ERDF Funding Contests –
The Experience of North-Rhine Westphalia

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1) Introduction
2) A Regional Economic and Policy Snapshot of NRW
3) A Novel Policy Delivery System in NRW
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1) Introduction

- Regional policy was introduced to Western Europe in the **post-war era**
  - Times of strong economic growth, fiscal expansion and low unemployment (cf. OECD 2009)
  - **Main aim = convergence**: narrowing regional disparities by correcting market imperfections in *least-favoured regions* (LFS)
  - Low performance of these policies was conducive to the emergence of novel theoretical and policy approaches

- **New paradigm** for regional policy in the wake of the renewed Lisbon agenda: Cluster policies
  - Paradigm shift in regional policy accentuating **competitiveness** objective (renewed Lisbon strategy) (cf. Bachtler/Yuill 2008; Wink 2007)
  - Efficient use of public resources is key: Mobilisation of endogenous potential in regional **clusters**
  - Central theoretical underpinnings of the cluster concept remain vague and provide little guidance for the design of policy instruments (cf. Martin/Sunley 2003, Alecke/Untiedt 2005)

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1) Introduction

- Regional policy in NRW was traditionally **regionalized** promoting economic development in the structurally weak **Ruhr Area**
  - Low performance in promoting growth
  - Pronounced regional disparities (e.g. Huggins/Thomalla 1995; Danielzyk/Wood 2004)

- **New approach**: Fostering growth in the highest-performing areas in all of NRW through **competitive allocation** of funds

- **Research questions**
  - Which factors explain the **regional distribution** of structural funds in NRW?
  - How has this new approach **performed** in the programming period 2007-2013 of EU-structural funds in NRW?
    - **Participation / Target Precision**:
      - Does the programme reach the intended beneficiaries?
      - Appropriate representation of private sector?
1) Introduction

- **Working Hypothesis**: High-performing regions will attract a disproportionate share of funds from competitions
  - Lagging regions are characterized by deficiencies in economic structure, innovation inputs and outputs
    - Traditional (low-tech) industries, dominance of large incumbents
    - R&D-investments, R&D-personnel
    - Low patenting activity, low lack of new products
  ⇒ **Innovation paradox** (cf. Ouhgton et al. 2002)
  - Empirical studies confirm growth-orientation of funding contests (cf. Eickelpasch/Fritsch 2005)

- **Methodology / Data**
  - Statistical analysis (descriptive, regression) of the list of beneficiaries (> 2,900 project participants as of Dec 31\textsuperscript{st}, 2013)
  - eight interviews with key stakeholders (cf. Kahl 2011)

2) A Regional Economic and Policy Snapshot of NRW

- **NRW is the largest German federal state**
  - 17.4 million inhabitants = approx. 22% of German total population
  - Approx. 22% (4%) of German (EU-27) GDP (€ 599.8bn in 2014)

- Pronounced **socio-economic disparities** between parts of Ruhr Area and non-Ruhr area
  - Average GDP per capita in 2014: 33,621 € in NRW
  - Considerable standard deviation: 9,158.22
  - EU GDP per capita in 2013: 25,700 €
  - Euro-Zone GDP per capita in 2013: 28,600 €

Source: Bross/Walter 2000, IT.NRW 2014; MWEBWV 2012
2) A Regional Economic and Policy Snapshot of NRW

- **The Ruhr Area**: A cluster in decline
  - Old-industrialised region with 5.1 m inhabitants
  - \(> 750,000\) jobs lost in coal and steel industries since 1960 (cf. Schlieper 1986; Weber 1990)
  - Slow economic restructuring (sclerotic structures): strong lobbying groups hampering restructuring (cf. Grabher 1993)
    - Active structural change and diversification pursued since 1970s
    - Set-up of R&D infrastructure
    - Low absorptive capacity: R&D personnel, expenditure and patent application (Hartmann 2007)
    - Dominant large enterprises, R&D only in large firms
2) A Regional Economic and Policy Snapshot of NRW

- Policy responses focused on cushioning the impact of the dramatic industrial decline in the Ruhr Area
  - **Subsidies** to avoid mass unemployment
  - **Diversification** of regional economy and knowledge base
    - New sectors (e.g. environmental protection industry) \( (\text{Rehfeld 1995}) \)
    - Introduction of universities (first courses taught at RUB in 1965)

- Since 1989 **ERDF funding** focused on the Ruhr Area
  - Over €1,607 m ERDF funding between 1989-2006
  - 26.2% to revitalisation of brown-field sites, 22.9% to science and innovation infrastructure, 12.1% productive investments \( (\text{Ridder/Untiedt 2010}) \)

- **Low performance** in terms of narrowing regional disparities and innovation performance (low absorptive capacities)

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3) Novel Policy Delivery System

- Key challenge for regional policy in 2007-2013: Reconciling **equity and growth**
  - Mobilisation of endogenous resources to promote economic restructuring in old-industrialized regions
  - Fostering economic growth in highest performing areas

- **Elements**
  - **New selection procedure**: Contests for funding
  - **Territorially open approach**: Target project consortia in highest performing regions in state-wide contests
  - **New actors**: Universities and ‘regional actors’ (local public authorities)
3) Novel Policy Delivery System: Two-Tier Approach

- **16 state-wide clusters** serve as thematic intervention areas to channel ERDF money
  - Structural framework for the cross-departmental coordination and delivery of cluster policy
    - Ministry of Economic Affairs
    - Ministry of Innovation and Science
    - Ministry of Climate Protection and Agriculture
    - Ministry of Health

- **Growth:** State-wide contests for the distribution of funds to leverage funding

- **Cohesion:** Part of the RCE-programme is not allocated via state-wide funding contests (e.g. some infrastructure projects)

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3) Novel Policy Delivery System: Governance

**Aim:** Acquisition of 51% of funds in lagging regions (i.e. Ruhr Area)

**Commitment** of 30% of funding to lagging regions under priority 3

<table>
<thead>
<tr>
<th>Priority 1</th>
<th>Priority 2</th>
<th>Priority 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurship</td>
<td>Innovation in a knowledge based society</td>
<td>Sustainable urban and regional development</td>
</tr>
<tr>
<td>20% of funding</td>
<td>50% of funding</td>
<td>30% of funding</td>
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</tbody>
</table>

≠ blanket funding, administrative areas

**Competitive allocation** of funding
3) Novel Policy Delivery System: Selection Mechanism

**Two-Stage Approach**

- Financial incentives
- Project tender
- Funding criteria
- Network formation
- Concept proposal
- Evaluation by juries of independent experts
- Interregional competition
- Full application
- Funding decision

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4) Funding Contests: General Appraisal

**Pros**

- **Quality** of selected projects
- Quality of selection **procedure**
- **Self-organised** division of labour: pretence of knowledge
  
  (Hayek 1975) \(\Rightarrow\) discovery procedure
  
  (Hayek 1968)
- **Mobilisation** of innovation potential
- Mobilisation effects among “losers”
- **Learning** effect for policy and administration

Cf. Eickelpasch/Fritsch 2005: 1275-1279
4) RCE-Programme Performance

Regional Distribution of RCE-Funds (2007-2013)

- Alongside parts of the Ruhr Area, RCE-funds cluster in NUTS-3 regions in the South of NRW (Aachen) (see also MS)
- Low amount of funds in rural areas (corresponding to lower population density)
- No indication of marginalisation of less prosperous regions

4) RCE-Programme Performance: Regions & Beneficiaries

- Highly varied performance across regions
- Overwhelming share of semi-Public organisations and research institutions (51.5%, 30.5%)
- Low participation of private sector
4) RCE-Programme Performance: Competitive Selection

Share of Project Participants from Funding Contests (2007-2013)

- Strong clustering of project participants in selected NUTS-3 regions within and outside of Ruhr Area (Growth-Objective)

Source: Own Calculations based on MWEIMH-NRW 2015

ARL International Summer School 2015 “Winners and Losers: Why are the Effects of Regional Policy so Different?”
Prague, August 25th, 2015

4) Key Metrics of 25 Major Funding Contests

- Linear regression model shows that cluster contests and high-tech focus are positive and significant predictors of the regional concentration funds within funding contests.
- High-tech focus is positively and significantly associated with the share of universities & research organisations.

<table>
<thead>
<tr>
<th>Coefficient of Variation (distr. funds in NUTS-3)</th>
<th>No. of Project Participants</th>
<th>Funds (€)</th>
<th>Cluster Contest</th>
<th>High-Tech Focus</th>
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<tr>
<td>Raiffeisen.NRW</td>
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<tr>
<td>Total 25 Contests</td>
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<tr>
<td>Others (13 Contests)</td>
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</table>

Source: Own Calculations based on MWEIMH-NRW 2015

ARL International Summer School 2015 “Winners and Losers: Why are the Effects of Regional Policy so Different?”
Prague, August 25th, 2015
4) Beneficiaries of 25 Major Funding Contests

<table>
<thead>
<tr>
<th>No. Project Participants</th>
<th>Small Firms (%)</th>
<th>Medium-sized Firms (%)</th>
<th>Large Firms (%)</th>
<th>Universities &amp; Research Organisations (%)</th>
<th>Semi-Public (%)</th>
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<tr>
<td>InnoMet.NRW</td>
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<td>Share of Project Participants</td>
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<td>Weighted Share of Funds</td>
<td>5.60</td>
<td>42.29</td>
<td>12.52</td>
<td>12.52</td>
<td>5.60</td>
</tr>
</tbody>
</table>

Compared to the complete RCE-programme, universities and research organisations play an even more important role, whereas semi-public organisations are less important.

The share of funding gained by SMEs is rather low.

Source: Own Calculations based on MWEIMH-NRW 2015

4) Universities in NRW

Source: BMBF 2015

Univ. of applied sciences
University
Univ. of music and the arts
Others
4) Leading Regions in Funding Contests

The five leading regions account for 43.6% of all funds allocated via the major funding contests.

Regions with major universities

Aachen outperforms even the leading regions considerably.

Source: Own Calculations based on MWEIMH-NRW 2015

4) RCE-Programme Performance: Regression Model

Regional Funding Intensity
(Funds in NUTS3 / Population in NUTS3)
4) RCE-Programme Performance: Regression Results

Regional Funding Intensity
(Funds in NUTS3 / Population in NUTS3)

(+) Research Institutes*
(+) Semi-Public Organisations*
(+) Research Grants**

Table 5 Descriptions (N=53), Sources: IT-NEW 2015; EUROSTAT 2015; MWEISMB-NEW 2015

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>STD</th>
<th>Y</th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
<th>X4</th>
<th>X5</th>
<th>X6</th>
<th>X7</th>
<th>X8</th>
<th>X9</th>
<th>X10</th>
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<tbody>
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<td>Funding Intensity</td>
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<td>82.14</td>
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<td>-0.23</td>
<td>-0.17</td>
<td>0.48**</td>
<td>-0.05</td>
<td>0.40**</td>
<td>0.65**</td>
<td>0.04</td>
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<td>Small Firms</td>
<td>16.17</td>
<td>11.39</td>
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<td>-0.16</td>
<td>-0.09</td>
<td>-0.33**</td>
<td>-0.09</td>
<td>0.10</td>
<td>0.06</td>
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<td>Large Firms</td>
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<td>13.03</td>
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<td>-0.16</td>
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<td>-0.61**</td>
<td>0.24</td>
<td>0.40**</td>
<td>-0.02</td>
<td>0.27</td>
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<td>Semi Public Orgs.</td>
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<td>-0.33**</td>
<td>-0.22</td>
<td>-0.61**</td>
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<td>0.23</td>
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<td>-0.01</td>
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<td>0.41**</td>
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<td>Research Grants</td>
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<td>47,972,954.79</td>
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<td>0.10</td>
<td>-0.21</td>
<td>0.40**</td>
<td>-0.32*</td>
<td>0.29*</td>
<td>1</td>
<td>-0.10</td>
<td>0.39**</td>
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<td>Objective 2 Area</td>
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<td>0.29**</td>
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<td>1</td>
<td>-0.31**</td>
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<tr>
<td>GDP per Capita</td>
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<td>9186.22</td>
<td>0.30**</td>
<td>-0.13</td>
<td>0.15</td>
<td>0.27</td>
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<td>0.41**</td>
<td>0.39**</td>
<td>-0.31*</td>
<td>1</td>
<td></td>
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</tr>
</tbody>
</table>

*Correlation is significant at the 0.01 level; **Correlation is significant at the 0.05 level; ***Correlation is significant at the 0.10 level.
### 4) RCE-Programme Performance: Regression Results

#### Table 4: Regression Results for the Distribution of RCE-Funds. (Sources: IT NRW 2015; EUROSTAT 2015; MWEIMH-NRW 2015)^4,5,6

<table>
<thead>
<tr>
<th>Dependent Variable</th>
<th>Beneficiaries (X:Y)</th>
<th>Beneficiaries and Regional Variables (X:Y)</th>
<th>Regional Variables (X:Y)</th>
<th>Beneficiaries and Regional Variables (X:Y)</th>
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<tr>
<td>Funding Intensity (Y)</td>
<td>Coefficient (Standard Errors)</td>
<td>Coefficient (Standard Errors)</td>
<td>Coefficient (Standard Errors)</td>
<td>Coefficient (Standard Errors)</td>
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<td>Intercept</td>
<td>-42.48 (74.72)</td>
<td>61.05 (37.19)*</td>
<td>-15.56 (78.18)</td>
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<tr>
<td>X¹: Small Firms</td>
<td>0.96 (1.19)</td>
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<td>-0.78 (1.02)</td>
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<td>X²: Large Firms</td>
<td>0.76 (1.07)</td>
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<td>0.71 (0.94)</td>
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<tr>
<td>X³: Universities and research organisations</td>
<td>2.83 (0.79)**</td>
<td></td>
<td>1.46 (0.73)*</td>
<td></td>
</tr>
<tr>
<td>X⁴: Semi-Public Organisations</td>
<td>1.72 (0.89)*</td>
<td></td>
<td>1.36 (0.76)*</td>
<td></td>
</tr>
<tr>
<td>X⁵: Population Density</td>
<td></td>
<td>0.02 (0.01)*</td>
<td>0.01 (0.01)</td>
<td></td>
</tr>
<tr>
<td>X⁶: Research Grants</td>
<td>1.01E-6 (0.000)**</td>
<td></td>
<td>9.79E-7 (0.000)**</td>
<td></td>
</tr>
<tr>
<td>X⁷: Objective 2 Area</td>
<td>5.13 (23.39)</td>
<td></td>
<td>5.18 (23.63)</td>
<td></td>
</tr>
<tr>
<td>X⁸: GDP per Capita</td>
<td>-0.69 (0.00)</td>
<td></td>
<td>0.00 (0.00)</td>
<td></td>
</tr>
</tbody>
</table>

R² = 0.32  
N=53

R² = 0.47  
N=53

R² = 0.59  
N=53

*The table displays unstandardized coefficients and standard errors, **p<0.01, ***p<0.05, ****p<0.10.

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4) RCE-Programme Performance: Stakeholder’s perspectives

- **Funding criteria and level of public policy interference** explain distribution of funds
  - Highly specific and demanding funding criteria: Top-down nature; high-tech-bias
  - Dispersed actors in non-universities localities may lack the necessary prerequisites
  - Lower transaction costs in high-tech-regions with technologically specialized universities (existing spin-offs, regional networks)

### Timing of contests: Explains concentration of funds

- **Call**: Tender for projects
- **Building of consortia**
- **Submitting project outlines**: 3 months
- **Jury’s decision**: 6 months
- **Approval stage - Formal decision**: 6 months

### Duration of the procedure: first-mover advantages lost

- Short period of time available for building consortia
- Rather than 6 months, the approval stage took 417 days on average (Burkart et al. 2013b, p. 10)
- Main cause for delay: Complex assessment for **funding eligibility**, esp. compatibility with **EU laws on state aid**
- Administrative complexity = strain on SMEs
4) ERFD-RCE Funding and Administration Architecture in NRW

Monitoring Committee (*Begleitausschuss*)
Leading personalities from ministries, parliament, regions, associations and universities

**Administrative Authority**
NRW Ministry for the Economy, Energy, Manufacturing, SMEs and Crafts

- **Objective 2 Office** (Ziel 2-Sekretariat)
- **Quality Management** NRW.Bank
- **Disbursing Authority** NRW.Bank
- **Legal Appraisal** NRW Ministry of Finance

**Ministerial Divisions (Fachreferate)**
Intermediaries

- **Executive Intermediaries**
  - Approving agencies, e.g. district governments (Bezirksregierungen), NRW.Bank, etc.

**Recipients**
Source: Translated from Burkert et al. 2013a, p. 28
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*Why so complex?*
- **Legal environment** (esp. EU laws on state aid)
- **Economics of bureaucracy** (Williamson, Niskanen; cf. Kiese/Wrobel 2011)

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5) Conclusion

- **Specific features of funding contests** and **regional science infrastructure** explain regional distribution of funds
  - Structurally weak sub-regions are **not systematically disadvantaged**
  - Cluster contests, High-Tech-Orientation, Research Institutes** = Regional concentration in regions with **high-performing universities**
  - Target precision / participation: Share of **private sector** low, esp. SMEs
  - **Timing and complexity** of funding contests
  - Lack of existing networks of small firms (spin-offs), universities and semi-public organisations in **non-university sub-regions** (policy blind spot?)

- **High administrative burden** and **time-consuming procedure**
  - **Established consortia** of universities and large firms advantaged
  - **Universities** welcome ERDF as another source of third party funding
  - Legal and administrative **simplification** needed to increase share of SMEs and to allow for the formation of new network ties, but needs law of ever-expanding **bureaucracy** to be overcome

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5) Conclusion

- Recommendations
  - Accommodate regional diversity to facilitate participation (Tödtling/Tripl 2005)
  - More inclusive approach, less restrictive criteria supporting process of local self-organisation
  - More flexible timing of contests
  - Fostering absorption capacities in lagging regions (universities?)
  - High-tech Focus: Rethinking innovation: social aspects?

- Discussion: Key driver of economic restructuring is the entrepreneurial discovery process
  - Bottom-up, trial and error, experiment-based process: Pro-active involvement of entrepreneurial actors necessary
  - Entrepreneurial actors may include universities and quasi-public institutions particularly in regions where industry structures and entrepreneurial capabilities are weak (Foray et al. 2012)

References (1/4)


References (2/4)


References (3/4)


Images
http://www.fotocommunity.de/pc/pi/display/25471306 [28.07.2015]
http://www.dortmund.de/de/wirtschaft/start_ws [28.07.2015]