudiger Ahrend, Head of the Economic Analysis and Statistics Division of CFE. The report builds on the background papers prepared by the experts, as well as discussions in the workshops. The chapters were prepared collectively by Courtenay Wheeler (Chapters 1, 2 and 3), Michael Flood (Chapters 2 and 6), Caroline Gentet-Raskopf (Chapters 4 and 7), Matteo Schleicher (Chapter 5), Isabelle Chatry (Chapter 6) and Maria Varinia Michalun (Chapter 6), all from CFE. Important contributions were made by Alison Weingarden (Chapters 2 and 5), Andrés Fuentes Hutfilter (Chapters 1, 2, 4, 5 and 7), Justin Chen (Chapters 1 and 2), Miquel Vidal-Bover (Chapter 2, 3 and 6), Jose Enrique Garcilazo (Chapters 1 and 2) and Petra Bayerova (Chapters 4, 5 and 7). Valuable comments were provided by RDPC Delegates, Nadim Ahmad, Antti Moisio, Ana Moreno Monroy, Joaquim Oliveira Martins and DG REGIO.

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Table of contents

Foreword	3
Acknowledgements	4
Executive Summary	8
1 Context and definition	13
Evolving policy challenges and priorities	14
Place-based policies for the future	14
Defining place-based policies	15
Outline of report	19
References	20
Annex 1.A. Comparison of place-based policy definitions	23
2 The case for place-based policies	24
Introduction	25
High costs of leaving places behind	26
Inefficiencies in the spatial equilibrium	30
Insufficiency of 'spatially-blind' policy approaches	36
Economic rationales for place-based policies	38
Impact of place-based policies	44
References	48
Notes	55
3 Design of effective place-based policies	56
Towards effective place-based policies	57
Target regional and local development potential	59
Ensure policy coherence	63
Seeking efficient implementation	68
References	77
Note	81
4 Avoiding a tragedy of the commons: Public goods provision through place-based policies	82
Place-based policy improves the provision of key public goods	83
Unlocking local solutions for overexploited global commons	84
Reassessing public goods provision in depopulating regions	88
References	92
Note	93

5 Measuring progress better: cutting-edge approaches to monitoring and evaluating place-based policies	94
Monitoring and evaluation are key to effective place-based policymaking	95
Robust monitoring and evaluation of place-based policies needs ramping up	96
Getting the framework conditions in place to support the monitoring and evaluation of place-based policies	97
A practical guide for monitoring and evaluating place-based policies	99
References	103
Note	104
6 Governance of place-based policies now and in the future	105
Strengthening multi-level governance to support place-based policies	106
Make place-based policies effective by co-ordinating the relevant actors and sectors	108
Empower place-based leaders to help shape place-based policies	112
Ensure the availability and adequacy of funding, financing and human resources to support place-based policies	114
Leverage experimental practices to improve policy design and delivery	121
Promote an inclusive policy process	123
References	126
Notes	132
7 The present and future of place-based policies	134
Place-based policies are beginning to address global challenges	135
Place-based policies need to be reinforced to harness their potential	140
References	143
Notes	144

FIGURES

Figure 2.1. Labour productivity growth across large regions (TL2), 15-year average rates (2005-22)	27
Figure 2.2. Annual rate of inter-regional movers by country, 2016-22	32
Figure 4.1. Policy objectives and interventions	90
Figure 5.1. Monitoring and evaluation can track and test policy impact	95
Figure 5.2. Example infographics summarising evaluation evidence	102
Figure 6.1. The share of subnational government in public expenditure by functional area in OECD countries	106
Figure 6.2. Subnational public investment as a share of public investment (2022)	107
Figure 7.1. A European model of upward convergence at regional level	137

TABLES

Table 2.1. Robust evaluations of place-based policies and local economic development interventions show positive results	45
Table 3.1. Potential benefits and challenges of place-based policies	57
Table 3.2. Potential effects of fiscal equalisation on regional economic development	68
Table 3.3. Appropriate geographical scales for discharging selected functions and activities	69
Table 3.4. Approaches to allocate funding for place-based policies to subnational governments	71
Table 3.5. Examples of instruments in place-based policies	74
Table 3.6. Possible effects of grants on subnational public finances	74
Table 4.1. Planetary boundaries have spatially different implications	85
Table 4.2. Place-based policies are relevant to protect global environmental goods	87

Table 4.3. Aims, actors and example interventions of a place-based policy for the provision of public goods in depopulating areas	91
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Annex Table 1.A.1. Classification of place-based policy definitions of in the literature	23
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BOXES

Box 1.1. Role of the OECD's Regional Development Policy Committee in the evolution of place-based policies	15
Box 1.2. Definitions of 'place-based policies' go beyond spatial-targeting	16
Box 1.3. Place-based policies are distinct from other types of policies that can support regional and local development	18
Box 2.1. Origins of the 'place-based policies' concept	25
Box 2.2. Persistent impacts of adverse shocks on places	28
Box 2.3. New economic geography, agglomeration economies and congestion discontinuities	30
Box 2.4. Trapped in a 'low-level spatial equilibrium'	35
Box 2.5. Overcoming the 'first mover problem'	40
Box 2.6. Local public goods	40
Box 2.7. The emergence of 'place-based industrial policy'	42
Box 2.8. Evidence from systematic reviews of local development policies	45
Box 3.1. Enhancing the benefits and managing the challenges of place-based policies	57
Box 3.2. Understanding regional strengths to identify infrastructure gaps in Australia	60
Box 3.3. Role of territorial foresight to support more forward looking policymaking	61
Box 3.4. Shift towards more proactive place-based policies in Germany	62
Box 3.5. Regional Smart Specialisation	63
Box 3.6 New Deal for Communities initiative in England	64
Box 3.7. Fiscal equalisation and regional development policies: Is there a case for enhanced synergies?	67
Box 3.8. Build Back Better Regional Challenge	72
Box 3.9. Integrating policy learning into decision-making processes in Sweden	76
Box 4.1. Building new futures for coal-mining regions – Jiu Valley Romania	84
Box 4.2. Adapting cities to climate change- Paris Climate Action Plan	85
Box 4.3. The Prisoner's dilemma in local transport	87
Box 4.4. Shrinking smartly – Estonia case study	89
Box 5.1. Three major Italian territorial cohesion reports conceptualise monitoring and evaluation in different ways	97
Box 5.2. Two policy labs for monitoring and using robust evaluation evidence in policymaking	98
Box 5.3. Using statistical techniques to build a valid counterfactual	101
Box 6.1. Using contracts as the main tool to articulate national and regional policies in France	111
Box 6.2. What defines place-based leadership?	112
Box 6.3. The key role of EU funds to support place-based policies in EU Member States	114
Box 6.4. Leveraging AI across multi-level governance systems	122
Box 6.5. Why social capital matters for place-based policy design	124
Box 7.1. Cohesion Policy Over the Years	135
Box 7.2. Local programmes in the US	138

Executive Summary

Shocks, transitions and structural pressures are reshaping development priorities across OECD regions. Countries are slowly emerging from recent crises, but continue to experience long-term consequences, including more constrained public finances and higher levels of inflation. At the same time, there is an urgent need to support the twin climate and digital transitions and confront economic headwinds arising from demographic change and low levels of productivity growth. On top of this, an evolving global landscape and repeated shocks are refocusing governments' attention on international competitiveness and resilience.

In the face of these challenges, governments are seeking new approaches to increase competitiveness and accelerate the green transition, while maintaining support for inclusion and cohesion throughout a territory. Balancing these objectives requires well-coordinated, multi-dimensional and effective policy action across all levels of government. While “place-blind” macro-structural and sectorial policies will continue to have an important role in this agenda, they will not be sufficient on their own and are not always the most efficient response for supporting regional economic development. Governments also need complimentary “place-based policies” to enhance the quality of development, to ensure efficient mobilisation of assets throughout a country and to avoid leaving large parts of a country behind. Place-based policies have an important role to address spatially differentiated market failures and enhance local public good provision.

Place-based policies are intentionally spatially-targeted policies that provide support to a place to improve long-term economic development and well-being outcomes. Effective place-based policies aim to efficiently address market failures and can have different – often complementary – objectives linked to productivity, sustainability and inclusion. They are place-sensitive to local conditions and opportunities and focus on integrated cross-sectorial policy action. They integrate multi-level governance based on an understanding that economic development depends on effective coordination across and among levels of government. Place-based policies matter for all places but are particularly important in places facing long-term economic or social underperformance, where institutions can be weaker. While place-based policies often have an economic efficiency rationale, they can also be undertaken for non-economic reasons, including political, social, environmental or security objectives.

Place-based policies have experienced renewed interest in recent years. Although place-based policies are not new and have been an important part of government policy for many years, persistent and rising spatial economic disparities, together with the significant spatial impacts of recent shocks and trends, have increased governments' focus on their potential. In recent years, many OECD countries have adopted or updated large-scale place-based policies. Among the most prominent are Cohesion Policy in the European Union, the Green New Deal in Korea and several recent policies in the United States, including the CHIPS and Science Act and the Infrastructure Investment and Jobs Act. The renewed focus on place-based policies calls for a deeper understanding of their purpose and effective design in response to current economic, social and environmental challenges.

The case for place-based policies

Many places are underperforming in the OECD, with high economic and social costs. Over the 15-year period between 2005 and 2020, more than half of OECD countries had at least one region with negative productivity growth. In Europe, while many less-developed regions have converged towards the EU average in terms of GDP per capita, many transition regions have stagnated or are diverging. As of 2021, one-third of regions have yet to see a return to their level of GDP per capita prior to the global financial crisis in 2008. Similar patterns exist across other OECD countries. On-going transitions and shocks—climate change, demographic change, technological advances and new global trade patterns, amongst others—risk further undermining local economic and social structures, with potentially high social, economic, fiscal and political costs.

Geography matters for economic development. The concept of place-based policies is linked to economic geography. In traditional neo-classical ‘spatial equilibrium’ models with perfect capital, firm and worker mobility, places are anticipated to automatically adjust and converge over the long-term following a negative economic shock. However, mobility is not perfect and capital not fully fungible. The annual rate of inter-regional migration across the OECD is low, currently around 3% of the population each year and less than 1% in some OECD countries. Mobility can also exacerbate divergence as out-migration of highly skilled and younger workers can undermine local economic prospects and create a ‘vicious circle’.

‘Spatially-blind’ policies can be insufficient, ineffective or even problematic in the context of large place-specific challenges. Spatially-blind macro-structural and sectorial policies, such as national regulations or pricing of environmental externalities (i.e., carbon pricing), propose a ‘one-size-fits-all’ approach that does not typically account for their asymmetric impact on different places. As a result, these policies can be inappropriate – and perhaps even harmful – for spatially asymmetric and multi-dimensional policy challenges, such as demographic and climate change. Furthermore, local institutions in an affected place may not be able to respond sufficiently to spatially-concentrated challenges on their own due to capacity constraints and fragmented administrative structures.

Place-based policies can efficiently address market failures. There are at least three main economic rationales for places-based policies. First, they can help to tackle a spatial mismatch between firms and workers that can create ‘untapped potential’ in local economies due to the underutilisation of local assets (e.g., human capital, physical capital). This is linked to inefficiencies in the spatial equilibrium that can potentially lead to over-concentration of firms or workers in some places and to the underutilisation of unmovable or less mobile resources in other places. Second, they can help to upgrade local public goods to create the foundations for local economic development and wellbeing. Third, they can help to respond to asymmetric shocks and transitions. They can also have other rationales such as supporting the strategic industrial and regional diversification of an economy, facilitating policy integration and enhancing innovation by reinforcing local and regional innovation networks.

Place-based policies also have an important role to support social cohesion and help limit regional inequality. Spatial inequalities are persistent in many OECD countries. Today, 70% of the OECD population live in a country experiencing regional divergence in economic performance (when comparing small TL3 regions). Persistent inequalities and economic underperformance can have high social, economic, fiscal and political costs. High levels of long-term unemployment in a community, for example, can result in intergenerational scarring, resulting in lower social and economic outcomes that represent lost potential. Persistent inequalities may ultimately reinforce a ‘geography of discontent’ that risks undermining trust in government, social cohesion and democracy.

Place-based policies can play a role in supporting national competitiveness. ‘Place-based industrial policies’ are becoming more prominent in OECD countries. These policies seek to boost national competitiveness by supporting the development of strategic industries through spatially-targeted incentives and investments. They seek to understand local needs and assets to support investment in strategic

industries, complementary infrastructure and human capital. Where these policies are well designed, including the necessary complementary policies for supporting regional and local development priorities and for addressing market failures, they can help to support national competitiveness and facilitate the green transition in a spatially inclusive way.

Empirical evidence indicates that place-based policies have the potential to be efficient and effective. Place-based policies are complex to evaluate given that they are multi-dimensional and have various direct and indirect effects and aims. Systematic reviews covering nearly 15 000 local development policy evaluations (which includes place-based policies) highlight that only 2% of evaluations meet a minimum threshold to be considered as a ‘robust’ study. Of the robust studies, around half show a positive impact in terms of employment and GDP outcomes, and the other half show limited impact. Negative effects are extremely rare. The impact of place-based policies ultimately depends on how they are designed and implemented.

Effective design of place-based policies requires a place-specific lens

Place-based policies have important benefits, but also face limitations when they are not properly designed. Tailoring policy to local needs, characteristics and assets can enhance long-term policy outcomes but can also increase complexity due to the cross-sectoral action required among multiple levels of government. While place-based policies can provide important local funding for public goods, this can sometimes be volatile and driven by short-term considerations, limiting the potential to develop long-term development strategies and strengthen subnational institutional capacities. To ensure that place-based policies are effective therefore four priority conditions are needed:

1. **Targeting regional and local development potential** – Defining clear objectives for place-based policies based on a deep and forward-looking understanding of market failures and institutional barriers to making full use of (underutilised) local assets.
2. **Ensuring policy coherence** – Managing interactions among institutions, sectors and policymaking frameworks to maximise potential synergies and address trade-offs, including with macro-structural and sectorial policies.
3. **Seeking efficient implementation** – Creating policies that act at the relevant scale with targeted instruments, transparent funding allocation and feedback loops to support continual improvement.
4. **Reinforcing multi-level governance** – Enhancing planning and coordination mechanisms, subnational institutional and fiscal capacity, place-based leadership, experimental governance and inclusive engagement to ensure effective policy design and implementation.

Global challenges require enhanced use of place-based policies

Greenhouse gas emissions, climate hazards and demographic trends differ across regions so actions will need to be tailored to the specificities of each region. For example, flood risks will require different actions across affected places, depending on geographical conditions, exposure and vulnerability of communities. Similarly, actions to redress the loss of biodiversity and halt the degradation of land require similar place-based actions to address market failures that are spatially concentrated. Places that address their local environmental problems are often better able to deal with the rising national and global environmental challenges. For example, local spatial planning and infrastructure provision that reduces traffic congestion and air pollution by favouring connectivity, active mobility and shared transport also reduces GHG emissions and energy use and does so in a way that can raise wellbeing and limit costs.

Addressing environmental challenges requires local collective decisions to help guide individual decisions. Place-based policies to help protect global environmental commons can trigger local

resistance. The most vocal resistance may not come from the most vulnerable groups. To gain support, policy makers should prioritise citizen participation and involvement, as well as effective communication. The temporary, experimental introduction of policy steps, for example towards more sustainable land use, can also reduce resistance, which often subsides when local benefits of the measures start materialising.

In regions exposed to significant demographic change, and in depopulating regions in particular, the adaptation of public services must account for local settlement structures as well as local health, social and education service needs, alongside budgetary resources. A place-based approach is therefore needed, integrating higher-level government as well as local actors. Place-based policies can account for specific local infrastructure and land use patterns and integrate how livelihoods depend on them. They can also harness the knowledge and relationships among local people, creating synergies, integrating transformations across sectors, for new, shared use of abandoned buildings for example.

Monitoring and evaluation should be embedded in the design of place-based policies

Cutting-edge evaluation tools are necessary to better understand the impact of current place-based policies and inform the design and implementation of future ones. For the evaluation and monitoring of place-based policies, efforts are needed to collect spatially granular data, including fiscal data, often in innovative ways and from unconventional sources, as official statistics may not be available or timely. Collecting information on policy progress during implementation on an ongoing basis supports continual improvement in policymaking. Addressing climate change, biodiversity loss and other major environmental challenges requires knowledge of local impacts and opportunities. Integrating local well-being impacts, for example on air pollution or traffic congestion, requires going beyond impacts on GDP and employment, allows to better account for the benefits of climate action. Knowing what works best for different local contexts and why should help expand more effective place-based policies.

Monitoring and evaluation should be built into the whole policy cycle. Many place-based policies are not systematically monitored and evaluated, as they involve actors from multiple sectors and often generate geographic spillovers. Since they often relate to investment, they often require particularly long timeframes for evaluation, well beyond an electoral cycle. Multiple policies may be acting simultaneously, complicating evaluation. Results need to be communicated in a clear and actionable way.

Effective place-based policies leverage multi-level governance and build capacity

Place-based policies often require coordinated actions by multiple levels of government and private stakeholders, making multi-level governance essential. Subnational governments in OECD countries and EU Member States have taken on increasing responsibilities in policy areas related to economic development, innovation, infrastructure and well-being. With many responsibilities shared among levels of government and the need for close involvement of private stakeholders, place-based policies require high-quality cross-sector and multi-level coordination.

Today's increasingly complex policy challenges and trade-offs require enhanced planning, coordination, capacity, local leadership and engagement. Place-based policies require strategic planning, coordination mechanisms and collaborative solutions to facilitate integrated policymaking and implementation. Ensuring the availability and adequacy of funding and financing at subnational levels of government is also crucial to support long-term outcomes. Strengthening administrative, fiscal and strategic capacities, especially at the subnational level, and building new capacities for foresight and data-driven decision-making will also be essential. To better understand and respond to local needs, place-based policies can also include experimental approaches such as policy innovation labs, policy and

service piloting, and participatory budgeting. Effective citizen engagement, civil society and partnership approaches are also key to addressing local priorities and perspectives, including those of private actors.

Forward-looking place-based policies to address tomorrow's challenges

The “systemic” nature of today’s rising challenges, such as climate change and demographic change, often requires cross-sectorial and local solutions making place-based policies a relevant approach. Environmental challenges are characterised by intertwined layers of local, regional and global externalities, making them “systemic”. These include issues around natural resources or the shared use of knowledge and infrastructure. Place-based policies are also needed to develop locally suitable substitutes for carbon-intensive activities, for example in response to carbon pricing, allowing regional economies to reduce emissions while preserving prosperity. Scaling-up place-based policies can help to meet these challenges but requires foresight to avoid risks to regional development and social cohesion. Similarly, demographic shrinkage and ageing are national and international challenges that require forward-looking place-based policy for public services, infrastructure and spatial planning suited to local conditions.

Support to industries, businesses and workers can support the transformations to reach climate neutrality more successfully if it is place-based, integrating innovation and digitalisation in local contexts. Else these challenges can have long-term scarring effects, leading to inter-generational cycles of reduced social and economic outcomes with high human, social, economic, fiscal and political costs. Proactive place-based action can help prevent a vicious circle taking hold, reducing long-term costs. Forward-looking place-based policies will be essential to enable communities to re-invent themselves as new challenges and opportunities emerge.

1 Context and definition

Multi-dimensional challenges facing countries today will require ambitious, coordinated and effective policy. Place-based policies have an important role to help efficiently tackle these challenges by addressing spatially differentiated market failures and enhancing local public good provision. While place-based policies seek to support economic development in a specific place, they are much more than spatially-targeted policy. They are place-sensitive policies that mobilise underutilised local assets through multi-level governance and integrated cross-sectoral policy action. Although place-based policies have existed for a long time, they have experienced renewed interest in recent years. This calls for re-examining their purpose and effective design.

Evolving policy challenges and priorities

Shocks, transitions, structural pressures and a changing geopolitical landscape are reshaping policy priorities across OECD countries. Repeated economic, social and environmental shocks continue to have long-term effects on national, regional and local economies, including through elevated levels of public debt and inflation (OECD, 2024^[1]). As governments continue to respond to these effects, there also remains an urgent need to accelerate the twin climate and digital transitions and to support long-term structural changes linked to demographic change. On top of this, a changing geopolitical landscape is leading countries to increasingly focus on international competitiveness and resilience.

Alongside changing policy priorities, there remain persistent disparities in economic and social outcomes across places in OECD countries, which can have high costs. Today, 70% of the OECD population live in a country experiencing regional divergence in economic performance (when comparing small TL3 regions) (OECD, 2023^[2]). While metropolitan regions continue to surge ahead in many OECD countries, many other places face economic stagnation, or even decline, and have ageing and shrinking populations. Some places also face economic and social disruption from the loss of traditional industries linked to the twin climate and digital transitions. As disparities persist or increase, they risk creating substantial long-term economic, social, fiscal and political costs for countries (see Chapter 2).

Enhancing international competitiveness and facilitating the twin transitions—without leaving large parts of a country behind—requires ambitious, effective and well-coordinated policy. The multi-dimensional nature of today’s policy challenges calls for long-term and integrated policy action across all levels of government and all places. “Spatially-blind” macro-structural and sectoral policies will not be enough to tackle these intertwined and spatially distinct policy challenges on their own. To simultaneously increase international competitiveness and support the green transition, without leaving large parts of a country behind, there is a need for effective place-based policies.

Place-based policies for the future

The concept of place-based policies has seen renewed interest in recent years. While place-based policies have likely always existed in some form—and the term itself has been used for the last 75 years (McCann, 2023^[3])—policy makers are now increasingly looking to harness the potential of place-based policies to tackle today’s challenges. Interest has been driven by a desire to address the persistent underperformance of some places and by a deeper understanding of the risks and costs posed by asymmetric transitions and shocks (OECD, 2023^[2]). The most prominent recent development is the emergence of ‘place-based industrial policies’ that seek to improve national competitiveness through spatially targeted investment. This is illustrated by three pieces of legislation in the United States that commit USD 80 billion to this type of policy (Infrastructure Investment and Jobs Act, Inflation Reduction Act (IRA) and the CHIPS and Science Act) (Muro, 2023^[4]), as well as the EU Green Deal Industrial Plan and associated Net-Zero Industry Act and France’s *Territoires d’Industrie* (OECD, 2023^[5]).

Increased interest in place-based policies calls for deepening our understanding of the conditions for effective place-based policies. To support this, the OECD and the European Commission organised a six-part seminar series on the topic of “Place-Based Policies for the Future” between March and October 2023. As part of the seminar series, eleven academic papers were prepared for closed-door discussions with a group of invited experts (see [website](#)). This report combines insights from these academic papers and discussions during the seminars, with a synthesis of the literature. Each chapter of the report broadly aligns with a topic covered in one seminar. This report also builds upon long-standing research and evidence on place-based policies, including from the OECD Regional Development Policy Committee (RDPC) (Box 1.1).

Box 1.1. Role of the OECD's Regional Development Policy Committee in the evolution of place-based policies

The OECD's RDPC Committee, represented by delegates of 38 member countries, partner countries and other international organisations have contributed to shaping the evolution of place-based policies over the last two decades. This contribution has been made over many years through reports such as 'How Regions Grow' (OECD, 2009^[6]), 'Regions Matter' (OECD, 2009^[7]), 'Promoting Growth in all Regions' (OECD, 2012^[8]) and the Regional Outlook series (OECD, 2011^[9]; OECD, 2014^[10]; OECD, 2016^[11]; OECD, 2019^[12]; OECD, 2021^[13]; OECD, 2023^[2]).

In 2014, the OECD adopted in 2014 the Council Recommendation on Effective Public Investment Across Levels of Government (OECD, 2014^[14]), which for the first time acknowledged the role of subnational governments, in charge of 55% of total public investment on average in the OECD, and the need for proper vertical and horizontal coordination mechanisms to enhance the efficiency of public investment across places.

In 2017, the OECD Ministerial Council meeting introduced for the first time a focus on regional disparities and highlighted the need to prepare communities through policies tailored to the challenges and potential of individual cities, regions and rural areas (OECD, 2017^[15]). Renewed momentum around place-based policies has also led to the adoption of the OECD Recommendation on Regional Development Policy in June 2023 (OECD, 2023^[16]).

Source: Authors' elaboration.

Defining place-based policies

The concept of place-based policies goes beyond spatial targeting. It is “notoriously difficult to even define place-based policies” (Suedekum, 2023^[17]). In practice, place-based policies are highly diverse in their design, context, objectives and instruments. Given the range of place-based policies in practice, definitions of 'place-based policy' in the academic literature are also highly diverse (Box 1.2). Based on a review of thirteen definitions in the literature (see 0), a few key elements can be identified:

- **Intentionally spatially-targeted:** All definitions include a focus on policies that are intentionally spatially-targeted. One definition also includes implicitly spatially-targeted policies.
- **Support from a higher-level:** Ten definitions imply that place-based policies involve spatially-targeted support for a specific place within a jurisdiction. Two definitions also explicitly include endogenous regional or local government policies that apply across an entire jurisdiction.
- **Economic development and well-being:** Six definitions focus exclusively on economic development, with the remaining seven focusing on both economic development and wellbeing.
- **Place-sensitivity:** Nine definitions highlight that place-based policies are based on an understanding of local context, conditions and opportunities.
- **Efficiency and equity:** Nine definitions focus on the role of place-based policies to support both efficiency and equity objectives. Four only focus on economic efficiency.
- **Objectives:** Four definitions focus exclusively on productivity. Three focus on productivity and inclusiveness. One definition also focuses on sustainability.
- **Type of place:** Five definitions focus exclusively on lagging places or places with 'underutilised potential'. Eight definitions focus on all types of places.

- **Multi-level governance:** Eleven definitions highlight the need for multi-level governance.
- **Leverage local assets:** Nine definitions focus on the role of place-based policies to leverage local assets, knowledge and networks.

Box 1.2. Definitions of ‘place-based policies’ go beyond spatial-targeting

Selected definitions from the academic literature:

- **Place-based policies** are “...government efforts to enhance the economic performance of an area within its jurisdiction, typically in the form of more job opportunities and higher wages” (Neumark and Simpson, 2015^[18]).
- A **place-based policy** is a “long-term strategy aimed at tackling persistent underutilisation of potential and reducing persistent social exclusion in specific places through external interventions and multi-level governance. It promotes the supply of integrated goods and services tailored to contexts, and it triggers institutional changes.” (Barca, 2009^[19])
- “**Place-based policy** is defined as special and differential spending, tax, or regulatory measures targeted at areas with lagging socioeconomic performance and with the objective of improving their performance.” (Venables, 2023^[20])
- “**Place-based policies**... explicitly target geographic areas for some form of special treatment, be it tax subsidies, public investments, or special rules and regulations.” They aim “at fostering economic growth in lagging regions and reducing the extent of spatial inequality within their borders.” (Kline and Moretti, 2024^[21])
- A **place-based approach** has... “two fundamental aspects to it. First, the **place-based approach** assumes that geographical context really matters, whereby context here is understood in terms of its social, cultural, and institutional characteristics... Second, the **place-based approach** also focuses on the issue of knowledge in policy intervention. Who knows what to do where and when?” (Barca, McCann and Rodríguez-Pose, 2012^[22])
- **Place-based policies** “can take the form of more generous employment subsidies in depressed areas, which provide implicit insurance against place-based shocks but distort migration decisions, or equivalently generous policies that tilt existing programs to encourage employment in areas with more joblessness.” (Austin, Glaeser and Summers, 2018^[23])
- “In theoretical economic frameworks they are often modelled as pure income transfers to residents of economically lagging regions, but this is not how **place-based policies** work in practice. Instead, there is much heterogeneity in economic circumstances across regions, and as much heterogeneity in specific policy designs. **Place-based policies** consist of a highly diverse multitude of programs, which try to affect the spatial resource allocation in many ways.” (Suedekum, 2023^[17])
- **Place-based arguments** “emphasise a ‘people-in-places’ perspective” and posit that “there is no simple and clearly observable and understandable dichotomous distinction between so-called ‘people prosperity’ and ‘place prosperity’, or between ‘place-based’ and ‘people-based’ policies.” (McCann, 2023^[3])
- **Place-based policies** are a “type of economic development strategy that focuses on promoting investment and job creation in specific geographic areas, such as a region or a city. The main goal of these policies is to support long-term economic development in a particular location by addressing the unique challenges and opportunities of that area.” (Solé-Ollé, 2023^[24])
- **Place-based policies** “...have a focus on specific cities, localities or regions, but they represent far more than just a label for already established programs of government activity, or the concentration

of public sector resources in specific locations. **Place-based policies** embody an ethos about, and an approach to, the development of economies and society that acknowledges that the context of each and every city, region, and rural district offers opportunities for wellbeing. It advocates for a development approach that is tailored to the needs of each. Importantly, place-based policy explicitly seeks the development of all parts of the landscape, with no settlement too small or too remote to plan for progress” (Beer et al., 2020^[25]).

Source: Authors' elaboration based on review of literature.

The definition of place-based policies adopted in this report is based on three key features. First, intentional spatial-targeting. While many policies may be implicitly spatially targeted (i.e. heterogeneous spatial impacts of transport infrastructure policy), this definition excludes these policies. Second, place-based policies involve support from a higher-level. Given that they involve spatial targeting, these policies are intentionally spatially-targeted actions within a jurisdiction from a government with responsibilities across a larger geographic area. This typically involves support from a higher level of government. While regional and local policies that apply across an entire jurisdiction are also essential for economic development and wellbeing, these are only considered to be place-based policies in this report when they are spatially-targeted within a jurisdiction. Third, place-based policies are focused on improving long-term economic and well-being outcomes in a place. This acknowledges that these policies are focused on fundamentally transforming the local development trajectory.

DEFINITION OF PLACE-BASED POLICIES ADOPTED IN THIS REPORT

Place-based policies are intentionally spatially-targeted policies that provide higher-level support to a place to improve long-term economic and well-being outcomes.

Effective place-based policies aim to efficiently address market failures and enhance productivity, inclusiveness and sustainability. They are place-sensitive to local conditions and opportunities, involve multi-level governance and focus on cross-sectoral policy action. They can support all types of places, but often focus on lagging places and places at risk from transitions and shocks.

Given that place-based policies are linked with ‘spatial targeting’ and ‘higher-level support’, they must focus on ‘efficiency’, ‘place-sensitivity’, ‘multi-level governance’ and ‘cross-sectoral policy action’ to be effective. Spatial-targeting can risk that policies create an efficiency-equity trade-off, as concentrating resources in one place may limit resources available for other places and risk lowering aggregate output in a national economy (further discussed in Chapter 2). This creates a need for effective place-based policies that focus on efficiency by addressing specific market failures and focusing on cross-sectoral policy integration (further discussed in Chapters 2 and 3). The role of higher-level support indicates that these policies are often focused on lagging places and places at risk from transitions and shocks, where local institutions may be weaker. Higher-level support can also risk that policies are not appropriately designed for a local context, create a principal-agent problem between a higher-level of government and a beneficiary, and can create long-term dependence on external resources for development (OECD, 2012^[8]). The dimension of higher-level support highlights the need to ensure that these policies are place-sensitive to local contexts (as discussed in Chapter 3) and integrate multi-level governance to ensure effective design and implementation (as discussed in Chapter 6).

Place-based policies are distinct from other policies that can support regional and local development. While many types of policy are essential to support regional and local development, it is relevant to make a distinction with place-based policies. In this report, place-based policies are distinct from regional development policies, regional and local government policies, decentralisation and localisation policies, fiscal equalisation mechanisms, 'spatially-targeted' sectoral policies and connectivity and mobility policies. While each of these types of policy is closely related to place-based policies, their rationale and objectives can differ (Box 1.3).

Box 1.3. Place-based policies are distinct from other types of policies that can support regional and local development

The concept of place-based policies is derived from the economic geography literature (see Chapter 2) and is distinct from other types of policy that can support regional and local development. This box briefly describes differences between place-based policies and other related policies.

Regional development policies

The OECD Recommendation on Regional Development Policy (OECD, 2023^[26]) defines regional development policy as *“a long-term, cross-sectoral, multi-level policy that aims to improve the contribution of all regions to national performance and reduce inequalities between places and between people by promoting long-term sustainable development in all regions through strategic and targeted public policy, investment and service provision measures that are tailored to the specific needs and opportunities of regions and their inhabitants”*. A comparison between the definitions highlights that although they are always place-sensitive, regional development policies are not necessarily 'spatially targeted'. Furthermore, regional development policies do not always involve 'higher-level support'.

Regional and local government policies

Regional and local governments are responsible for a wide range of competencies in OECD countries, spanning health, education, transport and many other sectors (OECD/UCLG, 2022^[27]). Although some regional and local policies may be place-based policies, many regional and local policies apply across a jurisdiction in a 'spatially-blind' way. Furthermore, spatial-targeting implies that higher-level support is being provided to a place, which requires support from an actor at a larger geographic scale (i.e. a higher level of government).

Decentralisation and localisation

Decentralisation refers to the transfer of powers and responsibilities from the central government to elected authorities at the subnational level (OECD, 2019^[28]). Unlike decentralisation policies, place-based policies do not imply a permanent change in powers and responsibilities across levels of government. However, decentralisation can profoundly influence the shape and role of place-based policies, as the quality of regional and local institutions is important for policy outcomes (Rodríguez-Pose and Cataldo, 2015^[29]). Some place-based policies may also be accompanied by decentralisation or related processes, as is the case with Levelling-Up Policy in the United Kingdom.

Fiscal equalisation

Fiscal equalisation refers to financial transfers aimed at reducing disparities in subnational government fiscal capacity. They seek to ensure that all governments can provide public services at a similar level regardless of their fiscal capacity, provided they exert the same tax effort (Solé-Ollé, 2023^[24]; Moïso and Vidal Bover, 2023^[30]; OECD, 2021^[31]). Although closely related, for this report fiscal equalisation

policies are not defined as place-based policies as the main objective of fiscal equalisation is related to providing equal access to public services across regions.

‘Spatially-tailored’ sectoral policies

National governments can seek to develop ‘spatially-tailored’ sectoral policies (e.g., education, health, transport) that apply across an entire territory but are adjusted to address the specific needs of different places. For this report, these are considered to be distinct from place-based policies that are always targeted towards a certain place within a jurisdiction. Place-based policies are also usually cross-sectoral policies that aim to support long-term economic transformation of a place.

Connectivity and mobility policies

Policies to improve connectivity and mobility, such as to improve transport and digital networks or incentivise for workers to relocate, also seek to improve efficiency of an economy by supporting agglomeration processes. While these policies are closely related to place-based policies in the economic geography literature, they are distinguished from place-based policies in this report insofar as they often do not directly seek to transform economic development and well-being outcomes of a specific place.

Source: Authors’ elaboration

Outline of report

The report aims to help advance the debate on the rationale for place-based policies, in which circumstances they should be used, and on what type of place-based policies might be relevant for a given context. The report is structured as follows:

- **Chapter 2** provides an overview of the rationale for place-based policies, outlining the case for place-based policies.
- **Chapter 3** focuses on the key priorities for the design of effective place-based policies.
- **Chapter 4** explores the role of place-based policies in helping to avoid a ‘tragedy of the commons’, with a focus on the provision of local public goods in the context of environmental challenges and demographic change.
- **Chapter 5** provides an overview of approaches for monitoring and evaluating place-based policies.
- **Chapter 6** explores the role of multi-level governance for place-based policies, including the need to establish coordination mechanisms, build administrative and strategic capacity, strengthen fiscal capacity, foster place-based leadership, support experimental governance and engage with diverse stakeholders.
- **Chapter 7** provides a stock-take of place-based policies today in OECD countries and explores how these policies are increasingly being designed to become more proactive. It concludes with some guiding principles for the future of place-based policies.

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Annex 1.A. Comparison of place-based policy definitions

Annex Table 1.A.1. Classification of place-based policy definitions of in the literature

	Intentionally spatially targeted	Support from a higher level*	Aims to improve economic or wellbeing outcomes	Understands local context and conditions	Targets efficiency or equity	Enhances productivity, inclusion and/or sustainability	Focuses on lagging places or places at risk	Employs multi-level governance	Leverages local assets, knowledge and networks
Venables (2023 ^[20])	Yes	Yes	Both	Not discussed	Both	Productivity and inclusion	Yes	Yes	Yes
Glasmeier (2023 ^[32])	Yes	Also for entire jurisdiction	Both	Yes	Both	Inclusion and sustainability	Any place	Yes	Yes
McCann (2023 ^[3])	Yes	Yes	Both	Yes	Both	All	Any place	Yes	Yes
Suedekum (2023 ^[17])	Yes	Yes	Both	Yes	Both	All	Any place	Yes	Yes
Solé-Ollé (2023 ^[24])	Yes	Also for entire jurisdiction	Economic	Yes	Both	All	Any place	Yes	Yes
Ehrlich and Overmann (2020 ^[33])	Yes	Not discussed	Economic	Yes	Both	Productivity	Yes	Yes	Human capital and governance
Austin, Glaeser and Summers (2018 ^[23])	Intentional or implicit	Yes	Economic	Not discussed	Both	Not discussed	Any place	Not discussed	Yes
Neumark and Simpson (2015 ^[34])	Yes	Yes	Economic	Yes	Both	Productivity	Any place	Yes	Not discussed
Kline and Moretti (2014 ^[35])	Yes	Yes	Both	Not discussed	Efficiency	Productivity	Any place	Yes	Not discussed
OECD (2011 ^[9])	Yes	Yes	Both	Yes	Efficiency	Productivity and inclusion	Yes	Yes	Yes
Barca (2009 ^[19])	Yes	Yes	Both	Yes	Both	Productivity and inclusion	Places with underutilised potential	Yes	Yes
World Bank (2009 ^[36])	Yes	Yes	Economic	Yes	Efficiency	Enhance mobility	Yes	Yes	Yes
Glaeser and Gottlieb (2008 ^[37])	Yes	Yes	Economic	Not discussed	Efficiency	Productivity	Any place	Not discussed	Human capital

Note: Author's elaboration based on explicit or implicit description within the literature cited. * 'Support from a higher level' indicates support from a higher-level of government for a place and/or targeted support from a lower-level government for a place within its jurisdiction.

2 The case for place-based policies

Many places are lagging behind and others are confronting large economic transformations or shocks. These can have high social and economic costs. Limitations in labour and firm mobility mean places can become trapped, creating a role for policy. Insufficiency of ‘spatially-blind’ policies and limitations in local institutions can mean that place-based policies are required. The economic rationale of place-based policies is linked to their potential to overcome a spatial mismatch between firms and workers and help mobilise ‘underutilised potential’ in a place. It is also linked to their ability to help upgrade local public goods and address asymmetric trends and shocks. Assessing the impact of place-based policies is complex, but empirical evidence suggests that place-based policies can have positive outcomes if policy makers focus on effective policy design and implementation.

Introduction

Spatially-targeted policies have long been used to address economic, social and environmental challenges facing particular places.¹ Place-based policies have long been part of government policymaking—even if they were not known by this term at the time. During the industrial revolution, these included policies to tackle spatially-concentrated poverty and support the industrialisation of towns and hinterlands of countries. They also included spatially-targeted investments to upgrade infrastructure and establish higher-education facilities (e.g., land grant colleges in the United States). In the post-World War II period, place-based policies supported large-scale upgrading of public goods across underperforming areas within countries, as illustrated by the Tennessee Valley Authority and the New Deal in the United States. More recently, place-based policies have evolved into a wide-ranging set of policies to upgrade economic and social structures in lagging places and places at risk from transitions.

The concept of ‘place-based policies’ is linked to debates in economics literature. Discussion relating to ‘place-based policies’ spans literature covering regional and territorial development policies, Keynesian economics, endogenous growth theory and economic geography. The first reference to the specific term emerged in the 1960s in the United States, as a criticism that these policies were overtly political and potentially welfare-reducing (Winnick, 1966^[1]). It was argued that directly targeting people who need support would be more efficient than targeting support to places. Debates linked to this ‘place-based’ versus ‘people-based’ dichotomy have continued, despite inherent contradictions (Box 2.1). In recent years, this dichotomous debate has subsided and a new focus on “people-in-places” has been proposed (McCann, 2023^[2]). Indeed, recent economic literature increasingly acknowledges that place-based policies have a role in government policymaking and instead focus on the conditions and elements of *effective* place-based policies (see, for example, (Austin, Glaeser and Summers, 2018^[3]; Bartik, 2020^[4]; Venables, 2023^[5]; Kline and Moretti, 2014^[6]; Neumark and Simpson, 2015^[7])).

Box 2.1. Origins of the ‘place-based policies’ concept

The first explicit reference to the term ‘place-based policies’ emerged during the 1960s in the United States where Louis Winnick criticised these policies as being overtly political and potentially welfare-reducing (Winnick, 1966^[1]). Winnick was focused on the risk of ‘pork barrel’ politics, where spatially-targeted spending was being primarily used to gain political support (McCann, 2023^[2]). Winnick and other critics suggested that policies could be more efficient if they targeted people who need the most support and sought to reinforce growth in productive and growing places (Winnick, 1966^[1]; McCann, 2023^[2]). Winnick created a dichotomy of ‘place prosperity versus people prosperity’, suggesting a conflict between goals to improve welfare of people in general and improve welfare of people in a place.

This ‘place-based versus people-based’ debate then lay dormant during an era of significant social spending growth before being revived in the 1980’s and 1990’s as economic growth was curtailed and existing place-based policies were scrapped or rolled back (McCann, 2023^[2]). In the 1970s in the United States, a Commission for a National Economic Agenda was established that released several reports arguing that ‘people prosperity’ and ‘place prosperity’ were largely conflicting goals. This work was used as a basis for rolling-back federal economic and community development programmes that had provided federal support to state and local institutions in the 1980s.

By the late 2000’s the debate reemerged with arguments emphasising the deregulation of land use and housing in cities and their hinterlands to facilitate greater labour and capital mobility (World Bank, 2009^[8]; Gill, 2010^[9]; Glaeser and Gottlieb, 2009^[10]). It was argued that place-based policies could only be justified on equity grounds or to supplement a lack of private investment in less dynamic places with

public investments. At the same time, contrasting views started to emerge (Barca, 2009^[11]; OECD, 2009^[12]) that highlighted regional economic growth patterns and that trajectories were far more varied and nuanced than the stylised regional convergence models.

The debate between ‘place-based’ and ‘people-based’ policies is now increasingly seen as artificial. As McCann (2023^[2]) argues, even if it is conceptually convenient to organise policies in a people-versus-place framing, this is hardly ever a reality in real-life policy settings. Policies framed as people-based, such as those that encourage migrating to opportunity, are entirely dependent on place-sensitive factors such as social capital and the quality of local public goods (McCann, 2023^[2]). Policies to create prosperity require harnessing relationships between local economic actors, as well as their spatial resources, which markets alone cannot intermediate. Overcoming this dichotomous debate calls for a “people-in-places” framing (McCann, 2023^[2]).

Source: McCann (2023^[2]), How have place-based policies evolved to date and what are they for now?, Background paper for the OECD-EC High-Level Expert Workshop Series on “Place-Based Policies for the Future”, Workshop 1, 14 April 2023, <https://www.oecd.org/regional/how-have-place-based-policies-evolved-to-date-and-what-are-they-for-now.pdf>

Building on recent literature, this chapter outlines a case for place-based policies. While other arguments in favour of place-based policies are possible and pertinent—some of which are covered in other chapters in this report—this chapter focuses on economic rationales in the context of inefficiencies in the spatial equilibrium and local market failures. The chapter is structured around five main arguments:

1. Many places are underperforming in economic and well-being outcomes with high economic and social costs, which suggests that a ‘business as usual’ approach is inadequate.
2. Persistent underperformance may be linked to inefficiencies in the ‘spatial equilibrium’ and a spatial mismatch between workers and firms, creating role for government policy.
3. ‘Spatially-blind’ policy approaches and local institutions can be insufficient to address inefficiencies and local market failures on their own, meaning place-based policies are often needed.
4. Multiple economic rationales for place-based policies exist linked to market failures in the spatial equilibrium, including to reduce the spatial mismatch, support local public good provision and address asymmetric shocks and transitions.
5. Although empirical evidence is sometimes limited due to their complexity to evaluate, these policies can have a positive impact where they are effectively designed and implemented.

High costs of leaving places behind

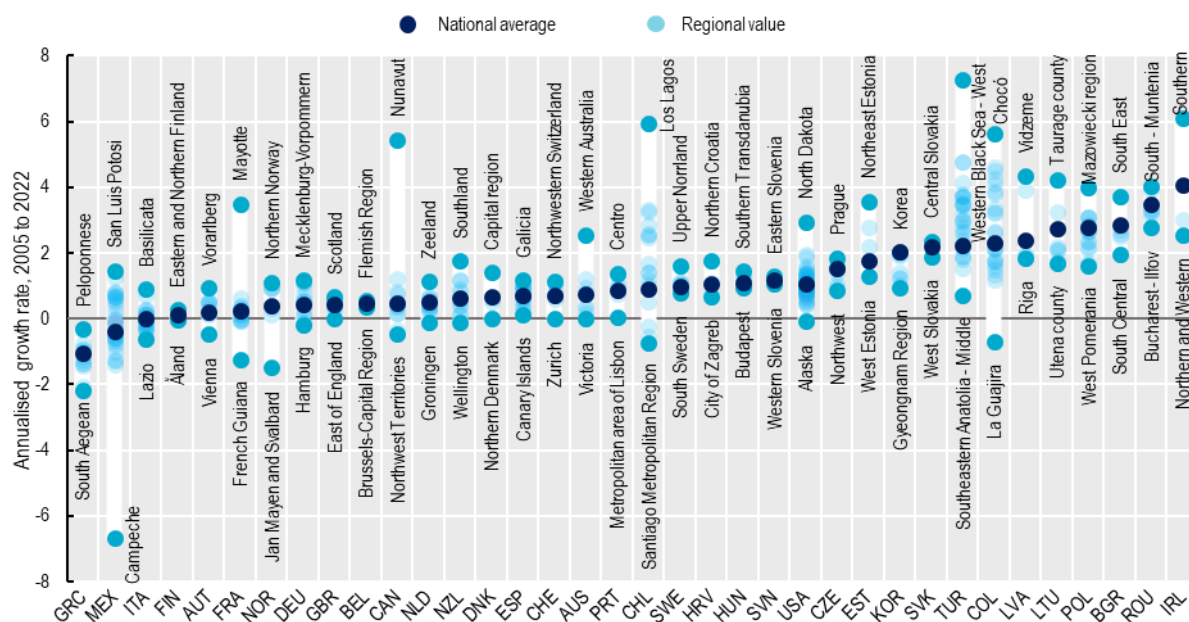
Entrenched or emerging economic and social challenges come with high costs for places. Across the OECD, many places are lagging behind with low economic growth and high social disadvantage. Other places face risks from transitions and shocks that are undermining their economic and social structures. Persistent long-term underperformance and risks from transitions and shocks can create high economic and social costs. A ‘business as usual’ approach will be inadequate to address these challenges.

Many places are lagging behind

Across OECD countries, there are persistent spatial disparities in development trajectories between places within countries. Over recent decades, many places continue to have persistently low levels of GDP per capita. Indeed, around 70% of OECD regions who were in the lowest 25% of GDP per capita in 2000 still remain in this group in 2020². Productivity gaps across regions within countries are also

significant and can persist over time and be larger than productivity gaps between countries (OECD, 2023_[13]). Between 2005 and 2022, 15 out of 36 countries with regional data had at least one region with negative productivity growth (Figure 2.1).

Figure 2.1. Labour productivity growth across large regions (TL2), 15-year average rates (2005-22)



Note: Gross value added per employed at place of work except USA (GDP per employee). TL2 regions, except EST, LVA and LTU (TL3 regions). Annual average for 2005-2022, except CHE (2011-2021), CHL (2013-2022), GBR and NZL (2005-2021), NOR (2008-2021) and TUR (2006-2022).

Source: OECD Regional Database

Partly because of productivity differences, some places are pulling ahead while other places are falling behind. Leading places continue to be centres for innovation, productivity growth and improvements in well-being. The density of firm births per capita, for instance, is two to three times higher in capital regions as compared to the least dynamic places in OECD countries (Tsvetkova et al., 2020_[14]). At the same time, many places are being left behind. Today, 70% of the OECD population live in a country experiencing regional divergence from the national average in economic performance (when comparing small TL3 regions) (OECD, 2023_[13]). Much of the divergence is linked to the success of metropolitan regions, where productivity growth has remained higher than non-metropolitan regions since the end of the 2008 financial crisis (OECD, 2023_[13]).

Places lagging in economic and social performance are not necessarily the least developed. Former industrial regions often face low or stagnant growth compared to their national and international peers as they seek to adjust their economic structures to new global economic conditions (Diemer et al., 2022_[15]). Across the European Union, for example, many less developed regions have converged while transition regions³ have struggled to maintain GDP per capita, productivity and employment growth. About a third of EU regions have yet to see a return to levels of GDP per capita from before the 2008 financial crisis (European Commission, 2024_[16]). Similarly, many former manufacturing and industrial regions in the United States face long-term economic and social underperformance (Austin, Glaeser and Summers, 2018_[3]).

Large scale transformations and shocks can undermine local economic and social structures

Major transformations and shocks do not impact places in the same way. Many global challenges—climate change, demographic change, technological evolution and changes in global trade patterns—have uneven spatial impacts (OECD, 2023^[13]; OECD, 2022^[17]). Climate change mitigation, for example, demands profound transformations in emission-intensive activities that produce basic materials, which tend to be spatially concentrated (OECD, 2021^[18]). These activities often underpin manufacturing value chains, such as basic chemicals or steel, which are economically important for many countries. Similarly, demographic change patterns are also more strongly impacting some places, particularly small- and mid-sized cities and remote regions (OECD, 2023^[13]). Economic and social shocks, such as the COVID-19 crisis, can also have important heterogeneous impacts (OECD, 2021^[19]).

The asymmetric impacts of major transformations and shocks can have long-term scarring effects on local economic and social structures. As the impacts of a particular trend or shock are felt, and if they are not managed proactively, existing industries can be undermined, and future economic prospects can be eroded. Where an industry is undermined, firms or skilled people may choose to leave or not invest in themselves or a place, creating a cascading effect leading to long-term economic scarring. These changes can persist and have high costs on local human capital (Amior and Manning, 2018^[20]). Examples of long-term scarring can be seen following de-industrialisation in the United Kingdom and in the persistence of the ‘China shock’ in the United States (Box 2.2).

Box 2.2. Persistent impacts of adverse shocks on places

Long-term consequences of de-industrialisation on places in the United Kingdom

Following negative shocks during the 1970s linked to de-industrialisation in the United Kingdom, the male employment rate across worst affected places fell by around 10 percentage points. By 2011, only a small fraction of this loss in employment rate (1/10th) had been recovered (Rice and Venables, 2021^[21]). The negative shock had a strong impact on measures of deprivation. Although places that were affected did not have higher average levels of deprivation in the 1970s, by 2015 around two-thirds of the most deprived areas in the UK were places adversely affected by these shocks (Rice and Venables, 2021^[21]).

Persistent impact of the ‘China shock’ on places in the United States

Rising import competition between 1990 and 2007 had a long-term impact on local labour markets in the United States. The trade shock left some places with higher unemployment, lower labour force participation and reduced wages, particularly for local labour markets that had a strong presence of import competing manufacturing industries (Autor, Dorn and Hanson, 2013^[22]). The loss of employment in these places has been linked to higher payments for unemployment, disability, retirement and healthcare (Autor, Dorn and Hanson, 2013^[22]). Effects have been persistent and have led to long-lasting scarring and social problems (Autor, Dorn and Hanson, 2021^[23]).

Source: Rice and Venables (2021^[21]), The persistent consequences of adverse shocks: how the 1970s shaped UK regional inequality, <https://doi.org/10.1093/oxrep/graa057>; Autor, Dorn and Hanson (2013^[22]), On the persistence of the China Shock, <https://doi.org/10.3386/w29401>

Given the long-term costs of some asymmetric transformations and shocks, a forward-looking approach may be needed to target currently productive regions that face strong headwinds. Avoiding long-term economic scarring may require acting proactively to support workers and businesses

to transition into new industries, particularly in response to the green transition (Suedekum, 2023^[24]). This could help to reduce long-term costs that would arise from an unmanaged transition. Indeed, many governments are adopting more forward-looking approaches to identify and proactively address future risks, as is the case for coal and automotive regions in Germany (Suedekum, 2023^[24]). In the case of reaching climate neutrality by 2050, for example, a forward-looking approach would support investments in mitigation and adaptation to substantially reduce long-term economic costs (OECD, 2021^[18]).

High social and economic costs

The persistent under-performance of places can come with high long-term costs. While some level of regional inequalities is inherent and unavoidable in market economies, the longstanding geography of inequalities is becoming deeply entrenched and its costs are increasingly difficult to ignore (OECD, 2023^[13]). This geography of inequality can limit access to economic and social opportunities, and risks reducing long-term levels of development. This can create a range of social, economic, fiscal, political and environmental costs:

- **Social costs:** Long-term unemployment in a community can result in inter-generational scarring (Bartik, 2020^[4]). Areas of deprivation can develop where people have lower expectations, aspirations and opportunities, which can create significant pockets with lower well-being outcomes. Furthermore, subnational governments in under-performing places may face important fiscal constraints that limit their ability to continue delivering quality public services needed to maintain social outcomes for residents (OECD, 2022^[25]).
- **Economic costs:** Economic under-performance of lagging places can place a drag on the national economy and represent ‘underutilised potential’ in the economy, as in the case of places with high unemployment (OECD, 2009^[26]; Barca, 2009^[11]). Furthermore, while a few ‘core’ regions often contribute a large share of economic activity, regions with a GDP per capita lower than the national average also make an important contribution to national growth—and have contributed more than half of overall national growth in some instances (OECD, 2009^[12]). Addressing market failures and institutional barriers to make full use of the ‘underutilised potential’ of these places can make an important contribution to national growth.
- **Fiscal costs:** Under-performing places can be recipients of significant fiscal transfers, including through social payments and equalisation mechanisms. Improving the performance of these places can increase subnational governments ‘own-source’ revenue and reduce their dependence on transfers, especially in decentralised countries (Henkel, Seidel and Suedekum, 2021^[27]). Reducing persistent high levels of unemployment can also limit the associated fiscal costs of unemployment benefits and other negative externalities (Austin, Glaeser and Summers, 2018^[3]; Bartik, 2020^[4]).
- **Political costs:** A ‘geography of discontent’ can exist that may undermine trust in government, social cohesion and democracy (MacKinnon et al., 2021^[28]; Rodríguez-Pose, 2018^[29]; McCann, 2019^[30]). This is highlighted by the difference in levels of trust in government, which can be as high as 30 percentage points between a country’s highest and lowest scoring region (OECD, 2023^[13]). Pockets of ‘green discontent’ can also emerge as a backlash to the impact of green transition on the most affected places (Rodríguez-Pose and Bartalucci, 2023^[31]).
- **Environmental costs:** Under-performing places may have less capacity to address important global and local environmental challenges. For example, lower fiscal and human capacity may undermine the delivery of public ecosystem services, such as clean water and flood protections. Low levels of innovation and technology uptake can lock firms and households into environmentally damaging production and consumption systems. Both can also undermine future sustainable development prospects.

Inefficiencies in the spatial equilibrium

Building the economic rationale for place-based policies requires first “identifying and understanding the fundamental economic reasons for spatial disparities” (Venables, 2023^[5]). This, in turn, requires understanding ‘spatial equilibrium’ models in economic geography and potential inefficiencies in these models that create a role for government policy.

Inequalities in the spatial equilibrium

Geography matters for economic development (Krugman, 1991^[32]). Geographic concentration of economic activities occurs due to the benefits associated with “agglomeration economies”. Agglomeration is widely acknowledged to be a long-term driver of growth and innovation processes, leading to increases in worker productivity and welfare (Combes et al., 2012^[33]; Storper, 2023^[34]). People want to live where firms are concentrated to access job opportunities and amenities, and firms want to locate in agglomerations as they will benefit from a thick labour market, and more suppliers and buyers (OECD, 2009^[12]). New economic geography theories explain why and how agglomerations become increasingly attractive for firms and workers (Box 2.3).

Box 2.3. New economic geography, agglomeration economies and congestion discontinuities

New economic geography (NEG) theories analyse the circular or cumulative causation that drives increasing concentration of economic activities. They explain why consumers and firms tend to agglomerate together in specific geographic areas. NEG formalises cumulative causation mechanisms into a mathematical analytical framework (Krugman, 1991^[32]).

Agglomeration economies occur when firms enjoy increasing returns to scale in a particular place, either because of the presence of natural advantages (i.e. natural resources, location etc.), monopolistic protection, political reasons (e.g. the decision to create a capital city) or any other reason. The presence of increasing returns to scale induces other firms to locate there, as well as people in search of higher wages, job opportunities and culture.

There are a number of inter-connected mechanisms that work to produce agglomeration economies:

- Sharing of indivisible facilities such as local public goods or facilities particular to a place, that serve several individuals or firms. Some examples are laboratories, universities and other large facilities that cannot belong to one agent but where some exclusion is implicit in their provision.
- Gains from a wider variety of input suppliers that can be sustained by a larger final-goods industry, that is, the presence of spillovers along with forward and backward linkages that allows firms to purchase intermediate inputs at lower cost.
- Gains from narrower specialisation that can be sustained with higher production levels. Several firms specialise in producing complementary products, reducing overall production costs.
- Reduction of risk from market shocks as firms adjust to changes in demand given access to a deep and broad labour market that allows them to expand or contract their demand for labour.
- Matching mechanisms by which agglomeration improves the expected quality of matches between firms and workers, so both are better able to find a better match for their needs. Similarly, an increase in the number of agents in the labour market improves the probability of matching.

- Learning mechanisms based on the generation, diffusion, and accumulation of knowledge—these refer not only to learning about technologies, but also how to acquire the skills.

Benefits of agglomeration are not unlimited. A counterforce to agglomeration exists due to the existence of congestion diseconomies. Among other factors, these can arise as infrastructure becomes more congested, pollution increases, and housing becomes more expensive.

Source: OECD (2009^[12]), *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, <https://doi.org/10.1787/9789264076525-en>; and various sources including Krugman, P. (1991^[32]), “Increasing Returns and Economic Geography”, *The Journal of Political Economy*, Vol. 99, No.3, pp. 483-99, <https://doi.org/10.1086/261763>

Spatial inequality is inherent in a spatial equilibrium. High levels of urbanisation due to agglomeration processes have gone hand-in-hand with economic development (OECD/European Commission, 2020^[35]). While agglomeration forces drive productive growth in agglomerations, they are also linked to spatial inequalities. While a level of spatial inequality is necessary for economic development, an efficient level of inequality in an economy is unclear. The spatial equilibrium can be inefficient due to failures of automatic adjustment mechanisms that create a spatial mismatch between workers and firms.

Failures in market-based adjustment mechanisms

In a simple economic view, the spatial equilibrium is efficient and self-corrects following an economic shock thanks to market forces. In accordance with simple spatial equilibrium models, changes in relative wages and asset prices are assumed to lead to firm and labour mobility, resulting in convergence between places (Rosen, 1979^[36]; Roback, 1982^[37]). A negative shock, for example, should lower relative wages and prices, triggering outward migration of people and inward migration of firms. If there were perfect mobility, there may be limited need for place-based policies as ‘automatic adjustment mechanisms’ might be enough to bring about convergence (Duranton and Venables, 2019^[38]).

In practice, automatic adjustment mechanisms are imperfect. As illustrated in the previous section, large gaps in the economic performance and well-being of places can persist between places, indicating that places may not automatically converge as anticipated by simple spatial equilibrium models. These persistent spatial disparities may arise because of failures in two main automatic convergence mechanisms inherent to the spatial context: labour mobility and firm mobility (Venables, 2023^[5]). A precondition for place-based policies is therefore that ‘automatic adjustment mechanisms’ in the spatial equilibrium model are incomplete (Partridge et al., 2015^[39]; Kline and Moretti, 2013^[40]).

Limits of labour mobility

A first automatic adjustment mechanism would be for people to relocate away from lagging places. With simple economic view, a reduction in relative wages in a place should provide a signal for workers to out-migrate. Over time, out-migration could—in-theory—lower the local labour supply and lead to a reduction in the difference between relative wages. In practice, however, labour mobility is imperfect due to frictions (Schmutz and Sidibé, 2018^[41]). This is supported empirically by low (and potentially declining) domestic migration rates. Migration can also have compositional effects that can make automatic adjustment through labour migration “problematic in the context of lagging regions” (Venables, 2023^[5]).

Labour migration is insufficient to bring about convergence

Migration is an investment that comes with high fixed costs for migrants (Venables, 2023^[5]). People chose where to live based on a range of economic and social factors. Moving to a more dynamic place

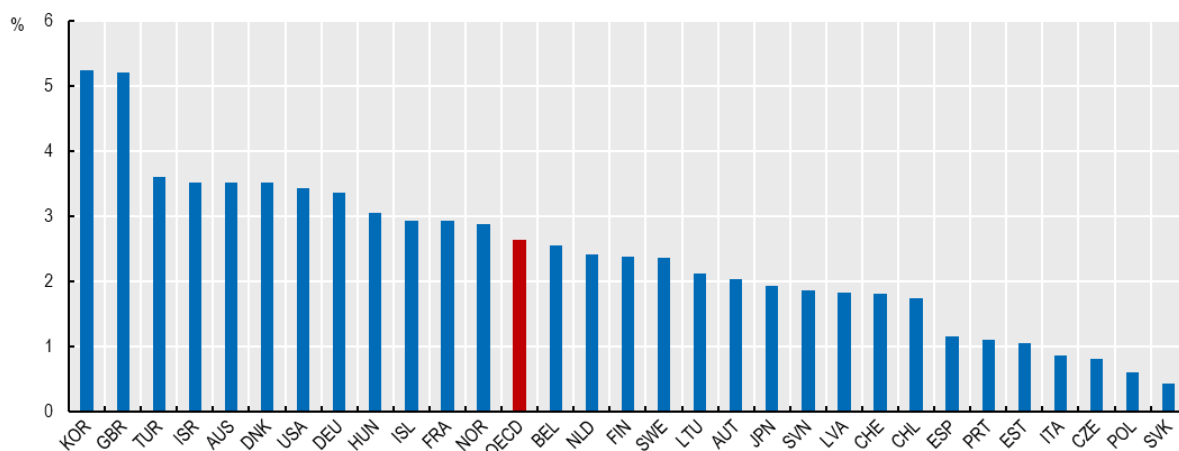
can come with high fixed costs linked to the direct cost of relocation and from disruption to social networks. Indeed, inward and outward migration can be lower in lagging places where local ties are stronger (Zabek, 2019^[42]; Heise and Porzio, 2019^[43]). Furthermore, differences in earning potential may be insufficient to incentivise migration as some relative prices do not change across regions (such as wage rates set at a national level). Workers in high unemployment areas may also face skill and credit constraints that limit their ability to move (Kline and Moretti, 2014^[6]).

Migrants also face high costs from moving to more dynamic places due to housing that may be less accessible and affordable. Migrants do not benefit from the same networks that current residents have when they search for housing, which can reduce their access to the housing market and increase housing costs in a new location. Furthermore, homeowners moving from a lagging place (where there is often depressed housing prices) to a more dynamic place can face very high and unaffordable housing, lowering the financial attractiveness of moving.

A sign of weak incentives for labour mobility is that inter-regional migration rates are trending downwards in many OECD countries. Since the early 2000s, inter-regional migration has declined in around half the OECD countries for which data are available, including North American and Asian countries (Causa et al., 2023^[44]). In the U.S., annual domestic migration rates have trended steadily downwards since the 1960s, when nearly 20% of the population moved to a new address each year. Today, the number of annual movers is closer to 8% (Frey, 2023^[45]) and only 3% move to another small region (TL3) (Figure 2.2). In Canada, inter-provincial net migration reached record lows in the years preceding the pandemic, before slightly rising (Statistics Canada, n.d.^[46]; RBC Economics, 2023^[47]). In the UK, which is among the top countries for inter-regional movers (Figure 2.2), 43% of people still work and live in the same place where they were born suggesting a geographic component to persistent inequality (Bosquet and Overman, 2019^[48]).

Figure 2.2. Annual rate of inter-regional movers by country, 2016-22

Flows across TL3 regions within a country, % of the total population



Source: OECD Regional Database (Population mobility within the country – Regions), <http://data-explorer.oecd.org/s/1s0>

In response to low mobility, incentives to encourage people to move are sometimes proposed, but these are unlikely to bring about convergence between places. As people relocate to more productive place their life outcomes can improve (Chetty and Hendren, 2018^[49]). Incentives to support mobility are sometimes proposed to encourage people to take advantage of this, but they are not always efficient or effective (Schmutz and Sidibé, 2018^[41]). There are at least four main limitations to these types of relocation

policies. First, they may not fully consider the intrinsic value that people put on places for their overall wellbeing. Second, moving to opportunity may not be feasible for a large part of the population given financial means and their ties to place, and may favour the outmigration of higher skilled and younger workers. Third, focusing only on labour mobility overlooks the political calls from “left behind” communities, with potential costs for social cohesion. Lastly, policies encouraging relocation do not address underlying social and economic problems of those who stay and may worsen their situation.

Labour outmigration can exacerbate the challenges facing lagging places

A concern with outmigration in the context of lagging regions is that it can adversely affect the labour force composition in a place, further reducing opportunities for development. Given the fixed costs that migrants incur from moving—both financial and through the disruption of social networks—the returns are higher for young and highly skilled who have higher future earning potential (Venables, 2023^[5]). Highly skilled workers in less routine jobs also tend to have more national and international opportunities for work. As a result, younger and more skilled migrants are more likely to out-migrate, resulting in long-term changes to the demographic and skill composition that can exacerbate economic challenges (see Chapter 4 for discussion on demographic change). Indeed, across the OECD, young people between 15- and 29-years old account for more than half of the total within-country population flows (OECD, 2022^[50]). In nearly all OECD countries for which data are available, young people move almost exclusively to metropolitan regions, driven by educational and professional opportunities.

Opportunities that come from growing-up and living in a particular place can affect life outcomes. Even at the neighbourhood level, relocating from lower-poverty areas can result in significant improvements (Chetty, Hendren and Katz, 2016^[51]). Although migration can have positive impacts on livelihoods, the ability to move is conditional upon human and financial resources. People from places with lower-socioeconomic outcomes are likely to have reduced opportunities for skill acquisition and face other barriers that constrain their mobility. This can raise important questions of fairness and equity for communities left behind.

Limits of firm mobility

A second automatic adjustment mechanism would be for firms to move to lagging places. In the simple economic view, a reduction in relative wages should provide a signal to a firm to relocate into the affected place: a loss of jobs in one firm or industry could be compensated by the creation of new jobs. However, in practice, lagging places can remain unattractive for firms and inward investment. This may be explained by the fact that price signals are too small and agglomeration economies mean it can be costly for a firm to forego the benefits they would have in an existing cluster.

Price signals are insufficient to change firm location decisions

Firm investment decisions are based on multiple factors. Among the many considerations are local institutional quality and governance, geography, trade connectivity, existence of networks of suppliers, customers and workers, depth of the worker pool, market size (to support specialisation) and potential for technical knowledge spillovers (Venables, 2023^[5]; OECD, 2021^[52]). Lagging places can suffer from simultaneous barriers that create a barrier to firm investment, such as a lower skilled workforce, weak institutions and poor infrastructure quality. Given the diversity of considerations, changes in relative labour prices alone may be insufficient to change a firm investment decision and a multi-dimensional approach to approve attractiveness to firms in a place may be required (OECD, 2023^[53]).

Given the diverse factors considered by firms and harmonisation of some costs within national economies, price signals may be too weak to incentivise firm mobility. Unlike with national economies, regional economic performance cannot be supported through automatic adjustments in

relative price levels through changes in the national currency (Venables, 2023^[5]). Instead, automatic adjustment relies on changes in the prices of firm inputs, particularly labour and land. As national labour markets are relatively integrated (e.g. harmonised minimum wages, similar public sector wages), differences in labour costs and other business inputs can be limited across places (e.g., regulations, interest rates, electricity, water, etc). While some ‘immobile’ factors such as land and housing do adjust, these are not always intensively used by firms so may be insufficient to change location decisions.

Firms value being embedded in existing clusters

Firms receive important benefits from being embedded in a cluster. Firms are willing to pay relatively high wages and rents to be located within an existing cluster because they benefit from productivity advantages. These exist due to agglomeration economies that provide ‘costless’ benefits transferred between firms through co-location, including through improved access to customers and suppliers, increased opportunities to scale and specialise within a local industry, and knowledge spillovers between firms (see Box 2.3, page 30). Firms may also benefit from having access to a ‘thick’ labour market, which can improve access to workers and support more efficient matching of workers to jobs (Moretti, 2010^[54]).

Trade-off from being in a cluster are highly sector specific meaning that lagging regions are more likely to attract activities that are less likely to cluster, creating lower positive externalities. The propensity to cluster is related to the sector-specific benefits that relate to being in an agglomeration and the costs of labour supply and land (Venables, 2023^[5]). Non-tradeable sectors, such as food industry, government services and customer services, receive lower benefits from being in an agglomeration than higher-skill sectors, such as finance and technology (Rice and Venables, 2022^[55]; Venables, 2020^[56]). As a result, it may be easier to move sectors with lower skill intensity and lower tradability as location decisions are mostly based on the advantages of being close to final customers or resource endowments (Venables, 2020^[56]). Less developed places be unable to increase their productivity if they are only able to attract lower productivity economic activities that are less dependent on having links to existing clusters.

Market-driven spatial equilibria also do not sufficiently value local ecosystems

Market-based spatial equilibria typically also do not integrate the impact of economic activity on local ecosystems. These environmental impacts are external effects of economic activities which markets will not take into account unless they are priced through environmental taxes or tradable permit systems, such as the EU emissions trading system for greenhouse gas emissions. However, the externalities inherent in the major environmental challenges that will shape policymaking in the future are often spatially diverse and include a multitude of interrelated externalities that therefore often do not fully lend themselves to pricing. For example, biodiversity protection potentials differ across places and depend on actions that concern water use, land use, as well as air pollution. Safeguarding biodiversity potentials may also impact climate change mitigation and adaptation, such as for example, in afforestation. The spatially blind pricing of externalities may also suffer from the shortcoming that economic agents may not be able to substitute environmentally-friendly economic activities for environmentally damaging activities in response to pricing. Place-based interventions can help create opportunities for such substitution.

Trapped in a ‘low-level spatial equilibrium’

As a result of inefficiencies in automatic adjustment mechanisms described above, places can become trapped in a ‘low-level spatial equilibrium’. This equilibrium exists where workers and firms have limited incentives to invest in themselves or in a place, creating a vicious circle of development (Venables, 2023^[5]). Workers may see limited opportunities for future employment, so their incentives to acquire skills can be reduced. This can undermine human capital development and lower the attractiveness of a place to firms. Firms can reduce or stop investing in a place as they see reduction in

the availability of skilled labour and in local demand due to out-migration. Investment in physical capital can also be reduced as stagnating or declining land and house prices lower incentives to maintain or construct buildings. As the young and skilled migrate, future innovation potential may also be reduced, and the local tax base may be eroded. This may lead to a deterioration of public service provision, inefficient use of housing, infrastructure and services, and the failure of local institutions (Barca, 2009^[11]).

The ‘low-level spatial equilibrium’ is closely related to the concepts of ‘regional development traps’ and ‘talent development traps’ and does not only apply to least developed places (Box 2.4). The low-level spatial equilibrium is linked to dynamic spatial equilibrium models where multiple equilibria are possible. This suggests that places may be able to move to a higher-level spatial equilibrium under the right conditions. Multiple equilibria do not only occur in least developed regions but may also be found in highly developed or transition regions. More developed places can also be affected by transitions or shocks that undermine past economic structures and find it challenging to ‘re-invent’ themselves.

Box 2.4. Trapped in a ‘low-level spatial equilibrium’

The concepts of a ‘low-level spatial equilibrium’, ‘regional development trap’ and ‘talent development trap’ are closely related.

Low-level spatial equilibrium

A ‘low-level spatial equilibrium’ is where “workers and firms acting individually in their own best interests have no incentive to behave differently (for example, by acquiring additional skills or investing in new places)” (Venables, 2023^[5]).

Regional development trap

The ‘regional development trap’ refers to “regions that face significant structural challenges in retrieving past dynamism or improving prosperity for their residents” (Diemer et al., 2022^[15]). It draws inspiration from the ‘middle-income trap’ in international development theory but widens it to shed light on traps in higher-income countries and at the regional scale (Diemer et al., 2022^[15]). Regional development traps occur in regions whose income, employment and productivity growth are consistently lower than their own historical performance along these same dimensions. These traps can concern regions with low, middle and high-income levels.

Talent development trap

The European Commission has extrapolated the concept of ‘regional development traps’ in the context of demographic change and human capital development. ‘Talent development traps’ occur in regions which are losing a higher share of their working-age population and achieving lower rates of tertiary education attainment than their national and supranational (i.e. European) peers. Given the impetus of human capital for regional development, tailored strategies to attract, retain and develop human capital should target, above all, regions stuck in these types of traps. Like regional development traps, they can potentially concern all types of regions. In the EU, 82 regions covering 30% of the population have been defined as in, or at risk of being in, a talent development trap (European Commission, 2023^[57]).

Source: Author’s elaboration based on Venables (2023^[5]), The case for place-based policy, <https://cepr.org/publications/policy-insight-128-case-place-based-policy>; Diemer et al. (2022^[15]), The Regional Development Trap in Europe, <https://doi.org/10.1080/00130095.2022.2080655>; European Commission (2023^[57]), Harnessing talent in Europe’s Regions, https://ec.europa.eu/regional_policy/sources/communication/harnessing-talents/harnessing-talents-regions_en.pdf

Moving to a ‘higher-level spatial equilibrium’ may be possible. Dynamic spatial equilibrium models indicate that multiple equilibria can exist (Kline and Moretti, 2013^[40]). This may create a role for government policy to provide significant and coordinated support to shift a place from a ‘vicious circle’ to a ‘virtuous circle’ (Venables, 2023^[5]). Once in a virtuous circle, worker and firm expectations can change (Krugman, 1991^[58]), leading them to invest in a place, which can restart cumulative development processes. The strong path dependency of local economic development (Redding, Sturm and Wolf, 2011^[59]) means that once an a ‘virtuous circle’ is established it is likely to continue.

Insufficiency of ‘spatially-blind’ policy approaches

Inefficiencies in the spatial equilibrium do not automatically create a role for place-based policy. Two alternate policy approaches could potentially be envisaged to help address inefficiencies in the spatial equilibrium and local market failures, in particular ‘spatially-blind’ policies and local policies.

Limits of ‘spatially-blind’ policies

‘Spatially-blind’ policies are a ‘one-size-fits-all’ approach. These policies are “spatially-blind in their design and universal in their coverage” (World Bank, 2009^[8]). They include many macro-structural and sectoral policies, such as regulations on land, labour and trade, and public services for education and health. While macro-structural and sectoral policies do not necessarily dismiss the importance of local realities, they consider that good macro-economic management is what matters most for the well-being of citizens (Oliveira Martins, 2021^[60]).

‘Spatially-blind’ policies are often argued for on the basis of promoting efficiency in a national economy and avoiding mobility distortions. Spatially-blind policies assume that, by helping people to become skilled or entrepreneurial, labour mobility and knowledge spill-overs will be sufficient to lead to higher individual incomes, the diffusion of knowledge and innovation, and convergence across regions. These policies advocate for directing public resources efficiently in a spatially-blind way, which may overlook inefficiencies in the spatial equilibrium or market failures that can be complex to understand or model. In general, spatially-blind policies only attempt to address spatial inequality indirectly and in a compensational manner (Pike, Rodriguez-Pose and Tomaney, 2017^[61]).

Spatially-blind policies face limitations when addressing inefficiencies and market failures linked to the spatial equilibrium. There are at least three limitations of spatially-blind policies in this context that create a role for place-based policies:

1. **‘Spatially-blind’ policies are unable to deal with policy challenges that are highly differentiated across places.** By design, ‘spatially-blind’ policies do not account for different characteristics of different places and different ‘elasticities’ (e.g., of housing and labour markets). This can lead to inefficiencies as policies will not generate the same behavioural response where elasticities are different (Austin, Glaeser and Summers, 2018^[3]). For example, devoting resources towards areas facing high unemployment (i.e. a more elastic supply of workers) can have a much stronger effect on reducing the non-working rate than resources directed towards areas with a tighter labour market, particularly where housing supply is constrained. Different behavioural responses to policy interventions can provide a rationale for place-based policies (Austin, Glaeser and Summers, 2018^[3]).
2. **Spatially-blind approaches are unable to address complex and interconnected local policy challenges.** Many policy challenges facing lagging places are complex and multi-dimensional. This creates a need for integrated and cross-sectoral policy to simultaneously address multiple and specific local needs (Green, 2023^[62]). By definition, ‘spatially-blind’ policies do not adapt to the

characteristics of different places, so are unlikely to be able to address this type of policy challenge. Furthermore, cross-sectoral integration can be easier at smaller geographical scales.

3. **Spatially-blind policies are insufficient to bring about the step change that is often required.** Places trapped in a ‘low-level spatial equilibrium’ can need significant support to move to a ‘higher-level spatial equilibrium’ (Venables, 2023^[5]). As spatially-blind policies spread resources thinly across a whole territory, they likely can only bring incremental changes in the conditions of a place. These incremental changes may be insufficient to bring about the large change required for changing an equilibrium (Venables, 2023^[5]).

Limits of local institutions

Where local institutions are robust, they can have an essential role in shaping the development of a place. A wide range of public, private, non-government and civil society organisations collectively contribute to the economic development of a place. These local institutions are often well placed to understand place-specific needs and implement tailored responses attuned to local conditions in an efficient way. By designing local responses and mobilising diverse stakeholders, these actors may be able to endogenously change the development trajectory of a place and overcome external shocks. Local social capital can also play an important role to support local development.

On their own, however, local institutions may sometimes be unable to address market failures linked to the spatial equilibrium. While local institutions can do a lot to support regional or local economic development, they can face specific limitations when confronted by market failures, structural changes or asymmetric shocks. There are at least four limitations local institutions may face that can create a role for place-based policy:

1. **Regional and local governments may not have the right scale to tackle spatially-defined market failures.** Administrative boundaries are often not aligned with specific market failures and are often more closely related to functional areas (OECD/European Commission, 2020^[35]). They can also span across international borders or – in contrast - be concentrated in a specific neighbourhood. As a result, there can be a spatial mismatch that ‘spatially-blind’ regional or local policies are insufficient or inefficient at tackling.
2. **Local institutions may be weak or inefficient.** In some places, ‘local elites’ may be responsible for designing and running local economic institutions that can influence the accessibility of a place for outside firms and investors (Barca, 2009^[11]). As a result, they “may not choose to put in place efficient economic institutions if this is likely to reduce their share of resources” (Barca, 2009^[11]). This form of ‘rent seeking’ may contribute to a place becoming trapped in a vicious circle of development where weak institutions are perpetuated. Weakness in local economic institutions may create a role for “exogenous intervention” to establish more efficient economic institutions and open a local economy (Barca, 2009^[11]).
3. **Local institutions may lack financial and administrative capacity to bring about transformative change.** Regional and local governments can face important financial and administrative constraints (OECD, 2019^[63]). They can sometimes lack the financial and administrative capacity required to overcome local market failures on their own, such as the resources required to support a ‘big push’ or to respond to a place-specific shocks (e.g., natural disaster relief), so place-based policies have a role to bring external resources and enhance capacity. The role for place-based policies is even stronger where capacity support could not sufficiently be developed through alternate fiscal transfers schemes.
4. **Local policy competition can be inefficient.** In some circumstances, decentralised economic development policymaking can result in inefficient policy competition between jurisdictions. A prime example of this is where regional and local government give tax incentives for firms to locate in

their jurisdiction, which can risk creating a “race to the bottom” (Blöchliger and Pinero Campos, 2011^[64]).

Limits of local institutions can create a role for place-based policies. Where places are unable to address market failures linked to the spatial equilibrium on their own, “exogenous intervention” through place-based policies may be required to shift the development trajectory of a place and strengthen local institutions (Barca, 2009^[11]). Alongside place-based policies, other policy approaches may also be considered alongside to strengthen local institutions for supporting long-term development (e.g., administrative capacity building, fiscal support, decentralisation reforms, etc.).

Economic rationales for place-based policies

Place-based policies can help address market failures and institutional bottlenecks linked to the spatial equilibrium. Given the insufficiency of ‘spatially-blind’ policy approaches and weaknesses in local institutions, place-based policies have an essential role to support local and regional economic development and wellbeing. Three main economic rationales for place-based policies relate to overcoming a spatial mismatch that creates ‘untapped potential’ in some places, upgrading local public goods and helping to address asymmetric trends and shocks. Place-based policies can also support the strategic diversification of economies, support more integrated policy and facilitate innovation.

Unlocking ‘untapped potential’ arising from a spatial mismatch between firms and workers

Inefficiencies in the spatial equilibrium and failures in automatic adjustment mechanisms can lead firms and people to be overly concentrated in certain places. As highlighted earlier in this Chapter, information costs and lack of coordination between workers and firms may result in too much geographic concentration. Indeed, there is some evidence that higher-skilled workers (Fajgelbaum and Gaubert, 2020^[65]) or firms (Bilal, 2021^[66]) can become overly concentrated in agglomerations, reducing economic efficiency. Furthermore, there can be place-specific inefficiencies in local labour markets, such as inefficient hiring practices in places with a smaller pool of potential employees (Kline and Moretti, 2013^[40]). In developing countries, there is also increasing evidence of “sterile agglomerations”, where the population becomes highly concentrated in agglomerations without this providing economic efficiency gains (Grover and Maloney, 2022^[67]; World Bank, 2022^[68]).

A spatial mismatch between firms and workers can result in asset underutilisation, creating ‘untapped potential’. ‘Stranded assets’ suggest allocative inefficiencies in a local economy (Venables, 2023^[5]). This can include the underutilisation of labour (e.g., due to high unemployment or low workforce participation), capital (e.g., due to limited access to complementary skills and technologies), ideas (e.g., through limited access to finance), land (e.g., due to strict land use regulations) and buildings (e.g., outmigration of firms and people). Places that have undergone an economic shock, for example, may have large numbers of skilled workers who are unable to find meaningful employment and do not want to relocate, meaning their skills are underutilised. As a result of inefficiencies, places may not achieve their economic potential. Reducing this underutilisation can provide a meaningful contribution to a national economy (OECD, 2023^[13]; OECD, 2011^[69]).

‘Untapped potential’ can be higher in lagging places or places undergoing a transition, increasing the potential for place-based policies. Given failures in automatic adjustment mechanisms described above, lagging places and places in transition can have significant excess labour, land, buildings and infrastructure. This means these places can be more responsive to policy action. Unemployment support, for example, may be more efficient when it is targeted towards a local labour market with high

unemployment (Austin, Glaeser and Summers, 2018^[3]). Similarly, benefits of a policy or investment are less likely to be captured by local landowners if there is higher housing supply.

Restarting local development processes

Place-based policies can help to unlock untapped potential by restarting local economic development processes. As described earlier in this Chapter, places can become stuck in a 'low level spatial equilibrium', which represents a vicious circle where firms and workers have limited incentives to invest in a place or themselves (Venables, 2020^[56]). In these cases, there can be a role for place-based policies to shift a place into a 'higher-level spatial equilibrium' by creating the conditions for private investment to occur. Indeed, dynamic economic geography models with multiple steady state equilibria show large policy interventions can result in permanent effects (Kline, 2010^[70]). If a policy commitment is credible, it may even become a self-fulfilling prophecy as the mere announcement may be enough to bring about private investment (Krugman, 1991^[58]).

Restarting local economic development processes requires credible place-based policies that enhance the conditions for firms to invest. Increasing private investment is often a key objective of place-based policies as it can create positive externalities by raising the productivity and scale of other firms in a location (Kline and Moretti, 2014^[6]). By stimulating the local economy and providing employment it can also help increase well-being. Place-based policies can target local barriers to private investment by enhancing infrastructure, increasing human capital, facilitating innovation, supporting capital mobilisation and upgrading institutions. By targeting local education and employment needs, for example, place-based policies can increase employment leading to important positive social externalities, including lower crime and reduced social spending (Bartik, 2020^[4]).

While use of financial incentives to encourage private investment is commonplace, other approaches to improve attractiveness to firms should also be considered. Many place-based policies involve tax and regulatory incentives that encourage firms to move to a targeted place, such as enterprise zones in the United States (Neumark and Simpson, 2015^[7]; Kline and Moretti, 2014^[6]) and special economic zones (SEZs) more generally. Evidence on the efficiency of these financial incentives is mixed, in part because—as previously mentioned—tax incentives can result in inefficient tax competition between jurisdictions (i.e., a “race to the bottom”). Given this, policy makers should look beyond financial incentives and address other barriers to private investment, such as improving human capital and upgrading infrastructure. These approaches can also provide long-term economic benefits that endure beyond a single firm or industry.

Supporting cluster development

Establishing new industrial clusters or agglomerations can help foster productivity, innovation and commercialisation. Through geographic proximity, clusters can reduce transaction costs (e.g. communications, logistics, market availability) and support knowledge spillover between and within related sectors (Porter, 2001^[71]; Delgado, Porter and Stern, 2015^[72]). Strategically targeting the development of a specific sector aligned with local assets may support a more efficient use of resources than spreading those resources across multiple sectors. While developing a cluster can be important for re-starting economic development processes, it is not easy. A single firm is unlikely to want to move to a cluster due to the loss of potential agglomeration benefits, creating a 'first mover problem' (Box 2.5). As such, creating a cluster can require substantial support during early stages of development. Barriers can be even stronger for tradeable firms that are more interconnected and rely on a large ecosystem of local suppliers and workers; however, these firms may also provide more local economic benefits.

Box 2.5. Overcoming the ‘first mover problem’

The location of firms is ‘sticky’. Firms that move to a lagging place risk foregoing significant agglomeration benefits of being in an established cluster. A lagging place may also not have the right skill mix as local workers may not see potential employment opportunities until a cluster is established. Furthermore, while it might be beneficial for a whole cluster to move to a new location, it will not be in the interest of any firm to move first. This represents a ‘first mover’ problem. Without synchronised movement of multiple actors, a new cluster will not be established, even if this is a sub-optimal outcome.

Source: Venables (2020^[56]), Why some places are left-behind: Urban adjustment to trade and policy shocks, <https://doi.org/10.1093/oxrep/graa012>

The economic impact of creating a new cluster can be difficult to evaluate as there is a risk of simply shifting the location of economic activity within a country. While in some cases it may be economically efficient for a whole cluster to relocate, this depends on the firm origin and efficiency of the different clusters. National and local policy makers may lack information to make an informed assessment of the aggregate economic impact of creating a new cluster. Placing a focus on emerging industries may reduce the risk of a simple relocation of firms between jurisdictions in a country.

Upgrading local public goods

Place-based policies have a role to help improve local public goods that underly local economic development and well-being. Public goods, such as infrastructure and public services, have important benefits for productivity, well-being and the environment, and are often underprovided by the private sector (Box 2.6). Many public goods, especially infrastructure, is inherently ‘place-based’, given that it is spatially concentrated. In lagging places, private investment and economic development can be held back by the under-provision of local public goods. For example, manufacturing companies may lack sufficient access to affordable and reliable transport, water and electricity networks. In large cities, firms and workers can face congestion diseconomies (e.g., road congestion) that reduce incentives to invest in development.

Box 2.6. Local public goods

Public goods are defined as being ‘non-rival’ and ‘non-excludable’ (Fratesi, 2023^[73]). This means that they are available to all users and that use by one person does not prevent or diminish use by others. Public goods are typically under provided by the private sector as it can be difficult to make users pay for use, creating a role for government policy (Fratesi, 2023^[73]). Many public goods are local, such as transport networks, hospitals, education facilities and parks. Local governments often have the primary responsibility for providing local public goods (OECD/UCLG, 2022^[74]), but provision can also be supported by higher-level governments.

Source: Fratesi (2023^[73]), Regional Policy: Theory and Practice, <https://doi.org/10.4324/9781351107617>

The role for place-based policies to support local public good provision can be stronger where they are underprovided by lower levels of government. Many local public goods are provided by subnational levels of government. In OECD countries, subnational governments are responsible for 55% of total public investment and 37% of total public expenditure (OECD, 2023^[75]). In some cases, however, these governments can face constraints that limit their ability to sufficiently provide public goods needed for economic development (e.g., administrative and fiscal capacity, limited competencies). Furthermore, subnational governments may not have sufficient incentives to consider spillovers that occur outside the jurisdictions and local institutions may be weak (Barca, 2009^[11]). In these cases, place-based policies from higher levels of government can help provide local public goods to support local economic development.

Place-based policies that have a strong focus on local public good provision can generate positive impacts on economic development. Large enough public investment in an underdeveloped region can generate potentially significant increases in productivity and welfare (Kline and Moretti, 2014^[6]; Azariadis and Stachurski, 2005^[76]). In the United States, for example, the Tennessee Valley Authority undertook a large-scale federal investment that led new industries to develop with substantial increases in productivity and welfare (Kline and Moretti, 2014^[77]) (See Chapter 7 for more discussion). Ultimately, the existence and extent of benefits depends on the effectiveness of public investment across multiple levels of government (OECD, 2014^[78]).

Provision of local infrastructure needs to be consistent with reaching climate neutrality. Local institutions may not have sufficient capacity to develop climate neutral infrastructure on their own, which can create a role for external support—alongside participation of local players—to integrate national and international climate policy priorities. For example, the provision of low cost-carbon free transport services through the port of Hamburg has required coordination among businesses active in land-based, as well as in maritime transport, to deploy and optimally use relevant infrastructure, together with local, national and EU policy makers. Integrated and multi-level policy is critical for the local economy to ensure low-cost trade in the future climate neutral world (OECD, 2024^[79]).

Responding to asymmetric shocks and transitions

Shocks and transitions often have asymmetric impacts. As outlined earlier in this chapter, many of the global policy challenges being faced today—climate change, digitalisation and demographic change, among others—have strong asymmetric impacts. Places can also be affected by spatially concentrated natural disasters, such as earthquakes, floods and wildfires. Large shocks or transitions can risk undermining economic and social structures, creating long-term scarring effects. Where a place is unable to sufficiently respond to these challenges, a vicious circle may develop that undermines future development prospects at the detriment of a local and national economy.

Lower-levels of governments may have insufficient fiscal or administrative capacity to respond to asymmetric trends and shocks on their own. As outlined earlier in this chapter, lower levels of government may not have relevant competencies or sufficient capacity to respond to asymmetric trends and shocks. In these cases, higher levels of government may act as an 'insurer' by providing spatially-targeted support to a place. This can be seen in the case of disaster relief after an extreme weather event, which often requires coordinated action across multiple levels of government (Paterson et al., 2023^[80]).

Place-based policies are increasingly seeking to proactively address risks to avoid high costs in the future. There is increasing recognition of the need for place-based policies to also support places at risk of failing impending economic transitions (Suedekum, 2023^[24]). In the EU, for example, the Just Transition Fund provides support to territories expected to be the most negatively impacted by the transition towards climate-neutrality. The spatially-targeted support seeks to allow places up- and re-skill workers, invest in Small and Medium-sized Enterprises (SME), create new firms, support research and innovation and assist with environmental rehabilitation, amongst other areas.

Place-based policies can help to disrupt existing development pathways and support transition processes. Places can be locked-in to an existing development trajectory based on their historical assets and industries. In the absence of external support there could be limited incentives to deviate from existing paradigms, and even attempts to further subsidise declining sectors until it is too late (OECD, 2020^[81]). In this context, place-based policies can have a role to disrupt existing local equilibria and support regions to innovate new paths forward. For industrial regions reliant on fossil-fuel based industries (partly due to access to fossil fuel deposits), for example, this could include support to transition to green industries (McCann and Soete, 2020^[82]). Place-based policies help to ensure that existing knowledge and assets (e.g. skilled workforce, infrastructure) are put to use for related industries, such as those relevant for the green and digital economy (Schwaag Serger et al., 2023^[83]).

Other rationales for place-based policies

Place-based policies can be supported by a number of other rationales, including their potential to support the strategic diversification of an economy, to enhance policy integration and to increase innovation.

Strategic diversification of an economy

Increased adoption of ‘place-based industrial policies’ highlights the capacity of place-based policies to deliver strategic investments that increase the competitiveness of a national economy. Industrial policies can play a role in addressing economic, social and environmental challenges that markets cannot deal with on their own (Millot and Rawdanowicz, 2024^[84]). The place-based approach to industrial policy seeks directs investment towards certain places to simultaneously support equitable development, particularly distressed communities or those at risk from an industrial transition. Across OECD countries, there has been increased adoption of place-based industrial policies in recent years (Box 2.7). While these policies have the potential to address multiple goals for improved economic development, potential trade-offs need to be understood carefully managed (Millot and Rawdanowicz, 2024^[84]). Effective policy design can potentially help to reduce risks from ‘picking winners’. In the US, for example, the Inflation Reduction Act (IRA) tax credits for private investment included bonuses of 10 or 20 percent for investments located in a ‘low-income’ or ‘energy community’ (US Department of the Treasury, 2023^[85]).

Box 2.7. The emergence of ‘place-based industrial policy’

In recent years, several countries have employed large-scale industrial policies to promote competitiveness in strategic sectors. In the United States, for example, the Inflation Reduction Act (IRA) aims to revitalise American manufacturing and the Chips and Science Act (CSA) aims to increase global competitiveness in strategic industries. In the European Union, the Green Deal includes a Net Zero Industry Act (NZIA) and Critical Raw Materials Act to position the European Union as a production hub for green technology and critical minerals. Other countries have also made large investments, such as scaling the production of batteries for electric vehicles for the North American market in Canada.

New industrial policies often have an explicit objective to support the development of specific places within a country, partly in recognition of the hardship these places face due to current or former industrial transitions. In the United States, many investments in the IRA target ‘energy communities’ with historical reliance on fossil fuels and the Chips and Science Act has funded Regional Technology and Innovation

Hubs that are predominately located in the country's traditional industrial heartland (Austin and Muro, 2024^[86]).

In the European Union, the NZIA has a focus on less-developed regions to “encourage the take up of net-zero strategic projects in less developed and transition regions through investment packages of infrastructure, productive investment in innovation, manufacturing capacity in SMEs, services, training and upskilling” (European Commission, 2023^[87]). The Strategic Technologies for Europe Platform (STEP) was set up in 2024 by the EU to support European Industry and boost investment in critical technologies in Europe. STEP will raise and steer funding across 11 EU programmes to three target investment areas:

- Digital technologies and deep-tech innovation
- Clean and resource efficient technologies
- Biotechnologies

STEP offers financial incentives to direct Cohesion Policy funds toward investments in critical technologies. Support for productive investments in large enterprises will be available for the first time in less developed and transition regions, as well as in more developed regions in Member States with a GDP per capita below the EU-27 average (European Commission, 2024^[88]).

Source: Authors' elaboration based on Austin and Muro (2024^[86]), CHIPS and Science Act programs are writing a new story about the Rust Belt, <https://www.brookings.edu/articles/chips-and-science-act-programs-are-writing-a-new-story-about-the-rust-belt/>; European Commission (2023^[87]), Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL on establishing a framework of measures for strengthening Europe's net-zero technology products manufacturing ecosystem (Net Zero Industry Act), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52023PC0161>; European Commission (2024^[89]), Commission welcomes the provisional agreement to reinforce the EU long-term budget and to boost Europe's competitiveness and sovereignty, https://ec.europa.eu/commission/presscorner/detail/en/ip_24_681

Place-based policies can also support geographic diversification of an economy for efficiency or strategic goals. Where economy activity becomes too spatially concentrated, a national economy may end up with too few places of productive activity (Venables, 2023^[5]). Places that experience a negative economic shock, for example, are likely to switch to non-tradeable activities, which can increase polarisation within a country and lower income in affected places and reduce national economic performance (Venables, 2020^[56]). Geographic diversification may also support other policy goals, such as maintaining population or industry in a geostrategic location.

Improving policy effectiveness through local integration at the right scale

Multi-dimension policy challenges faced by many places often require integrated and cross-sectoral solutions. For example, places with entrenched high levels of unemployment can face multiple localised barriers that need to be simultaneously addressed, including in relation to education, healthcare, employment services and crime. Sectorial policies on their own may not provide sufficient local integration to address interconnections between these challenges. Cross-sectoral policy action can help to break down policy silos and better align resources to local gaps in service provision and needs (Green, 2023^[62]). The Households into Work programme in Liverpool City Region (England), for example, brought ‘wrap-around’ services to residents at a central location within a neighbourhood to better target their complex needs (Green, 2023^[62]).

Policy challenges are often not aligned with administrative boundaries, creating a need for vertical and horizontal policy coordination. Policy challenges can exist at a range of geographical scales (see Chapter 3). Local labour markets, for example, often do not correspond to jurisdictional boundaries and

stretch beyond a single local government jurisdiction (OECD/European Commission, 2020^[35]). Administratively fragmented and small jurisdictions, such as small and medium cities, can find it more challenging to exploit agglomeration economies on their own. As a result, policy coordination among and across levels of government is essential, potentially creating a role for place-based policies (OECD, 2014^[78]).

Facilitating and enhancing innovation

Innovation, both at the frontier and for “catching up”, is key for economic growth in all types of places (OECD, 2020^[81]). Weak productivity and low economic growth across many places within a country can result in substandard aggregate economic growth. In one-third of OECD countries, productivity growth has been concentrated in a single and already highly productive region (OECD, 2020^[81]). In such circumstances, broadening productivity growth across a territory can be important to reach aggregate growth potential. By investing in research and development, and promoting innovation spillovers and diffusion, policy makers may broaden the potential for productivity growth across all places.

Local context matters for knowledge creation and diffusion (OECD, 2011^[90]). Innovation requires multiple conditions that vary across different local contexts, including for example, trained personnel, networks, a well-designed regulatory and institutional environment, a high degree of entrepreneurship and creativity, risk-friendly funding sources, and innovation-oriented business practices (OECD, 2011^[90]). One common link is the role that higher education and research institutions play in linking academic and external knowledge with local industrial and workforce demands, thus adapting frontier innovation to local contexts and supporting the uptake of innovative practices (Pinto, 2024^[91]). Drivers of innovation can also differ significantly between places based on unique local characteristics, such as pre-existing industrial mixes, presence of research institutions and infrastructure accessibility (Joint Research Centre, 2021^[92]).

Place-based policies can enhance local and regional innovation systems. They can help address the place-specific barriers to innovation, including by enhancing links between universities and the public and private sectors. Place-based policy can therefore identify and support existing or emerging clusters based on local competitive advantages (Porter, 1998^[93]). They can provide targeted support (e.g. shared technical spaces, tax incentives in innovation districts) to support would be innovators through potential costly transition periods (Katz and Wagner, 2014^[94]). Place-based innovation policies can also support the experimentation of innovation policies at a smaller scale (Magro and Wilson, 2019^[95]).

Place-based innovation policies have an important role to improve the productivity of places. In the European Union, over 180 regional S3 strategies have been developed, that are already generating results in terms of co-operation between public and private actors within regions (Berkowitz et al., 2023^[96]). For example, Piedmont in Italy has an integrated strategy to support regional innovation (OECD, 2021^[97]). In the United States, the Research Triangle Park in North Carolina has helped revitalise a previously lagging region (Wessner, 2013^[98]) with its affiliates performing USD 6 billion in annual research (Research Triangle Park, n.d.^[99]).

Impact of place-based policies

Understanding the potential impact of place-based policies is challenging. As the previous sections have highlighted, there can be clear theoretical rationales for place-based policies. However, understanding the impact of place-based policies is complex due to multiple direct and indirect effects that make these policies complex to understand and model (see Chapter 5 for discussion of monitoring and evaluation). Furthermore, empirical evidence on place-based policies is incomplete, although there is evidence in favour of place-based policies in some areas.

Evidence of place-based policy effectiveness

Empirical evidence on the effectiveness of place-based policies indicates that these policies can have a positive impact. Research conforming to high academic standards suggests that local development policies (which includes place-based policies) often have a positive impact in terms of employment and GDP (Box 2.8). However, much uncertainty remains, not only because evaluations are often not carried out to sufficiently high standards but also as data are often of insufficient quality to discern clear impacts (an issue further discussed in Chapter 5).

Box 2.8. Evidence from systematic reviews of local development policies

In systematic reviews of nearly 15,000 local economic development policy evaluations by the What Works Centre for Local Economic Growth in the United Kingdom, only a few were found to adopt robust methodologies that allow to interpret estimated impacts as being caused by place-based policy with a high degree of confidence. Considering such robust evaluations only, half of local economic development policies have positive employment outcomes. This is true for most policy areas. Other types of outcomes across reviews show similar results. For example, for EU cohesion policies, where evaluations look at GDP per capita outcomes, the success rate is 45%. Less robust evaluations often do not study the impact of policies, but rather their inputs (e.g., the amount of money spent or policy actions), or they evaluate their possible effects ex-ante, before they happen, through modelling exercises (Nathan, 2023^[100]).

Table 2.1. Robust evaluations of place-based policies and local economic development interventions show positive results

Summary of OECD-wide systematic reviews of local economic development interventions, including place-based policies, carried out by the What Works Centre for Local Economic Growth, 2013-2019.

Policy area	Number of evaluations (of all types)	Number of robust impact evaluations	Number of robust impact evaluations looking at employment effects	Number of robust impact evaluations finding positive employment effects
Access to Finance	1450	27	11	6
Apprenticeships	1250	27	9	7
Broadband	1000	16	10	5
Business Advice	700	23	17	8
Employment training	1000	71	65	33
Estate renewal	1050	21	5	1
Innovation	1700	63	10	6
Public realm	1140	0	0	0
Sports and culture	550	36	16	4
Transport	2300	29	6	2
Employment Zones	1300	30	27	15
EU Structural Funds (GDP)	1300	18	11	5

Source: Adapted from Nathan (2023^[100]), Things We Don't Want to Know? Monitoring and evaluating place-based policies, <https://www.oecd.org/content/dam/oecd/en/about/projects/cfe/place-based-policies-for-the-future/things-we-dont-want-to-know-monitoring-and-evaluating-place-based-policies.pdf>

Given the structural mega-forces that drive spatial disparities, and the relatively small scale of most place-based interventions, a success rate of 50% may be interpreted positively (Nathan, 2023). The fact that half of the robustly-evaluated place-based policies produce positive effects does not mean the other half has negative effects. Instead, the data have not allowed to discern a direction of causal impact. Remaining evaluations of EU Cohesion Policies, for example, largely produce statistically insignificant policy effects. This can be due to the impact being weak but could also reflect weak regional data. Negative impacts are rare. Evaluations that find negative impacts typically suggest an explanation, such as poor implementation. Negative effects in some cases also reflect that programme design is not always well captured in the evaluation. For example, firm accelerator programmes do not always have positive effects on firm survival rates because they may force founders to come up with robust startup business models, which may induce them to set up a new startup, depressing measured survival rates, even if the start-up project eventually succeeds.

Source: Authors' elaboration based on Nathan (2023_[100]), Things We Don't Want to Know? Monitoring and evaluating place-based policies, <https://www.oecd.org/content/dam/oecd/en/about/projects/cfe/place-based-policies-for-the-future/things-we-dont-want-to-know-monitoring-and-evaluating-place-based-policies.pdf>; What Works Centre for Local Economic Growth (2016_[101]), Guide to scoring evidence using the Maryland Scientific Methods Scale, https://whatworksgrowth.org/wp-content/uploads/16-06-28_Scoring_Guide.pdf; What Works Centre for Local Economic Growth (2022_[102]), An 8-step guide to better evaluation, <https://whatworksgrowth.org/resource-library/8-step-evaluation-guide/>

Evaluation requires considering specific types of place-based policies and local characteristics.

Place-based policies are highly diverse in their objectives, locations and instruments (e.g., tax incentives, grants, governance structures, etc.). As such, analysing the effects of place-based policies requires considering factors such as the specificities of the policy, complementary policy settings and the characteristics of place. Analysing policies that extend broadband internet, for example, requires considering the extent to which firms train workers, reorganise sales, or adjust supply chains to take advantage of faster internet connections. It may also require considering the economic and geographic characteristics, as better broadband connections appear to provide higher benefits to service industries and skilled workers, and economic effects tend to be larger in urban areas compared to rural areas. Various studies have been undertaken on specific place-based policies showing impacts ranging from more positive (Freedman, Khanna and Neumark, 2023_[103]; Hyman et al., 2022_[104]) to more negligible (Freedman, Khanna and Neumark, 2023_[105]).

Place-based policies can generate positive spillovers outside the targeted place. Place-based policies typically involve concentrating resources on a specific place, but positive spillovers can spread to non-recipient jurisdictions. One reason that spillovers may occur is because beneficiaries import many essential goods and services from other places (Crucitti et al., 2023_[106]). Cohesion Policy, for example, has been shown to generate positive spillovers (Mohl and Hagen, 2010_[107]; Fidrmuc, Hulényi and Tunalı, 2019_[108]).

A question for place-based policies is whether redirecting support for lagging regions to more developed regions could provide a higher return and over which period. This links to discussions of efficiency and equity. This approach assesses place-based policies for lagging regions against a more demanding benchmark, albeit with a limited view of long-term consequences from leaving assets in less developed regions underexploited. In this context, findings are mixed, with some studies (Crucitti et al., 2021_[109]; Crucitti et al., 2022_[110]) highlighting higher national returns from investment in developed regions, while others, in particular support for non-transport infrastructure and for private investment, show substantial positive spillovers, resulting in national benefits from investment in less developed regions (Barbero et al., 2024_[111]). Another interpretation of this evidence is that place-based policies can also be effective in strongly performing places.

Impact assessments often remain limited to income and employment outcomes. Given the importance of social and environmental challenges, there is a need to integrate broader well-being and environmental outcomes to assess impacts of “place-based policies for the future” (see Chapter 5). They will need to assess the consistency of policies with major future challenges, notably climate policy objectives and resilience. They should also consider the opportunity costs that could arise from leaving assets underutilised. Policies that are not consistent with these objectives risk resulting in failed spending, which can ultimately decrease economic and social outcomes and resilience.

Towards more effective place-based policies

As this chapter has outlined, there is a theoretical and empirical basis for place-based policies. Persistent economic and social underperformance in many places, and the high cost of leaving places behind, highlight the need to move away from a ‘business as usual’ approach. It is increasingly clear that policy makers cannot rely on the ‘automatic adjustment mechanisms’ of labour and firm mobility to lead to convergence between places. Neither can they rely on ‘spatially blind’ policies to address place-specific challenges. Place-based policies can be justified by economic rationales linked to specific market failures or imperfections. Even though empirical evidence is somewhat limited, the existing evidence points to a positive impact.

Ultimately, the impact of place-based policies relies on their effective design and implementation. Place-based policies can help to improve the factors and conditions that help cities and regions to grow and innovate, such as knowledge networks, creativity, diversity, amenities and institutions (Iammarino, Rodriguez-Pose and Storper, 2019^[112]). But their success is not guaranteed. Addressing persistent gaps in economic and social outcomes requires “place-based policies for the future” that are both effective and efficient. The subsequent chapters highlight key elements of effective place-based policies.

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Notes

¹ This chapter was informed by the first workshop in the OECD-EC series on [Place-Based Policies for the Future](#) that was held on 14 April 2023 with invited experts. Papers for the seminar were prepared by Professor Jens Suedekum (*The broadening of place-based policies – from reactive cohesion towards proactive support for all regions*) and Professor Philip McCann (*How have place-based policies evolved to date and what are they for now?*).

² Based on data for 377 regions where data was available in the OECD Regional Database (2024)

³ EU Cohesion Policy defines the following categories of regions: less developed regions have a GDP per inhabitant that is less than 75% of the EU average; transition regions have a GDP per inhabitant that is between 75% and 100%; and more developed regions have a GDP per inhabitant that is above 100%.

3

Design of effective place-based policies

Place-based policies can deliver important benefits if well-designed—they can improve economic development and well-being outcomes by better accounting for local needs, help to mobilise untapped local assets and support integrated policy action across sectors—but they can also face limitations. Designing and implementing effective place-based policies requires enhancing potential benefits and managing limitations. This chapter highlights four policy priorities to support the design of ‘effective place-based policies’: (1) targeting regional and local development potential; (2) ensuring policy coherence; (3) seeking efficient implementation; and, (4) reinforcing multi-level governance.

Towards effective place-based policies

Place-based policies are a key part of government policymaking, so it is essential to get them right.¹

Place-based policies constitute an important part of public budgets in many OECD governments. Across the EU, for example, Cohesion Policy accounts for approximately 64.2% of the total amount redistributed through the EU budget among EU Member States and up to 1.85% of annual GDP in some countries (Berkowitz et al., 2023^[1]). Given the important role of place-based policies, it is essential for policy makers to effectively design and implement these policies.

Current economic circumstances, the emergence of new challenges and fiscal pressures call for an even stronger focus on effectiveness. The global economy continues to confront the challenges of inflation and low growth, with tighter financial conditions, weak trade growth and lower business and consumer confidence (OECD, 2023^[2]). Public debt to GDP ratios are at high levels and governments face mounting fiscal pressures stemming from multiple sources, including ageing societies and the need to tackle climate change (OECD, 2023^[2]; OECD, 2022^[3]). In this context, governments will need to make difficult choices about allocating resources. Supporting effectiveness can help to ensure place-based policies are a relevant policy-making tool to confront current and future challenges.

Understanding the benefits and challenges of place-based policies

Our understanding of when and how to use place-based policies is improving. While gaps remain, expanding research is providing a deeper understanding of the potential benefits and limitations of place-based policies (Box 3.1). Benefits and limitations can be considered across different geographical scales (e.g., local, regional, national) and time horizons (e.g., short-term and long-term). During policy design, policy makers can seek to enhance the potential benefits of place-based policies and manage their limitations to improve effectiveness.

Box 3.1. Enhancing the benefits and managing the challenges of place-based policies

The table below summarises benefits and challenges of place-based policies according to where and when they occur. Specific benefits and limitations of a policy will ultimately depend on an individual policy design.

Table 3.1. Potential benefits and challenges of place-based policies

Location and timescale of impact	Potential benefits (To be enhanced)	Potential challenges (To be managed)
<i>Policy impact on the targeted place</i>	<ul style="list-style-type: none"> • Better accounting for local needs, circumstances and characteristics through targeted policies (asymmetric) • Leveraging local assets, knowledge and networks to unlock untapped potential • Proactively reducing long-term local impact of negative shocks or transitions • Integrating across policy domains to breakdown silos and align policy action • Enhancing local buy-in through deeper engagement with local communities, private sector service providers and employers • Supporting policy experimentation by testing 	<ul style="list-style-type: none"> • Fragmentation of policies and reductions of economies of scale and scope, particularly if a policy could otherwise be harmonised across a large area • Increased complexity of policy design and governance structures risking a high need for coordination and clarity in responsibilities, which may increase implementation cost. • Risk of benefits being captured through rent-seeking and political interest • Challenges to support policy learning due to decentralised implementation and difficulties to measure and evaluate • Risk of insufficient local administrative and fiscal capacity to mobilise financial and non-financial resources that

	policies in one place before broader adoption	match policy design and implementation responsibilities (see Chapter 6)
<i>Policy impact beyond the targeted place</i>	<ul style="list-style-type: none"> • Enhance policy alignment across levels of government • Potential to create positive spillovers that also benefit other places (e.g., knowledge, financial) • Potential to avoid negative spillovers that may come from decentralised policymaking (e.g., tax or investment competition) 	<ul style="list-style-type: none"> • Risk of reducing overall welfare by lowering incentives for mobility or by less efficient allocation of resources • Risk of reduced harmonisation of investments and public service provision across jurisdictions and lower sectoral policy coherence • Risk of negative interactions with other policymaking frameworks reducing sectoral policy coherence
<i>Long-term impacts from place-based policymaking</i>	<ul style="list-style-type: none"> • Reinforcing local governance structures and enhancing local democracy, social capital and trust in government • Avoiding widening gaps in territorial inequalities and supporting long-term social cohesion and political stability 	<ul style="list-style-type: none"> • Varied impact on local administrative and fiscal capacity building if place-based policies are of a short-term 'start and stop' nature • Lower fiscal flexibility of subnational governments if there is ongoing reliance on place-based policies for investment

Source: Authors' elaboration building on OECD (OECD, 2011^[4]), (2014^[5]), (2016^[6]), (2019^[7]), (2021^[8]), (2023^[9]), OECD Regional Outlooks, https://www.oecd.org/en/publications/oecd-regional-outlook_2dafc8cf-en.html; Green, Beer, Solé-Ollé and Suedekum, (2023^[10]), (2023^[11]), (2023^[12]), (2023^[13]), Papers from Place-Based Policies for the Future, <https://www.oecd.org/en/about/projects/place-based-policies-for-the-future.html>

Priorities for effective design and implementation of place-based policies

This chapter highlights four priorities for the design and implementation of effective place-based policies. These have been selected based on an existing body of knowledge and emerging literature, including past OECD research (2011^[4]; 2014^[5]; 2016^[6]; 2019^[7]; 2021^[8]; OECD, 2023^[9]) and papers prepared by Solé-Ollé (2023^[12]) and Green (2023^[10]). They are also consistent with two main OECD recommendations linked to place-based policies: the OECD Recommendation on Regional Development Policy (OECD, 2023^[14]) and the OECD Recommendation on Effective Public Investment Across Levels of Government (OECD, 2014^[15]). The four policy priorities are:

- **Targeting regional and local development potential:** Defining clear objectives based on a deep understanding of current and future needs, characteristics and assets of a place to unlock new pathways for development.
- **Ensuring policy coherence:** Assessing the interactions across institutions, sectors and policymaking frameworks to maximise potential synergies and manage trade-offs.
- **Supporting efficient implementation:** Designing policies to act at the relevant scale with targeted instruments, transparent funding allocation and integrated policy learning processes.
- **Reinforcing multi-level governance:** Supporting policy implementation by building local institutional capacity, ensuring coordination, empowering place-based leaders and promoting an inclusive policy process (Note: This is covered in Chapter 6).

This chapter aims to provide policy makers with an overview of the literature to support effective policy design and implementation, while also drawing out emerging focus areas. Although many of priorities covered in this chapter have been documented previously, there is still an important need to get the core elements of place-based policies right. The chapter includes emerging dimensions such as the need to enhance the use of futures foresight, better understanding interactions with fiscal frameworks and integrating policy learning into place-based policies.

Target regional and local development potential

Place-based policies should have clear objectives targeting regional and local development potential. These should be based on a deep understanding of the potential drivers of long-term transformative change in a particular place. This requires developing a strong understanding of local context and assets, long-term trends and existing policy evidence during design. This understanding can be used to identify clear objectives to unlock development potential beyond what would be possible without the policy. Key elements for this are:

- Understanding local needs and characteristics to ensure policies are sensitive to place
- Harnessing foresight to ensure policies are aligned with future needs and risks, and
- Seeking to leveraging local assets, knowledge and networks to unlock regional and local development potential.

Understand local needs and characteristics to ensure policies are sensitive to place

Places have diverse geographical, historical, cultural, institutional and socio-economic contexts. They also have differing policy preferences and needs that reflect the diversity of their population (OECD, 2023^[9]). Rural areas, for example, may be faced with youth out-migration or gaps in public transport infrastructure, while major metropolitan areas may face challenges from congestion or unemployment. Variations are not limited to different classifications of regions—even across different classifications of areas within a country there can be significantly variations in local contexts. Given the diversity and specificity of challenges across places, ‘one-size-fits-all’ policy approaches are often inappropriate and place-based policies are essential (Iammarino, Rodriguez-Pose and Storper, 2019^[16]).

Policy impact depends on policy makers developing a deep understanding of the local context to inform policy design. Policy-makers need to properly diagnose the challenges and opportunities facing a region to identify relevant policy objectives. They also need to understand the institutional and cultural context to engage with the right actors and institutions for implementation. This requires, for example, identifying key public or private organisations and community groups in that place. Ultimately, taking into consideration the local context is essential to achieve policy as it helps to avoid a misalignment of policy objectives with local needs and can ensure local buy-in.

A combination of top-down and bottom-up approaches is often needed to understand local needs and characteristics. Top-down approaches can support the identification of places in need of support to enhance solidarity across territories, ensure the mobilisation of funding, support alignment with national policy priorities and increase efficiency by standardising certain policy elements or levels of service (e.g., universal access). For example, to help direct funding (e.g., through formula-based funding arrangements and equalisation grants), policy makers may develop data-driven indicators to provide an understanding of the places most in need of support. At the same time, bottom-up approaches, such as inclusive stakeholder engagement (see Chapter 6), are needed to ensure that local priorities are understood and to help mobilise local actors. Indeed, local private companies can have a strong understanding of the factors limiting their growth that may not be visible from a top-down perspective. In Australia, a recent study to identify regional strengths and infrastructure gaps by Infrastructure Australia—the government’s independent infrastructure advisor—adopted both top-down and bottom-up approaches by including a national analysis of data key indicators alongside local stakeholder interviews (Box 3.2).

Box 3.2. Understanding regional strengths to identify infrastructure gaps in Australia

Infrastructure Australia (IA) is an independent government body that advises Australian governments, industry and the community on investments and reforms to deliver better infrastructure. As part of its role to identify infrastructure priorities, Infrastructure Australia prepares research to support better infrastructure decision-making.

In 2022, IA prepared a report on *2022 Regional Strengths and Infrastructure Gaps* and the accompanying methodology report *Strengthening Communities: A rubric to support place-based strategic planning in response to Regional Strengths & Infrastructure Gaps*. These reports were developed through engagement with more than 1,000 stakeholders, including focused engagement in each region (defined by Regional Development Australia boundaries).

The report *2022 Regional Strengths & Infrastructure Gaps* adopted a place-based approach to support the identification of future infrastructure investment priorities. The approach was based on 10 key elements (meaningful community engagement, respecting culture, collaboration, developing a shared local vision, acknowledging complexity, leveraging existing strengths, evidence-based decision-making, not leading with solutions, resilience, closing the loop). The report followed a five-step “Strengthening Communities Rubric”:

- Step 1: Understand place through Australia’s geography
- Step 2: Demographic and economic indicators
- Step 3: Strengths – Identify existing assets and growth indicators
- Step 4: Infrastructure – Identify infrastructure gaps, prioritise infrastructure gaps and evaluate infrastructure assets
- Step 5: Enablers and tools for success – Social inclusion, strategic land use, economic and industry, liveability, governance and the environment.

Source: Infrastructure Australia (2022^[17]), *Strengthening Communities: A Rubric to support place-based strategic planning in response to Regional Strengths & Infrastructure Gaps*, <https://www.infrastructureaustralia.gov.au/publications/2022-regional-strengths-and-infrastructure-gaps>

Beyond understanding local needs and characteristics, adopting a systems-thinking approach can help better identify the key interactions within a geographical area. Policy-makers need to be aware of the underlying systems that affect a place to more comprehensively address the potential impact and interactions of policies (Suedekum, 2023^[13]). Effective climate action, for example, requires identifying the linkages between economic, social, environmental, and other systems that operate in a geographical area (Matsumoto and Ledesma Bohorquez, 2023^[18]). Systems thinking provides a methodology that can help to identify the key interactions across different scales that can affect a potential policy. Ultimately, this can help to provide a deeper understanding of local needs and characteristics.

Harness strategic foresight to ensure policies are aligned with future needs and risks

Long-term trends and transformations are underway that will impact all places and require new policy approaches. These include the transition to low-carbon economy and demographic change (see Chapter 4 for further discussion), which have different local impacts and risk reinforcing existing regional inequalities (OECD, 2023^[9]; OECD, 2022^[3]). These long-term trends call for major local transformations. The transition to a low carbon economy, for example, will disrupt regions specialised in energy-intensive

industries and may require transitioning workers to new sectors. If these transformations are not proactively managed, they can depress employment and living conditions over the long-term (Bartik, 2022^[19]).

In the face of these long-term trends, place-based policies should be designed with foresight.

Understanding potential future scenarios and assigning resources towards policies aligned with future needs and risks requires acting with foresight. Strategic and territorial foresight techniques can provide a structured approach to explore possible future changes and their implications (Box 3.3). Undertaking foresight requires mobilising data and evidence to inform scenario development and analysis that accounts for possible futures. By harnessing foresight, place-based policies can seek to account for the effects of different scenarios, long-term trends and build in adaptability to manage shocks.

Box 3.3. Role of territorial foresight to support more forward looking policymaking

The OECD defines strategic foresight as a structured and systematic way of exploring different plausible futures that could arise, the opportunities and challenges they could present and using those ideas to make better decisions and act now. Strategic foresight is not forecasting. It does not attempt to offer definitive answers about what the future will hold. Foresight understands the future as an emerging entity that is only partially visible in the present, not a predetermined destiny that can be fully known in advance (predicted). There are no hard facts about the future and the evidence base is always incomplete. The objective is not to “get the future right” but to expand and reframe the range of plausible developments that need to be taken into consideration.

Territorial foresight has specific characteristics. First, territorial foresight approaches are inherently multi-faceted and consider the economic, social, environmental and political dimensions that make up regional economies and ecosystems. Second, the scope of territorial foresight exercises looks beyond administrative boundaries to consider the multiple connections a region shares with neighbouring regions and other parts of the world. Third, territorial foresight serves as a tool to reconcile different perspectives and priorities among actors of the same region by providing a platform for dialogue (e.g. workshops, reflection groups, fora, etc.) where these actors can confront different views of what is possible and desirable in the future, and the risks and opportunities they need to anticipate, which in turn fosters collective learning and strategic planning.

Examples of territorial foresight exist in many OECD countries, such as in Australia, Finland, France, Spain, United Kingdom and the United States.

Source: OECD (n.d.^[20]), Strategic Foresight, <https://www.oecd.org/strategic-foresight/ourwork/>; OECD (2023^[9]), Regional Outlook 2023: Chapter 4: The future(s) of OECD regions: Scenarios 2045, <https://doi.org/10.1787/92cd40a0-en>

Faced with the impacts of long-term trends, place-based policies are becoming more proactive and forward-looking.

A shift is underway towards more proactive place-based policies that seek to prevent places from falling into development traps regardless of their level of development (Suedekum, 2023^[13]). Intervening proactively is seen to provide an opportunity to help avoid painful adjustments, such as those that occurred in manufacturing regions in the United States exposed to globalisation (Hanson, 2023^[21]). An example of the turn towards more proactive place-based policy is highlighted by recent shifts in three major regional development policies in Germany (Box 3.4).

Box 3.4. Shift towards more proactive place-based policies in Germany

Three recent shifts in the national place-based policies in Germany illustrate the broadening and gradual shift of policy towards more proactive approaches.

First, the Joint Task Regional Economic Structure (*Gemeinschaftsaufgabe Regionale Wirtschaftsstruktur*, hereafter GRW) underwent its most substantial reform in over 50 years in 2022. The GRW is Germany's primary instrument for regional policy and has provided (co-)finance to over 150,000 corporate investments and helped improve municipal infrastructure in less developed regions. Recent reforms have broadened the aim of the policy beyond its traditional support for job creation and income convergence. It now focuses on four main aims: mitigating disadvantages affecting commercial activity, creating and safeguarding jobs, fostering growth and prosperity, and accelerating the transition to a climate-neutral and sustainable economy. They have also relaxed pre-conditions for funding climate-friendly investments and research-intensive companies.

Second, in July 2020, two laws were adopted to support the transition away from fossil fuels: the "*Kohleausstiegsgesetz*" (Coal Exit Act) and the "*Strukturstärkungsgesetz*" (Structural Strengthening Act). This legislation provided the legal foundation for the implementation of structural aid programmes designed to support the three main regions in Germany where lignite mining is concentrated. The effect of this has been to direct funding towards two 'less developed regions' and one 'most developed region', namely Rheinisches Revier, which was not a primary recipient of regional transfers in the past. The municipalities in the three lignite areas are set to receive substantial financial aid amounting to a staggering EUR 40 billion until 2038.

Third, in response to risks arising from the transition to electric vehicles, a new EUR 1 billion Future Fund for the Automotive Industry (Zukunftsfonds Automobilindustrie) was established in 2021. Around one-third of the funds are allocated to establishing agencies for regional transformation. These seek to help set-up and finance platforms where local stakeholders can develop "transformation strategies" for small and medium-sized enterprises (SMEs). While the recipients of this support scheme include many traditional recipients of GRW, such as Saarland, Pfalz, and Eisenach in Thuringia, a significant portion of the funds is being allocated to high-income areas in Bavaria or Baden-Württemberg that are currently not eligible for GRW funding or transition funding under EU Cohesion Policy.

Source: Suedekum (2023_[13]), The broadening of place-based policies – from reactive cohesion towards proactive support for all regions, <https://www.oecd.org/regional/place-based-policies-for-the-future.htm>

Intervening proactively can come with risks but may reduce long-term costs. Given that resources are limited, prioritising proactive place-based policies might come at the expense of other funding priorities, in particular support for under-developed regions (Suedekum, 2023_[13]). However, proactive policies can often be justified as a means to maintain the strength of a place and ensure its ability to continue contributing to future policies targeting less developed places (Suedekum, 2023_[13]). Furthermore, as the future is uncertain, investing proactively can risk that resources are allocated to address challenges that do not fully eventuate. The benefits, risks and costs associated with adopting a more proactive resilience or risk management approach should be understood. Intervening early to support a place to find a new economic development pathway could potentially be much more cost effective than action after a place has declined. It can also avoid high long-term social, fiscal, economic and political costs that can arise after a place has declined from a previous economic level.

Leverage local assets, knowledge and networks to unlock regional and local development potential

Places have different assets, knowledge and networks that can create diverse opportunities for development. The infrastructure, human capital, connections and natural resources that a place is endowed with will shape its future opportunities. By understanding these underlying assets, policy makers can seek to identify the strengths and comparative advantage of different places and identify a unique pathway for long-term development. Focusing on a place's comparative advantage can help to enhance complementarities across regions and sectors and avoid policy makers investing in activities that are unlikely to succeed in the place in the long-term, helping to support the efficient use of limited resources. The concept of 'smart specialisation' in the European Union is a prime example of this. This policy seeks to encourage regions to identify their strongest assets in research, innovation and entrepreneurship to help prioritise investments (Box 3.5). Many other examples exist. In Australia, the *2022 Regional Strengths and Infrastructure Gaps* report included an explicit step to identify existing assets to inform the identification of regional infrastructure priorities (see Box 3.2).

Box 3.5. Regional Smart Specialisation

Smart specialisation is a concept designed by the European Commission to encourage regions to identify their strongest assets in research, innovation and entrepreneurship so they can then select priority investment channels and build their regional comparative advantage around them. The objective of a smart specialisation strategy (S3) is to help regions diversify their economic base – their industrial specialisations – in fields with the greatest socio-economic potential for their region. The concept emphasises the role of entrepreneurial knowledge to identify regional priorities to encourage entrepreneurial discovery process. The 2021-2027 EU Cohesion Policy programming period dedicates a large proportion of its budget to promoting a Smarter Europe, which emphasises innovative and smart economic transformation.

Source: OECD (2021^[22]), *Regional Innovation in Piedmont, Italy: From Innovation Environment to Innovation Ecosystem*, <https://doi.org/10.1787/7df50d82-en>; OECD (2021^[23]), *Internationalisation of the next Smart Specialisation Strategy: Opportunities and barriers in the Friuli Venezia Giulia region*, <https://doi.org/10.1787/067c3a60-en>

A focus on innovation is important as it is a long-term driver of growth and development. Policy makers can seek to enhance knowledge production, networks and transfers to increase idea generation and dispersion (McCann and Ortega-Argilés, 2013^[24]; McCann, 2021^[25]; Balland et al., 2019^[26]) and implement complimentary reforms to support growth (Braga de Macedo, Oliveira-Martins and Rocha, 2014^[27]). Investments in sectors such as education and infrastructure, for example, can have higher potential to support innovation. Cluster policies can also help to efficiently direct resources towards more promising sectors and create opportunities for spillovers between firms and with the university sector.

Ensure policy coherence

Place-based policies have positive and negative interactions with other policymaking frameworks that need to be understood and managed. They can support more coherent and integrated policymaking at a local level and have positive spillover effects that enhance welfare both within and beyond the targeted place. They can help to manage policy and investment competition between decentralised governments

(Solé-Ollé, 2023^[12]) and support policy alignment across and among levels of government. At the same time, they can risk resulting creating differences in the quantity, quality and mix of investment and public service provision across places (Green, 2023^[10]). Where place-based policies are short-term in nature, they can also result in more volatile subnational government finances (Solé-Ollé, 2023^[12]). Effective place-based policy should seek to enhance synergies and manage trade-offs by:

- Supporting ‘joined-up’ policymaking at a local level
- Enhancing alignment of place-based and sectoral policies
- Seeking ‘win-win’ policies to increase benefits beyond the targeted jurisdiction, and
- Managing interactions of place-based policies with fiscal equalisation systems.

Support ‘joined-up’ policy-making at a local level

Place-based policies can support more ‘joined-up’ and integrated policy-making to address complex local policy challenges. By facilitating cross-sectoral policy action at a local level they can help to breakdown silos and better align and pool resources to address local gaps in service provision. More integrated solutions are better able to address embedded inequalities and intertwined policy challenges that face a place, particularly for places facing ‘regional development traps’ where they are unable to retain their economic dynamism in terms of income, productivity, and employment (Diemer et al., 2022^[28]). Given the complex and interconnected challenges that many places face, no single instrument is likely to be successful in supporting economic transformation, highlighting the need for joined-up approaches.

Place-based policies allow for enhanced local integration of services and policy actions to increase the potential for long-term change. Policy makers can seek to address the multiple barriers that can prevent economic development in an integrated way targeted to the local community. They can ensure that multiple sectoral policies (e.g., health, education, etc.) are synchronised to help overcome entrenched disadvantage. In England, for example, the New Deal for Communities was an intensive cross-sectoral and community-based policy that encouraged transformative change by providing intensive individual and place-based support (Box 3.6). It resulted in long-term and transformative change for many communities.

Box 3.6 New Deal for Communities initiative in England

The New Deal for Communities (NDC) initiative in England sought to transform 39 neighbourhoods in England (with a population of around 10,000 on average) over a ten-year period from 1998. It involved a cross-sectoral programme with intense efforts to establish partnerships and engage communities in the planning, design, delivery and review of local programmes. The programme focused on three place-related outcomes: crime, housing and physical environment quality, and three people-related outcomes: education, health, and worklessness.

NDC Partnerships spent approximately GBP 1.71 billion of funding for around 6,900 projects or interventions (on average GBP 50 million was spent per community). A further GBP 730 million was levered in from other public, private and voluntary sector sources to support the project.

Between 2002 and 2008 NDC areas saw an improvement in 32 of 36 core indicators spanning crime, education, health, worklessness, community and housing and the physical environment. For 26 out of the 27 indicators, this change was statistically significant. The biggest improvements were for indicators of people’s feelings about their neighbourhoods: residents recognised the change brought about by the programme and were more satisfied with their neighbourhoods as places to live.

The initiative also performed well against various benchmarks. They saw more improvement than the national equivalent for 18 of 24 indicators, more improvement than parent local authorities for 10 of 13 indicators and more improvement than competitive areas for 21 of 34 indicators. The programme was also considered to provide value for money (benefits substantially exceed costs) and enhance long-term partnerships and engagement with local communities beyond the funding period.

Source: Batty et al. (2010_[29]), The New Deal for Communities Experience: A final assessment, <https://extra.shu.ac.uk/ndc/downloads/general/A%20final%20assessment.pdf>; Green (2023_[10]), When should place-based policies be used and at what scale?, <https://www.oecd.org/regional/When-should-place-based-policies-be-used-and-at-what-scale.pdf>

An important way to support more ‘joined-up’ policymaking is by incorporating place-based policies into existing regional and local development strategies. Regional and local development strategies are guiding documents that can help to identify and align the cross-sectoral action required to support long-term and sustainable development at a local level. They are a key element of regional development policymaking (OECD, 2023_[14]) and are essential for guiding policy actions to support transformation. Recent research on ‘turn around’ cities has highlighted that ensuring that policy actions are integrated into local development strategies is a key element of a successful ‘turn around’ of a place (Frick et al., 2023_[30]). The city of Dortmund in Germany, for example, had a clear strategy for “liveability” that involved urban regeneration and building carefully placed mixed-use spaces and housing to retain and attracting young families that supported its ‘turn around’ (Frick et al., 2023_[30]). While these strategies can be useful to support ‘joined-up’ policymaking, there is also a need to avoid the duplication and fragmentation of local development strategies and to ensure that place-based policies are designed to act at the relevant scale (see Target effectiveness by acting at the relevant geographic scale).

Seek alignment of national sectoral policies and place-based policies

Trade-offs can exist between place-based approaches that foster cross-sectoral policy coherence at a local level and sectoral approaches that support vertical policy coherence. There can be an “inherent tension” in aligning national priorities with local responsiveness (Green, 2023_[10]). Across many sectors—such as education and healthcare—governments often seek to adopt policies to provide standardised levels of public services or investment to citizens with the aim to support equity. But standardised public services or investment can be insufficient to overcome entrenched challenges in some places, which can create a need for place-based policies (see Chapter 2 for further discussion). However, this can risk reducing vertical policy alignment.

Policy makers should seek to find a balance between national, regional and local priorities. National governments can provide leadership and support the standardisation and harmonisation of key policy elements for efficiency and solidarity, while also allowing for local tailoring of policies depending on place-specific needs. Indeed, across many policies areas higher-level functions such as advocacy, strategy and planning functions may be more relevant at larger geographical scales, while policy delivery may be more suited to local or neighbourhood scales (see Table 3.3) (Green, 2023_[10]). In general, higher tiers of government are well placed to provide leadership on the overall direction of the policy, while allowing for regional priorities to be considered (Solé-Ollé, 2023_[12]). Roles and responsibilities should be clarified. Establishing a country-level policy-framework that distinguishes between sectoral and place-based policy responsibilities can help to ensure that both are implemented effectively and contribute to overall economic growth (Solé-Ollé, 2023_[12]).

Sectoral policies can also adopt place-based approaches. The emergence of ‘place-based industrial policies’ highlights how sectoral policies can also adopt more place-based approaches. In the US, for example, more than USD 80 billion has been directed to these types of policies (Muro et al., 2022_[31]). This

type of industrial policy is targeted towards places in need with some comparative advantage (e.g., specialised in the car industry) or towards regions with declining industries (e.g., retraining programs for workers or incentives to attract new business to unused factories) (Solé-Ollé, 2023^[12]). They seek to support broader economic development by helping local economies through tailored engagement with local industries and understanding the spatial concentrations of talent, suppliers and knowledge (Solé-Ollé, 2023^[12]).

Place-based policies can have important implications for multi-level governance frameworks and decentralisation processes. Many place-based policies are designed and implemented by higher-levels of government. While this can be essential to align interests among levels of government, it may also create a risk of policies being used for recentralisation processes (Solé-Ollé, 2023^[12]). At the same time, properly designed place-based policies may have the potential to help support decentralisation and regionalisation processes by helping to establish or strengthen institutions and coordination structures. The role of higher-level governments in place-based policies should be considered and clarified, with a potential focus on acting as a ‘clearing house’ for policy proposals, providing policy leadership and managing a national policy-framework (Solé-Ollé, 2023^[12]).

Target ‘win-win’ policies to provide benefits beyond the targeted jurisdiction

Place-based policies should seek to create benefits for places beyond the targeted jurisdiction. Ideally, place-based policies should seek to create positive spillovers that benefit other jurisdictions and the broader economy. These spillovers can be sought by focusing on knowledge creation, diffusion and connectivity, which can benefit the targeted place and the national economy (Suedekum, 2021^[32]; McCann and Ortega-Argilés, 2016^[33]). Place-based policies can also support job growth across a commuting area beyond the targeted place, for example with Enterprise Zones (Neumark and Simpson, 2015^[34]). In addition to these benefits, place-based policies also have the potential to enhance social cohesion and support political stability over the longer-term, with national benefits.

Place-based policies can also support more effective decentralised policy-making. In decentralised countries, subnational governments can face choices that involve a trade-off between supporting local and national economic development. This can sometimes manifest as tax or subsidy competition, which can result in a negative ‘race to the bottom’ (Solé-Ollé, 2023^[12]; Blöchliger and Pinero Campos, 2011^[35]). It can also manifest through investment decisions made by subnational government who may not fully consider the impacts beyond their jurisdiction. Place-based policies can help to attenuate these spillovers given they typically involve central government allocation of resources (Solé-Ollé, 2023^[12]). The construction of interstate highways in the United States, for example, was supported by federal capital grants to subsidise state construction, which provided a strong incentive for subnational governments to spend on the programme to create cross-jurisdictional and national benefits.

A move towards ‘proactive’ place-based policies highlights the need to focus on ‘win-win’ outcomes. Focusing on ‘win-win’ outcomes can enhance the justification for both proactive and reactive policies, rather than focusing on the risk of drawing resources away from less developed regions (Suedekum, 2023^[13]). It highlights that proactive support for more developed regions can be essential as it can allow them to maintain their fiscal capacity and continue to provide the resources needed to support least-developed regions (e.g., through contributions to fiscal equalisation mechanisms) (Suedekum, 2023^[13]). Focusing on ‘win-win’ potential can guide place-based policies to limit potential trade-offs.

Understand interactions of place-based policies with fiscal equalisation systems

Fiscal equalisation grants are distinct from place-based policies but can also support regional economic development. While place-based policies are explicitly focused on regional economic development, fiscal equalisation refers to financial transfers aimed at reducing disparities in subnational

government fiscal capacity. These can be due to differences in revenue-raising capacity (partly due to differences in GDP per capita) or in public service expenditure needs (partly due to demographic or geographic factors). These transfers seek to ensure that all governments can provide public services at a similar level regardless of their fiscal capacity provided they exert the same tax effort (Solé-Ollé, 2023^[12]; Moisiso and Vidal Bover, 2023^[36]; OECD, 2021^[37]). Unlike place-based policies, which can often come in the form of earmarked grants from higher levels of government towards national government policy priorities, equalisation systems often provide expenditure discretion to subnational governments.

Fiscal equalisation schemes can involve a significant transfer of resources to less developed places, much higher than total funding from place-based policies in some countries. In countries where they do exist the size of fiscal equalisation can be significant. In Germany, for example, national (*Länderfinanzausgleich*) and state schemes redistribute an amount equivalent to approximately ten percent of aggregate tax revenue, totaling around EUR 90 billion annually (Suedekum, 2023^[13]; Henkel, Seidel and Suedekum, 2021^[38]). This amount surpasses the combined EU cohesion funds allocated to German regions and is much larger than funding allocated by the German federal government for place-based policies (e.g., the GRW, with an annual budget of less than EUR 2 billion) (Suedekum, 2023^[13]). In Sweden and Spain, equalisation transfers represent around 4.4% of total government expenditure, in Japan they represent 8.8%, and in Australia they represent around 12% (OECD, 2021^[37]). Given the importance of fiscal equalisation, it is relevant to consider how these schemes can be mobilised to support regional economic development, which calls for additional empirical research (Box 3.7).

Box 3.7. Fiscal equalisation and regional development policies: Is there a case for enhanced synergies?

Fiscal equalisation and regional development policies have often been perceived as separate policy fields. Indeed, while the former seeks to reduce **fiscal disparities** by providing a similar level of public services at comparable tax rates across regions, regional development policies generally aim to support **economic development** across places and people. Academic literature – as well as policy makers – have thus often analysed, designed and implemented these policies in isolation, in line with Tinbergen’s Rule of one goal, one policy. As a result, little is known about their potential interactions. Recent OECD work has established a stylised conceptual framework that seeks to explore how the synergies between these two approaches can be enhanced in a way that avoids or minimises trade-offs. However, this framework remains theoretical and thus calls for an empirical approach that clarifies to what extent both equalisation and regional development policies can have both redistributive and allocative effects.

Source: Moisiso and Vidal Bover (2023^[36]), Fiscal equalisation and regional development policies: Is there a case for enhanced synergies?, <https://doi.org/10.1787/0d28a879-en>

Fiscal equalisation schemes can have both positive and negative effects on place-based policies and regional economic development, so there is a need to better coordinate these policy areas.

Understanding the potential effects can help to ensure that both fiscal equalisation schemes and place-based policies coherently work to support long-term regional development (Table 3.2). Positive effects include ensuring subnational governments have sufficient fiscal resources to provide the foundations for economic development, ability to respond to economic conditions and a stronger incentive to use funding effectively. These need to be balanced against risks, such as that fiscal equalisation can be insufficient to promote local development on its own, which is especially true in depopulating areas where the formulas may not sufficient off-set the loss of population. Fiscal equalisation instruments may also reduce incentives for subnational governments to build their own capacity and can be highly complex and

lack transparency. Co-operation forums can be established to facilitate communication between national and subnational governments and policy makers responsible for equalisation grants and place-based policies to manage these risks and overlapping roles (Solé-Ollé, 2023^[12]).

Table 3.2. Potential effects of fiscal equalisation on regional economic development

Positive effect on regional economic development	Negative effect on regional economic development
<ul style="list-style-type: none"> • Can provide resources needed to build the foundation for economic development. Fiscal equalisation can provide subnational governments with resources to invest in public goods and services that improve wellbeing and support private investment. • Fiscal equalisation can create a level-playing field and facilitate interregional movement of labour and business on economic rather than fiscal benefits. • Can allow subnational governments to respond to local economic conditions and priorities. Use of non-earmarked funding can allow subnational governments tailor their policies to the unique needs and strengths of their region. • Can create an incentive to use funding effectively Avoidance of earmarking can encourage subnational governments to use funding more effectively as funding a bad project has a high opportunity cost (i.e. missed opportunity to invest in a better project). • Can provide stability of resources and support longer term decisionmaking. Fiscal equalisation grants tend to be stable and predictable, allowing subnational governments to plan investment and expenditure over a long timeframe. It can also encourage saving during good economic conditions and investment when economic conditions are worse. 	<ul style="list-style-type: none"> • May be insufficient to promote local development on their own. Improving quality public services might be insufficient as other factors might be more relevant (e.g., lack of capital and skilled labor, lack of agglomeration economies). This might instead call for a 'big push' approach to get a place out of a development trap. • May reduce the incentive of subnational governments to invest in their own productive capacity. Depending on the specific design, equalisation grants may reduce the responsiveness of local revenues to economic growth. • May deter migration and hence reduce economic convergence. Improvement in the quality of public services led to a better quality of life and reduction of the push factors for migration. • May result in sub-optimal funding allocation. Myopic local voters might find optimal to use funding for consumption rather than for investment purposes (e.g., to subsidise public sector jobs or inefficient firms). There can also be a 'race to the bottom' (Bucovetsky and Smart, 2006^[39]) if fiscal equalisation is too strong. • May create a risk of 'tax laziness'. Subsidised municipalities may exempt their own taxpayers and may not make a sufficient effort to generate necessary revenues to cover their needs. Can also create a dependency effect when equalisation funds are a majority of municipal revenues. • Low quality of government may mean that resources are not used well. Weak institutions may not be able to absorb and use the funding effectively, which is more likely in under-developed regions. This could be partially addressed through conditionality and incentivised reforms.

Source: Author's elaboration, adapted from Solé-Ollé (2023^[12]), When should be place-based policies used, and how should they be articulated with other policy instruments?, <https://www.oecd.org/regional/place-based-policies-for-the-future.htm>; Moisiu and Vidal Bover (2023^[36]), Fiscal equalisation and regional development policies: Is there a case for enhanced synergies?, <https://doi.org/10.1787/0d28a879-en>

Ultimately, it is the specific mix and design of the fiscal equalisation schemes and place-based policies that matters. Ensuring an impact on economic development requires choosing the right mix of equalisation and place-based policies, considering the extent of fiscal equalisation to create the right incentives (full or partial), and establishing a dialogue between government bodies taking care of fiscal equalisation (typically Ministries of Finance) and place-based policies (Ministries of Regional Development and other sectoral ministries) (Solé-Ollé, 2023^[12]).

Seeking efficient implementation

While place-based policies can have important benefits, achieving these benefits depends on the effective implementation. Place-based policies can risk being burdened by bureaucratic procedures and red tape that can lead to delays in project implementation and make it harder for subnational governments to access funding (Solé-Ollé, 2023^[12]). Policy makers need to have discipline when designing a place-based policies to ensure that they make the most of available resources. In addition to having clear objectives linked to regional and local development potential and ensuring policy coherence, this requires:

- Targeting effectiveness by acting at the relevant scale

- Ensuring transparent and evidence-based funding allocation
- Leveraging appropriate instruments, and
- Striving for continual improvement.

Target effectiveness by acting at the relevant geographic scale

Decisions on the appropriate scale for a policy are ‘fraught with complexity’ (Green, 2023_[10]). Determining the spatial scale for a policy requires understanding how conditions vary across space, the potential for spillovers, and the specific economies of scale or scope at different geographic scales (Green, 2023_[10]). Although there might theoretically be an ‘ideal’ geographical scale for a specific policy, pragmatic considerations and governance are also important (Green, 2023_[10]). Beyond effectiveness considerations, policy makers also need to consider existing the governance structures, capacities (administrative, technical, fiscal) and coordination structures. Often there will be a misalignment between scale and administrative structures. Mobilising existing governance arrangements may help to avoid costs associated with creating new institutions but may also require compromises on scale.

Some policies may be more appropriate at certain geographical scales. Policies with that can be standardised across space, or that are highly specialised, can be more appropriate for delivery at larger geographical scales (Table 3.3). For example, specialist education and innovation, international trade and investment promotion or major infrastructure investment may be more suitable for delivery at pan-regional and regional scales (Green, 2023_[10]). Conversely, policies that require intensive engagement with communities—such as employment support, skills training and further education—may be more appropriate for delivery at local or even neighbourhood scales. The appropriate geographical scale can also vary according to functions of advocacy, strategy and delivery (Green and Rossiter, 2019_[40]). A general principle that can guide policy makers is that of subsidiarity—that social and political levels should be dealt with at the closest possible level to citizens—which is a guiding principle in the European Union.

Table 3.3. Appropriate geographical scales for discharging selected functions and activities

Function/ Activity	Pan-regional	Regional	Sub-regional	Local	Neighbourhood
<i>Employment support and skills</i>					
Advocacy	√	√			
Strategy/ planning		√	√		
Delivery		√	√	√	√
<i>Further Education</i>					
Advocacy		√	√	√	
Strategy/ planning		√	√	√	
Delivery			√	√	√
<i>Higher Education</i>					
Advocacy	√				
Strategy/ planning	√				
Delivery	√	√	√		
<i>Enterprise/ Incubators</i>					
Advocacy	√	√			
Strategy/ planning	√	√	√	√	
Delivery		√	√	√	
<i>Independent R&D centres</i>					
Advocacy	√				
Strategy/ planning	√				
Delivery	√	√			
<i>Enterprise zones, incubators</i>					
Advocacy	√	√			

Strategy/ planning	√	√	√	√	
Delivery		√	√	√	
<i>Generic business support</i>					
Advocacy	√	√			
Strategy/ planning			√		
Delivery			√	√	
<i>Business finance</i>					
Advocacy	√	√			
Strategy/ planning	√	√			
Delivery	√	√			
<i>Inward investment promotion</i>					
Advocacy	√	√			
Strategy/ planning	√	√			
Delivery	√	√	√	√	
<i>Local transport infrastructure</i>					
Advocacy	√	√			
Strategy/ planning		√	√		
Delivery		√	√	√	
<i>Digital infrastructure</i>					
Advocacy	√	√	√	√	√
Strategy/ planning	√	√			
Delivery		√	√	√	√

Notes: The functions and activities identified are: (1) advocacy: working with and between government, public sector and private sector decision makers to create the right policy and investment environment for desired outcomes; (2) strategy/ planning: a plan (or plans) of action designed to achieve a long-term or overall aim; and (3) delivery of services.

Source: Based on Green and Rossiter (2019^[40]), Geographical scales and functions: the case of the Midlands Engine, <http://irep.ntu.ac.uk/id/eprint/38261/>

Place-based policy increasingly focus on functional areas and typologies of different places. The increased focus on function areas recognises that the appropriate scale is often beyond a jurisdictional boundary—this makes place-based policies more important. A functional urban area (FUA), for example, is composed of a ‘city’ and surrounding less densely populated local units that are part of the city’s labour market (‘commuting zone’) (Dijkstra, Poelman and Veneri, 2019^[41]). Traditional regional policy tended to be framed by sectoral policies implemented by specific administrative units (McCann, 2023^[42]), which risked omitting economic relationships across administrative borders and limiting the ability to capture agglomeration economies (Green, 2023^[10]). Separately, the increased focus on typologies of regions—mountainous areas, islands, remote regions, chronically disadvantaged areas, depopulating areas and cross-border regions—recognises that these places can face common challenges. Place-based policy can focus on similar types of places to provide targeted solutions and encourage knowledge sharing.

Horizontal coordination becomes even more important when seeking to act at the relevant scale. Increased focus on functional areas makes horizontal coordination more important as jurisdictional boundaries often do not align with functional urban areas. Effective cross-jurisdictional collaboration becomes critical (OECD, 2019^[43]). While the allocation of different responsibilities to different geographical scales is important, ultimately it is how governance works that is crucial: “the manner in which different tiers of government work together is as important as the nature of any functional division of labour between them” (Green and Rossiter, 2019^[40]).

Ensure transparent and evidence-based funding allocation

Like many policies, place-based policies can be affected by rent seeking behaviour and political interest. One of the most longstanding critiques of place-based policies is that of ‘pork barrel politics’

(policies being selected primarily to gain political support) (McCann, 2023^[42]). Indeed, place-based policies—like many other policies—can have “risks of misallocating resources, creating a dependency culture and favouring rent-seekers over innovators” (Barca, 2009^[44]). While these are important risks given the substantial resources involved, the transparency benefits of place-based policies should also be recognised. In particular, the geographic nature of implementation can help to support verification and citizen scrutiny (Barca, 2009^[44]). Arguments remain about the conditions and extent to which the benefits of place-based policies may be captured and the potential political distortions (Jensen, Malesky and Walsh, 2015^[45]; Slattery, 2020^[46]; Slattery and Zidar, 2020^[47]; Castells and Solé-Ollé, 2005^[48]; Curto, 2012^[49]). Nonetheless, it is an important risk and some evidence shows that, for example, regions with higher electoral significance do receive more project grants and public investment (Castells and Solé-Ollé, 2005^[48]; Solé-Ollé and Sorribas, 2008^[50]; Curto, Solé-Ollé and Sorribas, 2018^[51]).

Effective place-based policies should seek to support a portfolio of place-based policies to manage risk and allocate funding based on evidence. Governments are not always well placed to ‘pick winners’, so place-based policies should be seen as a portfolio with an understanding that some projects may fail (Juhász, Lane and Rodrik, 2023^[52]). In addition, funding processes should seek to transparently and efficiently allocate funding through competitive grants and formula-based funding. Governments should consider the benefits, limitations and opportunities of different funding mechanisms (Table 3.4). For example, competitive grants—such as the USD 1 billion Build Back Better Regional Challenge in the United States (Box 3.8)—can support the allocation of resources to places with the highest need based on a transparent and fair processes. Integrating technical assistance and staged funding into the award process can help to avoid a risk that funding goes only towards higher capacity administrations.

Table 3.4. Approaches to allocate funding for place-based policies to subnational governments

Process	Description	Benefit	Challenges	Opportunities to enhance
Competitive	Allocation based on assessment of applications	<ul style="list-style-type: none"> • Can support allocation highest potential projects. • Can encourage applicants to prepare high quality projects for funding. • Can supports alignment of beneficiary priorities to funder priorities. • Can encourage all current and potential future applicants to improve planning and evaluation to become more competitive. 	<ul style="list-style-type: none"> • May result in funding going towards administrations with higher capacity for preparing applications (i.e., not necessarily those most in need) • May require subnational governments to use scarce resources for applications, with a risk that no funding is received. • May encourage preparation of projects based on evaluation criteria (which may or may not be well defined), rather than local needs 	<ul style="list-style-type: none"> • Implement coordination meetings and technical assistance to help align the priorities. • Establish stable programmes to encourage development of a viable project pipeline. • Ensure governments have sufficient fiscal, administrative and technical capacity for applications.
Formula based	Allocation based on quantitative criteria	<ul style="list-style-type: none"> • Can support allocation to places with highest need. • Can avoid subnational governments expending scarce resources to access funding. • Can provide efficient process to allocate funding. 	<ul style="list-style-type: none"> • May have limited buy-in from recipients to programme. • May reduce opportunities for supporting vertical alignment of policies. 	<ul style="list-style-type: none"> • Define clear criteria for funding allocation, in line with overarching policy objectives.
Performance based	Allocation based on past performance	<ul style="list-style-type: none"> • Can encourage performance of beneficiaries during the implementation of a current grant. 	<ul style="list-style-type: none"> • May be difficult to relevant identify to indicators evaluate performance. • May be politically difficult to punish bad performance. • May incentivise excessive focus on KPIs, which may not 	<ul style="list-style-type: none"> • Ensure KPIs align to overall long-term economic development objectives.

			align with longer term development priorities.	
Discretionary	Allocation at the discretion of the funder	<ul style="list-style-type: none"> • Can support timely and responsive allocation of funding during times of crisis. 	<ul style="list-style-type: none"> • May create a risk of favouritism, clintelism and allocation based on political incentives. • May reduce subnational government accountability. 	<ul style="list-style-type: none"> • Limit use unless timing is an imperative. • Ensure transparency and disclosure of grant recipients for accountability.

Source: Authors' elaboration, building on Solé-Ollé (2023^[12]), When should be place-based policies used, and how should they be articulated with other policy instruments?, <https://www.oecd.org/regional/place-based-policies-for-the-future.htm>; Spahn (2012^[53]), Conditioning Intergovernmental Transfers and Models of Interagency Cooperation for Greater Effectiveness of Multilevel Government in OECD Countries, <http://www.oecd.org/cfe/regionaldevelopment/Conditioning-Intergovernmental-Transfers-paper.pdf>

Box 3.8. Build Back Better Regional Challenge

The USD 1 billion Build Back Better Regional Challenge (BBBRC) is a large-scale place-based policy developed by the U.S. Economic Development Administration (EDA) and supported by the 2021 American Rescue Plan. It aims to provide transformational investments to develop and strengthen regional industry clusters across the United States, while embracing equitable economic growth, supporting good-paying jobs, and enhancing global competitiveness. It is a competitive grant programme that provides large scale support for successful 'coalitions' to enhance local economic development.

The Build Back Better Regional Challenge included several practices for supporting effectiveness:

- **Coalition building** – Applicants were invited to form regional coalitions to apply for funding, which focused on enhancing (public and private) collaboration even during the application process.
- **Clear objectives**: Applicants were encouraged to select three to eight distinct but related projects in their application that were identified in coordination with industry and community partners and aligned around a holistic vision to build and scale a strategic industry cluster.
- **Staged competitive process**: A two stage process was adopted, with only selected applicants being required to develop a full application. In Phase I, coalitions were first required to prepare an initial concept proposal, with 529 concept proposals submitted. From these, 60 finalists proceeded to Phase II where they received support to help improve the quality of proposals.
- **Technical assistance to applicants**: To support the preparation of their proposal, Phase II coalitions received USD 500,000 in technical assistance funds. Large scale technical assistance was planned during implementation.
- **Additional support**: Successful applicants are also being supported to seek additional funding from other sources. In particular, EDA is facilitating coordination with state and federal agencies and philanthropy to enable finalists to leverage other funding for their projects.
- **Transparency as practice**: All 529 applications were posted online (it was the first competition in EDA's history to make applicant information public), along with the concept proposals.
- **Policy learning**: EDA has made three additional grants to national organisations to work with finalists to build Community of Practice, support evaluation and perform research.

Although the BBBRC is still in the implementation phase, there are promising signs of initial impact. The 21 winners bring over USD 300 million in additional local matching commitments and plan to leverage support from over 450 private sector and 27 labour unions or workers organisations. Many non-selected

coalitions matured during the application process and have indicated that they will move forward with proposals.

Source: US EDA (n.d.^[54]), Build Back Better Regional Challenge: Supercharging Local Economies, <https://www.eda.gov/funding/programs/american-rescue-plan/build-back-better>; US EDA (2022^[55]), Build back better regional challenge: Technical fact sheet, <https://www.eda.gov/sites/default/files/2022-11/Build-Back-Better-Technical-Fact-Sheet.pdf>

Policy makers should seek to establish a transparent and accountable decision-making process to support efficient resource allocation in line with policy objectives. Based on insights from the literature, some key elements of this include:

- Having well-defined objectives and results (Barca, 2009^[44]);
- Adopting funding approaches with clear and robust evaluation of applications based on defined evaluation criteria that are easily accessible to the public; (Solé-Ollé, 2023^[12]; Boone, Dube and Kaplan, 2014^[56]).
- Streamlining processes and make it easier for subnational governments to access funding (Solé-Ollé, 2023^[12]);
- Building robust governance mechanisms to limit political interference and corruption, and facilitate long-term collaboration (Solé-Ollé, 2023^[12]) (McCann, 2023^[42]; Bolter et al., 2022^[57]);
- Placing conditionality on funding for subnational governments (Barca, 2009^[44]; OECD, 2018^[58]; Berkowitz, Rubianes and Pieńkowski, 2017^[59]), where relevant (see next section);
- Establishing evaluation processes by a credible external authority and giving a voice to stakeholders (including the public) in policy design, funding decisions and evaluation processes (Solé-Ollé, 2023^[12]); (Barca, 2009^[44]).

Leverage appropriate instruments

Place-based policies mobilise a wide-range of instruments. These instruments target diverse beneficiaries and are allocated through a range of processes with different conditions attached (Table 3.5). Instruments supporting place-based policies can range from earmarked grants for public investment to tax incentives that seek to encourage private investment in certain places to concessional loans that improve access to finance for productive investments. Often multiple instruments are combined provide a more comprehensive approach with the aim to support more transformational change.

Table 3.5. Examples of instruments in place-based policies

FINANCIAL (GRANT AND NON-GRANT) INSTRUMENTS	NON-FINANCIAL INSTRUMENTS	TARGET BENEFICIARIES (direct and indirect)	FUNDING ALLOCATION PROCESSES	FUNDING CONDITIONS
Specific-purpose grants	Infrastructure provision	Subnational governments	Formula-based	Earmarking
Tax incentives	Service provision	Firms	Competitive	Matching (Co-financing)
Loans	Coordination mechanisms	People	Performance-based	Performance requirements
In-kind use of land, facilities or equipment	Research and Innovation Support	Non-government organisation	Discretionary	Reporting
Guarantees or insurance	Education and Training	Higher education		Reforms
	Incubators			
	FDI attraction			

Source: Authors elaboration, building on OECD (2022^[60]), G20-OECD Policy Toolkit to Mobilise Funding and Financing for Inclusive and Quality Infrastructure Investment in Regions and Cities, <https://doi.org/10.1787/99169ac9-en>

Grants can have important implications for subnational government finances. Place-based policies implemented through grant funding can have positive and negative impacts on subnational government budgets (Solé-Ollé, 2023^[12]). Earmarked grants, for example, can alleviate or intensify fiscal stress on subnational government budgets (Table 3.6). In general, grants can have a positive impact on subnational government budgets where additional resources are provided to those governments, but can worsen fiscal stress if they negatively impact other subnational government programmes, revenue collection or create additional unfunded mandates (Solé-Ollé, 2023^[12]).

Table 3.6. Possible effects of grants on subnational public finances

Type	Positive	Negative
General	<ul style="list-style-type: none"> • Provides additional funding for new programmes. This funding may help to meet local needs and priorities, which may allow other subnational budget resources to be used for other local priorities. • Funding for place-based policies are mostly fungible and can reduce subnational fiscal stress (Note: although if it is fungible, it means resources do not necessarily advance the priorities of the funder). 	<ul style="list-style-type: none"> • Funding can be volatile due to large funding amounts and short time horizons. This can bias subnational government spending towards new investment and temporary hiring, rather than long-term needs, such as maintenance. • Funding grants can result in encroachment. The higher-level government may decide on subnational government competencies. This can blur the attribution of responsibility and erode accountability.
Instruments specific	<ul style="list-style-type: none"> • Competitive grants can encourage all current and potential future applicants to improve planning and evaluation to become more competitive. • Matching/ co-financing requirements can help to align incentives and reduce fungibility. 	<ul style="list-style-type: none"> • Competitive grants require that scarce subnational government resources are used to apply for funding, with a risk that no funding is received, increasing fiscal stress. They can also bias governments with higher administrative and fiscal capacity, who can dedicate more resources towards grant applications.

<ul style="list-style-type: none"> • Earmarking can support coordination across levels of government and help to internalise positive spillovers (e.g., construction of interstate highway system.) 	<ul style="list-style-type: none"> • Matching / co-financing requirements can generate fiscal stress, especially in regions with low fiscal capacity • Earmarking may limit fiscal flexibility of subnational governments making it harder to fund their priorities. • Discretionary grants can create a risk of favouritism and allocation based on political incentives, which may erode democracy and reduce subnational government accountability.
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Source: Author's elaboration based on Solé-Ollé (2023_[12]), When should be place-based policies used, and how should they be articulated with other policy instruments?, <https://www.oecd.org/regional/place-based-policies-for-the-future.htm>

One of the main challenges of place-based policies is identifying how funding will be sustained over time (Solé-Ollé, 2023_[12]). Volatile and short-term funding for place-based policies can risk biasing subnational government spending towards new investment and temporary hiring, rather than long-term investments and maintenance of existing investments. Certain funding instruments may also reduce the fiscal flexibility of subnational governments and limit their ability to tailor policies to local needs (e.g., strict earmarking grants are received).

Place-based policies should harness relevant instruments based on an understanding of the local context and long-term objectives. Specific instruments will depend on a range of factors, such as the capacity of local actors and development needs. Where a policy is targeting a less developed place, grants to subnational governments may be essential to help provide basic infrastructure needed for development that would otherwise be beyond the capacity of governments. Where a place is more developed but at risk of an industrial transition, direct support may be needed to help re-train workers or support firms with a transition. Concessional loans, guarantees and equity investments also have a role to help upgrade local public infrastructure and improve the attractiveness of a place for private investment.

Policy makers need to consider a range of factors when selecting instruments for place-based policies. These include the speed (e.g., formula-based funding can be faster to distribute), duration (e.g., long-term funding stability can support capacity building), motivation (e.g., co-financing can help to align incentives) and capacity of the regions (e.g., competitive grants can help to enhance local buy-in but also require local resources and skills for preparing applications, which may bias higher capacity administrations). Combinations of instruments will often be appropriate to address specific challenges related to each instrument (e.g., technical assistance for preparing applications to address low capacity for competitive grants).

Strive for continual improvement

Wherever possible, place-based policies should be designed to be improved during implementation. Place-based policies should not be seen as static. Flexibility and adaptability should be built-in to policy design to better respond to changing circumstances and evolving needs (Suedekum, 2023_[13]; Green, 2023_[10]). This requires incorporating monitoring and evaluation into the entire policy cycle (see Chapter 5) and ensuring that policies are designed so that they can be adapted if needed. Adopting a 'portfolio management' perspective can help to acknowledge that not all policies or investments will be successful, but that successes will outweigh the failures in the long-term.

Place-based policies should be adaptable to changing information and circumstances, and unsuccessful policies should be stopped to avoid sunk costs. A range of different policy dimensions can impact the adaptability of a policy, such as its scale, structure, timing (including any decision-making

gateways), financial and non-financial instruments, governance and stakeholder processes. To build in policy learning for the USD 1 billion Build Back Better Regional Challenge, for example, the U.S. Economic Development Administration has sponsored three research projects to help identify and disseminate policy learnings from the initiative to influence the future of this policy and other policies (EDA, n.d.^[61]). It also included a staged application process with feedback loops to allow for information to be incorporated into application processes (see Box 3.8, page 72). In Sweden, the Innovation Agency (Vinnova) has adopted a staged funding process and portfolio approach when it gives grants to promote sustainable growth in regions that is contingent on past performance (Box 3.9). The staged process helps to provide feedback to recipient organisations and allows projects that are not meeting pre-defined objectives to be ceased at defined stages.

Box 3.9. Integrating policy learning into decision-making processes in Sweden

Sweden's Innovation Agency (Vinnova) has a mission to strengthen Sweden's innovative capacity and contribute to sustainable growth. The organisation places a high value on policy learning through monitoring, evaluation and analysis.

Vinnova's undertakes a wide range of programmes to support research and innovation in Sweden. The VINNVÄXT programme is a specific competition targeted to promote sustainable growth in regions. The programme provides competitive long-term financing to support the coordination of companies, academia and the public sector to develop products, services and ideas that are internationally competitive. Financed initiatives often relate to strategies for smart specialisation.

Continuation of funding in the programme is linked to past performance. In order to receive continued funding, Vinnova evaluates how the initiative reached the goals they have set themselves. Evaluations also support comparisons between the various initiatives and are an important part of both Vinnova's and the initiatives' learning. Evaluations take place after 1, 3, 6 and 12 years respectively.

- **Year 1** - assurance that the processes have started.
- **Years 3 and 6** - evaluation of the chosen strategy. Are you on your way to the region's goals? Some power measurements are also made.
- **Year 12** - the last evaluation must be carried out two years after the end of the program and concerns effects on the processes and growth.

Source: Authors' elaboration based on OECD (Forthcoming^[62]), Implementation Report on the Recommendation on Effective Public Investment Across Levels of Government; Vinnova (2021^[63]), What is Vinnväxt?, <https://www.vinnova.se/en/m/ecosystems-for-innovative-companies/winegrowing/om-vinnvaxt/>

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Note

¹ This chapter was informed by the second workshop in the series on [Place-Based Policies for the Future](#) that was held on 12 May 2023 with invited experts. Papers for the seminar were prepared by Professor Albert Solé-Ollé (*When should place based policies used and how should they be articulated with other policy instruments?*) and Professor Anne Green (*When should place-based policies be used and at what scale?*).

4 **Avoiding a tragedy of the commons: Public goods provision through place-based policies**

Place-based policies play a key role in providing local public goods and in safeguarding global environmental commons. They therefore help address important challenges, including demographic change and climate change. This requires a forward-looking approach. Needed climate action differs across regions. Addressing local environmental problems, such as congested roads, often puts regions in a better position to deal with climate change, with local benefits. Place-based policies help adapt public service provision in regions experiencing population decline, promoting local economic sustainability. Place-based policies are also important to ensure social cohesion in the face of demographic and environmental challenges.

Place-based policy improves the provision of key public goods

Place-based policies can facilitate public goods provision in the face of rising environmental and demographic challenges.¹ Public goods provision is a key aspect of public policy generally. Regional and local governments provide local public goods of many types, such as for transport, security, and culture. Where such local public goods provision is also important for policy priorities at larger geographic scale, such as the national or the international level, they can become important for place-based policies. Environmental and demographic challenges have a national or even global reach and are set to become increasingly important for OECD countries. The provision of local public goods, such as in transport, education, health, water and sanitation, or even energy related infrastructure are often key responsibilities of local governments, including in the regulation of land use. These challenges have a significant spatial dimension and necessitate integrated solutions, coordinating policies across sectors, places and geographic scales. To avoid falling into a development trap, local governments must adapt the provision of these local public goods to meet these challenges. Adopting a place-based approach that integrates local public good provision, serving local needs, with policies to address these challenges can help prevent the build-up of dissatisfaction and opposition to the transformations needed to address environmental and demographic challenges.

Ensuring more inclusive and equitable processes is key. Transformations affect territories and populations in different ways. Regions facing the biggest challenges may have the least resources to deal with them. At the individual level, the impact of climate change or demographic change depends on factors like educational background, employment status, or the economic situation. Place-based policies therefore need to address these spatially different socio-economic impacts, including by adjusting the provision of public goods accordingly. This is reinforced with the emergence of extreme climate events. They make access to good local public services, including health facilities, transport services, water and sanitation critical for adaptation, notably for vulnerable households.

Demographic change and environmental challenges require addressing a multitude of interrelated, spatially distinct market failures. Place-based policies are particularly useful to address these challenges, harnessing the relationships between people, firms and public administrations. These market failures include the scale economies from shared local land and infrastructure use, including local public goods, such as transport infrastructure, as well as local and global environmental impacts, such as the loss of natural space and its impact on biodiversity.

A proactive approach is important

Place-based policies to address environmental and demographic challenges need to anticipate challenges irrespective of their current development status. Investment in long-lived infrastructure and land-use that is inconsistent with environmental or demographic challenges results in lock-in, the stranding of assets and ultimately higher costs, as well as development failures and loss of competitiveness. It is key to consider future spatial dynamics in the light of these challenges and evaluate the region's comparative advantages in addressing them.

Policy makers need to respond to long-term challenges before they materialise, rather than only respond to crises after they set in. Climate change and demographic change are gradual processes but require immediate forward-looking action. Otherwise, long-lived land use and infrastructure will be deployed in a way that is inconsistent with solving these challenges. Politicians are often elected for short terms (e.g. three or four years) whereas population decline and climate change manifest themselves over decades (Syssner, 2023^[1]) Anticipating the actions needed today to reach environmental targets in the long-term is therefore important.

Spatial data is key for anticipating these challenges and shaping policies. Geospatial data already provide insights on environmental “hotspots” with high carbon storage or biodiversity potentials, or with

high future exposure to climate hazards. Some metrics still need to be developed, for example to measure local GHG emissions and other environmental footprints. Wellbeing data beyond GDP help assess the benefits of local action to protect the global commons, for example, to incorporate the health, safety, space and time benefits of reduced car use. When assessing the policy response to demographic change, geospatial data on settlement structures, buildings and granular population projections can offer insights for spatial planning, service provision, housing rehabilitation and demolition decisions. Digital technologies serve data visualisation, for example in maps, and enhance communication and analysis.

A proactive place-based approach offers opportunities for citizen participation and involvement.

Empowering citizens to contribute to shaping their communities can help place-based policies tailor service provision to their specific needs. This can prevent discontent and foster regional identity, along with a sense of purpose. Stronger citizen involvement and reinforcement of partnership mechanisms offer the potential, not only for more effective economic outcomes but also greater democratic participation. Local initiatives to revitalise public spaces through local art and culture, can encourage community cohesion in regions losing economic activity that has built their identity (Box 4.1). Information and communication play vital roles, as local experiences and media coverage significantly influence how people perceive environmental concerns and population decline.

Box 4.1. Building new futures for coal-mining regions – Jiu Valley Romania

Jiu Valley, located in Romania, is historically recognised as the largest coal mining region of the country. However, since the 1990s, the valley has experienced a significant decline in its coal industry, with the workforce diminishing from 90 000 employees to 2 724.

The Valea Jiului Implicata is a coalition composed of 25 local NGOs committed to the region's rehabilitation. They actively engage civil society and citizens in co-designing and co-implementing various initiatives aimed at revitalising the valley. This revitalisation is taking due consideration of the historical context to give the Valley a new identity and a sense of purpose without coal. These initiatives include various projects, such as the transformation of the Petrila Coal Mine into a multifunctional centre for administrative, economic and cultural activities, or promotion of the Valley as an attractive investment destination. They have also established the Robotics Valley Digital Skills and Competences project to create training centres focused on robotics and new technologies. These centres will select top-performing students from Jiu Valley high schools to participate in both national and international competitions.

Unlocking local solutions for overexploited global commons

As human activity approaches planetary resource boundaries, policy makers need to be aware of the full range of spatial implications of actions to avoid crossing these boundaries. Nine planetary limits must not be crossed to maintain the planet's ecosystem services and hence the foundations of human wellbeing, each with spatial impacts that place-based policies need to address (Rockström et al., 2009^[2]). These limits encompass climate change, biodiversity loss, land-system change, freshwater use, biogeochemical flows, ocean acidification, stratospheric ozone depletion, atmospheric aerosol loading, and the introduction of new substances (e.g. synthetic chemicals such as nanoplastics, or radioactive materials). Of those nine processes, climate change, biodiversity loss and the degradation of land may be particularly important due to their global impact (Table 4.1).

Strategies must integrate the unique characteristics of each place, reinforcing the role of subnational governments. The causes of land degradation and pollution are often localised, resulting

from land use, energy transformation, transport, or industrial activities. Likewise, many impacts of resource degradation are also localised (e.g. heat waves, floods, or ecosystem loss). For instance, heat waves had a global cost of 0.6% of GDP in 2023, but the cost ranged from 0.1% for least-affected regions in France to 1.3% for most-affected regions in China (Subran, Gröschl and Zimmer, 2023^[3]). Well-designed, forward-looking place-based policies can prevent negative impacts by focusing on localities' specific challenges (Box 4.2).

Table 4.1. Planetary boundaries have spatially different implications

Planetary boundary	Cities	Industrial periphery	Rural communities
Climate change	Heat waves, flooding	Lack of water for power plants, supply chains	Drought, flooding
Biodiversity	May become ecosystem reserves		Agriculture is major driver of biodiversity loss
Land and water	Sprawling development consumes land	Mining and industry may be dominant users of fresh water	Agriculture drives land system change, fresh water use, biogeochemical loading

Note: Planetary boundaries serve as a framework for defining the boundaries within which human activities can impact the Earth's system without risking the environment's self-regulatory capacity beyond these limits.

Source: Creutzig, F. (2023^[4]), "Global Environmental Goods, Local Public Bads? Place-Based Transitions as a Key Contribution to Global Stewardship".

Box 4.2. Adapting cities to climate change- Paris Climate Action Plan

Paris has set ambitious targets for the year 2050, aiming to achieve an 80% reduction in its carbon footprint, transition into a zone with no local greenhouse gas emissions, shift to 100% renewable energy sources, and cut energy consumption by half. It also involves preparing the city and its residents for an increasing number of extreme heat days. Achieving these objectives involves modifying the local urban plan to prioritise bioclimatic strategies.

This approach entails the creation of 300 hectares of new green spaces, including pedestrian zones, and the preservation of 100 000 protected trees to establish cooling areas and fight the effects of heat islands. It also involves the construction of more social and public housing units, each incorporating ecological innovations and resident-focused services. Additionally, efforts will be made to expedite the thermal renovation and greening of collective housing buildings. Lastly, all flat roofs will be optimised for renewable energy generation, vegetation, and/or sport activities.

Place-based policies are key to resolve supra-local tragedies of commons. Climate change is composed of interrelated local issues and addressing it is best done solving these nested local challenges. Addressing the global issue of CO² emissions necessitates tackling local challenges such as congestion and dependence on cars. A place-based approach offers unique opportunities to address threats to the global environment commons in a way that they generate benefits for the local population (OECD, 2021^[5]). These benefits can in turn help strengthen action to preserve global environmental commons. They can improve the political economy of such policies, as benefits often exceed costs and local benefits arise more quickly than long-term climate benefits.

Place-based policies can contribute to “positive tipping points” in protecting global environmental commons. Place-based climate action can generate positive system feedbacks – where the initial action

generates reinforcing climate action from other actors and in other places. Key mechanisms of such positive system feedback are economies of scale and social contagion (University of Exeter Global Systems Institute, 2023^[6]). For example, place-based policies can harness local scale economies of climate neutral infrastructure. Regional examples of successful systemic transformations towards climate neutrality can trigger contagion through imitation, harnessing the co-benefits of local action.

The actions to protect planetary boundaries vary along the rural-urban continuum (Table 4.2). For example, in cities place-based solutions to reduce emissions and energy use in car transport would also reduce harmful traffic congestion, improve health, connectivity, and road safety and free scarce urban public space. In thinly populated areas the strategic planning of charging infrastructure for electric vehicles is important (OECD, 2021^[5]). Some regions need to identify local assets that need to be repurposed to make production sustainable.

The environmental crisis also questions the current use of land-based resources. Policies to address the use of land inevitably require place-based approaches. The successful transformation of existing infrastructure relies on local-level spatial planning and decision-making (OECD, 2024^[7]). Urban regions need to avoid sprawl. In rural regions, concerns related to crop yields and renewable energy generation may be important. In such regions, combating soil degradation, caused by factors like agricultural or industrial activities, can move regions towards sustainability. For example, the restoration of a wetland may not only absorb carbon but may also protect scarce freshwater resources.

Appropriate policies will depend on regions' natural assets, their sectoral specialisation of economic activity and their infrastructure endowments. For example, geographic factors will determine a region's potential in terms of wind, solar and other renewable energy opportunities. The human capital to design, build and maintain new key industries is not present in all locations and can be a missing ingredient which place-based policies need to provide. Investment will determine the ability of regions to move towards green jobs and skills, while reshaping their productive and industrial systems (Rodríguez-Pose and Bartalucci^[8]). Moreover, regions differ in the options citizens and firms have to substitute away from emission-intensive consumption and production in response to carbon pricing, for example to replace car use with public transport or to adopt agricultural practices to reduce synthetic fertilizer use. Place-based policies need to provide such substitutes. These are often linked to regional infrastructure and development.

Addressing environmental challenges locally requires collective action. The systemic nature of these challenges makes individual decisions insufficient. A place-based approach can facilitate collective decisions. This needs to include businesses. For example, in the port city of Hamburg, collective action by government, the port authority, road transport companies, and the electricity utility are needed to quickly ramp up investment for the electrification of freight transport from and to the port and make the most of rail infrastructure. This harnesses the competitive advantage of the port for the regional economy as well as low-cost emission-free transport services for many central European regions (OECD, 2024^[9]).

Table 4.2. Place-based policies are relevant to protect global environmental goods

Planetary boundary	Cities	Industrial periphery	Rural communities
Climate change	Spatial reconfiguration and lifestyles	Industrial transformation	Novel production and consumption (lifestyle) patterns
Biodiversity	Potential to enrich biodiversity in suburbs		Differentiated need for ecosystem protection
Land, water, chemicals	Integrating the circular economy in consumption	Integrating the circular economy in production	Pressure to change agricultural practice

Note: Planetary boundaries serve as a framework for defining the boundaries within which human activities can impact the Earth's system without risking the environment's self-regulatory capacity beyond these limits.

Source: Creutzig, F. (2023_[4]), "Global Environmental Goods, Local Public Bads? Place-Based Transitions as a Key Contribution to Global Stewardship".

Decarbonising the transport sector can illustrate advantages of place-based approaches. For instance, in cities, individual choice may favour private car use, which then risks orienting land use and infrastructure decisions towards building more roads and further urban sprawl. This will result in high costs for all, in terms of congestion, pollution, emissions and inefficient use of urban space (Box 4.3). This problem can be described as a "prisoner's dilemma" (Creutzig, 2023_[4]).

Box 4.3. The Prisoner's dilemma in local transport

Passenger travel choices are a global problem, leading to high CO₂ emissions from car use. It nests a multitude of local coordination problems which can be described as a prisoner's dilemma.

Consider two commuters who live in the same area and work in the same place. Options include using your own vehicle or a more environmental mode such as public transport or cycling. Each cell shows payoffs for two travellers: the first number is for the left traveller, the second is for the top traveller (rated 0 to 20, higher is better). The second number represents time cost (minutes) and air pollution (NOx kg/year). These payoffs reflect traveller preferences considering both time and air quality. When everyone opts for the environmental mode of transportation, collective wellbeing is maximised. However, there are incentives to revert to private cars because quicker travel times but if everyone relies on private cars, it results in congestion and increased emissions. On the other side, the impact of car use on road safety may also discourage the use on environmentally friendly travel modes.

Collective decisions at the local level are necessary to encourage all commuters to shift to environmentally friendly travel modes. They include charges or restrictions on private vehicles in city centres, subsidies for public transport and shared mobility solutions. These local decisions will also help adopt transport solutions that are resilient in the transition to climate neutrality.

	Car driving	Environmental mode
Car driving	(10, 10) (30 min, 0.4 kg NOx)	(15, 5) (20 min, 0.2 kg NOx)
Environmental mode	(5, 15) (40 min, 0.2 kg NOx)	(12, 12) (30 min, 0 kg NOx)

Source: Creutzig, F. (2023_[4]), "Global Environmental Goods, Local Public Bads? Place-Based Transitions as a Key Contribution to Global Stewardship".

Place-based policies are essential to provide local public goods in a way that consistent with global environmental challenges, harnessing local co-benefits, such as clean air, access to clean water, and biodiversity. For example, establishing green spaces provides not only recreation but can significantly enhance local biodiversity or flood protection. To harness these potentials, policy makers need

to work with local actors, such as farmers, tourism operators and citizens, to take account of how their livelihoods depend on the natural assets while optimising wellbeing co-benefits. Developing local transport, such as infrastructure that promotes active mobility, along with ride-sharing to replace individual car use, can reduce congestion and improve air quality, but this requires understanding local commuting behaviours. Effective water management depends on local land use, which may require working with local farmers. Such targeted interventions not only safeguard environmental resources but also enhance the overall well-being and resilience of local populations.

Place-based policies also play a key role in alleviating socioeconomic vulnerabilities from protecting the global commons. The manufacturing industries that are among the most difficult to make climate neutral tend to be concentrated in specific regions that are often socio-economically weaker. Jobs in these industries are relatively well-paid in these regions and employ unqualified workers (OECD, 2023_[10]). Some regions face multiple vulnerabilities, such as weak educational attainment and low productivity of firms in the manufacturing sectors, reducing their ability to integrate new climate neutral technologies. Potential access to key infrastructure, such as hydrogen pipelines, can also be weaker. Without targeted support for the transformations in these regions disparities within OECD countries can rise, boosting the geography of discontent and resistance against the climate policy agenda.

Resistance to climate action is not always rational, demonstrating the need to gain public acceptance. Regional disparities in how much populations are concerned by environmental degradation often result from emotional responses to personal circumstances that also reflect regional impacts of climate change that have already materialised and socio-economic conditions. Experiences with drought or extreme heat tend to heighten individuals' apprehension about the climate crisis (Hoffmann et al., 2022_[11]). But when people struggle to meet their basic or daily needs, their focus on environmental issues tends to diminish. Effective place-based action to address local and global environmental problems should also incorporate communication strategies. This is also needed to counteract the impact of advertising on consumption practices, which often downplay environmental values. For example, cars are commonly linked with a sense of freedom; fashion is commonly coupled with new purchases.

Not-In-My-Backyard (NIMBY) attitudes may impede actions to protect the global environmental commons, as environmental policies may produce changes that can generate a feeling of loss. Harnessing the potential co-benefits from such actions through better local solutions and involving the population in taking local decisions can alleviate opposition. For instance, in the case of wind farms, offering people a share of the profit has proven effective. Another example could be the replacement of parking with green recreational space (Creutzig, 2023_[4]). Experimentation, for example through the temporary introduction of measures, can help the public perceive the benefits while reducing opposition to their introduction.

Reassessing public goods provision in depopulating regions

Population decline and aging affect public service delivery, land use planning and their funding. Sustained, strong depopulation can make local infrastructure oversized, resulting in high per capita costs. At the same time, a smaller and aging population can heighten dependence on public services, particularly on healthcare, or on public transport, for example because vulnerable individuals cannot drive a car. The emigration of young, skilled workers may result in a rising share of older, vulnerable populations with lower income but stronger education and health service needs. Regions undergoing population decline often contend with shortages of skilled workers. While per capita costs and demand for some public services rise, tax bases to fund service provision are eroded.

Place-based policies can help adapt the provision of public goods to the specific characteristics in depopulating places. Due to spatial disparities, not all citizens may have equal access to the same standard of public goods in quantity and quality, and depopulation can aggravate such inequality, for

example through the concentration of service provision in regional centres, improving access to them, or through the rehabilitation of town centres (Syssner, 2023_[11]). While rural areas are often most affected, many small and medium-sized towns are now also facing steep depopulation and ageing. They encounter more difficulties than cities in adapting due to challenges in attracting investment (OECD, 2023_[12]). Some shrinking municipalities are situated in growing regions. When addressing declining population, it is key to implement strategies to adapt to local circumstances, rather than relying solely on budget cuts (Box 4.4).

Acknowledging population decline and aging is crucial in shaping a vision for the future that prioritises well-being and sustainability. Many regions initially attempt to revert decline, which may aggravate lack of adaptation and increase long term costs. Place-based policies should not only focus on economic aspects like employment and economic growth but also on improving health, education, or reducing crime. The quality of the living environment, including housing, is important (Syssner, 2023_[11]).

Population decline can increase the per capita cost of local public goods, affecting both infrastructure and services. For instance, rural schools often face challenges of being undersized and overstaffed, yet municipalities may need to maintain small primary schools to ensure access to basic education. Maintaining the same level of accessibility to local public goods throughout the territory requires a good understanding of local population needs as well as the potential for repurposing existing buildings, requiring close cooperation with local actors. Place-based policies can promote densification and concentrate multi-service infrastructure, foster inter-regional and inter-municipal cooperation, and leverage digital technology for example with on-demand public transport, to adapt local public goods to depopulation. These approaches can improve service delivery and ensure the sustainability of local public goods provision.

Box 4.4. Shrinking smartly – Estonia case study

Estonia's population has remained relatively steady since 2015 but is anticipated to undergo a significant decline in the near future. This demographic shift has unfolded unevenly across the country, with major urban centres like Tallinn and Tartu experiencing sprawling growth, while over half of Estonia's counties have witnessed population reductions exceeding 25%. This trend results in decreased population density, leading to higher per capita expenses for service and infrastructure provision. Additionally, it contributes to a rise in the proportion of elderly residents across all regions of Estonia. This challenge calls for the region to (OECD, 2022_[13]):

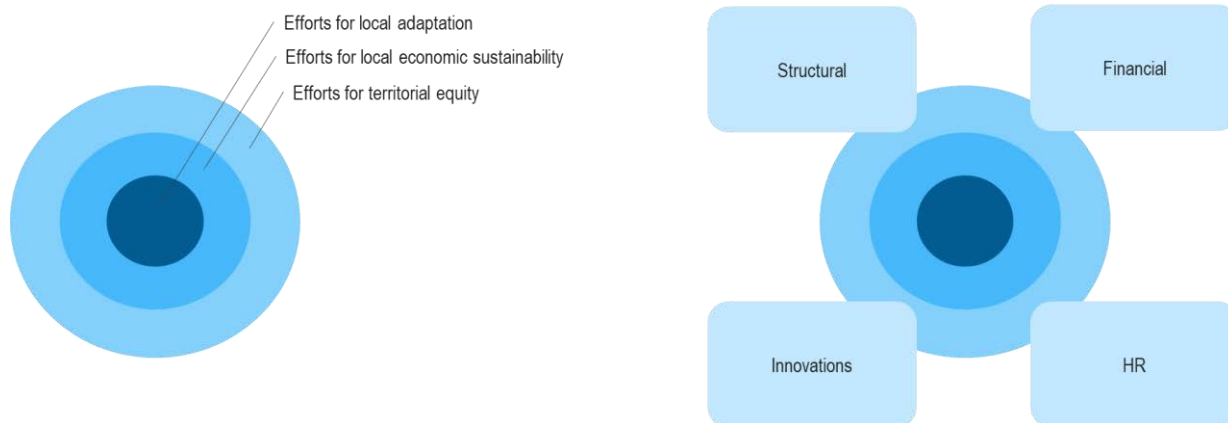
- Increase densification of central areas and implement demolition and renovation initiatives.
- Develop governance across all sectors and governmental levels to develop more tailored service provision with flexible degrees of centrality.
- Enhance municipal co-operation by initiating joint municipal projects aimed at elevating the quality of services (e.g. integrating and combining school services).
- Adjust the fiscal framework to accommodate population decline (e.g. the use of land taxes and land-based financing instruments or fiscal incentives to address shortage of teachers).
- Provide information system and administrative assistance to local governments.

Source: OECD (2022_[13]). *Shrinking Smartly in Estonia: Preparing Regions for Demographic Change*, OECD Rural Studies, OECD Publishing, Paris, <https://doi.org/10.1787/77cfe25e-en>.

Place-based policies should have three main nested objectives to ensure the provision of public goods in shrinking areas: local adaptation, local economic sustainability, and territorial equity (Figure 4.). These three objectives are interdependent: strategies that are tailored to local circumstances not only

support economic sustainability but can also help improve territorial equity (Syssner, 2023^[1]). To achieve these objectives, central and local governments can employ four types of interventions (Table 4.3): structural interventions (e.g. inter-municipal cooperation), financial interventions (e.g. municipal tax), measures that facilitate place-based innovation (e.g. civil society cooperation), and initiatives tailored to address human capital requirements (e.g. networks for collaboration in post-compulsory education and lifelong learning). The four types of interventions must be coordinated across different levels of government and designed to be mutually reinforcing (Syssner, 2023^[1]).

Figure 4.1. Policy objectives and interventions



Source: Authors' elaboration based on Syssner, J. (2023^[1]). "Place-based policy objectives and the provision of public goods in depopulating areas: equality, adaptation, and economic sustainability".

Local and central governments need to work together with a range of interventions. For example, local policies can be adjusted to adapt service delivery, and proactive central government involvement needs to provide financial and technical support for service provision and targeted infrastructure investment. The central government can invest in infrastructure such as railways or broadband to facilitate services access and business opportunities. It can align the responsibilities, powers, and duties of local authorities with local conditions. It can provide financial incentives targeted at specific depopulating regions. For example, Sweden has waived student debt for qualified individuals willing to work in lagging depopulating regions to address skills shortages (Syssner, 2023^[1]).

The development of effective place-based policies also requires the participation of private actors. It is important for local authorities to encourage private sector involvement in supporting public goods provision. Ideally, regions experiencing demographic challenges should aim to attract businesses that produce tradable goods or services for external markets, to support revenue generation as internal markets weaken in the face of depopulation (Whitaker, 2020^[14]). Business communities should therefore play a role in promoting both economic sustainability and adaptation efforts.

Table 4.3. Aims, actors and example interventions of a place-based policy for the provision of public goods in depopulating areas

	Equity	Adaptation	Economic sustainability
Aim	To reduce inequalities in access to public goods, to avoid a persistent social exclusion of specific places.	To adapt the provision of public goods to new demographic and economic conditions.	To promote new models for local economic sustainability, that can support the liveability of the place over time.
Main actors	State actors, in multi-level cooperation with regions and municipalities.	Local governments, neighbouring municipalities, regional actors, business community and civil society.	Local governments, business community, civil society- within a functional geography.
Structural Interventions	Localisation, municipal mergers, municipal collaboration, closing the digital divide	Adapt physical infrastructure, Inter-municipal cooperation, Scale down public goods offerings	New economic targets, The municipality as a development actor
Financial interventions	Fiscal equalisation	Increased taxes and fees	Co-location of resources, Internal investments
Interventions for place-based innovation	Support learning and innovation, asymmetry	Civil society cooperation, third-sector partnerships, innovation, digitisation, mobile/iterant public services	Benefitting from and reinforcing environmental values.
Interventions targeting human capital	Remote study options Student loan subsidies	Further education. Distance work opportunities. Prolonged work life.	Multi locality framework

Source: Syssner, J. (2023^[11]). "Place-based policy objectives and the provision of public goods in depopulating areas: equality, adaptation, and economic sustainability".

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Note

¹ This chapter was informed by the third workshop in the series on Place-Based Policies for the Future that was held on 9 June 2023 with invited experts. Papers for the seminar were prepared by Professor Josefina Syssner (*Place-based policy objectives and the provision of public goods in depopulating areas: equality, adaptation, and economic sustainability*) and Professor Felix Creutzig (*Placed-Based Global Environmental Goods, Local Public Bads? Place-Based Transitions as a Key Contribution to Global Stewardship*).

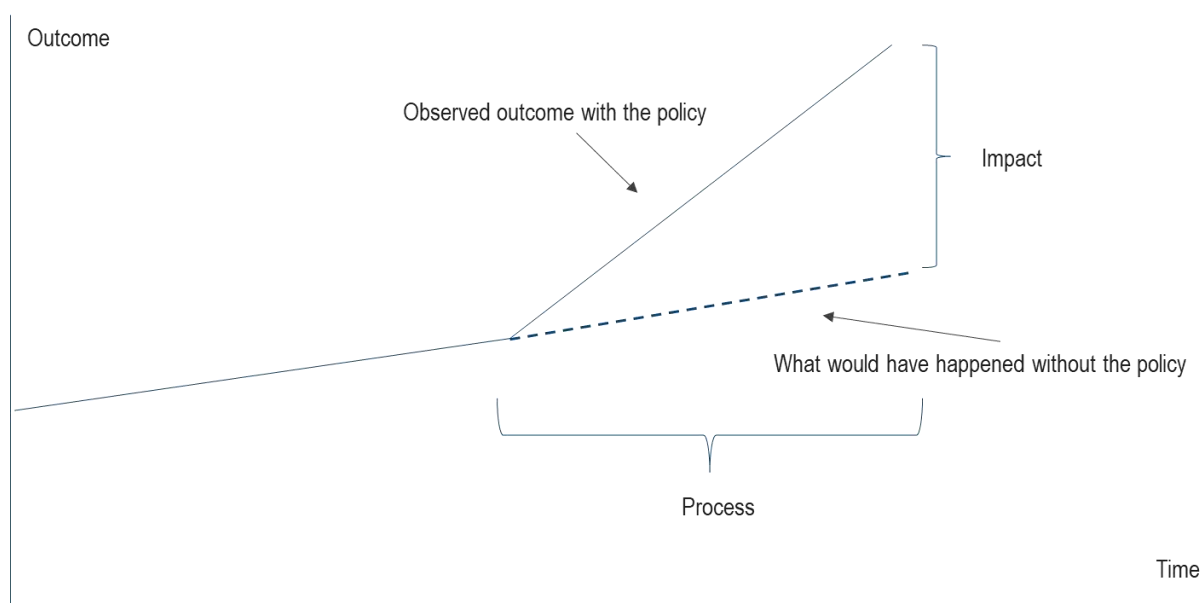
5 **Measuring progress better: cutting-edge approaches to monitoring and evaluating place-based policies**

This chapter presents cutting-edge approaches to monitoring and evaluating place-based policies. It shows how monitoring and evaluation can make these policies more effective. The chapter starts with showing why monitoring and evaluation are key to effective place-based policymaking. Second, it identifies the challenges. It then explores the framework conditions that need to be in place to support monitoring and evaluation. Finally, the chapter provides a practical guide for policy makers.

Monitoring and evaluation are key to effective place-based policymaking

Monitoring and evaluation are necessary to reveal the impacts of a policy.¹ They compare the observed outcome that includes the impact of a policy with the counterfactual – what would have happened without the policy (Figure 5.1). Put differently, they compare the changes in outcomes for places, people or firms as a result of a certain policy with the changes in outcomes for places, people or firms with equivalent characteristics but where such a policy has not been implemented. Monitoring and evaluation can thus answer questions such as: what are the effects of a policy? Why does a policy work better in some places than in others? What made the rollout more or less effective?

Figure 5.1. Monitoring and evaluation can track and test policy impact



Source: Authors' elaboration based on Nathan, M. (2023_[1]), "Things We Don't Want to Know? Monitoring and Evaluating Place-Based Policies", Background paper for the OECD-EC High-Level Expert Workshop Series on "Place-Based Policies for the Future", Workshop 4, 7 July 2023, <https://www.oecd.org/cfe/regionaldevelopment/place-based-policies-for-the-future.htm>.

Monitoring and evaluation are different but complementary practices. Monitoring is the systematic collection of data and information to assess the progress and achievement of set policy objectives. It can also help identify and lift bottlenecks during the implementation. Evaluation refers to the structured and objective assessment of the design, implementation and results of a policy (OECD, 2020_[2]).

Knowing what works best and why it works (relative to a counterfactual) can help expand successful place-based policies, including in other places, or avoid certain pitfalls of unsuccessful policies. Robust monitoring and evaluation to track and test policy impact is key, especially as spending on the rising challenges can be high and the needed rollout rapid.

Progress in monitoring and evaluating place-based policies is particularly timely for several reasons:

- Persistent spatial disparities in income, wages, employment as well as in broader wellbeing, such as health and life expectancy, between cities and regions have created social discontent and political unrest as well as resurging interest in place-based interventions.
- Evidence that some, but not all, place-based policies have played a role in reversing some cities and regions' fortunes for the better in recent decades (Nathan, 2023_[1]).

- Recognition that global environmental challenges require a strong place-based approach (Chapter 4). The same applies to other rising challenges, such as demography or value chain insecurities. For example, in the US, the Inflation Reduction Act, CHIPS Act and Bipartisan Infrastructure Law have increased investment in high-tech, low-carbon manufacturing across the US, especially in historically poorer and Rust-Belt locations (Sullivan, 2023^[3]).

Monitoring and evaluation have proved effective in improving place-based policymaking. For example, policy learning has improved the design and impact of EU Cohesion Policy over time. Various analyses of Cohesion Policy's effectiveness have made it more sensitive to the economic structure of regions, their geographical characteristics and the administrative capacity of their central and local governments to devolve the funds (Berkowitz et al., 2023^[4]).

Robust monitoring and evaluation of place-based policies needs ramping up

Many place-based policies are not systematically monitored and evaluated, or evaluations are incomplete. Out of thousands of impact evaluations across a range of place-based policies, only few meet minimum standards on the counterfactual. Moreover, while around half of well-evaluated local economic development interventions are effective, the size of the effect is often unknown (Nathan, 2023^[1]). It is thus important to understand the magnitude of policy impacts to determine which policies are most effective. But robust evaluation evidence of place-based policies is both hard to generate and to incorporate into policymaking structures.

The practical challenges of monitoring and evaluating place-based policies

Understanding the impacts of place-based policies is difficult because they often target multiple actors and sectors. Moreover, place-based policies are undertaken across central, regional and local government levels as well as across government departments. Several policies may thus overlap in the same place and timeframe. For example, in the UK, local economic development policy is distributed across the planning, business, employment, transport and housing functions of central and local governments, as well as in the Treasury (Nathan, 2023^[1]).

The main challenge in identifying place-based policies' causal effect is building a valid counterfactual. This is because the place where the policy happens and the place selected to provide the counterfactual may have underlying differences (Angrist and Pischke, 2009^[5]). For example, EU Cohesion Policy typically targets less developed regions (Nathan, 2023^[1]). If they are compared with richer regions, policy effects might be confused with the underlying differences.

Some outcomes, in particular wellbeing, are difficult to measure. Wellbeing outcomes are important to evaluate for instance because many of the policies needed to address climate change and biodiversity loss have local wellbeing benefits, notably health, that may not be included in GDP.

Many place-based policies also have long timeframes, which complicates their evaluation. For example, capital investments in transport infrastructure have timeframes for wider economic impacts of over 50 years (Nathan, 2023^[1]). Data may also be limited at regional and local levels or not comparable, as place-based policy evidence draws on multiple fields with different terminologies and methods (Nathan, 2023^[1]).

The institutional challenges of monitoring and evaluating place-based policies

Policy makers may lack incentives to conduct monitoring and evaluation (Nathan, 2023^[1]). They may have an incentive to start new projects rather than figuring out whether past projects worked and may focus on making the ex-ante case for policies in order to get funding (Bravo-Biosca, 2019^[6]). Moreover, there

may be a political downside to discovering that a policy did not work (Mason, Nathan and Overman, 2023^[7]). And even if policies work, evaluation results are difficult to communicate and promote. They are often technical and may not be timely, spanning beyond political terms. In Italy for example, Faggian and Urso (2023^[8]) argue that three major reports (the 2009 Barca Report, the 2012 National Strategy for Inner Areas and the 2021 National Recovery and Resilience Plan) have reduced the scope of monitoring and evaluation over the years (Box 5.1).

Box 5.1. Three major Italian territorial cohesion reports conceptualise monitoring and evaluation in different ways

In the **2009 Barca Report**, monitoring and evaluation are interpreted as a collective effort towards more pluralistic, informed and democratic policy choices and solutions, based on experimentation and mutual ‘control’ among actors.

In the **2012 National Strategy for Inner Areas (SNAI)**, monitoring and evaluation are interpreted as an adherence to the planned timeline and outcomes. They focus on debate and assistance on critical issues, the access to a database of practices, sharing of progress in the set of chosen indicators and on the comparison with ‘ordinary’ policy actions.

In the **2021 National Recovery and Resilience Plan (PNRR)**, monitoring and evaluation seem to be conceived merely as a technical operation mostly aimed at financial reporting and accountability. Subnational levels of government do not appear among the most frequent entities involved in monitoring and evaluation and neither do their citizens and their needs.

Source: Faggian, A. and G. Urso. (2023^[8]), “Cohesion and Place-Based Policies Post-Emergency in the EU: Why Monitoring is More Important than Ever”, *Background paper for the OECD-EC High-Level Expert Workshop Series on “Place-Based Policies for the Future”*, Workshop 4, 7 July 2023, <https://www.oecd.org/cfe/regionaldevelopment/placebased-policies-for-the-future.htm>.

Governments, especially at the subnational level, often do not have the skills and resources to carry out robust monitoring and evaluation. Even commissioning policy monitoring and evaluation requires some capacity, including for contracting and oversight (Mason, Nathan and Overman, 2023^[7]). The monitoring and evaluation of place-based policies is often underfunded.

Getting the framework conditions in place to support the monitoring and evaluation of place-based policies

National and local governments could mandate the creation of robust monitoring processes and the use of evaluation results for place-based policymaking, especially for large projects. For example, grant-giving bodies can set minimum standards for monitoring and evaluation as a requirement for receiving funding. Indeed, EU Cohesion Funds have such requirements (Nathan, 2023^[11]). ‘Policy labs’ can also be an effective way to encourage monitoring and the use of evaluation evidence to improve policymaking, as highlighted by two examples from Spain and Washington, D.C. (Box 5.2).

Box 5.2. Two policy labs for monitoring and using robust evaluation evidence in policymaking

A Policy Lab for monitoring and evaluating social inclusion policy in Spain

The Spanish Ministry of Inclusion, Social Security and Migration partnered with the Abdul Latif Jameel Poverty Action Lab (J-PAL) Europe - a research centre -to build a Policy Lab bringing rigorous evidence to social policymaking in Spain. The Policy Lab was created in 2020 to understand the effectiveness of 34 pilot social inclusion programmes, ranging from job search support to online tutoring, or childcare, launched under the Covid-19 NextGenerationEU Recovery plan. The government has committed to piloting and evaluating each programme through randomised control trials (RCTs) run in the new Policy Lab. The results will provide insights for social policy in Spain at the national and regional level prior to scaling up the most effective pilots.

The Policy Lab is for example monitoring and evaluating the impact of an online tutoring programme to improve mathematics learning outcomes and socio-economic inclusion among students with disadvantaged socio-economic backgrounds. To track and test programme impact, 6 000 students are randomly divided in five groups receiving different combinations of intensive online tutoring for mathematics, socio-emotional and mentoring support. These groups also differ in the size of student groups, to assess their optimal size. One group serves as control group, not receiving any type of support.

The Policy Lab's monitoring and evaluation effort involves working across all levels of government and multiple implementing partners. Most do not have previous experience with randomised evaluation methods. J-PAL Europe staff and a team of Spanish and international researchers provide technical assistance in evaluation design and help translate the results into actionable and scalable policy advice. The Policy Lab's approach could set a valuable example for how social policy is conducted in the future, in Spain and elsewhere.

The Lab @ DC evaluates and informs policymaking in Washington, D.C., United States

"The Lab @ DC" uses scientific insights and methods to evaluate and improve policies and provides analysis to inform policy decisions by Washington D.C.'s government. The Lab collaborates with government agencies to:

- Design policy interventions that fit the local context, based on theory and evidence from academic and business research as well as analyses of administrative data.
- Conduct evaluations, including RCTs as well as policy experimentation and monitoring, to assess how well certain policies work and how to improve them.
- Promote a community of practice that enables cooperation with experts and stakeholders across government agencies, universities and community groups.

The Lab @ DC is currently running an RCT to assess whether discounted transit fares improve mobility and wellbeing for lower-income residents. More than two thousand lower-income residents were randomly assigned to one of three groups. For nine months, residents in group I pay a half-price transit ticket, residents in group II benefit from unlimited free trips, and residents in group III, the control group, have no discounts. The results will help understand how the discounts affect the number and type of trips to help shape future transit affordability programmes.

Sources: OECD (2023^[9]), *OECD-EC High-Level Expert Workshop Series on "Place-Based Policies for the Future", Workshop 4, 7 July 2023*. Alzate, D. et al. (2023^[10]), "Creating a policy lab for evaluating social inclusion policy in Spain", *J-PAL Blog*, <https://www.povertyactionlab.org/blog/9-6-22/creating-policy-lab-evaluating-social-inclusion-policy-spain> (accessed on 4 March 2024).; Washington, D.C. government (n.d.^[11]), *The Lab @ DC*, <https://oca.dc.gov/page/lab-dc> (accessed on 4 March 2024).; The Lab @ DC (n.d.^[12]), *Can discounted transit improve mobility and well-being for lower-income residents?*, <https://thelabprojects.dc.gov/fare-subsidy> (accessed on 4 March 2024).

Combining monitoring and evaluation with experimentation can strengthen their impact on policy effectiveness. Experimenting, testing and adopting a learning-by-doing approach can -if complemented with robust monitoring and evaluation - help adjust policies during implementation (Bravo-Biosca, 2019^[6]). For example, Australia’s Latrobe Valley Authority has an industrial strategy to support places affected by forest logging closure, with “project control groups” and a community of practice to check compliance with project milestones, resolve issues and enable learning across projects (OECD, 2023^[9]).

Monitoring and evaluation mandates should be combined with adequate resources. For example, local governments may need capacity to safely store, access and work with administrative microdata to evaluate place-based policies (Nathan, 2023^[1]). Subnational governments need to hire and train public officials, even if the actual monitoring and evaluation activities are outsourced.

A practical guide for monitoring and evaluating place-based policies

When to start monitoring and evaluating

Monitoring and evaluation should be built into the whole policy cycle, from the initial stages to the end. This is to follow policy steps fully and collect new data for the evaluation that are fit-for-purpose. This is especially important at subnational level where data may be less readily available or, if they are, of worse quality than at national level. Monitoring and evaluating place-based policies thus provides an opportunity to collect new regional and local data. Embedding evaluation thinking into the initial stages of policy design can also contribute to set clear policy objectives.

Where to start

Monitoring and evaluation of place-based policies begins with identifying the intervention logic: how a policy is expected to achieve its objectives for a place or the people or firms in it (Bates and Glennerster, 2017^[13]; What Works Centre for Local Economic Growth, 2016^[14]). This includes determining the inputs (e.g. the amount of money spent), policy actions (e.g. the consultation of citizens), outputs (e.g. the number of metro stops created), and long-term outcomes (e.g. increased accessibility to public services).

Ex-ante modelling can help choose between different policies. Evaluators refer to the modelling of possible policy effects before a policy is implemented as “ex-ante modelling”, while the assessment of actual policy effects after a policy is implemented is called “ex-post impact evaluation”. Ideally, ex-ante and ex-post evaluation are complements. Nevertheless, robust ex-ante modelling could substitute ex-post evaluation where governments may lack resources for complex evaluations (OECD, 2023^[9]). In many OECD-wide reviews of place-based policies, ex-ante modelling appears to be more common than ex-post impact evaluations (Nathan, 2023^[1]).

What to monitor and evaluate

Place-based policy monitoring and evaluation should examine broad policy outcomes, such as the reduction of poverty or inequalities, improved access to public services, the increase of competences, etc. Long-term outcomes should be wider in scope than short-term policy outputs, and several indicators may be needed to measure progress towards each single outcome (Faggian and Urso, 2023^[8]). Effective monitoring and evaluation is different from reporting for accountability or budgetary purposes. Monitoring and evaluation should also take into account key general future priorities, such as reaching climate neutrality by 2050, protecting and recovering biodiversity and halting the degradation of land, even if the evaluated place-based policies are not designed to address these priorities specifically.

Place-based policy monitoring and evaluation should examine unintended consequences of policies, such as out-of-area negative spillovers. Monitoring and evaluation should also examine potential benefits on people, businesses or workers who are vulnerable, and risk being forgotten in policymaking and evaluation. In India for example, infrastructure investment such as highways has sometimes benefited places with stronger initial financial development, higher initial productivity, better access to finance and higher literacy rates compared to disadvantaged places and evaluation has discovered this bias belatedly (Dasgupta and Grover (2022^[15]), Das et al. (2023^[16])). Key guiding questions for monitoring and evaluating place-based policies can be:

- Are only average effects assessed or also effects on vulnerable groups or individuals?
- Are poor neighbourhoods or informal workers given consideration?
- Are environmental impacts accounted for?
- Does the evaluation use the most relevant data or only the data that is easiest to obtain?

How long to monitor and when to evaluate

Place-based policy monitoring and evaluation should examine outcomes over sufficiently long timeframes to avoid biasing results. For example, labour market policies to improve worker skills may take more time to produce benefits and may produce more long-lasting benefits than labour market policies encouraging workers to apply for more jobs. If the monitoring and evaluation period is too short, the evaluation may result in misguided conclusions. A longer evaluation period may however make the evaluation costlier and delay the availability of results.

Continuous monitoring and evaluation through sequenced feedback systems allow policy makers to track outputs and see provisional outcomes at multiple points in time. This can help build and maintain buy-in (Nathan, 2023^[11]) and is especially important in very long-term Big-Push-style policies, like in post-unification Germany (Enekel, 2021^[17]) or New-Deal-era US rural development programmes (Kline and Moretti, 2014^[18]).

Choosing between different impact evaluation tools

Randomised control trials (RCTs) are the gold standard of impact evaluation, and other statistical tools can ‘mimic’ them. RCTs are applicable to place-based policies that target specific people or firms. Ethical concerns arising from the random allocation of a policy to people or firms can be mitigated by designs that offer several varieties of a policy or that randomise its timing so that no-one is left untreated (Nathan, 2023^[11]). RCTs may however be impracticable for policies that target places, especially infrastructure investment, because it would require randomly allocating infrastructure investment to places. This may be expensive and pose technical challenges. In particular, random sampling of a sufficiently large number of regions is often not possible. If RCTs are not applicable, the next best option is to exploit the ‘quasi-randomness’ in certain place-based policy designs and use statistical techniques to build a valid counterfactual (Box 5.3).

Box 5.3. Using statistical techniques to build a valid counterfactual

To assess the impact of a policy, it is important to compare it to the counterfactual outcome had the policy not been implemented (Figure 5.1). Since the true counterfactual is usually not known, many estimation strategies have been developed based on outcomes at the same time in other places.

For the evaluation of Cohesion Policy over the 2007-2013 period, for example, the EU Commission relied on two types of statistical techniques. One, called “regression discontinuity design”, compares the performance of regions that received support to the performance of similar regions in terms of economic conditions and trajectories that just failed to qualify for support (Berkowitz et al., 2023^[4]). Comparing the performance of similar regions on either side of this ‘cutoff’ - the policy decision of which regions get support, and which do not - provides a reasonably accurate estimate of the Cohesion Policy’s impact.

The other technique, called “propensity score matching”, matches regions that received support with those that did not in terms of their relevant characteristics, such as those that might affect their growth performance and bias the evaluation of policy impact (Berkowitz et al., 2023^[4]). Like regression discontinuity, comparing the performance of regions that received support with the performance of similar regions that did not get support provides another estimate of Cohesion Policy’s impact.

For large, one-off place-based interventions for which no counterfactual locations may be available, “synthetic control” designs can be used to build a control region from a weighted average of other locations (Nathan (2022^[19]) for a recent example). Models, such as computable general equilibrium (CGE) models, macro-econometric models, or dynamic stochastic general equilibrium (DSGE) models can also be used to simulate a counterfactual on an ex-ante basis (Berkowitz et al., 2023^[4]).

Many other tools are available, such as those presented in the UK Government Magenta Book (2020^[20]), (2020^[21]) and by the What Works Centre for Local Economic Growth (2016^[14]). In practice, evaluating place-based policies will require using multiple methods depending on the features of policies and constraints on randomisation discussed above (Bates and Glennerster, 2017^[13]).

Which data to use for the evaluation

Robust impact evaluation often requires using newly collected data from monitoring (Nathan, 2023^[1]). Policy makers thus have an important role to play in setting up effective monitoring systems to collect detailed information on policy inputs, actions, outputs and long-term outcomes. Policy makers also need to ensure that this data is suitably checked and stored and easily accessible. Ideally the data should be freely accessible.

Digital technologies have expanded the potential of datasets that can serve evaluation purposes, subject to adequate privacy protection. First, large administrative microdata provide detailed information on people, households, firms and places over long time periods. Second, Big Data and new internet-based data sources are typically higher frequency and cover more dimensions than conventional administrative sources and can be used as a complement (Nathan, 2023^[1]).

Who should monitor and evaluate, and who should be heard

Different types of evaluators are prone to different biases, which risk impairing effectiveness. For researchers and academics, career advancement often depends on publications more than on engagement with policy. Academic evaluations may thus focus on the research design’s validity more than on policy implications, which might limit usefulness to policy makers (Nathan, 2023^[1]). On the other hand,

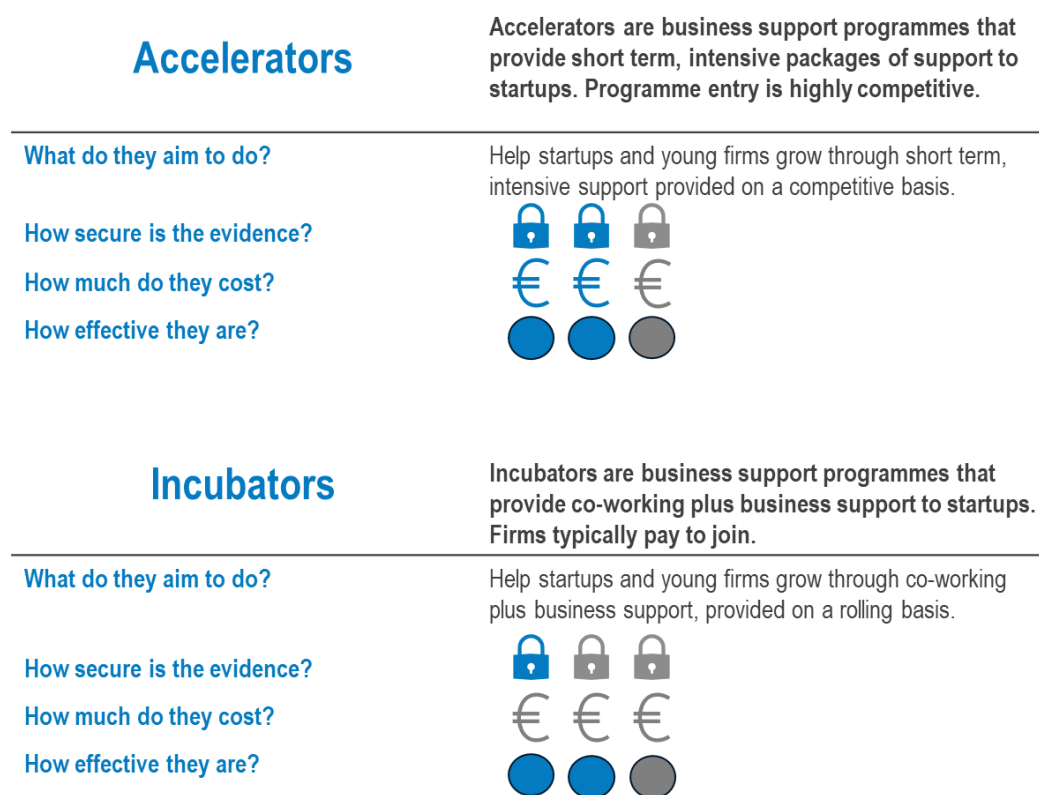
policy makers may privilege evidence that applies across places even if it is of lower quality (Vivalt, Coville and Sampada, 2021^[22]). Policy makers or researchers or bodies commissioned by the government may also find it difficult to be sufficiently independent (Sanders and Breckon, 2023^[23]). Some countries are establishing independent impact evaluation centres, for example Australia’s Office of Impact Analysis. The latter produces evidence-based assessments of policies and supports government departments and agencies in the evaluation process (Australian Government, n.d.^[24]).

Evaluators can work with local partners and interview the beneficiaries and implementers of place-based policies to understand the local context. It is also important to hear from ‘disenfranchised’ people as this might help measure to whom the benefits of policies accrue. How-to guides developed by Bates and Glennerster (2017^[13]) and the What Works Centre for Local Economic Growth (2022^[25]) can help policy makers monitor and evaluate place-based policies effectively, as well as act as proficient commissioners and users of evaluation evidence.

Communicating evaluation results

Evaluation results need to be communicated in a clear and actionable way so that policy makers and practitioners can use them. That is, research findings need to be translated into non-technical messages and policy implications. For example, Figure 5.2 summarises evidence on the effectiveness of business accelerators and incubators in a visual way.

Figure 5.2. Example infographics summarising evaluation evidence



Source: Authors’ elaboration based on Nathan, M (2023^[11]), “Things We Don’t Want to Know? Monitoring and Evaluating Place-Based Policies”, *Background paper for the OECD-EC High-Level Expert Workshop Series on “Place-Based Policies for the Future”, Workshop 4, 7 July 2023*, <https://www.oecd.org/cfe/regionaldevelopment/place-based-policies-for-the-future.htm>.

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Note

¹ This chapter was informed by the fourth workshop in the series on [Place-Based Policies for the Future](#) that was held on 7 July 2023 with invited experts. Papers for the seminar were prepared by Professor Max Nathan (*Things We Don't Want to Know? Monitoring and evaluating place-based policies*) and Professor Alessandra Faggian and Professor Giulia Urso (*Cohesion and place-based policies post-emergency in the EU*).

6 Governance of place-based policies now and in the future

Place-based policies involve a diverse mix of public and private actors, levels of government and institutions. This means that effective place-base policies require robust multi-level governance supported by cross-sector and multi-level coordination; administrative, strategic and technical capacity; fiscal capacity; place-based leadership; experimental governance; and inclusive engagement. These elements are fundamental for all types of country contexts and institutional settings, including for highly centralised and decentralised countries. Together with these fundamentals, emerging collaborative and digital approaches have the potential to bring greater innovation to multi-level governance for place-based policies.

Strengthening multi-level governance to support place-based policies

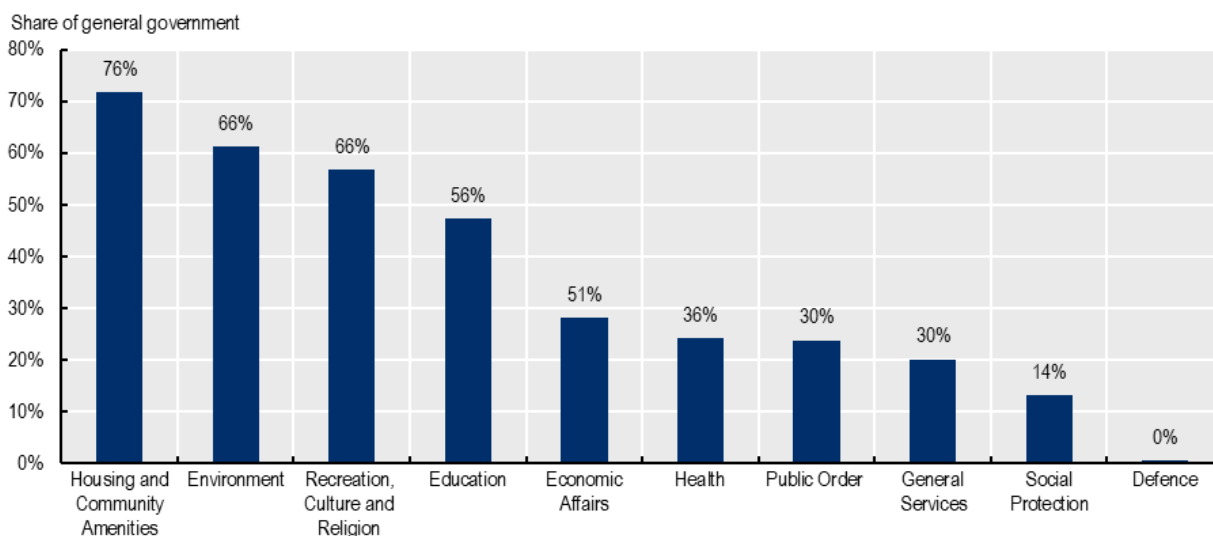
Today's increasingly complex policy challenges call for integrated and collaborative responses.¹

The interconnected, rapidly-evolving and place-specific nature of many policy challenges today call for cross-sectoral, multi-level and multi-stakeholder actions. Public, private and civil society stakeholders need to be brought together to navigate complex trade-offs, enhance policy synergies and find innovative approaches to new challenges. In this context, the role of multi-level governance² for effective place-based policies is more essential than ever.

All levels of government, together with the private sector and civil society, have an important role in the design and delivery of place-based policies. Alongside national governments—and the supranational level in the EU—subnational governments have a key role in financing of place-based policies. Across the 38 OECD Member countries, subnational governments accounted for almost 40% of total government public expenditure on average in 2022 (OECD, 2024^[1]). They have significant responsibilities for designing and implementing place-based policies linked to economic development and well-being, including for innovation, infrastructure, education, and housing. In some areas, subnational governments are the main actors, such as for ensuring housing and community amenities, environmental protection, and recreation and culture. In other areas, spending responsibilities are more likely to be shared between the central and subnational levels. This is the case for education, economic affairs (and transport), health and social protection (Figure 6.1).

Figure 6.1. The share of subnational government in public expenditure by functional area in OECD countries

Subnational government expenditure by functional area in OECD countries (2021), share of general government expenditure in same functional area



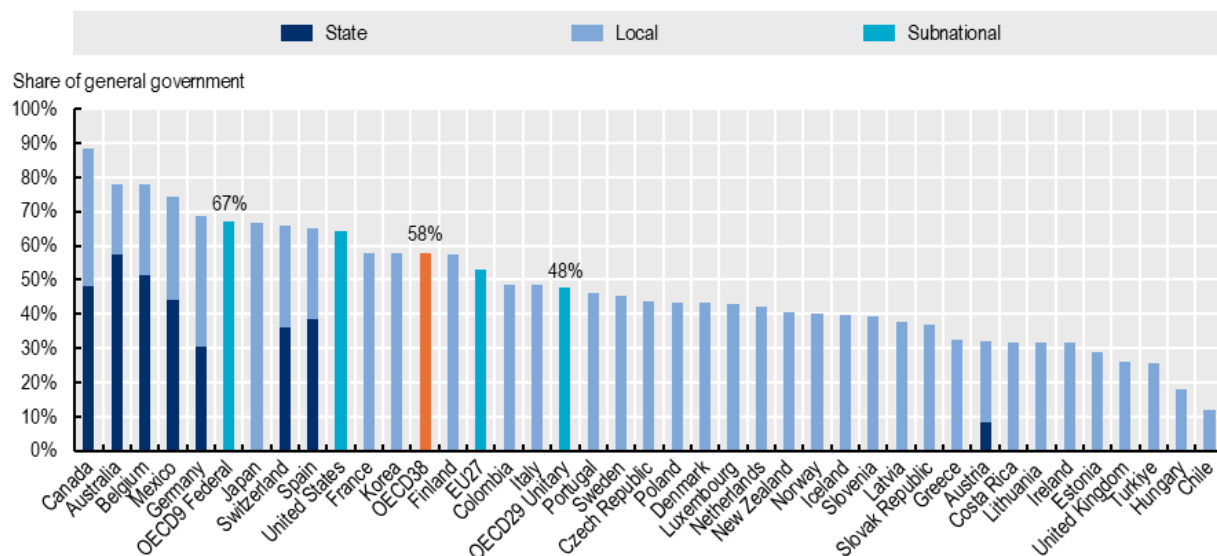
Note: The OECD average (unweighted) is calculated for 34 countries (no data for Canada, Chile, Mexico and Costa Rica) with data from 2021. The functional areas correspond the Classification of the Functions of Government (COFOG), which distinguishes 10 areas.

Source: OECD (2024) Subnational Government in OECD countries: Key data.

Subnational governments are also large public investors in a majority of OECD countries, which is often related to place-based policies. In 2022, they accounted for almost 58% of total public investment on average. Almost 40% of subnational government investment goes to economic affairs and transport,

followed by education (20%), public administration (11%) and housing and community amenities (9%) (OECD, 2024^[11]). Their climate-significant public investment accounts for 69% of general government climate-significant investment in OECD countries (OECD, 2022^[2]). Even if part of their funding comes from grants from national governments, subnational governments have a crucial role in addressing many major transitions underway (climate, digital, demographic) given their competencies.

Figure 6.2. Subnational public investment as a share of public investment (2022)



Notes: Averages are weighted. There is no distinction between the state and local government levels for the USA. Data for Australia, Chile, Colombia, Japan, New Zealand and Türkiye are from IMF Government Finance Statistics.

Source: Subnational Governments in OECD countries: Key data – 2024 edition

With many policy responsibilities being shared, it is imperative that governments work with each other, and with local stakeholders. Effective co-ordination mechanisms are especially crucial where there are ambiguities or unclear assignments of responsibilities that can diminish policy efficiency (OECD, 2019^[3]). This requires engaging stakeholders in public decision-making, particularly in the identification and design of strategies and policies, during implementation, and later in monitoring and evaluation. An essential part of effective multi-level governance is ensuring that interdependencies and interactions are thoroughly considered in the design and implementation of place-based policies (OECD, 2023^[4]).

Multi-level governance can improve place-based policies in six key ways

For place-based policies to be successful, there are a at least six fundamental ways that multi-level governance systems can support them. These concern the actors and institutions in place to design and deliver policy; the frameworks and capacities to support the policy process; and the innovative practices that ensure place-based policies are multi-sectoral and future-focussed. Multi-level governance systems can:

1. Make place-based policies effective by coordinating the relevant actors and sectors
2. Empower place-based leaders to broker broad coalitions of local stakeholders to support and improve place-based policy design and delivery
3. Ensure the availability and adequacy of funding and financing resources to support place-based policies

4. Invest in subnational strategic, administrative and technical capacity to help place-based policies to be successful over the long-term
5. Leverage experimental governance to deliver fit-for-purpose place-based policies
6. Promote inclusive policy design and delivery.

Make place-based policies effective by co-ordinating the relevant actors and sectors

Co-ordination is essential for effective place-based policies. Co-ordination among levels of government (vertical) and across a level of government (horizontal) is critical, and may also involve other public agencies, civil society and the private sector. While these actors often interact in some capacity, formal co-ordination mechanisms and a “joined-up approach” (see Chapter 3) can ensure their involvement and accountability in policy design and implementation (Beer, 2023^[5]). The objective of these mechanisms is not to create more layers of governance, but to establish reliable and transparent processes that reduce information asymmetries and transaction costs. Cross-sector co-ordination also offers multiple benefits, such as identifying positive externalities from one sector to another and generating economies of scale (OECD, 2014^[6]; OECD, 2018^[7]).

Horizontal coordination is essential for place-based policies to act at the relevant scale

Place-based policies need to be implemented at the appropriate scale to be effective. Indeed, co-ordination between governments at the same level can enhance economies of scale and increase policy synergies among subnational governments, such as through inter-municipal and interregional co-operation. For instance, in large-scale physical infrastructure investments and for service delivery, co-ordination is crucial since the efficient scale often exceeds administrative boundaries. Effective co-operation across places should leverage the institutional ties and common challenges that unite them.

Place-based policies often cut across administrative boundaries. Policies to foster economic development and improve well-being often stretch beyond jurisdictional boundaries to functional scales that are largely determined by commuting and socio-economic flows. Administrative scales can become rapidly obsolete with socio-economic change (growth in services, transport and ICT) and demographic change. Improving access to healthcare and education networks, for example, can require transport and digital investments that span jurisdictions.

Place-based policies require co-ordination between jurisdictions to take advantage of potential spillovers. Place-based policies can have important benefits for other jurisdictions that are not targeted by a policy, as can be the case with investments in transport infrastructure (Blouri and Ehrlich, 2020^[8]) and knowledge diffusion from innovation activities (McCann and Ortega-Argilés, 2013^[9]). Co-ordination can help to ensure that place-based policies produce these positive spillovers across multiple jurisdictions by enhancing information flows between jurisdictions and providing opportunities for joint investments. Place-based policies can also help to avoid welfare-reducing policy and investment competition between jurisdictions (Solé-Ollé, 2023^[10]).

Co-ordination can help to avoid fragmentation of development and investment strategies between jurisdictions. Many place-based policies are relevant on a scale that extends beyond a single jurisdiction. When each jurisdiction develops its own strategy independently, it can lead to fragmented approaches and inefficient competition for funding. This is especially the case in countries that have very small municipalities, such as Czechia, France and the Slovak Republic, where over 80% of municipalities have fewer than 2 000 inhabitants (OECD, 2023^[11]). At the metropolitan scale, research across five OECD countries has found that the more fragmented a functional urban area is in terms of the number of municipalities, the lower its productivity (Ahrend et al., 2014^[12]). The presence of a metropolitan

governance body can reduce this impact on productivity and help co-ordinate metropolitan-scale policies, including land use and transport policies. Legal frameworks and policies supporting inter-municipal co-operation have been significantly enhanced over the last 15 years in the OECD and EU to generate economies of scale and scope in municipal services and infrastructure. In France in particular, supra-municipal authorities with tax raising powers and a large range of delegated functions have been created to design and implement integrated territorial projects (OECD, Forthcoming^[13]; OECD, 2017^[14]). The EU Cohesion Policy fund can also help develop inter-municipal cooperation, in particular through territorial instruments, such as Community Led Local Development (CCLD) and Integrated Territorial Investment (ITI). These seek to encourage places to work together at an efficient scale to serve the implementation of a territorially based strategy. They are based on involve local partnership, bottom-up approaches and territorial governance.

An integrated inter-regional approach can generate economies of scale and strengthen economic linkages (ESPON, 2016^[15]) (Almazán-Gómez et al., 2023^[16]). Inter-regional co-operation is also essential for smart specialisation, as innovation often relies on exchanges and spill-overs between clusters or knowledge hubs. Co-operation spans a continuum of phases, from policy learning to policy alignment and policy integration. Interregional co-operation that contributes to an overall strategy is likely to have a greater economic impact than a collection of unrelated collaborative projects (Woolford et al., 2021^[17]). For example, France supports interregional cooperation through its State-Region Interregional Planning Contracts (CPIER), for example to support the Rhône-Saône Plan and the projects of the many stakeholders operating in the Rhône-Saône basin. Another example is the "Massif Central interregional convention" (CIMAC), an interregional planning contract that brings together the State, 4 regions, 22 *départements* and EDF Hydro (a state electricity company) to mobilise EUR 216 million over the period 2021-2027 for the self-development of the Massif.

Place-based policies play a role in supporting co-operation across national borders. Cross-border co-operation can facilitate economies of scale and economies of agglomeration across national borders by leveraging neighbouring markets and the free movement of goods, services, capital, people, and ideas (Mission Opérationnelle Transfrontalière, 2020^[18]). However, this type of co-operation can be challenging due to significant differences in institutional, regulatory, technical, and tax arrangements, as well as varying cultural approaches to co-operation and risk management (ESPON, 2021^[19]). Given the very nature of borders which is a typical case of "inefficiency trap", external intervention from a higher-level government can be justified (Barca, 2009^[20]). Supranational and national administrations are well placed to support cross-border policies, by adapting their national legislative framework and by supporting cross-border initiatives. For example, the EU, promotes cross-border integration by creating appropriate legal tools (e.g. European Grouping of Territorial Cooperation – EGTC, Interreg), providing dedicated funds (e.g. funds from the Interregional Innovation Investment Instrument - I3) to support projects in cross-border areas (home to 33.5% of EU residents), and by promoting knowledge and information exchange. Place-based policies that bring together the public, private and academic sectors can also strengthen cross-border cooperation. The U.S.-Canada cross-border region of Cascadia (covering British Columbia, Washington State and Oregon), for example, has leveraged their complementary capacities in life sciences and technology to work together on public health problems (notably, cancer treatment). The partnership has built on existing institutional relationships, including the Cascadia Innovation Corridor, a lasting partnership between the two regional governments, universities and private sector actors, namely Microsoft (Cappellano and Kurowska-Pysz, 2020^[21]).

Vertical co-ordination is essential for place-based policies' objectives, design and delivery to be aligned across levels of government.

Governments have a variety of co-ordination mechanisms at their disposal to support the design and delivery of place-based policies. Co-ordination mechanisms provide a structured way to align policy

objectives, support the identification of opportunities and bottlenecks, improve the management of joint competencies, minimise the potential for multiple investments to work against each other, ensure adequate resources and capacity, seek input from diverse stakeholders and create trust among actors at different levels of government (OECD, 2014^[6]; OECD, 2017^[14]; OECD, 2019^[3]). There are two main categories of coordination mechanisms: informal and formal. Informal mechanisms, such as dialogue platforms or informal meetings, can promote outcomes that are aligned and sufficiently clear to all actors. Dialogue platforms can be strengthened if they have decision-making powers and are tied to clear outcomes, but they can also remain a mechanism for seeking input and discussing options. For their part, formal mechanisms can ensure that policies are adequately resourced and implemented in an efficient, inclusive and timely manner. These include intergovernmental councils, contractual arrangements and deal-making and specific government bodies such as regional development agencies.

Inter-governmental councils can be used to enhance co-ordination of place-based policies between national and subnational governments. Many OECD countries, in particular federal countries, have developed inter-governmental councils to better organise their relations among levels of government. These bring together members of the executive branch of national and subnational governments, as well as agencies. These platforms are mainly established for consultation purposes and their decision-making authority is limited; in only 9 out of 32 countries do dialogue platforms have decision-making authority (OECD, 2019^[22]). For place-based policies, these bodies can be pivotal for encouraging cross-sectoral collaboration and facilitating the linkages among sectors at a local level for more ‘joined-up’ policy.

Contractual arrangements are a form of co-operation mechanism that embed concrete outcomes and hold parties accountable during the delivery of place-based policies. Contracts define the mutual obligations of parties involved (e.g. national and regional) and support agreements on the assignment of responsibilities, funding, human capital and assets (OECD, 2019^[3]; Charbit and Romano, 2017^[23]). The importance of formalised contracts for place-based policies is their ability to engage stakeholders at various levels of government in clear, shared objectives, with a focus on the feasibility of implementation and public action. In a context of limited political trust, contracting can facilitate transparency, build capacity among actors, and serve as an accountability framework. Multi-purpose and multi-year contracts for regional development between the national and subnational levels are frequently used in OECD Member and non-Member countries (OECD, 2019^[3]). For example, formal arrangements between a region and a state are common in the context of city-regions. This is, for instance, the case of City Deals in Australia and the Netherlands and the Devolution Deals in the United Kingdom (OECD, 2022^[24]). In Norway, the government contributes to more targeted and co-ordinated efforts in rural and regional policy between the State and country authorities through “regional growth agreements”. In France, contractualisation is the result of both the territorialisation of planning and the decentralisation process, which has inspired countries like Colombia for example. Iceland also makes extensive use of contracts between the national government and its regions to strengthen the capacities of its regional associations and give them more responsibilities and spending autonomy over time (Box 6.1).

Deal-making can be also used to instil local capacity and build the credibility of local leaders to design and deliver place-based policies. In the UK, a series of ‘devolution deals’ struck by city-regions with the central government have been effective in promoting growth through co-operative relationships (Alonso and Andrews, 2024, forthcoming^[25]). These deals have helped to deliver more efficiently in policy areas that transcend existing administrative boundaries (e.g. transport infrastructure, jobs and training programmes, water, grid development, etc.). Not every deal has succeeded, and many continue to evolve. An independent review pointed out that the best cases were backed by a solid ex-ante review of the local economy and governance framework to assess whether such an arrangement would lead to substantive improvements in subnational governance (Institute for Government, 2023^[26]).

Box 6.1. Using contracts as the main tool to articulate national and regional policies in France

In France, the national and regional governments have signed the new generation of 2021-2027 State-Region planning contracts, called “Contrats de Plan Etat-Région” (CPER) in continental France and “Contrats de Convergence et de Transformation” (CCT) in overseas France (outermost regions). These contracts are signed by the President of the Regional Council and the Regional Prefect. The content and model of the 2021-2027 CPERs may vary according to regional issues. However, three major common priorities have been defined for all regions: ecological transitions; research, innovation and higher education; and social and territorial cohesion. These contracts focus on topics such as innovation, digitalisation, research, infrastructure, human capital development, cultural heritage, territorial resilience and the green transition.

The CPERs must be coordinated with the 2021-2027 European Funds and the 2021-2022 Recovery and Resilience Plan. They are accompanied by a “regional recovery agreement”, which aims to distribute a part of the credits of the “France Relance” plan used by the State in 2021-2022 in the territories.

The long-standing practice of contracts in France has helped strengthen capacities at both regional and national levels. It has served as a powerful tool to strengthen cross-sectoral coordination and enhance performance monitoring.

Using contracts to achieve the scale and capacity to address key challenges in Iceland

Since 2013, Iceland has used successive five-year contracts between its regions and the national government to ensure the financing and implementation of the regional-level plans. For example, the Northwest Region has signed three consecutive contracts with the Ministry of Transport and local authorities and the Ministry of Education and Culture to support the implementation of its regional plan, which emphasises regional development and innovation, culture, environmental issues and education and population. These contracts ensure funding against clear and measurable indicators established by the region.

The Northwest Region’s experience shows that this approach has significantly fostered trust in the central government. Over time, the region has benefited from fewer regulatory constraints, increased allowances for administrative costs, and the removal of restrictions on distributing funding between priority projects and competitive funds. In addition, the region has gained greater autonomy in appointing members to the Competitive Fund Distribution Committees.

Trust has also increased on the side of the region, as has capacity. There has also been a visible increase in the degree of responsibility given to local governments by the national government. Given this success, there is now also a possibility for other ministries to be part of the contract. Building on experience from the past, regions are developing increasingly stronger plans. For example, also in the Northwest Region, their 2020-24 contract has received support from expert consultants, the costs of which were paid by the Ministry of Transport and local authorities. The plan has a stronger local focus than in the past thanks to the greater degree of autonomy, and measurability is considered stronger.

Source: OECD (2020^[27]), The Future of Regional Development and Public Investment in Wales, United Kingdom, <https://doi.org/10.1787/e6f5201d-en>

Regional development agencies are another tool that can ensure effective co-ordination across and among levels of government by designing and implementing programmes. This is the case in Canada for example, where the federal government is represented in the provinces via regional development agencies, whose interests lie not only in representing the federal government’s priorities in

the provinces, but also in conveying provincial preferences to the federal authorities. Regional development agencies often result in tripartite agreements (i.e. formal contractual arrangements among federal, provincial, and local authorities) that support the implementation of infrastructure policies (Allain-Dupré, Hulbert and Vincent, 2017^[28]).

The EU governance structure also includes specific mechanisms to promote effective co-ordination and alignment of objectives. The European Semester process, which co-ordinates economic and fiscal policies between the European Commission and Member States, serves as a tool to enhance policy coherence and has been fully integrated into the EU Cohesion Policy cycle over the last two decades, in addition to more traditional co-ordination mechanisms. A key feature is to ensure greater coherence between national and European policies, with respect to links with national and regional fiscal frameworks (Berkowitz et al., 2023^[29]).

Empower place-based leaders to help shape place-based policies

Place-based policies require leadership to garner support and mobilise resources. Place-based leaders – which can imply a group of individuals and/or organisations – can broker development by ensuring a broad coalition of stakeholders get involved in, and benefit from, development (Grillitsch and Sotarauta, 2019^[30])

Empower place-based leaders to steer policies

Empowering regional and local leaders can contribute to successful place-based policies. Leadership is a make-or-break component. Particularly so when the sustainability of the place-based policies depends on where decision-making power lies. Leadership can come from many places, including the private sector in the form of entrepreneurial leadership or ‘innovative entrepreneurs’ (for example), the public sector in terms of institutional leadership or the community in terms of place-based leadership (Box 6.2). Place-based policies can benefit from having one, two or all three of these groups at the leadership table.

Box 6.2. What defines place-based leadership?

The role of place-based leadership is emerging in the literature as being key drivers of economic and social change at the scale of cities, regions and communities, and therefore an essential element in the success of place-based policies. These leaders are individuals, groups of people (e.g. local business networks, cluster organisations and civic groups) and organisations who have a breadth of experience, networks and assets that they commit to the development of their region. Place-based leadership includes four dimensions:

- **Place:** Place-based leaders advocate for policies that are more sensitive to place (e.g. mayors and their cities), especially when place-blind policies create undesirable results.
- **Engagement:** Place-based leaders seek to connect the public to policy processes, either as facilitators/promoters of dialogue or by empowering actors to be involved in policy design.
- **Change:** Processes of change or transition (demographic or industrial decline, climate change, etc.) create space for place-based leaders to come to the fore to help identify solutions that are inclusive, feasible and cross-sectoral.

- **Co-ordination:** Place-based leaders play a fundamental role in bringing together diverse actors (e.g. chairing a steering committee, facilitating a dialogue forum) around policy challenges.

Source: Authors' elaboration based on Grillitsch and Sotarauta (2019^[30]), Trinity of change agency, regional development paths and opportunity spaces, <https://doi.org/10.1177/0309132519853870>; Beer (2023^[5]), The governance of place-based policies now and in the future?, <https://www.oecd.org/regional/place-based-policies-for-the-future.htm>; Sotarauta and Beer (2016^[31]), Governance, agency and place leadership: lessons from a cross-national analysis, <https://doi.org/10.1080/00343404.2015.1119265>

Leadership is even more important when facing complex place-specific challenges. When regions undergo transitions – away from fossil fuels, for example – and seek new economic paths, the place-specific opportunities (e.g. for diversification) may become clearer when all actors of change are involved (Grillitsch and Sotarauta, 2019^[30]). This is central, for example, to the green transition. In a case study of three Japanese towns, the transition to more decentralised energy through renewables development was facilitated by forward-looking mayors who sought to balance interests across sectors and to broker interests and resolve conflicts among national and local governments and the private and civil society sector (Takao, 2020^[32]). In rural areas, place leadership can also enable a place-based approach to development. A review of research projects shows the role of leaders in collaboration, consultation, capacity building and building networks across boundaries, which can supporting learning and innovation (Horlings, Roep and Wellbrock, 2018^[33]; OECD, 2012^[34]).

Leaders can be empowered when there is support from good governance arrangements. Even where financial and human resources are scarce, collaborative place-based governance mechanisms can create the right conditions for building consensus and driving a productivity agenda. This has been observed, for example, in the Greater Manchester Combined Authority that was created during one of several devolution deals between the UK national and local governments. This deal enabled the ten local districts to co-operate under a directly-elected mayor to support the economic development of the functional economic area. While the UK example of devolution has been only partially successful given the limited financial flows to these new city-region structures (McCann et al., 2021^[35]), it has given important jurisdiction for some education and employment services that were previously considered 'place-blind' (The Productivity Institute, 2023^[36]). These competences, and the Authority's close relationship with the Greater Manchester business community, have helped to identify and attract the skills need to improve the local economy and provide an overall sense of continuous leadership (Harding, 2023^[37]).

A 'challenge-oriented' approach can facilitate the involvement of leaders in industrial transition processes. This approach focuses on tackling cross-sectoral, societal challenges (e.g. delivering a just and inclusive green transition) in a multi-faceted way, rather than focusing on only one aspect of industrial transition (e.g. innovation, entrepreneurship, SMEs, greening, etc.) (OECD, 2023^[38]). The 'Wallonia High Impact Action: Plastics Go Green and Circular Challenge', for example, was implemented through a challenge-based approach with active involvement of stakeholders (businesses, local authorities, civil society organisations and environmental NGOs). It helped to spread innovative practices in the field of plastics recycling in the region, promoting a collective problem-solving culture that contributed to the development of a sustainable regional ecosystem in the plastics industry. It also provided a forum for regional stakeholders to discuss the broader challenges of industrial transformation and innovation (OECD, 2023^[39]).

Ensure the availability and adequacy of funding, financing and human resources to support place-based policies

Place-based policies need to be supported by sufficient and appropriate sources of public and private funding and financing. With the shocks of COVID-19 and the geopolitical situation, as well as the need to address the demographic, digital and green transitions, government budgets are increasingly under pressure. This combination has created a greater-than-ever demand for regional and local governments to ‘do more with less’. In this context, there is a need to focus on efficiency. There is also a need to ensure sufficient and appropriate sources of funding and financing are allocated to (1) support the design and implementation of an administrations’ own place-based policies and, for subnational governments, (2) deliver those delegated to subnational governments in addition of their own policies.

Ensure place-based policies are backed by sufficient and adequate public and private financial resources

Effective governance of place-based policies relies on ensuring the right fiscal and financial framework conditions and the right funding and financing instruments. Place-based policies require mobilising resources from different sources, be they public or private, or from the supranational (e.g. EU funds, international aid), national or subnational levels. These can be complemented by private sources, including from the financial community (e.g. the banking sector, capital markets) and business sector (e.g. public-private partnerships). Combining these various sources requires robust and stable regulatory and fiscal frameworks, which are not always in place and can be complex, fragmented and restrictive (OECD, 2021^[40]).

In many EU Member States, crucial elements of place-based policies are funded by the EU. EU cohesion funds, along with some EU sectoral funds and the EU Recovery and Resilience Facility, play a central role in supporting place-based policies (Box 6.3). While all EU Member States benefit from Cohesion Policy funding, its scale and relative importance of this funding source for investment varies. Cohesion policy represented a substantial portion of government capital investment—approximately 14%—during the 2014-2020 period, ranging up to 40% in less developed Member States (Berkowitz et al., 2023^[29]).

Box 6.3. The key role of EU funds to support place-based policies in EU Member States

The EU Cohesion policy plays a crucial role to fund place-based policies in EU countries. There are eight EU cohesion funds which are managed jointly by the European Commission and national and regional authorities in Member States, among which the European Regional Development Fund (ERDF), the European Social Fund Plus and the Cohesion Fund which are specifically designed to strengthen economic, social and territorial cohesion and correct imbalances between regions. Funds are allocated based on the country level of development (see Chapter 7). While 70% of the ERDF and ESF+ are concentrated on the EU’s less developed regions, the Cohesion Fund is entirely allocated to Member States with GNI per capita below 90 % of the EU average.

Within the Cohesion policy, the EU has developed even more targeted support to specific places and regions. For example, the Just Transition Fund illustrates how support can be further tailored to specific territories’ development needs, with a view to addressing pre-identified climate transition challenges. The EU also supports smart specialisation strategies to strengthen regional innovation ecosystems. Similarly, the EU further tailors its support and targets investment to regions according to their different economic profiles and geographical features of regions. This includes for example outermost regions, northern sparsely populated regions, islands, mountainous and coastal regions,

border regions, urban areas, or areas affected by industrial transition (European Commission, 2024^[41]). Cohesion Policy involves diverse territorial delivery mechanisms, such as Integrated Territorial Investment (ITI), Community-led Local Development (CLLD) and Sustainable Urban Development Strategies, accounting for almost 9% of total EU Cohesion Policy funds in 2014-2024 (Berkowitz et al., 2023^[29]). Finally, conceived as a more efficient and sustainable alternative to complement traditional grant-based support, the financial instruments provide ERDF and Cohesion Fund support on the ground through financial products, such as loans, guarantees and equity. In this way, financial instruments can leverage additional public or private resources to address market failures in line with Cohesion Policy priorities. Financial instruments also help recycle funds over the long term (i.e. loans are repaid and equity generates returns) and they offer incentives for better performance because of their “repayable nature” and the use of expertise and know how (European Commission, 2016^[42]).

This trend also concerns other EU sectoral policies, managed directly by the European Commission or indirectly by other institutions, such as the European Investment Bank. Several initiatives or programmes are targeted at cities, rural areas or specific regions. For example, the Horizon Europe Programme had developed the concept of “EU missions” to bring concrete solutions to important challenges, many related to territorial issues. Among the 5 missions for 2021-2027, we find “Adaptation to Climate Change: support at least 150 European regions and communities to become climate resilient by 2030” and “100 Climate-Neutral and Smart Cities by 2030”. Similarly, the nine outermost regions are specifically targeted as potential coordinating partners within the Horizon Widening Programme, a programme normally open to associated countries that underperform in terms of R&I performance. The LIFE programme supports the European City Facility to support sustainable energy investment projects.

Finally, the **EU Recovery and Resilience Facility (RRF)** can benefit regions, although it lacks the place-based and multi-level governance approach of Cohesion Policy. It is managed by the European Commission and central governments in EU Member States. Only some Recovery and Resilience Plans (RRPs) include territorial rebalancing, especially as a transversal priority in all policies. Others dedicate ad-hoc resources to support the most disadvantaged areas, others instead lack a strategy to enhance territorial cohesion (European Commission, 2023^[43]).

Source: Author’s elaboration

Place-based policies can be also supported by central government interventions. They include grants, especially earmarked grants and subsidies from sectoral ministries, national funds for regional development, fiscal equalisation schemes, tax incentives, and financial instruments. National governments play a crucial role by providing grants and subsidies (including general and specific-purpose grants) to subnational governments, businesses, and NGOs to support place-based policies. In particular, earmarked grants may serve several purposes, such as internalising externalities, which means encouraging subnational actors to consider the benefits that certain activities or investments could have for others (e.g. gains from improving transport infrastructure within a region); promoting national policy goals at the subnational level; facilitating risk-sharing and co-operation among different tiers of government and with the private sector; and strengthening the administrative capacities of subnational governments or regional development agencies to design and implement regional development strategies (Bergvall et al., 2006^[44]; OECD, 2020^[27]; Spahn, 2012^[45]).

Conditionalities can be attached to grants and subsidies to align spending priorities among levels of government and with other stakeholders, although there are trade-offs to consider. The EU significantly expanded the use of conditionalities in its Cohesion Policy in the 2014-2020 period, including ex-ante conditionalities (both general and thematic) and macroeconomic conditionalities linked to

recommendations included in the European Semester. However, there is some evidence that the use of conditionalities has not always been effective in improving economic policies in recipient countries. Therefore, when designing and implementing a grant system with conditionalities, it is crucial to understand the trade-offs and consequences involved, and to consider the objectives, the choice of instruments, the administrative burden, and the capacity of all parties to implement the agreement and achieve the desired outcomes. Ensuring ownership and legitimacy through transparency and mutual accountability is essential, as is maintaining simplicity and flexibility to adapt to specific local circumstances and development needs. While linking conditionalities to outcomes is ideal (for example, through performance-based grants), it is challenging in practice due to issues related to the selection and measurement of outcomes, including the design and evaluation of indicators (Berkowitz, Rubianes and Pieńkowski, 2017^[46]; OECD, 2018^[7]).

Other challenges may arise in the case of discretionary central government grants. Political factors can influence the distribution of resources, potentially favouring certain regions or localities based on political interests rather than development needs. In addition, disputes may arise over the level of transfers and the criteria used for their distribution, leading to difficulties in reaching consensus between different levels of government. Earmarked grants also limit sub-national autonomy, i.e. the decision-making power of regional and local actors. Finally, earmarked grants may not be responsive to regional and local needs and may not allow subnational governments to tailor their policies to their unique regional needs and strengths, thus contradicting the principles of the place-based approach (see Chapter 3).

National Funds for Regional Development (NFRDs) can serve as a specific type of earmarked transfer from central government to support regional development. These funds may be financed from a variety of sources, including budget allocations, inter-governmental transfers, or specific revenue streams, such as royalties from natural resources (e.g. Norway) (Clark and Monk, 2010^[47]). In France for example, the National Fund for Planning and Territorial Development (*Fonds national d'aménagement et de développement du territoire*, FNADT) provides State support, both in investment and in operation, for actions that contribute to implementing the strategic choices of territorial planning policy. In the United States, the Community Development Block Grant (CDBG) programme, which receives annual appropriations from the federal government, allocates funds to states and local governments for a wide range of community development activities such as housing, infrastructure, and job training (US Department of Housing and Urban Development, 2022^[48]). NFRDs offer important advantages, including targeted financial assistance to regions with specific development needs and fostering collaboration among different levels of government to achieve regional development objectives.

Equalisation transfers can also contribute to the achievement of place-based policy objectives, but need to be well designed to avoid counterproductive effects. The main objectives of equalisation transfers are to provide a minimum acceptable level of public goods and services at a comparable tax rate across regions. Equalisation transfers can help regions to operate on a level playing field and use their resources to implement targeted regional development policies, while giving subnational governments more discretion than earmarked grants (Solé-Ollé, 2023^[10]; Moisió and Vidal Bover, 2023^[49]; OECD, 2021^[40]). However, as fiscal equalisation systems can have both positive and negative effects on place-based policies and regional economic development, it is crucial to design the right mechanisms to avoid counterproductive effects (see Chapter 3).

Place-based initiatives can be supported by non-traditional sources of funding, like philanthropy, foundations and crowdfunding. Crowdfunding can complement regional and local authority funding for small-scale investment projects with high local visibility and impact but limited profitability for traditional financiers, such as community-level infrastructure and equipment, green and public space improvement, etc. They can be combined with other instruments at several stages of the investment process. For instance, donation crowdfunding can secure early-stage investments and build support among the local community. Later in the process, as the project's scope is defined and financial conditions are established,

equity crowdfunding markets can become suitable, in combination with other local revenue streams, to finance the project's construction (OECD, 2020^[27]; Gasparro K., 2019^[50]; OECD, 2022^[51]).

Taxation can be a powerful tool for place-based policymaking, provided that it is used in a balanced manner. Tax incentives are sometimes used to attract firms and investment to specific regions. These incentives can include tax breaks, reductions in corporate income tax rates, or tax exemptions. Similarly, Special Economic Zones (SEZs) are built upon economic regulations and policies that differ from the rest of the country and that, in principle, offer a more favourable business environment, streamlined administrative procedures, or tax benefits (OECD, 2023^[52]). The rationale behind these incentives is that the revenue no longer collected through taxes will *de facto* act as an investment that furthers regional development goals. If adequately designed and targeted to the local ecosystem, these tax instruments can be of particular benefit to lagging regions and in boosting nascent and emerging sectors, as shown by SEZs in southern Italian regions, in Poland, in France (e.g., *Zones Franches Urbaines* (Urban Free Zones), in the United States (the “Opportunity Zones” programme), and in the UK (“freeports” and “investment zones”). However, these tools need to be used in a balanced manner to ensure that the benefits of increased investment, job creation and infrastructure development outweigh the drawbacks of reducing tax incentives, lack of transparency or unintentionally promoting rent-seeking behaviour (Brussevich, 2020^[53]; World Bank, 2017^[54]).

Strengthening the fiscal capacity of subnational governments can help deliver policies that are truly place-based. Through their own-revenue sources (i.e. local taxes, user charges, revenues from assets), subnational governments directly support place-based policies but their capacity to support specific regional and local development projects, including through co-financing, may be limited by their weak fiscal capacity. To make multi-level governance systems work, governments should ensure that expenditure needs are consistent with revenues (OECD, 2019^[3]). However, in many countries, function is not always followed by finance. The number of under- or unfunded mandates – where the decentralisation of spending responsibilities is not matched by a sufficient revenue severely hampers subnational government capacity to spend and invest to implement place-based policies. Overall, unfunded or underfunded mandates are found to have a negative effect on economic growth (Rodríguez-Pose and Vidal-Bover, 2022^[55]). They also tend to deepen the challenge of responding to megatrends, such as climate change, as well as shocks, such as pandemics (Rodríguez-Pose and Vidal-Bover, 2023^[56]). In Ireland, for example, the government has rolled out an ambitious Climate Action Plan, but regional and local authorities have struggled to have impact given their weak fiscal and technical capacities. Each local authority is obliged to launch its own local authority climate action plan to align with the national strategy, but without any meaningful transfer of funds or authority for their implementation³ (OECD, 2023^[57]).

Fiscal imbalances result in fiscal capacity gaps which constrain the implementation of place-based policies. Subnational governments should have a balanced system based on a basket of revenues (OECD, 2019^[3]; OECD, 2022^[58]). In addition to a sufficient level of grants (for delegated functions or earmarked investment), this basket should include a mix of shared and own-source tax revenues (composed of tax revenue shared between national and subnational governments, and taxes levied and managed by subnational governments themselves) as well as other sources of own revenues such as user charges/tariffs and fees and property income.

In OECD countries and EU Member States, the structure of subnational government revenues varies greatly across countries and there is no one model of funding. However, the level of fiscal autonomy remains low in several countries, with strong vertical fiscal imbalances. There is a notable gap in fiscal capacity in the European context between non-cohesion and cohesion countries⁴ (European Commission, 2021^[59]).

Enhancing subnational fiscal capacity could unlock the use of borrowing to finance place-based investment projects. Mobilising borrowing is essential to help subnational governments meet the high up-front costs of infrastructure investment and to spread those costs across the future beneficiaries of an

investment (OECD, 2022^[58]). Borrowing is used by subnational governments to supplement self-funding and capital grants. Weak fiscal capacity has implications for creditworthiness, i.e. the ability to repay debt. Fiscal capacity can be improved through fiscal decentralisation reforms that ensure sufficient, stable and diversified revenue streams, with the ability to adjust in times of shocks, as recently demonstrated by the pandemic, wars and other risks that put subnational finances under stress. Unlocking resources is a prerequisite for unlocking finance to meet investment needs in regions and cities.

Unlocking financing requires appropriate regulatory and legal fiscal frameworks that provide subnational governments with access to finance while managing the associated risks (OECD, 2022^[58]; OECD, 2023^[60]). Financing instruments for subnational government infrastructure investment mainly consist of debt through loans and bonds, as well as guarantees. In many countries, especially in European countries, loans are the most common form of finance for subnational governments, while bonds are more frequently used in larger and more creditworthy regional and city governments. The use of these financing instruments varies substantially across countries and is highly dependent on the intergovernmental fiscal arrangements in a country, in particular the regulatory framework for borrowing applied to subnational governments. As subnational government debt can create sovereign fiscal risk, many countries place restrictions on the use of borrowing, for example the “Golden Rule” (i.e. borrowing is only allowed to finance capital expenditure) and additional prudential rules on debt stock and debt service. In some countries, subnational governments, especially at the local level, may not be able to access financial markets to issue bonds (OECD, 2022^[58]). The challenge is to find the right balance between, on the one hand, the need for some fiscal space and capacity to invest and, on the other, the need to manage associated risks and to provide safeguards, which are essential for lenders and private investors.

Unlocking financing requires having appropriate financial markets, including credit (loans) and capital markets (bonds) suitable for subnational borrowing and offering affordable finance. This can lead to establishing financial intermediaries for subnational governments like state or municipal bond banks (e.g. in the United States), national infrastructure banks (in the United Kingdom), regional development banks (e.g. Länder banks in Germany) and local government financing agencies (e.g. in France, Finland, Japan, New Zealand, Norway or Sweden). Several national development banks also support place-based policies by financing subnational governments and local development projects (e.g. *Banque des territoires* in France, KfW in Germany). Multi-lateral development banks, such as the World Bank, the European Investment Bank (EIB) or the European Bank for Reconstruction and Development, are also active in this area, offering loans and, sometimes, grants to support regional development projects. These banks generally provide loans with concessional terms, including lower interest rates and longer repayment periods, which help reduce the financial burden on subnational governments. They also usually accompany their financial contributions with technical knowledge and expertise in project design, implementation strategies, policy reforms, and institutional strengthening through capacity building programmes. In the EU, cohesion was one of the original reasons for the creation of the EIB in 1958 and continues to be one of its priorities. The EIB’s cohesion financing supports projects in EU regions with a gross domestic product (GDP) per capita below the EU average. The Bank will dedicate at least 40% of its total financing in the European Union to projects in cohesion regions during 2023-2024, and at least 45% from 2025. In addition, the Bank advises public authorities and project promoters in so-called cohesion regions on how to improve the technical and financial quality of their projects, adopt successful strategies in areas such as transport and climate, reinforce their institutions and attract funding (EIB, 2023^[61]).

More innovative financing instruments such as green, social, climate and sustainability bonds or loans, and impact bonds are developing at the subnational level, supporting green and social place-based policies. Many places are harnessing green and social bonds to financing investment programmes, including social and green bonds in Ile-de-France (France), Madrid (Spain), Washington DC (United States), Mexico, or Helsingborg in Sweden, among many other examples. However, subnational governments still represent a small share of green and social bonds issuance at the global level due to

various barriers related to the fiscal and regulatory framework, institutional capacity and lack of friendly capital markets (OECD, 2023^[60]).

Place-based policies can benefit from leveraging private investment for regional and local projects.

While the private sector can drive regional economic growth by injecting capital into a region, mobilising private actors to support specific place-based policies is more challenging. However, this can be done through different types of instruments and investment approaches, including publicly-backed equity to support SMEs (regional capital risks for example), regional and local state-owned enterprises (“public-private enterprises”), and public-private partnerships (PPPs).

Public-private partnerships (PPPs) can present benefits for place-based policies but rolling out subnational PPPs should be done with caution.

PPPs are long-term contracts between government entities and private parties, whereby the private party assumes significant risk and management responsibilities to deliver public assets or services (World Bank et al., 2017^[62]; OECD, 2018^[63]). Governments can reap benefits from PPPs, such as enhanced project selection through private sector analysis and innovation, improved access to private sector expertise, and better lifecycle management driven by long-term incentives, among others. Nevertheless, as the OECD Principles for Public Governance of PPPs state, it is critical to compare benefits, costs, and risks of PPPs against other funding and financing models, and to carefully assess the “value for money” and characteristics of specific projects before opting for a PPP. In addition, subnational governments face risks related to institutional capacity and fiscal and regulatory frameworks when engaging in PPPs. Successful implementation of PPP projects requires substantial institutional expertise, including the ability to assess benefits, costs, and risks, manage project development, procurement, awarding, and contract management, all while ensuring transparency. Not all subnational governments have the appropriate skills to design and manage PPPs. Therefore, PPPs should primarily be utilised by larger cities and regional jurisdictions that possess the necessary fiscal and institutional capacities, under specific conditions and stringent control mechanisms (OECD, 2022^[58]).

Leveraging private investment is even more challenging in less-developed regions where return on investment may be more limited.

In addition, less developed regions can be confronted with higher perceived risks, lower market potential or uncertain regulatory environments that may deter private capital in these areas. Specific financial instruments can help fill in this gap, such as financial instruments developed in the framework of the ERDF and Cohesion Fund that provide support for investments by way of loans, guarantees, equity and other risk-bearing mechanisms. They can be combined in the same operation with technical support, interest rate subsidies or guarantee fee subsidies (European Commission, 2015^[64])

Co-ordination of fiscal policies among levels of government help build adequate fiscal capacity to deliver place-based policies (OECD, 2021^[65]).

Better aligning fiscal frameworks among supranational, national and the regional and local levels could help to create greater coherence among place-based policy objectives.

Enhancing administrative, strategic and technical capacity to support design and implementation

Designing and implementing place-based policies require having a good set of capabilities at all levels of government.

The degree to which governments can achieve lasting and inclusive development depends largely on their administrative, strategic and technical capacities, including to set goals for social, political and economic outcomes, to deliver on their missions/mandates in an efficient, fair, accountable, incorruptible and responsive manner and to perform key functions such as design, plan, monitor, procure, coordinate, partner (including with the private sector), and evaluate activities. Capacity issues remain a major constraint to the effective implementation of place-based policies, particularly in less developed regions (Berkowitz et al., 2023^[29]). This is even more the case as governments are being confronted with challenges such as climate change, demographic change and digitalisation that require strong

administrative (e.g., management, leadership), strategic (e.g., foresight) and technical (e.g., digital, data) capacities.

Developing adequate administrative and strategic capacities is particularly important at the regional and local levels given their central role in public policies, public investment and place-based policies. Should this capacity be lacking, negative consequences may include delays, inefficiencies, and diminished regional development outcomes (OECD, 2018^[71]). The capacity level may be correlated with the quality of governance, which varies significantly across countries but also across regions. The European Quality of Government Index (EQI) shows that the quality of government in a territory is a key factor for understanding its social, economic and political progress. High-quality regional governance bodies can create a favourable business environment, attract investment, and promote economic development through policies that support entrepreneurship, innovation, and competitiveness, and ensure that resources are allocated efficiently (OECD, 2023^[52]; European Commission, 2024^[41]). Disparities in the quality of regional governance can lead to regional economic disparities (Barbero et al., 2022^[66]). The 2024 edition of the EQI confirms the main findings of the previous editions: when it comes to the quality of the government, what region you live in matters just as much as what country you live in. It clearly shows that wide disparities still exist across EU regions, with less developed regions lagging behind and their performance worsening since 2021.

In a context where regional and local actors are increasingly involved in the management of EU Cohesion policy in application of the “partnership principle”, the quality of regional governance can act as a key determinant for the effective use of EU funds (Charron, Dijkstra and Lapuente, 2014^[67]). Quality of governance can be a notable roadblock in the delivery of large scale investment programmes, such as the EU’s Cohesion Policy, which often depends on subnational governments to manage and invest available funds (Keller and Virág, 2021^[68]), although this involvement remains uneven across the EU.

Improving institutional and government quality can lead to better absorption and utilisation of funds, while also leading to an increase trade among regions with similarly high institutional quality. A recent study has shown that a small five per cent increase in government quality across European Union regions increases the impact of Cohesion investment by up to seven per cent in the short run and three per cent in the long run (Barbero et al., 2021^[69]). Improving institutional quality is especially important in a lagging-region context whereby even marginal improvements in government quality can have a large impact, such as on innovation potential (e.g. patenting) (Rodríguez-Pose, 2013^[70]). Regional governance reforms are an opportunity for developing strategic capacity, in particular on regional development planning and implementation, policy monitoring and evaluation processes (OECD, 2022^[24]).

Reinforcing administrative and strategic capacity of public actors and stakeholders is a key dimension to improving government quality, especially at the subnational level. This refers to skills and competencies in strategic planning, policy and programme management, budgeting and finance, project appraisal, regulation, infrastructure investment, procurement, data management, stakeholder engagement, partnership building, monitoring and evaluation and foresight (OECD, 2023^[71]). It also requires fostering a learning culture, including providing knowledge exchange opportunities and encouraging continuous training, experience-sharing, learning-by-doing and innovation (OECD, 2018^[71]).

Several OECD countries and the EU have invested in strategic capacity-building initiatives to improve the institutional and administrative capacity of public institutions. The EU has substantially increased its support for technical assistance activities for the new programming period 2021-2027 to improve the administrative capacity of managing authorities and beneficiaries to implement Cohesion Policy programmes, for example through actions identified in strategic roadmaps (OECD, 2020^[72]; European Commission, 2024^[41]). Technical support is also provided to Member States, through the Technical Support Instrument (TSI), to improve the efficiency and quality of public administration tackle, among other things, fraud and corruption. The European Semester process has been instrumental in

encouraging Member States to prioritise institutional reforms, including at the subnational level (European Commission, 2024^[41]).

Involving all levels of governments and fostering collaboration to build better capacities for place-based policies is key. The Australian New Zealand School of Government (ANZSOG), established in 2002 through the collaboration of major Australian and New Zealand universities and the Governments of the Australian Commonwealth, States and Territories and of New Zealand, is unique for its intergovernmental approach to public sector learning. Its focus is on educating public sector leaders, building new public policy research and management capability, and encouraging public-sector innovation. Capacity development and support can also be carried out in cooperation with local government associations, like in Slovenia (OECD, 2019^[22]).

Leverage experimental practices to improve policy design and delivery

Given the scale and complexity of the challenges confronting subnational governments, there is a need to move beyond a business-as-usual approach. The design of place-based policies is an avenue where new models of governance and new practices can be tested through a process of ‘learning by doing’ that engage a broad cross-section of stakeholders. This is relevant in both leading and lagging regions, although in the latter scenario targeted programmes supported by the national (or supranational) level may be needed to support these processes (Wolfe, 2018^[73]).

Embrace experimental practices to improve policy design and co-operation

Place-based problem-solving can benefit from experimental governance approaches. There are many forms of experimentation in policy design and delivery. These include co-design and delivery as well as piloting specific initiatives. In addition, there are tools and mechanisms that can facilitate experimentation which emphasise collaboration across sectors, knowledge exchange and network utilisation (Giest, 2023^[74]):

- **Policy innovation labs:** Focus on designing citizen-centred public policies, with the aim of tackling the root causes. Examples include the Solutions Lab within the City of Vancouver, Canada, which tests solutions developed by participants (who vary depending on the policy problem) for climate and citizen well-being.
- **Data collaboratives:** Collaboration among diverse stakeholders to pool data and share knowledge to tackle policy questions. A notable example is the Amsterdam Data Exchange (AMdEX), a cross-sector cooperative that tests innovative data-driven solutions that can inform digital policies.
- **Collaborative governance regimes:** Processes and structures designed for decision making. For example, the Appalachian Regional Commission (ARC), a longstanding economic development-driven entity comprised of 13 U.S. States, the Federal government and municipalities, invests substantially in communities affected by the green transition.

National and regional policy makers can act as facilitators of experimental governance processes. This involves time, experimentation and a gradual approach for optimal results (Giest, 2023^[74]). For example, in Germany, regions (*Länder*) and municipalities are supported by the Federal government to conduct policy experimentation and build evidence-based policies in areas spanning from AI to regional innovation to energy policy (Federal Ministry for Economic Affairs, 2019^[75]). The German example, which can take the format of a policy innovation lab or regulatory sandbox, has become increasingly prominent across OECD countries with numerous examples initiated by the public, private, and civil society sectors, as well in partnership with universities (Bellefontaine, 2013^[76]). Canada also puts experimentation at the core of place-based regional development policy to foster learning and community capacity building. Pilot policies are one of the tools chosen by Canada to operationalise the hybrid contracts that are the prime

instrument of the Canadian regional governance system (OECD, 2018^[71]). To encourage non-government actors to get involved in policy labs requires national and regional policy makers to act as facilitators (of firms, academia, civil society groups) and to communicate back to the stakeholders and the public how the process will translate into concrete results (Leckel, Veilleux and Dana, 2020^[77]).

Processes such as Local Open Innovation (LOI) can help regional development actors unlock their assets and identify their competitive advantage. Contrary to closed innovation which might occur within an organisation or closed systems of a few actors, in an LOI ecosystem, organisations engage in activities such as joint research projects, technology transfer agreements, co-development initiatives, or knowledge-sharing networks with other local entities – often around a common problem or theme (Leckel, Veilleux and Dana, 2020^[77]). By leveraging the collective knowledge and capabilities of the local community, regional bodies can help SMEs accelerate the pace of innovation, address complex challenges, and create value for both them and the broader ecosystem (West and Bogers, 2013^[78]). The public sector can initiate LOI processes to serve the dual purpose of inciting a cultural of innovation and solving policy problems. These collaborative networks can have a heightened impact in non-core regions where knowledge spillovers may be limited to the local setting and where firms may have limited capacity to connect with external actors (Meili and Shearmur, 2019^[79]).

Place-based policies can help governments test innovative policy practices. They can allow for developing experimental initiatives and adopting an entrepreneurial culture to test ideas on a small-scale before rolling out more broadly. This can be supported by governments partnerships with other sectors (private, academia, NGOs) who are less risk averse (OECD, 2023^[38]). The private sector can be especially useful to augment data collection and analytical capabilities of regional and local governments. In the UK, the London Datastore is a data portal that freely distributes public and private data from more than 1 000 datasets and numerous organisations to researchers, policy makers and private sector companies. This can inform a wide range of projects and policies on housing, economic development, air quality, and crime (OECD, 2022^[80]). The adoption of artificial intelligence (AI) tools within subnational administrations may help to further streamline tasks and engage with citizens. Already plenty of regional and local authorities are embedding AI in their development strategies (see Box 6.4).

Box 6.4. Leveraging AI across multi-level governance systems

Several international fora exist for making better use of artificial intelligence (AI) while managing its risks, although few have a subnational focus. Yet, there are some examples of policy frameworks emerging which aim to foster a safer, smarter use of the technology:

- The city of Boston (US) established its *Guidelines for Using Generative AI* that helps local public servants use AI tools to improve efficiency including suggestions for effective prompt writing.
- The State of Utah (US) launched the *Enterprise Generative AI Policy* to support its use among State officials with significant attention for managing risk. The State is looking to develop policy sandboxes around AI tools to engage citizens and non-government stakeholders on its uptake.
- Catalonia (Spain) has developed an AI Strategy as a public-private collaboration focussing on attracting talent specialised in AI, making the region a European and global hub for AI.
- Other regions and cities that have launched strategies to increase capacity and promote economic development include Barcelona (Spain) (2021), San José, California (US) (2022), Helsinki's AI Register (Finland) (2022), and Connecticut (US) (2023).

Looking ahead, good practices for leveraging AI to deliver effective territorial strategies and to promote better regional and local governance will continue to be established. Moreover, governments close to

citizens should remain attendant to the risks associated with AI and inform and educate people on best practices for using AI. Subnational governments may also be well-placed to promote their places for AI-related investment opportunities and to work with other institutions (universities, private sector) to develop the attractiveness of their territories to participate in the AI value chain.

Source: Klaus and Polsky (2023^[81]), Subnational Practices in AI Policy: A Working Guide, <https://carnegieendowment.org/research/2023/12/subnational-practices-in-ai-policy-a-working-guide>

Promote an inclusive policy process

The role of local actors is essential to understand and address the root issues of policies challenges. Fostering a more inclusive policymaking process is core for place-based policies. This requires governments to invest in bottom-up processes to support a healthy, open public sphere that empowers citizens, civil society groups and sectors to get involved. Inclusive engagement is important for building trust and social capital—between citizens and institutions, and among citizens themselves.

Place-based policy should embed community and private sector engagement

Effective place-based policies need to be inclusive of citizens and non-governmental organisations. The depletion of the civic sphere can be salient in places caught in development traps (Rodríguez-Pose, Dijkstra and Poelman, 2024^[82]) and become a reason why people and investment leave or avoid a place (Barca, 2009^[20]; ^[83]). Like wages, as people and firms leave a place, social capital can further deplete, leading to further divergence. On the contrary, when social bonds and networks are strengthened, this can inspire further investment in a region and improve overall well-being of residents (McCann, 2023^[83]). Building trust is an iterative and long-term process that requires giving agency to local stakeholders and enhancing participation in the design of place-based policies (Beer, 2023^[5]).

Place-based policies needs to be based on deep engagement with local actors—including the private sector—to build trust and social capital. Tools for building participation and better co-operating with private sector stakeholders and civil society need to be developed at regional and local levels. Stakeholder dialogue fora can help bring stakeholder groups into policy dialogues. In general, these fora should bring together a combination of national and subnational public, private and third-sector actors in a regular, formalised manner or on an ad hoc basis to address specific policy issues or to respond to shocks (OECD, 2022^[24]). An example is Sweden's Forum for Sustainable Growth and Regional Attractiveness, which brings together central and regional-level politicians, civil servants and civil society to promote a regional lens for considering sectoral initiatives, e.g. in housing, innovation and transport (OECD, 2022^[24]).

Marginalised groups can be left out of the place-based policy design due to a lack of data. Place-based policies must account for disadvantage and groups that are not immediately apparent in top-down approaches to address regional inequalities. This includes accounting for the 'nested-deprivation' – deprivation that may occur in just one housing estate or even one row of flats within neighbourhoods that are otherwise affluent (Boswell et al., 2020^[84]). Much has been done to collect data and map the access to key services at regional level, such as with the Neighbour Atlas in the USA (OECD, 2023^[71]) (Kind and Buckingham, 2018^[85]). Further embedding data on disadvantaged groups and service gaps can help ensure that policies are designed to reach the diverse users, who often rely on public services the most.

Street-level civil servants can be an important stakeholder in the place-based policy design process. As providers of key services, local civil servants are well-positioned to inform policy design (Rothstein and Stolle, 2008^[86]). To ensure this happens, subnational governments need resources to engage civil society leaders and educational institutions, who are often trusted local leaders and are

well-positioned to support policy design and to ensure it meets the needs of the groups or firms they represent (Beer, 2023^[5]; Moore-Cherry et al., 2021^[87]).

Multi-stakeholder approaches to place-based policies can lead to better policy design and improve working relationships across government and sectors. Place-based policies that pursue integrated objectives benefit from coordination across sectors (e.g. aligning transport development with housing requires public and private actors to work in lockstep). An integrated versus more sectoral approach differentiated the experiences of some Czech regions as they transitioned from a command economy. The Moravia-Silesia region, for example, was proactive and collaborative, working with the private sector and academia in establishing new university programmes to address regional needs and elevating business leaders through decision-making processes (Blažek and Květoň, 2022^[88]; Beer, 2023^[5]). The EU’s region-based Smart Specialisation Strategies (S3) was levered as a coordination tool in the Moravia case and helped implicate the business and academic community in new path development and diversification. The S3 tool, and other programmes like it, have potential to empower civil society, SMEs and entrepreneurs, and others to be part of innovation policy design (McCann and Ortega-Argilés, 2016^[89]).

Building trust can translate into more effective and sustainable place-based policies. Fostering trust in institutions, and among society groups, can lead to greater levels of well-being while it also signalling to private investors that a place is well-governed (McCann, 2023^[83]). Involving trusted local actors may help remedy the challenges that can arise when decision-making rests largely with actors who are far from the policy problem and who may be perceived to have less knowledge and/or legitimacy to implement policy solutions (Beer, 2023^[5]). National policy makers can also consider the often large disparities in government trust that are observed within countries (OECD, 2022^[90]) and how this can hinder regional growth and exacerbate regional inequalities, fuelling further discontent (Box 6.5). Inclusive place-based policies have the potential to strengthen trust and build social capital to support long-term development.

Box 6.5. Why social capital matters for place-based policy design

Social capital and trust are distinguishable in terms of their impact on regional development. Researchers have distinguished between ‘bonding’ social capital and ‘bridging’ social capital. The former refers to the strength of connections within groups while the latter looks at the links across heterogeneous groups and networks (Putnam, 2001^[91]). The relationship between social capital and regional economic growth shows that, in particular, bridging social capital is critical for stimulating economic development in low-skilled regions by compensating for the lower human capital in these regions (Muringani, Fitjar and Rodríguez-Pose, 2021^[92]). Both bridging and bonding have a stand-alone positive impact on economic growth, however policy makers should work to foster an appropriate balance by attracting and developing human capital and fostering an environment that enables cross-group interactions as much as in-group ones (Muringani, Fitjar and Rodríguez-Pose, 2021^[92]).

Higher levels of social capital are not an immediate recipe for growth and development and can even fuel political backlashes. This takes place when not all the ingredients – bridging and bonding – are in place. Problems occur where bonding (in-group) social capital is high, but the population and local economy are in decline. This highlights that the discontent resulting from a gradual erosion of community well-being is voiced at the ballot box (Rodríguez-Pose, Lee and Lipp, 2021^[93]).

For policy makers the challenge is to adopt a more dynamic territorial lens which considers long-term declines in the economy, trust and social capital. This includes factors such as out-migration, employment stagnation and industrial change (Rodríguez-Pose, 2020^[94]; Suedekum, 2023^[95]). This is one fundamental reason why subnational governments require enhanced capacities:

to set long-term budgets; to be equipped with the planning and policy tools to design robust strategies; and to be a part of policy delivery, monitoring and evaluation process which ensures continuous improvement in policymaking.

Source: Authors elaboration based on Muringani, Fitjar and Rodríguez-Pose (2021^[92]), Social capital and economic growth in the regions of Europe, <https://doi.org/10.1177/0308518X211000059>; Rodríguez-Pose, Lee and Lipp (2021^[93]), Golfing with Trump. Social capital, decline, inequality, and the rise of populism in the US, <https://doi.org/10.1093/cjres/rsab026>; Suedekum (2023^[95]), The broadening of place-based policies – from reactive cohesion towards proactive support for all regions, <https://www.oecd.org/en/about/projects/place-based-policies-for-the-future.html>

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Notes

¹ This chapter was informed by the fifth workshop in the series on [Place-Based Policies for the Future](#) that was held on 15 September 2023 with invited experts. Papers for the seminar were prepared by Professor Andrew Beer (*The governance of place-based policies now and in the future?*) and Professor Sarah Giest (*Policy capacity mechanisms for addressing complex, place-based sustainability challenges?*).

² The Recommendation of the Council on Regional Development Policy provides a definition of multi-level governance: “Multi-level governance refers to the institutional and financial interactions among and across levels of government and a broad range of non-governmental stakeholders, including private actors and citizens, when designing and implementing public policies with subnational impact. This interaction is characterised by a mutual dependence among levels of government and runs vertically (among different levels of government), horizontally (across the same level of government), and in a networked manner with a broader range of non-governmental stakeholders (citizens, private actors).” (OECD, 2023^[96])

³ Funds provided to four Climate Action Regional Office, limited to coordination activities.

⁴ The Cohesion Fund provides support to Member States with a gross national income (GNI) per capita below 90% of the EU-27 average to strengthen the economic, social and territorial cohesion of the EU by supporting investments in the fields of environment and transport trans-European networks. For the 2021-2027 period, the Cohesion Fund concerns Bulgaria, Czechia, Estonia, Greece, Croatia, Latvia, Lithuania, Hungary, Malta, Poland, Portugal, Romania, Slovakia and Slovenia (so called ‘cohesion countries’).

7 The present and future of place-based policies

Place-based policies are gaining momentum, including to address challenges that will rise strongly in the future, notably climate neutrality goals by 2050 and demographic change. They are critical to ensure social cohesion. Governments structure their place-based policies differently, though common trends have emerged, including more bottom-up approaches. Harnessing the potential of place-based policies to help address key socio-economic challenges requires a stronger forward-looking approach, along with strong local democracy, leadership and capacity, more and better policy evaluation, as well as extending the place-based approach to a broader range of sectoral policies.

Place-based policies are beginning to address global challenges

Governments are pursuing similar objectives, but policies are structured differently across countries, as the examples below illustrate.¹ Many countries are embracing more bottom-up, multi-governance, and broader thematic approaches. At the same time, they are expanding the role of place-based policies to combat increased economic disparities and improve social cohesion. Nonetheless, these initiatives are pursued differently across countries. The European Union (EU) uses a well-defined place-based approach in its Cohesion Policy to address regional disparities through resource redistribution, investment, and governance mechanisms. The United States (US) has not defined an all-encompassing specific cohesion program but has increasingly integrated a place-based approach in industrial policies, including in the CHIPS and Science Act. The EU, US, Colombia and Japan have taken steps to incorporate demographic and environmental challenge. They are beginning to use the potential of place-based policies for a more a forward-looking approach to global policy challenges.

The European Union

General overview of place-based policies

The EU's Cohesion Policy is the primary instrument of the European Union's policy framework for reducing regional disparities. Cohesion policy introduces a strong place-based approach to the implementation of EU policy, mainly through the spatial allocation of resources to combat disparities, the vertical redistribution of resources from the EU to national and sub-national levels and the governance mechanisms put in place (Berkowitz et al., 2023_[1]). While cohesion policy has taken on a more 'thematic' approach in recent decades, many stakeholders wish to strengthen the original spirit of the policy by reintroducing a greater geographical focus after 2027 (Box 7.1).

Regional and local authorities are involved through partnership and shared management. EU member countries determine the allocation of the vertically redistributed resources they receive and the thematic policy mix within EU-determined programs, subject to ensuring that resources are concentrated on transition and less developed regions. They have the option to delegate certain responsibilities to subnational entities (Berkowitz et al., 2023_[1]). The chosen degree of decentralisation often depends on the policy competence in question. For example, investment programmes for SMEs, the low carbon economy and social inclusion tend to be implemented through regional programmes. For the period 2021-2027, 40-45% of the Cohesion Policy funds are allocated through regional programmes.

Box 7.1. Cohesion Policy Over the Years

From the Single European Act to the Lisbon Treaty territorial cohesion has become a heightened priority

While the European Regional Development Fund (ERDF) was first established in 1975, it was the 1986 Single European Act that put in place a strong territorial agenda with an explicit focus on reducing economic and social disparities across territories. Specifically, it set out to do this through public investment that looked to level the playing field in terms of development and sustainable infrastructure. It did this principally through Structural Funds including the ERDF but also the European Social Fund (ESF) and the Guidance section of the European Agricultural Guidance and Guarantee Fund (EAGGF) with a specific emphasis on rural development. Through the 1990s many milestones were reached, such as the introduction of the Cohesion Fund (introduced by the Maastricht treaty in 1993, which also introduced the principle of subsidiarity), the inauguration of the Committee of the Regions, which represents the subnational political regions in the EU, and the doubling of the budget for structural and

cohesion funds. By the Lisbon Treaty in 2007, territorial cohesion has become a cornerstone of European Policy with a more specific emphasis on place-based initiatives and coordination. This has been manifested in the various inter-regional programs that have since spawned, notably the Interreg program now with a EUR 10 billion annual budget and an emphasis on transnational, outermost and cross-border regional co-operation.

Originally focused on less developed regions, distressed industrial areas and rural areas, Cohesion Policy has evolved to cover all types of regions

The allocation of Cohesion funds has evolved over time. From the start, less developed regions received the highest share of cohesion funds' allocations, and it has remained so throughout all periods. The concentration of structural funds on less developed regions increased as the EU expanded to include ten new member countries. In these new countries, nearly all regions met the criteria for being classified as less developed. In the 2007 enlargement, when Bulgaria and Romania joined the EU, the regional difference across the Union grew much wider - the richest region (Inner London) had a per-capita income of 290% of the EU-27's average, while the poorest (North-East Romania) stood at 23%. By the 2007-2013 period, the objectives of the Lisbon Treaty and Gothenburg agenda inspired a new, broader approach of the Cohesion Policy, shifting to a more thematic approach differentiated according to the level of development of the regions. Since then, Cohesion Policy covers the whole EU territory, while keeping its focus on less developed regions: in the 2021-2027 period, less developed regions account for 20% of the population but receive more than 700% of the 'Investment for jobs and growth' objective². This is broken down into less developed, transition and more developed regions. The 8th Cohesion Report highlights that the growth trajectory of many middle and high-income regions is at risk and emphasises proactive policies that consider all types of places.

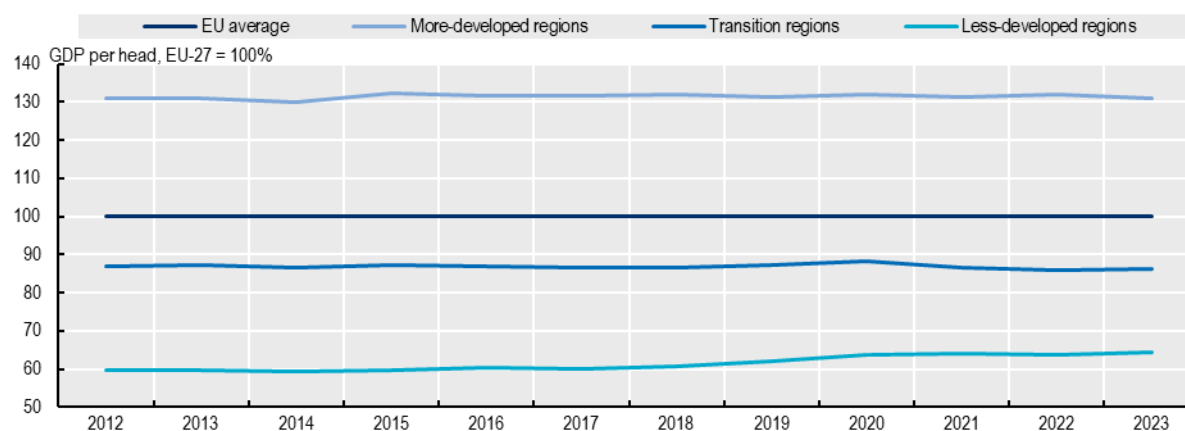
Source: Lindblad, S. (2023^[2]), *Territorial Cohesion – The Story*, <https://territorialagenda.eu/wp-content/uploads/Territorial-Cohesion-The-Story-draft-30-June-2023.pdf>; Berkowitz, P. et al. (Berkowitz et al., 2023^[1]). "How place based is Cohesion Policy?"

Cohesion Policy accounts for a large share of the EU budget. The EU budget, financed by the member states' own resources and national contributions, is redistributive, as less developed countries receive more support from cohesion policy. Even so, the policy creates significant positive spill-overs for high-income regions in part because it increases demand for goods and services produced by high-income countries (Crucitti et al., 2023^[3]). Demand encompasses both consumption and investment. In regions where access to the capital market and therefore investment is low, Cohesion Policy may do so in part by relieving market failures that are more binding in poor regions, notably lower access to financial markets.

The EU is experiencing a modest upward convergence in terms of GDP per capita (Figure 7.1). All regions are growing, and the least developed regions are growing faster (Berkowitz et al., 2023^[1]). Over the last 20 years, GDP per capita in eastern Europe has increased from 50% of the EU average in 2004 to nearly 80 % in 2021 (European Commission, 2024^[4]). Many countries have converged thanks, in part, to targeted public investment or fiscal equalisation (e.g. Germany), although others have experienced convergence due to lower growth in the leading region (e.g. Portugal). The positive impact of Cohesion Policy on convergence has increased over time, with more impact in recent programming periods, partly attributed to policy learning mechanisms (Pinho, Varum and Antunes, 2014^[5]).

Figure 7.1. A European model of upward convergence at regional level

GDP per capita (PPS), in less, transition and more developed NUTs 2 regions, 2012- 2023, relative to EU.



Source: REGIO calculations based on Berkowitz, P. et al., (2023^[11]) "How place based is Cohesion Policy?"; Eurostat (2025^[6]), *Regional gross domestic product (PPS per inhabitant) by NUTS 2 region*, https://ec.europa.eu/eurostat/databrowser/view/tgs00005/default/table?lang=en&category=t_req.t_reg_eco (accessed on April 2025).

Some EU regions are caught in development traps (see Chapter 2). These regions are defined by their slow development in terms of income, productivity, and employment growth compared to other regions in their country or across the EU, and compared to their own past trajectory (Berkowitz et al., 2023^[11]). This phenomenon mainly affects middle-income regions, but high and low-income regions are also often affected (Berkowitz et al., 2023^[11]). Many regions are 'at risk of being trapped', regardless of their type of region (Diemer et al., 2022^[7]). Some were formerly prosperous but have moved into a prolonged period of relative economic decline. This is attracting significant attention due to links with "the politics of discontent" (Rodríguez-Pose, 2018^[8]). The evidence also suggests that many regions in a development trap retain potential for higher levels of growth. Appropriate policy action to help them improve productivity and employment growth could have significant positive spill-over effects on other regions, boosting the EU's overall competitiveness. Poor governance, low institutional quality, lack of innovation, and insufficient investment in human capital in affected regions can be critical barriers that prevent regions from escaping these traps (see Chapter 2). Place-based policies that consider the unique challenges of each region, address their institutional weaknesses and foster local capacity help break out of these traps and achieving balanced regional development (Rodríguez-Pose and Ketterer, 2019^[9]; Rodríguez-Pose, Dijkstra and Poelman, 2024^[10]; Rodríguez-Pose and Cataldo, 2015^[11]).

Partnerships with local stakeholders are at the heart of Cohesion Policy, but capacity issues pose major difficulties. Reducing regional disparities is not just about transferring money from richer to poorer regions. The Cohesion Policy also intends to transform stakeholders' and decision-makers' behaviour, even if it takes time. For local stakeholders to get involved, partnership organisations must exist and be willing to participate. Networks and partnerships can encourage people to work together and improve regional development.

Integrating future challenges

Over the last decade, the EU's Cohesion Policy has developed a range of mechanisms to govern place-based policies. This evolution involves increased subnational partnerships to deliver strategies based on their specific needs, covering areas such as innovation, SMEs, the low carbon economy, social inclusion, and infrastructure. Several new instruments serve this approach, including Integrated Territorial Investments (ITI), Community-led Local Development (CLLD), and the Just Transition Fund (JTF)

(Berkowitz et al., 2023^[11]). Notably, the JTF is a key instrument focusing on places most affected by phasing out of fossil fuels and the restructuring of carbon intensive industries.

The United States

The United States (US) does not have an explicit policy targeting regional disparities but has traditionally used local interventions to develop the national economy and respond to shocks, including in metropolitan areas (Box 7.2). Compared to the EU, place-based policies in the US have adopted a more industrial approach that involve fewer regions. While these programmes have contributed to reducing regional inequalities in GDP per capita, there is a distinct divergence between regions, with minimal shifts observed in regional rankings.

Box 7.2. Local programmes in the US

Tennessee Valley Authority (TVA)

Started in 1930, the Tennessee Valley Authority (TVA) is one of the largest programmes to support development of lagging regions in the US (Glasmeier, 2023^[12]). It made large investment in public transport infrastructure, electricity and flood control systems. (Kline and Moretti, 2014^[13]) (Kline and Moretti, 2014^[13]) find that in the first 30 years of TVA, the magnitude of transfers was substantial, and this had positive employment effects in both agriculture and manufacturing. Once the TVA became a fiscally self-sustaining entity, the positive employment effect in agriculture disappeared, while manufacturing continued to generate employment in the treated counties (Suedekum, 2021^[14]). The programme has also seen a change in its targeting approach within the Tennessee Valley. Initially, the focus was on peripheral regions, which were not the poorest.

Appalachian Regional Commission (ARC)

The Appalachian Regional Commission (ARC) is an example of a longstanding place-based program funded by the central government but coordinated and delivered by a network of subnational governments including 13 states and over 400 counties (Glasmeier, 2023^[12]). The ARC uses an economic classification system to monitor the development level and needs of the counties as either Distressed, At Risk, Transitional, Competitive, and Attainment. The classification corresponds to the counties' position within the US national ranking of counties' economic development. The Appalachian Regional Initiative for Stronger Economies (ARISE) encourages counties and states to think beyond borders and work on multi-state programs. The program, launched in January 2023, has funded 13 projects focussed on broadband development, workforce education and low-emission manufacturing. Over the long term, the program has proven successful. Counties that received investments experienced an average growth rate that was 4.2% higher than those that did not benefit from the program (Sayago-Gomez et al., 2018^[15]).

Atlanta

In Atlanta, Georgia, multi-jurisdictional approaches are also being adopted with involvement of Georgia state. Atlanta serves as a hub for various activities. The state orchestrates place-based development by coordinating initiatives for job growth, diversity, and resident well-being. The state's largest utility company manages place-based development through dispersed development service organisations. The ARC contributes resources to improve the business conditions around Atlanta, supporting economically distressed communities. Despite potential confusion from overlapping layers, this multi-jurisdictional approach allows for efficient local resource use and deployment, such as in the recruitment of personnel. In combination with available land, this approach makes Atlanta conducive to new development projects, particularly in manufacturing.

Integrating future challenges

The most recent initiatives include a stronger sectoral and forward-looking focus. For instance, the federal Infrastructure Investment and Jobs Act is driving investment across the United States, with over 40,000 projects already announced. These projects prioritise connecting communities with each other as well to vital resources, such as high-speed internet and infrastructure upgrades, including improved drinking water and sewer systems. Additionally, the Act mandates each state to develop a plan for establishing an electric vehicle recharging network. The Chip and Sciences Act and the Inflation Reduction Act include structural reforms as well as funding programmes specifically targeting sectors with a strong place-based policy component (Westwood, Anderson and Austin, 2023^[16]). Moreover, the Economic Adjustment Assistance (EAA) programme provides diversified support to regions facing economic challenges, including strategic grants for Comprehensive Economic Development Strategies (CEDs) and implementation grants to carry out CEDs activities such as infrastructure improvements. Finally, the Recompete pilot programme will invest \$200 million in interventions to stimulate economic activity in geographically diverse areas facing persistent challenges.

Colombia

The National Planning Department (NPD) launched a decentralisation mission with specific objectives in the National Development Plan (NDP) 2022-2026 “Colombia, World Power of Life”. It focuses on social issues, climate action, and “Total peace”. President Gustavo Petro’s administration emphasises a bottom-up approach, deriving from extensive national dialogues with communities, territories, and sectors. These include the redistribution of responsibilities across government levels, resources, and the modernisation of public institutions. This modernisation seeks to cultivate an open central government, encourage citizen participation, and address indigenous territories. This model promotes economic and social convergence by understanding the unique characteristics of individual territories and their contexts and acknowledging spatial disparities. To this end it bolsters the capacity of local governments. It also explores opportunities to enhance well-being in territories grappling with economic and social challenges (Quartucci, 2023^[17]).

Integrating future challenges

One of the focal points in the new NDP involves Territorial Planning around water and ecosystems. This aims to revitalise rural areas and enhance the country’s productivity while ensuring principles of social and environmental justice. A territorial approach with effective institutions around water use is essential for sustaining human activity. Prioritising the respect for water, its natural cycles, and its ecosystems represents the initial stride to establish an environmentally sustainable economic production model, free from oil or coal, both of which are produced with significant adverse environmental and health outcomes on deprived local populations (Quartucci, 2023^[17]).

Japan

Despite strong government commitment to place-based policies and multi-level governance the central towns of rural districts are experiencing economic decline due to aging and emigration, coupled with stagnation in key industries. A local approach is seen as key to achieve improvements in these towns and communities in addition to the sectoral support mechanisms the Japanese government provides.

An illustrative example is the Urban and Spatial Measure Law from 2002. It allows municipalities to formulate plans for districts where they deem urban renewal necessary. In a broader regional perspective, prefectures have prepared infrastructure development plans for the allocation of assets over large areas

to revitalise their regions with participation of the region's population. These plans build on Japan's long-standing Law on Infrastructure Development for the Revitalisation of Large Regions.

Integrating future challenges

In response to population decline, Japan introduced new place-based policies, notably through the implementation of the National Spatial Strategy (NSS), in 2015. The NSS is designed to sustain a settlement pattern conducive to agglomeration economies, adapting to depopulation while keeping places sufficiently attractive to prevent the abandonment of significant portions of the country. It outlines various measures, such as the implementation of multi-functional 'small station' initiatives to enhance bundled service accessibility in rural regions and the establishment of stronger connections between neighbouring towns to promote agglomeration economies (OECD, 2016^[18]).

Korea

The National Territorial Plans have been the primary government initiative for territorial development since 1972. They have created more room for bottom-up initiatives in recent years. The 5th Comprehensive National Territorial Plan (CNTF, 2020-2040) posits that the future direction for territorial development should not only rely on a nationwide development axis defined by the central government. Instead, it emphasises fostering solidarity and collaboration among regions, as well as between regions and the central government, to collectively address challenges such as depopulation, climate change, and technological innovation. For the first time it incorporates multiregional projects proposed by regional governments.

The first “Comprehensive Plan for Local Era” (CPLE, 2023-2027) has reinforced emphasis on a place-based approach. It recognises that effective regional development requires greater resources and authority for regional governments, merging previous initiatives to foster decentralisation. The CPLE was formulated in alignment with the “Individual Plans for Local Era” put forth by regional governments. The Special Act on Decentralisation of Local Autonomy and Balanced Regional Development (2023) provided the legal foundation.

Integrating future challenges

The first “Basic Plan for Response to Depopulated Areas” (2023-2027) addresses rapid depopulation in numerous regions. Its implementation is guided by the Special Act on Support for Depopulation Regions (2023). This plan emphasises the role of municipalities in the implementation of place-based policies. The Ministry of Interior and Safety identified 89 municipalities as being part of depopulating regions. These municipalities are asked to develop their response plans. Subsequently, related regional governments are also mandated to formulate their response plans in alignment with the municipal strategies. The first “Basic Plan for Response to Depopulated Areas” incorporates the response plans of municipalities and regional governments. Additionally, municipalities have the opportunity to apply for the Local Extinction Response Fund (2022-2031) provided by the central government. Funds are allocated based on proposals submitted by municipalities, addressing the specific situations in their regions.

Place-based policies need to be reinforced to harness their potential

As this report shows, place-based policies are critically important for tackling key socio-economic challenges today and in the future. These include inequality in economic outcomes and opportunities, the huge and fast transformations required to reach climate neutrality by 2050, the digital transition and

demographic change. They also include an evolving global landscape and repeated shocks that are refocusing governments' attention on international competitiveness and resilience.

The report has highlighted the key features in the evolution of place-based policies that will help discern how place-based policies need to evolve to address these challenges:

- **Recognition of place-based policies in economic research and among policy makers has risen, calling for an increased understanding** (Chapter 1). Spatial disparities are strong and persistent in OECD countries, in part reflecting the unwillingness of many people to move to more prosperous places, but also reflecting costs of agglomeration from over-concentrated policies. They also reflect the productivity advantages of well-connected, dense metropolitan areas. Regional decline can be often self-reinforcing, rather than self-correcting (Chapter 2). Well-designed support for lagging regions can support economic development and reduce risks of social tensions, limiting the “geography of discontent” through positive spillovers for leading regions (Rodríguez-Pose, 2018^[8]; Rodríguez-Pose, Dijkstra and Poelman, 2024^[10]). Addressing economic inequalities is also key to advance on the global environmental and demographic challenges. Low-income communities are often the most vulnerable to demographic change and to adverse environmental impacts.
- **Enhancing a forward-looking approach is critical in the light of future challenges and opportunities.** Place-based policies are increasingly proactively addressing policy challenges rather than only reactively (Chapter 2). Place-based policies have also moved towards encompassing a broader range of policies, combining the diffusion of technology and institutional improvements with infrastructure investment. Innovation-based development needs to be based on a comprehensive consideration of major global risks and the spatial challenges they pose and cannot be merely market-driven (Trippel, Fastenrath and Isaksen, 2023^[19]). This will help provide substitutes for consumption and production modes that are consistent with meeting global challenges and enable local populations to transform their activities.
- **Effective place-based policies must be designed and implemented according to four key priorities** (Chapter 3). Effective place-based policies: have clear objectives that target regional and local development potential based on an understanding of local context and assets; are coherent with other policymaking frameworks to ensure integrated policymaking; focus on efficient implementation by acting at the relevant scale, leveraging appropriate instruments and continual learning processes; and, reinforce multi-level governance frameworks to support policy design and implementation.
- **Global challenges, such as the growing demographic and environmental crises require place-based policies to tackle them effectively** (Chapter 4). Effective approaches recognise that local and global challenges are intertwined. The systemic nature of these challenges and their asymmetric impact makes a place-based approach particularly useful. Place-based approaches can address multiple, interacting layers of market failures to which the spatially blind pricing of individual externalities alone cannot do justice. These systemic externalities vary across places and dealing with them in a place-based manner brings local co-benefits that often exceed the costs of action (OECD, 2021^[20]) even before taking into account the longer term gains of a more territorially balanced economic landscape. There is potential for place-based policies to boost needed transformations and to support social cohesion in the process.
- **Since the scope for place-based policies has grown, so has the need for place-based policy evaluation to find out what works and what works best.** Evaluating place-based policies is often more complex than the evaluation of other policies (Chapter 5). Challenges include the risk of incomplete evaluations, difficulties in identifying causal effects, and weak incentives for policy makers to support evaluation. This report suggests the incorporation of evaluation already in the policy design phase and the use of various tools like randomised control trials, or statistical tools that mimic them. Collaboration between researchers, policy makers, and local partners, while ensuring independence and adequate resources, can enhance evaluation. Furthermore, where systematic evaluations exist,

they too often focus on GDP. New metrics are needed, encompassing individual and collective wellbeing and environmental impacts.

- **An ambitious agenda for place-based policies requires reinforcing multi-level government, which is essential for effectiveness** (Chapter 6). Local institutions can be unable to drive transformative local economic development and escape development traps on their own, creating a key role for place-based policies. Given the diverse actors involved, coordination across and among levels of government, and with communities and the private sector, is essential for successful place-based policies. Policy design and implementation needs to be supported by strategic planning, and fiscal and administrative capacity in relevant institutions. Effective place-based policies are also often supported by place-based leadership and inclusive stakeholder engagement processes, which can help build trust and ensure policy effectiveness as local governments often have a good understanding of local needs and higher citizen trust. Experimental policy approaches and digital tools can support more innovative approaches to local involvement and effectiveness.

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Notes

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² Excluding the special allocation for EU outermost regions and Northern sparsely populated areas, and technical assistance

Place-Based Policies for the Future

Across the OECD and EU, persistent spatial disparities in economic, social and environmental outcomes are being amplified by megatrends, risks and shocks—climate change, technological change, globalisation and demographic change. This has resulted in some communities feeling “left behind” and being faced by new threats.

Against this backdrop, place-based policies have seen renewed interest. These policies can respond to the needs and potentials of diverse places, while also contributing to national competitiveness and social cohesion. Increased adoption of place-based policies calls for a greater understanding of their purpose and of how to effectively design, implement and evaluate them. It highlights the need for effective place-based policies that support structural transformations to build the long term economic, social and environmental sustainability of regions—and consequently of countries.

In recognition of the renewed interest, the OECD and European Commission commissioned twelve expert papers and organised a series of workshops in 2023 on “Place-Based Policies for the Future”. To help address future challenges, this report synthesises the latest knowledge and evidence on place-based policies to provide policymakers across all levels of government with insights on the design and implementation of better (place-based) policies for better lives.



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