

Turnaround Cities: Western Europe Case Studies Insights from Lille, France, and The Basque Country & Bilbao, Spain

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Lille, France

Introduction

The city of Lille, in the North of France, is one of the cradles of industrialization in France. Endowed with vast coal reserves, the city and surrounding areas were amongst the most important centres of industrial development over the past 200 years. Coal, steel and the textiles industries were particularly dominant in the early 1900 and a significant share of France's industrial production continued to be produced in the area until the 1950s. From 1960 onwards, as many other industrial areas in Europe, the area was hit hard by socio-economic decline. The international steel and oil crisis and the general trend of industries moving to cheaper locations around the world led to factories across all industries closing or sizing down. Coal mining essentially came to an end in the late 1980s (World Heritage Council, 2012). What was once a prosperous and innovative region, soon became France's basket case with high unemployment, deprivation and a shrinking population.

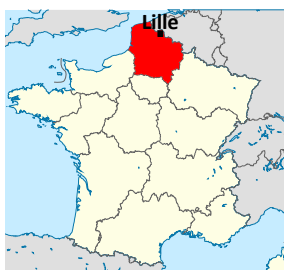
While the city continues to struggle with the consequences of deindustrialization, important progress has also been made over the last decades. Today, Lille is France's third largest service centre with new industries having emerged based on the city's strategic position and the existing capabilities found around the traditional sectors and the university. A combination of cluster development policies, regeneration projects on derelict industrial sites to rehabilitate the liveability within the city and a conducive institutional set-up in the wake of France's effort to decentralize from the 1980s onwards facilitated this positive development.

The following case study examines this progress. For this purpose, section 2 provides background information on the city of Lille, while section 3 describes some of the key policies and strategies implemented over the years in the fields of urban renewal and economic development. Chapter 4 describes the institutional set-up in terms of sub-national government organization in France and the specific set-up in Lille. Section 5 summarizes the lessons-learned and chapter 6 concludes.

Background

The city of Lille is located in the northern most region of France, the Hauts-de-France region. The region borders with Belgium to the North-East, the North Sea in the North and the English Channel coast to the West. The Hauts-de-France region was created in 2016 after the merger of the two former regions Nord-Pas-de-Calais and Picardie. Lille is the region's largest city and the seat of the regional administration. The city proper has around 230,000 inhabitants while the Metropolitan Area, called Métropole Européenne de Lille (MEL), has 1.17 million inhabitants. It is the fourth largest agglomeration in France after Paris, Lyon and Marseille.¹ In terms of population, the MEL is comparable to the Northeast Combined Authority.

The MEL is composed of 95 municipalities. After Lille, Roubaix (approx. 100,000 inhabitants), Tourcoing (approx. 100,000 inhabitants) et Villeneuve d'Ascq (approx. 60,000 inhabitants) are the largest municipalities within the metropolitan territory. Due to the polycentric nature of the area, the



Source: Adapted from [Wikimedia](#)

MEL has been likened to industrial urban regions such as the Midlands in the UK or the Ruhr area in Germany (Colombes, 2008). In the efforts to overcome the challenges associated to administrative fragmentation between municipalities, the MEL has become an important actor for the city's and metropolitan area's development strategies over the last decades (Fraisie & Zafinikamia, 2012).²

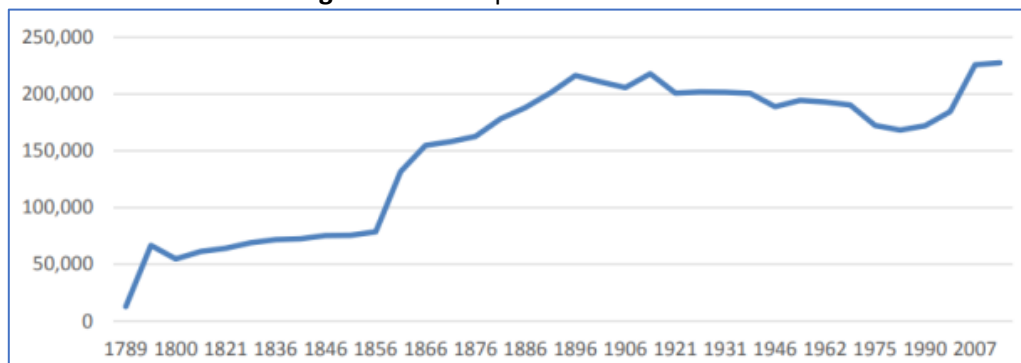
¹ [Métropole Européenne de Lille: Chiffres Clés](#)

² More details on the role of the MEL in chapter 4

Historically, Lille and surrounding areas were among the industrial centres of France. The region counted with large coal reserves, producing over 65 percent of France’s coal in the early 1900s and employing more than 130,000 miners (Provan, 2015). Leveraging the coal reserves and taking advantage of a well-developed transport network and a strategic location in the triangle between Brussels, London and Paris, the sectors of steel and commerce also flourished in the wider region. Lille and the other cities in the metropolitan area furthermore developed a dynamic textiles industry, making the area the second largest textiles region in the world at that time (Colomb, 2007). In the 1950s, Lille’s economy represented 11 percent of overall French industrial production, 27 percent of its textiles and 18 percent of its steel industry (Provan, 2015).

Beginning in the 1960s, Lille and surrounding areas, as other major industrial centres in Europe, started seeing a gradual but dramatic decline in its core industries. Until the 1990s, around 130,000 jobs disappeared in the textiles industry alone. Another 90,000 are estimated to have been lost in mining (Provan, 2015). Unemployment reached up to 14 percent during this time (Fraisie & Zafinikamia, 2012). These developments are also reflected in the population growth of the city. After steady growth until early 1900s, Lille had a particularly sharp drop of inhabitants from the 1960s onwards (Figure 1).

Figure 1: Lille Population 1789 - 2011



Source: Power et al. (2010)

While Lille, and the region as a whole, are still struggling with this legacy, significant progress has also been made since the 1990s. GDP per capita growth has been well above the national average, indicating a catching-up with the rest of France (Fraisie & Zafinikamia, 2012). The area continues to be France’s leading textiles region with some highly specialized companies despite the significant losses experienced in earlier decades. Growth has been particularly strong in the services sector with the city becoming the second largest centre for the service industry outside of Paris and the third largest university town in France. The financial industry has an important hub in Lille with more than 70 credit institutions and another 80 firms within insurance, private equity and other financial services providers present.³ Clusters for the mail order and large scale retail sectors have also developed with a range of auxiliary industries such as logistics, graphics and advertising anchored around it (Colombes, 2007). An important number of research labs have furthermore been established around the university and some of the traditional sectors (Provan, 2015). While unemployment remains higher than the national average, important employment growth was achieved in these sectors. This has also translated into population growth with the city going back to its pre-crisis population (Figure 1).

Policies and strategies

Over the past decades, Lille’s strategy for recovery revolved around making the city both more attractive for its residents and possible movers as well as more competitive from an economic point

³ [Hello Lille](#) & [Nord France Invest](#)

of view (Provan & Kuklowsky, 2011). At the core of this strategy was the idea to leverage its newly enhanced strategic position on the axis between Brussels, London and Paris after its connection to the TGV Nord line in 1993 and the Eurostar in 1994 and develop Lille as a new tertiary hub in the North-East of France. The regeneration of derelict industrial sites in central locations, cultural regeneration, a housing policy focused on densifying inner-city areas and an economic development strategy supporting specific clusters with potential were all complementary to each other in this endeavour, resulting in increasing population numbers and new economic dynamism.

Urban renewal

Since the 1990s, the city of Lille has been a pioneer with its strategic approach to urban renewal. The strategy involved a focus on creating a dense inner city with mixed use spaces and on regenerating abandoned former industrial sites (Provan & Kuklowsky, 2011). A strong emphasis was also placed on image building activities and culture in order to project a new vision of the city to both its citizen and externally.

A major impetus for the regeneration efforts was the connection to the highspeed TGV Nord line in 1993 and the Eurostar in 1994 as well as the related urban developments around the new Lille-Europe train station (the Euraville projects). The connection to these two highspeed rail lines converted Lille into a new regional hub with fast direct connections to Paris, London, Brussels, and other major French regional cities like Lyon, Marseille and Bordeaux as well as the south-west of Germany (Chen & Hall, 2012). The Eurostar, in particular, was an important cornerstone in the city's strategy of renewal as it opened the possibility to further develop the growing services sector. The different Euralille development projects were seen as instrumental in this regard, providing the required infrastructure and office spaces to make this a reality.

The initial Euralille development was conceived as a mixed-use area including green spaces, housing and an international business centre. Its construction started in 1990 on 114ha of former railways land in the city centre between the old and the new train station (Provan, 2016). The Euralille 2 and the Portes Valenciennes projects further extended the area over the years (Kuklowsky, & Provan, 2011), converting Euralille into the third largest business quarter in France after La Defense in Paris and la Part-Dieu in Lyon. The zone is still being further developed with the Euralille 3000 and the St Saviour projects currently under construction. Euralille 3000 aims at strengthening the quality of use of the Euralille complexes through offering a more appealing mix of shops, housing and restaurants.⁴ It is hoped that the area will become livelier and more attractive rather than a pure business district.

Complementary to these new developments, Lille also aligned its general housing policy on creating a denser inner city and reducing further urban sprawl. Traditionally, a lot of the housing stock in Lille and surrounding areas was in the form of single houses, typical for nineteenth century industrial housing: two thirds of the houses in the metropolitan area were single family houses in the nineties (Booth & Green, 1999). To counter this trend, the city imposed an explicit aim to develop two thirds of new housing within the existing city limits rather than allowing a further extension of the city as well as imposing a minimum density requirement on new developments (Provan & Kuklowsky, 2011). Converting centrally located brownfield sites into mixed use areas including housing played an important role for this purpose (Miot, 2015). This policy has resulted in increasing population density in the city over the years (Provan & Kuklowsky, 2011).

The city has also employed the development of the cultural sector as an important policy tool in its regeneration efforts. The EU programme 'European Capital of Culture 2004' built the initial cornerstone in this strategy and is frequently considered as key moment in Lille's transformation

⁴ [Métropole Européenne de Lille: Euralille 3000](#)

process (Paris & Baert, 2011). The 'European Capital of Culture' is an initiative by the European Union, "putting culture at the heart of European cities with EU support for a yearlong celebration of art and culture."⁵ The programme was launched in 1985 and has since been awarded to more than 60 cities. Lille was selected as the 'European Capital of Culture 2004' together with Genova, Italy. The programme designed around it aimed to support the overall regeneration of Lille, to raise its international profile, support changing the city's identity and create civic pride as well as to facilitate the long-term cultural development of the city (Labaldi, 2011). The aim was also to develop tourism and create new employment.

Lille took a, to date, rather unique approach, which transformed it in a reference point for the years to come (Paris & Baert, 2011; Sacco & Blessi, 2007). First, it opted for a regional strategy rather than focusing on Lille narrowly, programming events and project across 193 municipalities of the Nord-Pas-de Calais region and cities across the Belgian border (Labaldi, 2011). And second, it emphasized community involvement and creativity over large blockbuster exhibitions focused mainly on the attraction of tourists (Sacco & Blessi, 2007). The year-long programme involved a total of 2,500 cultural events across all participating municipalities, involving around 17,500 artists and collaborators.

Important for the urban renewal of the city, the programme was also leveraged to renovate historical and cultural buildings in an effort to "metamorphose" the city. This included the renovation of key cultural buildings such as Lille Opera and the Palais des Beaux-Arts as well as the transformation of twelve derelict industrial sites in poorer neighbourhoods into cultural venues, the so-called 'Maisons Folie'. Almost a third of programmed events took place in these Maisons Folie, increasing the community involvement of the programme (Labaldi, 2011). The programme is generally regarded as a large success with a total of 9 million visitors attending the different events and allowing the city to project a new image to both residents and visitors (European Parliament, 2013; Labaldi, 2011).

Economic development approach

In parallel to Lille's efforts of urban renewal, the city has aimed to foster new economic dynamism to fill the new urban developments with life. The city's strategy has focused on supporting and promoting innovation in specific sectors through a cluster approach, building upon the presence of the universities, its strategic location as well as past industrial capacity. Converted brownfield sites across the metropolitan area played an important role for the development of these sectors. Two programmes have been particularly important: the competition poles ('pôles de compétitivité') and the sites of excellence ('sites d'excellence'). Today, the metropolitan area counts with eight sites of excellence⁶ and four competition poles.⁷

The competition poles are a programme of the central government launched in 2004 and currently in its fourth phase. The programme aims to develop synergies and cooperation around specific sectors of activity by fostering collaborative R&D projects and support innovation.⁸ The implementation is done in two phases. In a first step, clusters are selected to participate in the programme. In a second step, the clusters can propose specific R&D project involving at least two firms and one research centre, which if selected, receive tax breaks and R&D subsidies. Non-R&D projects, such as training, ICT infrastructure and internalization, can also be supported if deemed beneficial for the competitiveness of the cluster (Longhi & Rochhia, 2012). To facilitate these projects, the competition

⁵ [European Commission: European Capitals of Culture](#)

⁶ [Métropole Européenne de Lille: Sites d'Excellence](#)

⁷ [Métropole Européenne de Lille: Sites d'Excellence](#)

⁸ [Ministère de l'Économie des Finances et de la Souveraineté Industrielle et Numérique: Tout savoir sur les pôles de compétitivité](#)

poles are organized as associations and count with management teams uniting the different partners (Hassine & Mathieu, 2020).

Today, a total of 54 competition poles exists across France, four of them located in the MEL.⁹ Table 1 provides an overview.

Table 1: Competition Poles in the MEL

Cluster	Description
Euramaterials	Euramaterials was born in 2019 out of the fusion of two established competition poles: UP-Tex (a cluster dedicated to innovative textiles) and Matikem (a cluster dedicated to materials, chemistry and green chemistry). It, furthermore, integrated the Association of Textile and Clothing Materials Group (GMTH) and CLUBTEX (an association for textiles for technical uses). The competition pole aims to support its 171 members in the materials processing industries to foster innovation and the creation of new firms. ¹⁰
I-Trans	Established in 2005 during the first phase of the competition pole programme, I-trans is one of the oldest competition poles. It aims to support innovation in the transport industry, including in the automotive, aeronautics and logistics sectors. Supporting 120 members, it was established leveraging the region's traditional strength in the logistics and transport sector. ¹¹
Picom	Bringing together 120 firms in the retail sector Picom aims to promote innovation in particular in the e-commerce space. The competition pole builds upon the region's historical strength in large scale retail and the mail order industry. ¹²
NHL	Clubster NHL – Nutrition, Health, and Longevity – is a competition pole at the interface between nutrition and health, bringing together 320 players from the agro-nutrition, biotech- pharma, medtech-hospitech, e-health, and healthy ageing sectors. Clubster NHL fosters exchanges and partnerships between academic and industrial players and supports application of innovation projects for regional, national and European funding opportunities. ¹³

While the competition poles were initiated and are still being supported by the central government programme focused on collaborative R&D projects, many cluster associations have evolved over time and developed a portfolio of services for their members. Typical services offered are the provision of market intelligence, networking, and support for the internalization of member firms. Additional partners were brought on board, locally, regionally and internationally to provide these services and as well as to provide funding to the members and sponsor the activities.¹⁴ The competition pole programme is generally considered successful in fostering innovation and increasing R&D spending among participating firms, in particular SMEs (Hassine & Mathieu, 2020).

Complementary to this programme, the city of Lille has also developed specific areas within the metropolitan area for selected priorities sectors, the so-called 'sites of excellence'. Over time, eight

⁹ [Ministère de l'Economie des Finances et de la Souveraineté Industrielle et Numérique: Présentation des Pôles de Compétitivité](#)

¹⁰ [EuraMaterials: Le Cluster EuraMaterials](#)

¹¹ [I-Trans: Partenaire de vos Innovations](#)

¹² [PICOM: Le Pole](#)

¹³ [Cluster NSL](#)

¹⁴ See for example [PICOM: Nos Financeurs](#)

sites were developed on brownfield land with the support of different actors. The sites of excellence typically offer a mix of science park, offices, recreational spaces and housing.¹⁵ The above mentioned Euralille (see section 3.1) was among the first sites to be developed as a showcase of Lille’s ambition for the services sectors. Today, it hosts mainly firms from the financial services, insurance, telecommunications, consulting and IT sector. Other centres of excellence were developed over the years across the metropolitan area, including Eurasante for the health sector build around the University Hospital of Lille and The Union for the creative and textile industries. These sites typically also host the above-mentioned competitive poles and aim to bring together established firms and start-ups in the priority sectors as well training, research and higher education centres in order to create a complementary ecosystem.¹⁶ Table 2 provides an overview of the sites of excellence and their sectorial focus.

Table 2: Sites of Excellence in the MEL

Site of excellence	Sector(s)
Blanchemaille	E-commerce
Euralille	Financial services, insurance, telecommunications, consulting and IT
Euralimentaire	Fresh foods and related logistics
Eurasante	Health
Euratechnologies	ICT
L’Union	Textiles and creative industries
La Haute Borne	Environmental Science
La Plaine Images	Creative Industries

Source: [Métropole Européenne de Lille: Sites d’Excellence](#)

Institutional set-up and funding

The institutional fabric in Lille, and in particular the efforts to create a coherent metropolitan governance system, have been an important driver in the city’s development over the past thirty years (Fraisie & Zafinikamia, 2012; Provan & Kuklowsky, 2011). They must be seen against the backdrop of France’s wider efforts to decentralize and counterbalance the economic and political dominance of Paris since the 1960s. The following chapter hence starts with a general introduction to the French system of sub-national government and funding in order to set the context. It then delves into the specificities in Lille and the role the institutional set-up played for the recovery of the city.

Sub-national government organization and funding

France is a unitary country with the main powers historically being held by the central government. The 1958 constitution, however, explicitly recognised that “France shall be organised on a decentralised basis”. This set in-motion a process of decentralization which lasts until today.¹⁷

France’s formal process of decentralization started in the 1980s with what is referred to as the ‘first act’ of decentralization, followed by subsequent waves in 2003-04 (‘the second act’) and 2013-15 (‘the third act’). Each wave introduced and aimed to clarify the transfer of responsibilities and funding to the different levels of sub-national government (SNG). Today, France’s system is composed of 18

¹⁵ [Métropole Européenne de Lille: Sites d’Excellence](#)

¹⁶ [Métropole Européenne de Lille: Sites d’Excellence](#)

¹⁷ This section is based on information from [OECD: Subnational Government France](#) where not explicitly referenced otherwise

regions with an average size of five million inhabitants, 101 departments and over 35,000 municipalities.

France has among the highest number of municipalities in OECD countries with an average population of less than 2,000 inhabitants. Due to this fragmentation, intermunicipal cooperation (IMC) has a long history in France. Today, all municipalities belong to an IMC body. The IMCs range in size and scope from the 22 metropolises (the most integrated form of IMC) to the over 1,000 communities of municipalities in rural areas.

The competences of the SNGs have evolved over time. Each wave of decentralization sought to clarify responsibilities and reduce the overlap between the different levels. Figure 2 provides an overview of the responsibilities for the three official levels of SNG. Regions have important competences in terms of spatial and economic planning including the management of EU funding. The role of the Departments has been weakened over the years (Demazière & Sykes, 2020). Today, they focus mainly on social affairs, including support to rural communities and territorial cohesion. Municipalities count with a general clause of competence, resulting in a wide set of competences allowing them to act in the best interest of the local population as they see fit. Such a general clause of competence was initially given to all levels of SNGs, but it was revoked in the different rounds of reforms, in particular in 2015, to reduce duplication.

Figure 2: Competences of SNGs in France

	REGIONS	DEPARTMENTS	MUNICIPAL LEVEL
1. General public services	Internal administration	Internal administration; Support to rural municipalities	Municipal administration; Administrative services delegated by the central government (civil register, electoral issues)
2. Public order and safety		Departmental fire and emergency services	Municipal police
3. Economic affairs /transports	Regional spatial planning; Regional transport plans; Regional train lines; School and inter-urban transportation; Civil airports; Non-autonomous harbours economic development (aid schemes to SMEs, innovation, internationalisation), R&D; Management of EU funds	Rural development; Secondary roads; Sea and fishing ports	Municipal roads; Local public transport; Local economic development
4. Environmental protection	Environmental protection planning; Regional parks and preservation areas; Energy saving; Water protection	Water protection	Waste management; Sanitation
5. Housing and community amenities	Housing subsidies	Housing subsidies and management	Land use planning and urban planning; Building permits; Housing subsidies and management; Drinking water
6. Health			Public health (vaccination)
7. Recreation, culture & religion	Cultural heritage and monuments; Museums; Artistic training	Culture; Libraries; Museums; Archives; Historical buildings; Tourism	Culture; Sports; Archives; Museums; Libraries; Tourism
8. Education	High schools (building and technical staff); Vocational training and apprenticeship; Job training programmes; Support to universities and R&D	Secondary schools (building and technical staff)	Nursery schools; Pre-schools; Elementary schools ((building and technical staff); Extra-curricular activities
9. Social protection		Social welfare for families, children, disabled people, elderly people, social insertion	Social welfare (jointly with departments); Support to families and youth

Source: [OECD: Subnational Government France](#)

In addition to the three formal levels of SNG, the IMCs can have significant competences depending on their specific status. While IMCs have a long history in France due the high number of municipalities, the creation of the status of public intercommunal cooperation institutions (EPCIs for the acronym in French) has particularly increased their importance since the 1990s. The EPCIs can have major competences as well as their own taxation powers (Demazière & Sykes, 2020). Typical competences of the IMCs performed on behalf of the municipalities are waste disposal, transport, economic development and housing (Griffith, 2017). The metropolises and metropolises with special status, created in 2015, have the most far-ranging powers, including economic development, tourism,

culture, higher education, research institutions, research programs, and the development and management of ports and airports (Griffith, 2017).

Expenditure at the SNG level has increased significantly since the decentralization reforms started in the 1980s but remains well below OECD averages. SNG spending represented 11 percent of GDP and 19.8 percent of total government expenditure in 2016, compared to 16 percent and 40 percent respectively at OECD level. 55 percent of SNG spending happens at the municipal and IMC level, showing the important role of the lowest level of SNG. The largest spending items are social protection (mainly at departmental level), followed by general public services and economic affairs and transport. Municipalities and IMCs have a particularly important role for public investments with investments in economic affairs and transport as well as education and housing receiving the lion share. The relatively low levels of SNG spending compared to OECD averages reflect the continued high levels of centralization despite the various decentralization acts.

A characteristic of the French SNG financing system is that it is pre-dominantly tax based. Over 50 percent of the funding comes from taxes, in particular own tax sources, compared to 44 percent as the OECD average. This endows the SNGs with a relatively high level of independence in terms of spending decisions. The most important own-source taxes are the residence tax, property and land taxes and the territorial economic contribution. SNGs can fix their tax rate based on certain limits given by the central government. In addition, grants and subsidies account for about a third of the revenue (compared to 64 percent in the UK)¹⁸ with several equalization mechanisms in place (both horizontal and vertical). SNGs can also borrow from the financial markets without having to seek approval from the central government. Long-term borrowing is, however, restricted to investment.

The institutional set-up in Lille

Lille's development trajectory cannot be examined without looking at its institutional context. Intermunicipal collaboration has a long history in Lille due to the polycentric nature of the metropolitan area and the IMC body for the metropolitan area, the MEL, has been credited with being the main actor behind the policies described in chapter 3. Complementary interventions from different levels of government and personal leadership have, furthermore, provided an important impetus for many of the initiatives.

Governance

Decades before the start of the formal decentralization process in the 1980s, intermunicipal collaboration was a reality in the metropolitan area of Lille. The "Métropoles d'équilibre" initiative, launched by the central government in the early 1960s, facilitated an important push in this direction. The initiative aimed to create counterbalancing metropolitan areas across France. The metropolitan area of Lille – Roubaix – Tourcoing was among the first eight to be selected in 1964 due to its central role in the Nord-Pas-de-Palais region. As part of this programme, the selected metropolitan areas had to create intermunicipal governing bodies to increase coordination and facilitate collaboration between the municipalities included within the metropolitan area. This led to the creation of the Communauté Urbain de Lille (CUDL) in 1966. (Provan, 2015)

Initial competences of the CUDL were limited to land use planning, housing, waste management and transport. However, over the years, the legal status, name, and powers of the CUDL changed in the wake of the several rounds of decentralization reforms. In 1996, the CUDL became the 'Lille Métropole Communauté Urbaine (LMCU)'. In 2015, Lille received the newly created metropole status (see section 4.1), granting it far reaching competences around the promotion of tourism, urban policy, and the support for educational and research institutions. It was also renamed Métropole Européenne de Lille

¹⁸ [OECD.stat: Subnational governments in the OECD. Key data](#)

(MEL).¹⁹ Today, the MEL is responsible for a large array of strategic policy fields on behalf of its member municipalities including transport, housing and energy, economic and territorial development, public spaces and roads, urban planning, water and sanitation as well as the promotion of culture, sport and tourism.²⁰ This wide and increasing range of competences has enabled the MEL to take the lead in the recovery of the city over the past decades. The MEL is largely credited as the main driving force behind the policies described in chapter 3, including the “European Capital of Culture” success in 2004 and the different cluster initiatives (Provan, 2015).

The MEL has a metropolitan council and is headed by the figure of the metropolitan mayor.²¹ The metropolitan council has 188 members, which are directly elected during the municipal elections every six years. Each of the 95 municipalities is represented based on its population. The metropolitan mayor is elected by the council and has been considered particularly important for the development of the MEL. The office holders were able to create consensus among the differing interests of the municipalities within the metropolitan area as well as to bring visibility to Lille’s challenges at the national stage (Provan & Kuklowsky, 2011).

The office has been held by the mayor of Lille for most parts since the creation of the CUDL in the sixties. Lille’s mayors were both important local figures as well as senior national politicians. Politicians, holding dual mandates at different levels of government, the so-called ‘cumuls des mandats’, is a common feature in the French political system. The first mayor of the CUDL from 1967 to 1971, Augustin Laurent, was concurrently the mayor of the city of Lille and held several ministerial positions at the national level (Kuklowsky & Provan, 2011). Pierre Mauroy, president of the MEL between 1989 and 2008 for almost two decades, was also prime minister between 1981 and 1984 as well as Lille’s mayor from 1979 to 2001. These double mandates allowed them to increase Lille’s visibility at the national stage and influence important decisions in favour of the Lille Metropolitan Area, including the diversion of the Eurostar to Lille. At the same time, they gave weight to the newly created metropolitan structures and enabled their effective functioning.

Funding

In terms of funding, the MEL is endowed with a significant budget. In 2022, the budget totalled €1.9 billion, split between €750 million of capital expenditure and €1,190 million of revenue expenditure. Its per capita budget has been almost double compared to other metropolitan areas in France such as Metz and St. Etienne (Provan & Kuklowsky, 2011). The largest spending item in 2022 was by far ‘transport and mobility’ with €461 million, followed by ‘climate and ecological transition’ (€339 million). A total of €65 million was dedicated to the area of economic development, including research and higher education and the running of business parks. The policy field ‘sustainable territorial and urban development’ had a budget of €150 million for activities related to housing and urban renewal.²² Revenue composition largely reflects the average across SNGs described in section 4.1. In 2021, around 53 percent of the revenue came from taxes, 25 percent from central government grants and the remaining 22 percent from other revenues such as fees from public transport provision and water treatment.²³ The territorial economic contribution, the waste collection tax and the ‘versement transport’ (regional payroll tax) as well as the share of VAT introduced in 2018 to replace the housing tax are the largest contributors.

Complementary to MEL’s significant budget, the central and regional governments have remained an important impetus and funders for many of the local initiatives. While the local level has significant

¹⁹ [Métropole Européenne de Lille: Qui sommes nous](#)

²⁰ [Métropole Européenne de Lille: Qui sommes nous](#)

²¹ [Métropole Européenne de Lille: Les élus de la MEL](#)

²² All numbers are from [Métropole Européenne de Lille: le budget de la MEL](#)

²³ [Métropole Européenne de Lille: Rapport d’Orientations Budgétaire 2021](#)

independence in the design of the specific policies, the MEL has frequently leveraged national and regional programmes for their financing (Provan & Kuklowsky, 2011). This can be seen across the policies described in chapter 3. Many of the urban development projects, for instance, were funded through national programmes such as those of the National Agency for Urban Renovation (ANRU). Established in 2003 and endowed with €12 billion, ANRU finances and supports local authorities to implement large-scale renovation projects in the most vulnerable neighbourhoods.²⁴ Similarly, the competition poles were initiated and funded by a national programme, while being complemented with local, regional and private funding today.

The current funders of the PICOM cluster illustrates nicely, which include the European Commission, different ministries at the central level, the Hauts-de-France region and MEL among many others.²⁵ At the central level, the central government had furthermore created a single inter-ministerial fund, uniting the different funding pots for innovation support across multiple ministries, as well as bringing in the regional governments (Fixari & Pallez, 2016). Finally, while being an initiative initiated and driven forward by different local actors, the 'Lille European Capital 2004' programme benefited from support across all levels government and sectors: of the total budget of around €74 million euro, €10.7 million came from the regional level; around €10 million from different Départements, €13.7 million from Lille Metropole; another €8 million from the city of Lille; and €13.72 million from national and European public funding (Sacco & Blessi, 2007). In addition, €13 millions were obtained from corporate sponsoring from national and regional firms, among the highest number of private sponsorship received for a participant of the European Capital of Culture Programme (Sacco & Blessi, 2007).

Enabling factors and lessons-learnt

The case of the city of Lille is interesting for the UK in many ways due to the similarities with the UK system and experience. Being a unitary country with relatively high levels of centralization makes France a more natural comparator in terms of institutional set-up than some of the other federal European countries. The polycentric nature of the Lille metropolitan area furthermore resembles many of the UK's city regions. The following section summarizes a few lessons learnt and factors that enabled the recovery of the city.

First, the transfer of powers to SNGs in France has been part of a consistent and long-term process of decentralization, resulting in growing local capacities and autonomy of the different levels, in particular the metropolitan governments (Demazière & Sykes, 2020). This has enabled the MEL to take leadership in an increasing number of strategic policy fields, important for the recovery of the city. Compared to the English Combined Authorities, the MEL counts with significant independence.

Second, and related to the first point, SNGs in France have considerable freedom over their spending decisions and larger financial resources than their UK counterparts. While government spending at the subnational level remains lower than the OECD average, local revenues are derived to a significant degree from own tax sources rather than central government grants, hence ensuring autonomy of the SNG spending decisions (Demazière & Sykes, 2020). This is reflected in the case of Lille. The MEL had a significant budget of €1.9 billion in 2022, 53 percent stemming from own-tax sources. This allows the MEL to take initiatives in a variety of policy fields and make important investments without depending on national funding pots to become available.

Third, this move towards local leadership was accompanied by a conducive national governance and policy framework. While the MEL was able to take initiative in many areas, national policies, such as the competition poles and the regeneration policies implemented by ANRU, provided an important

²⁴ [Agence Nationale pour la Rénovation Urbaine: Présentation de l'ANRU](#)

²⁵ [PICOM: Nos Financeurs](#)

impetus and funding for the policies (Provan & Kuklowsky, 2011). National policies, such as the competition pole policy, were also frequently long-term, allowing greater stability in terms of planning and implementation as well as allowing the time required for the policies to have an effect.

Fourth, personal leadership of the mayors of the MEL has played an important role in the establishment of the MEL and the recovery of the city. The particularity of the French political system in which local politicians were also allowed to simultaneously hold national mandates was helpful in this regard as it gave sufficient weight to the newly created office. The mayors are credited in particular with creating consensus among the different municipalities involved in the MEL and allowing for the emergent governance structure to gain credibility (Provan & Kuklowsky, 2011). Being familiar with the political system in the central government and holding important offices within it also allowed them to sway important decisions at the national level in Lille's favour. The Eurostar is one such example.

And fifth, from a policy perspective, Lille's strategy for recovery around making the city both more attractive for its residents and possible movers as well as more competitive from an economic point of view proved to be effective (Provan & Kuklowsky, 2011). The regeneration of derelict industrial sites in central locations in order to densify inner city areas, cultural regeneration, and an economic development strategy supporting specific clusters were all complementary to each other in the city's process of recovery. This demonstrates the importance of addressing multiple issues at the same time rather than pursuing 'one-legged' strategies.

Conclusion

This case study reviewed the experience of the city of Lille, which after a significant period of socio-economic decline managed to make significant progress the past three decades. For this purpose, chapter 2 provided some background information on the city, while chapter 3 discussed some of the key strategies and policies implemented in the city. Chapter 4 examined the institutional set-up which facilitated the turn-around and chapter 5 summarized the lessons-learnt and enabling factors.

Lille's strategy evolved around complementary policies in the areas of urban renewal and an economic development focused on supporting clusters, leveraging the strategic location of the city and existing industrial and academic capacity. The effective implementation of these policies was facilitated by a conducive institutional set-up in the wake of France's decentralization process, which allowed to build up local capacity and gave increasing autonomy over policy decisions to the local level. At the same time, long-term central government policies were complementary to those initiated locally, showing the importance of long-term policies and complementary strategies implemented at both national and local levels.

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The Basque Country and Bilbao, Spain

Introduction

The Basque Country in northern Spain is considered one of the success cases in Europe in terms of managing structural change (OECD, 2011). With an economy long thriving based on heavy industries such as shipbuilding, steel, and machine tools, it plummeted into a significant depression in the 1970s and 1980s as a result of the international steel crisis. The opening of the Spanish economy after the end of the Franco regime in 1978 furthermore left domestic firms struggling to compete internationally. By 1985, the once wealthy Basque country had among the highest unemployment rates in the European Union (OECD, 2011).

Much has changed in the region ever since. Today, the Basque country is one of the most prosperous and innovative areas in Spain and counts among the top 25 percent of OECD regions in terms of average household income (OECD, 2020a). Important knowledge intensive clusters such as aeronautics have emerged while traditional sectors have been strengthened. Bilbao, the largest city in the region, has become a synonym for successful urban regeneration with the famous Guggenheim Museum having attracted more than 20 million visitors since its opening in 1997.²⁶

The following case study explores the strategies employed and analyses the unique institutional set-up of the region which have enabled this success story. Chapter 2 starts by providing some background information on the Basque context, followed by a description of the strategies and policies implemented in Chapter 3. Chapter 4 explores the institutional landscape in the region. The final two chapters draw out the enabling factors and lessons-learnt and conclude.

Background

The Basque Country is a region in northern Spain.²⁷ It is one of the 17 regions, the so-called Autonomous Communities (AC), which represent the first level of subnational government in Spain. With approximately 2.2 million inhabitants it is the seventh largest AC and comparable to the Combined Authority of West Yorkshire in terms of population, albeit larger in surface area. It is further divided into the three provinces Alava, Biscay and Gipuzkoa. Bilbao is the largest city in the Basque Country with a population of around 350,000 inhabitants in the city proper and around 1.1 million in the Bilbao Greater Metropolitan Area. Other important cities are Vitoria-Gasteiz, the seat of the regional government, and San Sebastian.

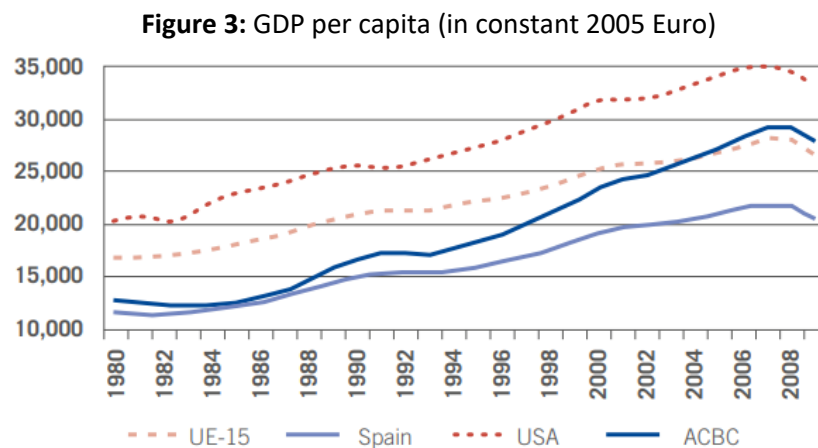
The Basque Country is one of three historic regions recognized in the Spanish constitution of 1978 (OECD, 2011) and has a strong regional identity, including its own official language called Euskara. As the other ACs, the Basque Country has extensive competences for most major policy fields, including health, education and the promotion of the economy. Uniquely, the region also has fiscal autonomy. Together with the AC Navarre this differentiates the region from the other ACs which do not count with such revenue raising and spending powers (please refer to chapter 4 for more details on this). Historically, the Basque Country was one of Spain's most prosperous and most industrialized regions. Heavy industries including steel, shipbuilding, and machine tools, accounted for a significant part of the economy with other well-established manufacturing sectors such electronics, paper and chemicals further contributing to the industrial profile of the region. Furthermore, the Basque financial sector was among the most influential with investments throughout Spain (OECD, 2011). However, the crisis of the 1970s had a devastating impact on the economy and employment levels. Bilbao as the economic centre of the region was hit particularly hard. In a period of only 6 years, between 1979 and 1985, 25

²⁶ [The Art Newspaper \(2017\)](#)

²⁷ This case study refers to the Basque Autonomous Community when using the term Basque Country, not the wider cultural area inhabited by the Basques

percent of industrial jobs in Metropolitan Bilbao disappeared (Plaza, 2006). Unemployment in the whole region fluctuated around 20 percent for most parts of the 1980s and 1990s (Lacasa, Klement & Dornbusch, 2018).

Against these odds, the Basque economy made an impressive recovery, earning it the label of a “regional transformation success story” (OECD, 2011) from the 1990s onwards. Figure 1 shows the evolution of the GDP per capita between 1980 and 2009 compared to the average of the EU-15 countries, Spain and the US.



Source: Monge-González & Salazar-Xirinachs (2016)

Having been hit strongly by the economic crisis of the 1970s, the region’s GDP per capita had fallen to levels close to the Spanish average and was significantly below the European Union average and the US in much of the 1980s. However, starting in the early 1990s, GDP growth accelerated, leaping ahead of the rest of Spain, and overtaking the EU-15 average in 2004. Unemployment rates furthermore decreased significantly from the high rates of the 1980s with a steady decline from 1995 onwards, falling below 5 percent in the mid-2000s (Lacasa, Klement & Dornbusch, 2018). Today, the Basque Country continues to be an important manufacturing hub, with many of the traditional sectors, such as steel, automotive and electronics, still playing an important role, while new ones, such as aeronautics and ICT have also gained importance (Lacasa, Klement & Dornbusch, 2018).

Policies and strategies

Since gaining autonomy and hence acquiring important policy competences in the early 1980s, the Basque government has been keen to support the local economy in a way it felt the central government had failed to do in the previous decades of economic decline (Taylor & Raines, 2001). Core to these efforts was a strategy of supporting and upgrading existing industries as well as the gradual diversification to related but more knowledge-intensive sectors. A cluster development approach and a focus on skill formation have been central in this endeavour since the early 1990s. In parallel, the regeneration of Bilbao as the economic centre of the region had a high priority, with the Guggenheim Museum being among the most notable and known examples in the world for culture led urban regeneration. The following chapter explore the region’s efforts around these themes.

Technological upgrading in the 1980s

During the 1980s, the regional Basque government focused its efforts, somewhat contrary to the dominant thinking in this period, on supporting existing traditional industries. The focus was mainly on improving the productivity of the existing firms through cost cutting and incremental innovations (Lacasa, Klement & Dornbusch, 2018; Morgan, 2016). This was partially done out of need since the attraction of firms from outside for the development of new sectors would have been difficult due to

the terrorism threat from ETA at the time; but also due to a long history of local firm growth with a strong local SME sector in diverse industries (Taylor & Raines, 2001). The following statement of the then Minister of Industry encapsulates the spirit at the time: ‘the first thing we did with the traditional industry was to not let it die. The key issue was to keep on doing what we already did, but making it well’ (Morgan, 2016).

The efforts had two overarching objectives: the promotion of R&D activities within firms as well as the establishment of technology centres which would complement the firms’ internal R&D (Del Castillo & Paton, 2010). Multiple programmes to improve the technological and innovative capacities of the existing firms were implemented. The SOFAD programme running from 1982 to 1989, for instance, aimed to help firms adapt external technology. The IMI programme provided subsidies for firm diagnostics and viability studies specifically for the integration of the then new microelectronic technologies into firm activities (Del Castillo & Paton, 2010). And the TEKEL programme supported the requalification of the existing workforce. These programmes aimed to reach as many firms as possible rather than being selective in order to create awareness among Basque firms for the importance of technological upgrading.

However, the principal activity in terms of improving the innovative capabilities of local firms was the establishment of Technology Centres which have been largely credited for helping Basque firms to improve their competitive position (Morgan, 2016; Del Castillo & Paton, 2010). The Centres were established as non-profit organizations and were aligned with the specializations of the existing sectors. This was to facilitate knowledge transfer from research centre to firms (Morgan 2016). In fact, the initial centres, designated in 1982, were existing small laboratories that had already emerged organically around certain industries. These were endowed with significant funding by the government in order to scale up their activities. The actual research was conducted in collaboration between the centres and the firms. While Basque firms had a lower than Spanish average investments in R&D, adding the R&D work conducted in collaboration with the Technology Centres actually put them ahead of other firms in Spain (Lacasa, Klement & Dornbusch, 2018). Until today, the Technology Centres continue to play a key role in the regional innovation system (OECD, 2011).

Cluster development²⁸

From the early 1990s onwards, the policy objectives shifted towards stimulating a gradual move into related but more knowledge intensive industries, such as aeronautics, ICT and renewable energy. Key to this new strategy was the cluster approach. In 1990, the Basque government hired Michael Porter and the Monitor Group to analyse the Basque competitive context and to provide input for the formation of clusters. Table 1 provides an overview of the clusters launched between 1992 and the year 2000.

²⁸ The following section is based on Taylor & Raines (2001) and Del Castillo & Paton (2010) where not explicitly referenced otherwise

Table 3: Clusters in the Basque Country

<i>Date formed</i>	<i>Cluster</i>	<i>Coordinating Organisation</i>	<i>Newly created</i>
1992	Electrical appliances	ACEDE	Yes
	Machine tools	AFM	No
1993	Automotive	ACICAE	Yes
1994	Port	UNIPORT	No
	ICT	GAIA	No
1995	Environment	ACLIMA	Yes
1996	Knowledge	Cluster Conocimiento	Yes
	Energy	Cluster Energia	Yes
1997	Aeronautics	HEGAN	Yes
1998	Paper	CLUSPAP	Yes
2000	Shipbuilding		Yes

Source: Taylor & Raines (2001)

The underlying idea was to move away from top-down policies to a more complementary bottom-up approach in which cluster associations would help to articulate the needs of the different sectors. A strong emphasis was therefore placed on private sector involvement and bottom-up decision making. This resulted in the actual clusters not mirroring the recommendations of the initial Porter/ Monitor study, but rather being based on a combination of the initial proposal and a self-assessment of the local private sector.²⁹ Each of the proposed clusters was then provided with a cluster methodology developed by Monitor, however it was left at the discretion of each cluster whether they were to take up the offer of the government. Hence, rather than imposing top-down several cluster associations, it was the decision of the firms themselves to establish or to strengthen existing organizations in order to work together as a cluster. Some clusters which were not included in the initial list also proposed their formation which was accepted if they were able to make a sufficiently strong case. ICT is among these cases.

The focus of the cluster activities was on the internationalization of the sectors, networking and collaboration between the different actors as well as skills formation. Each cluster was tasked to develop a strategic plan addressing these and other relevant issues, which was then agreed with the Department of Industry. Up to 70 percent of funding for the proposed initiatives was covered by the public sector, much of it by a refocusing existing funding pots. This way the clusters fulfilled one of their intended goals to articulate the needs of the different sectors more effectively, in particular around skills development and R&D.

The cluster approach has continued to play an important role in industrial and innovation policies until today, however with a new emphasis on developing knowledge-intensive industries and on diversifying the economy since the early 2000s (Lacasa, Klement & Dornbusch, 2018). Three sectors were chosen for this purpose and comprehensive plans for their development launched: 1) the bioscience and health sector with the plan Biobasque 2010³⁰ at its heart; 2) the energy sector around the plan Energybasque; and 3) advanced production technologies being promoted through the plan Nanobasque 2013. Since 2009, this approach was also complemented by the so-called pre-cluster initiatives, which was an entirely bottom-up process to create new clusters based on meeting certain eligibility criteria, such as sector potential and representation (Lacasa, Klement & Dornbusch, 2018). Since 2013, the cluster strategies have found a natural continuation with the Smart Specialization Strategies as proposed by the European Union (Freije, 2013).

²⁹ The proposed cluster were white goods; high value-added steel; forestry; leisure and travel; and Rioja wine

³⁰ [Biobasque \(2010\)](#)

Skills formation

An integral part of the efforts to gradually upgrade and diversify the economy was a focus on skills formation in terms of retraining the existing workforce and ensuring young people have the right skill set for the new industries to form (Azua, 2022). Since the 1990s, the Basque government has therefore dedicated significant efforts to build up a high-quality vocational education and training (VET) system with a focus on creating effective institutions to support the system, quality control and continuous training (Albizu et al., 2011; OECD, 2020b).

From 1997 onwards, a network of VET providers was created throughout the Basque Country, overseen by the newly created Basque Institute for Vocational Guidance (Azua, 2022; OECD, 2020). The institute was the first of its type in the whole of Spain, making the Basque Country a pioneer in the area of VET in Spain (OECD, 2020b). In 2004, Tnika, the Basque Centre for Applied Innovation in Vocational Training, was furthermore created to act as an intermediary between VET centres, universities, research centres and companies. Tnika tasks include, among others, conducting and disseminating research on VET innovations; encouraging the internationalization of VET in the Basque Country; a continuous improvement of the quality of the offered programmes and training VET teachers in innovation (European Commission, 2019).

These efforts are seen as an important ingredient for the Basque Country's success over the past decades. While VET is not as widespread in Spain as a whole, the Basque VET system today has a significant uptake with 30% of the population holding a VET degree and is considered a reference point of excellence in Europe (Albizu et al., 2011; European Commission, 2019).

Urban regeneration

In parallel to the industrial and innovation policies mainly focused on specific sectors, the city of Bilbao embarked on a series of urban regeneration projects from the early 1990s. Together with Barcelona, Bilbao became one of the meccas for urban planners around the world to examine and learn about culture led urban regeneration of former industrial cities (González, 2011). Its perceived success has been such that it even coined the so-called Bilbao or Guggenheim effect: "the transformation of a city by a new museum or cultural facility into a vibrant and attractive place for residents, visitors and inward investment (Lord, 2007, p. 32)."

At the beginning of this process was the realization that the sector focused initiatives to improve the socio-economic conditions in the Basque country had failed to address the inherent spatial nature of the challenges resulting from industrial decline (Linacero, 2015). Bilbao being the economic centre of the Basque Country with a lion share of the industry had felt the impact the strongest, and hence had lost centrality within the economic system (Rodríguez & Martínez, 2003). The spatial distribution of decline was also very marked within the city with most of the abandoned industrial sites being situated along the left bank of the river. In 1991, there were 158 derelict sites within the city alone, covering 450ha (Rodríguez & Martínez, 2003).

Bilbao opted for an approach of urban regeneration which can be described as cultural- and project-led with the aim of improving urban competitiveness (Rodríguez, Abramo & Vicario, 2015). It had three defining characteristics. First, a more proactive stance on land management and spatial planning than in the 80s. Second, the aspiration to embed spatial planning into a wider discussion on strategic city development; and third, a focus on large scale redevelopments and infrastructure projects (Rodríguez, Abramo & Vicario, 2015; Rodríguez & Martínez, 2003).

In order to become more proactive in terms of spatial planning, a new masterplan for Bilbao was presented in 1989 in order to replace the existing one from 1963. The new master plan placed important weight on the repurposing of derelict industrial sites with the aim to create land for the

expansion of economic activity focused on the tertiary sector, in particular in the form of mixed-use areas with housing, offices and commercial activities. Four derelict sites were designated as “opportunity areas”, namely (1) Abandoibarra, an inner port and industrial area close to the centre; (2) Zorrotzaurre, a large degraded inner city industrial area; (3) Ametzola/ Eskurtze, a former railyard and freight station; and (4) Miribilla and El Morro, former mining sites (Rodríguez & Martínez, 2003). Abandoibarra was the flagship site destined to become the new CBD due to its central location. It is also the location of the newly built Guggenheim Museum, the Euskalduna Conference Center and Concert Hall (Rodríguez, Abramo & Vicario, 2015), all opened towards the end of the 1990s. Together with the redevelopment of the Zorrotzaurre neighbourhood, Abandoibarra was seen as having strategic role for strengthening the competitiveness of the city, by providing the required space for a new type of industries based on high-skilled service industries rather than heavy industries.

In parallel, a new strategic plan for Bilbao was being developed based on a SWOT analysis of the city (Gomez, 1998). The Strategic Plan for the Revitalization of Metropolitan Bilbao was launched in 1992 in order to define short- and medium-term objectives with the aim to rally the activities of the different public institutions and private actors around them (Rodríguez, Abramo & Vicario, 2015). In 1991, Bilbao Metr poli-30 was set up to further this process and to bring different actor together around the strategy in a PPP set-up. In 1994, Bilbao Metr poli 30 had more than 100 members, which included local and regional institutions, the Chambers of Commerce, universities and firms of different sizes (Gomez, 1998).

The third characteristic was the emphasis on large scale emblematic urban development and infrastructure projects to stimulate the re-emergence of the city. The underlying idea was that these developments would help to project a new image of the city and showcase the commitment of the local administration to create an attractive environment for businesses. A new metro system was inaugurated in 1994, as well as a new airport terminal and the port was extended. The most notable of these projects was certainly the inauguration of the Guggenheim Museum in the redeveloped area in the district of Abandoibarra. In all these developments a strong emphasis was placed on creating widely recognizable designs. For this purpose, well known international architects were hired, including Sir Norman Foster for the design of the newly built metro stations and Frank Gehry for the Guggenheim Museum (Gomez, 1998). This had a strong signalling and marketing effect, helping Bilbao to showcase its aspirations and a new image to the world.

Institutional set-up and funding

The unique institutional set-up in the Basque Country facilitated the effective implementation of the policies and strategies described in the previous chapter. The institutional landscape is characterized, on the one side, by a strong interventionist government, and on the other side, by an emphasis on creating a whole ecosystem in which a variety of actors contribute to the design and implementation of industrial and innovation policies. Morgan (2016) describes the system as a “collective entrepreneurship model” in which public and private actors “work in concert to achieve mutually beneficial ends and where firms are encouraged to explore joint solutions to common problems” (p. 13). He furthermore underlines the efforts gone into nurturing collaborative learning as a defining characteristic of the system (Morgan, 2016).

Public sector

The public sector organization in the Basque country is unique, even within the Spanish system, and has had an important influence on the way policies could be implemented. As one of the 17 autonomous communities, the Basque Country has had extensive responsibilities since the early 1980s and hence independence around most major policy fields including regional economic development and urban planning. These responsibilities are matched with near fiscal autonomy in which both revenue raising power and spending decisions are almost entirely local (more on this in

section 4.3).³¹ The region itself, is furthermore, characterized by a multilevel government system, comprising a region wide government, the provincial governments of Alava, Biscay and Gipuzkoa as well as municipalities.

This set-up allowed the government to play a particularly active role in supporting industry and innovation with the policies described in the previous sections (Morgan, 2016). After gaining autonomy in the early 1980s, there was a strong appetite to take an active stance and experiment with different approaches to demonstrate the region's ability for self-reliance (Taylor & Raines, 2001). Initially, individual leadership by a number of high-level politicians played an important role. However, over time, institutions were created that allowed to detach the initiatives and hence their effectiveness from the specific individuals.³²

Each of the different levels of government hold responsibilities in terms of economic development with the regional government being responsible for the overarching industrial and competitiveness policy; the provincial level with the economic promotion within their territories and the local level being focused mainly on employment policies (Gray, 2022). Over time, as institutional capacity grew in the region, more responsibilities were delegated "downwards" to take advantage of local knowledge and to create local agency (Gray, 2022). Today, the province and municipal governments of Gipuzkoa have a particularly strong involvement in economic development activities as economic activity is more dispersed there than in the other provinces.

Key actors within the regional government were the Department of Industry and SPRI, the Basque Business Development Agency created in 1981, as well as the provincial governments. The SPRI rapidly became the point of reference for regional development agencies in Spain (Del Castillo & Paton, 2010). Its role in the system has evolved over time with the Department of Industry taking on the more traditional industrial policies while the SPRI moved to focus more on innovation related policies (Del Castillo & Paton, 2010; Morisson & Doussineau, 2019). Other agencies have been created over the years, many as a PPP set-up including Orkestra (the Basque Institute for Competitiveness) in 2006; Ikerbasque (the Basque Foundation for Science) in 2007 as well as Innobasque in 2007.

Private sector³³

A strong principle of 'subsidiarity' has underpinned the institutional landscape in the Basque Country in which the public sector has initiated and financially supported a lot of the policies, while allowing the private sector to take an important role in their design and implementation (Morgan, 2016). The establishment of the cluster associations throughout the nineties was one of the key steps to involve the private sector in this regard. At the start, those sectors, which were keen to form a cluster, established working groups each to develop a strategic plan for the cluster. This process was facilitated by external consultants sponsored by the government. The working groups were comprised of representatives of relevant firms, education and training institutions, the relevant applied research institutions as well as the Basque government, and were presided by a representative of the private sector.

Additional working groups were established to work on specific topics. Over time, each sector established a cluster association to help with the coordination of the cluster's work. In some cases, these were pre-existing industry associations. In other cases, new organizations were established as not-for-profit private organizations funded by the Basque government, membership fees and fees paid for services. Clear boundaries were set for the activities and functions which the cluster

³¹ [OECD \(2019\)](#)

³² Various interviews

³³ Section based on Taylor & Raines (2001) if not specifically referenced otherwise

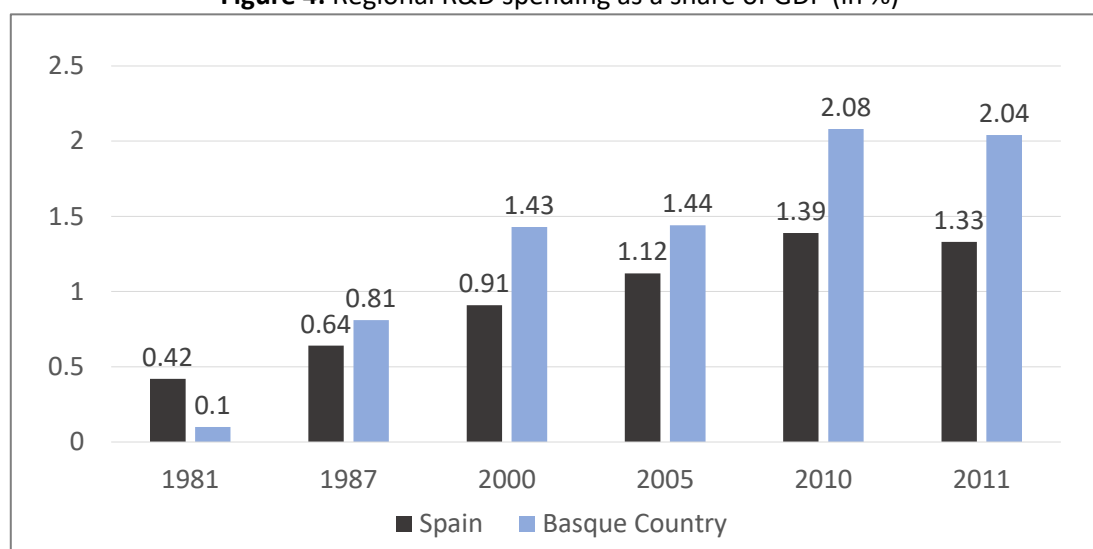
organizations had to fulfil in order to avoid that the associations would become simple industry organizations. The work of the cluster organizations has been credited with creating social capital within the sectors and promoting human capital formation and R&D activities. They were deemed particularly important in these regards in the sectors that are mainly comprised of SMEs such as electronics, aeronautics and ICT (Valdavisio, 2015).

Besides the cluster associations, the private sector has been engaged in several other bodies relevant to policy design and implementation. For example, Innobasque was established as a PPP in 2007 to promote innovation throughout the Basque country in association with the business community and civil society organizations (Morgan, 2016). Today, it has over 1000 associated entities, including firms, the public sector, research and education institutions and civil society.³⁴ 50 percent of its associates are firms with a large majority of those being SMEs. Similarly, Bilbao Metropoli-30, the association set-up in the nineties to carry out planning, research and promotion projects for the revitalization of Metropolitan Bilbao, is a PPP comprised of private firms, universities, public sector and other.³⁵

Funding

The Basque Country's unique fiscal situation has been an important facilitator for the region's ability to implement industrial and innovation policies. The region benefits from almost complete fiscal autonomy in terms of revenue raising powers and spending decisions (OECD, 2011). Under the agreement with the central government, the Basque provinces are responsible for the collection and regulation of most taxes (Gray, 2015). Only a small quota must be paid to the central government to cover a share of the expenditures of the few policy competences held by the central government such as foreign and defensive policy.

Figure 4: Regional R&D spending as a share of GDP (in %)



Source: Freje (2013)

This set-up has allowed the region to be among the top per capita spenders of the Spanish regions. Its per capita public expenditure was, for example, 30 - 40 percent higher than in Catalonia and Madrid in the early 2000s (OECD, 2011). Furthermore, the government has made a conscious decision to dedicate a significant portion of its spendings on industrial and innovation policies. Figure 2 shows the evolution of R&D expenditure as a share of GDP over time compared to the Spanish average. Starting from the late 1980s, the spending has been significantly above the average. This is also reflected in

³⁴ [Innobasque](#)

³⁵ [Metropoli-30](#)

the direct comparison to Catalonia and Madrid in terms of Regional R&D spending as a share of regional budget, which was 2.85 percent in 2007 compared to 0.93 percent and 0.83 percent in Catalonia and Madrid respectively (OECD, 2011).

The priority of the topic for the Basque Government is also reflected in the absolute numbers. Public resources of the regional and the provincial governments budgeted for the promotion of R&D and innovation amounted to over €2.3 billion between 2006 and 2010. It is furthermore mirrored in the funding position of the SPRI, the Basque Business Development Agency, which counted with 66 full-time employees and a budget of €30 million in 2017 alone (Morisson & Doussineau, 2019).

Enabling factors and lessons-learnt

While the Basque Country certainly has several unique characteristics which are difficult to replicate elsewhere, it is worthwhile to explore the factors that enabled the successful turn-around of the region as well as to distil lessons-learnt to inform policies in other areas around the world. A few points are particularly salient.

First, the institutional arrangement in the Basque Country, with the regional government having both the relevant powers to promote its own economy as well as the needed resources, created local agency and accountability. Both factors were key to the design and successful implementation of the policies. The set-up empowered the regional government to take matters in its own hands and to leverage local knowledge. At the same time, it created a higher level of accountability for the outcomes since failures could not be blamed on a distant central government.

Second, a strong sense of collaboration for the common purpose facilitated the design and implementation of the policies. After being granted autonomous status, the Basque Country had a strong desire to demonstrate that the region could be a self-reliant and independent from Spain, hence giving the policies a significance beyond the mere economic sphere. Furthermore, this was also the result of a deliberate effort of the government to involve businesses and the wider public in creating a shared vision which allowed a sense of common purpose to develop.³⁶

Third, a strong involvement of the private sector enriched the design and implementation of the policies. While the government took the initial lead on many policies, it respected the principle of subsidiarity, allowing the private sector and other actors to take on an important role in the different initiatives, even when they were financed with public money. This way, the government was persuasive rather than invasive (Morgan, 2016). The involvement of the private sector also facilitated the continuity of policies. Given the time and resource committed by private firms, politicians were facing a stronger backlash when trying to cancel programmes, which they did not fully support.

Fourth, Basque policies were informed by a combination of highly place specific local and more generic external knowledge. The modification of the cluster list and methodology suggested by the external consultants around Michael Porter through consultations with the local private sector is one such example. This allowed the government to take advantage of lessons-learnt from around the world while adapting them to the specific local context.

Fifth, sector-focused and urban regeneration policies were designed and implemented in parallel in a mutually reinforcing manner. The impacts of structural change were spatially very uneven across the Basque Country, as is the case in most regions, hence requiring an approach which provided solutions for the specific areas most affected as well as at a general sectorial level. The redevelopment of urban spaces in Bilbao facilitated the provision of spaces for new industries, projected the aspirations of the

³⁶ Various interviews

region and helped to reclaim the abandoned sites for public use. Conversely, the industrial and innovation policies helped to bring the visions of a new modern city to life by creating the conditions for firms to flourish and create employment for the population.

Sixth, change in the Basque Country, while remarkably quick, did not happen overnight, but has been a continued process lasting until today. Processes of regeneration and structural change, hence, take time and require the long-term commitment and follow through by the government. The stability stemming from fiscal autonomy as well as stable governments allowed the administration to develop these long-term strategies rather than following a piecemeal approach. Policies were, furthermore, gradually adapted to the changing situations. A culture to continuously monitor and re-adjust facilitated the effectiveness of the policies (Lacasa, Klement & Dornbusch, 2018).

And finally, change does not come cheap. Significant amounts of public funding have gone into the different policies and strategies over the years. A well above average public spending per capita and the sizeable share of it directed towards supporting technological change and other innovation activities are testimony to this.

Conclusion

This case study reviewed the experience of the Basque Country in the last forty years, which managed to emerge from a period of deep socio-economic depression in the 1980s to become one of the wealthiest regions across Europe. For this purpose, chapter 3 explored the strategies and policies employed, while chapter 4 analysed the region's institutional landscape.

A strong focus on technological upgrading of existing firms and a gradual diversification into more knowledge intensive related sectors facilitated the renewal of the region's economic fabric. High-profile strategies aiming for a very visible urban renewal in the city of Bilbao, the economic centre of the region, further complemented the economic policies. The unique institutional landscape in the Basque Country enabled this success story by promoting local agency and accountability and ensuring the availability of sufficient long-term funding.

A number of lessons-learnt can be drawn from this case study, including the importance of local leadership, the complementarity of urban and industrial development strategies and the importance of the involvement of other actors in the design and implementation of the policies.

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Interview Participants

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