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Inspire Policy Making with Territorial Evidence

TRANSNATIONAL OBSERVATION:

Integrated Territorial Development in V4+2: new challenges, new ideas, new responses

Integrated Territorial Development in V4+2: new challenges, new ideas, new responses

The Visegrad V4+2[1] countries are confronted with many common challenges when it comes to integrated territorial development. ESPON research addresses these challenges and provides many relevant case studies regarding the socio-economic conditions of V4+2 countries: the impact of Foreign Direct Investment (FDIs), the situation of Small and Medium Enterprises (SMEs), the provision of services of general interest, digital and transport accessibility. It also offers concrete best practices and decision-oriented recommendations to policy-makers that pertain to place-based development strategies, governance and cooperation, territorial cohesion and specific thematic issues.

The *Common Spatial Development Strategy*[2] (2014) for the V4+2 countries was developed to offer background information for an update of the six national spatial development documents for the V4+2 group. In **Bulgaria**, the *National Concept for Spatial Development was adopted* at the end of 2012 and covers the period 2013–2025; it stipulates the need for integrated spatial planning and functional land use to support the implementation of regional and sectorial policies at a national level. The *Spatial development policy of the* ***Czech Republic*** was approved by the government in 2009 and updated in 2015; it presents a number of areas for development and development axes, but does not prioritise them. In **Hungary**, the *National Development 2030 – National Development and Territorial Development Concept* was adopted by Parliament in 2013; it continues to promote balanced and polycentric development in Hungary. The vision for **Poland**'s spatial development is specified in the *National Spatial Development Concept 2030* which was adopted by the Council of Ministers in 2012 defining the proposed development of Polish territory by 2030 in terms of a polycentric metropolitan network, and by the *Strategy for Responsible Development*, adopted in 2017 as an instrument to manage main development processes in Poland and defining a new model of development. A national-level spatial development document is currently being prepared in **Romania**[3], used to identify the country's proposed development poles. The *Spatial Development Concept of* ***Slovakia*** *2001*, which was amended by the KÚRS in 2011, also emphasises the aim of polycentric development in its territory, presenting the spatial/settlement structure in a very detailed way.

Socio-economic conditions, services and infrastructures in V4+2 countries

The recent trends in employment are a major concern for the V4+2 countries. Since 2004, the process of globalisation and migratory flows have led the labour markets of receiving economies to restructure, allowing a greater number of openings for immigrant workers. Simultaneously, new educational systems set up in Eastern and Central European countries have increased the number of highly-skilled European workers today. However, concerns have raised about the actual impact of these changes in terms of brain drain and the consequent implications for areas such as economic growth, demographic balance as well as return of investment for public finances.

As shown in **Figure 1**, with the exception of the areas around the capital cities of the V4+2 countries, most regions at NUTS-2 level are acutely affected by brain drain; in particular Poland and Bulgaria are affected by the loss of highly-skilled workers as shown in In Poland, the regions of Wschodni and Poludniowy (NUTS) and the "voivodeship" (provinces) of Łódzkie, Opolskie, Kujawsko-pomorskie and Warmińsko-mazurskie are facing a negative net migration. The same applies to the oblasts of Střední Morava and Moravskoslezsko in the Czech Republic, and Stredné Slovensko and Východné Slovensko in Slovakia. Romania faces negative net migration in the Trei macro-region (NUTS-1) and the regions of Centru, Sud-Est and Sud-Vest Oltenia. In Hungary, the number of emigrants exceeds the number of immigrants across the country with the exception of the regions of Közép-Magyarország and Nyugat-Dunántúl. The situation is similar in Bulgaria, where every region except Yugozapaden faces this issue.

[1] Visegrad V4+2 countries: Czech Republic, Hungary, Poland and Slovakia (V4), Bulgaria and Romania (+2)
[2] http://www.v4plus2.eu/en/
[3] Decision no. 998/2008

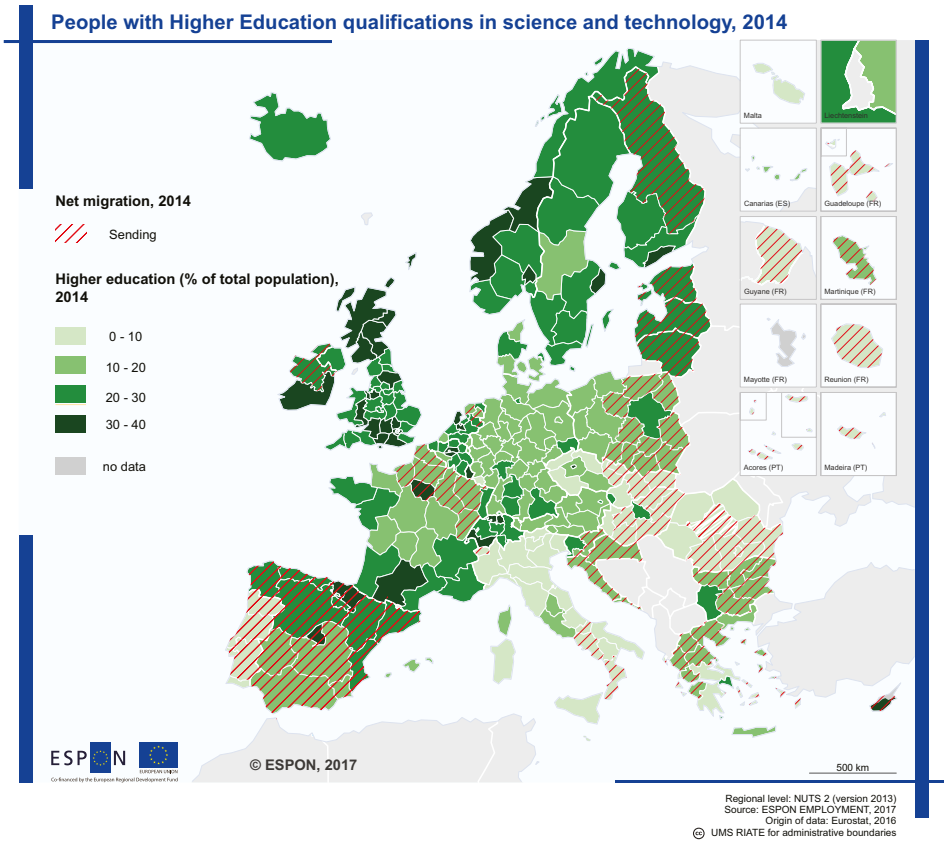


Figure 1
Share of people with higher education vs net migration (2014)

The exodus of highly-skilled workers is of course a hindrance to the development of the knowledge-economy sector (KE). An analysis of the potential of the knowledge-economy in V4+2 countries also reveals that the large majority of their regions at NUTS-2 level combine a low competitive economy with low incidence of KE, when compared to other areas in Europe. The general analysis of the situation in the V4+2 countries as shown in **Figure 2** reveals this overall scenario; greater potential for a KE economy is only apparent in the provinces of Mazowieckie and Małopolskie in Poland, the oblasts of Jihovýchod in the Czech Republic and Bratislavský kraj in Slovakia, and the regions of Bucureşti-Ilfov in Romania and Közép-Magyarország in Hungary.

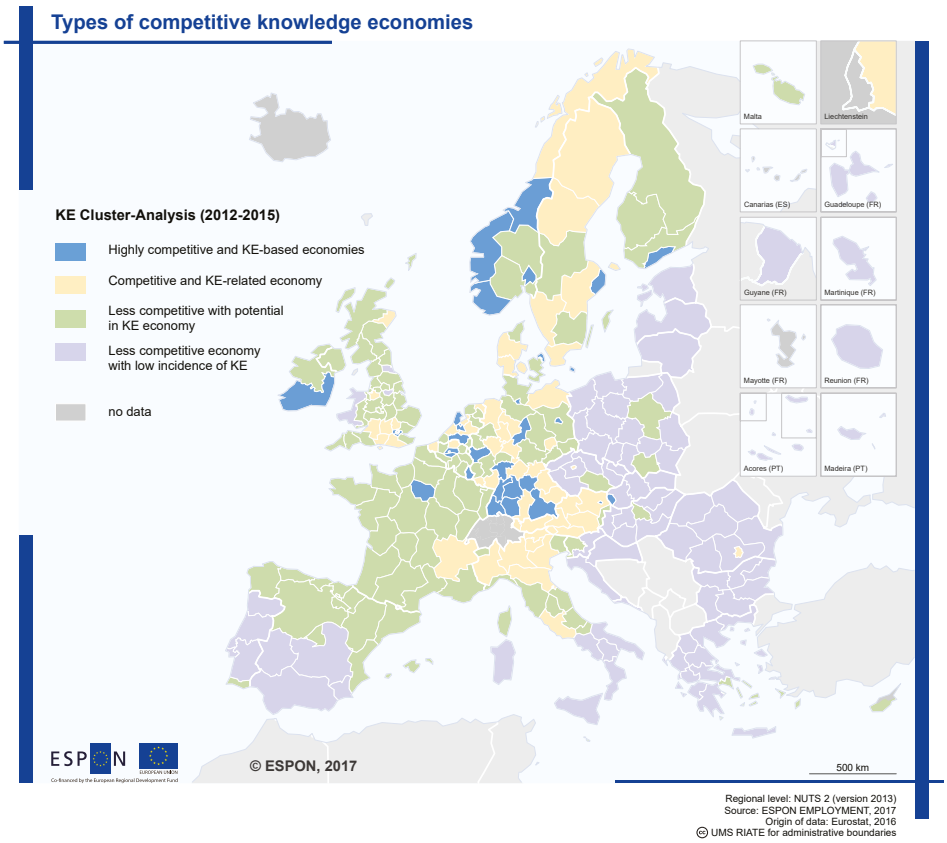
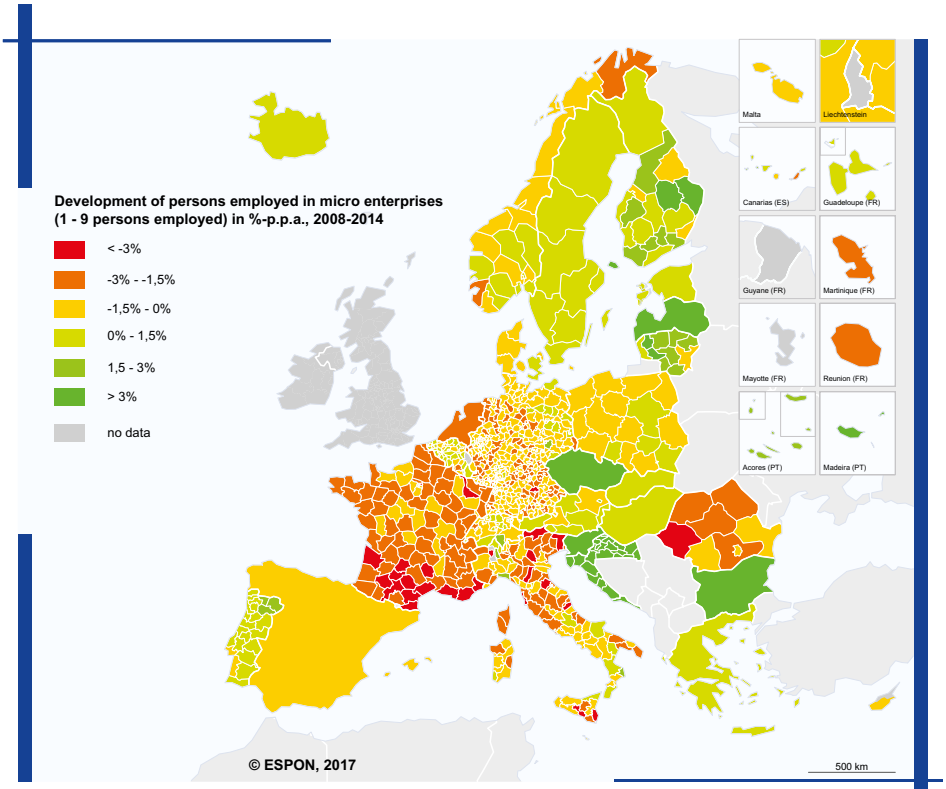


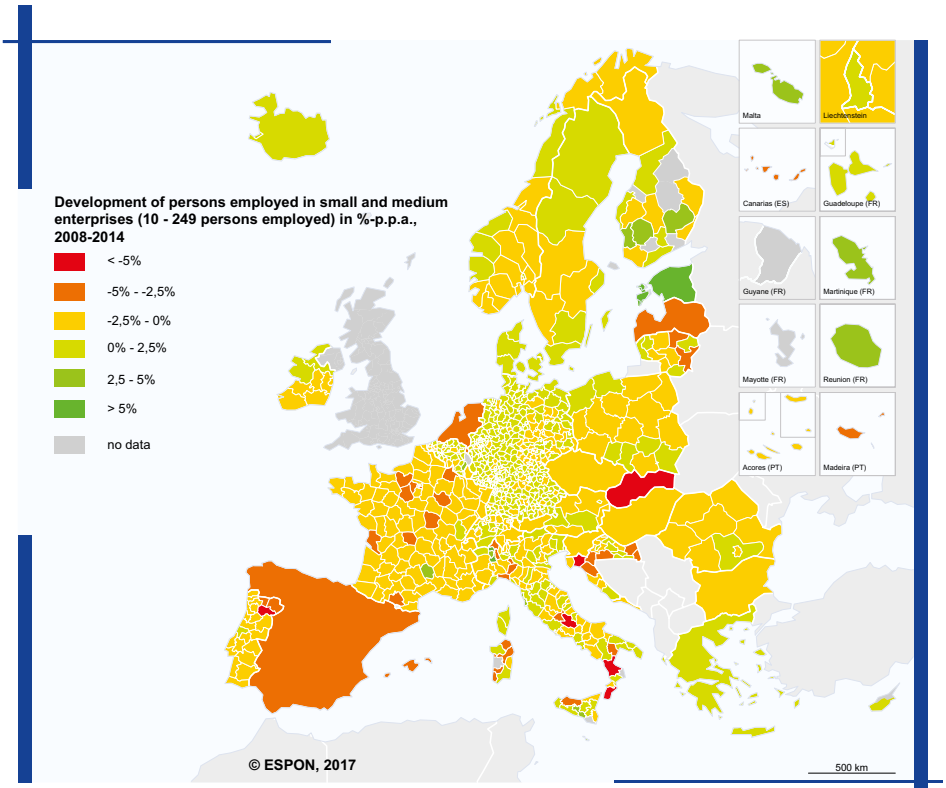
Figure 2
Types of Competitive Knowledge Economies



Regional level: NUTS 3 / NUTS 2 / NUTS 0 (version 2013 / 2010)
Source: ESPON SME, 2017

Origin of data: Eurostat Business demography,Statistics Austria national SBS, Statistics Belgium Demografie Ondernemingen, ORBIS, Beschäftigtenstatistik Bundesagentur, national SBS, Statistics Finland national BD, Insee. Direction des statistiques démographiques et sociales (DSDS), Financial Agency, Central Statistics Office (CSO) national BD, Statistics Iceland national BD, Amt für Statistik Fürstentum Liechtenstein - Beschäftigungsstatistik, Statistics Norway national BD, Central Statistical Office Poland national BD, Statistics Portugal Integrated Business Accounts System, National Statistics Institute Romania national SBS, Statistics Sweden Business Register, Bundesamt für Statistik Schweiz, Small Enterprises' Institute of the Hellenic Confederation of Professionals, Craftsmen and Merchants (IME GSEVEE)
CC - UMS RIATE for administrative boundaries

Notes: data for FI, SI corresponds to 2008 – 2010, data for DK, FR, MT corresponds to 2008 – 2013, data for DE corresponds to 2008 – 2015, data for CZ, EE, LU corresponds to 2008 – 2014, data for CH, HR, LT corresponds to 2011 – 2014, data for EE, LV, MT, PL, SE corresponds to NUTS2, data for EL calculated from SBS Data, split up of size group 0-9 in 0 and 1-9 using the results of IME - GSEVEE study (survey of 1.006 Greek SME, July 2017)



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Source: ESPON SME, 2017

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CC - UMS RIATE for administrative boundaries

Notes: data for DK, FR, MT corresponds to 2008 – 2010, data for DE corresponds to 2008 – 2013, data for CZ, EE, LU corresponds to 2008 – 2015, data for AT, DK, EE, LV, MT, PL, RO, SE correspond to NUTS2, data for BG, CZ, ES,HU, NL, SI, SK correspond to NUTS0 (SBS), data for EL (2015) corresponds to estimates produced by DIW Econ (2016)

Figure 3
Development of the share of persons employed in micro and small and medium enterprises 2008-2014

SMEs are among the most dynamic and job-creating actors all over Europe, and should be supported as such by public authorities. However, as has been discussed in the ESPON study "SMEs in European Regions and Cities" , there is no universal approach to enhancing SME performance at a regional level.

The analysis of ***Figure 3*** focusing on the V4+2 countries reveals that, in terms of share of people employed in micro-enterprises (1-9 persons employed), the greatest reduction was registered in Romania, in particular in the Vest region. Slovakia had the greatest reduction in terms of share of persons employed in SMEs (10-249 persons employed) among the V4+2 countries; however, it followed the opposite trend in terms of share of persons employed in micro-enterprises.

Another driver of growth in every economy are Foreign Direct Investments. ESPON evidence ***(Figure 4)*** shows that the least attractive areas for FDIs in the V4+2 countries are: the whole regions of Hungary, with the exception of Közép-Magyarország – where the capital city Budapest is located; a large number of regions in Poland, with the exception of the areas around the capital city Warsaw; and the regions of Vidin, Dobrich and Yambol in Bulgaria. The challenge for these regions and the V4+2 countries as a whole is therefore to encourage the establishment of more foreign-owned firms, but also to foster the collaboration between foreign and domestic firms in order to increase the positive impact or "spill-overs" of FDIs on the local economies.

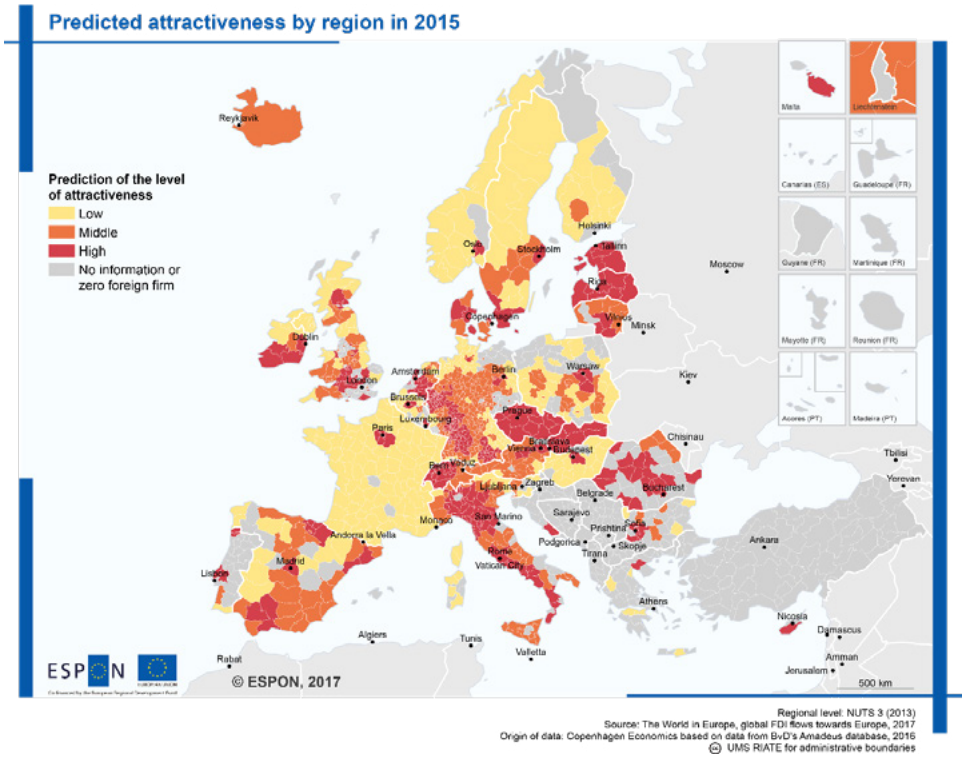

Figure 4
FDI attractiveness by region in 2015

A selectively use of public financial investment incentives can also be a way forward for disadvantaged regions with a low presence of FDI to start building up a stock of foreign firms in the region. It might contribute to break the vicious cycle in certain cases, but it is necessary that such incentives are adjusted to the regional context to have the largest impact and do not discriminate against local firms.

The economic attractiveness of a territory is intrinsically linked to the provision of services of general interest (SGIs). ESPON has analysed the access to services across Europe and singled out the territories that perform significantly more poorly than neighbouring areas – as if they were geographically peripheral. The NUTS-3 areas of the V4+2 countries have been identified as "inner peripheries" with poor access to SGIs compared to adjacent territories. These are the subregions of Krośnieński, Słupski and Ciechanowsko-płocki in Poland; the Karlovy Vary region in the Czech Republic; the Žilina Region in Slovakia; the counties of Tulcea and Caraș-Severin in Romania; and the Blagoevgrad Province in Bulgaria. However, it has to be taken into account

[4] https://www.espon.eu/sme

that the low number of inner peripheries in the V4+2 countries does not mean that the provision of SGIs overall is better in that part of the EU, but that the distribution of SGIs is broadly similar from one territory to another and that few regions are significantly disadvantaged in comparison to surrounding areas.

These trends can, for instance, be observed in the rural Tamási district (Hungary), one of the case studies for the ESPON PROFECY project. Tamási has suffered from poor provision of SGIs, geographical isolation and a lagging economy since the early 1990s, a situation that has led many workers and students to leave the area. As the surrounding region of Pécs has also been stricken by economic depression, the necessary large-scale investments in transport infrastructures have not been made and the Tamási district remains a great distance from dynamic centres in terms of travelling time. The combination of low population density, low accessibility, poor provision of services and a weak economy has thus generated a self-reinforcing cycle of depopulation and "inner peripheralization". At the European level, the discrepancies between rural and "core" territories are generally even more noticeable when distinguishing between social services of general interest and economic services of general interest (energy, transport, electronic communications, postal services…), the latter being heavily concentrated in metropolitan areas.

The challenge of poor access to services can be partly solved through the digitalisation of public services, which has transformed how governments respond to the needs of citizens. Many cities have been actively engaging in the modernisation and re-engineering government processes and services; they have experienced consequent significant benefits through simplified governance and increased efficiency, effectiveness and outreach. However, achievements in that regard have been unequal: Northern European countries are globally more advanced than their counterparts from Eastern, Western and Southern Europe (Figure 5).

At EU level, a wide survey conducted by ESPON reveals that less than one in every three European cities (32%) has adopted digital government strategies; larger cities seem to be in the lead, with the exception of those in Eastern Europe, where only 42% of large cities have a digital strategy in place. Nonetheless,

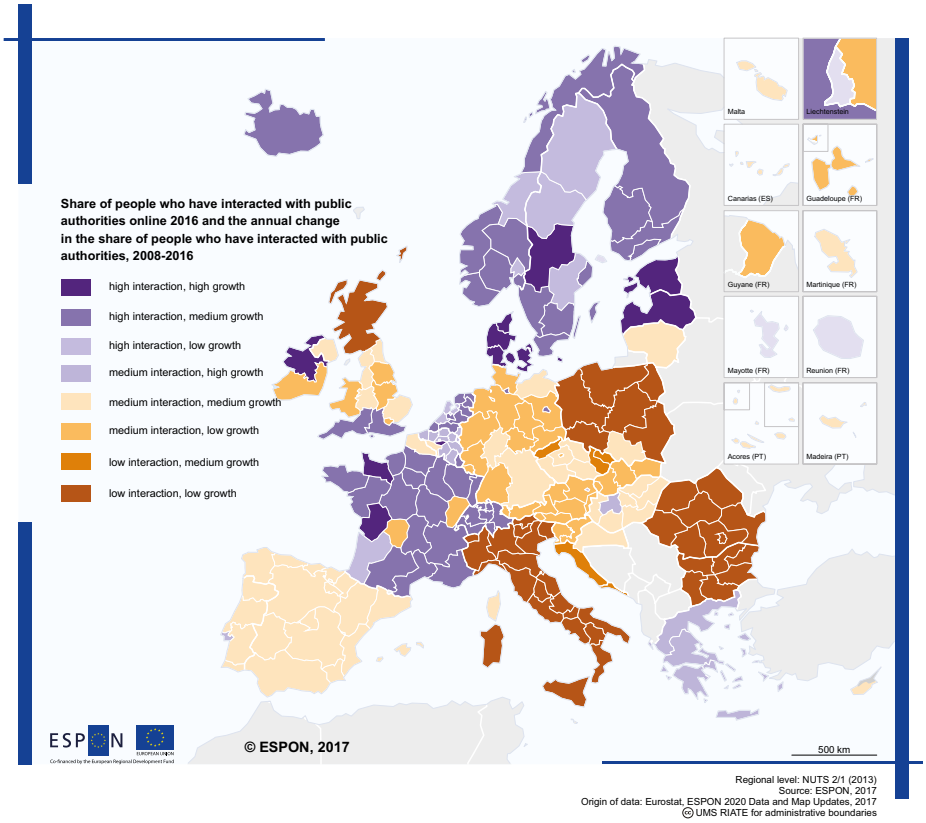

Figure 5 Share of individuals who used internet for interaction with public authorities (2016)

innovative cities claim that the impact of digital transition is positive and significant: 9 out of 10 cities, for instance, report that their services have improved as a result of digitalisation.

Transport accessibility is also a concern for V4+2 countries, as opposed to Western Europe. Evidence from the ESPON accessibility models shows, for instance, that the highest values for passenger transport can be found in the "Core" of Europe (Germany, Benelux, south of the UK, north of France and Italy), and more generally in capital cities and in a few industrial or touristic areas. Freight transport indicators reveal a similar pattern, but with very high values around the North Sea due to large container ports and dense motorway networks. However, all those values tend to decrease going eastward from the border of Germany through Poland or the Czech Republic to Romania and Bulgaria, due to insufficient transport infrastructures in the V4+2 countries (***Figure 6***). Indeed, among the areas with the lowest potential accessibility in the EU are the eastern and south eastern V4+2 NUTS-3 territories, located mostly in the eastern part of Poland (subregions of Elcki, Suwalski, Bialostocki and Chelmsko-Zamojski), the eastern and south eastern parts of Romania (counties of Satu Mare, Suceava, Neamţ, Vrancea, Brăila, Galaţi, Botoşani, Harghita, Covasna, Tulcea, Constanţa, Dolj, Gorj and Mehedinţi) and the central part of Bulgaria (Vidin, Veliko Tarnovo, Gabrovo, Targovichte, Stara Zagora, Sliven, Kashkovo, Yambol, Kardjali and Smolyen).

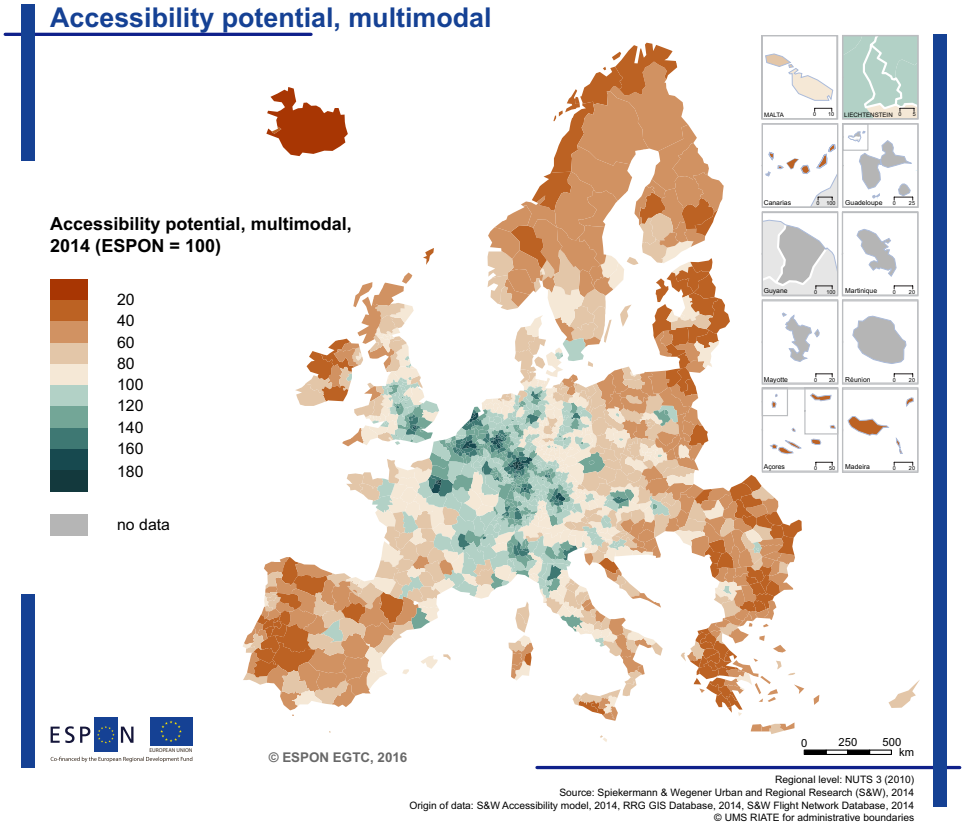

Figure 6 Accessibility Potential, multimodal (2014)

Policy recommendations and best practices

Based on the common challenges identified for the V4+2 countries in terms of integrated development policies and the current situation in terms of socio-economic conditions, services and infrastructures in V4+2 countries presented in the previous section, the following recommendations suggest a number of possible solutions and policy advice for strengthening the integrated approach on the basis of latest ESPON research results. Those are particularly addressed to policy-makers from the V4+2 countries which are (i) responsible for integrated territorial development at national, regional and local level, (ii) responsible for the Common Spatial Development Strategy of the V4+2 and (iii) responsible for the design, implementation, evaluation and revision processes of the respective national spatial development documents of V4+2 countries.

A lesson to be drawn from recent trends in territorial development is the necessity to strengthen the links between policies, spatial planning and local governance. In that perspective, the ESPON project COMPASS[5] highlights the importance of enhancing the strategic dimension of spatial planning by focusing on instruments that can actually drive long-term economic and social transformation of territories, instead of merely allocating development rights. To that effect, spatial planning practitioners need an ever deeper understanding of the processes related to diverse policy fields and a focus on territorial governance beyond the hard borders between administrative entities, between levels of authority and between public and private actors. In order to pursue integrated territorial development goals, strategies and policy must be designed and monitored by all stakeholders at the level of functional areas. The Cohesion Policy offers instruments, which make use of a bottom-up approach, that may strengthen policy integration and territorial governance at a national level in V4+2 countries; these include CLLD[6] (Community-Led Local Development), LEADER[7] , ITI (Integrated Territorial Investments) and EGTC (European Groupings of Territorial Cooperation).

An integrated approach has emerged in Hungarian spatial planning practice, under European influence. In 2014, the local authorities of Budapest and the surrounding districts adopted their own "integrated urban development strategy" – a new type of statutory local level planning instrument inspired by Cohesion Policy tools like the ITI. The development of this document brought together all the relevant actors, including national authorities and professional or business organisations, to tackle issues like the development of the Danube riverside, the rehabilitation of brownfield areas and social urban regeneration. The public was also greatly involved and its opinions were taken into account through online communication and "open forums". This experience in integrated, multi-level and participative territorial development allowed common goals to be formulated for the planning documents for Budapest City and Pest County, despite the fragmented administrative structure of the country; is represents a model for later spatial planning practice.

ESPON evidence also points out to the necessity of creating a SME-friendly environment at a regional level. While SMEs share certain basic needs across all sectors and territories, the following policy recommendations might contribute to improve the environment of SMEs; these are particularly addressed to public authorities from regions and cities:

To enhance **cooperation across administrative borders**, in particular between public authorities (cross-border and macro-regional functional areas) is one of the biggest drivers for economic growth, and can further encourage clusters and network firms to grow, which growth in turn acts as a catalyst for SMEs to grow in every type of region.

An example of a cross-border cooperation project is *CROSS-INNO-CUT (http://www.cost-cutting.eu/crossinnocut/)*, supported by INTERREG IVA Greece-Bulgaria. In this case, the cooperation between private and academic sectors (with the involvement of 100 companies and 2 universities) allowed the development of a platform containing an auditing toolbox for company production processes, a tool that helps SMEs to identify and mitigate excessive production costs on the basis of -objective and quantitative data.

Specialised territorial offices for SMEs, made available by public authorities offering free counselling to guide SMEs to find the information they need, can also contribute to this objective, but awareness campaigns must be designed in a more creative and flexible way to enhance entrepreneurship, and to further disseminate the opportunities for SMEs (e.g. training on how to write a project or how to search for funding opportunities). Another relevant issue is the constantly changing legislation; the implementation of warning mechanisms, and free legal counselling available to SMEs, could reduce the regulatory challenges that demotivate small entrepreneurs.

[5] https://www.espon.eu/planning-systems
[6] http://ec.europa.eu/regional_policy/sources/docgener/informat/2014/community_en.pdf
[7] https://enrd.ec.europa.eu/leader-clld_en

Finally, the internationalisation of SMEs should also be supported; in this regard, the collection by Embassies of data and information regarding foreign markets and opportunities is crucial.

New approaches are urgently needed to boost the potential of SME development in this type of region, such as the **Entrepreneurial Discovery Process (EDP)** – a*n inclusive and interactive bottom-up process, in which participants from different environments (policy, business, academia, etc.) are discovering and producing information about potential new activities, and identifying potential opportunities that emerge through this interaction, while policymakers assess outcomes and means to facilitate the realisation of this potential.* This process is particularly relevant because public authorities do not always have ex-ante knowledge about future priorities, and need to be prepared to listen to entrepreneurs, researchers and citizens in order to identify priorities and facilitate the emergence and growth of new activities. This process also contributes to changing local communities' attitudes towards the growth possibilities of their region. The organisation of one-off training operations should be replaced by more integrated, long-lasting **training schemes** addressed to entrepreneurs.

To counteract the '**brain-drain**' faced by the V4+2 countries one of the most important factors is to support SME access to their most valuable capital, human resources. ESPON research identifies many good practices, being implemented at national and regional levels by V4+2 countries, to motivate skilled workers living abroad to return. Slovakia invests in international cooperation projects in order to improve knowledge and counteract negative demographic trends. Romania has been adopting strategies aiming at fostering the knowledge economy (KE) sector through different forms of incentives, such as grants to universities and research centres, and tax breaks for companies which invest in ICT and R&D, and reinvest profits in innovation projects in smart specialisation sectors.

In a globalised world, stimulating economic growth and job creation in a region also involves attracting and optimising the impact of foreign direct investments. The challenge for European regions is two-fold in this regard; increasing the level of FDI cannot be their only objective. Regions must pay attention both to the integration of foreign companies in the local economy, and to the impact ("spill-overs") of FDIs on the local labour market and businesses.

The city of Wroclaw illustrates how those two objectives can be successfully pursued. In 2002, the city created an investment promotion agency (WADA) – the first of this kind in Poland – to implement an international branding strategy, to respond in a proactive manner to the needs of investors, and to provide on-going support to companies once they are established. WADA also promotes clusters of industries and universities in order attract FDI in technology-intensive sectors. Wroclaw, and the surrounding region of Lower Silesia, also use a combination of local and national instruments to attract FDIs. Companies that invest in one of the three "Special Economic Zones" (SEZ), which were created in the mid-1990s in the Wroclaw Agglomeration, can benefit from tax exemptions, competitive land pricing, and support with administrative processes. Investors can even apply for a "Special Economic Zone permit," which allows them to access SEZ privileges if they operate outside of the Zone. Foreign-owned firms can also benefit from real-estate tax exemptions, the only incentive under the direct control of actors at the regional and local level, but these types of benefits are usually conditional to the achievement of concrete objectives (e.g. creation of a certain number of jobs over a certain time-period). Finally, government grants may be allocated to firms that invest in sectors deemed as being of high-priority for the national economy (however, these instruments are not under the direct control of Wroclaw authorities).

FDI has contributed to a substantial reduction in unemployment in Wrocław from 11% in 2004 to 4.2% in 2015. It has also led many local companies to improve the wages and conditions of workers, due to a more competitive labour market. Such positive spill-overs on local economies can be enhanced through a better integration of foreign firms; for instance, WADA hosts events that bring players and businesses from different sectors together, which enables the introduction of new technologies, products, and services, and leads to enhanced competition and entrepreneurship. Offering "after-care support" can also stimulate the expansion of existing firms, and enhance the signalling effect of FDI.

Many regions in the V4+2 countries cannot fulfil their socio-economic potential due to the fact that they are disconnected from neighbouring territories and networks. Setting out a vision for the development of those inner peripheries is therefore a priority. The ESPON PROFECY[8] project shows that various factors or drivers may lead a region to become or remain an inner periphery. Regions may be at risk of peripheralisation because of the high travel time to core areas with high economic potential; this leads to higher costs and lower market opportunities for local businesses, lower tax revenues, less investments in the sectors that contribute to the formation of human and social capital (education, research, culture) and, ultimately, it further depresses levels of entrepreneurship and innovation. A second type of peripheralisation may come about as a result of poor access to social and economic SGIs that makes the region less attractive to investors and inhabitants. Another driver may be insufficient connectedness with wider networks (global economic circuits or places of political authority), resulting in a lack of influence on political decision and governance arrangements as well as in a lack of access to information and opportunities. Consequently, one of the major obstacles in designing place-based approaches to inner peripheries' territorial development is to identify the right driver(s) on which to act at an early stage in order to reverse the cycle of peripheralisation.

Areas that are most affected by low access to SGIs should focus on innovation technology, social innovation, governance reform and enhancements to residential environments – policies that are best conducted at a regional level. Conversely, enclaves with a low level of access to centres of economic activity are in need of national or European investments to develop transport infrastructure, communication networks, and "territorial capital". Finally, regions that are poorly connected to national or global economic and political networks will obtain the best outcomes through measures aimed at strengthening exogenous linkages and fostering the "soft capital" of the territory.

Integrating transport and regional economic policies is a necessary condition for territorial development. Transport accessibility is usually a precondition for economic development. Regions with a good connection to suppliers and markets are, *ceteris paribus*, more economically successful than remote and isolated regions, and are less susceptible to demographic decline. However, the relationship between accessibility and development is more complex than it appears at first, and ESPON evidence suggests that the authorities of V4+2 countries should be cautious when designing transport policies. First of all, the magnitude of the impact of new transport infrastructure depends on the existing level of accessibility: further improvements of already high accessibility in central regions will have little effect. Secondly, while enhanced connectivity may boost isolated communities, it may, conversely, increase the level of competition on local businesses, becoming detrimental to regional economies and accelerating demographic decline. The overall recommendation from ESPON research is, therefore, to balance investment-intensive projects with policies relating to SGIs and the entrepreneurial environment, in order to counter depopulation and economic slowdown.

Enhancing the capacities of territories to deliver digital services and tackling these challenges requires policy responses at all levels and by all actors. Sofia, the capital and largest city of Bulgaria, leads the way, in many respects. In 2015, it adopted a "Smart specialisation strategy" to foster the innovative economy sector through ICT investments. It was also the first city in the country to open data and to provide citizens with detailed information online (for instance, on urban transport, schedules and routes). ESPON research suggests that several leads can be pursued by European cities which want to join this digitalisation process. Partnerships at a national and regional level can be developed to design and customise digital solutions that are tailored to local needs in key sectors such as education and transport. The digital transformation of education should be a priority as it also addresses the issue of lack of technical skills. Another major priority, in particular for larger cities, is to invest in building the ICT infrastructure for the future, including fibre-optic and new generation wireless (5G) networks, sensors for "Internet of Things" applications and cloud computing services. Cities should, concurrently, open up their infrastructure and serve as "living labs" to test real-life scenarios with citizens and advance the development of digital solutions. Public procurement can also be used to facilitate the diffusion of such innovative digital solutions. Finally, support has to be given to capacity-building through networking and collaboration to foster the digital transition of towns and smaller cities. For their part, towns and smaller cities should design a digital strategy of their own, whose priorities should be to modernise services and improve the experience of citizens. A city's digital strategy should also involve the allocation of a dedicated budget and the appointment of a "digital leader" to oversee its implementation. Services which are to be digitalised should be mapped and prioritised at the local level. Finally, collaboration should be sought through international networks or public-private partnerships to enhance peer learning and skill development within municipal service teams.

[8] https://www.espon.eu/inner-peripheries

Territorial monitoring solutions

ESPON also offers user-friendly online tools for practitioners involved in territorial development. The "European territorial monitoring system" (ETMS) aims to continuously monitor territorial policy trends in European regions, metropoles, cities or "specific territories", in relation to the objectives of TA2020 and of the Cohesion Policy. It builds mainly on indicators and data developed within the ESPON programme, notably the COMPASS indicators, which encompass economic competitiveness, human capital, social inclusion, environmental factors, and access to services. The ETMS supports policy-makers who try to identify development opportunities and challenges as well as assessing the relative performance of territories in the European context.

ESPON has developed a benchmarking tool for European cities for similar purposes. The "CityBench" Webtool gives indications to public spatial planners or private companies on suitable locations for urban investments, based on various themes such as demography, the economy, quality of life or the investment climate. It may also be of benefit to public decision-makers who wish to compare their own strategies and achievements vis-à-vis those of other cities.

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The ESPON EGTC is the Single Beneficiary of the ESPON 2020 Cooperation Programme. The Single Operation within the programme is implemented by the ESPON EGTC and co-financed by the European Regional Development Fund, the EU Member States and the Partner States, Iceland, Liechtenstein, Norway and Switzerland.

ISBN: 978-99959-55-49-6

Editorial team: Vassilen Iotzov, ESPON EGTC; INOVA+
We thank Ádám Móricz for his editorial contributions.

Published in March 2018