

THE RURAL AND REGIONAL POLICY OF NORWAY

Institutions, development features and current instruments

Elisabeth Angell • Yngve Flo • Gro Marit Grimsrud



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Preface

The following report was prepared by Uni Research Rokkansenteret on assignment from the Norwegian Ministry of Local Government and Modernisation. The Ministry has requested a review of regional policy instruments, with a focus on measures directed at weak rural areas. The report is a contribution to the regional policy cooperation between Norway and Latvia within the EEA financing scheme.

The report has primarily been prepared for non-Norwegian readers, which means the authors have given a rudimentary presentation of the most important historical and institutional settings for the policy. Chapter 1 of the report defines and outlines some of the main characteristics of the emergence of Norwegian rural and regional policy, with special attention given to the most important institutions. In chapter 2 of the report, we outline patterns of settlement and aspects of regional development in recent time, while chapter 3 is a review of some of the most relevant rural and regional policy instruments.

The report is written by Elisabeth Angell (chapter 3), Yngve Flo (chapter 1) and Gro Marit Grimsrud (chapter 2). Jørgen Hatløy has translated chapter 1 from Norwegian to English. We would like to thank the Ministry of Local Government and Modernisation for the assignment and Mr. Arve Cato Skjerpen for useful cooperation throughout the project.

Bergen, August 2016.

Gro Marit Grimsrud

Project leader

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1. Historical and institutional settings for rural and regional policy

1.1 Defining the policy fields, historical background

When comparing policies across national borders, it is important to keep in mind that they have emerged and been formed within different historical, geographical and social contexts, and within differing institutional frameworks. In Norway, public policy that aims to strengthen the living conditions in various geographical areas is generally known as *distriktpolitikk* (litt. 'district policy', but is most often translated to 'rural policy') or *regionalpolitikk* ('regional policy'). Rural policy is the older of the two, and its origin is usually dated to the years around 1950 when extraordinary measures were taken to rebuild regions and settlements heavily damaged during the war – particularly in the northern part of the Norway.¹ Starting out with various ad hoc measures, rural policy became more explicit in the 1960s. By then, the policy also included measures supporting geographical areas that had not been damaged during the war, which nevertheless were reliant on governmental support to sustain social and economic development. Institutions were established for the rural and regional policies (see below), making this political field permanent and important. The 1970s are often referred to as a golden age of rural policy, especially since remarkably many new measures were implemented to strengthen public services in rural districts during this decade.²

The 1960s saw the breakthrough of regional policy, which – unlike rural policy – sought to strengthen all parts of the country, including urban areas. The breakthrough of regional policy is often linked to the first general Planning and Building Act being passed in 1965, with the establishment of departments for physical planning and development in all Norwegian counties.

¹ The domestic material damages after The 2nd World War was largest in Northern Norway, where the German occupying forces made use of the scorched earth policy during their retreat in the autumn of 1944.

² White Paper no. 13, 2012-13.

The respective policy fields were first defined in a White Paper 50 years ago.

‘District policy’ was then described as ‘a collective term for various official measures designed to promote economic development and to improve living standards in areas with weak and vulnerable conditions for economic activity and poorly developed

‘While it is common to make a conceptual distinction between *regional* and *rural* policy, these concepts are in fact connected. Unambiguous definitions may not exist, but in general, rural policy aims to compensate for differences arising from low population density, large distances and small local markets, in addition to other factors affecting growth and development that are distinct from those in the more central areas. The importance of these goals lies in ensuring an equal division of welfare and realising the potential for value creation potential in rural areas. Regional policy encompasses all parts of the country, and aims to stimulate both regional development and regional distribution. Rural policy is therefore considered to be part of regional policy. An important aspect of regional policy is ensuring that policies are suited to the challenges and assets of the each region.’

Norwegian Ministry of Local Government and Modernisation, June 2015
(<https://www.regjeringen.no/no/tema/kommuner-og-regioner/regional--og-distriktpolitikk/om-regionalpolitikken/about-regional-policy/id2425726/>)

public service’. ‘Regional policy’ was defined as «principal guidelines for the public sector’s collective influence on localisation and settlement development, and for processing the specific problems this development raises». ³ This understanding of what these terms encompass is also relevant today, even though the wording has changed somewhat (see framed text).

Despite the common view that rural policy is a part of regional policy, it is more suitable to describe the two political fields as interwoven, and in many ways mutually dependent. This is manifested in the fact that the two are often merged into a single concept, *rural and regional policy*. In this report we will mainly use this expression, even though we – through the focus on measures aimed at the weaker rural areas – thematically are closest to the understanding of rural policy.

After the distinction was first used in a White Paper from 1997,⁴ it has become common to distinguish between *narrow* and *wide* rural and regional policy. ‘Narrow’ policy takes explicit and direct aim at cultivating growth and value creation in certain (rural) geographic areas, and the measures are thus designed with this specific goal in mind. A ‘wide’ rural and regional policy is a term used for all policies with consequences or implications for the living conditions and development of rural areas and regions. The goals of the wide policies are different and often tied to varying forms of public services. Examples are health policy or defence policy, which through decisions made in connection with localisation and sizing of hospitals and military garrisons, can be read as expressions of rural and regional policy in the

³ White Paper no. 87, 1966-67.

⁴ White Paper no. 31, 1996-97.

wider term, although the primary political goals are linked to public health and national defence.

It being possible to argue that almost all public policy in Norway has rural or regional political consequences or implications, it is necessary to add more distinctions for the policy to be categorised as (wide) rural and regional policy. One distinction is that policy makers have to be *aware* of the rural and regional political aspects of the policies, and *knowingly* make use of measures that aim also to fulfil these types of goals. The Ministry of Local Government and Modernisation currently view policy made in other political fields as expressions of rural and regional policy only if it has rural policy goals as an explicit justification, contribute to the development of a balanced pattern of settlement and living conditions, or contribute to trigger competitiveness in various parts of the country.⁵ In other words, to include sectorial policy processes in the concept, the ministry requires active and positive contributions to the meeting of the goals of the rural and regional policy.

Rural and regional political considerations must be said to occupy a relatively strong position in Norwegian politics, across the political spectrum. As elsewhere in the egalitarian Nordic countries, reallocation and equalisation are especially important political goals. Nevertheless, it is possible to claim that in the Nordic context, Norway singles itself out in the way that the ideal of equality is closely tied to *geography*. The premise that people should move to central areas to get access to good quality public services and relevant workplaces, is thus less obvious (see below). Furthermore, it is not unusual that localisation issues – that is, where public services and jobs should be placed and which community that will benefit the most from the localisation – feature higher on the political agenda than issues linked to the content and quality of the services.

These views can be interpreted as the periphery, in terms of ideology/values and political power, holding a strong position in Norway. During the rise of the nation-state from the 1800s and onwards the sources of the ‘true and original’ Norway have always been sought in the rural communities. Furthermore, the rural regions are strongly represented in national politics through the electoral system. The people’s ‘no’ to Norwegian membership in EEC/EU and EU in the 1972 and 1994 referendums – a ‘no’ that was definitely stronger in rural areas and the periphery – is often referred to underline the periphery’s strong political position.

⁵ <https://www.regjeringen.no/no/tema/kommuner-og-regioner/regional--og-distriktpolitikk/om-regionalpolitikken/about-regional-policy/id2425726/>

The low acceptance in Norway of large regional variations in living standards and access to public services has made politics of decentralisation and allocation of resources important. In the field of transport for instance, a lot of resources have been used to establish and maintain a network of small airports without a commercial basis, and within in the field of education, colleges and universities are widely distributed and not solely found in the larger cities (see section 2.3). Above all, these values are manifested through the general municipal policy, which is the most important channel for the distribution of public services and for securing economic equality between geographical areas (see section 1.2).

Norway, as other countries, has gone through a process of centralisation and urbanisation. While it has varied in strength over time, it has nevertheless let itself be slowed down and controlled. There has been broad political support for the main goals of the rural and regional policy, including the ambition to maintain settlement in all parts of the country (see next paragraph). Political disagreement has usually been limited to specific measures; for example the measures put in place in the 1970s to prevent and slow down business establishment in central areas (discontinued in connection with the liberalisation in the 1980s). Furthermore, the strong Norwegian state finances – mainly a result of large petroleum revenues of the 1970s – have given good conditions upon which to meet rural policy goals.

Norwegian rural and regional policy has gone through substantial changes over the last two generations, both in terms of motivation, goals and measures. The political field was closely tied to public industrialisation policy from the 1950s, when the task of raising capital was of key importance. The connection to industrial policy was later played down, and more attention was given to development of communities as a whole, through differentiated measures. During the first decades after 1945, it was seen as a necessity, and as something positive both for the individual and the society as a whole, that people moved to where work could be found. As late as 1972, a White Paper stated that it was *not* a goal unto itself to ‘*keep a certain pattern of settlement*’, and that it was the ‘*population’s wellbeing which should guide future settlement patterns*’. However, even back then this mind-set was challenged – and in all future papers of this sort, it was deemed as important to protect ‘*the main features of the settlement pattern*’⁶. Thus, the question of how to address the demographic and economic challenges in small, vulnerable communities is frequently on the political agenda.

⁶ KAD 1998, s. 132; quote from White Paper no. 27, 1972.

The change from focusing on *exogenous* to *endogenous* development strategies can be emphasised as an important development within Norwegian rural and regional policy. This means that the policy is less shaped by direct involvement from ‘above’, and more focused on the capabilities and willingness of communities and regions to base their development on the physical, human and intangible resources that are indigenous to that locality. An important aspect of the endogenous approach is that it should be based on local participation in its design and implementation and, thus, engendering a feeling of ownership and commitment to development the locality in accordance with local wishes. This means that local and regional self-governed bodies, in close cooperation with local businesses and other local and regional public and private stakeholders, have become very important stakeholders in, and arenas for, realisation of rural and regional policy goals.

From the beginning, rural and regional policy unfolded mainly within the Norwegian context, but increasingly processes of internationalisation have influenced the field. International competition has become a more important premise; the same goes for different forms for international agreements and legal obligations (for example the EEA Agreement, to which Norway has been tied since 1994). Furthermore, the policymaking in itself benefits from inspiration and knowledge from international arenas.

1.2 The institutional framework – key general features

Below we would like to outline the institutional framework for Norwegian rural and regional policy. We will start by introducing some fundamental principles in the Norwegian government system – principles which are crucial to understanding the setting of the policy field we study:

Ministerial Rule: The principle of *ministerial rule* holds an important position within the Norwegian government system, and gives rise to certain challenges for policy fields that span across political sectors – such as regional and rural policy. The principle means that each minister is constitutionally and politically responsible towards the parliament for the tasks and responsibilities associated with their ministry;⁷ i.e. not only ministerial operations, but also external agencies/subsidiary bodies, like directorates and regional government services, and national operations administered by municipal authorities. This entails that the Cabinet is relatively weak as a corporate body, and that cross-sectorial mechanisms are relatively

⁷ As of 2016 there are 15 ministries in Norway; however three of these have two ministers with separate areas of responsibility.

underdeveloped compared to countries not practicing ministerial rule – like our Nordic neighbours Sweden and Finland (where the term ‘ministerial rule’ indicates something principally problematic). The Prime Minister’s Office can be characterised as a secretariat for the work that goes on within the Government, and in the ministerial fellowship it is primarily the Ministry of Finance, through its responsibility for the budgetary processes and state finance, which represents something close to an ‘overarching ministry’. Nevertheless, in coalition governments – which represent the norm rather than the exception within Norwegian politics – there is usually an inner circle of key individuals (typically the prime minister and party leaders, sometimes complemented by representatives of supporting parties within the parliament). This inner circle is an arena where many of the most important decisions are made, including general policies overarching the sectorial policies.

The lack of efficient coordination mechanisms is often identified as an essential management problem within Norwegian politics. This problem has been emphasised in two major social scientific studies on the condition of power and democracy in Norway, in the 1980s and 2000s, where the state is described as ‘segmented’ and ‘fragmented’. Within the Norwegian political system itself, it is acknowledged that there are societal challenges and policy fields that do not correspond well with the ministerial organisation. The problem is mainly solved by handing ministries special coordinating mandates. For regional and rural policy, which in its ‘wide’ understanding is distinctively cross-sectorial, this mandate lies within the Ministry for Local Government and Modernisation. However, a coordinating ministry does not have the power to *instruct* other ministries, as this would oppose the division of responsibilities between ministers. Instead, it has to appeal to their willingness to cooperate. Any disagreement between ministries can be elevated to Governmental level.

The Norwegian political system is basically divided in the usual tripartite separation of power where the parliament (*Stortinget*) has the legislative, budgetary and controlling power; the King (that is, the cabinet) has the executive power and the task of implementing parliamentary resolutions; while the courts hold the judiciary power and oversee that state powers operate within the law. In parliament, operations are divided into standing committees that roughly – but not quite – correspond with the division of responsibilities within the ministries of the executive power. The «*Standing Committee on Local Government and Public Administration*» is the committee that deals with issues pertaining to regional and rural policy, as well as most of the other responsibilities under the Ministry of Local Government and Modernisation.

Local self-government: National regional and rural policy in Norway is largely exercised with the assistance of self-governed municipal authorities (i.e. municipalities and county councils; see below for clarification). The principle of local self-government was established in 1837. Despite the principle having changed significantly throughout the years, much like the municipal institutions themselves, the core itself is intact: the people have the right to govern themselves within geographically limited areas – through representative bodies. Municipal responsibilities change over time because of both national and local political change. Within a unitary government, the municipalities are subjected to state power, which means they have a set of responsibilities they are bound to perform on behalf of the national community. At the same time, municipalities have the power to take on new responsibilities of their own accord, provided they have sufficient resources, and it is in accordance with the law, and not in competition with other public institutions. This means that municipalities have the option to animate policies for their own community, even without government orders or explicit legal provisions.

At the outset, state and municipality functioned as two relatively separate spheres; however, the level of interaction has increased gradually. The endeavour to transform the municipalities into keystones of the welfare state started in the 1950s, and today the municipalities have large administrative responsibilities for instance for compulsory education, health care and care for the elderly.⁸ One might say that the principle of local self-government has been modified, as it has changed from primarily being concerned with the freedom to achieve *local* political goals to being mostly about the ability to adapt *national* policies to local conditions. The municipal system characterised by local autonomy has been replaced over time by a system of national integration, typically starting around the same time as regional and rural policy emerged as a political field.

The significant integration of municipalities into the system of national government has always been based on the so-called *generalist municipality principle* (Norw. 'generalistkommuneprinsippet'). Firstly, the principle entails that each municipality has a large set of responsibilities (both 'local' and 'national'), and is therefore the main authority in terms of prioritising and being responsible for ensuring cohesion and consistency of public policy on the local level. Secondly, the principle entails that the municipalities collectively constitute a generalist municipality *system*, where municipally oriented state legislation primarily applies to *all* municipalities,

⁸ Since 2009 municipal consumption has constituted around 14 % of GNP (the mainland only), and the municipal sector provided 19 % of national employment. Christensen, Egeberg, Lægveid og Aars 2014, s. 140, based on *Teknisk beregningsutvalg*.

regardless of their size (concerning not only public services but also for instance their responsibility for local planning). Moreover, the principle of equality between municipalities has been – given Norway’s relatively fine-meshed municipal structure (see below) – essential in ensuring public services in all parts of the country. The fiscal policy of the state has ever since its outset in the 1930s had an eye for its equalising effects, and has intended to steer resources in the direction of the smaller and poorer communities, with the aim that inhabitants in all the municipalities of Norway should enjoy equally developed public services regardless of local resource bases.

The municipal institutions in the Norwegian system are clearly subjected to state power, – as there is no constitutional⁹ or judicial protection against national ‘overriding’ or ‘micromanagement’. Furthermore, there are no neutral instances in place to safeguard municipal interests when in conflict with state authorities/bodies. State control of the municipalities takes place largely through dispositions made in a sectorial context, and is tied to the extensive responsibilities the municipalities administers on behalf of the national community. A predominant issue within the state-municipal relationship the last couple of decades, is that the state – despite the fact that most political parties express a kind of support for the idea that the municipalities should be given the freedom to animate their own policies within an economic frame – controls everything too detailed and intimate, to the detriment of local democracy. On the other hand, it is often claimed that many Norwegian municipalities are too small and lack the professional expertise to solve the tasks imposed on them. The absence of legal protection of the municipal bodies has traditionally been balanced out by the municipalities enjoying a high level of legitimacy across the political spectrum, which in turn is manifested in a culture of ‘self-restraint’ and moderation when it comes to state control over municipal matters.

Historically, the municipal bodies have been important contributors in the democratisation of Norway, and of their own accord they have developed a variety of services for instance related to health and education, which later have been implemented on a national scale. The municipalities have, as executive bodies for the state, also added value to national policies through the mobilisation of local knowledge, local involvement and local resources. The use of municipal self-government bodies to implement national policies in many fields (including rural and regional policy) can also be seen as an expression of state-recognition of the need to pursue a differentiated policy in a country where the local needs and

⁹ The principle of local self-government was first constitutionalised in Norway in March 2016, but (presumably) does not pose any judicial restrictions on national policy towards the municipalities.

conditions vary greatly, and where national standard solutions may be less accurate. Despite regular conflicts between state and municipal agents, and the relationship being of an asymmetrical nature, the relationship between state and municipality can largely be characterised as a genuine partnership based on common interests.

Governance and networking: ‘Governance’ emphasises the ways in which societal development and political processes take place through the interaction between public, private and voluntary agents. The term became widely introduced during the 1990s but the phenomenon itself is significantly older. Going far back in Norwegian history, we find many examples of cooperation across various levels and sectors and between different spheres of society in the production of public goods and services. It is nevertheless important to underline that this type of development has gathered momentum during the last couple of decades, and that local partnerships, more than singular institutions, often are the most important agents and arenas for local societal development. The municipality is, as an arena for local democracy, the supplier of public services, and as a planning body often centrally placed in these networks, which might also include business interests, other public authorities (including other municipalities – inter-municipal collaboration), organisations, education and research institutions etc. Collaborations might be of an ad hoc nature, or more formalised/institutionalised, for example through local business and growth enterprises. Regional and rural policy developed on a national level often depends on the existence of these types of local collaborations.

The Municipal Reform: In the spring of 2014, the present government initiated the Municipal Reform, intending to implement major changes in local and regional government systems. One of the goals is to create a local democracy that can «safeguard welfare services and ensure value creation and prosperity».¹⁰ The total number of municipalities is therefore likely to be significantly reduced from the current 428, and it is already announced that the total number of counties will be reduced from 19 to (approximately) 10.¹¹ At first, the reform will have implications for the county/region as a self-governed body. However, the idea is that the new regions subsequently will form a template for the restructuring of regional state administration, where at present each of the more than thirty government agencies

¹⁰ <https://www.regjeringen.no/no/tema/kommuner-og-regioner/kommunereform/id751048/>

¹¹ The current structure of Norwegian municipalities was created through a major reform undertaken mainly in 1964-65. Further changes have been made since then, but the main characteristics of the old structure have remained the same. The organisation of counties is even older; since 1866, only minor adjustments have been made. The territorial organisation of the counties generated the division of regional municipal authorities (county authorities), and was until the 1990s the key determinant for the territorial structure for regional state bodies. The counties furthermore serve as constituencies in parliamentary elections.

currently have their own, bespoke territorial structure. The outcome of the reform is currently unclear, which is partially down to the fact that the autonomous municipal authorities have been given the responsibility of considering alternatives and making agreements on the configuration of new and larger units, and in turn, that the County Governors, the Ministry and parliament will make the final decisions. Many of these decisions will not be arrived at until 2017. This report is largely based on the current institutional framework. It is however important to keep in mind that there are several major changes ahead, which eventually may have consequences for regional and rural policy.

1.3 The institutional framework – the most important/relevant institutions

A) State bodies

The Ministry of Local Government and Modernisation (KMD) has the main responsibility for the policy field on the central administrative level. It has a specific responsibility for the *preparation and execution of the narrow* rural and regional policy and a general responsibility for the *coordination of the wide* rural and regional policy (where the means and the political responsibility are distributed amongst several ministries, see the paragraph ‘Ministerial rule’ above). The tasks of the policy field are placed in the Department for Regional development, one of nine specialised departments in the Ministry.

Given the strong position of the principle of ministerial rule in Norwegian civil service, and the subsequent challenges of securing cross-sectorial cooperation, it is important to recognize which *other* fields the ministry is responsible for (i.e. in addition to the rural and regional

KMD’s responsibilities per 2016

Administration policy, modernisation, ICT policy, eGovernment
 The Planning and Building Act
 Housing and building policy
 Planning and consequential analysis based on the Planning and Building Act
 National mapping and geodata policy
 Municipal administration and economy, local self-government
 National and local/regional elections
 Rural and regional policy
 Employer policy
 Sami and minority affairs
 Building and property policy in state civil sector
 Operating and developing the County Governor offices
 Privacy protection policy
 Administrative contact for The Royal House of Norway
 Financing of political parties
 Infrastructure, security and administrative services in the Government buildings

Source: <https://www.regjeringen.no/no/dep/kmd/dep/id509/>

policy). In principle, it is easier to see policy fields in context when they are under the same ministry's responsibility. Following this logic, the organisational conditions for an overall rural and regional policy were strengthened after the change of government in 2013, when several related tasks were transferred to the KMD.¹²

The KMD (one of the biggest ministries in Norway in terms of number of employees) is now transformed into a ministry with an overall responsibility for the political-administrative infrastructure in Norway. KMD has since it was established in 1948, had the overall responsibility for the state's policy towards the municipal sector (The Department of Local Government), and from 2013, it also has the responsibility for all public (state) administration, centrally and regionally/locally (first and foremost through The Department of ICT Policy and Public Sector Reform; The Department of Government Services). This may have a lot to say for KMD's ability to follow up the state localization policy, which aims to ensure that state-jobs are helping to develop robust regional labour markets in all parts of the country. It is also significant that the overall responsibility for planning policy now is placed in the same ministry as the rural and regional policy. The Department for Planning was previously a part of the Ministry of Climate and Environment. Some considered this an administrative splitting up of 'naturally interrelated' tasks. On the ministry's 50 years anniversary in 1998, the KMD published a book in which they expressed a deep concern:

... the ability to reach rural and regional policy goals through planning and coordination [would] probably ... have been better if the responsibility of the regional planning had remained in the ministry which had the main responsibility for rural policy.¹³

In the Norwegian administrative system, a wide range of specialised agencies and bodies exists. These are instructed or authorised by one or several superior ministries (as subordinate agencies or as so-called affiliated bodies). There is also a range of regional and local government administrative bodies. Generally, the ministry is responsible for the policy-making, while the day-to-day administration is delegated to the subordinate or affiliated state bodies, or to bodies of self-government. As will be shown below, bodies with functions within the field of the 'narrow' rural and regional policy do not automatically sort administratively under the KMD. Nevertheless, these bodies might be affiliated with and, in different ways, act on assignment from the KMD. Responsibility for the organizational expression of the «broad» regional and rural policy is spread out over several ministries;

¹² The formal organisational restructuring and the establishment of the 'new' ministry were made at New Year's 2014. The previous Ministry of Government Administration, Reform and Church Affairs were (for the most part) incorporated in KMD.

¹³ KAD 1998, p. 133.

depending on what constitute the ‘natural core’ of the policy field – the Norwegian Public Roads Administration sorts under the Ministry of Communications, and so on.

Innovation Norway (Innovasjon Norge, IN) is a state agency co-owned by the state and the county councils, and an affiliated body to the KMD, with a specialised responsibility for business development in Norway. The IN was established in 2004, through a fusion of several public funds, banks and financing schemes, some of them deep-rooted in history. One of these was the Norwegian Regional Development Fund (‘Distriktenes utbyggingsfond’, DU), established in 1961. Its purpose was to take measures to secure more, enduring and profitable jobs in districts with low employment and weak labour markets, and to develop sustainable centres of growth in rural areas. The DU gave direct subsidies, loans and guaranties, and remained– by far – the most important tool in Norwegian rural policy for decades. In 1993, the DU and other public funds and banks were integrated in the National Industries and District Development Fund (‘Statens nærings- og distriktsutbyggingsfond’, SND). Subsequently, the SND became a part of the IN in 2004, alongside the Norwegian Tourist Board (Norges Turistråd), the Norwegian Export Council (‘Norges Eksportråd’) and the Public Guidance Office for Inventors (‘Statens Veiledningskontor for Oppfinnere’).

Today, the IN is owned by the Ministry of Trade, Industry and Fisheries (51 %) and by Norwegian county councils (49 %), and it allocates money on behalf of the KMD, the Ministry of Agriculture and Food, the Ministry of Foreign Affairs and the County Councils. In 2014, the IN had 766 employees, and was represented in 30 countries as well as in all Norwegian counties. Through the IN, the Norwegian parliament and Norwegian county councils allocated 2.8 billion NOK (€ 296 million) to innovation and development of Norwegian enterprises and industry. With loans added, the support summed up to more than 6 billion NOK (€ 635 million).

The purpose of the IN is to create value by stimulating profitable business development throughout Norway – summed up in the slogan to *‘give local ideas global opportunities’*. The IN works with a wide range of tasks, initiatives, programs, measures and arrangements. Their mission is threefold; entrepreneurship (to secure that new businesses survive and develop); growth in businesses (to secure that businesses grow and are competitive), and facilitating innovations. The IN has seven prioritised sectors, but the priority order varies from county to county, depending on regional differences: energy and environment; health; agriculture; maritime sector; oil and gas, tourism and seafood.

Thus, rural and regional policy and measures towards rural areas constitute only one of many elements in the IN's portfolio. Still, in the public debate concerning the functionality of the IN, the organisation has often been criticised for giving too much attention to rural development policy and to the maintenance of status quo in the rural areas – and too little emphasis on innovation policy. Still, it has to be pointed out that the basic priorities are made by the respective sources of finance, through guidelines, regulations and earmarked grants.

SIVA (*'Selskapet for Industrivekst', litt. 'The company for industrial growth'*) is a state enterprise with a staff of 40, owned by the Ministry of Trade, Industry and Fisheries. It cooperates closely with the IN and the Research Council of Norway. The objective of SIVA is to create strong environments for economic growth in rural areas through innovation, in the shape of industrial gardens, knowledge parks etc. On these spots, businesses are co-located, and given better conditions for cooperation, and for professional and social bonding. An important goal is to support fresh entrepreneurs. SIVA invests in property; offices and industrial buildings, to help new businesses. SIVA has partial ownership in more than a hundred innovation companies of various sizes all over Norway, and seeks to connect them to regional, national and international innovation networks. Every year SIVA supports thousands of entrepreneurs and new businesses.

The Centre of Competence on Rural Development (*Distriktsenteret; Kompetansesenter for distriktsutvikling*) is a professionally independent administrative body, sorting under the KMD. It is located in three small towns, with a total of 25 employees. The purpose of the organisation is to inspire and support local forces for development, and contribute to state level policy formation. CCRD does not conduct research itself, but is responsible for initiating research, and for imparting and distributing knowledge based on research and local experiences. Their target groups are municipalities, county councils and other actors with political and administrative responsibility for rural development. CCRD's priority, however, is small and medium-sized municipalities, primarily – as the name indicates – in rural areas. The purpose is to strengthen the ability of the municipalities to develop attractive local communities with potentialities for growth. This implies to develop knowledge about how local communities could be made more attractive for new inhabitants, and for instance, to give rural municipalities advice on how they could develop a varied selection of housing, or how to better include new inhabitants in the local community. CCRD assist KMD and the County Governors in their work on the municipal reform.

The Research Council of Norway (NFR) is a central council for planning, initiating, coordinating and financing the Norwegian research community. It is

administratively a subject to the Ministry of Education and Research but most ministries contribute to financing its activities. The Council comprises several divisions, among them a Division for Innovation, which works to carry out the government's innovation policy plans. The research initiated and financed within the framework of both general and specialised research programs sometimes have implications, or aims, for the field of rural and regional policy. For instance, the VRI program (Programme for Regional R&D and Innovation) aims to develop innovations through creating knowledge as well as stimulating the capability of the regions to interact and innovate. A system with regional research funds was established in 2010, in connection with the Administration reform ('Forvaltningsreformen'; see elaborations under the outline of the county councils). The purpose of these funds is to promote the use of research in regional development activities in all counties.

The County Governor ('Fylkesmannen') is a traditional institution in the Norwegian civil service, dating back to 1662, and has a wide range of tasks on behalf of the central state. The institution has experienced a comprehensive organisational growth since the beginning of the 1980ies, primarily through the incorporation of several regional government agencies. In 2015, the County Governor offices had approximately 2600 employees, on a national basis. In principle, the territorial structure of the institution corresponds with the county structure, but some adjustments have been made in recent years, and some are about to be made. The number of offices will shortly be 15, and as a 'spin-off' from the municipal reform – it is to be expected that the number of offices will be about 10.

The County Governor is under the auspices of the KMD, but the offices deal with sectorial activities pertaining to 11 ministries, and 10 directorates or inspectorates. The institution has several general duties, specified through the County Governor Instruction. It has also been assigned responsibility for a number of functions (on behalf of the ministries, directorates and inspectorates), most of which can be categorised as municipally-oriented. Many Norwegian municipalities, especially in the remote rural areas, are small in relation to the demanding tasks they have been charged by the government/parliament to perform. As an adviser and provider of professional support, the county governor's office thus essentially functions as an extension of the municipal administration, and supplies competency that may be lacking or poorly developed within the municipality itself. The County Governor is the administrative appeal body and also provides legal protection for its inhabitants.

Many of the institution's functions are relevant for Norwegian rural and regional policy, both in the 'narrow' and the 'broad' meaning. Generally, the County

Governor is instructed to promote the interests of the county, and to function as an innovative force on behalf of the central state. This role has traditionally been conducted in close cooperation with bodies of local self-government. However, the last decades, it has become more important to ensure that the County Governor does not 'compete' with the local politicians in this respect. The County Governor is still an important link between central and local levels in the Norwegian political-administrative system, passing on information from the 'top' to the 'bottom', and vice versa. The County Governor should work to eliminate or minimise any detrimental effects of insufficient coordination between central government agencies on the regional level – albeit very difficult in practise, it should ensure that the state policy towards the municipalities is consistent. Regarding the rural and regional policy, the County Governor's roles as head of the regional agricultural policy and head of the regional environmental policy, are of particular relevance. The same could probably be said about the institution's responsibility for emergency planning (e.g. adaption to climate change). When it comes to land-use management, the County Governor should defend national interests as the competent regional authority on agriculture, environment, health and emergency preparedness. The County Governor controls the legality of municipal decisions under the Planning and Building Act.

B) Representative/self-governed bodies

The municipalities: Per 2016, Norway has 428 municipalities, but as mentioned, the number could decrease through the ongoing municipal reform. If this turns out to be the case, most amalgamations will be carried out at 1st January 2020. The municipalities are responsible for running three sets of tasks: *public service* (e.g. healthcare, primary and lower secondary schools, kindergartens, social services, culture, technical services), *administrative services* (e.g. execute alcohol licences, building permits etc.) – and *community development* (e.g. place promotion and development, business development, spatial planning.)¹⁴

In the municipal budgets, public services are by far the largest item. Only an average of 5 % is allocated to «housing, employment, industry»¹⁵ which is the item covering the municipality's role as a developer of society. However, there is reason to believe that a much larger part of the local political work, especially the everyday work of mayors (which in many municipalities is the only fulltime politician), revolves

¹⁴ The division is based on Christensen, Egeberg, Lægreid and Aars 2014, p. 145. Focusing on municipal 'obligations' instead of 'tasks', the KMD operates with four categories; service provision, decision-making authority, social development and democratic functions. KMD 2014.

¹⁵ Christensen, Egeberg, Lægreid and Aars 2014, p. 145.

around measures directed at facilitating for local industry and settlement. The municipality's perspective is that community development largely means to act as an «ambassador» on behalf of the local community towards the outside world, especially towards the central government. Furthermore, the aforementioned three sets of municipal tasks are not clearly delineated: as an example, well-developed public services is an effective sales point in marketing the municipality as a good place to live, which in turn can make the municipality attractive to both new people and companies. This is especially true in the smallest, rural municipalities, where the municipality organisation itself might become the lifeblood of the community: it being the largest employer, and the most important labour market for inhabitants with higher education. Furthermore, in these municipalities, the presence of other agents (businesses, organisations, etc.) able to add innovating forces to the community, is less likely.

For the municipalities, the task of being community developer is partly about initiating measures on their own accord, and partly about implementing rural and regional policy measures on the behalf of the central government, – be they of a general or a tailored/place specific nature. The latter are for municipalities that, given certain criteria, qualify for various types of grants, e.g. for investment and local development (see 3.2). In a White Paper on rural and regional policy from the previous Government (a centre–left coalition), it was emphasised that both the political and administrative leadership should work to involve themselves in, and be sure to make room for, work on local development. Local development should work to facilitate for the ability of local enthusiasts to create and implement their own initiatives, for instance through creating new networks and arenas, and carrying out political processes to support their initiatives. The recruitment of professional expertise was highlighted as a key issue for the municipalities in this respect. To achieve the goals of local development, the Planning and Building Act (renewed in 2008) was specified as an important tool. All municipalities have to develop a municipal master plan that include a 'social' section defining the targets and visions for local development, and this master plan is in turn the basis for more specific plans such as land use plans, sectorial plans and more detailed plans for specific areas. The Ministry (KMD) also emphasised that municipalities, with their knowledge of local conditions and closeness to local inhabitants and industries, work as the important primary points of contact for local companies and entrepreneurs. It was also stated that this role demands a certain expertise and systematic planning, and furthermore good cooperation with Innovation Norway, county councils, and county governors.¹⁶

¹⁶ White Paper no. 13, 2012–13, section 3.1.5 and 3.1.6.

County councils: The County Council can be described as a highly important authority in Norwegian rural and regional policy; in part through initiatives taken on its own accord, as a representative body of the county's inhabitants, and in part through the implementation of state policy. Concerning political instruments used in the *narrow* sense of rural and regional policy, KMD states: «*the majority of the funds are transferred to the county councils, which hold the responsibility for improving economic growth and regional development in their counties.*»¹⁷ The County Council's rural and regional policy functions have deep-seated historical roots; however, these functions have acquired a far more important position over the last 10–15 years.

As of 2016, Norway has 18 county councils.¹⁸ The general traits associated with municipal self-government described in chapter 1.2, largely applies for the county councils too – however with the modifications that these bodies have a narrower set of responsibilities than the municipalities, and do not have the same political standing, ideologically speaking, as municipalities. From their establishment in 1837, up until 1964, the county councils worked as a joint body for the rural municipalities within each county, as it took responsibility for typical rural issues, such as agricultural education, public transport/infrastructure and hospitals. In addition, it worked as an «equaliser» contributing to equal access to municipal services, regardless of the local resource base. As the municipalities, the county councils went through major changes in the post-war era, largely as an outcome of them becoming an instrument for national policy. The county authorities underwent two large institutional reforms. First, the 1964 reform when the city municipalities were included, and then in 1975–76, when the county council ceased to be a joint body for the municipalities, and took on a more independent institutional role: Direct elections and direct taxation were instigated, and the county politicians got to control their own administration – which previously belonged under the County Governor.

The roots of the County Council's role in rural and regional policy can be traced far back in time, especially its role as an equaliser between the municipalities. There are many examples of county councils taking on great economic risks by committing to development projects they considered vital for economic growth and development (e.g. investments in shipping lines and power plants). What we

¹⁷ <https://www.regjeringen.no/no/tema/kommuner-og-regioner/regional--og-distriktpolitikk/om-regionalpolitikken/about-regional-policy/id2425726/>

¹⁸ The capital Oslo is considered both municipality and county, and combines a portfolio of municipal and county authority responsibilities; however, Oslo is for most statistical purposes considered a municipality, not a county.

currently view as rural and regional policy, however, was developed during the decades following 1964. Upon including the cities, the county became a unified geographical area, and county politics an arena for strategic planning for the development of the county as an integrated geographical unit. Geographically based decisions and the ambition to spread public services and jobs to the weakest municipalities were important factors when county authorities put in effect transport policy, health policy and secondary education. County councils, often in cooperation with municipalities and local industries, frequently acted to ensure that national policy had a positive impact on their own county, for example in industrial policy, energy policy and transport policy. The County Council became an important planning body from the 1970s, and in many places, it was an important business developer through its management of regional/national development funds. Until the EEA-agreement in 1994, and under the then stricter regulation of the competition policy, the county councils could even intervene through the acquisition of shareholdings and thereby prevent local businesses from going bankrupt.

As with the municipalities, the county councils have been regarded mainly as service providers. The main responsibility for somatic and psychiatric healthcare (including public hospitals) was one of the tasks the county councils assumed. By 2000, healthcare alone took 2/3s of the county budget, and this meant that delivering good results on the remaining obligations and expectations was difficult. In 2002, the state undertook the responsibilities for county healthcare (except dental care), and two years later responsibilities within child- and family welfare, and care for substance abusers were also transferred to state bodies. This was in and of itself a blow to the County Council as an institution. It had already experienced problems with legitimising its existence, something that was manifested in limited public interest, low electoral participation, and demands to remove the institution, – initially proposed by the Conservative party (Høyre) and the Progress party (Fremskrittspartiet).¹⁹ However the County Council endured, despite many assuming the opposite – and during the first half of the 2000s, it changed into more of an agent for regional policy.

¹⁹ These are currently the two governing parties. Put under pressure by their ally parties in Parliament, they have had to abandon the ambition to implement the so-called «two level model” (i.e. with no regionally elected governing body, and responsibilities instead distributed between state or municipality). Instead, through the municipal reform they pursue a policy that reduces county councils /regions to around 10 – presumably with increased responsibilities (the content of which at this point is only partially specified, but which will probably mean more political instruments granted through rural and regional policy).

In fact, 'relieving' the county council of its most resource intensive responsibilities partially explains its survival,²⁰ granting it the possibility to focus more on regional development. At the same time, the County Council's role as a regional developer was strengthened through the so-called *responsibility reform* in 2003–04, and the *administrative reform* in 2010. The latter of these meant that the county councils gained a 49 % ownership of Innovation Norway (see above), and influence over the allocation of new regional research grants (see review of political measures in 3.3). Responsibilities for national highways, including connecting ferry services, were also transferred from the state.

This new focus of the County Council reflects the state's ambition to pursue a more ambitious rural and regional policy, although it also had an air of compensation associated with it: the county councils had lost important functions. Nevertheless, there was political majority to retain the institution. It was in need of something new, and the new regional policy functions it was granted, were at the time viewed as a rather weak response to the demand for filling county politics with new content.

On several occasions since the 1980s, the county level politicians have demanded that the county councils should be given the administrative responsibility for regional environmental and agricultural policy, in order to strengthen its role as a regional developer and planning authority. The appeals have been repeatedly dismissed, and the responsibilities have remained within the state appointed County Governor. A political majority has always concluded that the administration of these two policy fields must secure that important national considerations are kept, including international responsibilities, and because of this, it should not be left open to influence from regionally elected officials. Furthermore, it has since the 1970s been a premise that the County Council should avoid becoming an institution superior to, and with power over, the municipalities. Following this logic, it would be a problem if the county council were given the regional responsibilities for these policy fields, since the local responsibilities are with the municipalities.

Like the municipality, the county council exerts its responsibilities as a social developer in close cooperation with other agents in the private and public sectors. The cooperation through networks is a characteristic of the County council as a planning body. It has a considerable public planning responsibility, and has through

²⁰ Items on recent county authority budgets are not necessarily to be classified as public services or regional policy. The items (public) transportation (29 %) and regional development (8 %) most explicitly shows the County Authority as an agent of regional policy. The biggest item in the budgets is secondary education (50 %). Other items are dental care (4 %), culture (4 %), and administration (5 %). Christensen, Egeberg, Lægred and Aars 2014, p. 177.

the new Planning and Building Act of 2009 been granted more freedom to choose what types of plans it wishes to develop (up until then there was a demand that all of them developed an overall county plan; a general plan for the entire county). Many plans reach far beyond what, in a narrow sense, is considered the responsibility of the county councils, in the sense that the cooperation and collaboration from municipalities and other public and private agents, within and outside of the county, are prerequisites for the realisation of the plans. The functions of the county council are not necessarily commonly accepted, and especially in counties with larger cities conflicts do arise – because the city municipalities themselves want to be the catalyst for regional development policy, and want to assume other responsibilities that are currently with the county councils.

The Sami Parliament is a representative body for the Sami population in Norway, located predominantly in the northern parts of the country. A little over 15 000 people are listed in the Sami electoral register. The Sami Parliament was established by the state in 1989, and its influence covers a non-specified geographic area of Norwegian territory. The cooperation with equivalent bodies in Finland and Sweden (and to Russian Sami) is nevertheless tight. As with municipal bodies, the Sami Parliament administers responsibilities granted from the state, as well as self-defined responsibilities – albeit with the precondition that they should concern the entire Sami population. The Sami Parliament also has consulting functions towards the state. Moreover, The Sami Parliament serves as a conveyor of Norwegian rural and regional policy and as a community developer on its own terms. Its responsibilities span widely, and can be tied to commerce, environmental protection, cultural preservation, and marine and land resources.

2. Regional development characteristics and «the rurality index»

The rural and regional policy is partly formed in response to geographical imbalances in demographic, economic and social developments. Hence, careful monitoring is central to inform the policy makers on the progress of development trends. In this chapter, we will describe the main patterns of rural and regional development characteristics over the past decades, and as we go along, we refer to central policy strategies and measures that were used in the corresponding period. We start by describing some geographical characteristics of Norway.

2.1 The geography of Norway – pattern of settlement

Norway is a large²¹ country with a relatively small population of 5.2 million; or 16 people per km². The distances are vast. To travel by car from the southernmost point to the farthest north takes 30 hours.²² To travel between the two largest cities, Oslo in the east and Bergen on the west coast, takes seven hours. Because of the topography, with numerous high mountains and fjords, building an efficient infrastructure of roads and rails has been – and still is – a challenge. In addition, the climate conditions make it impossible to keep all roads open at all times during the winter. To help integrate the regions of the country, there are 52 airports dotted around the country. The state owned company, Avinor, operates 46 of them. Only a few of these are cost-effective, and the profit from these is used to subsidise the uneconomical. Travel by air is expensive, and hence the airports are not commonly used for everyday travel to work. To businesses and holiday-travellers, they are nevertheless important localisation factors. Thus, the potential for regional integration, or the enlargement of labour markets, is currently limited to a few areas in Norway.

Although we like to think of Norway as a rural country with a scattered pattern of settlement, official statistics show that just shy of 20 % live outside of «urban» settlements. Accordingly, the degree of urbanisation is just over 80 %. Compared to other Nordic countries, this figure is low. More noteworthy perhaps, is that the urbanisation of Norway happened quite late, with our neighbours Denmark and

²¹ Mainland 323 771 km² – including lakes

²² From Lista to North Cape, providing you take the short cut via Sweden; 39 hours if you stick to Norwegian roads (www.naf.no)

Sweden reaching 80 % urbanisation already in the 1960s. Norway is a relatively newly urbanised country. We believe the late urbanisation – at least partly – might have to do with the strong position of the rural and regional policy from the 1960s and onwards. From the 1990s however, we have urbanized quite rapidly.

The Norwegian definition of an urban settlement is not in accordance with what most people consider urban, as it includes densely populated areas with as few as 200 inhabitants. According to *EUs new definition*²³ of cities and urban areas, the degree of urbanisation in both Norway and Latvia is 60 %, rendering the last 40 % of our populations rural (see figure 1). Note however, that while the larger share of Latvia's urban population live in *cities*, the larger share of the Norwegian urban population live in *towns and suburbs*. This has to do with Riga housing as much as a third²⁴ of Latvia's population. While Oslo is by far the largest city in Norway, it is not home to more than 12 % of the Norwegian population.²⁵ Thus, compared to Latvia, the urban population of Norway is more evenly distributed over a wider range of relatively small urban settlements.

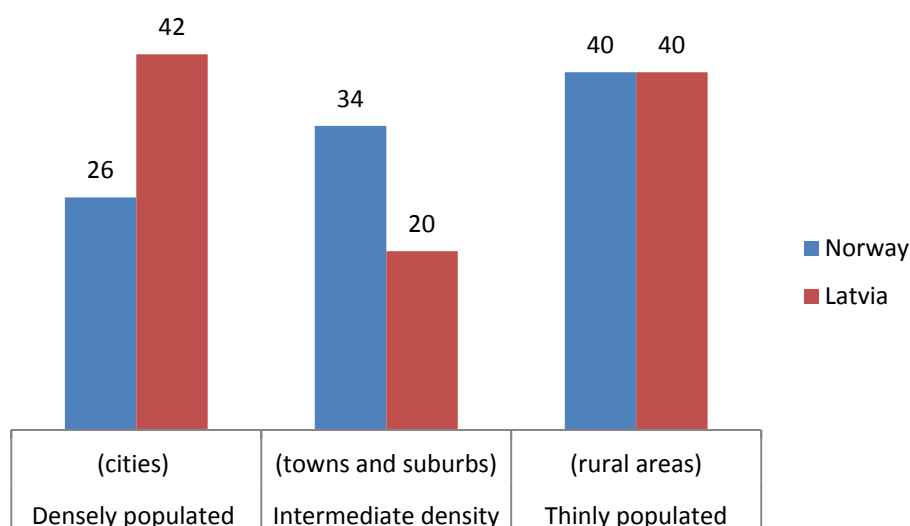


Figure 1. Share (%) of total population in different types of areas. Source: Dijkstra & Poelman 2014.

²³ Lewis Dijkstra and Hugo Poelman: *A harmonised definition of cities and rural areas: the new degree of urbanisation. Working Papers. Regional Working Paper 2014.*

²⁴ Riga's population 2015: 641 007, Latvia's population (03/2016): 1967000 (Source: Central Statistical Bureau of Latvia)

²⁵ Population of the municipality of Oslo divided by total population in Norway (2016). The urban area/city of Oslo is larger: 958 378 (2015) and holds 18 % of the population, but the EU definition is based on LAU2 units (equivalent to municipalities).

A characteristic of Norwegian towns and cities is that they are relatively small and not very densely populated. In addition, the distances between them are normally vast (Exceptions are Oslo and the surrounding area). The urban system is *monocentric* (albeit not to the same extent as Latvia) with Oslo as the primate city with 23 % of the urban population²⁶ and a disproportionately large share of the economy. The second largest city, Bergen, is only a fourth of Oslo size in terms of population. It is also noteworthy that the largest cities in Norway (those with urban centres with more than 50 000 inhabitants), form «capitals» of their own regions – thus replicating the monocentric structure of the country as a whole at the level of the region.

The small size of the urban settlements as well as the distance between settlements have for a long time hampered the formation of large and well integrated labour markets. With only a few exceptions, the local labour markets in Norway consist of *one* town (one urban centre) and surrounding areas. In other words, there are few polycentric regions. The low occurrence of (proper morphological) polycentric structures is well worth noting because some EU-promoted regional development models depart from the assumption that the population can commute to *different* cities and in that way potentially access a wider range of jobs, goods and services. Such an approach presupposes polycentric regions with centres that have well-functioning transport systems that are interconnected and well integrated. The geography of Latvia might be better suited for polycentric development than Norway's.

That said, the infrastructure and means of transportation have improved considerably since the 1970s, resulting in better opportunities to commute to work. While there were 226 *travel to work areas* (functional regions) in 1975, the number shrunk to 195 in 1988 and today there are 160 (RUT 2016). Because of the improved integration of geographical areas, *regional issues are now most often discussed on the level of the functional region (i.e. the travel to work area)* – rather than on the level of municipality – or as an urban–rural dichotomy.²⁷

²⁶ Population of Oslo *urban area* (958 378) divided by total urban population in Norway (4172804) in 2016.

²⁷ Nevertheless, official statistics are generally produced with the municipality as the unit and, the rurality index, which is an important base for determining and dimensioning the rural and regional policy measures, is also based on statistics on the municipal level. That is why we use municipality rather than functional region as the unit for our statistics in this report.

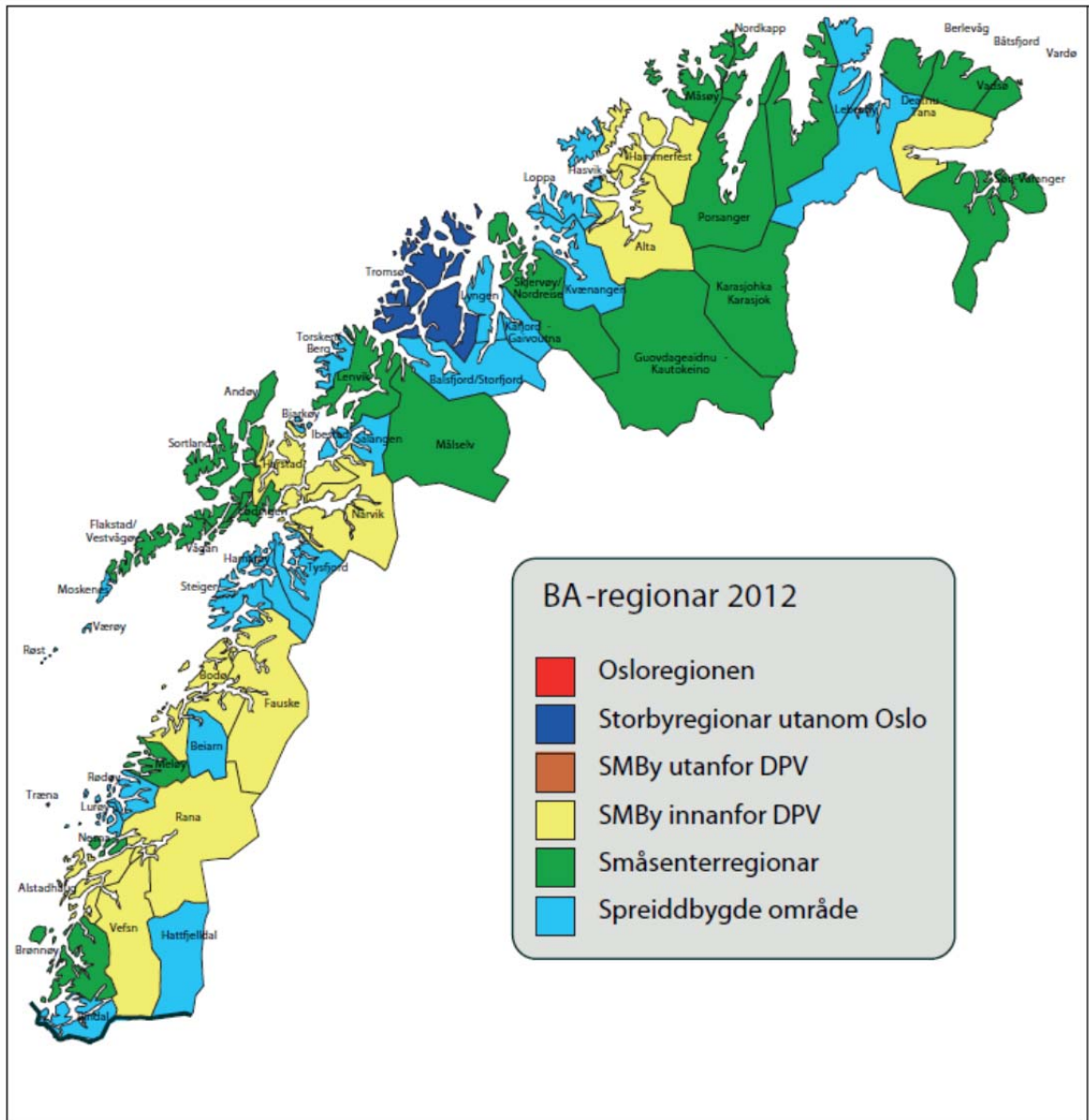
The centrality levels

Because of the challenges posed by vast distances and small towns and cities, the most important and most frequently used factors to describe regional issues are related to geographical conditions such as size of population, population density and distance. These factors are summarized in the *centrality index* which describes a municipality's location in relation to urban centres of different sizes. The *official centrality index*²⁸ is based on a classification of municipalities, which divides the municipalities into four levels of centrality according to the size of the urban settlement. Not all 428 municipalities have an urban settlement, but municipalities located within travel-to-work distance to an urban centre obtain the same centrality level as the centre. Where more than one urban centre can be reached, it is the one with the highest centrality that counts. The result is nine levels of centrality. For simplification, it is common to aggregate them to four levels –as we have done in this report (see table 1).

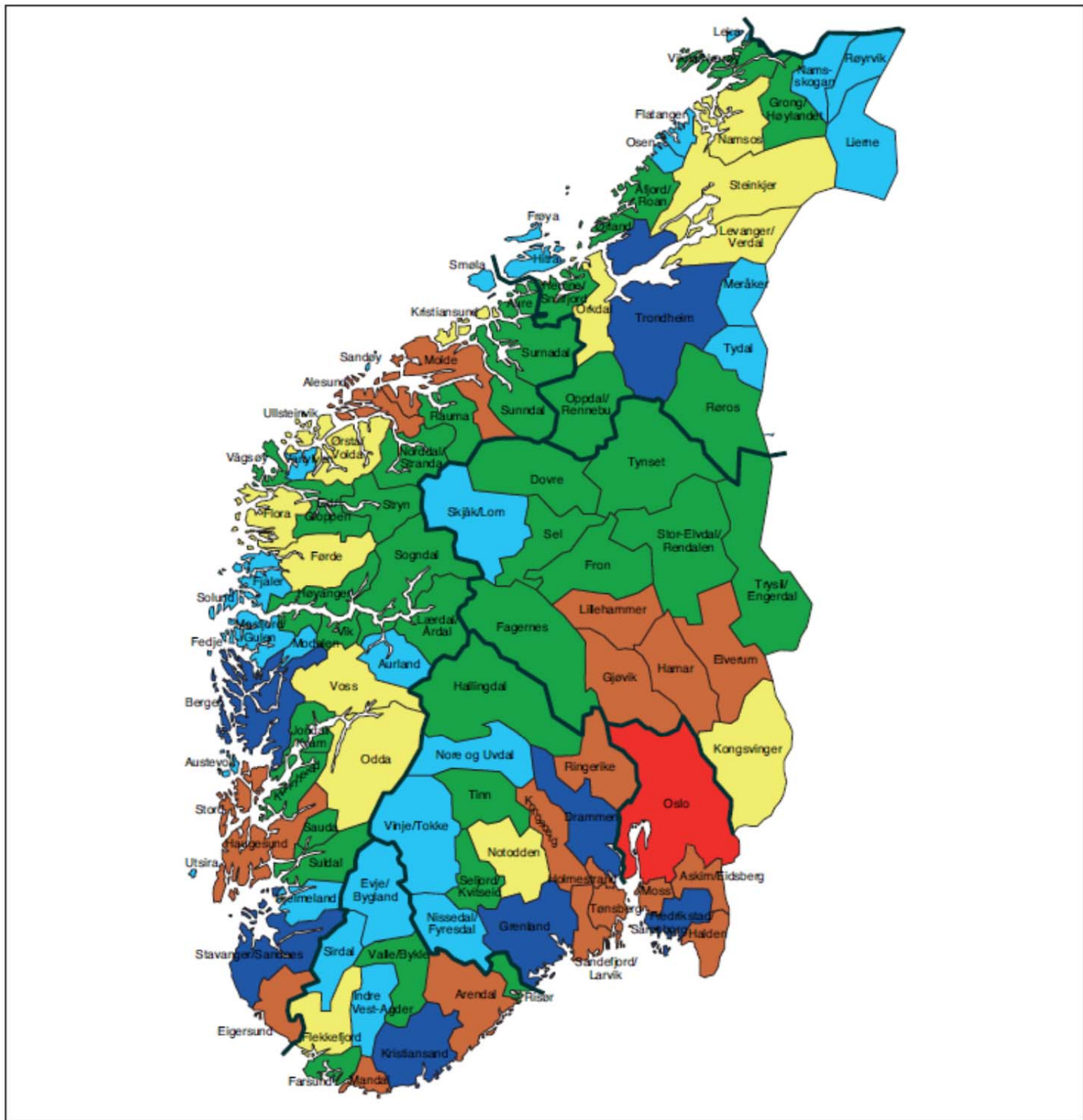
Table 1. Classification of levels of centrality. Source: Statistics Norway.

Level and label (Alternative label)	Description	Number of municipalities per 2014
Level 3: Central municipalities (Big city regions)	Municipalities that include a regional centre of at least 50 000, or are located within 75 minutes' drive (90 min. for Oslo) travel from the centre of such a settlement	149
Level 2: Fairly central municipalities (Medium city regions)	Municipalities that include an urban settlement with 15 000 to 50 000 inhabitants, or are within 60 (90 for Oslo) minutes travel from the centre of such an urban settlement	78
Level 1: Fairly remote municipalities (Small town regions):	Municipalities that include an urban settlement with 5 000 to 15 000 inhabitants, or are within 45 minutes travel from the centre of such an urban settlement	51
Level 0: Remote municipalities (Rural regions)	Municipalities that do not include any of the qualified urban settlements at level 1–3 and are more than 75 minutes (90 minutes for Oslo) travel from a regional centre, or 60 minutes travel from a level 2 urban settlement, or 45 minutes travel from a level 1 urban settlement	150

²⁸ There are other classifications of centrality in use; they can be tailored to suit the task at hand.



Map of centrality levels applied to functional regions (travel to work areas) 2012. The red area is the capital region of Oslo. Dark blue areas cover other big city regions (level 3), orange areas are small and medium city/town regions (level 2) outside of the designated area for regional aid (see chpt 3.1), yellow areas are small and medium city/town regions (level 2) inside of the designated area for regional aid. Green areas are small town regions (level 1) and turquoise areas are rural areas. The map continues on next page. Source: White paper no 13. (2012–2013)



2.2 Regional demographic trends

The population of Norway has grown steadily since the 1950s. In the immediate post-war years, the annual population growth was about 1 per cent – and was caused by high birth rates alone, as the net immigration was negative, or insignificant. As illustrated in figure 2, the birth rate fell rapidly from the late 1960s to the mid-1980s, causing the overall population growth to fall to 0.3 per cent in 1980. The growth has increased strongly since then, because of a combination of a rise in both net immigration and birth rates. From 2003/2005, the immigration soared and reached an all-time high in 2013. The rise in immigration was due to the eastward expansion of the EU, which supplied workers from Poland, Lithuania as well as from other countries, including Latvia.

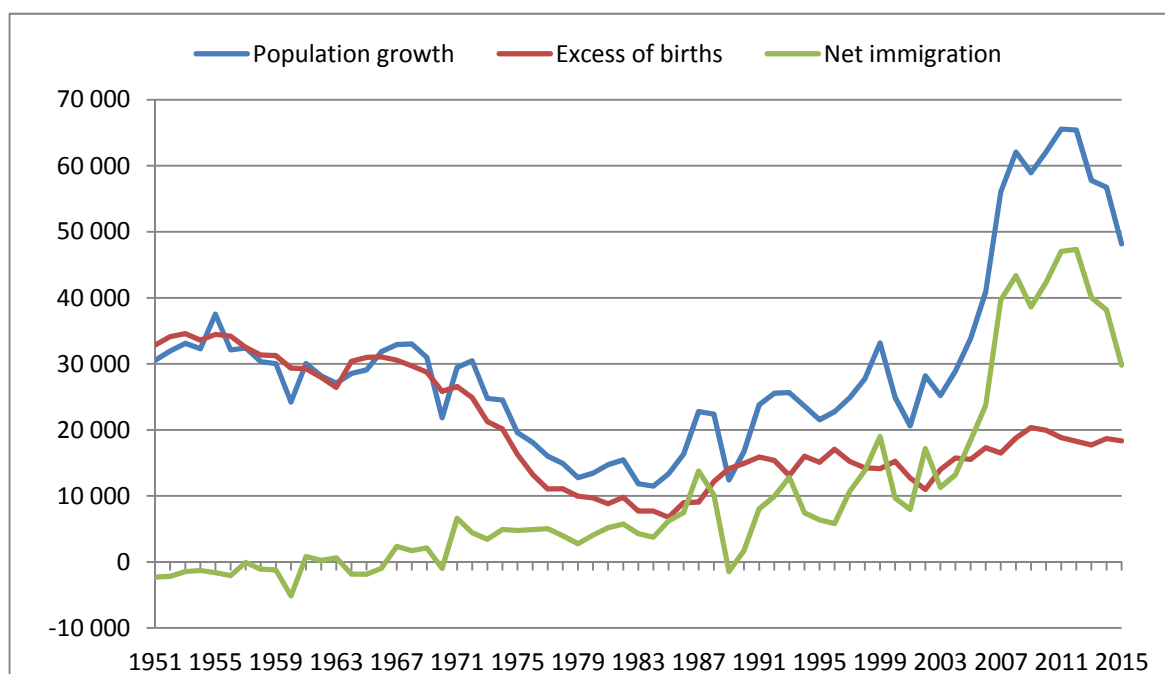


Figure 2. Population growth, excess of births and net immigration 1951–2015.
Source: SSB

While all parts of the country have experienced population growth since the 1950s, the growth has not been equally distributed. As illustrated in figure 3, the population growth has been very weak in North Norway and in The Interior (the Inland Area), with these two regions also experiencing population decline in some periods. At the other end of the scale are The Central East regions (hosting the capital) and The South Country (hosting the «oil-capital» of Stavanger). It is worth noting that the Central East Region had a flattening out of the growth in the 1970s, due to a turnaround in migration trends (see below).

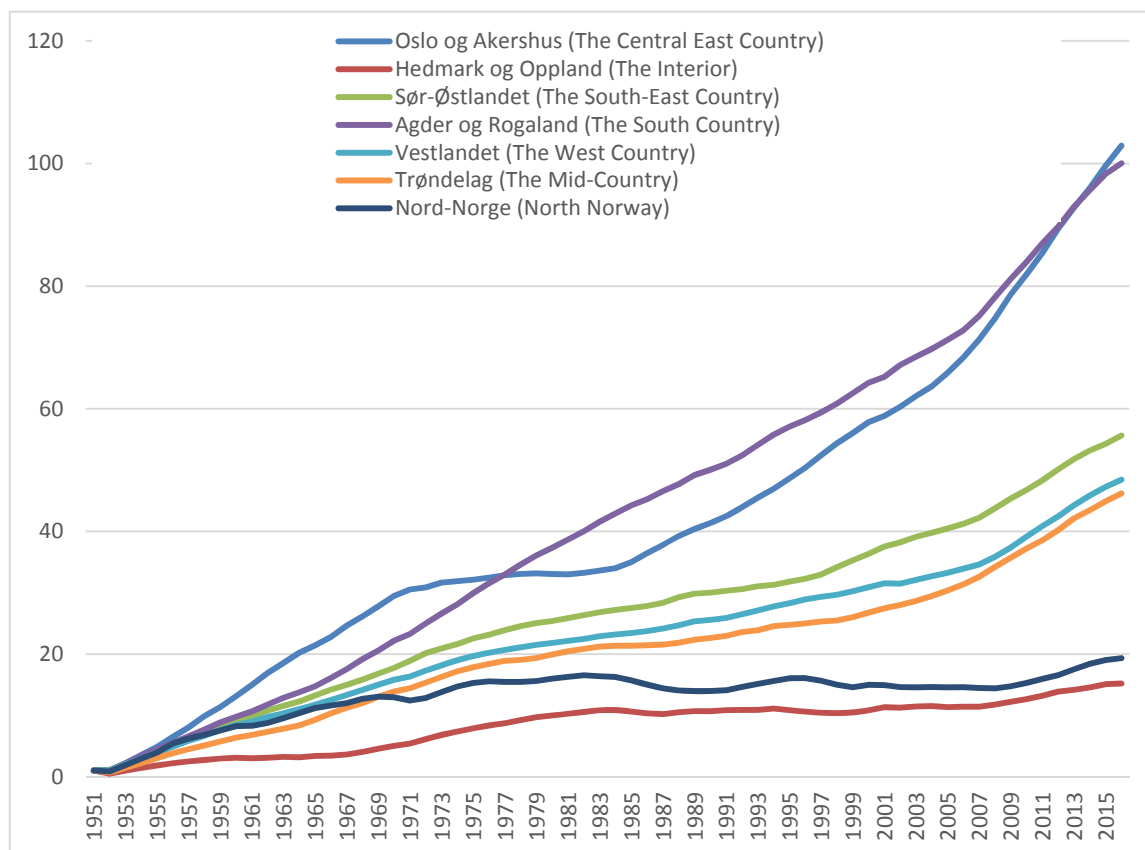


Figure 3. Relative Population Growth 1951–2016. 1951=0. Source: SSB. Computed by Uni.

Within each of these regions, there are municipalities and sub-regions that are growing while others are declining. Even North Norway has municipalities that are growing. Growth and decline seem to follow the centrality levels more than their regional location. The trend has been that the more central the municipality, the larger the growth. A simplification of this is illustrated in figure 4 where rural/small town areas throughout most of the period have periods of negative growth, while areas with medium sized towns grow moderately and the areas with the larger cities grow faster. The rural areas do however have periods of growth, the 1973–83 being the most significant. This period is often referred to as the golden age of rural policy. Then, from 2008 onwards, the rural areas once again experienced growth – this time thanks to immigration. The dotted lines in figure 4 show what the growth rates would have been without net immigration; the rural would have depopulated, the areas with medium sized towns would have stagnated and the growth in the most central large city areas would have been considerably weaker.

The rural areas just peaked above the zero-growth line in 1993/94 and in 2000 as well. The rural–urban migration normally drops when there is a reduced demand

for labour in the cities. When the demand again rises in the cities, rural–urban migration is generally higher than prior to the downturn. This is largely because young people postpone their migration to urban areas if they cannot get jobs. When the upturn comes, the cohorts that delayed their migration will take the opportunity to move, and at the same time new cohorts will be ready for the labour market and move to the cities for work. In sum, this creates more migrations than if there was no time lag.

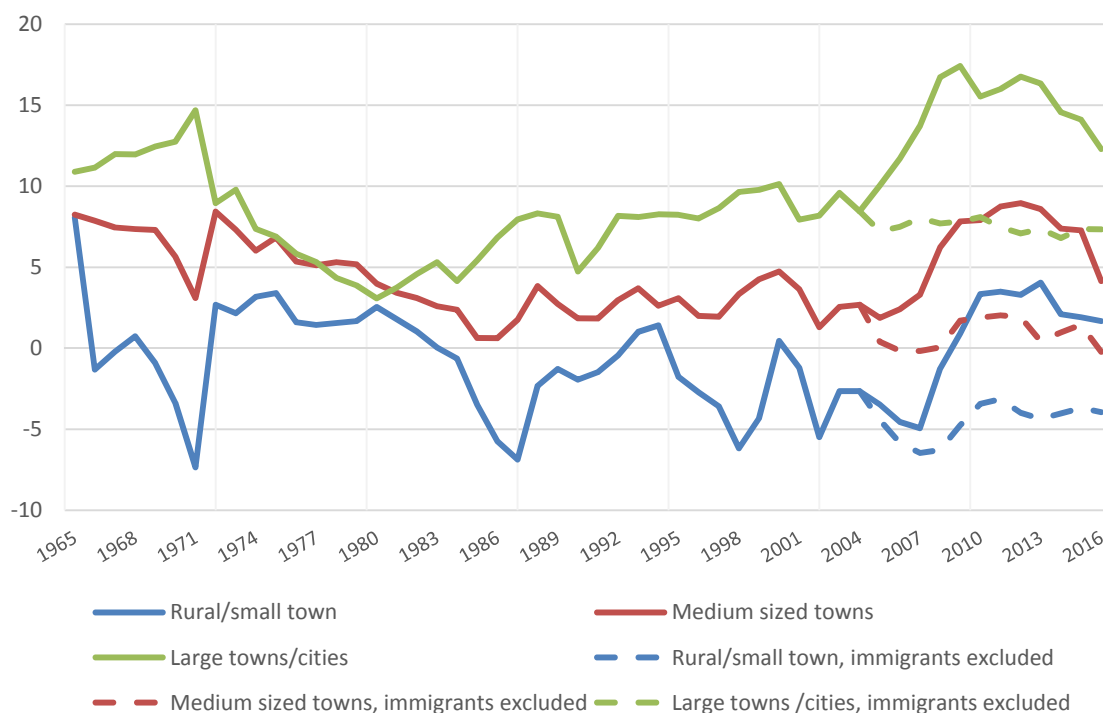
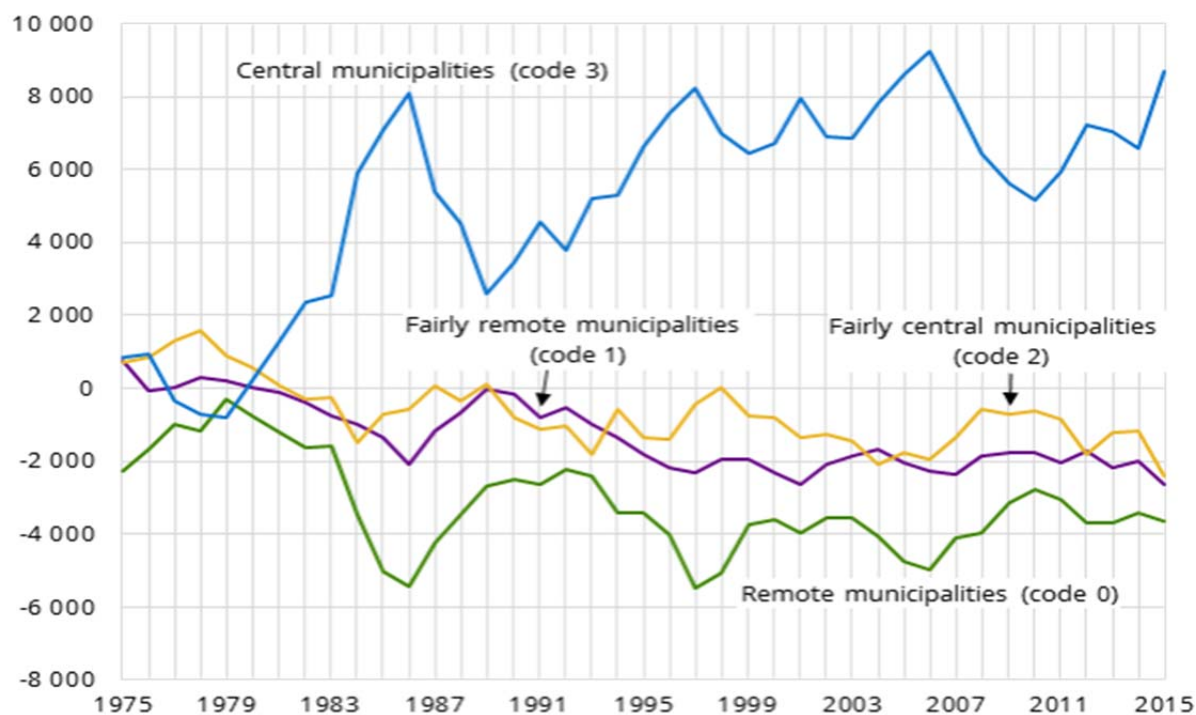


Figure 4. Annual population growth per 1000, 1965–2016 by centrality (centrality index of municipalities as of 2016). Source: Statistics Norway, computed by Uni Research.

Increased centralisation in the domestic migratory pattern

The migration balance between rural and urban areas is quite often seen as an indicator of how attractive the rural areas are, how well they are performing and as a shorthand criterion for the success of rural policy. Therefore, to make the policy instruments as efficient as possible, governmental bodies on local/regional/national level have an interest in migration research to keep an eye on the pattern and strength of migration as well as the characteristics and motives of the migrants.



Source: Statistics Norway.

Figure 5. Domestic migration. Net migration. Centrality.

While immigration has in fact contributed to population growth on all centrality levels, the domestic²⁹ pattern of migration has led to a rather strong centralisation of people. As in illustrated in figure 5, all centrality levels – except the most central – have had a migration deficit since the early 1980s. Since the turn of the century, the central municipalities have experienced a domestic migratory surplus of 115 000.

Regionally, the Central East Region and North Norway have, until the immigration wave set in, had inverted curves, caused by strong domestic out-migration from the north and in-migration in the south (figure 6).

²⁹ Migrations within the country, immigration/emigration excluded. Includes secondary movements by immigrants as long as they move within the borders of the country.

The pattern of migration has largely followed the economic fluctuations. In periods of low demand for labour in the cities, rural–urban migration has weakened. The continuous economic upturn from the mid-1990s until 2014 has strengthened the attraction of the cities. In addition, the regional differences in age structure produces excess of births in central municipalities and excess of deaths in the remote municipalities. These demographic facts make it harder than ever to sustain a dispersed pattern of settlement – as it implies a migration balance is not enough to prevent population decline in remote areas. To prevent decline there has to be a substantial turnaround of migration flows from urban to rural areas.

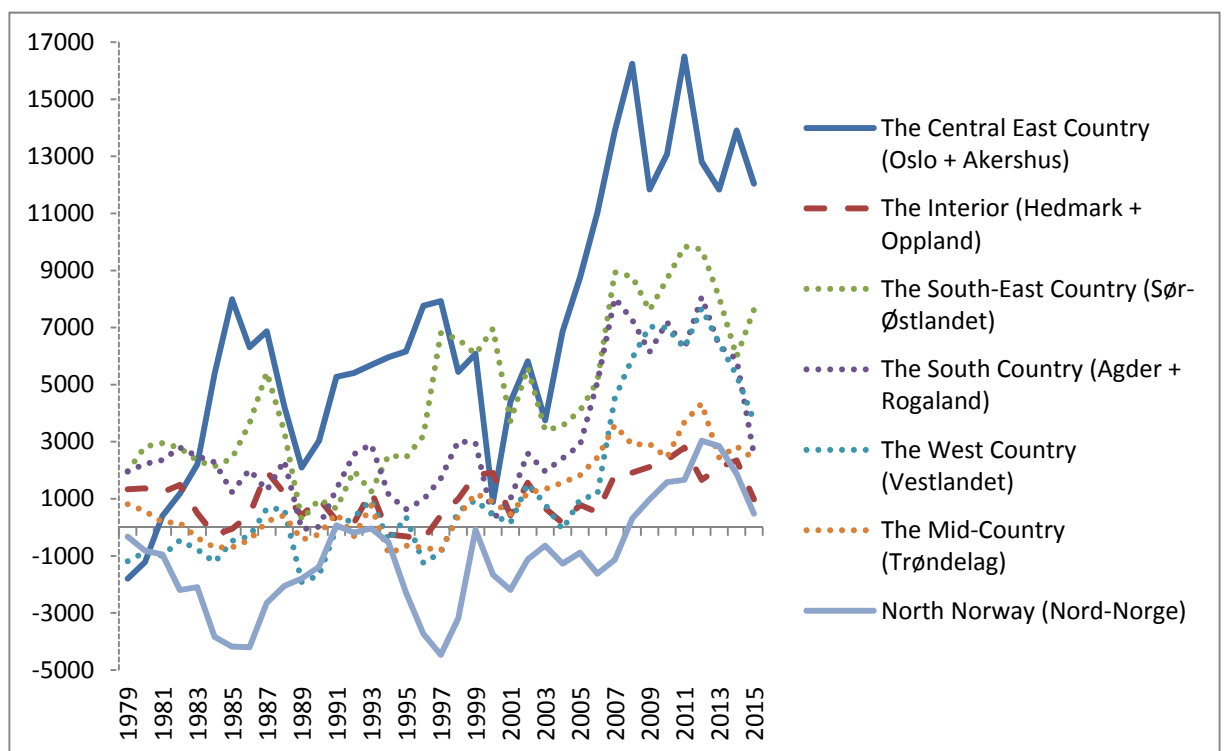


Figure 6. Net migration by region. 1979–2015. Source: SSB. (Includes both domestic and international migrations).

Characteristics of the migrants – and target groups for policy responses

The migration of people is selective. It is well known that:³⁰

- People growing up in remote/rural municipalities more often than urban youth move away from their place of birth
 - 80 % of the female cohorts, 65 % of the male cohorts leave their place of origin by the age of 40
 - Few migrants return home (15–20 % of both genders)
 - In-migration of new residents is not big enough to compensate out-migration, rendering the rural/remote municipalities with a net loss equivalent of about 26 percent of the original male cohorts and 31 per cent of the original female cohorts.
- Young adults (20–45 years) migrate more than other age groups- leaving remote areas with a shortage of people in this age group.
- Women start their migration at an earlier age and, and more often than men they leave the rural areas.
- People with high educational levels are more likely to move. Women more often than men have higher education – especially in the remote areas.

These facts have influenced the rural policy in several ways. Since the 1980s – when it became obvious that the fall in fertility rates affected the rural population numbers – the rural and regional policy has had a focus on *the deficit of women in the remote areas*. The instruments of the ‘narrow’ rural policy in the 1960s and 1970s largely targeted men as they were designed to support «male jobs» in the primary and secondary industries. Subsequently, during the 1980s, initiatives were taken to better accommodate women’s interests; including earmarked money from the Rural Development Fund to projects or firms which were run by women or which would benefit the employment of women, initiatives to mobilise female entrepreneurs and special entrepreneurial courses for women. In addition, there

³⁰ The figures and facts come from *the longitudinal migration history set*, in which the migrations of all residents (since 1964) living in Norway are recorded. Cf. Publications (in Norwegian) by Kjetil Sørli (NIBR) and Grimsrud (2011b) (in English).

was a growing awareness that to attract women to remote areas, jobs were not enough – there was also a need for kindergartens and other services.

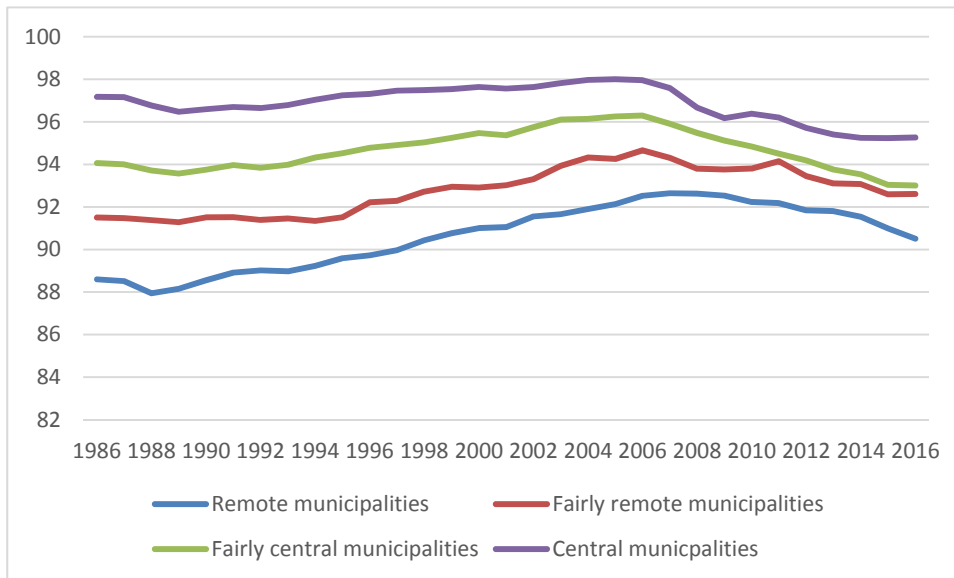


Figure 7. Number of women per 100 men, 18–49 years. 1986–2016. Source SSB, computed by Uni Research. The downward trend from 2006 is caused by immigration, with the larger share of labour immigrants being male.

In the 1990s, the specifically women oriented policy started to meet resistance, partly from women who thought it was a degrading of their gender. In fact, there were also signs that gender balance was improving in the remote areas in this period (see figure 8). The policy rhetoric changed from woman friendly to family friendly, – nevertheless, the purpose is the same: to provide a basis for more births in the rural areas. Official documents from this period state that remote areas should make an effort to *attract both men and women in all phases of life*.³¹ In practise, however, it was clear that the target demographic was young adults (20–45 years); a life-phase in which people are likely to have small children. Thus, the late 90s and 2000s saw numerous projects all over the country designed to make and, not least, promote the rural areas as ideal places in which to raise children. The focus was thus on the availability of fresh air, natural amenities and plenty of room for children to roam, absence of crime, safety, open society where everybody knows their neighbours, etc. These projects have been initiated and implemented at the local level – in tune with the overall change from top–down to bottom–up

³¹ https://www.regjeringen.no/no/dokumenter/utvikling_av_robuste_samfunn_i/id232120/ A leaflet about the government's rural and regional policy. «Creating robust regions all over the country» by Minister Sylvia Brustad.

based policies in this period. Critics claim these projects have been too keen on promoting the rural as idyllic places where traditional gender roles prevail, and where there is no place for jobs and careers (Grimsrud 2011a). Thus, the overall effect on the recruitment of young adults to rural areas is contested (Grimsrud and Aure 2013).

The rural and regional policy has seen a change in philosophy from exogenous to endogenous development strategies (i.e. from relying on resources and development initiatives from outside of the community to relying on sources internal to the community, see chapter 1.1). At the same time, there has been a shift in the view of how important jobs vs. amenities are in order to attract rural migrants. Whereas in the 60s and 70s job availability for the 'breadwinner' was enough to make a family move, this is no longer the case. Not only are there normally two breadwinners per family, but also – people demand more than jobs,³² they want good jobs, high quality housing and stimulating amenities (etc). The rural and regional development policy initiatives have over the years tried to respond to these changes in preferences. We have for instance over the past decade seen a focus on programmes to improve the quality of places (Bolystprogram) and the quality of housing in rural areas (see section 3.4).

Furthermore, the need to attract people with university education is well acknowledged. The broad rural policy has over decades provided upper secondary schools all over the country, and quite a few larger rural settlements also have university colleges (tertiary education). Yet, several labour markets in rural areas strive to attract highly educated people. This is partly due to a shortage of knowledge-intensive jobs, but even where such jobs are available, they sometimes struggle to recruit people with the right skills. The recruitment of employees has traditionally been seen as the sole responsibility of the employers, but the past ten years or so, local businesses have recognised the need to cooperate with local and regional «place developers» (partnerships, networks) in order to promote the qualities of the place in which their business is located. One example of such efforts is the *regional trainee schemes*. In these schemes local businesses (public and private) work together to recruit highly skilled labour, they share one or more trainees between them (1–2 years). The idea is to make the trainees understand what great career opportunities there are locally and to show them what a great place it is to live in more permanently. To enter, the companies demand that the trainee has completed the (equivalent of a) bachelor's degree, but more of them hold a master's degrees. An evaluation showed that the regional trainee schemes

³² The strong economic growth over many years also meant that jobs were available practically everywhere, and other preferences could take priority in the decision of where to live.

work well – as two–three years after the scheme ended, most recruits were still living and working in the area (Dahle et al. 2011). However, most of these schemes were located in small and medium sized towns, and it is doubtful if these schemes will have the same effect in remote areas where the labour market for academically educated people is very weak.

To strengthen the supply side to provide more jobs for the highly educated, the regional and rural policy has since the 1980s – through an array of different programmes and measures – tried to stimulate the conditions for competence intensive businesses regionally. Currently, there are programmes to stimulate innovations clusters, business gardens etc. (see chapter 3.4), and the more traditional measures such as risk loans and grants from Innovation Norway favour businesses and projects that are innovative and knowledge intensive. At the same time, the policy measures have gradually moved away from the focus on the single entrepreneur, or the single company, and instead put efforts into stimulating clusters and providing «good business climates».

2.3 Employment and competence in regional labour markets

Employment is a valuable indicator of how well the regions are performing. There is a close link between growth in employment and growth in the GDP, and the link between employment growth and population growth is quite strong.

Compared to many other countries in Europe, the participation in the workforce is high in Norway. The figure is 71.2 % for the age group 15–74 in total, or 68 percent for women and 74 per cent for men.³³ The unemployment rate has since the mid-1990s been rather low, below 5 percent, but is currently 4.6 percent and rising. The rise in unemployment is related to the fall in oil-prices, and has affected the western part of the country more than other regions, and the big cities more than other types of regions. Regional variation in unemployment rates has been limited and has not followed a rural–urban pattern. Unemployment rates are not currently taken into account in the operationalisation of the rural and regional policy. The variation in employment growth, however, is an important measure we will take a closer look at below.

³³ Workforce is the number of employed + unemployed in the age group 15-74 years old relative to the total population in the same age group. Source: Statistics Norway, Labour Force Survey, Feb. 2016.

The registered level³⁴ of employment does not vary much between the regions, although the West Country has for a long time had higher rates than the other regions. There are of course regional variations in employment rates, but these do not systematically follow the pattern of rural urban disparities. We find that eight of the ten areas with the highest employment rates are rural, but at the same time, eight of the ten areas with the lowest levels were rural too.

However, the *growth* in employment has largely followed a rural–urban pattern, or a centre–periphery pattern, with the highest growth rates found in the big city regions and the lowest in the rural regions (see figure 8). While the Oslo area has had a strong employment growth since the mid-1990s, regions endowed with «other big cities» have grown faster the past 10 years. The good running of second tier cities is a phenomenon found in many countries, and is often associated with limitations to the economic benefits of agglomeration; i.e. negative externalities caused by unregulated urban growth and diminishing marginal returns. However, in the case of Norway, it may just as well be down to investments in Stavanger and Bergen’s oil/gas related sectors.

As shown in figure 8, the gap between the rural areas and the big city areas has widened from 1986–2014. The strong growth on all centrality levels from 2005 is largely due to immigration.

A closer look at the figures behind this graph reveals that despite high growth levels nationally from 2004–2014, some areas in North Norway and in the Interior have declined. At the top end of the growth scale however, all centrality levels are represented. These differences are largely due to specific characteristics of the local labour markets.

³⁴ The registered level of employment is higher than the employment rate indicated by Labour Force Survey because of different definitions of employment/unemployment. The register-based employment is 77.7 percent (years 20–66, 2014). As the Labour Force Survey does not provide regional variations, we use register-based figures in this analysis.

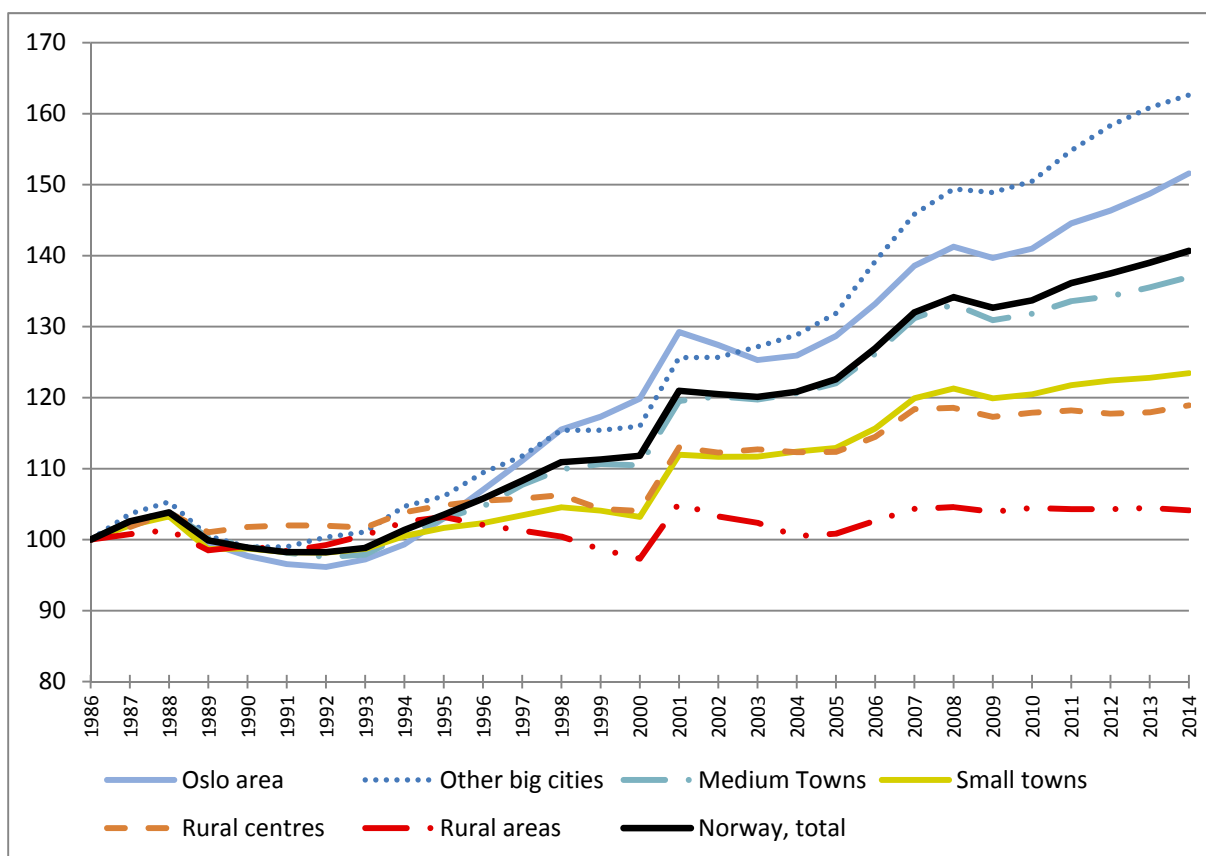


Figure 8. Growth in employment by centrality of work (location of the workplace), 1986–2014. 1986 = 100. Source: RUT 2016. Change of statistical definitions in 2001 causes the break in the graphs.

Levels of Education: the gap is widening

As a nation, Norway is well educated with 31.4 per cent having graduated from university with a degree equivalent of four years of study. For women the figure is 34.5 and for men 28.3 per cent.³⁵ In the age group 25–39 years, more than 50 % of the women have a university degree.

³⁵ Percentage of people 16 years or more, 2014. Source SSB, 2016

The regional variations are however significant, the big city areas have the highest levels and the rural the lowest. Despite a strong growth in the educational level of the rural population, the gap between the rural and the big city areas has widened – because the growth in the big cities has been even stronger (figure 9). There are however some caveats in this picture. There are some small town/rural centre municipalities; such as Volda, Sogndal, Leikanger and Førde, that have educational levels at the top end of the scale. These places are characterised by the fact that they have a large proportion of jobs in public services with national and regional catchment areas, such as regional university colleges, hospitals, county administration, Norwegian Public Roads Administration etc.

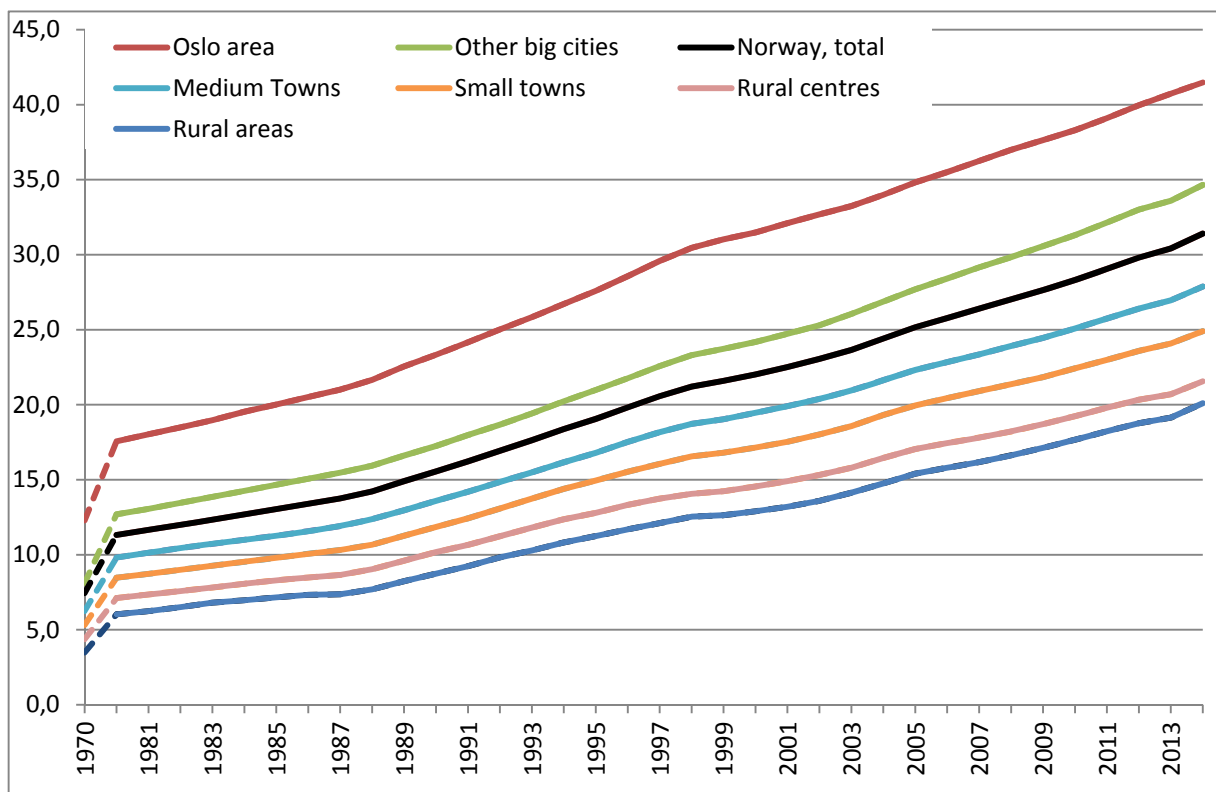


Figure 9. Share of population (16 years +) with higher education in the period 1970–1980 (dotted lines) and 1980–2014 by centrality levels. Source: RUT 2016

Also, it is interesting to note that even if the level of education is lower in the rural areas – the gap between rural and urban areas in this respect is not as wide as it is in other countries that we normally compare ourselves to. This has to do with the availability of education in large parts of the country, (see map below). All regions have upper secondary schools that are free, and institutions of tertiary education have been established all over the country and offers education free of charge. Furthermore, because of the regionally well-distributed municipal sector, there is a demand for educated labour in all municipalities.

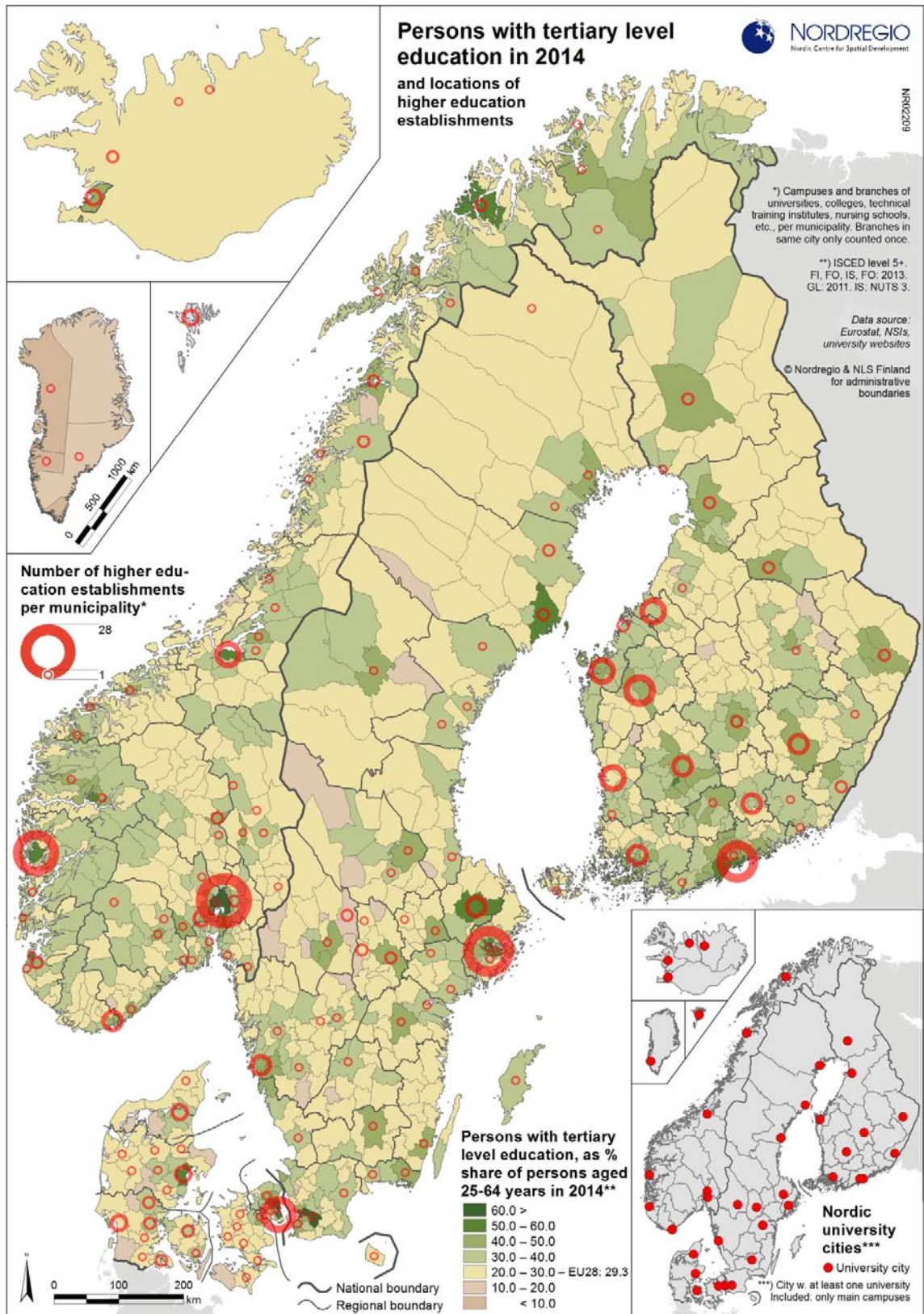


Figure 10. Map of persons with tertiary level education 2014 and locations of higher education establishments. Source:

<http://www.nordregio.se/Templates/NordRegio/Pages/MapPage.aspx?id=4117&epslanguage=en> Nordregio Map ID: 02209.

Economic structure – regional specialisation

Both the growth in employment and in educational levels co-vary in pace with the developments in the economic structure of the local labour markets. Thus, the robust development of the big cities can be seen in connection with the growth in «urban» industries such as professional, scientific and technical activities, commercial activities and «experience economy». The weaker performance of the rural and less central regions can be linked to decline in the primary and secondary sectors, which often are prevalent in such regions. Similarly, the variations between the regions can be explained by the coastal regions being more strongly tied to flourishing industries of oil/gas, maritime and marine industries, and the inner parts of the country more linked to forestry, agriculture and related industries which have not had the same growth impulses. A significant factor contributing to the centralisations of jobs is the localisation of state sector jobs. Over the past years the state jobs have grown in all regions except from the rural (code 0 municipalities). The growth in the city and town regions come mainly from the expansion of existing state activities, while the decline in rural areas is a result of contraction of state jobs. It is nevertheless an aim of the rural and regional policy to ensure a regionally more balanced growth of state jobs (White Paper no. 13 (2012–13)).

While there is a certain level of regional specialisation and division of labour, all regions have public sectors and firms related to public utilities and services. Furthermore, big cities usually have in common that they are the centres of financial institutions, insurance firms, larger corporate headquarters, consultancy firms and firms in the tertiary sector of the economy. Oslo does however stand out with its overrepresentation of private services, and in the second tier cities of Bergen, Stavanger and Trondheim, there is a specialisation related to oil, gas and other high-technology industries.

Secondary sectors (known as manufacturing, transport and some related service sectors) are found throughout the country, but are strong in medium and smaller cities. Some of them specialises in resource based industries, others in technology intensive industries and «other industries». Some of the small and medium sized towns are regional or county capitals and show up a large number of jobs in national services and knowledge intensive services. Indeed, the small and medium sized cities are a mixed group in terms of economic structure.

While the primary sectors of agriculture, forestry and fisheries are prevalent in the rural areas, it is nevertheless noteworthy that the rural regions of Norway show a

more balanced industrial profile than their Nordic counterparts (NordRegio 2016),³⁶ albeit with an overrepresentation of construction, health and social services.

2.4 High GRP and disposable income quite evenly distributed

In the EU, the Gross Regional Product (GRP)³⁷ is used to define eligible areas for structural funds. Because the GRP levels in Norway are quite high, we would not be entitled to measures from the structural fund – and it is not a measure we use to designate our own rural policy measures either. Even the county with the lowest level (Østfold) has a GRP above the average of most European countries (except Sweden and Denmark). Nevertheless, the regional disparities are relatively great in this respect – with Oslo producing a GRP *per capita* 2.5 times the level of Østfold (figure 11). Because there is a lot of commuting into Oslo, Oslo loses some of its primacy when GRP is calculated *per employed person* (see figure 12). Yet, Oslo was 20 percent above the national average, and Oppland was 20 per cent below. It is perhaps worth noting that the county of Møre og Romsdal has a high GRP score, but no big cities. Thus, the prosperity of regions does not fundamentally depend on their urbanity.

³⁶ Chapter 5 in: Julien Grunfelder, Linus Rispling and Gustaf Norlén (eds.) *State of the Nordic Region 2016*. NORDREGIO REPORT 2016: 1

³⁷ GRP is measured with the county as unit. Hence there is no data available for the different centrality levels. Data for 2013 are the most recent as the GRP data are published 3 years after their production.

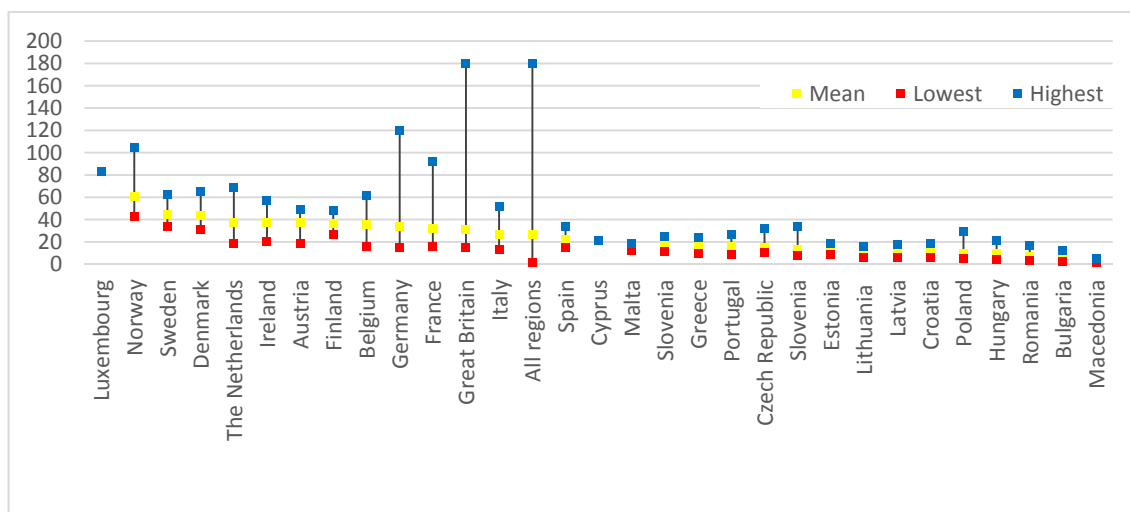
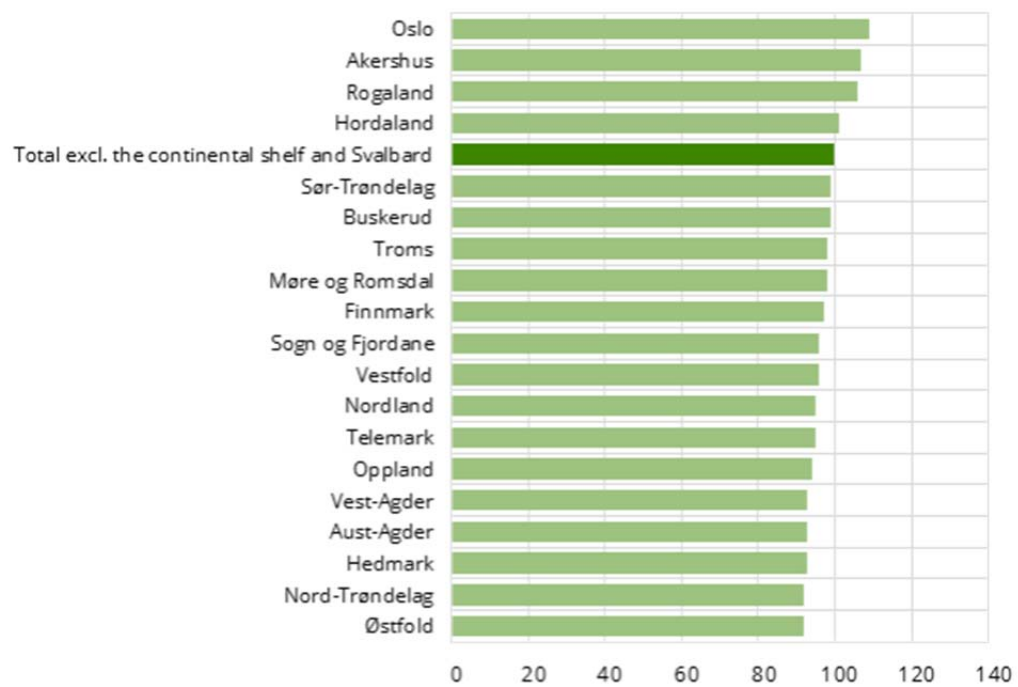


Figure 11. Level and variation in Gross Regional Product per capita by country, 2013. Figures in €1000. Source: Eurostat, Fig. 6.1. in RUT 2016.

The disposable income varied from 7–8 percent below the national average in the counties of Østfold, Hedmark, Aust-Agder and Nord-Trøndelag, to 10 per cent above in Oslo and Akershus. In addition, Rogaland and Hordaland were above the national average (figure 13). The main reason why the regional disparities in the disposable income per capita are relatively small is the re-distributional effect of the welfare state. Public transfers include for example pensions, sickness allowances, unemployment benefits, social security benefits, child benefits and the cash benefit scheme. On average, the public income transfers make up 25 per cent of the disposable wages. Because of regional variations in the demographic structure, counties with old populations have greater transfers than those with a large share of people in the working age groups.

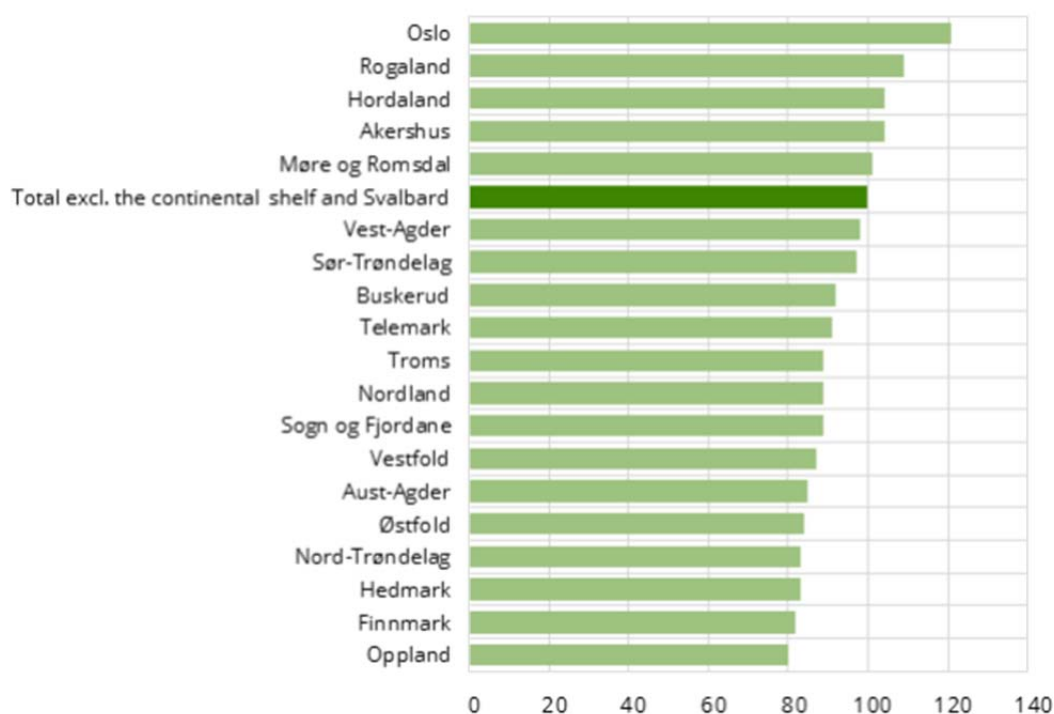
The variations in income between rural and urban areas have decreased over time. Whilst in 1970, income in the Oslo-region was almost 70 per cent higher than the national average, today that figure has fallen to approximately 40 per cent. With the exception of Stavanger, rural regions have been closing the gap on urban regions (NFR 2012)³⁸. One explanation for the good performance of the rural municipalities is that some of them have high income segments linked to energy production, salmon, marine resources and petroleum exploration and production. The other advantage is that Norway's public sector is large and has a solid wage base. In some districts, the public sector dominates the local labour market.

³⁸ http://www.forskningsradet.no/prognett-demosreg/Nyheter/Income_growth_lower_in_Norwegian_cities/1253976997466&lang=en



Source: Statistics Norway.

Figure 12: GDP per employed person. 2013. GDP at basic value for Mainland Norway=100 (excl. the continental shelf and Svalbard)



Source: Statistics Norway.

Figure 13: Disposable income per inhabitant. 2013. Mainland Norway=100 (excl. the continental shelf and Svalbard)

2.5 Periods of changing population trends and related policies

There are some relatively distinct periods in the regional population history of post-war Norway which are caused by different combinations of natural growth and migration. These coincide to a certain extent with changes in the regional economic developments. In concert, the development trends have given some direction to rural and regional policy strategies over the period.

Top-down modernisation strategies

In the 1950s and 60s the towns and cities grew fast, the Oslo area in particular (as can be seen in figure 3 and 4). The urban growth was a result of people moving from rural to urban areas. Despite the net out-migration, the population figures in rural areas did not drop – due to the higher fertility rates in these areas.

The rural-urban migration was fuelled by structural changes in the economy, with labour saving technologies in the rural sectors and expansion of, in particular, the service sector in the towns and cities. This pattern of migration suited the economic

development and the modernisation processes of the country very well. Nonetheless, there were concerns that the exodus might lead to the underutilization of economic resources. Furthermore, the strong out-migration from North Norway (see figure 7) caused uneasiness about upholding our strategic presence in the border region of Finnmark. The period thus saw a bag of, in part, contradictory policies and strategies for the development of the rural areas. On the one hand, the state issued *migration grants* to stimulate people to leave small places to come to the labour demanding cities to work and to avoid investing infrastructure in marginal places. On the other hand, plans, programmes and funds, such as the *Development Programme for North Norway (1952–60)*, *The Rural Development Fund (RDF)*³⁹ (1960–1993) and *The Growth Centre Strategy (1965–mid-70s)* were established to stimulate economic activity in remote rural areas. The view was that the remote areas needed modernisation. In practise this meant that the state encouraged the establishment of new, or relocation of old, manufacturing plants that could function as «motors» (or economic base) for further economic growth. The building of physical infrastructure was also part of the modernisation policy.

The development policy of this era saw the fast growth in the cities as the problem. They were not too concerned about population losses in the rural areas, because despite the net out-migration, the natural growth was big enough to prevent depopulation. Thus, the general aim of the rural and regional development policy was to create *growth poles* outside of the cities so that they could dam up for the flow of migrants from rural areas.

The golden age of rural policy

The 1970s mark a *turnaround* of population trends. The growth in areas with large cities as well as areas with medium cities slowed down, while in rural areas the growth turned from negative to positive (see figure 4). Regionally, the growth in previously fast expanding Central East flattened out, while growth in the lagging Interior and North Norway picked up.

The turnaround trend was caused by migration flows for the first time since the war favouring rural areas. There are many reasons why this happened. One of them is that the 'green' currents (back-to-the-land) among the population were particularly strong this decade. This was an international trend; Norway was by no means the only country counter-urbanising this decade. Second, the ambition of the rural

³⁹ Continued as SND (1993–2004) and then as Innovation Norway (2004)

policy rose; to discourage uncontrolled growth in the biggest cities was not enough – there was now a will to encourage rural settlements.

It is well noting, though, that even if the 1970s are characterised as a decade of counter-urbanisation and decentralisation at the national level, at the local level the urbanisation/concentration of people was quite strong. This was a consequence of people from the more outlying settlements moving to new jobs and services in the municipal or regional centre, whereas earlier they would have moved to larger cities. Thus, the 1970s are sometimes referred to as the decade of *decentralised centralisation*.

A wide range of new rural development measures were introduced in the 1970s and early 1980s. At the same time the administrative institutions were strengthened (see chapter 1). This decade saw a strengthening of *public facilitation* of industrial sites and building with the establishment of Siva (see section 1.3) and of similar institutions at the regional and local level (*stønad til kommunale industriområder*). Furthermore, regional *transport subsidies* were introduced in 1971 (Norw. *Transportstønad*). There were also instruments established to encourage companies to locate or expand in rural areas – with *risk-loans and investment grants* from RDF and a tax scheme that made it favourable to invest inside the designated area (Norw: *Distriktsskattelova*)⁴⁰. In this way, as much as 50 % of the investments could be financed through rural policy measures (Teigen 1999). In addition to the subsidy of capital, labour subsidies were introduced through the regionally differentiated contribution to the social security (see section 3.3) – an industry neutral subsidy automatically given to all employers (public and private) in the designated areas for investment grants. In the early 1980s, company development grants were introduced (through the RDF) – which according to Teigen (1999) had the effect of a subsidy of labour. An evaluation of the RDF grants, guaranties and loans concluded that the measures had a relatively large positive effect (high additionality) on the creation of new jobs in rural/remote areas in the 1980s (Grimsrud et al. 1993). Moreover, as a follow up of the «Localisation guidance act» (Norw: *lov om lokaliseringsrettledning*) from 1971, in 1976, the ‘Etableringslov’ was established to prevent large investments in areas with high demand (i.e. cities). This *negative policy instrument* was abolished in 1994 after hardly ever being used. The «uncontrolled» growth in the cities had stopped prior to the introduction of the act.

In addition to the ‘narrow’ rural policy, there was a significant rise in the transfers of money to the agricultural sector to ensure production even in marginal areas.

⁴⁰ The *Distriktsskattelova* was discontinued in the 1980s due to limited effects on rural development. The companies made tax deposits to reduce taxation, but the deposits were rarely used for investments.

Furthermore, and arguably the most significant, was the expansion of the welfare state, which created a completely new range of public/municipal service jobs all over the country. Consequently, the municipalities had jobs to offer both existing and new residents. The expansion of public service jobs dovetailed with women abundantly entering the labour market, and served to hamper the worrying deficit of young women in rural areas.

To illustrate the importance of the expansion of the welfare state, the number of employed people grew by 27 per cent from 1970–1990 (or 450 000 people). *Eighty* per cent of the growth came in the public sector. *Ninety percent* of the net growth of employed people can be ascribed to women entering the labour market. The growth was regionally well distributed – and probably the main reason behind the turnaround trend in the 1970s. Without the new public jobs, the total number of jobs would have decreased significantly in rural areas, because of contraction in the private sector in these areas (Bukve et al. 2004). Even in the more central municipalities, from small town areas to the big city areas, the public sector provided the main share of new jobs. The big city regions of Kristiansand and Stavanger were the only exceptions. In 1970, public service was a typical urban «industry», but is now available in all parts of the country.

Centralisation and a mixed bag of strategies

By the mid-1980s, the turnaround turned around (Hansen 1989) and the centralisation of population growth was back to «normal», with large city regions growing fast at the expense of both medium/small towns and rural areas. Regionally, North Norway was worst off, and their demises can be linked to crises in the fisheries and contraction in related industries (which in turn triggered the introduction of the Action Zone (see section 3.3). According to Hansen (1989) this situation was in part caused by a reversal of the factors that created the turnaround trend. The capital region was better prepared for the economic downturn of the early 1980s because they had started the restructuring process earlier. The less competitive companies in traditional sectors had, with the help of rural policy measures, moved out of the capital, and thus the businesses left in the capital region were those that had adjusted to high costs of land and labour. The new growth took part in private services, activities that positively seek out central and more populous areas. Certainly, this was the decade when competence intensive services started to shoot up. The problem, as construed by the development policy, was that people left rural areas to educate themselves – and had no suitable jobs to return to. They educated themselves for the urban labour market. The solution was to help rural areas take part in the new competence-intensive service economy. A

typical policy measure of the time was the programme Private Services in Rural Areas (PTD 1986–91). Furthermore, this decade saw the establishing of regional research institutions, competence centres and industry-specific programmes where the aim was to help small businesses adapt to new technologies. Some of these proved successful, others failed.

In addition, the 1980s saw a movement from rural policy instruments directed towards primary and secondary industries, to more industry neutral instruments. Moreover, there was a movement from top–down policies (such as the national programmes and the spreading of technology through regional competence centres and the like) towards bottom–up strategies. The *municipal development funds* is an example of the bottom–up strategies that were introduced in the late 1980s and were meant to make the local level more responsible for their own development. The local funds are relatively small and often used to give grants to entrepreneurs and newly established firms (se chapter 3.4).

From rural towards regional policy

By the 1990s, a new regional demographic divide – caused by decades of out-migration of young people – was evident. Whereas in the 1970 and most of the 1980s the rural areas had higher fertility rates than urban areas, from the 1990s more babies were born in urban than in rural areas. If the goal of sustaining a dispersed pattern of settlement were to be achieved, it would require a total turnaround of migration streams; i.e. from urban to rural areas. To maintain a dispersed pattern of settlement, the need for policy invention became higher than ever. However, the understanding of the problem shifted. There is no longer the belief that rural policy can direct migration flows or business investments through top–down policies. The growth initiatives should instead emerge out of place-specific resources and capacities.

Gradually, the policies and measures have become more regional. Firstly, in the sense that the policies have become regionally tailored as the responsibility for regional development was delegated to the county councils (formally from 2003). Hence, the content and shape of initiatives vary from one county/region to the other. Secondly, the regions rather than the municipalities/communities more often are the unit of development initiatives. Where earlier there was a consent that the weakest (the most remote rural areas) regions should be the main target for the rural and regional policy, in this period the idea of the *robust region* emerges. A robust region generally consists of more than one municipality and contains a distinct centre/town, and forms a functional travel to work area. It is reckoned that

a concentrated effort to strengthen the centre of the region will benefit the whole of the region – including its more peripheral parts.

Innovation policy and regional attractiveness

The current rural and regional policy can be said to be integrated with the national innovation policy, in which the cooperation between Innovation Norway, Siva and the Research councils from 2005 has been pivotal. These institutions have jointly agreed to cooperate with the county councils. As described in section 3.4, their strategy is centred on creating good environments for innovations in business clusters and for internationalisation. So even if the rural/regional policy has become more regionally founded, quite a lot of the regional funding is still used to support national programmes. The challenge is to find a good balance between regional tailoring and national coordination.

The rural areas have indeed become more integrated in the global economy recently. Not only by the products, they produce, sell and buy, but through immigration of labour as well. The year 2005 marks a divide in the population history of Norway, as unprecedented immigration took place and, unlike previous immigration, it was not concentrated to the largest cities but quite evenly distributed between the regions, and between urban and rural areas. As is illustrated in figure 5, population numbers in all types of areas would have stagnated. The immigration came to areas that were in short supply of labour, and in many ways, immigration compensated the out-migration of local youth. Nevertheless, the most important drive for rural and regional policy today (especially at the local level) is to be attractive to businesses, talents/competence and people in general. At the local/regional level, there are networks and partnerships that try to coordinate the needs of businesses and the civic community through initiatives that centres on making the places nicer and more interesting to live in. These initiatives involve physical upgrading of places as well as cultural renewal, for instance through festivals or through facilitating the use of the great outdoors. It is quite common to have special schemes and aid to attract new inhabitants, especially young families and people with sought after competencies.

3. Current policy instruments directed towards rural areas

3.1 The rurality index and the regional aid map

To decide which municipalities are eligible to regional and rural development measures, every 7th year the ministry produces a *Rurality Index* – which in turn is used to denote the *Regional aid map*. The index is based on statistical indicators of demographic, economic and social challenges, and each municipality is given a rank according to their score. The municipalities with the highest scores will be entitled to regional aid. Obviously, the indicators must be in compliance with EU guidelines for regional aid, and must also reflect the current national rural and regional policy. Although the index provides a clear ranking of the municipalities, the actual denotation of the aid area also has to take into consideration that contiguous municipalities should have approximately the same level of aid. Furthermore, there should be stability over time so that it should not be possible for a municipality to drop more than one level from one revision of the index to the other. The areas eligible to regional aid cannot comprise more than 25 % of the population of Norway.

The current Rurality Index consists of four sets of indicators, each with 1–3 variables:

- 1) *Geography*: Level of centrality, Travel time to Oslo, population density
- 2) *Demography*: population growth last 10 years, share of population over the age of 66, Share of women aged 20–39 years old
- 3) *Labour market*: Growth in employment last 10 years, share of employed people aged 20–64.
- 4) *Standard of living*: Mean of gross income per taxpayer over 17 years of age.

The rurality index determines whether the municipality is in or out of the regional aid map. The current map is shown below. Within the designated area, aid up to 35 % of the investment can be given to small enterprises (less than 50 employees), while medium sized (50–249 employees) and large (>250 employees) enterprises can be given the maximum of 25 % and 15 % respectively.

The index and the map (see figure 14) are tools used in combination with official guidelines for regional aid, and are used, for instance, to gauge the rural and regional policy grants allocated to the counties.

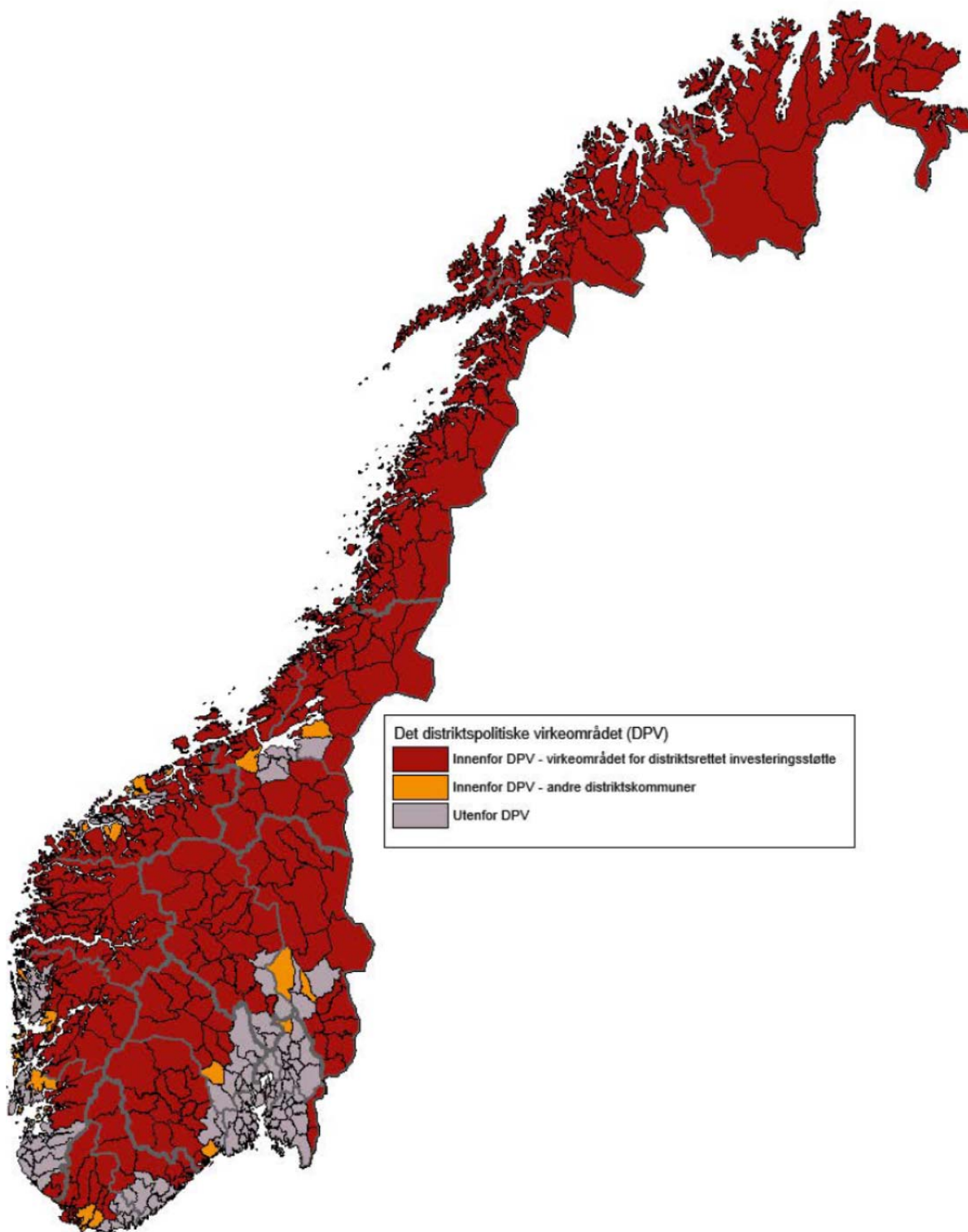


Figure 14 The regional aid map

3.2 The broad policy areas

In this chapter, we present policy fields and measures that are important to rural and regional development, but which do not have rural and regional policy goals as their main objective.

The role of the municipalities and the «*General Purpose Grant Scheme*»

The municipalities are obliged to give comprehensive welfare services to their inhabitants, and as far as possible, the services should be of equal quality across all municipalities. This does not mean that all municipalities provide exactly the same services, but the benefits of the services should be of comparable value to the users irrespectively of which municipality they belong to. The state controls the services through the law. A core value in the Norwegian welfare state is redistribution and equal quality of the services independent on where people live geographically.

The municipalities are responsible for a broad spectre of services such as kindergartens, elementary school, welfare (for instance doctors, services for the old, the handicapped, etc.), and social service. They are also responsible for local environmental planning, renovation, fire protection, harbours, local roads, culture and libraries. Moreover, the municipalities are responsible of physical planning related to the building of homes and industrial sites.

The municipalities get their income from taxes, economic distribution from the state and user payments.⁴¹ In addition, the municipalities can require property tax (for individuals and business) and acquire income from hydro power plants. There variation in tax revenues across municipalities, is great, also when the number of inhabitants is controlled for. However, through the «*General Purpose Grant Scheme*» (commonly referred to as the 'income system'), which is a scheme for the distribution of income between the State and the municipalities/county councils, the state to some extent redistributes money from high-income areas to low-income areas. In this way, the state seeks to secure that the quality of services do not vary too much across municipalities. Nevertheless, it is the responsibility of the municipalities to develop and ensure public services to everyone within their constituency, and to narrow differences among the inhabitants. Largely, the state influences and controls the income structure of the municipalities.

⁴¹ <https://www.regjeringen.no/no/tema/kommuner-og-regioner/kommuneokonomi/finansiering-av-sektoren-samlet-herunder/id552048/>

The General Purpose Grant Scheme is designed to redistribute money across the municipalities according to their different needs. Thus, it takes into consideration structural differences between the municipalities, such as differences related to demography, geography and social conditions, related to. This implies some compensation for long travel distance within the borders of the municipality as well as for detriments related to age structure of the population (as many children, or many old people require more public services). The General Purpose Grant Scheme also has some components that are grounded in the rural and regional policy (and hence can be regarded as parts of the «narrow» policy). Currently, special grants are given to: all municipalities in Northern Norway and the region of Namdal, some rural municipalities in the south of Norway, some particularly small municipalities, the largest cities, municipalities that are rapidly growing. There are also discretionary grants that can be given to municipalities with specific/local needs that the general system does not accommodate for (Green paper 2016⁴²).

The municipalities' income as part of GDP is approximately 18 percent (oil and gas excluded). Expenses for kindergartens, elementary schools, and the welfare and social sector together amount to approximately 70 percent of the municipalities' gross expenses.⁴³ One out of five employed people work in the municipality sector. In rural areas, however, the proportion is generally higher.

The municipalities play an important part in societal development processes (Ringholm et al. 2009). Broadly speaking, this relates to their role in general planning, economic development, local housing, local roads and infrastructure more generally. Some municipalities, especially the rural, are particularly active in facilitating for new businesses, for instance through specific development funds to support entrepreneurs, businesses and business networks.

A public committee (NOU 2004:2s 139–140) concluded that the municipalities as public institutions are important to rural and regional development because of their provision of services and jobs. As these factors are crucial both for the local economic life and for where people chose to live, the activities of the municipalities contribute to broaden the local labour markets and stabilize the pattern of settlement.

⁴² <https://www.regjeringen.no/no/tema/kommuner-og-regioner/kommuneekonomi/gront-hefte/id547024/>

⁴³ <https://www.regjeringen.no/no/tema/kommuner-og-regioner/kommuneekonomi/finansiering-av-sektoren-samlet-herunder/id552048/>

Infrastructure and transport

Infrastructure, transport and communication services are crucial to the running of the whole of the country, and are the responsibility of the state, the counties and to some extent the municipalities. Under the direction of the state, there are four autonomous agencies respectively responsible for roads, harbours, rails and airports.⁴⁴ The main policy tool in this field is The National Transport Plan,⁴⁵ in which the Parliament every fourth year considers the different transportation needs in the country as a whole and makes priorities for the following ten years. The KMD has the responsibility to coordinate the cross-sectorial ICT-policy.

While the provision of infrastructure and transportation and communication services is based on objectives other than that of contributing to sustaining a dispersed pattern of settlement, it is recognized that developments in infrastructure, transport and communication are important tools to enlarge local labour markets so that rural regions become more robust. In addition, because the rural areas have challenges related to low population densities and vast distances. An appendix in the National Budget (Prop. 1 S 2015–2016, KMD, appendix 1, table 1.3) estimate that the cost of the compensation for these ‘rural’ problems are: domestic air services/aviation (766 mill NOK), sea transport (732 mill), protecting roads from landslides and avalanches (596 mill), supporting harbours for the fisheries (553 mill NOK). There are also compensations to support mailing and banking services, broadband, prevention of floods, avalanches and landslides, etc. In addition, also the county councils support transportation services by buss, boat and ferry.

Agricultural policy

Agricultural industry is a basic industry in rural areas, and in several rural areas, there are few alternative industries. The topography, fjords and climate represent challenges to the efficiency of farming.

The national agricultural policy has an impact on the structure and volume of the industry. The main instrument is the agricultural agreement, which is negotiated every year by the government and the farmers’ organizations,⁴⁶ and subsequently

⁴⁴ Norwegian Public Roads Administration, The Norwegian Coastal Administration, Norwegian National Rail Administration and Avinor (airports).

⁴⁵ St. Meld. Nr.. 26 (2012-13) <https://www.regjeringen.no/no/dokumenter/meld-st-26-20122013/id722102/> ICT-policy is not included in the National Transport Plan

⁴⁶ In Norway two agricultural organizations negotiate with the Government. It is Norges Bondelag (The Norwegian Farmers Union) and Norges Bonde- og småbrukerlag

approved by the Parliament. In 2015, it was worth 14.3 billion NOK.⁴⁷ In the agricultural agreement there are several contributions to stimulate farming in remote and marginal areas, the most important being the price subsidy for milk (610 mill NOK) and the price subsidy for meat (1.070 mill NOK). Other important contributions meant to compensate for unfavourable location regarding farming conditions are supports for domestic animals (2.4 billion NOK), the cultivation of landscape (3.1 billion NOK) and farmers' holiday relief (1.2 billion NOK).⁴⁸

International agreements and negotiations have an influence on the national policy (e.g. the WTO negotiations and the EEA-agreement).

One out of four main goals in the agricultural policy is to secure «agriculture all over the country». Therefore, the government use geographically differentiated instruments. The government also tries to stimulate to new economic activities that can be based on farms, i.e. activities other than the conventional farming, for instance innovations in new types of food production, tourism, social care (e.g. young with behaviour problems), etc.

The county councils and the regional partnerships

The county councils are responsible for rural and regional development in their region. They develop regional development plans, usually politically approved, which constitute the basis for policy priorities within this field. Hence, the actual shape and content of the initiatives vary from one county to another. The *regional partnerships and networks* (see chpt. 1.1), which are formed by a diversity of regional development agents, both from the private and the public sector, are important in this respect (Hofstad and Sandkjær Hanssen 2015). The constellations of the networks/partnerships vary between the counties and may change over time. In addition to the county council, they may include Innovation Norway, the County Governor, University or College, Research institutions, Siva, municipalities, labour organization and employers' organization, The Sámi Parliament and the like. Private companies may also be involved through initiatives and projects. The idea is that these agents bring their individual resources (be they money, creativity or knowhow) to the partnership, and cooperate to create new ideas for innovation and economic growth.

The income system for the counties is similar to that of the municipalities (described above). However, the state also earmarks money for the county councils

⁴⁷ <https://www.regjeringen.no/no/dokumenter/prop.-1-s-lmd-20152016/id2455821/?q=&ch=2> Chpt 11.50.

⁴⁸ <https://www.regjeringen.no/no/dokumenter/prop.-1-s-kmd-20152016/id2456031/?q=&ch=6>

to spend on regional development. Some counties additionally spend their «own» money to stimulate regional development, for instance money accumulated from water power plants. Within the limits of the Guidelines on regional aid, the gauging of the state funding takes into account the county's history and challenges related to their peripheral location. These challenges are reflected in the rurality index (see chpt. 3.1) in which all 428 municipalities are ranked according to scores on geography, demographic changes, economic development, and living conditions. Thus, the more rural/remote the county is the higher regional development funding.

Following the responsibility reform in 2003, the county councils got the responsibility for the rural and regional policy in (see chpt. 1.3). The reasons behind the decentralization were linked to an emerging belief that developments should be locally anchored and not allocated from the state. The turn towards endogenous growth strategies in this period was also mirrored in the strong focus on creating and sustaining *regional clusters* (Porter 1990, 1998), regional innovation systems (Tödtling and Trippl 2005, Aasheim and Isaksen, 1997), and later, *smart specialization* (Thissen et al 2013, Mariussen et al 2013, McCann and Ortega-Argilés 2015). Inspired by these ideas, a pivotal part of the regional and rural development policy of the counties has been to select 2–5 business clusters in their region for further support.

3.3 Main policy instruments in the «narrow» Norwegian rural and regional policy

As is briefly reviewed in previous chapters, the strategies, instruments and the level of economic support have changed over time; new ideas emerge and others fade. Over time the totality of the policy measures have declined, but some of the main tools are still in operation. In this chapter, two of the major current regional and rural policy measures will be presented.

Regionally differentiated social security contributions

The employers have to pay social security contributions for her/his employees to finance a part of the National Insurance. Norway has had regionally differentiated social security contributions since 1975, and this is the single most important regional policy instrument. The country is divided in seven zones, largely dependent on development scores within larger areas. The rates vary from 0 in the most

peripheral areas (Finnmark and Nord-Troms) to 14.1 percent⁴⁹ in the capital region and other central regions.

Initially, Norwegian authorities argued that differentiated social security contributions was a part of the national tax system and therefore was outside the EEA-agreement. However, a decision in EFTA-Court in 1999 (1999–5–20) confirmed that EFTAs decision about differentiated social security contributions are a form of State Aid. Consequently, Norway had to bring the system in accordance with the EEA-agreement, and adjusted the differentiated social security contributions to the Guidelines for Regional state aid.⁵⁰ This means that Norway needs adaption, negotiation and acceptance for every new period. The last acceptance applies for 2014–2020, and involved some modifications compared to the previous version. 31 new municipalities were included in the designated areas for reduced social security contribution, but on the other hand, some industries were excluded from the scheme; mainly transport and energy (Prop. 118S(2013–2014)). These industries may apply for compensation during a transitional period.

As the guidelines on regional state aid says, national authorities may identify and map the most disadvantaged regions in terms of population density and population decline, and notify the map to the EFTA Surveillance Authority.⁵¹

Regionally differentiated social security contributions are considered an efficient measurement to maintain employment in sparsely populated areas, with hardly any distortion of real competition. The system is transparent, predicable for the employer and has a clear incentive structure of subsidizing employment. Furthermore, the management cost is low as the instrument is automatically applied to all firms (in the relevant industries) in the relevant zones. Thus, the firms do not need to apply for it either. Up unto now, it has been a stable, long-term and industry-neutral instrument. The disadvantages are primarily high costs (NOU 2004:2, Hervik et al. 2001).

An analysis of business responses to the changes in the differentiated social security contribution showed that the immediate effect of raised taxes was a lower level of employment (Angell et al. 2012). The study included all types of industries, and

⁴⁹ Zone 1 – 14.1 percent, Zone 1a – 14.1 percent, and de minimis aid, Zone 2 – 10.6 percent, Zone 3 – 6.4 percent, Zone 4 – 5.1 percent, Zone 4 a – 7.9 percent (cover Tromsø and Bodø) and Zone 5 – 0 social security contributions. (Zone 5 is the Action Zone in Finnmark and Nord Troms.)

⁵⁰ The Guidelines for Regional state aid are decided for every new period. This period (2014-2020) are the forth. (Earlier periods are (2000–2003), (2004–2007), (2007–2013).)

⁵¹ Part III: Horizontal rules. Guidelines on regional state aid for 2014-2020. Section 5. <http://www.eftasurv.int/state-aid/legal-framework/state-aid-guidelines/>

showed, not unexpectedly, a wide difference between service providers and manufacturing enterprises. After 12 months, the effect on employment was quite clear for service businesses, but not for the manufacturing industry. The analysis showed that manufacturing enterprises are more likely to convert proceeds into higher wages, or to take out more profit. Service businesses on the other hand, used the benefit to hire more hands (hence the employment effect). Over the longer term (five years), the impact was indistinct, a result that is in line with other studies of differentiated social security contribution (op.cit.).

The cost (estimated as foregone revenue) is approximately NOK 14.8 billion (Prop 1S (2015–2016) KMD p 227). It is the most important instrument in the regional and rural policy field.

The Action Zone for Finnmark County and Nord-Troms Region

The Action Zone was established in 1990 in response to multiple crises, especially in the fisheries and fishing industry, and was designed to address high unemployment and generally poorer living conditions in order to stop population decline.

The county of Finnmark and seven municipalities in the county of Troms constitute the Action Zone.⁵² It is the northernmost and most peripheral region in Norway; it borders Russia and Finland and has harsh weather conditions. The region is also the core area of the Sámi population (but there are non-sami people living there too). The Sámi Parliament and other core Sámi institutions are located there. The region is sparsely populated, with only 92 000 inhabitants within 59 000 square kilometre. It gives a population density of only 1.6 inhabitants per square kilometre.

The demography and business structure have changed considerably over the past twenty years in this area. In demographic terms, Finnmark and Nord-Troms are in a worse situation than 20 years ago, due to an aging population and small cohorts in the childbearing age groups. There are however important demographic variations internally in the zone. The biggest cities, Alta (19 000 inhabitants) and Hammerfest (10 000 inhabitants) have a growing population, with excess of births, and a young population. The coastal areas have had a declining and aging population. The unemployment rate has fallen significantly over the last 20 years. However, male unemployment remains relatively high. Although unemployment has fallen, the coastal and inland municipalities still have higher unemployment rates than both the national and regional average.

⁵² This area was annihilated at the end of WW2, and rebuilt after 1945.

The main industries of the region, fisheries and fishing industry, have decreased significantly over the past 20 years. However, over the last years the employment increased substantially in the fish-farming sector, public sector and in oil- and gas related businesses. After the Barents Sea was opened for oil and gas industry (The Parliament approved to open the Snow White gas field in 2002 and Goliat oil field in 2009), there has been a strong growth, mainly in the Hammerfest area.

The current objective of the Action Zone is to make Finnmark and Nord Troms more attractive as places to settle, run businesses and work. The policy tools are designed to underpin beneficial outcomes and to reverse downward trends in the economy and job markets.

The policy tools are a mixed bag of measures targeting business and industry as well as individual citizens. The current policy instruments are: zero social security contributions; lower personal taxes; lower tax on electricity for consumption; student debt relief; higher family allowance (repealed in 2014) and wage subsidies for preschool teachers (repealed 2012).

For business and industry, the zero social security contributions and lower tax on electricity consumption are important. See text above for more about differentiated social security contributions. **Lower tax on electricity:** The electricity consumption tax for business and industry in Finnmark and Nord Troms is 0.0045 NOK per kWh; in the rest of the country, it is 0.1121 NOK per kWh (in 2011). The household and public sectors pay no tax at all for electricity in Finnmark and Nord Troms. For 2011, the income loss for the state was around NOK 200 million.

For the individual citizen:

Lower personal tax: This has three components. I) a distinct income tax allowance (NOK 15000/30000 in tax class 1/tax class 2). II) Lower tax rate. The rate in Finnmark and Nord Troms is 3.5 percentage points lower compared to the rest of the country. III) Lower surtax (2 percentage points lower than the rest of the country). In 2011, the loss of state income from this arrangement was around NOK 750 million.

Relief debt: The Norwegian State Educational Loan Fund (Lånekassen) lends money to students. People who live and work in Finnmark and Nord Troms, with educational loans, can apply for 10 percent relief debt, albeit restricted to a maximum of NOK 25 000 per year. In 2011, the cost of this arrangement was NOK 110 million.

Extra family allowances: Families with children living in Finnmark and Nord Troms got an extra family allowance of NOK 320 per month, or NOK 3840 per year per

child. On average, 20 000 children received this higher family allowance in 2011, and the cost to the state was NOK 80 million. The extra family allowance was repealed in 2014.

The total cost of these schemes, in terms of lost revenue to the state, was nearly NOK 2 billion relative to the social security contributions rate in the rest of Northern Norway.

A study of the effects of the Action Zone on the mobility of young adults (18–40 years) showed that the scheme has had a positive effect in the sense that it has stabilized the number of people belonging to – or the people having a personal connection to – places in Finnmark and Nord Troms (Angell et.al 2012). However, the highly educated are more likely to move out of Finnmark – especially if they do not have any family connection to the area. This study further reveals that highly qualified men are significantly more likely to leave Finnmark and Nord Troms than highly educated women. In a sense, we can talk of a «male exodus» (Angell et.al 2012).

A study on the impacts of incentives aimed at people 18–40 years old (i.e. tax concessions, reduction of student debt and higher family allowance), showed that after five years, a much higher percentage of those still living in Finnmark and Nord Troms were enjoying two or more of the incentives, compared to those who had moved away (Angell et.al 2012). This pattern is valid across all demographic groups, but is strongest among those who have the most to gain from the incentives, i.e. the highly educated with large student debts. The conclusion is that the personal incentives have a clear stabilizing effect on the population. These conclusions are valid in general and, especially, in relation to the most mobile groups; i.e. people without a personal connection to Finnmark and Nord Troms, and not the least, the highly educated people with no such geographic tie. The personal incentives also stimulated recruitment to the region – primarily to the most central municipalities, but the more remote municipalities were also positively affected.

3.4 Other incentives and programmes

Over the years, several schemes have been launched to stimulate innovation, entrepreneurship, economic growth and regional and rural development. Normally, new schemes will start with a pilot programme, and if they prove successful, they will be extended to a larger scale. As new programmes are introduced, old ones are reorganized or ended. In this chapter, we present a few, but quite different, types of such programmes and initiatives.

Two innovations programmes by Siva⁵³ – Business gardens and Incubation

A *business garden* co-locates development-oriented companies to promote growth, cooperation and development.⁵⁴ It provides access to expertise, networks and an academic and social community. The idea is that business gardens create added value for the companies, the local community and the regional economy. Private sectors are expected to be at the forefront of the process of creating and developing business gardens.

Currently, the third business garden programme is running (from 2011–2021). In this programme, the county councils and Siva are joint owners and developers, and Siva provides the basic funding. There are 46 business gardens in the programme,⁵⁵ most of them located in the designated area for rural and regional aid (see chapter 3.1). Siva is one of several owners of 42 of the business gardens. In addition, there are other business gardens existing outside of this programme. The main idea is to strengthen and increase the number of knowledge intensive workplaces in the rural areas, and hence there is a strong focus on innovation and research.

Incubation is a tool for developing start-ups as well as creating growth in existing businesses. An incubator intends to give entrepreneurs and start-ups access to professional mentors, investors and business developers, and will also provide a social and intellectual environment for them.⁵⁶ The current incubation programme runs for the period 2012–2022.⁵⁷ The programme is designed for strong innovation environments and business agents who want to create and develop new businesses, such as «research gardens», «knowledge gardens» and bigger manufacturing companies. This programme serves the whole country, not exclusively the rural areas. There are 38 incubations included in the programme, and Siva is one of several owners in 32 of these. Incubators enlisted in the programme receive basic funding from Siva.

The Norwegian Research Council's Programme for R&D and Innovation (VRI)

The Programme for Research, Development and innovation (VRI) is running for the period 2007–2017. It is a national programme,⁵⁸ and its primary goal is to

⁵³ More about Siva in Chapter 1.3.

⁵⁴ <https://siva.no/om-oss/?lang=en>

⁵⁵ <https://siva.no/siva-beretter/tall-og-fakta-4/>

⁵⁶ <https://siva.no/om-oss/?lang=en>

⁵⁷ <https://siva.no/om-oss/>

⁵⁸ http://www.forskningsradet.no/prognett-vri/Home_page/1224529235237

encourage innovation, knowledge development, and create added value at the regional level. It is designed to promote greater regional collaboration between trade and industry, R&D institutions and government authorities, and to establish close ties to other national and international networks and innovation programmes such as the Arena program, Norwegian Centres of Expertise (NCE) and the Regions of Knowledge initiative.

There are currently 15 regional VRI initiatives, based on regional partnerships. The partnerships consist of representatives from trade and industry, R&D institutions, public authorities and sometimes other funding agencies and are responsible for organizing the overall activities within a regional VRI initiative. It is up to the partnership itself to decide which institution or institutions should submit applications to the Research Council and thus serve as the Research Council's contractual partners. Each region gives priority to a few areas or industries e.g. marine and maritime industries, energy, tourism and hospitality. The regions select a set of instruments they wish to use to initiate research cooperation between companies and research groups. The most commonly used instruments are mobility schemes, competence brokering, action research in companies, network- and pre-project funding for companies and regional foresight analyses.

The total cost for VRI (2007–2014) was 1.1 billion NOK, where NRC financial support was 380 mill. NOK, private actors 260 mill NOK, the rest was financed by regional public agencies. The total budget for 2007–2016 is 1.4 billion NOK, where NRC support is 500 mill. NOK (Angell et. al.2015).

Norwegian Innovation Clusters (NIC)

Since the beginning of the 2000s, Norway has had a strategy to support clusters with a variety of schemes and instruments. The ongoing NIC programme started up in 2014, and offers technical and financial support to innovation clusters that are nationally or internationally competitive in their field. Innovation Norway, Siva and the Norwegian Research Council jointly administer the programme.

A cluster is a geographical concentration of enterprises and related knowledge communities linked by complementarity or a similarity of interests and needs. The enterprises can gain easier access to important production factors and ideas for and impulses to innovation through interaction and cooperation. A cluster emerges over time, on the basis of location advantages and natural development dynamics.⁵⁹

⁵⁹ (<http://www.innovationclusters.no/english/>)

The NIC programmes have three different levels:

1. The Arena programme includes immature clusters in an early phase. The clusters can be small or large with participants with a regional, national or international position. In all, there are 23 ongoing Arena-programmes. The Arena programme started in 2002, and so far, it has supported around 70 clusters. The cluster support of the Arena programme lasts for 3–5 years.
2. Norwegian Centres of Expertise (NCE) include mature clusters with a national position and are expected to have a potential for considerable growth. NCEs are clusters with a critical mass of companies that have established a systematic collaboration, have developed dynamic relations and a broad strategic action area. The NCE programme started in 2006. There are 14 NCEs in the current programme running for ten years.
3. Global Centres of Expertise (GCE) are mature clusters with a global position. They are the most developed clusters, with efficient organizations. These clusters have already established systematic collaboration and have developed dynamic relations with high interaction between them. They have considerable potential for growth in national and international markets. There are three GCEs in Norway, the first two GCEs started in 2014 and the programme lasts for 10 years.

The Norwegian Ministry of Trade and Fisheries and the Ministry of Local Government and Modernization fund the NIC, with a yearly sum around 140 mill NOK.⁶⁰

Financing service (Innovation Norway)

Innovation Norway (IN) (see chpt.1.3) has several instruments for supporting companies. The financing services⁶¹ consist of loans (low risk loans and innovation loans), grants and guarantees, or combinations of these.

In general, financial support is offered to small, medium and large enterprises in all industries and sectors across the country. Close considerations and advice are made to find which forms of financing that will suite the companies the best. There are also investment supports for traditional agriculture and fishing. IN has the flexibility to give priority to grants or loans, but is seeking to increase the share of loans. The

⁶⁰http://www.forskningsradet.no/no/Nyheter/Spennende_utvikling_i_klyngeprogrammet/1254009780519?lang=no , <http://www.innovationclusters.no/english/>

⁶¹ <http://www.innovasjon norge.no/en/start-page/our-services/financial-services/>

low risk loans are most important in regions where other banks are reluctant to give loans (Menon 2013). An evaluation (op.cit) advises IN to direct the low-risk portfolio towards more risky and more innovative projects. The *innovation loans* and regional oriented loans are relevant instruments to innovation, regional development and internationalization. The innovation projects seem to have higher risk, and the evaluation recommends using other instruments such as grants or seed capital to support these enterprises (Menon 2013). In the light of the Government's policy to reduce the regional- and rural instruments, the evaluation recommends to let the innovation loans take over some of the roles that the regional oriented loans have had (op.cit).

Grants (investment grants and business development grants) are primarily given to small and medium-sized businesses and the funding is restricted to designated areas for regional aid. Investment grants are used to support «hard» investments in means of production, while business development funds support «soft» infrastructure such as: research and development, technical pilot/feasibility studies, training, consultancy and exhibition participation.

Start-up grants (by Innovation Norway)

The goal of start-up grants⁶² is to stimulate establishment of new enterprises. The funding from the state has increased lately, and this increase has resulted in more money being granted to entrepreneurs in the central areas of Oslo/Akershus and Rogaland.⁶³ However, there is still a recognition that the start-ups in the rural areas should be prioritised. In addition, young entrepreneurs and women⁶⁴ are prioritised. The county councils, which also contribute to the funding of the start-up grants, can request that their money should be used in rural areas only.

The grants cover specified activities, and can be given in two phases of the start-up; phase 1: Pre-market Evaluation and phase 2: Commercialization.

In phase 1: Pre-market Evaluation, the purpose is to evaluate customer needs. Relevant activities in this phase are customer surveys, testing and development of the idea itself, networking and competence building. The grants can be from 50 000 NOK to 100 000 NOK. The enterprises have to be no older than three years to get

⁶² <http://www.innovasjon Norge.no/en/start-page/our-services/start-ups/>

⁶³ Because the start-up grants are small (de minimis aid), they do not come under the rules of state aid. Thus, start-up grants can be given to entrepreneurs all over the country.

⁶⁴ The goal is that 40 % of the start-up grants should be given to female entrepreneurs (which is not being reached)

this start-up grant. If an enterprise can document further growth potential, the enterprise is eligible to apply for Phase 2.

In phase 2: Commercialization. The purpose is to further *the commercialization to help the company grow*. Relevant activities are development of product/service, protection of intellectual property, activities connected to market introduction, etc. The grants (phase 1&2) can sum up to maximum 500 000 NOK (700 000 NOK if the project has potential for international markets). The enterprises have to be younger than five years to get the start-up grant.

IN also have an **Entrepreneur phone** available for entrepreneurs to discuss, for free, their idea with the IN staff. They also offer strategic mentors to general managers of start-up enterprises. Hence, the IN also functions as business consultants.

3.4 Special Initiatives for the periphery

Peripheral areas typically have small markets, long distances, few people and a large share of elderly people. Peripheral areas have particular challenges and need carefully selected instruments. In this chapter, we describe some of the Norwegian instruments that are particularly relevant for the rural and peripheries areas.

Local industrial development fund

Some rural municipalities have their own industrial development fund, or they have joint funds with other municipalities in their region. These funds are often used to support small enterprises and entrepreneurs with minor investments, business development or knowledge building. 85 percent of the enterprises that get support from the local industrial development funds have between 1 and 5 employees, so this is an instrument to support to micro and small enterprises. Both new enterprises and established firms can get support (Køhn et al. 2006). This is important because many of the small enterprises are not eligible to other development measures. Hence, the local development funds can be the first step to help put new ideas and innovations into business. After the initial phase, a next potential step could be expansion and applying for bigger money from actors like Innovation Norway and The Research Council. The local/municipal funds are most significant for business in small and rural municipalities where the funding easily can be adjusted to local needs (Rambøll 2012).

These instruments have been organized and funded in different ways over time. In the beginning, the Ministry allocated money directly to the local industrial development funds at the municipality level. The last decades however, the county

councils (the regional partnerships) have been in charge of the development money. Still, several regions give money to the municipalities in order to support local industrial development funds. Municipalities both inside and outside of the designated areas for rural and regional policy can get support for local development funds. The county councils delegated NOK 125 million to local industrial development funds in 2015.⁶⁵ In addition, the municipalities themselves can allocate some of their own money to these development funds.

Housebuilding in the rural areas

In Norway, privately owned houses are common. People generally own the house they live in. However, in some rural areas there is a shortage of appropriate housing due to the housing markets not functioning very well. Because of declining populations and low demand for houses, building or buying a new house is a risky business, as it may not sell on. Importantly, while the increase in value has not been quite as high as the national average, only a few rural municipalities have had a negative value exposition (Lie et. al 2010).

The programme «Housebuilding in rural areas» (2012–2014) was designed to improve the supply of houses in municipalities with small and risky housing markets.⁶⁶ Twelve rural municipalities took part in this rural housebuilding program. The program had two instruments: knowledge sharing and housing subsidy. The knowledge sharing took place on various arenas: Joint meeting places for the participating municipalities, experiential conferences, separate meetings with the participating municipalities and active use of web sites. The participants evaluate the knowledge sharing as positive and as an important push-factor for progress (Rambøl 2014).

The housing subsidies are primarily used to build new accommodations; rental flats, residences with a rental part, houses and apartment buildings. For the individual people involved, the subsidy was crucial to their housebuilding, as otherwise, they stated they would not have taken the risk of investing in a house in a small and risky market. In total, the housing subsidy was NOK 62 mill for the three-year programme (Rambøl 2014).

The Norwegian State Housing Bank managed the program supported by the Centre of Competence on Rural Development.

⁶⁵ Information from the Ministry of Local Government and Modernization.

⁶⁶ <http://www.husbanken.no/boligetablering-i-distriktene/>

Programme for developing local rural shops – The MERKUR-programme

The local grocery shop is not only a shop that provides necessary groceries, but also a social arena and a meeting point. In sparsely populated areas, many local shops have been shut down the past decades. Hence, the «Merkur-programme» was established to develop rural shops. To participate in the program, it was a requirement that the shop was a «normal» grocery shop with ambitions to give more service to the customers. Furthermore, the distance to the next shop must exceed 10 kilometres; alternatively, the shop can be located on an island or serving a local market with less than 200 households. The aim of the Merkur programme is to provide new services in the shops to increase their profitability and to give the local population a broader and better level of service. The purpose is to ensure that people in rural areas get access to grocery shops and bookshops locally.

The Merkur programme has two parts: the competence building and the economic support arrangement. The competence building consists of a part-time course running for one year, and during which the grocer has to develop the shop in cooperation with the local inhabitants. Yearly, 50–60 grocers are invited to join this part of the programme. So far, more than 1000 grocers have been through this part of the programme. In the second part, there are three support arrangements: 1) Investment grants for upgrading and modernizing the shop, 2) small grants to develop new activities, competence, marketing etc. and 3) investment grants for fuel installations. In 2016, the budget for economic support is 28 mill NOK. The investment grants is maximum 400 000 NOK per year per shop. The development and activity support are given only to the smallest shops and are of maximum 50 000 NOK per year. This program is funded by the Ministry of Local Government- and Modernisation.⁶⁷

An evaluation of the Merkur programme indicates that shops attending the Merkur programme have better annual sale progress than other rural shops. Shops that receive investment grants have better progress for annual sale than other Merkur shops. This indicates that both the competence building part and the economic support part have had effects (Halvorsen and Båtevik 2014). The study also shows that the non-economic part is regarded important by the grocers, i.e. the competence part, regional network for rural shops and a visiting consultant motivate the grocers (op.cit).

⁶⁷ <http://merkur-programmet.no/>

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