Regional Policy from a Nordic Perspective

December 1995

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(extract from
"Regional Development in the Nordic Countries-
NOGRAN Periodic Report 1994/95")

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REGIONAL POLICY FROM A NORDIC PERSPECTIVE; Mårten Johansson; Project Manager, NOGRAN

This paper is an extract from the NOGRAN Periodic Report for 1994/95 entitled "Regional Development in Nordic Countries". It begins by looking at national policies to promote regional development in Nordic countries, it goes on to look at how certain Nordic countries have adapted to EU Regional Policy how EU policy is implemented in these countries and it concludes by considering some of the lessons learned and issues raised by EU policy in the Nordic countries.

Introduction

The whole of 1994 and the spring of 1995 can be characterised as an intensive learning process for Sweden and Finland in EU regional policy. This mainly involved learning about EU Structural Funds and working with programme based regional policies, but the process has so far led to limited new thinking as regards the policy content. The EU process began with the negotiations for membership in the spring of 1994. These negotiations also included Norway. The adaptation of State aid to the EU's regulations had already occurred through the EEA agreement. In Denmark, programme planning for the use of the 1994-1999 Structural Funds has been the central question for those authorities responsible for regional policy.

For the Nordic countries the EU/EEA means more detailed rules for State aid. For Finland and Sweden membership brought more resources for regional development, more long term planning but most importantly a new working model with more complex financial mechanisms. Significantly more resources are available to improve the business environment and increase the level of skills. Against this, contributions from the European Regional Development Fund (ERDF) for hard infrastructure in Finland and Sweden are minimal.

For the Nordic trans-border co-operation regions INTERREG means a multiplying of activity. New co-operation areas are being formed along Finland's eastern frontier, towards Estonia and along the Norwegian-Swedish border.

For EU structural policy, enlargement to include Finland and Sweden, has meant that more weight is being put on sparsely populated areas as a criterion for the establishment of regional development areas, for the use of regional policy measures and for the introduction of a new Objective 6 programme area.

On the 13-14 June 1996, the EU's attention will be focused on the Nordic Objective 6 areas. At that time over 2000 enterprises, from all over Europe, are expected to arrive in Luleå, which is hosting the EU's small enterprise business forum, EUROPARTENARIAT.

Even though the EU has given Nordic regional policy a new dimension, the development of Nordic regions is still reliant upon the regions' own resources and national contributions. This paper therefore deals with the national regional policies first. After this the adaptation to the EU's regional policy and how the programme work has advanced up to July 1995 will be examined.

National policies

The threat from an unbalanced national economy

The Nordic model, which for a long time had the aim of guaranteeing the same high level of social services in all parts of the country, now faces its toughest challenge. Many economists and politicians from different camps in Sweden and Finland see the balancing of the budget deficit as the only possibility to save the Welfare State. Otherwise the payment of interest will become the single biggest expenditure of Central Government.

The State's payment of interest rates is eating up the space for social services. The imbalance in national expenditure is also keeping market interest rates at a high level through the concern for an increased inflation in the future.

Since the deficits in both the Finnish and Swedish budgets are significant, cutbacks will affect all national expenditure. The largest payments from the national budget go to households and municipalities. There will, therefore, be savings in these outgoings, but enterprise support will also be affected. In the Swedish Regional Policy Bill (prop 1994/95:161) savings of 41 MECU[1] (366 million SEK) are suggested for the regional policy contribution of 470 MECU (4.2 billion SEK) in 1995/96 (18 months). The new Finnish Government is united in its savings plan of April 1995, that enterprise support will be reduced by 55 MECU (300 million FIM) during 1995 and another 145 MECU (800 million FIM) during 1996.

In the Nordic countries many State sectors have heavily supported development, also in the more peripheral regions, even though it has not happened as a co-ordinated part of regional policy. This especially concerns agriculture and fishery policy, transport policy, tertiary level education policy and the system of evening out taxes between municipalities.

A diminishing national contribution with new operating conditions (new price setting policies, free competition) has led to a reorganisation and down-scaling of existing functions, especially within postal and telecommunications, and air and rail transport. Opportunities to finance unprofitable operations within the same authority in certain regions with surpluses from other regions (cross-subvention) has shrunk significantly.

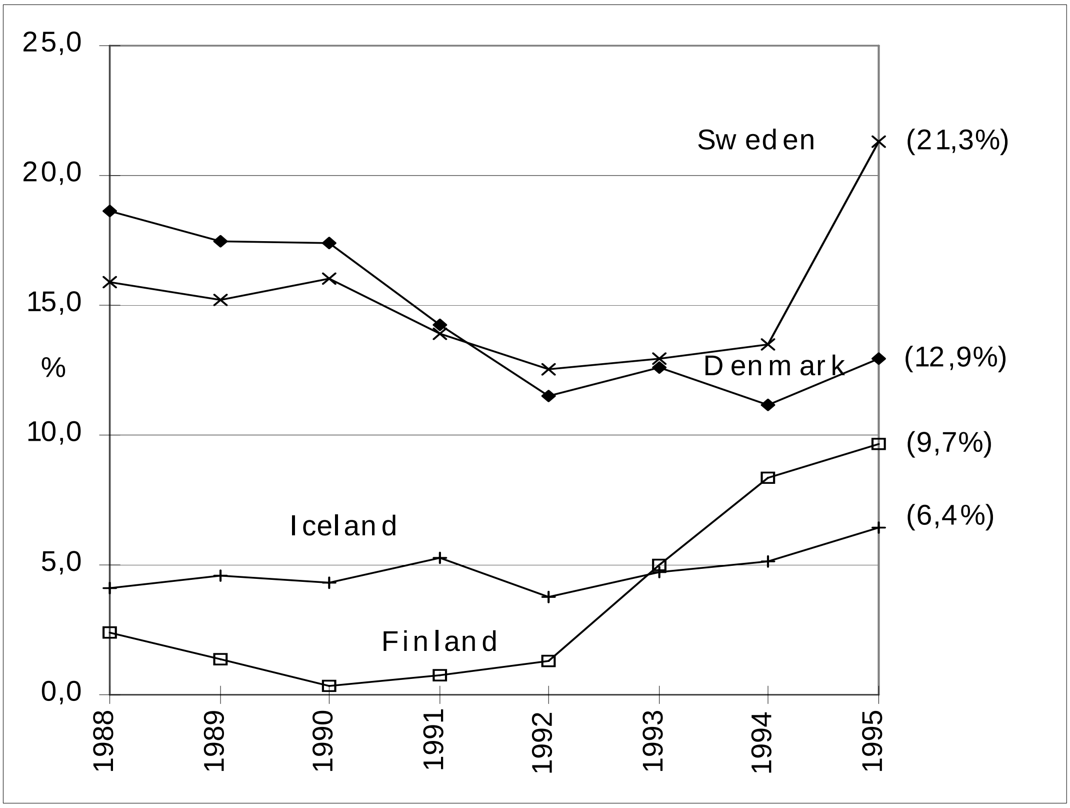
Although Norway still has a stable economy, there are also changes underway in the State authorities' operational conditions. They are being exposed to competition, price setting changes and new demands for self-financing.

Diminishing resources for regional development has highlighted the need to use existing resources with more co-ordination. A better division of work and co-ordination of public funds are the main points in the Danish regional policy report (June 1995). State consultation grants are given to promote local and regional co-operation commitments between municipalities. A strengthened contribution to co-ordinate industrial, training and labour market policy measures for regional development is the clear message in the Norwegian Government's report to Parliament (May 1995). The need for other sectors to

[1]The exchange rates used in this document are calculated on the basis of the average rates obtaining in the first week of November 1995 (1 ECU = 7.1 DKK, 5.5 FIM, 8.1 NOK, 8.9 SEK, 83.9 ISK)

take into account regional policy objectives is stressed in the Swedish Government's Bill (1994/95:161, April 1995).

Figure 1: Net interest rate expenditure on State borrowing as a percentage of the State's national budget expenditure, for the Nordic countries, 1988-95



Source: The Nordic Ministries of Finance.

Interest already accounts for 21% of the national Swedish budget expenditure. Denmark now has its unfavourable debts under control. The Finnish increase since 1992 is worrying. Norway, on the contrary, has more interest income than expenditure.

The renewal of the Finnish regional policy legislation (1/1/1994) implies that the Government wants to make more of the existing resources. In the Finnish national budget there are some budgetary allocations, of around 730-910 MECU (4-5 billion FIM), that can be used to implement regional development plans. The new EU Structural Funds programmes in Sweden and Finland will, in a meaningful way, include more sectoral authorities in the financing process. The seven technology linking centres (teknikbrostiftelserna) founded in Sweden in 1994 received as starting capital shares in State owned companies. They have an annual financial capacity of around 6 MECU (50 million SEK).

As a result of the crisis in the Finnish and Swedish economies, several temporary financial instruments have been implemented to help basically sound enterprises over the worst of the recession. The Finnish Regional Development Fund, KERA OY launched a separate loan to overcome the recession between 1992-94. The total sum granted through this loan amounted to 180 MECU (one billion FIM).

To ease the financing of small enterprises in Sweden the Development Funds (utvecklingsfonderna) have been reorganised as the ALMI Enterprise Partners, which has retained its loan fund of 290 MECU (2.6 billion SEK). The Industrial Development Fund (industrifonden) has received its own capital of 270 MECU (2.4 billion SEK). A special Innovation Centre (Stiftelsen Innovationscentrum) has been established and been given capital of 500 million SEK to be utilised within ten years. Its main task is to encourage innovation and to fund innovation at an early stage. The Norrland Fund (Norrlandsfonden) has been strengthened by 34 MECU (300 million SEK).

The largest share of risk capital for enterprises in Sweden came when the employee funds (löntagarfonderna) were disbanded in 1993. All the 730 MECU (6.5 billion SEK) was transferred as owner capital to the investment companies Atle and Bure with six close subsidiaries. The move has mainly strengthened the capital provisions of stock exchange quoted companies.

As in other OECD countries, the Nordic countries increasingly stress that measures should primarily promote growth and employment. The encouragement of new entrepreneurs and the internationalisation of sound enterprises are clearly the main points, both within regional policy and general business development policies.

The strong focus on small enterprises has meant that the support arrangements for small and new enterprises tends to cover the whole country and be part of the national industrial policy. A role of regional policy is to apply geographically varying conditions to the general industrial policy. Examples of this are found in Sweden's 800 million programme (90 MECU), SND's aid arrangement for new enterprises in Norway and the Finnish small enterprise aid. Parallel to the national support arrangements, regional funds are being developed to promote the establishment of know-how based enterprises in the university environment.

These regional development funds can have slightly different policies and organisational forms in various parts of the country but in common, they all provide seed money, start-up grants or risk capital.

The development of skills within the regions through co-operation between tertiary level colleges and the business sector is a continuous strategy that is still going strong in the Nordic countries. In Sweden, much emphasis is being placed on information technology. The beginning of the 1990's has seen a renaissance of development projects within the mechanical wood processing industry in Finland.

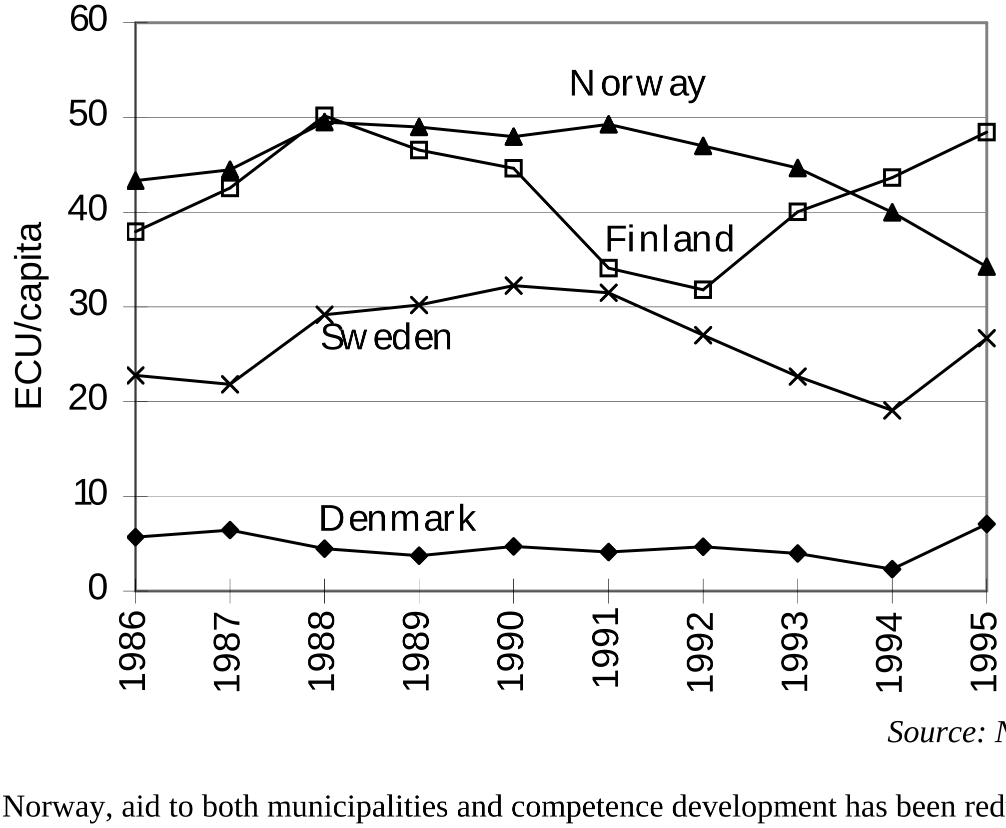
Specific regional policy
An analysis of expenditure on specific regional policy measures, i.e. business development aid graded according to geographical support areas, shows that Finland spends most closely followed by Norway (see figure 2). If expenditure is viewed in relation to the size of the support areas, Sweden comes out on top. State aid to firms in Denmark is minimal.

In addition to regional aid, Norway has as part of its taxation system a geographically differentiated employers' social security tax. This differentiated tax has significant implications for regional development. Möre Forskning has estimated a reduction of 490 MECU (4 billion NOK) in the national tax intake as a result of this measure. Other estimations give a higher sum. It is however difficult to fix the support elements for this easing of taxes, as this reduced tax concerns all employers other than the State. A significant part of the support system in Northern Norway, where the reduction in the employer tax is highest, goes to the municipalities and counties, which are big employers.

The main reason behind the fact that expenditure on regional policy has risen in Finland during the past three years is that the demand for investment aid has again increased after the downturn between 1991 and 1992. The value of KERA OY's interest rate subsidy and credit losses (included in total expenditure) has strongly increased since 1991.

The demand for location grants in Sweden also diminished at the beginning of the 1990's. The demand for these grants has now increased, but the grants for the budget year 1993/94 are still under the 1989/90 level. Net expenditure in 1994 was extremely low, partly as a result of repayment contributions of 22 MECU (192 million SEK). The so called 800 million programme, financed by the labour market budget (equivalent to 10 ECU/capita) is not included in the figures. The weak Swedish krona (spring 1995) generally brings down the Swedish figures.

Figure 2: Real development of expenditure on regional policy in the Nordic countries measured in ECU/capita, 1986-95 *(1990 prices and fixed exchange rate, April 1995)*



Source: NOGRAN.

In Norway, aid to both municipalities and competence development has been reduced over the past two years. The trend is expected to continue in 1995.

Overall, Denmark has the smallest expenditure on regional policy. Figures include expenditure for national regional policy and EU contributions from the Structural Funds. The figures do not include the State's co-financing of the European Social Fund's contribution, nor the counties' or municipalities' contributions to EU objective programmes or Community Initiatives. Expenditure in 1994 was extremely low because the payments for the period 1989-93 were to a large extent completed and the next period was still in its initial stages.

Figures for 1995 are budget figures and estimations. The EU's Structural Fund contributions are not included in Finland's and Sweden's figures for 1995. Even though this expenditure is in the national budgets, payments will mainly start in 1996.

Regional Policy in each Nordic Country

1. Denmark

The Danish Government presented, in June 1995, a comprehensive regional policy report to Parliament. It was a clear attempt to raise the profile from the Government's side, since regional policy in Denmark since 1989 has mainly been synonymous with national co-financing of EU programmes.

The important message in the report is that better co-ordination between players is needed to achieve a more effective regional industrial policy. There are many public players within the industrial policy (EU, State, counties, municipalities, labour market authorities, TIC, etc.) and a clearer demarcation is needed between them.

The main point is to create a regional industrial policy for the whole country. The objective is to create an *organisational platform for co-operation in every region. The word "organisational" is used with a wide meaning. It can apply to everything from loose co-operation agreements to organised work structures and secretariats, but the report underlines that neither municipalities, counties or the State can, by themselves be that platform.*

Many municipalities already co-operate on industrial policy. The Danish National Agency for Industry and Trade (Erhvervsfremmestyrelsen) has granted, since 1994, consultation costs to bring forward a more binding regional industrial policy co-operation. At the end of 1994, 160 municipalities were already involved in some form of programme based co-operation.

For the parts of the country that do not have an organised platform for regional industrial policy, the Government suggests business nodes (erhvervsknudepunkter). This suggestion is seen as a continuation of the regional business development programmes. The aim is to increase the programmes' effectiveness, widen the scope of the participants and to expand co-operation to more co-operation areas. The Government stresses that the creation of business nodes should, however, be voluntary.

The Government sees new possibilities for increased co-operation between the labour market and industrial policies and wants to strengthen the TIC net's role in regional industrial policy. The Technological Information Centres, the TICs, are expected to engage teachers from technical and engineering schools as advisors to businesses.

The report also presents a reform of the administration of EU regional policy. A more effective and more uniform administration of the ERDF and a reduction in direct aid to businesses is required. ERDF measures and State co-financing will, to a greater degree, be used to improve the regional conditions for the business environment.

2. Iceland

Iceland's Government approved a regional policy development plan for the country in May 1994. The decision makes the Regional Institute (Byggdastofnun) responsible for a wider regional policy contribution to the Icelandic countryside. However, the countryside is seen as all areas outside the capital city area. The Regional Institute co-ordinates and gives economic support to the network of regional business advisors, formed at the beginning of the 1990's. In 1995, the Regional Institute also has its own project grants 0.9 MECU (73 million ISK) which can be used to part finance projects. The Regional Institute's main task is to provide loans. Annual lending lies between 8-10 MECU (700-800 million ISK).

During 1994 the Regional Institute had two special tasks. One was to make special contributions in the Västfjordarna. The Regional Institute received 34 MECU (300 million ISK) which was to be passed on as risk loans to the fish industry. The second task had to do with the slimming down of the sheep breeding sector. Towards the end of 1994 the Regional Institute received 0.8 MECU (70 million ISK) to be distributed as project grants to stimulate alternative enterprises in areas dependant on sheep breeding.

In Iceland there are no investment grants, but the State owned Loan Funds can give small development grants to small and medium sized enterprises.

3. Finland

The past year has been a transitional period for Finland with new players and new methods of working within regional policy. During 1994 the new Regional Councils (joint municipal boards) were gradually given the responsibility for regional development earlier held by the Provincial State Offices. The Council's area of operations falls within the "maakunta" boundaries, except in Uusimaa, where there are two Councils, Uudenmaan Liitto (from Helsinki west) and Itä-Uudenmaan Liitto (from Sibbo east).

In autumn 1994, in accordance with the new regional legislation, the new Regional Councils produced their regional development programmes. The development programmes were also used as the basis for the programming work for EU Structural Funds.

The Regional Councils received 10 MECU (55.5 million FIM) in 1994 and 19 MECU (104 million FIM) in 1995 from the national budget. The view was that this money would strengthen the Regional Councils' negotiating position with the State district authorities in the regional programme work. The money can be used for the part co-financing of projects that Regional Councils wish to carry out in co-operation with State authorities or for their own project operations.

To ease the implementation of the regional development programmes, the Government earmarked in the national budgets of 1994 and 1995 a number of budgetary commitments, intended to be used mainly as financing for regional programmes. These are mainly budgetary commitments from the Trade and Industry, Transport, Labour and Agriculture Ministries areas of administration. These allocations from the budget total between 730 and 910 MECU (4-5 billion FIM).

All financing for regional plans need not occur through co-operation agreements, but a letter of intent with a detailed financial plan can give a regional plan more viability. Up to the 1/5/1995 only 7 of the 19 Regional Councils had signed any form of co-operation agreement with one or more of the State's district authorities. A few other regions negotiated for such agreements. It is possible that the regional programmes will lead to more agreements after the EU programmes are approved.

A programme for Centres of Expertise is one of the new instruments that Regional Councils are working with. The Ministry of the Interior distributed 2.7 MECU (15 million FIM) to 11 regional Centres of Expertise at the start of 1995. The regional Centres of Expertise are links between the research and business environments. The start-up or seed money, that the Ministry of the Interior granted is used partly to generate more business-relevant research programmes with national TEKES and EU funding, partly for projects.

The further processing of compact wood was a central aim of regional development operations in Finland in the beginning of the 1990's. Close to 400 development projects started or ended between 1991 and 1994. During 1994 there were 240 projects in process, double the amount compared to 1991 (Marketta Sipi: Mekaanisen puuteollisuuden tutkimus ja kehitystoiminta). Also, one of the above mentioned Centres of Expertise concerns the use of wood and forests.

During 1994, 7 regional venture capital companies built around the university towns were started. Their capital varies between 2 and 7.6 MECU (11-42 million FIM). The largest is Oulo Teknoventure. The aim is that these companies, will participate as minority owners in new enterprises.

A new loan product is KERA OY's new establishment loans, granted to smaller, newly started, limited companies.

Finland's business financing faces significant pressure from cutbacks and will come under review in the near future. The Government has advised that 55 MECU (300 million FIM) will be cut during 1995 and a further 145 MECU (800 million FIM) during 1996. The most far reaching suggestion is that investment and transport aid will cease completely.

4. Norway

In the new situation, where nearly all the regions on the other side of the border in Finland and Sweden are part of EU regional policy, the Norwegian Government has three messages as to how regional policy should develop. According to the Minister responsible for local government and labour, G. Berge's, report to Parliament, these are

1. strengthened regional co-operation over land borders,

2. better co-ordination of public contributions, and
3. further development of the aid arsenal/administration apparatus.

Norway answered positively to Finland's and Sweden's invitation to participate in INTERREG co-operation. The Government will suggest certain budget measures in the 1996 national budget so that regions along the Swedish border and in the North Calotte Area can participate in INTERREG co-operation at the same level of ambition as Finland and Sweden.

Attempts to tighten sectoral co-ordination and to achieve clearer links between regional development plans and industrial policy have been in progress for several years in some regions and between certain State sectors nation-wide. Especially in Aust-Agder and Nordland counties, the State's district offices and county municipalities have co-ordinated the use of regional policy aid, rural aid and aid for labour force training. These counties have joint administrative boards, strategy plans and management routines for all these measures. In nearly all counties there are regional labour market advisors to co-ordinate goals and strategies between the county municipalities, the State's County Labour Office, the training authorities and the social partners of the region.

The anticipated Objective 6 area started preparing a regional development plan in autumn 1994 for the use of EU Structural Funds, with eventual Norwegian membership in mind. Experiences from this work, together with experiences from other attempts at closer sectoral co-ordination, might be important elements in the further development of Norwegian regional policy.

In Norway, a comprehensive debate is under way on what role the county municipalities and the Norwegian Industrial and Regional Development Fund, SND, should have in administration aid. Two alternatives have been put forward. One suggests that the county municipalities will have strategic responsibility for the development policy in its county and, through regional development programmes, draw up guidelines for the use of SND's support measures. The management of individual applications for aid will be taken over by SND, who set up regional offices in each county. The other alternative is that the county municipality will handle individual applications, as it does today.

On the State aid side the main interest is in the creation and establishment of new businesses. The experiences of establishment grants (etablererstipendier) are good. Half of those who started a new enterprise and received a grant still ran the enterprise in 1994.

SND also has good experiences from its networking programme to create a binding co-operation between independent enterprises. The programme, which contributed to the establishment of 450 networks from 1991 to 1994, will continue for a further four years.

During 1994 Parliament granted 110 MECU (900 million NOK) as an extra contribution to make the food industry more competitive. During 1995 and in future years SND will (within the framework of EU regulations on State aid) strengthen its stake in the fish industry. Both food and fish industries have a strong foothold within the regional development area.

5. Sweden

The Swedish Government presented its regional policy programme declaration in the form of a Bill to Parliament in April, 1995. The main suggestions are to promote growth, support small enterprises and to concentrate regional contributions on the worst hit regions. It was suggested that the maximum grant level for investments be raised to 40% (gross) for SMEs in support area 1. At the same time, regional policy must also bear its share of the Government's savings plans. 41 MECU of 470 MECU (366 million of 4.2 billion SEK) will be cut during the budget year 1995-96 (18 months). The savings are being made in transport aid and employment grants. Certain infrastructural measures are also being cut. The Bill underlines the need for other State sectors to take into account regional policy goals in their operations.

A new instrument in Swedish regional policy, during the budget year 1994/95 is the so called 800 million programme. The Government transferred 90 MECU (800 million SEK) from labour market measures to the State County Administrations in the whole country for extra growth promoting measures. This programme is not included in the regional policy budget. As a special measure within the framework of the 800 million programme is a temporary small enterprise grant which was initiated with a maximum aid ceiling of 15%.

The aim was to create 4000 new jobs, a target which was reached in six months. The demand for aid has been seen to be particularly strong in those counties that earlier did not have similar aid schemes available. For example, in Östergötland (Linköping-Norrköping) the use of the measures were co-ordinated in common with the State County Administration, County Labour Board, the ALMI fund and the Labour Fund (arbetslivsfonden) and reached a much higher level than the countries' targets. The programme, which was originally meant as a one time measure, has been granted a further 45 MECU (400 million SEK) for the budget year 1995-96 (18 months).

During 1994 the Government launched a development programme for technology transfers and R&D in regional priority areas. The programme was for businesses in Northern Sweden, Bergslagen and South Eastern Sweden. The aim is to promote the enterprises' own development potential and to draw from the expertise that will be created through co-operation with other enterprises and research environments. A central element in this programme was that the enterprises themselves would find partners and bind themselves, through agreement, for up to five years. There are 19 such agreements. The State will grant 37.5% of the costs with the enterprises providing the remainder. The support framework for five years is 19 MECU (170 million SEK) and the financing came from the so called "infrastructural contribution" which was initiated as a temporary instrument at the beginning of the 1990's.

ALMI Enterprise Partners was founded on the 1/7/94 and took over the tasks of the Development Funds that were laid down. The ALMI Enterprise Partners are made up of a 100% State owned parent company and 23 subsidiaries, in which the State owns at least 51%. Other part owners include the municipalities. In Norrbotten the main company owns 90% of the subsidiary. The subsidiaries operate on a county basis, with one exception: Malmöhus and Kristianstad have a common subsidiary.

ALMI has 500 employees of which 10 work in the parent company and 490 within the subsidiaries. Although the aim is to suit the operations to the local environment it is ALMI's ambition to have a common overall strategy. This is a clear difference compared with the earlier Development Funds.

The ALMI company's three most important tasks are (1) business development, i.e. advisory and consulting, (2) risk financing and (3) to support "self start activities". Most emphasis is placed on business development. The subsidiaries have annual operating finance of 19 MECU (170 million SEK). In principal the State finances 51% of the operating costs of the subsidiaries. The annual risk financing is dependant on inflation, interest rates and risk. ALMI has at its disposition a loan fund of 290 MECU (2.6 billion SEK), whose nominal worth should be maintained. The funds can lend an estimated 22 to 56 MECU (200-500 million SEK) per annum.

The Norrland Fund's geographic area of operation was expanded during 1995 to include the whole of Norrland, that is, all of the five most northerly counties. Its mission is to provide risk capital to SMEs.

Adaptation to the EU

Business aid and the national regional development area

The adaptation of regional aid to EU regulations has occurred gradually through the EEA agreement. The EEA agreement brought more aid ceilings and detailed requirements for business aid in Norway, Finland and Sweden. The number of aid ceilings in the Norwegian industrial policy basket has increased from around 10 to 40. Aid ceilings vary both on the basis of company size, and type of aid. On top of this a ceiling on the total (cumulative) aid within respective regional areas of support was introduced. However, the rules have also been eased for small grants (negligible aid) and grants to small enterprises (de minimis rules). The EFTA Surveillance Authority, ESA, approved Finland's, Norway's and Sweden's regional development areas and aid ceilings in December 1994. (See Figure 3) The decision will remain in force.

Denmark has a support area that formally covers 20% of the population. However business aid is only granted in those municipalities that are part of the EU Objective programmes. The support areas are in force until the end of 1996.

Finland's support area covers 41.6% of the population. The area includes three permanent aid zones, I-III (31%). On top of this there is a temporary structural change area covering 10.6% of the population, which is operational until the end of 1995.

Figure 3:
Maximum investment aid intensities in Nordic regional development areas, 1995

		Gross Large*/SME	**Net Large*/SME**
Denmark	Priority area	37/37	25/25
	Normal area	25/25	17/17
Finland	Development zone 1	35/37	28.2/29.8
	Development zone 2	27/37	21.7/29.8
	Development zone 3	20/30	16.1/24.2
	Structural change area	20/30	16.1/24.2
Norway	A-area, 92.3.a	35/50	35/50
	B-area	25/30	25/30
	C-area	15/25	15/25
Sweden	Area 1	35/40	25.6/29.2
	Area 2 + supplements	35/35	25.6/25.6
	Area 2	20/20	14.6/14.6
	Structural change area	20/20	14.6/14.6

* i.e. large companies.

Norway changed its support areas on 1 January 1994. Areas in which business aid is granted cover 25% of the countries population (support area A, B and C). Additionally there is a support area for municipal grants (non business aid) that covers 6.7% of the population.

The permanent support area in Sweden covers 7.3% of the countries population (2.3% in support area 1 and 5% in support area 2). The temporary support areas, so-called structural change areas, comprised 6.3% of the population until June 1995, and have since then increased somewhat. The total area for location aid and development grants covered, in June 1995, 12.4% of the population. The geographic area for concessions of employer's social security charges and transport aid is slightly different from the permanent and temporary support areas. The ESA has approved that Sweden's permanent support areas can include more than support areas 1 and 2, covering up to 14% of the population. This means that Sweden can, if necessary, expand its area by closer to 7%. Together with temporary support areas, the total Swedish support areas can cover up to 18.5% of the population. The main criteria for the larger area in Sweden is that it has a population density of, at most, 12.5 inhabitants/ km^2. The Objective 6 area therefore falls within this low population density area.

Map 1: Development areas for investment grants in the Nordic countries, 1995, net equivalent grants

Net ceilings	**Denmark**	**Finland**	**Norway**	**Sweden**
>30%			A-area	
20-30%	Priority area	Development zone 1-2	B-area	Area 1 and area 2 + supplement.
<20%	Normal area	Development zone 3, structural change area	C-area	Area 2, structural change areas

Changed EU regulations for transport aid

The types of business aid that have traditionally been used in the Nordic countries have to a large degree been accepted by ESA. Some aid schemes do however need to be further discussed. This concerns transport aid, for which Finland, Sweden and Norway have an adaptation period up to the end of 1996. The Commission changed the application of article 92(3)c in the Treaty of Rome, on 1 June 1994, concerning regional support including transport aid, which can now be granted for an area with a population density of under 12.5 inhabitants per square kilometre, if 12 other specific criteria are met.

Discussions with the Commission on Sweden's employment grants and the concession of social security charges as well as the financial instruments of Norrland Fund are continuing. Discussions between the EFTA Surveillance Authority and Norway on the regionally differentiated employer's contribution have not yet finished (June 1995).

Net grant equivalents (NGEs)

The EEA agreement brought with it a new method of working out maximum aid levels. They are to be calculated as net grant equivalents and not as a gross share of the size of investment. NGEs are a measure of the actual subsidy value on the grant after tax. Even the subsidy elements of certain cheap loans shall be calculated as net grants. Denmark has, as an EU member, already put this into practise, while the aid ceilings in Norway, Sweden and Finland were fixed according to the gross principal. Although the maximum levels are adapted to the new rules, Norway, Finland and Sweden will continue to publish ceilings for aid as gross shares.

Different tax regulations and tax rates give different relationships between gross and net aid. In Denmark, where the company tax is 34%, an investment aid of 37% gross is equivalent to 25% net. A contribution of 35% gross is equivalent to 28.2% net in Finland (company tax is 25%) and in Sweden 25.6%.

In Norway, regional policy investment grants have been, since 1971, tax free income for businesses. This makes the net contribution for investments the same as the gross. This is not true of other aid. SND's loans have no subsidy elements.

The ceilings for the total cumulative business aid for SMEs, calculated in NGEs, within the most prioritised support areas in Finland and Sweden are fixed at 29.8% and 29.2% respectively of the basic investment size. The only exception is Northern Norway[2] (support area A), where the intensity of investment grants can go up to 35% for large firms, 50% for SMEs and in the four Same municipalities up to 60%.

Ceilings for investment grants were lowered generally in Norway from 1/4/1995. At the same time the ceilings for SMEs were raised in all three support areas. Aid ceilings were also generally lowered in Finland from 16/1/1995 while SMEs were allowed an increase. The ceiling for investment aid for SMEs was raised in Sweden's support area 1 from 35 to 40% (gross) from 1/7/1995.

The EU Structural Funds

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[2]ESA has approved Finnmark's and four municipalities' in Nordtroms eligibility for regional aid in accordance with article 91.3.a of the Treaty of Rome.

Membership of the EU meant that Finland and Sweden, from 1995, in addition to national regional support areas, has EU support areas, i.e. Objective 2, 5b and 6 areas. Geographic support areas for the Community Initiatives INTERREG, URBAN and KONVER were also drawn up.

In terms of population coverage, the EU objective areas cover 53.6% of Finland and 25.4% of Sweden. Denmark has the least EU support areas of all the 15 member states. It covers 15.3% of the population.

All the municipalities included in the EU objective areas do not necessarily lie within the national support areas. In Denmark this concerns only two municipalities, but the differences in Sweden and Finland are larger. This means that the possibilities for using business aid are more limited in those Objective 2 and 5b municipalities that lie outside the national support areas. In Finland, small business aid[3] can be used in these municipalities and in Sweden there are temporary small business aids which were implemented through the 800 million programme. These are approved in the whole of the country within the framework of the "de minimis" rules. Denmark has requested that the two 5b municipalities that lie outside the national support area should be included so that investment grants can be on the same basis as in the rest of the 5b area.

The composition of the Structural Fund's portfolio

Of the total EU Structural Fund budget, 90% of the financing goes to the so called Objective programmes and 9% to Community Initiatives. A reservation of 1% of the EU budget is made for pilot projects. Figure 4 includes all the EU financing granted up to June 1995 to Denmark, Finland and Sweden for the Objective programmes and Community Initiatives.

The annual Structural Fund contribution for Denmark will be on average 145 MECU. Finland receives 340 MECU and Sweden 285 MECU a year during the period 1994/95-99. This money is used for multi-annual programmes that are negotiated between the Commission and the Member States. Municipalities and regional authorities can, themselves, directly seek grants for pilot projects. With the exception of Objective 6, Denmark has to a large degree the same set up of programmes as Finland and Sweden. The support portfolio's content does, however, vary significantly between the countries. Of Denmark's total aid, one fifth goes to the regional policy Objectives 2 and 5b, while 35% is aimed at horizontal programmes for labour force training (Objective 3-4). Nearly 20% of the structural funding goes to programmes to ease the re-structuring of the fishing sector (Objective 5a) and 15% to agricultural re-structuring (5a).

[3] Assuming a national decision.

Figure 4

[on separate sheet]

Map 2: EU Objective 2, 5b and 6 support areas

	Objective 2		Objective 5b		Objective 6	
	Population	**Share**	**Population**	**Share**	**Population**	**Share**
Denmark	439,000	8.8	362,000	7.0	-	-
Finland	787,000	15.5	1,094,000	21.5	840,000	16.6
Sweden	965,000	11.0	757,000	8.7	450,000	5.0

Objective 6 is the largest single programme in Finland's support portfolio. More than a quarter of the money goes there. Half of the EU support to Finland goes to regional policy objectives (Objective 2, 5b and 6), while the equivalent share for Sweden is just 40%. If it is taken into account that the Finnish Objective 6 framework includes significant income support to agriculture (LFA-aid), the division in terms of geographical/horizontal objectives does not differ much between Finland and Sweden.

Labour market measures are in Sweden, like Denmark, the heaviest part of the programme. Objective 3-4 receives 37% of the EU contribution. The horizontal programmes (Objective 3, 4 and 5a) together account for half of Sweden's EU contribution. Of the regional policy programmes, Objective 6 receives the most (18%).

Of the horizontal contributions, Finland puts a larger share to structural changes in agriculture, while labour market measures have more weight in Sweden.

The division between regional policy and horizontal structural programmes is not completely clear in the Objective 6 areas as the horizontal measures (Objective 3-4 and 5a) are part of the Objective 6 programmes, but not of the Objective 2 and 5b programmes. A significant amount of the support for Community Initiatives is aimed at the regional policy objective areas, especially to Objective 6 areas.

The composition of the Structural Fund's portfolio does not completely reflect national priorities but are to a high degree a result of the EU Commission's mathematics and negotiations. Total EU support for Finland and Sweden was fixed together with negotiations on the Treaty of Accession (April 1994). The Objective 6 areas population share was fixed at the same time and the budget framework became the population multiplied by a given intensity figure (ECU/capita per year) that the Commission calculated. In Finland the intensity was 122 ECU/capita and Sweden 101 ECU/capita[4].

Also for Objective 2 and 5b areas there was a given support intensity (mainly based on calculations). Total support to these objective areas was also, here, the support intensity multiplied by the population. In Sweden, for example, the population coverage for Objective 2 and 5b is relatively small, so the support to Objective 2 and 5b areas was also relatively small. Sweden suggested a relatively high level of resources for Objective 3-4, which also put restrictions on the resource allocation to the other objective areas.

[4]The Commission decided in April 1995 to increase the Swedish Objective 6 framework by 50 MECU.

Community Initiatives

The Commission has come to an agreement with the new Member States that all three can use 9% of the budget framework for Community Initiatives. One per cent of the total framework is to be reserved for pilot projects. Denmark has a slightly higher share of support for Community Initiatives (12.4%) than the EU average.

Figure 5: Community Initiatives in the Nordic Countries

Initiative	**Denmark**	**Finland**	**Sweden**	**Total**	
	%	**%**	**%**	**MECU**	**%**
INTERREG	19.9	32.4	35.1	101.2	29.9
LEADER	9.0	18.3	12.6	47.0	13.9
EMPLOYMENT	12.4	21.6	18.4	61.0	18.1
ADAPT	33.1	14.6	10.0	60.9	18.0
KONVER	2.7	0.0	2.9	5.7	1.7
SME	2.8	8.0	14.9	30.1	8.9
URBAN	1.7	2.9	30.	8.8	2.6
PESCA	18.4	2.2	3.1	23.2	6.9
Total	100.0	100.0	100.0	337.9	100.0

Source: NOGRAN

The budget framework for Community Initiatives for the period 1995-99 in the new member States were fixed by the Commission in April 1995. A part (12%) was left unallocated, to be used as a reserve[5]. At the same time the eligible areas for INTERREG were approved.

Denmark and Sweden each have eight Community Initiatives, while Finland has seven (with no KONVER). INTERREG, ADAPT, EMPLOYMENT and LEADER are the main ones in the Nordic countries.

The formal decision[6] on what share of the budget framework for Community Initiatives should go to Objective 6 areas in the respective countries and how INTERREG's budget should be divided between border regions within countries, was not communicated to Finland, Sweden and Austria until the end of May. Finland and Sweden decided that the INTERREG plans should be ready by 14 August 1995 and delivered to the Commission at the end of September. Operational Programmes for the various Community Initiatives can not be expected to be approved before the end of 1995.

[5]The reserve was distributed on the 4th of October 1995.
[6]The letter is dated the 17th of May 1995.

Inter regional co-operation expands

With the expansion of the EU to Austria, Finland and Sweden, the EU's land borders were lengthened by 56%. Significant parts of the new countries territories were therefore classified as INTERREG areas, by the Commission on the 4th of April 1995.

Map 3: Suggested programming areas for INTERREG in the Nordic countries 1994/95-1999

As a result INTERREG had the highest priority of all Community Initiatives in the new countries, but it still did not have the weight one might have expected, considering by how much the land borders were expanded. The Commission, itself, has also underlined the significance of co-operation with the Baltic States and Russia. The Commission wanted the regulations to be applied in the same way in the new countries as in the old. This meant that the budget had to be divided between more initiatives.

INTERREG receives the most funding among the Community Initiatives in Ireland (41.6%) and Greece (36%). The third highest share is in Belgium and Sweden (35.1%). Greece alone gets four times as much INTERREG money (395 million ECU) as Denmark, Finland and Sweden put together.

Through INTERREG, seven[7] of the nine existing Nordic border region co-operation areas have been given the possibility to raise their operations to a new ambition level. The new INTERREG areas complement the existing Nordic areas along the Norwegian-Swedish border. At the same time new[8] INTERREG programmes are being developed between Southern Finland and Estonia, South Eastern Finland and St. Petersburg, Eastern Finland and Carelia and between The North Calotte Area and Murmansk. Denmark's co-operation with Germany also includes Fyn and Storstrøms amts, during the period 1994-99. A total of 15 INTERREG programmes were under preparation in the Nordic countries in May 1995. Furthermore a budget allocation for transnational spatial planning activities according to the new INTERREG C-strand is made for the Baltic Sea area.

Altogether the Nordic countries will receive a contribution from the EU of 101.2 million ECU for INTERREG co-operation. This money will mainly be paid out in the period 1996-99. On the assumption that national co-financing is at least as large and Norway contributes as much as Sweden around their common border, then INTERREG co-operation programmes within the Nordic countries will amount to 60-65 MECU per year between 1996-99.

Old traditions of trans-border co-operation

All the Nordic trans-border regions have been functioning for at least ten years prior to the INTERREG programme being introduced. The oldest have their roots in the 1960's and belong to the earliest trans-border co-operations in Europe. Trans-border co-operation, in the Nordic countries differs from INTERREG co-operation in Central and Southern Europe on several points.

1) Existing Nordic trans-border co-operation has, through the Nordic inter municipal co-operation convention which came into force in 1979, a legal basis. Although 20 European countries signed the 1980 Madrid convention on border region co-operation, this convention was only slowly followed up by national agreements. The central administrations in several countries are still sceptical of the fact that regional authorities may have direct contact with authorities in a neighbouring country.

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[7] North Calotte Committee, Kvarken Council, Archipelago Co-operation, Bornholm-South East Skåne, Arko Co-operation, Östfold-Bohus Border Committee, Öresund Committee.

[8] Co-operation with Finland's neighbouring regions in Russia has developed through an agreement since 1992. In the same year the Barents Co-operation started in the north.

2) There was a passport-free zone and a common labour market between the Nordic countries thirty years before the Single market came into force. Although there are language problems between the Nordic countries, these problems are insignificant compared to many neighbouring countries in Europe. In some countries relations between the neighbouring countries are strained (Greece-Macedonia, Greece-Turkey).

3) In many Southern European countries 80-90% of INTERREG's budget goes to national development projects in border areas, while only 10-20% of INTERREG's budget is used for trans-border projects. Co-operation in the Nordic countries' internal border areas is mainly on joint projects for the common good with joint decision making, financial control and administration, anchored by the municipalities and regional authorities.

4) Private enterprises initiate many of the projects in Nordic trans-border co-operation, which is not usual within INTERREG. The INTERREG area Sønderjylland-Schleswig-Holstein only has joint projects at municipal management level.

The relative significance of the contributions

The significance of the EU programmes can be measured in many ways, for example, relative to the total economy within the countries, in relation to the objective regions or in relation to national policy.

Figure 6:Annual EU contribution per head of population in Objective 1/6, 2 and 5b areas, 1994/95-99 *(1994 prices, excluding Community Initiative)*

Aid intensity/ECU per capita/year

	Objective 1/6	Objective 2	Objective 5b
Belgium	94	38	29
Denmark	–	42	25
Greece	228	–	–
France	146	40	38
Luxembourg	–	18	33
Ireland	267	–	–
Italy	117	36	31
The Netherlands	125	38	31
Portugal	236	–	–
Spain	188	48	64
United Kingdom	116	40	48
Germany	139	35	26
EUR12	**170**	**40**	**36**
Finland	**108**	**46**	**35**
Sweden	**110**	**33**	**36**
Austria	**121**	**31**	**36**
EUR3	**111**	**37**	**36**
EUR15	**169**	**40**	**36**

Compared with GDP the Structural Funds annual contributions account for, on average 0.1% of GDP in Denmark, 0.2% in Sweden and 0.4% in Finland. The Structural Funds (the Objective programmes) make up, on average, 0.2% of GDP in Germany, Austria and United Kingdom. In the so called cohesion countries (Greece, Portugal, Spain and Ireland) the objective programmes' share of GDP is between 2 and 3%.

In terms of the Finnish objective regions' GDP, the annual EU contribution is highest in the Objective 6 area (1%). The share of GDP within Objective 2 and 5b areas is 0.3%.

Annual contributions are often measured as an intensity figure, relative to the population of the relevant Objective area (figure 6). After an adjustment of the EU contribution to Sweden's Objective 6 region, aid intensity within the Finnish and Swedish Objective 6 areas is nearly the same, 109 and 110 ECU respectively, per inhabitant. The intensity level used in the Treaty of Accession included the Community Initiatives and was therefore higher. It is slightly less than Objective 1 areas in United Kingdom and Italy, but more than Objective 1 areas in Belgium.

The aid intensity within Finland's Objective 2 areas of 46 ECU/capita, is amongst the highest in Europe. This is because of the high unemployment rates. The Commission even considered a higher intensity level, but could not find the financing from the other objective programmes. In Denmark the intensity is 42 ECU and in Sweden 33 ECU per inhabitant. The intensity within Objective 5b in Finland and Sweden is 35 and 36 ECU/capita, which is around the EU average, while in Denmark it is only 25 ECU/capita.

EU support in relation to national policy

In relation to national policy, the EU contribution is the most significant to the restructuring of Danish fisheries. Denmark, which is one of the EU's largest fishing nations, received 159 million ECU's for Objective 5a (fisheries). This is equivalent to half of the country's total input into the re-structuring of fishing in the period 1994-99.

Even though labour market inputs, measured in expenditure, are the highest priority EU programmes in Denmark and Sweden, the EU contribution to Objective 3 -4 makes up only 4 and 5% respectively of national labour market policy measures. The EU contribution to Objective 3-4 (ESF) is equivalent to 8% of the active labour market policy expenditure in Finland. The comparison refers to the expenditure levels of 1994. Labour market contributions from the ESF are also included in Objective 2 and 5b, which slightly increases the EU contribution relative to the national labour market expenditure. Overall, the ESF provides 5-10% of what the Nordic countries themselves use for active labour market policy measures.

The significance of the European Regional Development Fund (ERDF) in relation to national operations varies significantly between Denmark on the one hand and Sweden and Finland on the other. In Denmark, where almost all the investment grants are tied to EU programme contributions, the ERDF finances closer to half of all business aid.

In Finland the ERDF contribution to business aid is estimated to be a quarter of all national business development expenditure within the Ministry of Trade and Industry's budget. Sweden sees no essential need to use the ERDF contribution for investment aid (location grants). Against this the ERDF will basically be used to increase development grants to small enterprises (product development and skills). When it concerns infrastructural measures, the EU contribution's share of total investment in the Nordic countries is marginal.

EU structural inputs for agriculture (Objective 5a) are made up of two components: (1) aid for the improvement of the agricultural structure and (2) project aid for dairies, slaughter houses and other industries processing agricultural products. In Denmark the relationship between expenditure for these measures is 80/20. Even though national expenditure for structural change in Finnish agriculture (1994-95) is unusually low because of generally low investment levels, 5a support from the EU does not make up more than a quarter of the total structural change inputs. The largest part of 5a funding goes to aid in less favoured areas (LFA), which maintains the structure rather than changing it.

What is created with an extra million?
Since the contributions in most regions outside Objective 1 areas account for only 0.3-0.5% of GDP and are often relatively small in relation to the total national contribution, they should be relatively specific so that their effects can be measured. The Commission lays down conditions to the effect that the expected results should be estimated beforehand.

Within Nordjylland's Objective 2 area, 140,000 ECU (one million DKK) of EU support used for business aid has on average generated:

* 8 work places
* 1.1 MECU (8 million DKK) increased turnover
* 0.8 MECU (5.5 million DKK) increased export

The Commission would like to see the expected results provided in this concrete way.

Since the inputs and priorities of the programmes are numerous, and fairly generally formulated and integrated into the national policy, it can be difficult to subsequently differentiate between what the impact of the EU contribution is, what the national expenditure contributed to, and what occurred as a result of the general economic situation (interest rates, exchange rates, demand).

As well as the size of contributions, the time perspective can be important in judging what can be achieved. Certain programmes, such as the Finnish Objective 2 programme, last two years. If it takes on average three years before a new company shows a profit, two years is too short a time to see lasting effects. Not until the end of the 1990s can any conclusions be reached on how many of the ideas that were financed in 1996 have been vigorous enough to survive. It is more likely that Objective 5b and 6 programmes, which run for five years, will show results during the period 1995-99.

Some effects on regional policy
The success of the EU programmes can not be measured in new jobs alone, even if this is the primary interest. The programmes bring with them a new working model, more long term policies, and the linking together of plans and money.

1) The EU's regional policy has strongly increased the interest in regional policy within other State sectors in the new Member States. The Foreign Ministries were already involved in the process during the negotiations and the foreign Ministries have a special interest in following the development of the trans-border programmes (INTERREG, TACIS and PHARE-CROSSBORDER). The necessity of national co-financing of Structural Funds means that more Ministries are being actively included in the process than previously.

2) The EU's requirement of partnership means that different sectoral authorities develop and implement joint programmes together, covering a longer time span. This has in a short period of time forced the national authorities into a programme of co-operation, which has led to more concrete results than ten years of discussion on sectoral co-operation.

Partnership also means co-operation between different administration levels involving municipalities, counties and Regional Councils in both the planning and implementation.

3) The EU's programme based policy means that strategies and measures are tied closer together. The aim of the financing is discussed significantly more methodologically than previously. Although the suggested measures do not always follow the strategy, there is a clear attempt in the programme work to bind the strategies and measures into a logical unit. The expected results are also to be judged beforehand.

The Commission wants the Member States to estimate the expected results in increased value added, higher user levels and more job places. This is actually a requirement that the richer EU countries have imposed on the Commission, and one which they themselves must comply with.

The learning process

Finland, Norway and Sweden have looked at the experiences of EU regional policy of many EU countries, especially Denmark and Scotland. Most trips have been to Brussels, but Denmark comes in as a good second. For example, Nordjylland's amt has received, during the past few years, around 50 groups from municipalities, regional administrations and State authorities in Finland, Norway and Sweden. Politicians and civil servants from all levels were interested in seeing how the EU's programme-based regional policy works in practice. Never before have Norwegians, Swedes and Finns been as interested in Denmark's regional policy as during 1994 and 1995.

Contacts with Scotland have, apart from study trips and seminars, led to concrete co-operation projects within four areas; Information technology (co-ordinated by SINTEF/Oslo), SME co-operation (Norrland Fund), university networks (by Mikkeli Institute) and private forestry (by Norwegian Forest Owners Federation). The operations are co-ordinated by the Secretariat of the Nordic Council of Ministers, and Highlands and Islands Enterprise in Scotland.

The choice of Scotland as a co-operation partner is natural for many reasons. Scotland itself has shown a strong interest in co-operating with the Nordic countries. The country has 5 million inhabitants and, like the Nordic countries, lies on the periphery of the European market. Over 90% of the population lives in the southern part of Scotland, while the population structure in the Highlands and the Islands is reminiscent, to high degree, of the northern-most parts of Finland, Sweden and Norway. The closest daily contacts are between Scotland and Norway, as both are significant salmon producers and take advantage of North Sea oil and gas resources.

The division of responsibilities

The EU process has created new co-operation models with a new division of responsibilities, both within policy between Ministries and between central and regional administrations. Responsibility for planning and implementation can lie with different authorities.

Despite many new co-operation models having come about, it is necessary to stress that legislation within countries has not changed. This means that the State sectoral authorities still make decisions about national financing. For decisions on EU contributions slightly different models are used. In Denmark formal decision making for the ERDF and EAGGF are carried out by the same State authorities that make the decisions on national financing. The Ministry of Labour has delegated significant decision making power to the counties on ESF questions, i.e. outside the State Labour District Administration. In Finland the same State authorities make decisions on EU support as the equivalent national financing. Sweden delegates the decision making on EU support to Regional Management Committees.

In *Denmark* the National Agency for Industry and Trade (erhvervsfremmestyrelsen) is responsible for the co-ordination of Objective 2 and ERDF financing (Objective 2 and 5b). The National Agency for Industry and Trade has responsibility for the co-ordination of INTERREG, SME, KONVER and URBAN. The responsibility for planning and implementing INTERREG lies with the individual border regions and for URBAN at Ålborg's municipality.

The Ministry of Labour is responsible for the planning of Objective 3-4, EMPLOYMENT and ADAPT and the ESF in general. The implementation of Objective 3 has been delegated to the counties, who decide on the Social Fund measures within the Objective 2 and 5b programmes. The Ministry of Labour also organises Objective 4, EMPLOYMENT and ADAPT.

The Danish Directorate for Development in Agriculture and Fisheries (Strukturdirektoratet) is responsible for the co-ordination and planning of Objectives 5a, 5b, LEADER and EAGGF questions in general. Aid decisions for 5a and the EAGGF part of 5b are made by this structural directorate. All applications for 5b are, however, sent to the counties, who forward the applications to the relevant State authority. The implementation of LEADER is through local action groups.

The Ministry of Fisheries is responsible for the co-ordination and implementation of the sectoral plan for fisheries (5a) and the PESCA initiative. The administration of PESCA is very complex as the Ministry of Fisheries must take into account State authorities', counties' and the views of the fisher's union.

Finland has worked on the basis that the existing division of responsibilities between Ministries should be maintained. This means that the same Ministries that take decisions on national financing within the objective programmes also administer the equivalent EU aid. The Åland Islands, which due to their autonomous status are responsible for national co-financing from their own budget, therefore make up their own objective programmes.

The Ministry of the Interior is responsible for the co-ordination of Objective 2, 5b, 6 and INTERREG and, together with the Ministry of Agriculture and Forestry, for LEADER. The ERDF funding goes to the Ministry of the Interior's account, but is used by those Ministries that provide the national co-financing.

The main part of the ERDF funding is taken by the Ministry of Trade and Industry, who make the financial decisions on business aid and business development projects within Objective 2, 5b and 6. The Ministry of Trade and Industry is also responsible for the implementation of the SME initiative.

The Ministry of Agriculture and Forestry and its district offices make the financial decisions on projects financed by the EAGGF within Objective 2, 5b and 6, PESCA, and on LEADER together with the Ministry of the Interior. The Ministry of Agriculture is responsible for the whole of Objective 5a.

The Ministry of Labour and its district offices have co-ordination responsibility for Objective 3-4 and make all the financial decisions for the ESF within Objective 2, 3-4, 5b and 6 as well as for the EMPLOYMENT and ADAPT initiatives.

The Ministries for the Environment and the Interior have joint responsibility for the co-ordination of the URBAN initiative.

Two committees were formed in each region for the implementation of the Objective 2, 5b and 6 programmes; a Management Committee and a working group on business aid. The Management Committee is led by the Regional Council. It gives guidelines on how the programme should be implemented in the region and follows up on operations. Individual project applications for business aid are, however, only rarely handled by the Management Committee. They are reviewed by an working group on business aid led by the Ministry of Trade and Industry district organisation.

The preparation of single applications and formal financial decisions are taken by the State authority responsible for national co-financing. Implementation (preparation and decision making) occurs mainly within the regions at the State's district authorities or at the Regional Councils.

Every objective programme has, at a national level, a Monitoring Committee responsible for evaluating and monitoring the whole programme. The Monitoring Committee also has representatives from the EU Commission and normally meets twice a year.

The Åland Islands' administration is responsible for both the planning and implementation of Objectives 3-4, 5a and 5b. For practical reasons (small amounts of money in relation to administration costs) the Åland Islands' Objective 3 and 4 programmes are written as part of the national Finnish programmes. There is also a joint Monitoring Committee.

In *Sweden* the Ministry of Labour has overall co-ordination responsibility for Objective 2, 3-4, 5b and 6 and all the Community Initiatives but the practical work is, in most cases, delegated to other State authorities.

The National Rural Area Development Agency (Glesbygdsverket) is responsible for the planning of LEADER and the Objective 5b Programme for islands.

The Swedish National Board for Industrial and Technical Development, NUTEK, has generally assisted in the planning of Objective 2 and 5b and especially, Objective 6. NUTEK co-ordinates the work on INTERREG and is making a programme proposal for SME as well as, together with the relevant municipalities, for KONVER. NUTEK will also be the co-ordinator for the three Structural Funds and have responsibility for payments from the ERDF.

A separate programme office under the Ministries of Education and Labour has been established for the planning and implementation of Objective 4 and the ADAPT and EMPLOYMENT initiatives.

Suggestions for the URBAN programme are worked out by a committee on the large cities. Responsibility for the co-ordination of URBAN lies with the Ministry of Social Affairs.

The Ministry of Agriculture has responsibility for planning and financial decision making for Objective 5a. The same Ministry is also responsible for PESCA, in co-operation with the National Board of Fisheries.

As a general rule county based Management Committees are created, for the implementation of Objective 2, 5b and 6 programmes. These committees, which make decisions on EU support, have representatives from the State County Administration, County Labour Board and municipalities. The Government selects the Chairman. The Swedish County Management Committees differ from the Finnish Regional Management Committees in that they also make decisions on business aid.

Some experiences from the process
Despite the fact that both Finland and Sweden learned of the EU's programming process from the same countries and organisations and kept close contact with each other during the process, they have chosen quite different solutions and working methods for their respective objective programmes. One reason for this could be that the work has been conducted in slightly different phases, but it is also obvious that administrative traditions are different in each of the countries.

To delegate decision making for EU funding to Regional/County Management Committees, as Sweden has proposed, is an unthinkable solution for Finnish Government. The new working model in which Regional Councils are responsible for co-ordinating the regional development plans has strongly imprinted itself on the Finnish programming process, while State County Administrations have played a central role in Sweden.

A collective Objective 6 programme
Both Finland and Sweden have chosen to make a Single Programme Document for the whole of the Objective 6 area. Finland has based its Objective 6 programme on the proposals of the Regional Councils. The eight Regional Councils within the Objective 6 area made their own regional plans, which were then discussed with the central administration. The regional strategies are also presented in the final plan submitted to the Commission.

The Swedish plan was formed by a committee made up of representatives from municipal and State organs. The final impression is that the Finnish programme has more regional elements, while the area's common strategy is clearer and the measures more focused in the Swedish programme. While every region in the Finnish Objective 6 programme has its own indicative budget framework, the Swedish proposal was built on County Management Committees competing with each other for the funds. This was a significant difference, but this model was only partly accepted by the Commission.

Furthermore, there is more business aid in the Finnish plan than in the Swedish. Sweden is not planning to use the ERDF for part financing of location grants (investment aid), but only for soft business aid.

The strategy work that started in Norway in September 1994 would probably have led to a similar programme structure as that in Sweden. Norway was considering making a Single Programming Document, which would have been based on the common strategies of the four most northerly counties. One difference from Finland and Sweden was that the Norwegians first had strategy discussions and used quite a few research inputs at the beginning. In Finland and Sweden the measures were discussed at the same time as the strategy.

Different solutions for Objective 2 and 5b
Turning to the Objective 2 and 5b areas, the working models and methods of handling the different areas differs significantly between the countries.

Finland chose to carry out one Single Programming Document for its six relatively small Objective 2 areas, while Sweden made five separate Objective 2 plans. Sweden has possibly taken into consideration the experience of Denmark. Denmark formally submitted one Single Programming Document for two of its Objective 2 areas, but the Commission did not accept this model, and separated it into one programme for Nordjylland and another for Storstrøm. In practise the Danish SPD plan included two separate regional programmes which were both written and intended to be implemented by the regions.

The general model within the EU is for separate Objective 2 programmes for each region. Of the 71 Single Programming Documents for Objective 2 that had been approved by May 1995, all but one (Spain) concerns single regions. Finland's Objective 2 plan was the second exception to this rule.

The Danish Objective 2 programme, as in all the existing EU countries, is for the period 1994-1996. Finland and Sweden have more flexibility. Sweden decided to make their programmes for the whole period, 1995-99, while Finland chose to plan them for two years, 1995-96, after which the same process will be repeated for the 1997-99 period.

Denmark has drawn up a Single Programming Document for the whole Objective 5b area. Finland followed the same model with the exception of the Åland Islands, which has made its own Objective 5b plan[9]. Sweden submitted five separate Objective 5b programmes to the Commission.

Different cultures within different Directorate-Generals (DGs)
The negotiations for Objective 2 and 5b in Denmark shows that there are different cultures within the Commission. DG XVI (regional policy) and DG VI (agriculture) have different views on the programme work and its organisation. The Directorate-General for regional policy puts a significantly heavier emphasis on guaranteeing the regions' central role in the process than does the Directorate-General for agricultural policy. Agricultural authorities in the Member States are used to administering small restricted national aid systems. There is also a strong acceptance of this view within DG VI.

In negotiations with Finland it became clear that DG V (social policy and labour market) and DG VI, to a much higher degree than DG XVI, want to steer the programme work on the basis of their financing, i.e. from the funds, and not from the objective viewpoint as written into the provisions for EU regional policy.

Different policies for different regions or conformity before law
There is clear difference between the views of the EU Commission and the Member State on how far the special treatment of various industries should be allowed to go. DG XVI would like to see certain industries treated specially in specific regions while the national authorities are clearly against "picking winners" which would give business within a sector generally higher aid levels than others in the same region.

The ex ante indicative division of resources against effectiveness
Part of regional policy thinking, both within the EU and at home, is how resources should be divided between selected regions for their special development needs. As it is not possible at the programming stage to judge the need for resources in other than general terms, most countries have made indicative divisions of the budget framework on the basis of population. Without a given budgetary framework the regions can not put forward programme proposals with concrete measures.

An indicative resource framework does however tend to be final. When the objective programmes concern a very heterogeneous area and the annual budget is divided by measure and financial instrument per region, quite absurd situations can occur. The smallest region within Denmark's Objective 5b area (Ribe amt) has an indicative budget framework, with three measures, financed by the ERDF, of 3,850 ECU (27,338 DKK), which is to be further broken down over six years. Investment aid will receive 704 ECU (5,000 DKK) for the whole period. In the largest 5b area (Viborgs amt), the budget framework for investment aid is 1 MECU (7.2 million DKK).

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[9]Regional policy is part of the autonomous administration.

The advantage of an indicative regional break-down of the budget is that the region knows what resources it has available. The disadvantage is that there is no guarantee that the best projects within the whole objective area will be financed. Those regions that are good at implementing project operations and are first to use all their money cannot receive extra resources until it has become clear that the budget has not been fully used in other regions.

This problem is more relevant within programmes covering large heterogeneous areas with many administrative sub-regions. Increased flexibility can be achieved through not allocating the whole budgetary framework. The Swedish model, where Objective 6 sub-regions have to compete for part of the funding and the Government decides on the allocation on an annual basis, may be one way to create a more effective use of resources.

Tension surrounding the Objective 6 LFA aid

During the EU negotiations both Norway and Finland, who where under strong pressure to adapt their agricultural structure to the new common policy, used Objective 5a (agricultural structural measures) to the maximum. One of the most important measures within Objective 5a is aid to Less Favoured Areas (LFA aid). There were not many alternatives since in order to use national aid (the northerly national aid) to tackle agricultural adjustments, countries must first of all take full advantage of the Common Agricultural Policy measures (art. 141 in Finland's Treaty of Accession). Whilst the agricultural negotiators tried all they could in order to receive maximum LFA aid, it was unclear at the negotiation stage if LFA aid was also included in 5a and the total Structural Fund framework. The total expenditure of the LFA was also unclear.

When afterwards it became clear that LFA aid should be included in the framework for Objective 5a and that this would strongly reduce the scope for other development policies within Objective 6 areas, Finland tried to re-negotiate this point with the Commission. However there was no final result. If the total Objective 6 framework in all eight Regional Councils is broken down, in certain cases (municipalities in Northern Ostrobothnia) there would be no funds left for measures other than LFA.

Of the total Finnish Objective 6 contribution from the Structural Funds, 26% goes to the financing of LFA aid. In the Objective 5a programme, outside Objective 6 areas, LFA represents three quarters of all EAGGF support. This means that there will not be much left over for measures to improve the structure within the food sector and for start-up contributions for young farmers. The same tension does not exist in Sweden where agriculture's share is generally much lower.

The ABC of LFA aid:

LFA aid can be used to compensate farms that are in areas with unfavourable growing conditions for reductions in income. On the basis of its compensatory nature it lies in the border area between income support and structural policy. As LFA aid is paid to all farms with more than 3 ha. of arable land, it can even hinder structural change. LFA aid has been a part of the EU regulations for a long time and those areas that at one time had LFA status have been able to maintain it.

LFA aid can be max. 180 ECU/aid unit within the so called LFA area. Finland has decided to pay the maximum level in all the LFA areas. An aid unit is 1 ha. arable land and/or one livestock unit (basically all animals counted in cows). Within Finland's LFA area there are altogether 712,000 livestock units, of which 255,000 are within Objective 6 and 1,500,000 ha. arable land, of which 340,000 is within Objective 6. In Sweden the livestock units that can receive support number 812,000, of which 59,200 are within Objective 6 and the arable land area is 65,500 ha., of which 16,600 ha. is within Objective 6.

The EU pays 50% of LFA aid within Objective 6 and 25% outside. In Finland aid is fixed at 180 ECU/aid unit, for the whole LFA area, while in Sweden it is graded outside the Objective 6 area. The area of arable land used for fodder production is not compensated for farms that have animals. LFA is not paid for wheat, nor to a person with an income from a pension or who does not live on the farm.

Territorial thinking, but also a new dynamism

Negotiations on the use of EU Structural Funds is reminiscent of a game with several players, that are each trying to win new positions, while others defend the old. Different General Directorates within the Commission try to defend/expand their positions. DG XVI takes a more offensive position, while the General Directorate for competition policy (DG IV) is trying to diminish the room for aid policy.

There is a clear power play between DG XVI, DG V and DG VI. All three want the highest possible share of financing and suggest measures that overlap one another. The same tension is transferred to the national field, between Ministries and their responsible policy areas (regional policy, labour market and agricultural policy).

During the process, the new municipal players (counties and Regional Councils) in Finland and Sweden have, with the help of the objective programmes, tried to build up stronger positions within the national policy arena, while the Provincial State Administrations have been on the defence.

The disadvantage of this power play is that many players are more interested in their own position than in the development of the regions. The advantage of new actors entering others' fields is that it brings about new models for co-operation and vitalisation of the system.

Per capita thinking

The number of persons within a certain area is usually the measure that will influence, in a significant way, the allocation of the EU's Structural Funds. This occurs between countries just as much as within them. The Commission wants to employ the so called objective criteria for the allocation of aid and the starting point is often the population. The contribution is adjusted up or down in relation to EU countries' average production, unemployment or some other variable and is then weighted by its support area status. As there is a lack of other common and comprehensive allocation criteria, population is normally used.

There is an obvious risk that a larger share of all the contributions for regional development in the future will be steered by a ECU/capita thinking within a geography decided in Brussels. There is every reason for the Nordic countries to develop an allocation methodology that is better suited to the problems in the Nordic sparsely populated areas.

To take everything you get or to be without

When it concerns Community Initiatives, the scope for Member States' own priorities is fairly restricted. Countries can of course put forward their point of view, but it is the Commission that decides on the allocation of funding, based on its picture of Europe's problem. Important factors in this judgement are the width of these problems/phenomena (border areas, textile industry), the areas' regional policy status (Objective 1/6 weighs highly), GDP per capita and the population of the area.

A country can not only choose INTERREG and LEADER and steer the rest to Objective 5b. A country can choose not to participate in a certain Community Initiative, with the result that the country goes without the funding allocated to that initiative.

In the Autumn of 1994, before the model of how the Initiatives in the new countries would be chosen was clear, Finland and Sweden wanted to concentrate mainly on certain Initiatives, i.e. INTERREG and LEADER. Several times they heard from the Commission that the "menu of the day" does not seem to suit you, and you want to pick from the "a la carte menu". This time the problem was more one of interpretation, which was soon solved when it became clear that Finland and Sweden did not have peripheral islands as does Portugal, large areas with a textile industry like Italy, closed coal mines like Great Britain nor a steel industry like Germany. This is why the initiatives REGIS, RETEX, RECHAR and RESIDER were outside the Nordic countries European problem picture. However Finland may not either have chosen PESCA and URBAN.

URBAN, originally thought of as a tool for helping destitute and poverty pockets in Europe's large cities, did not fit in well for Finland and Sweden. However, the Initiative, which seems to have strong political support in the Commission, has been reformed to suit all types of urban policy. All member states, including the new ones, seem to be getting some URBAN programs. DG XVI (fishing) has, according to reports, pushed to get Finland and Sweden involved in PESCA, even though these countries are small fishing nations.

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