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Getting to Denmark: The dialectic of governance & development in the European periphery

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ABSTRACT

Good institutions and high quality of governance are generally considered to be prerequisites for economic growth and other positive socio-economic outcomes. This is due to their role in framing decisions by agents, including policymakers, business owners or individuals. Despite the many theoretical and empirical contributions to their study, we argue that three elements deserve further attention. First is the importance of avoiding simplistic dichotomies between good vs bad institutions, a classification that obscures as much as it reveals. Second is the need to take more seriously the multi-scalar nature of institutions, particularly when studying regional policy. Third is the balance between structure and agency, which avoids deterministic readings of underdevelopment. We develop these three elements with four case studies of European regions and conclude that the scale and scope of their innovation policies is limited by nation-states and the European Union. Nonetheless, agents can (and do) mobilise to improve governance, even when operating under restrictive conditions.

1. Introduction

Institutions have for decades been an important, if somewhat elusive, concept in theories of regional inequality. Within these theories one finds a multitude of viewpoints, ranging from those that prioritise 'hard institutions' such as the structures of capitalism, to those that study 'soft institutions' such as innovation or entrepreneurial cultures (Scott, 2000). In terms of their impact, there are also variations between those that focus on institutions as the cause (Ketterer & Rodríguez-Pose, 2018) or the consequence (Chang, 2011) of economic development, or alternatively on their co-evolution with economic and social structures (Martin & Sunley, 2015). Despite the ubiquitous use of the concept, Gertler (2010) claimed that institutions remain a 'poorly understood' concept, to a great extent precisely because it has been deployed in many different frameworks, occasionally with conflicting conclusions.

A flurry of new research over the last two decades has sought to move past these debates through rigorous theoretical and empirical work. Here we include both the work of development economists working at the national level (Acemoglu et al., 2005; Hickey et al., 2015) and of economic geographers and political scientists who emphasise sub-national variations in institutional quality (Charron & Lapuente, 2018; Ketterer & Rodríguez-Pose, 2018). As it is beyond the scope of this paper to review all these findings, we will instead focus on three issues where we believe further work is necessary. First is the need to avoid *simplistic dichotomies* between 'good' and 'bad' institutions (or governance) (Grindle, 2011). There are various persistent and deep inequalities in countries with institutions that are (relative to the global context) inclusive (Hickey et al., 2015), not to mention the fact that several countries with overall good institutions tolerate, or even encourage, some forms of corrupt or criminal behaviour (Shaxson 2012). On the other hand, in countries or regions with low institutional quality, there are instances of organisations and actors mobilising to create what Montero and Chapple (2019) called fragile governance, which refers to "emergent processes of coordination and collaboration of local actors to promote common endogenous development goals in the context of weak institutional capacity" (Montero & Chapple, 2019, p. 7).

Secondly, research on sub-national institutions should develop a more dynamic view of *multi-scalar* relationships (Schakel et al., 2014), to avoid explanations that pin the blame for low quality of governance on endogenous regional characteristics, while ignoring the myriad ways in

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which national or international institutions can constrain regional/local actors. With a few exceptions, in the field of economic geography debates about multi-scalar relationships tend to focus on the division of labour between each level of government, while asking for greater coordination (Matti et al., 2017). Much less attention has been paid to the ways in which higher levels of government constrain and even undermine regional or local policies, sometimes in ways that are not explicit but rather a product of centralised governance structures which emphasise compliance over creativity (Bauer, 2006). The study of regional policy must also acknowledge that the capabilities at each level of government are (generally speaking) very distinct, both within and across countries (Hooghe et al., 2016).

The third interrelated area is that which focuses on the tension between the constraints of *path dependency* and the possibilities of *agency* (Gertler, 2010; Healy, 2016). Some of the work done on the causality of institutions explains current economic and social outcomes on processes that emerged centuries ago, which can lead to deterministic views on the fate of regions. Through we of course acknowledge that history (and multi-scalar relationships) constrains development, it is also important to discuss ways in which agents and organisations can mobilise to achieve better outcomes (Gertler, 2010; Montero & Chapple, 2019). These outcomes are not necessarily an export-oriented, high value-added economy, but they can still lead to significant changes in local socio-economic conditions. One must also recognise that agency can lead to worse institutional outcomes because, as argued by Acemoglu and Robinson (2012), there is no intrinsic dynamic to institutions leading them to become more inclusive over time.

In the next section we will develop in greater detail these three issues, before analysing the evolution of regional innovation policy in the European context. We will then explore the points raised in the theoretical discussion through four case studies of peripheral European regions: Centro (Portugal), Valencia (Spain), Central Macedonia (Greece) and North East Romania. In the final section we will present some conclusions.

2. Getting to Denmark: The scope and limits of the “Good Governance” agenda

The quest for “good governance” has been one of the most prominent themes in development debates over the past 30 years, though it has only belatedly had practical consequences. For instance, though the first formal discussion of the “good governance” agenda in the World Bank occurred in 1991, it was not until 1996 that the Bank began to act on it. For its part, the European Commission introduced the idea of “good governance” in its Fourth Cohesion Report (CEC 2007), enabling “institutional capacity” to be funded as a priority for the first time in the 2007–13 programming period, when an ESF priority sought to “strengthen the capacity of public administration and public services at national, regional and local level” (EC, 2010, p. 247).

Within academia, a prominent example of the “good governance” agenda is the challenge of “Getting to Denmark”, which Francis Fukuyama defines as “an imagined society that is prosperous, democratic, secure, and well governed, and experiences low levels of corruption. “Denmark” would have all three sets of political institutions in perfect balance: a competent state, strong rule of law, and democratic accountability” (Fukuyama, 2015, p. 25). This institutional triad is being used to judge the governing performance of all countries irrespective of their level of development because, as Fukuyama put it, “these three sets of institutions becomes a universal requirement for all human societies over time” (Fukuyama, 2015, p. 37).

The “good governance” debate has generated two polarized positions. On the one hand there are the “causalists” who argue that, far from being merely correlational, good governance is actually a causally significant factor in fashioning development (Kaufmann & Kraay, 2002; Acemoglu et al., 2005; Acemoglu & Robinson, 2012). On the other hand, there are the “consequentialists” who argue that, while there is a correlation between good governance and development, the former is actually a consequence of the latter (Chang, 2011). For the sake of precision it is worth noting a third position, the “contrarians”, who highlight the fact that some countries fit neither of these categories because they have exhibited strong growth without having good governance in the liberal democratic sense of the term, and this category would include countries as diverse as China, Vietnam and Bangladesh for example (Grindle, 2011).

Laudable though it is in principle, a crucial problem within this agenda is that it places an undue burden on less developed territories, with its implicit argument that only after improving the many dimensions of good governance will they experience growth. Assuming that the people governing institutions in these countries or regions are in fact committed to this overall aim, which is not guaranteed, they are still likely to operate in a challenging environment, with limited resources. If no attempt is made to identify which steps should take precedence, or which dimension of local institutions should receive greater attention, then the end goal will remain elusive (Grindle, 2010). Securing better governance systems in less developed countries and regions requires cognitive shifts as well as political reforms because the conventional “good governance” agenda is replete with inappropriate cognitive framings that render the task of addressing bad governance more difficult than it would otherwise be. We highlight three of these cognitive framings, namely: (a) the spurious allure of “best practice” governance (b) the good/bad governance binary that conceals as much as it reveals and (c) the problem of blaming the victim.

The spurious allure of “best practice” governance is perfectly illustrated in Fukuyama’s idealized model of “Denmark”. This idealized governance system is both a benchmark to judge the performance of countries and regions as well as a beacon to which they should aspire. Such absolute benchmarks and beacons are less useful in practice because, by always falling short, poor countries and regions are being set up to fail, which can devalue the goal of better governance (Grindle, 2010). One response to this challenge is Grindle’s idea of “good enough governance”, which means that not all governance deficits need to be (or indeed can be) tackled at once and that institution and capacity building are the products of time and experimental governance reforms, that require local and non-local actors to work in concert, to co-produce better governance (Grindle, 2004; Morgan & Sabel, 2019).

The second cognitive framing refers to the implicit spatial binary in which countries fall on either side of the good/bad governance line. Transparency International (TI) hosts one of the most prominent league tables – the *Corruption Perceptions Index* – which scores 180 countries and territories by their perceived levels of public sector corruption. The rankings are relatively stable over time, with Denmark, New Zealand, Finland, Singapore and Sweden occupying the top five countries in the 2019 index (TI, 2020). One of the problems with this TI league table is that it flatters the leaders because it conceals their complicity in the affairs of highly corrupt laggards. Despite its reputation as a beacon of good governance, Denmark has been deeply embroiled in the world’s largest money-laundering scandal as a result of the operations of Danske Bank, the country’s biggest bank, which has been exposed for laundering an estimated 200 billion euro of ‘dirty money’ from Russia and other former Soviet states (Milne Binham 2018). At 12th position in the TI league is the UK, which recycles more than £100 billion in ‘dirty money’ per annum from corrupt regimes around the world through the City of London, which functions as “a giant launderette for laundering criminally sourced funds” (Shaxson, 2016, p. 249).

The third cognitive framing emerges when explanations on quality of governance focus only on characteristics within the territory. As an example, in recent years new data have been produced on the variations in quality of government (QoG) for the regional level in all 28 countries of the EU (Charron & Lapuente, 2018). Funded by the European Commission, the QoG data are being used to inform Cohesion Policy in the EU, which is increasingly concerned to address weak governance at the regional level. Because low QoG is deemed to be one of the biggest barriers to development, the EC argues that many less developed regions in Italy, Greece and Spain “may be stuck in a low-administrative quality, low-growth trap” (EC, 2017, p. 139). While there is robust academic evidence to support this proposition (Ketterer & Rodríguez-Pose, 2018; Rodríguez-Pose & Cataldo, 2015), the framing of low QoG as a purely regional problem runs the risk of blaming the victim.

As we will see in the following section, weak governance in less developed regions needs to be understood first and foremost in *multi-scalar* terms because these regional problems are merely subnational dimensions of a multilevel polity. In this context, national governments and supranational EU institutions have been unable or unwilling to work in concert to address the most egregious aspects of the bad governance spectrum, ranging from petty clientelism in public sector appointments to major forms of corruption involving large public procurement contracts.

2.1. Multi-level relationships – regions within nations and the EU

In their seminal paper on multi-scalar relationships, Hooghe and Marks (2001) distinguish between two ideal types of multi-scalar relationships. Type I exists in federal states and is characterised by the existence of a central government and lower tiers of non-overlapping regional or local governments. In these contexts, there is a clear division of labour and mutually exclusive frontiers between each level of government. Type IIis one in which the number of jurisdictions is vast, rather than limited; in which jurisdictions are not aligned on just a few levels, but operate at diverse territorial scales; in which jurisdictions are functionally specific rather than multi-task; and where jurisdictions are intended to be flexible rather than fixed” (Hooghe & Marks, 2001, p. 6). This means that different organisations can have overlapping or even conflicting competencies. In the case of the EU, a common narrative among policy makers and some academics, is that it operates according to the Type I model, as enshrined in the principle of subsidiarity. In practice however, relationships between different scales are often contentious, in part because the EU was and remains dominated by nation-state interests, rather than pan-European goals (Milward et al., 1994).

The unequal relationship between scales is also explained by the wide variation in the scale and scope of autonomy given to subnational administrative units. As argued by Hooghe et al. (2016), regions are highly heterogeneous entities, not only in what concerns their size and population, but also in terms of their actual degree of autonomy. As the authors stated “Some are merely central outposts for conveying and retrieving information. Others exert more influence over the lives of people living under their rule than the national state itself” (Hooghe et al., 2016, p. 2). This is true even in the context of the EU, where the European Commission has for decades encouraged nation-states to develop regional capabilities in order to make an effective use of cohesion funds, but where in many countries, regional authorities continue to be mere administrative extensions of the nation-state.

To understand the scale and scope of decentralisation, it is important therefore to conceptualise multi-scalar relationships as fundamentally political processes and institutions as entities that are resistant to change (North, 1990). This means that though the decentralisation of policy design and implementation has been presented as a matter of improving its effectiveness, especially within the EU, it is not always clear that national governments are content with devolving power to lower levels of administration, unless they are forced to do so by political forces (Schakel et al., 2014). Furthermore, as shown by (Rodríguez-Pose & Ezcurra, 2011), levels of decentralisation by themselves do not lead to better economic performance, unless there is also institutional quality. In other words, when countries decentralize ‘bad governance’, the outcomes at the local or regional level do not improve and may even worsen.

These debates have important implications for the concerns of this paper. The first is that one cannot assume that regional authorities always have sufficient authority to design and implement innovation strategies. Second, in various national contexts, or specific policy areas, higher levels of government (including the EU) tend to have the power to coerce or constrain lower levels of government, sometimes explicitly (through laws and regulations), and oftentimes implicitly, by creating an environment where regional or local governments are highly constrained (Hooghe et al., 2016, Schakel et al., 2014). Third, because of the constraints on sub-national jurisdictions, the lack of decentralisation in some areas of policy, such as innovation, is also likely due to the lack of capabilities within regional or local authorities to design and implement complex policy initiatives. This means that centralisation will be due in part to organisational stasis, but also to the fact that the national scale is likely to have accumulated competencies in the design and implementation of such policies, which means that any shift in responsibilities would have important opportunity costs.

2.2. Path dependency and agency

A final interrelated area of interest for this paper, is the extent to which agency can change the conditions under which regional policy operates. Here we are primarily concerned with agency within the public sector, though of course non-state actors have a fundamental role in the evolution of institutions (Chang, 2011). Much has been written about policy leadership, which can create conditions for learning and better policy implementation, even in contexts of weak institutional capacity (Montero & Chapple, 2019; Sotarauta et al., 2017). Two elements are however still missing from these debates. In a framework that emphasises the importance of multi-scalar dynamics, it is necessary to recognise that agency can emerge from different levels. For instance, regulations and action from the EU level may strengthen regional autonomy in countries where national governments resist further decentralisation (Rodríguez-Pose & Sandall, 2008, Schakel et al., 2014). In a different domain, regional innovation systems are highly influenced by national policy towards innovation in areas such as science funding or Universities (Marques et al., 2019). As such, agency by nation-states also has to be considered.

A second element is that agency does not necessarily generate better institutions, at least when measured in terms of capabilities in the public sector. This point has been highlighted by development economists, who insist that there is no teleological tendency for institutions to improve over time (Acemoglu & Robinson, 2012; Hickey et al., 2014). Agency can be directed towards thwarting change and improvements in quality of governance, especially when it threatens the interests of existing political and economic elites (Marques and Morgan 2018). In fact it may even lead to worse institutional outcomes, when due to specific policies or long-term changes in the rules governing the public sector, institutions enter into a period of decline, which may be very difficult to reverse (Fukuyama, 2015).

3. Regional innovation policy and the multilevel polity

Ever since it began with STRIDE in 1990, regional innovation policy in the EU has posed a major challenge for less developed regions. This is primarily because, unlike traditional regional development policies, the brokering of knowledge exchange networks and the nurturing of innovation ecosystems require a totally different skill set (as well as a radically different mindset) on the part of public administration, as compared to more traditional investments in physical infrastructure (Landabaso & Reid, 1999; Morgan & Nauwelaers, 1999; Marques et al., 2019). Partly for this reason, despite the growing importance of innovation instruments within regional development policies, the *regional innovation paradox* remains, which refers to the fact that the regions with the greatest *need* for innovation-related funds have the lowest *capacity* to deploy those funds on account of the weak absorptive capacity of their regional economies (Oughton et al., 2002; Muscio et al., 2015).

After thirty years of experience, there is continued concern regarding the capacity of less developed regions to *implement* a strategy whose basic architecture has been designed at the national and supra-national levels of the multilevel polity. The disconnect between design and implementation has assumed ever more importance as the responsibilities of the EC have grown in size and significance and this is especially the case in the field of regional development, where it is part of a system of shared management with member states and their regions (Hooghe & Marks, 2001; Schakel et al., 2014). The EC's enhanced responsibilities and its limited capacities to manage them has led some EC scholars to warn of a "management deficit", particularly in what concerns implementation, since it is at this stage that policies often flounder (Bauer, 2006).

This disconnect between design and implementation also illustrates the political vulnerability of the EC as a policy actor. From the standpoint of the European periphery the EC appears to be a powerful actor given its powers over policy initiation and policy evaluation. But from the Brussels standpoint the EC feels a constant lack of capacity to manage and monitor the policy execution process, the prerogative of member states and their regions, and this creates an asymmetry of information in which the EC is dependent on national and subnational partners to know what is happening on the ground. To mitigate the risks of informational asymmetry in the implementation of Cohesion Policy funds, the EC has set a high premium on its regulatory compliance system, particularly monitoring and evaluation (Bauer, 2006).

Whatever the benefits of monitoring and evaluation, the costs associated with these activities for less developed regions have become so onerous that complying with the regulations and deploying the money in a legal manner have become the index of success, a situation that led to urgent calls for simplification (High Level Group, 2017, p. 2). Although the EC has in fact reduced regulatory compliance in some areas, it feels compelled to increase it in others. For instance, reforms to Cohesion Policy in the wake of the financial crisis have reinforced *conditionality* as a mechanism to ensure compliance with wider EU objectives linked to economic governance, structural reform and the rule of law; so much so that some EU scholars now believe that "the underlying principles of solidarity and cohesion upon which Cohesion Policy is founded are being undermined" (Bachtler & Ferry, 2013, p. 136). This is corroborated by the fact that international evidence suggests that a proliferation of conditionalities is counter-productive, not least because it overloads the administrative capacity of both donor and recipient governments (Bachtler & Ferry, 2013; Berkowitz et al., 2017; 2016; OECD, 2018).

Due to this context, the dependency of LDRs on cohesion funds for innovation policy, as seen in Table 1, is problematic. These data refer to the implementation of cohesion funds. Considering only the categories of intervention that are relevant for innovationpolicy, column 2 shows the planned amount that the EU was expected to spend in less developed, transition, and more developed regions. Column 3 shows the implementation which refers to how much of this money had been allocated to projects by 2017. Finally, column 4 shows co-financing rates, which is a relative value of how much of investments in innovation policy are supported by cohesion funds (as opposed to national or private funds). This column demonstrates that in LDRs nearly 80% of innovation policy is supported by EU resources, whereas in more developed regions this value is close to 50%. Due to the regulatory burden discussed previously, this means that the regions that would benefit the most from radical or riskier investments aimed at changing the economic structure (Balland et al., 2019), are those that are most dependent on a funding stream that constrains this type of action.

Table 1
Planned investments with EU funds in the categories of intervention most relevant to RIS3 according to categories of region in 2017 (in million Euros).

Category of region	Planned EU amount (€)	Implementation rate	Co-financing Rate
Less developed	33,669	62.00%	77.33%
Transition	7475	42.88%	62.59%
More developed	12,272	52.07%	50.70%
Total	54,384	56.28%	

Source: European Commission (2018).

4. Re-framing the "lagging regions" problem in the European periphery

To highlight the need for a multiscalar perspective we briefly address the planning and implementation problems that surround S3 plans in four less developed regions in southern and eastern Europe. These case studies are based on interviews with key informants in all four regions, an analysis of reports, and previous research experience of the authors analysing innovation policy in these regions). In each region the researchers conducted circa 10 interviews with representatives from the public and private sector, with a special emphasis on key informants that had worked on innovation policy, or knowledge of its design and implementation, for various EU budget cycles. Interviews were conducted using a common interview script that focused on the following elements: internal dynamics of the public sector in the region, interests and expectations of local stakeholders, influence of national and European levels and changes in regional innovation policy. These regions were chosen because they share common characteristics in terms of low growth (especially those in Southern Europe) or low GDP per capita despite growth (North East Romania), and relatively low quality of governance. Neither are they leading innovation regions. From a pragmatic standpoint in terms of research design, due to the sensitivity of the matters that were discussed during the interviews, the researchers chose territories where they had done empirical work in the past, because it would facilitate access to key informants.

The rationale for focusing on the design and delivery of S3 is because it is the single most challenging component of Cohesion Policy for institutionally weak regions, a domain where the interplay of governance and development is highly consequential. The goal of S3 is to improve the delivery of innovation policy by ensuring that it is targeted to the strengths of each region and it does so through a dual strategy of identifying current strengths and potential new specialisations, through a process of entrepreneurial discovery process (Foray 2015). One of the novelties of S3 is that it encourages wide stakeholder consultations and bottom-up policy making across all regions or nations of the European Union. In theory, S3 should also reflect the systemic nature of innovation, as it encourages the participation of agents from the private, public and research sectors by stimulating instruments that go beyond science, technology and innovation (STI) approaches, and the emergence of new forms of innovation, such as social innovation (McCann and Ortega-Argilés 2014; Marques et al., 2017). While S3 poses a major challenge to all countries and regions, it is most challenging for LDRs in the European periphery.

4.1. Central Macedonia

The problem of focusing cohesion policy "squarely on the regions" is perfectly illustrated in the case of Region Central Macedonia (RCM). Like other Greek regions, RCM faces two major developmental barriers in the form of (a) the socio-economic effects of the deepest recession ever suffered by a European country following the Eurozone crisis and (b) a political system that remains one of the most centralised in the EU. Apart from the debilitating effects of recession and austerity, some of the biggest problems associated with S3 planning in the region have been defined as "legal and administrative challenges" (Boden et al., 2016). Most of these legal and administrative challenges stem from a common source, namely a governance system in which the regional administrations have little or no real autonomy to implement their S3 plans without securing the express approval of central government in Athens (Marques and Morgan, 2018). One index of the scale of centralisation is the division of the S3 budget in Greece, where some 87% is controlled and managed by central government, with just 13% allocated to the 13 Greek regions (Interview).

There are two distinct dimensions to the governance deficit in RCM, as featured in a World Bank analysis. The first is the regional governance deficit, where a combination of lack of resources and institutional support has created a regional situation in which “there is often little ownership of the innovation agenda” (World Bank, 2018, p. 126). The second concerns the local governance deficit, where municipalities take their cue not from the regional government but from their parent ministry in Athens, with the result that their “operational plans come top down and do not necessarily reflect local realities and priorities, and local priorities are not necessarily incorporated into regional strategies” (WB, 2018, p. 126). It is hard to disagree with the WB’s overall conclusion: “This lack of effective alignment – from the national to the regional to the local levels – exacerbates problems with on-the-ground implementation” (World Bank, 2018, p. 126).

Given the above analysis, which confirms the inordinate degree of centralisation and the manifest lack of political agency at the regional level, it is bizarre for the WB authors to implore regional actors in RCM (or any other Greek region for that matter) to “take the lead” to define priorities and policy responses. The fact of the matter is that these subnational actors lack the power, the competence and the confidence to assume a pro-active role in the design and deliver of their S3 plans. But this should not be framed merely as a “lagging region” problem. On the contrary, national actors in central government and supranational actors in the EC are equally implicated in RCM’s governance deficit because they have sanctioned and supported the current institutional arrangements when they agreed the Regional Operational Programme. Given the limits to subnational governance in Greece one might think that the answer is to create a more devolved governance system. But what compounds the problem of political centralisation is the fact that a tradition of *clientelism* pervades state and society and devolution per se would do little or nothing to alter that tradition (Vamvakas, 2012).

Despite the twin problems of centralisation and clientelism, the existing institutional arrangements are not set in aspic, as shown by the emergence of better governance practices. In RCM the institutional forum for such transformational experiments already exists in the recently created Regional Innovation Council (RIC), which functions as a deliberative space for triple helix partners. Although the RIC has its shortcomings – it lacks resources and its membership lacks diversity because of its public sector bias – these could be resolved if the multi-scalar partners can work in concert to mobilise sufficient political will.

4.2. North East Romania

While Central Macedonia is classified as a “low growth lagging region” in the EC’s classification, North East Romania is deemed to be an example of a “low income lagging region” (Boden et al., 2016). Although North East Romania (NER) is the poorest NUTS-2 region in the country, the World Bank suggests that it has untapped economic potential, particularly in the form of its major city, the City of Iasi, the third largest university centre in Romania and a major cultural centre in its own right (World Bank, 2018). Apart from its “low income lagging region” status, the biggest developmental barrier in NER stems from its constitutional status in a national governance system that is even more centralised than Greece. Political authority in Romania is highly concentrated in central government in Bucharest, a legacy of the socialist era. The three primary tiers of government in Romania are national, county and local; a regional tier was created in the 1990s by forming groups of counties to form NUTS-2 type regions to administer EU regional policy funds. In other words, the regional level has no powers or legal status and exists entirely for the purpose of co-ordinating development projects, so much so that this “regional governance gap presents a real challenge for securing the development of regional innovation systems in Romania” (Healy, 2016, p. 1530).

Although NER is the poorest region in the country on conventional indicators (GDP per capita etc), what makes it such an interesting and instructive case study is the fact that it is also acknowledged to be one of the most pro-active in Romania when it comes to the design and delivery of its S3 plans. This reputation for pro-activity is largely due to the competence and confidence of ARD, the Regional Development Agency for the North East, one of eight RDAs created for each region in the country. ARD was one of the first RDAs in Romania to begin the process of developing a regional S3 plan – despite the fact that central government had decided to design a national S3 strategy with little or no input from the regions. But the ARD was emboldened to act in this semi-autonomous way because it was able to draw on a history of participating in European regional networks and securing EU funds to promote regional innovation approaches, including the first regional innovation strategy in the country in 2008 (Marques and Morgan, 2018).

The centralised nature of the governance system does not mean that institutional innovation is impossible at the regional level; in fact NER has been at the forefront of regional experimentation thanks to the pro-activity of ARD. Two recent examples of institutional innovation are the *Regional Innovation Board*, which has fashioned a new deliberative forum in which triple helix partners calibrate their S3 plans, and the *Micro-Governance System*, where the rationale is to create a more granular system of governance at the level of S3 specialisation so that new micro-spaces be crafted for micro-leaders to emerge. These micro-spaces have been created in each of the 7 priority areas of the S3 plan – in textiles, agrofood, ICT, health, energy, environment, and tourism - to nurture new forms of place-based leadership at the sectoral level. While the need for more robust forms of regional leadership is readily acknowledged, one leading expert in NER captured the region’s dilemma: “you will never attract talented people to this role if the regional level is devoid of power and purpose” (Interview).

Although the limited institutional capacity in NER may have been put to good use in designing its S3 plan, the regional actors are not able to implement their localised learning. “Learning alone is not enough” in other words, “as knowledge without power does not result in practical outcomes. North East Romania offers a salutary lesson that solutions to the regional innovation paradox may require behavioural changes at the *national* level as much as in building the capacity of regions” (Healy, 2016, p. 1541).

Further regional capacity building in NER is critically dependent on political reforms at the national level if key institutions – like regional government and regional development agencies for example – are to be empowered to act on their localised learning. Reforming the universities is also a task for Central Government because it will require new regulations at the national level to create new incentives for universities to engage in technology transfer and knowledge exchange with the business community. Before the S3 programme the Rectors in NER had no “regional lens” in the sense that they were never interested in the fate of the regional economy because their focus was fixed on Bucharest, where the budgets of education and research were allocated. The Rectors are slowly acquiring a regional sensibility thanks to a combination of top-down opportunities (such as the Regional Operational Programme) and bottom-up institutional innovation (such as the Regional Innovation Board). But these promising developments would need to be complemented with, and reinforced by, stronger forms of devolution from central to subnational governments, in order to be effective.

4.3. Centro

Similar to the previous case studies, Portugal is a highly centralised country, with regional authorities functioning essentially as arms of the central government (with the exception of the regional governments in Azores and Madeira). At the same time, for historical reasons, local government is a strong political actor, though it is primarily concerned with issues of infrastructure and planning. Furthermore, according to an interviewee with experience of working for the regional government in

Centro and the national government, though regional authorities are essentially tasked with managing national funds, municipalities are important in deciding the heads of regional governments. This creates a situation where regions are dependent financially on the nation-state but politically on local government interests, which hinders the capacity of the regional government to become an active player in the design and implementation of innovation policies.

Within this context, the Centro region in Portugal is one of the most dynamic in the Portuguese mainland in terms of its involvement with innovation policies, largely because it hosts along its coastal line some of the most dynamic industrial clusters in the country. The presence of these dynamic economic sectors likely influences regional actors to become involved in trying to shape innovation policy. Nonetheless, according to an interviewee who was heavily involved in designing the RIS3 for Centro, their work still depended on a small number of staff, several of them volunteering their time to perform tasks such as organizing entrepreneurial discovery process (EDP) events. The effectiveness of their actions was also undermined by the fact that the national government started a parallel EDP within all mainland regions, ignoring the work that had been done by the regions themselves. Only after political pressure did the national government accept the inclusion of the regional strategies in the main RIS3 document for Portugal, and even then as an annex.

The reluctance of the national level to decentralize decision-making authority to the regions is rooted in various elements. The need to ensure sufficient levels of spend (in the past the country had to return unspent cohesion funds), and the weakness of the innovation system in terms of its capacity to absorb these funds, means that large national agencies, like the Science and Technology Foundation (FCT in Portuguese) or the Agency for Competitiveness and Innovation (IAPMEI in Portuguese), control the design and allocation of a significant share of innovation insttruments. Due to the restrictions and heavy compliance culture involved in spending cohesion funds, the capabilities accumulated by these agencies means that they remain in control of these funds. In contrast, the lack of resources at the regional level, though it is a consequence of the lack of autonomy, is identified as reason not to decentralize. Furthermore, due to the relatively small size of the country, compounded by the fact that the vast majority of the population lives in the coastline between the metropolitan areas of Oporto and Lisbon, means that several national agencies refute the need for regional policy, and instead insist on sectoral policy.

4.4. Spain

Spain is by contrast the most politically decentralised country in our sample, though it is a case of asymmetric decentralisation. Each autonomous community (AC) has its own elected regional government, with some regions, like the Basque Country, having far more control over their own taxes and resources than other regions. Nevertheless, each AC has at its disposal far more discretion in areas such as education (including higher education) or private sector support, than the regions in the three other countries studied. Within this context, Valencia, as a region that hosts some of the most dynamic manufacturing clusters in Spain, primarily in mature industries, has been at the forefront of creating institutions that support the competitiveness of its firms, mostly SMEs, as indicated by the creation of a network of technological centres starting in the 1970s. It has recently also created a Valencian Innovation Agency, with the explicit aim of stimulating the emergence of new sectors of economic activity in emergent (or more intensive) technological areas.

Despite the apparent strengths of its governance system, the Valencian economy remains in a situation of stagnation (as measured by GDP per capita) and was identified, together with Murcia, as a region locked-in the middle-income trap. This is primarily due to its inability to leverage its strengths in mature sectors to stimulate the emergence of more innovation economic activities. Though part of this situation may be explained by its low quality of governance, it is also relevant that the region has limited control over innovation instruments funded by cohesion funds. As shown in the previous section, these funds represent over 60% of all spend in innovation policy in transition regions (see Table 1).

As also discussed previously, the conditionalities imposed by operational programmes means that even in a relatively highly decentralised country such as Spain, a significant share of innovation instruments are designed at the national level, with ACs being responsible for their management. According to an interviewee with experience of working at the national ministry for science and innovation in Spain, and currently working at a research institution, the difference in performance for regions such as Madrid or the Basque Country (concerning innovation) is due to their capacity to attract private funding and to mobilise their own public funds (the latter especially for the Basque Country). In what concerns the utilisation of EU funds, they are equally constrained. In addition, the fact that Spain remains a low-trust country but with high levels of decentralisation, means that compliance culture is further enhanced in the relationships between national and regional level. One of the most visible consequences is the fact that regional authorities in Valencia tend to offer annual funding calls (with a few exceptions). This means that tenders for innovation activities supported by cohesion funds are published, awarded and finished within the same calendar year, forcing firms or other agents involved in multi-year projects to have to apply for funding every year.

5. Discussion

However different the above LDRs appear to be, it is important to highlight some commonalities. The nation-state remains an important, if not the most important, actor in the design and implementation of innovation strategies in the four case studies. . This was true even for the case of Valencia and Spain, though less so. This is partly for historical reasons, in the case of Romania, Greece and Portugal, where the nation-state never effectively decentralised. It is also due to political calculations regarding the capacity to spend funds effectively (if not necessarily efficiently) and the lack of trust in regional authorities to gain sufficient competencies in this field. Nonetheless, a very important actor enforcing this lack of decentralisation was the EU, despite its rhetoric of supporting regions. The role of the EU is more one of framing rather than of actively constraining regional government, since its impact is primarily due to the heavy restrictions on the use of cohesion funds, which are particularly important for those regions that would most need publicly funded innovation funds. In this sense, EU regulations reinforce the innovation paradox.

A second important commonality is that despite the constraints produced by entrenched multi-scalar institutional dynamics, there are efforts at various levels to improve the implementation of innovation policies. Both Spain and Portugal have witnessed significant improvements and convergence in their national innovation systems since joining the EU. In all four regions there were efforts to improve regional innovation policy, from the more substantial activities in Valencia (with the creation of the Valencian Innovation Agency), to the bottom-up efforts in the three other regions. Whether these efforts will produce tangible results, such as productivity or GDP growth, remains to be seen, but they at least indicate that there are opportunities for the emergence of institutional leadership, even in such relatively weak institutional contexts. In line to what was discussed in the theoretical framework, these improvements happened slowly and incrementally, and allowed these regions to achieve a measure of good enough governance (Grindle, 2010), at least on some levels. Considering the regions of Centro, Valencia and Central Macedonia (and their respective countries), if they had been expected to improve the governance of their innovation policy support all at once when these nations joined the EU, the task could have been insurmountable. However, through various interventions at national and regional scales, sometimes at odds with each other, they have witnessed some significant progress.

A final point is that progress in these four case study regions is not guaranteed. Especially in the countries most affected by austerity (Greece, Spain, Portugal), there has been a substantial loss of capabilities in the public sector, especially at the national level, where innovation policy remains concentrated. Various agencies and departments responsible for innovation policy, or for research that supports these activities, have been dismantled or have seen their staff decline abruptly, leading to a loss of institutional capacity. Though budget cuts were implemented quickly, rebuilding these capabilities will take time.

6. Conclusions

This paper has argued that in order to understand the characteristics of institutions in particular regions it is necessary to avoid simplistic distinctions between good and bad governance. It sought to argue instead, that regional institutions emerge in a context of specific multi-scalar dynamics, and that these dynamics might constrain or enable the actions of local and regional agents. It developed this argument by examining the progress of smart specialisation policy in four European regions, in terms of the autonomy that was afforded to regions in this process. Our analysis has several major implications, both theoretical and for policy makers.

Theoretically, it corroborates the argument that regions cannot be isolated from their national context. The emergence and persistence of regional autonomy is a negotiated process, which responds to political logics, institutional inertia and economic interests (among other factors). Research that seeks to understand regional outcomes without accounting for the importance of the wider context runs the risk of missing important dynamics that might in fact be more relevant than the regional ones that are being analysed. This type of research also feeds into narratives that 'blame the victim' for their plight, rather than acknowledging how more powerful political actors might be constraining the emergence of better governance structures. Our empirical analysis of LDRs in the European periphery highlights the need for the theoretical literature to adopt a more critical stance towards the "good governance" agenda and to recognise that positive changes can be achieved by experimenting with reforms that are good enough to deliver *better* governance if national and supra-national agents are prepared to work in concert with progressive forces at the regional level.

From a policy perspective, at the *supranational* level the EC has until recently been reluctant to enter the national realm of policy implementation because it wanted to be seen to respect the principle of subsidiarity. Nevertheless, it has recently been forced to introduce new conditionalities to support the rule of law, given the democratic backsliding in members states like Hungary and Poland. We would argue that if a better governance conditionality is deployed judiciously, alongside the "softer" measures proposed by the OECD (2018) for example, it would send a powerful signal to political elites that investments in institutional quality are equally if not more important than traditional investments in economic infrastructure. The EC could also play a more pro-active role in creating better governance arrangements for regions that have shown the appetite and the capacity to make judicious use of devolved powers over innovation and regional development. At the *national l*evel central government should be persuaded to devolve more political authority on an asymmetrical basis - to regions that demonstrate the capacity to use it in a non-transactional manner-for example by introducing new actors and more diverse voices into the regional innovation ecosystem.

Author statement

We did not consider that this document would be relevant, considering that all research was conducted by the two authors and the writing of the paper was shared between both equally.

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