

Regional policies for remote areas in Norway

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Introduction

Norway is a country where relatively few people are spread over a large territory, geographically placed along the northwestern coastal edge of Europe. The total population is around 4.4 million and overall population density only 14 inhabitants per km². That population, however, is very unevenly distributed spatially. Cities and other urban settlements cover only 0.3% of the total land area. Most of country (about 3/4 of all its land area) is unsuitable for permanent human settlement because of high altitude or remoteness in relation to communication networks. Most human settlements are concentrated to land strips along fjords and the coast and in valleys and more fertile agricultural areas in the lowlands of southern Norway.

The population is also unevenly distributed between regions, and recent decades have brought increasing regional concentration of the population. About 40% of all municipalities have experienced an absolute population decrease since 1970. At the same time population increase in the urban centres, particularly in the Oslo area, has been substantial.

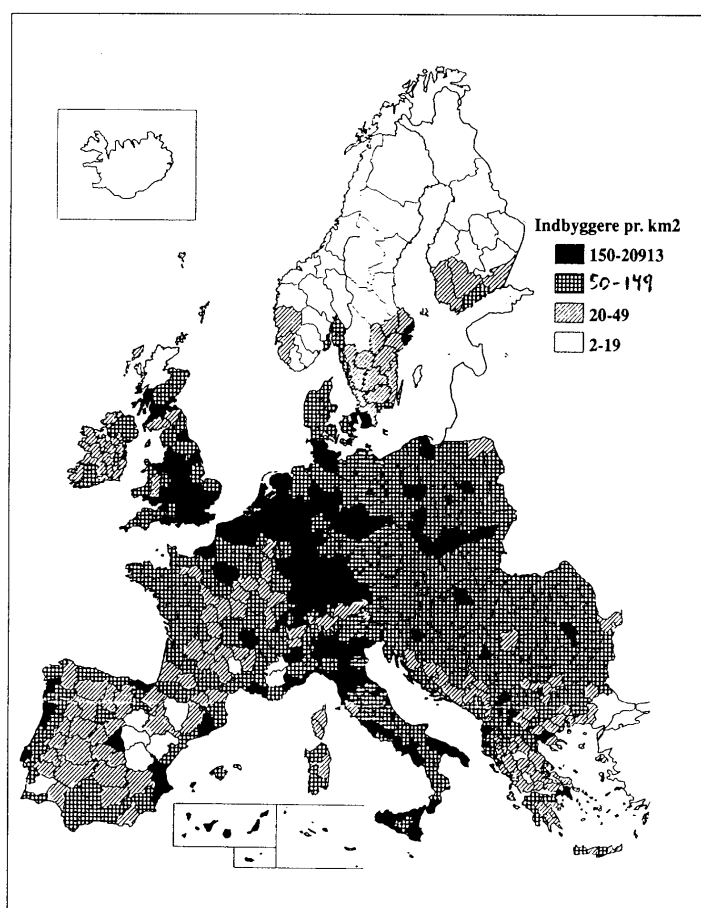
Table 1: Population and area in the EU and EFTA countries, 1995

Country	Population		Area		Pop.density pop/km ²
	1000	%	1000 km ²	%	
Iceland	267		103		3
Norway	4348		324		13
Sweden	8816		450		20
Finland	5099		338		15
Norden ex. Denmark	18530	5	1215	32	15
Denmark	5216		43		121
Belgium	10131		31		332
France	58027		552		105
Greece	10442		132		79
Ireland	3577		70		51
Italy	57248		301		190
Luxembourg	407		3		157
Netherlands	15423		42		371
Portugal	9912		92		107
Spain	39170		505		78
United Kingdom	58476		244		240
Germany	81539		357		228
Austria	8040		84		96
EU ex. Sweden, Finland	357608	93	2456	64	146
Liechtenstein	30		0,2		188
Switzerland	7021		41		170
EU + EFTA	383189	100	3712	100	103

The Nordic countries except Denmark have all large areas and small populations, with population densities of 2 inh/km² in Iceland and 13-19 in Norway, Finland and Sweden, compared to around 150 in the EU area. As shown in table 1, the Nordic countries except Denmark consists of one third of the total EFTA + EU area, while only 5% of the total population. Denmark is in this aspect more in line with the continental EU countries than with their Nordic neighbours.

Figure 1 shows the population densities on a regional level. All Denmark, as well as the capital region in the other Nordic countries, have population densities along with the rest of Europe. What is different in the Nordic countries outside Denmark is the vast areas with extremely low densities. These are called periphery areas, and have been in focus of the periphery oriented regional policy in the Nordic tradition.

Figure 1: Population per km², Europe 1990



source: NOGRAN, Nordic Council of Ministers

The challenges for the regional policy will be of a different kind in countries with great areas and small populations. The Nordic regional policy has been directed towards areas with low population density, long distances to the greater market centra, weak labour markets especially for strata of qualified specialists etc. The aim of the policy has been to slow down the centralising net-migration process, in order to prevent de-population of the remote regions. The tools have been to give special support for business in the remote areas, mainly by investment support but also by several type of operating support.

As a policy aiming to slow down an unwanted centralising tendency from the market forces, the need for such a policy is of a permanent nature. Remoteness cannot be overcome by support programmes of a limited time period. Even if the programmes may become far more successful than today, the dichotomy between centre and periphery will continue to exist. In countries with great areas and small populations, this will imply that the disadvantages of a peripheral location always will be maintained, and there will be a continuously need for firm oriented support if the political goal of a stabilising of the settlement pattern should be approached.

Partly as an effect of the regional policy programmes, but mostly as an effect of the Nordic tradition with equalising welfare programmes, the living standard in the Nordic periphery is not especially low. It is not because of poverty that the programmes are operating. Such equalising programmes are of vital importance for the settlement pattern. If we should accept poverty in the remote areas, then migration will be expected to expand. Leaving the region will then be of benefit for the migrants, but will be harmful to the political goal to slow down centralising net migration and to protect the settlement pattern.

In the continental EU countries, the regional problems will often be of a structural type. The regions lagging behind normally do not lack people, the population density will seldom be at a level comparative to the Nordic figures. The problem then lies mostly in the production structure, the modernity of the firms, the market segment etc. These problems may be of a rather heavy nature, and be followed by employment and poverty problems of a range making the Nordic regional problems to look rather minor.

To cope with such structural problems, a regional policy of a structural type is implemented. These programmes intend to support actions which may help to improve the structure, either by infrastructure investment, educational programmes, and support for modernising both the type and the operation of the industrial firms.

Due to the heavy scale of the problems, a short programming period will normally not be enough to get rid of the problems of the lagging regions. But in theory, after a period of structural change, it should be possible to create a better base so that the regions may continue on their own feet without further assistance.

Such structural programmes will have to be designed according to the type of structural problems existing in the different problem regions. Rural policy is an example of this policy type, designed for the areas with moderate urbanisation and an industrial structure where agriculture plays an important role.

With this background, it is easy to understand that the EU officials have great problems in understanding why the Nordic countries should operate regional support to areas with rather good score both on living standard indicators as well as on employment. Also, they will have problems to understand why we claim that such support must have a permanent character and also include operating support.

It adds to this confusion that the problem of de-population is rather un-known in most of the continental EU countries. Nearly all countries have a centralising population redistribution. But the population base in the net out-migration areas will normally be so high anyway that

de-population is beyond the scope. On the contrary, net out migration will often be regarded as positive also for the delivering region, as this will reduce the unbalance between the economic capacity and the burden of feeding the population.

Remote regions and rural areas are different regional concepts. As mentioned, the regional policy in Norway is directed towards remoteness. In the remote regions, we will find rural as well as urban areas. As the policy is regional more than structural, the policy instruments will be directed to urban centra as well as to rural areas within the peripheral region.

Sometimes, the distinction between rural areas and remote areas coincide. In the most central parts of Norway, the designated zone for the periphery oriented regional policy will include rural areas and exclude the urban areas. However, as we move more north, the designated zone will include more and more urban areas, as they also will have a peripheral location compared to the national centre-periphery dimension.

Regional policies and regional development

The declared aim of the state regional policy is to secure the development of employment and production in all parts of the county, in order to uphold the main structures of the settlement pattern. This policy has two distinct aspects. One aspect is to stimulate development in the regions in general. Another aspect is to give special attention and resources to regions with unfavourable conditions. Here, priority is given to non-central regions, in order to compensate for peripheral disadvantages and to avoid distortion of the settlement pattern. This part of regional policy is of a discriminating nature: policy instruments are selectively directed to those regions lying in the designated areas.

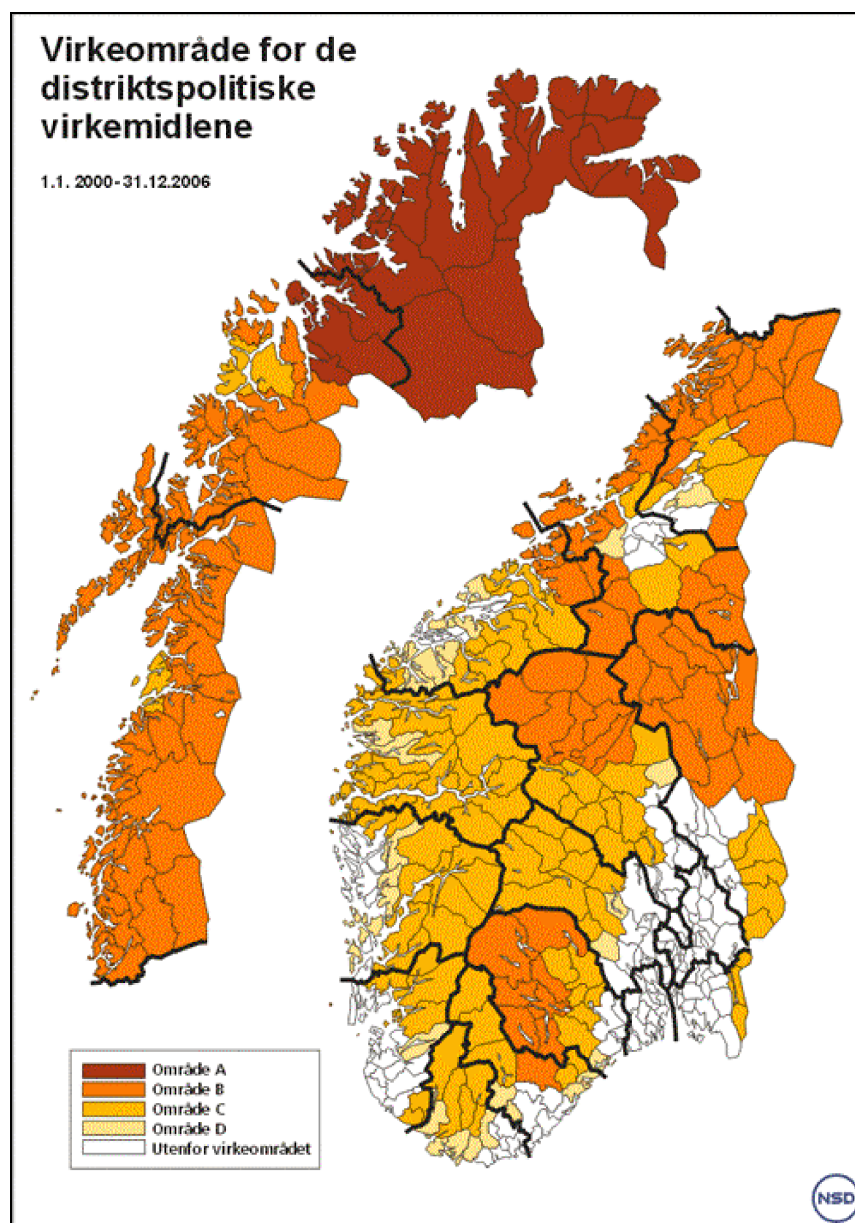
Enterprise-oriented policy instruments

The enterprise-oriented regional support is administered mainly by the State Industrial and Regional Fund (SND). SND is a governmental agency under the Ministry of Industry and Trade, and provides the funding for its various industrial support schemes, as well as the regional incentive schemes from the Ministry for Local government and Regional development (MLR). Since 1997 the State Fishery Bank has been incorporated in the SND, and since January 2000 the same is the case for the State Agricultural Bank. Thus SND now administers governmental firm-oriented schemes from four different ministries.

The main SND instruments are firm-oriented loans, guarantees and grants. In addition, SND also operates special programmes directed towards technological development, support for new entrepreneurs, and other targeted programmes on a more or less temporary basis. While the instruments funded by the Ministry of Industry and Trade are on a national scale (though they may have limitations according to firm size, etc.), most of the instruments funded by the MLR are only eligible within the regional policy designated areas. Regional investment support is granted in three zones. The maximum support ceilings are 25, 20 and 10% of the investment respectively. For SMEs, the ceilings are 35, 25 and 20%. The ceiling of 35% for SMB in zone A will be scaled down to 30% from 2002 onwards. In some areas in zone C, the ceiling may be set 5 percentage points higher for projects expected to have great regional influence. There is also a zero per cent zone, where no firm-oriented support may be granted; only indirect and municipality oriented support activities are allowed. Altogether the

supported area includes 31.5 % of the country's population. The area eligible for firm-oriented support includes 25% of the population.

Figure 2. Designated area for regional policy incentives



The designated areas are revised regularly. The criteria used are population and employment development, industrial structure and potential, as well as the integration with more central areas. In the last adjustment, implemented from the year 2000, only minor adjustments in the designated zones were made. Due to the new EU rules, adopted by the EEA, support ceilings in all zones were reduced substantially in most of the areas. According to the EEA Treaty, the EFTA Surveillance Agency (ESA) has to approve both the designated areas as well as the support ceilings.

Loans may be granted throughout the whole support area. Their purpose is to ensure credit to be available in areas regarded as having a poor credit foundation by the private credit market,

partly because an investment in the periphery offers less security than an investment in central areas due to a weaker second-hand market. If private banks are willing to give credit at all, their terms of interest and repayment will often be much less favourable than those offered in the more central areas.

Development grants are awarded for non-material development measures. These may include educational grants, start-up support, marketing, product development, and special measures to recruit women, etc., in order to strengthen the firm's ability to re-organise and modernise.

An important regional policy element of the tax system is the differentiated payroll tax paid by employers. This tax is differentiated by zone, ranging from 14.1% of wage costs in central areas to 0% in the weakest zone (North-Troms and Finnmark). The zones differ slightly from the regional support zones, as they reflect labour market differentials in addition to periphery problems. This scheme has been accepted by the ESA as a parallel to the transport support allowed in low-density EEA areas. There has been a dispute regarding the ESA contention that certain sectors should be omitted. The ESA view was accepted by the EFTA court in June 1999. The scheme was therefore altered from January 2000, and is no longer operated for resource-based industries lacking alternative location possibilities (farming, mining, hydro power plants), sectors with special support limiting EU/EEA regimes (steel, ship-building), and service sectors with international competition (international banking, road transport with more than 50 man-years, telecommunication). These sectors will have to pay the same rate as central areas. However, also for these sectors (except steel and transport), the reduced rate will still be charged up to a level where the tax differences (central minus local rate taxation) reach a threshold level set to 270 000 NOK. 95% of the employment will still be in sectors where the scheme is allowed to continue.

The zone map also had to be revised from the year 2000 onwards due to the ESA decision. Several municipalities have been moved to a higher-rated zone due to relatively good access to centres outside the zones, while other municipalities with threatened settlement levels have been moved to a lower-rated zone.

Finnmark county and 6 municipalities in northern Troms constitute a special incentive zone. They are defined as a zero-rate zone for the differentiated labour poll tax (although they also have to adapt to the new sector limitations for this scheme). This zone is exempt from the electricity consumption tax, and the investment tax for building and plant construction. In addition, also some household-directed incentives are used. Inhabitants of the zone do not pay state tax on personal income, and they have a special nominal downscaling of the income before income taxation is applied. In order to secure a sufficient supply of skilled personnel, graduate students living and working in the area are given a yearly percentage reduction of their study loans for each year they work within the zone.

Development programmes, county and municipality support

MLR allocates support for local industrial development administered through the counties and municipalities in order to stimulate industrial development and basic physical infrastructure investments. Municipalities within the support area (including those in the 0% zone) may receive state allocations for industrial funds, which may be used both for enterprise incentives and public activities. Municipalities with a one-sided industrial structure may get grants for

extraordinary restructuring funds to create new employment (for example, in cases where the principal local industry closes down).

A Rural Development Fund is intended to stimulate industrial activities outside the larger towns and urban areas. The aim is to diversify the economy and make rural communities less dependent on agricultural employment.

Special problems can be tackled through more specific programmes. Such programmes, for instance, were established to handle the structural problems generated from closures of state manufacturing plants in the Rana and South Varanger district, and to promote restructuring in Inner Finnmark where the reindeer industry is operating at a level far above a sustainable level.

Special funding is allocated from MLR to peripheral areas with a declining population base. The counties distribute these funds to the municipalities concerned, and the Regional Development Plan describes both the area selected as well as the way funding is to be used.

The counties are to draw up yearly Regional Development Plans, describing the use of the different types of regional development funding. Only after MLR accepts such plans are the MLR allocations made available.

Regional firm-oriented support schemes administered through SND are also included in the Regional Development Plans drawn up by the counties. It is assumed that the county board of the local SND office will co-ordinate the county strategies with SND activities.

How do these two planning instruments relate to one another? The four year plans, drawn up in accordance with the Planning and Building Act and administered at central level by the Ministry of Environment, set the general framework, while the yearly Regional Development Plans confirmed by MLR can be regarded as an operative adaptation within the general plan.

Other policy elements influencing regional development

To a greater or lesser extent, most policy actions will have some impact on regional development. To ensure that such regional impacts are considered, all proposals of public actions where regional impacts are to be expected, are to be analysed for possible regional effects before decisions are taken. This rule is, however, restricted to those regional effects influencing the balance between central and peripheral parts of the country.

The intention of the general financial transfers to the local governments is to allocate lump sums where the local governments themselves distribute the funds between the different subsectors. These transfers are to a certain extent based on an indicator system where allocation points are given based on demographic figures (both total population as well number of children, school-age population and the elderly). Also, special indicators are set up to give priorities to smaller municipalities with low local tax income, as well as for counties and municipalities in northern Norway. The state decides the maximum rates for local taxation. This income transfer system ensures remote areas a greater share of the resources than a local-tax-based system alone would generate. The last revision of the system in 1997 followed a proposal made in NOU 1996:1, which also gives a detailed description of the system.

Norwegian regional policy in a EU perspective

The Norwegian regional policy instruments are formally and informally affected by the EU policy. The formal influence is through the EEA Treaty, under which EU competition rules regulating state aid programmes also are adapted for the EEA territory. Mutual communication, learning from neighbouring countries and voluntary harmonisation act as informal influences where the decision power remains at national level.

The EEA Treaty contains the same rules regarding state aid as do the EU treaties. Aid to firms which influences competition between countries is generally not accepted. However, support can be given to smaller firms, as a part of the industrial SME policy, and to regions designated as target areas under national regional policy. Here, the EEA authorities (the EU Commission for the EU members and the ESA for the EFTA members) must approve support schemes and the support level should be within limits prescribed in the regulations.

All the support schemes mentioned above have been approved by the ESA through these procedures. In general, they are in line with the system operated before the EEA treaty became operative in 1994, although some adjustments were required. Ceilings for investment support had to be scaled down gradually, in total by 15 percentage points for non-SMEs in all zones, and by 5-15 percentage points for SMEs. A planned expansion of zone B to cover island communities with a threatened population base was not accepted. As mentioned, certain sectors now have to be omitted from the scheme of differentiated labour payroll tax.

The most important effect of the EEA regulations has been to internationalise the procedures for revising regional policy schemes. Only regions with per capita GDP substantially below the national average, and regions with a population density below 12 per km², are now accepted as designated areas. Operational support is normally not allowed. The transport support directive of June 1994, however, legalises specified types of operational support in the low density areas, and it is through a flexible interpretation of this directive that the differentiated labour payroll tax was accepted for most sectors.

ESA approvals are given for limited time intervals, and will be regularly adjusted. This is not a new phenomenon in itself, as the schemes also were regularly revised on the national level before 1994. One new aspect, however, is the long-term stated objective of the EU Guidelines on regional firm-oriented support (adopted also for the EEA) to gradually reduce support levels.

The EEA treaty also influences some regional policy elements outside the MLR programmes. Trade regulations for agricultural-based products have been gradually revised. The effect is a lowering of subsidies to agriculture which may have a negative effect on employment and settlement in marginal areas. The public sector must also comply with the EEA rules on free competition for procurement, including building contracts where the contract level is above certain limits. This rule has challenged the style of using local government undertakings to stimulate local industrial activity.

The periphery oriented policy: from consensus and growth to dispute and stagnation

The specific periphery policy as we know it today was formulated in the early post-war years.

This is partly connected to a more ambitious relationship to politics in general. Norway and Finland in particular were at the same time faced with the task of rebuilding the country with scarce resources, which required fairly detailed public management of important material balances.

Apart from these rebuilding policy aspects, the main trend of the post war regional policy emphasised national economic growth, mainly based on heavy manufacturing industries. High priority goals in the economic policy were to develop the towns as service and industrial centres. The primary industries should be made more effective, both for economic reasons and in order to release labour to the manufacturing and service sectors.

Such a policy would give rise to regional imbalances. The manufacturing industry was over-represented in central regions, or located in separate manufacture communities. There were also strong growth in other centre activities, not least within the public administration. Then, the pressure to establish a regional policy came partly from areas which experienced a high level of out migration, feeling that they were not receiving their share of the benefits from the national economic growth. Also, some in migration centra got congestion problems, with price increases and shortage of housing, infrastructure, raw materials, etc.

This merging of the goals for the national economy with those of the regional policy is an essential factor to explain both the almost undisputed status of the periphery oriented regional policy and its problems in recent times. The policy was designed during a period of optimism for the economy, with steadily more to distribute, but where unplanned growth could easily cause overheating problems in central regions.

During the 1980s the economic development became problematic also in some regions outside the areas prioritised in the regional policy, and towards the end of the decade there were clear tendencies of stagnation and employment problems. The situation was no longer one of stable economic growth, to be distributed by the regional policy. Nor were there any longer clear overheating problems in central areas. Thus important pillars of the earlier regional policy had disappeared.

An aspect of the new pattern of problems was that serious employment difficulties arose in several of the heavy industrial regions outside the designated areas of the regional policy incentives. Problems of this kind had also been experienced before (in the 1970s), but then it was mainly individual enterprises that were affected. Now it was (often central) regions who experienced structural problems as a result of industrial recession.

Problems of this nature have to some extent led to a redefinition of the geographical profile of the regional policy. They have also led to a new debate on the legitimacy of the regional policy. This has implied, not the least, that the attention of the authorities had to be extended to include several problem areas, where the problem of unemployment as such is just as high on the agenda as regional imbalance.

Increased internationalisation (both in reality through more extensive international trade, and institutionally through increasing adjustment of regulations) has led to a redirection of the political focus towards the country's ability to compete on the international market. In this perspective, it would easily appear unreasonable to try to hamper the growth of the centres, as many of the firms best equipped to compete internationally are located here. The result is a

steadily growing attempt to develop an urban policy, where the large centres are given better opportunities to develop their potential to meet stronger international competition.

The new orientation is taking place parallel with a continuation of the traditional regional policy directed towards peripheral areas, but will affect the strength of the regional policy, see table 2. It will also affect to what extent and in what way the other political sectors take regional policy considerations into account. The arrangement of public services, development of infrastructure, transfers from the State to local authorities, scope and profile of State owned production etc. will all be influenced by the change towards a more centre-oriented political profile, with less priority to peripheral areas.

Table 2. Loans, guaranties and grants channelled through the regional incentives for private firm investments. Fixed 1988 prices, mill. NOK

	1994	1995	1996	1997	1998	1999
loans	564	511	425	487	308	477
guaranties	115	55	53			
grants	1200	970	896	725	657	743
sum	1880	1536	1374	1212	965	1220

The regional policy of today is exposed to growing political challenges. To some extent, other problem areas are receiving high political priority, where the pattern of problems in central areas requires increasing attention. Moreover, the ongoing centralising migration stream has led to an increasingly higher share of the population living outside the target areas for the regional policy, and this demographic fact weakens the political support for a policy favouring peripheral regions.

At the same time, the traditional disadvantages for the peripheral areas are continuing, and even accelerating as the market competition are strengthening. It is therefore a difficult political task to make major changes in the rules for the regional policy.

The above description applies primarily to the explicit regional policy, that is the policy administered by the regional policy authorities, and where the instruments used are thus explicitly justified by regional policy considerations. However, as mentioned above, regional affiliation is very strong in the sparsely populated and geographically large Nordic countries, and the political thinking that gave rise to the regional policy had strong influence on other areas of politics as well.

A tentative quantification from 1990 indicate that the explicit regional policy accounted for only up to 5-10% of the total public periphery oriented incentives. The remainder (90% or more) has been conducted by more or less explicit periphery priorities within other political instruments. When the political situation faces new challenges, this part will often seems to be more vulnerable, as the explicit regional policy is more tied up by political decisions than the implicit part of the regional policy. I would guess that now, the explicit policy will account for about half of the total.