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## Assessment and Recommendations

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### *Good economic performances sustain support to areas losing population*

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Norway has successfully developed a resource based economy (hydroelectricity, petroleum, fisheries, agriculture) and is also competitive in specific sectors on the world market (light metals, automotive parts, maritime) thanks to improved productivity and innovation. Sound macroeconomic policies have kept inflation under control, with the fiscal earnings of petroleum and gas exploitation going into a Pension Fund contributing to reduce the impact of increased ageing. The country has enjoyed steady growth since the beginning of the nineties (3% per year between 1991 and 2003) and in terms of GDP per capita, it ranks third in the OECD, only behind Luxembourg and the United States. This favourable context has made it easier for successive governments to pursue regional development policies and programmes comprising a strong bias in favour of remote rural areas and the north of the country (district policy) where climate, distance and very low population densities bring forward issues of market access but also of public service delivery. Despite these proactive policies, around half of Norwegian municipalities experienced population decline in the decades following the mid-1980s, with inward migration towards Oslo and major cities in the south.

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### *The “Nordic model” pursues both equity and competitiveness concerns*

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These specific challenges exist in other countries of northern latitudes (Finland, Sweden and Canada) but also in a country such as Australia featuring very sparse settlement patterns in large territories. Can regional development policy correct these imbalances by better leveraging local assets in all parts of the country? Which type of measures, programmes and mechanisms can contribute to strengthen entrepreneurship in rural and remote areas where most firms are small and operate in traditional sectors? Which governance framework seems best adapted to pick up these major challenges? The so called “Nordic model”, based on pursuing both equity and competitiveness concerns,

with the assumption that they are mutually reinforcing is an implicit policy reference. Are overall objectives attained on this basis and is implementation impaired in certain cases? Can municipalities with very large territories and sparse population continue to adequately fulfil their role in economic development and service provision today? Up to what point can Norway be further inspired by other models, insofar as its strong natural resource base and its unique geographical features (a country stretched over more than 2 000 kilometres with numerous natural barriers to communication) offer opportunities and constraints that can require specific solutions?

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*Maintaining the main features of the settlement pattern is a permanent objective*

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Despite several historical phases, Norwegian regional policy is mainly characterised by a strong redistributive character. It has evolved since the post-war period, with initial focus on the North (North Norway Plan, 1951) that had suffered great devastation. A regional development fund was set up in 1961 and equal service provision in all parts of the country became a permanent policy goal. In the mid-1970s bottom-up approaches began to be encouraged, followed in the mid-1980s and into the 1990s by a more market-oriented perspective, in order to make the most of the potential in all regions. Important steps were taken in 2003 and 2004, with the devolution of economic development budgets from the Ministry of Local Government and Regional Development to the county councils and the creation of Innovation Norway, by regrouping of several state agencies thus ensuring the regional presence of a major national level actor. A White Paper released mid-2005 recalled the objective of maintaining the main features of the settlement pattern while recognising that policy initiatives to achieve regional policy goals should also strengthen Norway's international competitiveness.

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*Policy instruments mainly target sparsely populated areas, with emphasis on service delivery and competitiveness*

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The more recent period has seen a renewed emphasis on the specific requirements of peripheral areas and the creation of a "Government sub-committee on rural and regional policy" at the end of 2005, followed by the publication of a White Paper on regional policy mid-2006, underlining the continued need for strong support measures in the most sparsely populated areas. Urban policy concerns, aiming cities of different sizes, are also beginning to emerge with recent measures including a newly presented White Paper on the Capital Region which focuses in particular on governance and

competitiveness issues. Regional policy in Norway thus comprises over time both support for peripheral and declining areas and competitiveness in all regions, while ensuring public service provision in all parts of the country. In pursuing and seeking to conciliate these different goals, the following characteristics have emerged.

- Policy for peripheral and declining areas distinguishes instruments targeting all sparsely populated areas from those that are specific to the North.
- Regional competitiveness policies, based on cluster-type approaches or entrepreneurship, strive to promote innovation across sectors both in major urban centres and in rural areas.
- Service delivery in areas with population decline is ensured through strong fiscal equalisation mechanisms, to maintain accessibility and quality of service based on national standards but innovative service delivery approaches are also pursued.
- The governance framework is one of increasing decentralisation but retaining strong features of power sharing between levels of government that require adequate co-ordination.

## Policies for peripheral and declining areas

### *Measures are based on employment-oriented fiscal mechanisms and service delivery equalisation*

Policy measures in favour of peripheral and declining areas are largely based on the automatic application of pre-defined fiscal and grant mechanisms in favour of firms present in zones defined by objective economic, demographic and geographical indicators highlighting strong handicaps in terms of accessibility, low population density and depopulation. Differentiated social security contributions constitute since 1975 a form of permanent aid to firms so as to favour employment in targeted regions. Lower rates to gross salary payments, between 0 to 10.6%, as compared to 14.1% in non-aided areas for 2007-2013, are applied. This is completed by modulation of investment aid levels, favouring most difficult areas as well, with ceilings of 35% for small firms, 25% for medium-sized enterprises and 15% for big companies. Both mechanisms apply in areas spread all over Norway, covering 25% of the population, in many cases with densities below or only slightly above two inhabitants per km<sup>2</sup>.

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*Diagnosis of regional competitiveness advantages could improve the design of policy tools*

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North Norway (the three counties of Nordland, Troms and Finnmark) receives additional attention by the application of tailored measures and a large share of regional aid spending (two-fifths in 2006). Specific measures are the North Norway Grant aiming to enhance the quality of public services, allocations or tax exemptions, in particular for individuals, in the smaller “Action Zone of North Troms and Finnmark”, where business support within the dedicated NT programme also applies. Measures in favour of peripheral and declining areas in general and North Norway in particular are established on the basis of a wide policy consensus for support of a compensatory nature from the national level implying important flows of funds stemming from fiscal revenue generated elsewhere. This might explain why evaluation of the effectiveness of these measures has not been a priority policy issue. New concerns about economic competitiveness in the context of regional reform suggest the following holistic approach.

- Better link policies aimed at equity and competitiveness objectives, in order to assess the assumption that growth and welfare are mutually linked, so that a region wide vision of development effectively promoting synergies can emerge.
- Establish at the national level a diagnosis of regional competitiveness advantages, based on local resources, amenities and know-how.
- Empower Regional Councils with the task of defining a comprehensive and tailored regional economic and social development strategy enhancing present regional development plans (financed by the Ministry of Local Government and Regional Development), by effective and complying integration of sector concerns, along a model developed in many European countries and stimulated by the Structural Funds.
- Create regional development funds with significant resources that would provide regions with allocations to co-finance strategic initiatives with sector ministries.
- Consider the progressive introduction of performance-based incentive mechanisms so that the most dynamic municipalities seeking to capitalise on local assets can be rewarded for higher degrees of local initiative.

## Competitiveness and innovation policies

### *Regional innovation and competitiveness policies involve a wide array of actors*

The situation of Norway in terms of innovation and competitiveness can be characterised by a paradox: innovation levels are relatively low but productivity is high. Innovation tends to be adopted through non endogenous innovative processes and products rather than in-house developments. R&D expenditure levels, particularly from private sources, remain low as compared to OECD averages. Also, regional competitiveness policies are characterised by a wide array of tools for different contexts, from remote rural areas to highly sophisticated urban knowledge environments. The main actors are Innovation Norway (operating under the main responsibility of the Ministry of Trade and Industry but also largely funded by the Ministry of Local Government and Regional Development), RCN (The Research Council of Norway, under responsibility of the Ministry of Education and Research) and SIVA, the Industrial Development Corporation of Norway, with important and strategic ownership interests in business parks and incubators. Can these policies foster effective regional competitiveness, including in areas where critical mass, easy market access and adequate manpower are lacking?

### *The role of major urban areas in knowledge production and diffusion should be better considered*

The innovation system is confronted with the difficult task of tapping very diverse regional contexts: a dynamic capital city area and a few university cities; rural and peripheral areas; and the particular case of North Norway. The country thus disposes of a high level knowledge base concentrated in the capital city area and in the other university cities (Bergen, Trondheim, Stavanger and Tromsø), with a closely knit network of university colleges present in all counties. These institutions co-operate with the private sector even if systematic regional development goals are not pursued in the absence of a comprehensive policy framework to that end. Norway has world renowned expertise in the marine and maritime fields and in fish-farming and seafood, with strong clusters developed in these areas. Other efficient clusters exist in the light metal industry and in ICTs. Cluster policy aims to comfort these strong points through programmes such as the Norwegian Centres of Expertise (NCE) while developing clusters in new areas such as bio-tech. Most evaluations recognise the soundness of these policies but underline still great fragmentation in spite of recent efforts to reduce the number of tools, with frequent overlaps. It remains to be seen whether this necessary

clarification will lift ambiguities between the role of major urban centres vying for international prominence and that of other areas where innovation and competitiveness are sought at a smaller scale, usually in SMEs operating in traditional sectors.

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*Recent emphasis on city attractiveness and competitiveness, particularly in Oslo, create the basis for an explicit urban policy*

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- The main urban structure of Norway comprises, besides Oslo, three other cities with more than 100 000 inhabitants, also located in the south of the country, as compared to Tromsø, the biggest urban settlement in the north, with less than 64 000 inhabitants in 2006. All of these urban areas and other cities in the south are growing, with in-migration from sparsely settled areas in different parts of the country. These urban areas are home to major clusters that bring significant contributions to national GDP (four NUTS 3 regions account for half of national GDP in 2003, excluding offshore activities, with the capital region alone representing 22%) but only Oslo, with a metropolitan area of more than 1 200 000 inhabitants, enjoys international status. Contrary to many countries, Norway has no explicit urban policy *per se*, but new environmental and immigration concerns, particularly in the Oslo area, are getting more focused, bringing into light issues of city competitiveness that regional policy does not yet specifically address. Innovation can play a strong role in this area and efforts such as those engaged by the private sector within Oslo Teknopol require national level support following a partnership approach. District policy aims need however to be taken into account, lest new measures in favour of major urban areas contradict policies aiming to stem internal migration flows.

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*The role of small and medium-sized cities needs to be better integrated into regional innovation strategies*

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- Rural areas represent an important proportion of Norwegian territory: the investment aid map covers around 86% of the land mass and comprises two-thirds of municipalities regrouping approximately 27.5% of the population. These areas share features of lower educational attainments, out migration, ageing and higher levels of public sector employment. They receive high grant amounts per capita to ensure public service delivery and tax breaks for firms to sustain economic activity. Counties with strong rural features receive targeted funding. Innovation in local businesses is actively pursued by the public agencies mentioned above by use of specific

infrastructure and policy tools aiming rural areas. This diversity of measures has contributed towards creating equal living conditions in different parts of the country by compensating handicaps of different kinds. However, it appears difficult to measure the impact of these policies on competitiveness since benchmarking is not systematically organised. The role of small and medium-sized cities in the development of these areas has only been highlighted recently by new programmes but these are not yet fully integrated into regional plans.

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*Tromsø University is an asset for North Norway but stronger interregional co-operation and networking could further its impact*

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- North Norway covers one-third of Norway's mainland area but represents only 10% of the population. Innovation activity in the three counties of Nordland, Troms and Finnmark are amongst the lowest in the country but the knowledge base developed around the University of Tromsø is growing, open to specialisations and firms linked to polar conditions. Many programmes seek to comfort these positive trends, perceived as strategic for the future, as these appear to be the only way of retaining young people. A certain measure of success has been achieved in the health sector, with most students staying on as practitioners after graduation and the creation of a centre for telemedicine with national status. Although the impact of the University is being felt in the three counties, increased co-operation between the regional councils could usefully help to develop networks and partnerships with the private sector. This would also provide a stronger base for promotion abroad and internationalisation of activities.

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*Place-based policy approaches can enhance the impact of regional competitiveness and innovation policies*

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The review of regional competitiveness policies in Norway and their application to different geographical and economic contexts suggest a certain number of recommendations to improve their efficiency, beginning with the definition of a strategic vision for regional innovation at the national level encompassing components developed rather distinctly up to now. The recommendations are the following:

- Bring together global concerns and regional development priorities by increased co-operation between the main actors at the national level, possibly by creating a high level committee including the scientific community and the private sector.

- Compare the efficiency and effectiveness of different tools in order to simplify policy delivery.
- Ensure co-ordination with the regional level by mandatory innovation strategies in regions integrated into national priorities.
- Plan a strong innovation component within urban policy, based on incentives for developing intercity networking, including small and medium-sized cities, between firms, universities and research institutions.
- Concentrate entrepreneurship and innovation measures in favour of peripheral and rural areas so that the infrastructure for business development is used more efficiently, by emphasis on soft measures such as training, with the aim of increasing local absorption capacity.
- Integrate such incentives systematically into innovation programmes for North Norway, in particular to support joint investment and tourism promotion by the three counties abroad.

## Public service delivery in areas of population decline

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### *Depopulation and ageing in more than half of Norwegian municipalities impact the cost of services*

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Depopulation trends, with strong impact on service provision, continued over the last decade: 228 municipalities out of 431 experienced negative population growth from 1997 to 2006. Private services like small grocery shops are disappearing, remaining present only in central parts of municipalities. Public services in areas of population decline are however rather well assured, but at a high cost for the national budget, aiming to compensate additional expenditure to service a dwindling population. In this context, municipalities are free to organise public service delivery as they deem best fit, on the basis of a largely block grant system, as long as they respect the ratios and quality requirements defined by the national level. In small municipalities with a declining and ageing population, health care expenditure tends to grow at the expense of primary and lower secondary schooling expenses. The system does not seem to contain incentives or performance-based budget and management tools that would facilitate better allocation of resources and limit expenditure. The Kostra database, presenting trends in municipal budgets, however permits useful comparisons.



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### *The 2002 hospital reform aims greater cost efficiency*

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Health and social care expenditure has been going up in all Norwegian municipalities as a result of ageing. Measured in per capita terms it is 50% above the OECD average. In municipalities with negative population growth, welfare expenditure represents more than 50% of the budget. Staffing costs are proportionately higher, with these small municipalities often compensating doctors for a reduced patient base and, in spite of these costly schemes, recruitment of health personnel in rural areas is a problem. Intermunicipal co-operation in these fields is limited because of the large and variable geographical dimensions of municipalities. The 2002 reform, replacing county responsibility for hospitals by regional health enterprises supervised by the Ministry of Health and Care Services, sought to increase cost efficiency while organising improved and more equal service provision across the country. Municipal health centres, flexible responses to distance, co-operate efficiently with county level hospitals.

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### *Population decline produces concerns about school closures and staffing problems*

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Since 1997, 60% of school closures have been occurring in municipalities with population decline. As schools close, transportation costs covered by municipal budgets increase, while average salaries for teachers are higher. The overall cost per pupil is also higher with pupil to teacher ratios lower than in urban areas. A diminishing headcount reduces grant levels but fixed costs remain. The overall high cost of schooling in these areas and recruitment problems have triggered local projects to compensate distance and limited human resources by innovative tele-education schemes. Based on co-operative approaches between adjacent municipalities, they combine traditional teaching methods with interactive video classes. These projects are however costly, as broadband deployment in Norway is at the initiative of private operators, making it necessary for the public sector to join efforts in view of reducing expenses.

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### *More systematic use of ICTs can further improve cost-efficiency in quality education and health services*

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Overall, areas of declining population enjoy accessibility to public services on the basis of ratios and quality standards applying in all parts of the country and equalisation schemes that compensate for higher per capita

costs or reduced tax bases. Additional support is even provided in peripheral areas and in North Norway, through specific grants aiming to provide a wider offering of services and even higher levels of service quality, as this participates in the attractiveness of areas seeking to retain their inhabitants. Also, Norway's broadband coverage is very high, reaching 98% of households. On the other hand service provision is becoming increasingly costly and ageing will deepen the trend, while a recruitment problem remains in many rural areas for health personnel and for teachers. Certain proposals could improve cost-efficiency while better sharing scant human resources.

- Assess in detail the supply of skilled labour for public services in areas of declining population.
- Develop support to telemedicine (training, funding) from rural health centres within a national plan for telemedicine that could be developed with Tromsø University.
- Define a tele-education scheme for rural areas capitalising on the experience of municipal initiatives for lower secondary education, to share know-how on the basis of a network approach.
- Extend entrepreneurship training in services and support to service firm creation in rural areas.

## **Governance framework and regional reform**

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*An important number of responsibilities remain shared across levels of government*

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The Norwegian governance framework has been undergoing decentralisation since the beginning of the millennium but rather than clear cut delegation of responsibilities, power sharing, bringing up co-ordination issues, has been preferred. An example is that of counties, managing their regional development plans with funds devolved from the central level, while "County plans" bringing together activities of sector ministries used to be a separate exercise. This complexity is also reflected in the mapping of administrative boundaries, quite different from each other and far from following county limits. Also, the number of counties – 19 – could be considered as too high, in proportion of the population. The discussion of forthcoming regional reform relates precisely to the size and responsibilities of counties, the number of which might possibly be reduced.

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*Differing administrative boundaries and the role of the County governor require clarification*

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Efficient co-ordination, both at the national and regional levels and across levels of government is required for the functioning of this governance matrix. At the national level, the creation at the end of 2005 of a Government Sub-Committee on Rural and Regional Policy, chaired by the Ministry of Local Government and Regional Development bringing together seven ministries, is a positive outcome. At the regional level, differing administrative boundaries and sometimes overlapping responsibilities blur the picture. In the context of future regional reform, it seems that options as to the county governor's role are now closed: there is consensus around a model with limited powers for the state representative.

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*Municipalities enjoy limited fiscal autonomy and many rely on strong equalisation funding originating in urban areas*

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Close to 50% of municipal and county revenues are constituted by taxes. The main features are a capped level of income tax and a significant share of general purpose grants, with few conditional grants and low levels for the property tax (only 2% of municipal revenues in 2004). In big and medium-sized cities, income tax represents much higher levels than grants, whereas in small municipalities these proportions are reversed. In counties, comparative patterns can be discerned: the main revenue sources for counties in North Norway are constituted by grants from the central level, contrary to others where the income tax plays the major role. The important flows stemming from equalisation schemes, which are funded by big cities, complete the picture of a financial framework characterised by limited autonomy and automatic mechanisms in favour of small local governments with lesser revenue or facing higher costs per capita. The system contains comparative benchmarking but few incentives or new tax raising possibilities exist that would encourage local governments to develop more proactive public service or economic development strategies financed from own revenue sources.

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*Intermunicipal co-operation could be developed in parallel to increased staff training*

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If the number of regions is reduced and when regional councils receive increased powers in different areas (spatial planning, roads, the environment and innovation), can many municipalities remain at their present size (47% have less than 4 000 inhabitants) to efficiently participate in regional development

strategies? The latter will require active local government partners with adequate human resources willing to promote economic development projects fitting into wider regional networked perspectives rather than merely subsidising local businesses. Increased intermunicipal co-operation can be a solution and a first step towards amalgamation but these are few, although 30 municipalities are studying the possibility. Different incentives could be considered to better trigger the process, linking it to regional reform.

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*Regional and sector policies should be better integrated and regional reform objectives better explained*

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The recommendations that could be made in view of regional reform to be implemented in 2010 rest on the assumption that such major structural changes cannot be efficiently carried out without a clear allocation of responsibilities and resources. Also, linkages with parallel changes within other levels of government are required, so as to facilitate implementation and contribute to effective devolution. The suggested guidelines are the following.

- Ensure that the Government Sub-Committee on Rural and Regional Policy has sufficiently permanent status, staff and resources to co-ordinate policy decisions and monitor application, as obstacles requiring corrective measures can appear. The Committee should be able to check that sector strategies in counties are integrated into broad regional policy and synergies developed.
- When decentralising new responsibilities to counties, ensure that no unfunded mandates are given, by clear transfer of corresponding resources.
- Clearly associate citizens and associations in the reform process by systematic consultation and dissemination of information on the objectives of the reform to counter apparent lack of interest in regional developments, reflected by voter turnout which is lowest at the regional level.

## Box 0.1. Norway basic facts and figures

### The land and the people

**Population:** 4 681 000 (2007)

**Population density:** 14 inhabitants per km<sup>2</sup>

**Languages:** Nynorsk (New Norwegian) and Bokmal (Dano-Norwegian), with equal status.<sup>1</sup>

**Area:** 324 000 km<sup>2</sup>, with around 20% of productive forest and 3% devoted to agriculture.

**Climate:** Maximum average temperature of 16.4 centigrade in Oslo and 9.2 centigrade in Vardo (on the Barents Sea), lowest average minimum of -4.3 centigrade in Oslo and -5.4 centigrade in Vardo. In innermost northern localities like Karasjok, temperatures can reach -50 centigrade. One-third of the country lies north of the arctic circle.

**Daylight:** In January six hours in Oslo, polar night (sun permanently below horizon) of two months in Northern Norway and three and a half months in Svalbard, in summer close to 19 hours in Oslo, polar day (sun above horizon for 24 consecutive hours) lasting around two months and a half in the North and four months in Svalbard.

**Topography:** Norway is characterised by a rugged and broken mountainous landscape with many fjords, glaciers, peninsulas and coastal islands. Communication is thus difficult: many localities are more easily reached by boat and the railway network stops in Bodø.

**Situation:** Continental Norway, the northernmost country in Europe, spans 1 750 kilometers from north (Finnmark) to south (Vest-Agder), a distance greater than that between Oslo and Rome. It borders Russia, Finland and mostly Sweden. The Svalbard archipelago lies 650 km further north.

### Governance

**Independence:** 7 June 1905, after having been for more than four hundred years under the domination of Denmark and a dual monarchy with Sweden since 1814.

**Constitutional monarchy:** a single chamber in parliament (Storting)<sup>2</sup> and two levels of elected local government (municipalities and counties).

**Currency:** Norwegian Kroner (NOK).

**EU links:** Norway remains a member of EFTA (European Free Trade Agreement), having twice refused by referenda (in 1972 and 1994) EU accession. It nonetheless maintains close ties with Europe, as signatory of the European Economic Space and Schengen agreements. The EU represents three-quarters of Norway's foreign trade.

**431 municipalities:** In 2006: more than half have less than 5 000 inhabitants and 13 have more than 50 000. Municipalities often form voluntary associations, governed by “regional councils” with powers in certain areas delegated by the municipalities.

**19 counties,**<sup>3</sup> each with a County Council and a centrally appointed Governor co-ordinating national policy implementation. Regional offices of national administrations seldom coincide with county limits.

1. The Sami (or Lappish) people, spread over the arctic areas of Scandinavia and Russia, speak their own language. Norway is home to two thirds (approximately 45 000) of this population.
2. The Sami have their own parliament, established in Karasjok, since 1989.
3. Oslo has both municipality and county status.

Figure 0.1. **Norway and the Nordic countries**



Figure 0.2. **Counties in Norway**

Source: Ministry of Local Government and Regional Development.





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