INSTITUT WALLON DE L'ÉVALUATION, DE LA PROSPECTIVE ET DE LA STATISTIQUE

Assessment programme of *PM2.V* (Marshall Plan 2.Green, *Plan Marshall 2.Vert)*

Executive summary

THEMATIC ASSESSMENT 6 – INVESTMENT SUPPORT IN URBAN AND RURAL FREE ZONES

This assessment report relates to the investment support scheme for firms that invest in disadvantaged zones of Wallonia (rural and urban free zones), a policy implemented in the context of the *PM1.0* (Marshall Plan 1.0, *Plan Marshall 1.0*) and confirmed in the *PM2.V* (Marshall Plan 2.Green, *Plan Marshall 2.Vert*).

In both plans, the measures dedicated to support productive investment are divided into two categories: on the one hand, measures applying to the territory as a whole , seeking to reduce the taxation on investments and, on the other hand, territorialized measures such as the "enterprise zone" program, known in French as "les zones franches".

Generally speaking, regional policy intends to reduce regional disparities in economic performances or to mitigate their effects on the agents. Natural assets, specific infrastructures and facilities, and historical factors such as a former concentration of productive activity are as many elements that generate spatial heterogeneity. Spatial economic imbalances are moreover increasing: the growth of richer regions benefit from agglomeration economies while lagging regions face cumulative disadvantages and are accordingly trapped in a low growth trajectory. In order to break the self-reinforcement mechanism, the regional policy has for a long time proposed - in particular through capital grants or tax assistance - to compensate for the lack of natural attractivity of the areas or sub-areas that suffer from inferior economic performance. It is in this regional rebalancing rationale that the "enterprise zone policy is enshrined.

The particularity of the enterprise zone program resides in the granting of a preferential aid system to firms investing in those zones through an increase of the capital subsidy rate granted by the Walloon Government. The objective of this measure is to reinforce, for investors, the economic appeal of Wallonia's disadvantaged territories. More specifically, this policy of positive discrimination aims at promoting the development of productive activities within districts suffering from serious socio-economic difficulties, in particular, for the urban zones, in the former iron and steel basins. As regards to rural enterprises zones, due to the particularities of the rural world, the Walloon Government's objective is rather to encourage the financing of projects promoting the sustaining or the development of economic activities. The "free zone" status, has been given, for the time being, to about 70 districts. The underlying intervention hypothesis is that the "enterprise zone" investment premium will make it possible to compensate, at least partially, the lack of competitivity of certain Walloon areas and will induce companies to deploy investment expenditure therein.

The assessment question, as approved by the Walloon Government, is to appreciate the extent to which the investment aid in the free zones is encouraging the spatial redeployment of the economic activities. More precisely, we will endeavour to assess the incentive effect of the "enterprise zone" mechanism, i.e. the granting of premium rates of financial aid, on the volume of productive investment measured at the zone level..

The fundamental problem of the assessment approach is to hypothesize what would have happened if the policy under consideration had not existed. As it is obviously impossible to compare the same districts in two different worlds (with and without the enterprise zone mechanism), the assessment method seeks to compare the corporate investment trend in the municipalities classified as enterprise zones (target group) before and after the implementation of EZ scheme, on the one hand, and in relation to that of the non-enterprise-zone municipalities (control group), on the other hand. We have selected two control groups, the firs composed by all the municipalities that excluded from the program, and a another group of municipalities that share similar socio-economic characteristics with the enterprise-zone municipalities. We then construct a difference-in-difference estimator of the impact of the program.

The data used for this assessment relates to investment projects for which the firms had filed an application for investment aid in the context of the economic expansion legislation. They are therefore not actual investments, but investment projects. The period of observation begins on the first of January 2002, and extends until the end of 2011. This enables to compare investment volumes between two periods: the one preceding (2002-2005) and the one following (2006-2011) the implementation of the free zones. Lastly, only small and medium-sized enterprises (SME), and very small enterprises (VSE), have been the subject of this assessment.

The results of the econometric estimates constitute, considered globally, a an array of presumptions tending to indicate that the **reinforcement of the investment aid premiums granting in the enterprise zones did not on average have any statistically significant effect on the volume of investment aided projects**. Moreover, this absence of any overall significant effect, over the whole period of the application of the enterprise zone mechanism (2006-2011), reflects the absence of any annual effects. Lastly, the results of the estimates do not reveal any statistically significant impact of the classification as urban enterprise zone, on the one hand, or as rural enterprise zone, on the other.

Consequently, we propose the following recommendations.

The results of the assessment strongly suggest **that the pursuit of this policy be reconsidered** in its current form. Indeed, the absence of effectiveness of the incentive mechanism of the “enterprise zone” program implies that the subsidies that have been granted have constituted overall windfall gains for the firms that have benefited from them.

The statistical analysis has furthermore highlighted the positive effect of the location in development zones on the firms’ investment projects. One has to wonder about the relevance of overlapping of capital subsidy premium granted to firms that invest on a territory located both in a development area and in a enterprise zone.

More broadly, it is the entire Walloon arsenal of place-based policy, i.e. seeking to support geographically-targeted development of the economic activities in Wallonia, which should be the subject of a comprehensive assessment.

Lastly, in the light of the recent debate in the economic literature, we suggest that the Walloon place-based policy should be more rooted in the new regional policy framework or paradigm, which focuses on growth opportunities rather than on handicaps of competitiveness, through collective governance involving all the stakeholders, regional and local administrations, and private players. This approach should then seek to encourage each territory, beyond the administrative borders, to endogenously achieve its growth potential.