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Work Package 4
“Structural Change and Globalisation”

CASE STUDY

SOUTHERN FINLAND (FI)

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for: European Commission
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In association with
Nordregio, the Nordic Centre for Spatial Development, Stockholm, Sweden
KITE, Centre for Knowledge, Innovation, Technology and Enterprise, Newcastle, UK
## Acronyms

<table>
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<th>Acronym</th>
<th>Description</th>
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<tr>
<td>DG REGIO</td>
<td>Directorate General for Regional Policy</td>
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<tr>
<td>EAGGF</td>
<td>European Agricultural Guidance and Guarantee Fund</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>ERDF</td>
<td>European Regional Development Fund</td>
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<tr>
<td>ESF</td>
<td>European Social Fund</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FIFG</td>
<td>Financial Instrument for Fisheries Guidance</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GIA</td>
<td>Gender Impact Assessment</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and Communication Technology</td>
</tr>
<tr>
<td>LFS</td>
<td>Labour Force Survey</td>
</tr>
<tr>
<td>NDP</td>
<td>National Development Programme</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental Organisation</td>
</tr>
<tr>
<td>NTI</td>
<td>New Technologies of Information</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PPS</td>
<td>Purchasing Power Standard</td>
</tr>
<tr>
<td>RTDI</td>
<td>Research, Technological Development and Innovation</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and Development</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprise</td>
</tr>
<tr>
<td>SPD</td>
<td>Single Programming Document</td>
</tr>
<tr>
<td>TOR</td>
<td>Terms of Reference</td>
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<td>WP</td>
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Executive summary

Scope and research methods

This report is produced as a contribution to the ex post evaluation of cohesion policy programmes 2000-2006 commissioned by the European Regional Development Fund (Objectives 1 and 2). It is part of the Work Package 4: Structural Change and Globalisation.

The main question dealt with in this case study focuses on the extent to which the European Regional Development Fund (ERDF) financed various measures tackling structural change and adaptation to the process of globalisation. The specific question of how the Southern Finland Objective 2 programme succeeded in terms of generating new employment and reducing unemployment will be addressed. Generally, structural change is underlined in the three priorities and it is also emphasised in the overall strategy of the programme. Responding to structural change referred to the operational environment of enterprises. The programme emphasised the importance of promoting the development of the internationalisation of companies and strengthening the development of key branches of the economy of Southern Finland. The objective of creating more globalised and competitive business activities is a result of the fact that the production structure in Southern Finland was sensitive to cyclical trends.

Information contained in this report is based on aggregated information obtained from various sources: a desk-study of the various programming, policy and evaluation documents, programme monitoring data, interviews with state and regional level authorities as well as with final beneficiaries of the specific measures under review (concentrated on company level project beneficiaries), and statistical data from the Statistics Finland.

Key research question and hypothesis tested in the case study

The main research question of this case study is whether there is evidence and rationalities on how regional policy measures within the 2000-2006 ERDF Programme address issues of structural change and globalisation. Particularly, the interest in the case study is focused on developing regional potential through the regional skill-base and qualification structure of the labour force. Additionally, attention is drawn to the attendance and influence of regional production clusters in terms of technological adoption.

In the conceptual framework of the evaluation, the globalisation process and structural change are considered within a framework of five different dimensions: socio-economic change and human capital, regional specialisation, production systems, innovation potential, and internationalisation and relocation. In the case of Southern Finland, socio-economic change and human capital and production systems have been chosen as the main focus areas in the evaluation. The chosen dimensions meet the respective characteristics of Southern Finland. Due to the heterogeneous nature of the programme area however growth areas and specific focus areas tend to vary from one region to another, i.e. from the capital region to those facing major structural problems as traditional industries close. Human capital and skills development are key factors in the potential for success, both in advancing regions and those suffering from structural change, and in
strengthening local labour markets and regional innovation processes in response to the demands of local production systems.

In order to carry out the case analysis, the focus was further narrowed down to the two selected measures: Measure 1.1 “increasing and developing small and medium-sized business activities” and Measure 2.1 “improving the operating prerequisites for training and research”. The selected ERDF measures were assessed and tested through two working hypotheses proposed in the conceptual model developed by the study. Hypotheses “the regional production system is embedded in the regional firm structure and labour market. The lack of strong local supply chain linkages and of intra-industry collaborative modes between large firms and SMEs hinders the speed of new technology adoption and the spread of flexible modes of production” is directly linked to Measure 1.1 and hypotheses “structural rigidities in the accumulation and change of regional human capital have negative effects on firms’ responses to the challenges posed by globalisation and on the adoption of economic innovation. Possession of an inadequate skill-base is a reflection of the lack of flexibility in education, rigid labour institutions, or other socio-institutional constraints to mobility and to the improvement of human capital” is more closely associated with Measure 2.1. However, the analysis of the two selected hypotheses is interwoven throughout the case study, taking into consideration both measures.

**Regional context and key findings**

Southern Finland is a heterogeneous area, which comprises traditional industrial districts, highly specialised regions including the vital service sector, and rural regions. The region encompasses the capital region of Finland and also areas facing major structural difficulties where large numbers of traditional industrial concerns are closing their premises. The main priorities for the 2000-2006 programming period were delineated as creating the preconditions for regional competitiveness and concentrating on support of the innovation capacities of SMEs with the aim of to further reinforce the economic structure and the competitiveness of regions in global markets. Southern Finland experienced over the period 2000-2006 a phase of positive economic growth in most of the regions that was stimulated by diversified industrial structure, the presence of growth centres, a well developed service structure, and supply of a competent workforce. The main reason for this economic success was the concentration on promoting skills and innovation, as this provides the foundation for sustainable productivity and employment. The industrial structure in Southern Finland has changed significantly over the last two decencies. Traditionally strong paper industry covers is now only one of three major export sectors, the other two being electronics and metals engineering.

The Southern Finland Objective 2 programme mainly focused on supporting regional structural change and enabling adaptation to globalisation. The programme considered the role of SMEs as a crucial factor in terms of responding to structural change and globalisation. SMEs also had an important position in terms of creating new employment and reducing unemployment. The programme strategy stressed the need of improving the innovative capacity and human capital of SMEs as well as consolidation of the general functional viability of sub-regions and urban areas. Regions of structural change were to be considered as an integrated whole, comprising also the surrounding areas. The programme strategy had intention to diversify business and production structure as well as of the hard core of the regional economies.
The key findings of this case study are the following:

**The programme strategy was based on existing regional resources and competences and supported through national regional policy initiatives**

The strategy in the Southern Finland Objective 2 Programme aimed to strengthen and develop the areas within the Objective 2 region into one of the main future pillars of the Baltic Sea region. From the perspective of maintaining regional development and competitiveness, the defined strategy was functional and was based on existing regional resources and competences. The economic structure is relatively diverse in Southern Finland and is thus not dependent on single key sectors as is the case for other Finnish structural funds programme areas. The programme did take this into account in the pursuit of its strategic framework regional specialisations within the programme area. Each region was given the ability to allocate funding according to key sectors within the framework of the programme. This development has been supported through national initiatives like the Centre of Expertise programme and the Regional Centre Programme.

**The programme provided for regions a framework, within which programme implementation process comprised a more flexible approach and a wider spectrum of projects**

Regional policy was radically reformed after Finland joined the European Union in 1995, and this reform process continued during the programming period 2000-2006. The reform of regional policy originated from realisation of the need to adapt to the constraints and opportunities afforded by economic and political integration in the EU, but can also be seen as a response to the need to be better able to cope with structural change and globalisation. Several studies have documented the fact that the programme based approach of the structural funds has reinforced the capacity and increased the openness of regional policy as well as emphasised the importance of the regional level policy making. The global trend is towards a concentration on specialisation, but at the same time the global economic structure is changing in a way that points towards benefits for many smaller regions in terms of new production methods and opportunities. The Southern Finland Objective 2 Programme was relatively successful in underlining regional specificities due to the bottom-up process of the programme implementation process. The programme provided a more flexible framework for regions to take into account their different structural problems and challenges. This approach, which entailed the study of different focus areas in specific parts of the area, allowed regions to implement a wider spectrum of projects compared to what had been possible before the introduction of the structural funds in Finland.

**Enterprises’ performance was promoted through the development and diversification of new methods and modes of manufacturing technologies**

The Southern Finland Objective 2 Programme was strongly committed to developing and strengthening the business environment. The role of SMEs in particular was viewed as a crucial factor in terms of generating new employment and reducing unemployment. While new employment was generated in growth companies at the same time however many larger manufacturing companies and less competitive SMEs had
to reduce employee numbers during the programming period. The programme undoubtedly however facilitated an increase in employment in the programme area, but with the number of jobs generated, it was still unable to compensate for the overall loss of employment in the manufacturing and agriculture industries. In Southern Finland this trend has been particularly clear in the eastern part of the programme region, where agriculture is still an important industry. Moreover, structural change continues to negatively influence the paper industry.

The activities carried out through the ERDF projects during the 2000-2006 period have clearly however improved company performance through the development and diversification of new methods and modes of manufacturing technologies. This in part took place through entrepreneurs’ increasing use of advanced production methods and new marketing strategies as well as through the exchange of information and transfer of skills and knowledge. The ERDF Programme of Southern Finland mainly comprised projects which were initiated by individual companies in order to develop internal operational processes in production or marketing. However, the 2000-2006 programming period also demonstrated a growth in collaborative projects strengthening networking and clustering activities. Overall, connections between companies in Southern Finland and various education institutions increased during the programming period. Thus, ERDF projects contributed to structural change both in a long-term and short-term perspective.

**Necessary to underline and acknowledge the needs of SMEs on building capacities and competencies in opening to new market links**

There is need for a more user-oriented approach in respect of the distribution of ERDF funds. Thus, numerous interviewees state that in order to enter new global markets greater emphasis must be placed on market research to obtain the necessary information about costumer needs and demands. In many instances small and micro-sized enterprises are unable to access this information themselves. Thus, instead of focusing public intervention directly on exports to global markets, public policies should focus, to a greater extent, on building the capacity and knowledge of SMEs to enter new markets. Human capital and skills are immediately linked to capabilities to develop or renew local productive activities.

The programme implementation succeeded in developing and generating the sort of requisites and internal processes that led to technological upgrading and building of marketing capability in firms. Although it is acknowledged that enterprises’ own technology efforts are essential for improved performance, this is usually for SMEs with limited resources an uncertain and risky process. The study show that collaboration between enterprises and institutional support can play a key role in helping SMEs to build up internal capabilities to compete in regional and global markets.

**ERDF succeeded in increasing the openness and efficiency of regional policy and allowed more powers to regional level actors**

Finally, a key finding in terms of the qualitative effects of the 2000-2006 ERDF Programme was that the efficiency and openness of regional development policy was significantly improved. Regional policy is now more focused on long-term strategic planning and on the initiation of collaboration between different actors.
This programming period also ensured that regional level actors are able both to identify and to take into consideration the specific needs of differing regions and sectors.

Coordination of the programme by different ministries (the Ministry of Trade and Commerce, the Ministry of Labour, the Ministry of Education and the Ministry of Agriculture and Forestry) resulted a weak performance of the programme. Coordination was not a difficulty per se but the biggest problem however was considered to be the differences in administrative rules and practices between different ministries as well as their regional agencies. The adoption of the new administrative and management structure based on partnership was not easy to implement either at regional or national level. The involvement of different actors both at the national and regional level further confused the multi-dimensional administrative structure and also caused difficulties to identify overlapping or complementary projects between funds. During the programming period 2000-2006 the policy framework was progressively revised and clarified and cohesion programmes became an integrated part of the Finnish regional development strategy.

Main message

Despite of far-reaching structural changes in agriculture and manufacturing industry and the related problems of long-term unemployment in the region, in contradiction of increasing employment more knowledge-intensive growth industries, it can be derived that hypothesis 1 concerning socio-economic change and human capital can, to some extent, be confirmed. Structural inflexibility in enterprises’ performance would seem to have negative effects on their responses to globalisation challenges and on the adoption of economic innovation. However, in terms of the lacking human capital and inflexibility of education, the case study confirms the achievement of increased collaboration between SMEs and educational institutions, facilitated by the 2000-2006 ERDF programme.

The Southern Finland Objective 2 programme referred in the measures in its three priority areas to globalisation and structural change related issues to a varying degree. The Measure 1.1 “increasing and developing small and medium-sized business activity” had a specific connection to product development and to support the growth potential of SMEs. Priority 2 emphasised the challenges of raising the level of technical skills and competences in order to promote business activities and building of marketing capability in firms. The Measure 2.1 “improving the operating prerequisites for training and research” significantly tackled unemployment in defined regions and emphasised linkages between enterprises and educational institutions.

The programme succeeded to create new employment in growth companies but simultaneously larger companies and less competitive SMEs were often forced to downgrade employment in order to adapt themselves to the new economic situation. However the programme also successfully increased employment and improved enterprise performance through the advancement of new production methods and modes of manufacturing technologies. The 2000-2006 programming period strengthened networking and clustering activities thus contributing to structural change both in a long-term and short-term perspective.

A major focus of the Southern Finland Objective 2 programme was to develop the basis for a balanced regional structure. Therefore, programme interventions concentrated on businesses as a tool for
strengthening cluster building and the improvement of innovation environments through introducing the possibility of implementing interregional projects in order to develop clusters. The programme was also successful in consolidating ‘interregional learning’ in order to create clusters and spread and encourage the good practices that reinforced long-term strategic planning and collaboration between different partners in the regions.
Introduction

The overall question which this case study aims to answer is how and whether Southern Finland addressed issues of structural change and globalisation through the 2000-2006 ERDF Programme.

The Objective 2 programme area of Southern Finland, comprising the capital region, is the strongest economic growth centre in Finland. However, the area is also increasingly affected by the process of structural change. This structural change process can in brief be described as the dissimilarity between non-knowledge intensive rural regions traditionally dominated by heavy industries, which undergo a continuing downturn in production and employment, and knowledge intensive urban regions which continue to grow. Based on these framework conditions for Southern Finland, the case study analysis is founded on two working hypotheses developed in the conceptual model “socio-economic change and human capital” and “production systems”:

Hypothesis 1: Socio-economic change and human capital:

Structural rigidities in the accumulation and change of regional human capital have negative effects on firms’ responses to globalisation challenges and on the adoption of economic innovation. An inadequate skill-base is due to a lack of flexibility in education, rigid labour institutions, or other socio-institutional constraints to mobility and to the improvement of human capital.

Hypothesis 3: Production systems:

The regional production system is embedded in the regional firm structure and labour markets. The lack of strong local supply chain linkages and of intra-industry collaborative modes between large firms and SMEs hinder the speed of new technology adoption and the spread of flexible modes of production.

The analysis of southern Finland’s initiatives to adapt to globalisation and the process of structural change through the ERDF Programme 2000-2006 is focused on two measures: “Increasing the development of small and medium-sized business activity” and “Improving the operating prerequisites for training and research”.

In order to support the case study analysis, the methodological approach is based on a combination of interviews, document analysis and internet. Interviews were conducted with ten policy makers (members of the Managing Authority and Monitoring Committee as well as key informants from the regional level) and ten project beneficiaries (enterprises). The document analysis comprised a full revision of the Single Programming Document, annual reports and other second-hand sources of information. A statistical analysis was performed on the basis of statistics processed by the core team of the evaluation and also on the basis of statistical evidence from Statistics Finland and similar sources.

The case study is structured as follows: section 1 first provides a profile of Southern Finland from a broad socio-economic perspective, and then focuses on the dimensions of structural change and globalisation in the programme; section 2 analyses the strategy and objectives of the Objective 2 programme; section 3 provides
an in-depth analysis of the influence of the selected ERDF measures on the process of structural change and adaptation to globalisation; finally section 4 presents the conclusions of the case study analysis.
1. Structural change and globalisation in perspective

1.1 The region at glance

As illustrated in Figure 1.1, Southern Finland occupies most of Finland’s coastline. The nature in Southern Finland is characterised by an extensive coastal area with archipelagos and large clay plains divided by larger river systems in the eastern part of the area. The major harbours are located along the coast of southern and south-western Finland. The current traffic network is strongly Helsinki-centred and cannot fully manage the challenges arising from the development trends in the neighbouring countries, such as Russia. In comparison with the rest of the country, the region is much more densely populated and it is the only area of the country with a distinctively urban character. Southern Finland is characterised by rapid urbanization as well as migration from other parts of Finland to its urban centres due to the job and study opportunities available there. The area is also characterised by a high standard of welfare, i.e. social welfare. In 2000, Southern Finland had 2,528,610 inhabitants covering almost 50% of the total population of the country. The area is also today mainly characterised by strong population growth in Uusimaa and Varsinais-Suomi.

Figure 1.1 - Southern Finland

Source: Nordregio
The eastern part of the area suffers from the necessity to restructure its traditional heavy industries and as a consequence has experienced a downturn in migration. The Helsinki capital region has, on the other hand, experienced significant population growth. In the rural areas of Southern Finland however, particularly in Päijät-Häme and Etelä-Karjala, the population is decreasing while the share of the ageing population has increased significantly. The economic development in Southern Finland has demonstrated a positive trend since 2000, although rapid ongoing changes in the global economy strongly influenced the development of the industrial structure, especially in the eastern part of Southern Finland. Strong economic sectors in Southern Finland include the paper and wood industries, information and communications technology, the metal industry, machinery, agriculture and the food industry.

The “economic dependency ratio”, i.e. the figure indicating the number of persons who are either outside the workforce or unemployed in relation to one person working, indicates that the smaller the figure the better for the national economy. In Finland, according to statistics for 2001 the economic dependency ratio stood at 1.31. In the case of Southern Finland, the range varied from 0.98 in Uusimaa to 1.46 in Kymenlaakso. These figures for Southern Finland thus demonstrate the existing differences in the population structure of the various regions.

The Southern Finland Objective 2 programme area comprises the regions Etelä-Karjala, Kanta-Häme and Päijät-Häme, and a number of sub-regions in Kymenlaakso, Itä-Uusimaa, Uusimaa and Varsinais-Suomi (Figure 2). Four of the Objective 2 area regions border the Gulf of Finland while three of them are inland. Etelä-Karjala and Kymenlaakso share a border with Russia.

Figure 1.2 – The eligible areas for Objective 1 and 2 between 2000 and 2006 in Southern Finland.

Source: European Commission, Inforegio
Table 1.1 illustrates the division of eligible Objective 2 areas in Southern Finland. In 2004, the total population of the Objective 2 areas was 696,870 persons. The Objective 2 areas are predominantly rural, with the exception of Itä-Uusimaa, which is located in immediate proximity to the capital region, Helsinki. In Kymenlaakso, the Objective 2 areas, the industrial structure is dominated by the paper and forestry industries located along the Kymijoki River. The Objective 2 areas cover geographically diversified environments ranging from urbanised regions in South-Western Finland and archipelago areas in Itä-Uusimaa and Uusimaa to the remote areas of Päijät-Häme.

Table 1.1 - Taxonomy of Objective 2 eligible areas (NUTS3)

<table>
<thead>
<tr>
<th>Area</th>
<th>Population, 2004, thousands</th>
<th>% of regional population, within Objective 2 areas</th>
<th>Population in Objective 2 areas, thousands</th>
<th>Urban/rural category*</th>
</tr>
</thead>
<tbody>
<tr>
<td>FI181 Uusimaa</td>
<td>1342.6</td>
<td>0.2</td>
<td>2.7</td>
<td>1</td>
</tr>
<tr>
<td>FI182 Itä-Uusimaa</td>
<td>92.1</td>
<td>3.3</td>
<td>3.0</td>
<td>31</td>
</tr>
<tr>
<td>FI183 Varsinais-Suomi</td>
<td>453.1</td>
<td>22.7</td>
<td>102.67</td>
<td>21</td>
</tr>
<tr>
<td>FI184 Kanta-Häme</td>
<td>167.1</td>
<td>100.0</td>
<td>167.1</td>
<td>31</td>
</tr>
<tr>
<td>FI185 Päijät-Häme</td>
<td>198.6</td>
<td>100.0</td>
<td>198.6</td>
<td>31</td>
</tr>
<tr>
<td>FI186 Kymenlaakso</td>
<td>185.6</td>
<td>46.7</td>
<td>86.7</td>
<td>22</td>
</tr>
<tr>
<td>FI187 Etelä-Karjala</td>
<td>136.1</td>
<td>100.0</td>
<td>136.1</td>
<td>32</td>
</tr>
</tbody>
</table>

*1 = predominantly urban; 21 = intermediate rural, close to a city; 22 = intermediate rural, remote; 31 = predominantly rural, close to a city; 32 = predominantly rural, remote regions.


Note: Please note that table does not include Ob.2 phasing-out regions

Population growth in Southern Finland in the period 1995-2006 shows an increase of 3.3%. In comparison, the national average for population growth in Finland during the same period was 1.6% (Table 1.2). Population growth in Southern Finland has been relatively high during the programming period 2000-2006, especially in Itä-Uusimaa, Uusimaa and Varsinais-Suomi. Forecasts predict that the current migration to the capital region and to the Turku region will continue. Measured in terms of population growth, the southernmost part of Southern Finland is the most rapidly growing region in the whole of Europe.

In 2006, GDP per capita was evidently higher in Southern Finland compared to the rest of the country. Economic development, i.e. growth in GDP per capita and gross value added, has however shown considerable differences across regions in the area. Uusimaa and Varsinais-Suomi have performed well due to positive developments in terms of production and employment, while there has been less growth in the eastern part of Southern Finland in Kymenlaakso and Etelä-Karjala. The economic growth in Uusimaa and Varsinais-Suomi was mainly based on the ongoing expansion in the telecommunications industry and in the public sector. In these regions, aggregate production grew during the years 2000-2004 on average by 5% per annum. In turn, GDP in Itä-Uusimaa, Kanta-Häme, Päijät-Häme and Kymenlaakso grew more slowly compared to the overall national production level by about 3% per annum.
### Table 1.2 - Regional performance in comparative perspective (NUTS2) – Basic data

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Unit</th>
<th>Regional</th>
<th>National</th>
<th>EU15</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>1995</td>
<td>2000</td>
<td>2006</td>
</tr>
<tr>
<td>Population</td>
<td>Thousand</td>
<td>2,423</td>
<td>2,513</td>
<td>2,595</td>
</tr>
<tr>
<td>GDP per capita</td>
<td>€ PPP</td>
<td>18,114</td>
<td>26,301</td>
<td>29,823*</td>
</tr>
<tr>
<td>Gross Value Added</td>
<td>€ million basic prices</td>
<td>47,600</td>
<td>66,005</td>
<td>77,826*</td>
</tr>
<tr>
<td>Employment rate</td>
<td>% employed of those aged 15 and over</td>
<td>n.a.</td>
<td>59.6</td>
<td>60.2</td>
</tr>
<tr>
<td>Unemployment rate</td>
<td>% unemployed of those aged 15 and over</td>
<td>n.a.</td>
<td>7.7</td>
<td>6.3</td>
</tr>
</tbody>
</table>

Source: Core team processing of Eurostat data

Relative to the EU and national averages, Southern Finland has demonstrated a positive development in terms of both employment and unemployment rates. In Finland, the unemployment rate of 7.7% in 2006 was slightly below that of the EU15 average (7.8%). Southern Finland, at this time, had an unemployment rate of 6.3%. Although the unemployment rate is low, it nevertheless exceeds the levels in the other Nordic countries, because structural or long-term unemployment is still a significant issue in the Finnish labour market, accounting for over two thirds of all unemployment. Of the six regions in Southern Finland showing the greatest improvement, the unemployment rate decreased in two regions: Päijät-Häme from 11.9% in 2001 to 8.7% in 2006 and Kymenlaakso from 12.2% in 2001 to 9.1% in 2007. These regions still, however, have higher unemployment rates as compared to other regions in Southern Finland. The best performing regions in Southern Finland were Itä-Uusimaa (3.7%) and Uusimaa (5.5%).

The employment rate in Southern Finland changed slightly from 59.6% in 2000 to 60.2% in 2006, and this tendency has run in parallel with the employment rate at the national level. Meanwhile, the employment rate is clearly higher than the national reference value. Corresponding values for the EU15 reveals a significantly higher increase in the employment rate. Thus, in 2001 the employment rate accounted for 44.3% and in 2006 for 52.9%. The differences between regions within the programme area are obvious. Three regions, Uusimaa, Itä-Uusimaa and Varsinais-Suomi had an employment rate over 70% in 2006, while the employment rate in Kymenlaakso was only 64.4%. Differences in the employment and unemployment rates reflect structural differences between the regions in Southern Finland.
1.2 Searching for the roots of change: the socio-economic history of the region

In Finland a clear distinction can be made between the Northern and Southern parts of the country. The north is dominated by sparsely populated areas producing various raw materials, while the south of Finland contains more developed industries. The gap between North and South is continuing to widen with emerging development differences between growth centres and peripheral areas helping to accentuate the problem. The concentration of the urban settlement began in earnest during the 1960s and 1970s. The capital region of Helsinki is the only growth centre which reaches the European level for growth regions. All other strong growth centres (except Oulu in Northern Finland) are located in the southern part of the country.

During the period 2000-2006, Southern Finland experienced a period of positive economic development in most regions. The development of the economic structure of the regions of Southern Finland was influenced by the following factors: an increasingly diverse industrial structure; the presence of growth regions; a well developed service structure; and access to a skilled workforce. The basis for this overall positive economic development in Southern Finland was the concentration on fostering skills and innovation. Moreover, during this period, private actors gained a key position in the regional economies, whereas previously the public sector had dominated the economy of Southern Finland.

The economy of the eastern part of Southern Finland is strongly rooted in the forestry industry. The regions of Kymenlaakso and Etelä-Karjala accounted for approximately 30% of the total national production of wood products and paper, and one in four of the total workforce in these regions worked in these industries. However, the wood and paper industries have undergone something of a decline in production and employment which is now causing significant structural problems in these regions. Primary production and the food and metal industries each play a significant role in the western part of the programme area, where they represent a high proportion of the total national production. Moreover, in Southern Finland the high technology industries, spearheaded by the Nokia Corporation, have become national symbols. Overall in Southern Finland the industrial structure has changed significantly over the last twenty years, and now the paper industry is only one of three major export sectors, the other two being electronics and metals engineering. Electronics is the fastest growing sector in Southern Finland, and due to the sector’s dependence on high expertise and knowledge it also causes in-migration.

Due to the uneven level of economic development in the programme area, some regions have declining while others have increasing populations. In the growth centres which generally experience increasing immigration, the regions have encountered difficulties in providing sufficient residential areas of the necessary quality. Moreover there is a degree of mismatch on the labour market, where the demand for knowledge workers has increased, while the long-term unemployment of low-skilled workers is increasing. The issue of long-term unemployment is severe and it is now a significant policy priority to prevent social exclusion.

The Southern Finland Objective 2 programme 2000-2006 was a continuation of the previous Objective 2 and Objective 5b programmes, which were divided into two programming periods, 1995-1997 and 1997-1999. The programming period 1995-1999 largely achieved its objectives, especially in terms of measures targeting

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the promotion of skills. A significant outcome of the previous programmes for 1995-1997 and 1997-1999 was that it was decided that focus should be placed more specifically on areas suffering from industrial decline in the programme, e.g. in the form of cluster development. Generally, the introduction of the structural funds in Finland facilitated the opportunity to cope with structural differences at the regional level and introduced the more systematic planning, implementation and evaluation of regional development programmes.

1.3 Regional structural change and globalisation issues in 2000-2006

1.3.1 Dimensions of structural change

In the conceptual framework of the evaluation, structural change and globalisation issues are reflected by five different dimensions: socio-economic change and human capital, regional specialisation, production systems, innovation potential, and internationalisation and relocation. In order to evaluate structural change and effects of globalisation processes in Southern Finland, socio-economic change and human capital and production systems have been chosen as main focus areas in the evaluation.

Southern Finland is a heterogeneous area, which comprises traditional industrial districts (the paper and pulp industry in the eastern part of the area), highly specialised regions including the vital service sector (Helsinki Capital and surrounding regions), and rural regions (parts of Varsinais-Suomi, Kanta-Häme, Päijät-Häme and Etelä-Karjala). Southern Finland thus comprises the capital region of Finland and also regions facing major structural problems as traditional industries are closing the premises in the eastern part of the programme region. Due to the heterogeneous nature of the programme area, growth areas and specific focus areas also vary from one region to another. Human capital and available skills are key elements in responding to structural change and globalisation in the programme area. Human capital and skills are crucial factors in terms of regional development but one cannot consider them as independent factors for economic growth. Rather, human capital and skills are directly related to capabilities to develop or renew local productive activities both in advancing regions and regions suffering from structural change. In other words, human capital and skills are important factors for strengthening the local labour markets and regional innovation processes in response to the demands of local production systems in different sectors of the economy.

1.3.1.1 Socio-economic change and human capital

One of the main focus areas of development in Southern Finland has been to advance the level of skills and know-how of the population. Especially in order to increase the competitiveness of SMEs, regional and local initiatives for training, research and product development are essential. Traditionally Southern Finland has experienced a low degree of entrepreneurial activity, and initiatives for entrepreneurship continue to be below national average in the area. Meanwhile, especially the cutbacks in the manufacturing industries in the eastern part of the programme area triggered an increase in the number of individuals participating in training and education initiatives in order to improve their skills to meet the challenges of structural change. This change towards further education and training may also serve as a facilitator for future entrepreneurial activity.
As can be seen in Table 1.3, the share of people participating in various education and training activities (including adult education and vocational training) is higher in Southern Finland in comparison to the national and EU15 average. There are two main reasons explaining why the share of people participating in training and education and initiatives is higher in this programming area. First, Southern Finland has a higher number of education institutions and, second, there are an increasing number of unemployed persons from regions suffering from structural change who participate. An example of a training initiative is adult re-employment training, which aims to improve the supply of skilled labour and make it easier for the unemployed to re-enter the labour market.

Table 1.3 - Socio-economic change and human capital (NUTS 2)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Regional 2000</th>
<th>Regional 2006</th>
<th>Δ% 00/06</th>
<th>National 2000</th>
<th>National 2006</th>
<th>Δ% 00/06</th>
<th>EU15 2000</th>
<th>EU15 2006</th>
<th>Δ% 00/06</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of people aged 25-64 participating in education and training</td>
<td>18.9</td>
<td>24.2</td>
<td>28.0</td>
<td>17.5</td>
<td>23.1</td>
<td>32.0</td>
<td>8.0</td>
<td>11.4*</td>
<td>42.5</td>
</tr>
<tr>
<td>Share of population aged 25-64 with tertiary education</td>
<td>35.3</td>
<td>38.2</td>
<td>8.2</td>
<td>32.1</td>
<td>35.1</td>
<td>9.3</td>
<td>20.3</td>
<td>25.1*</td>
<td>23.6</td>
</tr>
<tr>
<td>Share of students at tertiary level</td>
<td>n.a.</td>
<td>50.4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Crude rate of net migration</td>
<td>4.2**</td>
<td>3.4*</td>
<td>-19.0</td>
<td>1.2**</td>
<td>1.8</td>
<td>50.0</td>
<td>3.2</td>
<td>4.2</td>
<td>31.3</td>
</tr>
<tr>
<td>Long-term unemployment rate</td>
<td>29.9</td>
<td>28.3</td>
<td>-5.4</td>
<td>28.6</td>
<td>25.2</td>
<td>-11.9</td>
<td>n.a</td>
<td>42.3</td>
<td>-</td>
</tr>
<tr>
<td>Share of 25-34 years employed on total employment</td>
<td>23.1</td>
<td>21.7</td>
<td>-5.8</td>
<td>21.6</td>
<td>20.8</td>
<td>-3.8</td>
<td>n.a</td>
<td>23.6</td>
<td>-</td>
</tr>
</tbody>
</table>

* Data for 2005, ** Data for 2001

Source: Core team processing of Eurostat data

The regions undergoing structural change are characterised by being heavily dependent on traditional industries, and approximately 2,500 persons have become unemployed due to cutbacks and closing down of factories. These problems are ongoing in 2009, and the support of structural funds to cope with structural change was highly significant in the 2000-2006 programming period and still is important today.

Research and development activities play a large part in order for the regions to develop into more knowledge intensive and innovative communities, strengthening the socio-economic development. In Finland the capital region, Uusimaa is categorised as a European metropolis. In comparison to the rest of the country and also to other regions in Southern Finland, Uusimaa dominates the fields of research and development and higher education. Figure 1.2 illustrates the differences between the regions in Southern Finland, where Kymenlaakso, Päijät-Häme and Itä-Uusimaa only comprise one third of the share of research personnel of Uusimaa out of the total number of people in employment. One explanatory factor is that the three regions do not have higher education institutions.
Overall, the education level is high in Finland. Moreover, in Finland the share of people who have completed secondary education is one of the highest in the world. The education level in Uusimaa (table 1.4) is clearly higher in comparison to other regions within the programme area and also in comparison to the rest of the country. The share of people with higher education or post graduate degrees is lower in Kymenlaakso, Päijät-Häme and South Karelia, the former being more dependent on heavy industries while the latter two are largely characterised as rural areas.

Table 1.4 - Educational status in Southern Finland 2000-2006, in %

<table>
<thead>
<tr>
<th></th>
<th>2000 Uusimaa</th>
<th>Itä-Uusimaa</th>
<th>Varsinais-Suomi</th>
<th>Kanta-Häme</th>
<th>Päijät-Häme</th>
<th>Kymenlaakso</th>
<th>South Karelia</th>
<th>Whole country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary education</td>
<td>35.7</td>
<td>44.1</td>
<td>41.1</td>
<td>42.8</td>
<td>43.8</td>
<td>42.1</td>
<td>44.4</td>
<td>40.6</td>
</tr>
<tr>
<td>Upper secondary education</td>
<td>33.2</td>
<td>32.6</td>
<td>36.0</td>
<td>35.7</td>
<td>36.4</td>
<td>38.2</td>
<td>36.8</td>
<td>36.1</td>
</tr>
<tr>
<td>First stage of tertiary</td>
<td>13.8</td>
<td>13.2</td>
<td>12.5</td>
<td>13.4</td>
<td>12.0</td>
<td>12.4</td>
<td>11.4</td>
<td>12.5</td>
</tr>
<tr>
<td>Lower university (polytechnic)</td>
<td>6.5</td>
<td>4.9</td>
<td>4.5</td>
<td>3.9</td>
<td>4.3</td>
<td>4.0</td>
<td>3.8</td>
<td>4.8</td>
</tr>
<tr>
<td>Higher university</td>
<td>9.7</td>
<td>4.6</td>
<td>5.2</td>
<td>3.9</td>
<td>3.3</td>
<td>3.2</td>
<td>3.4</td>
<td>5.4</td>
</tr>
<tr>
<td>Post-graduate</td>
<td>1.1</td>
<td>0.3</td>
<td>0.7</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
<td>0.2</td>
<td>0.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2006 Uusimaa</th>
<th>Itä-Uusimaa</th>
<th>Varsinais-Suomi</th>
<th>Kanta-Häme</th>
<th>Päijät-Häme</th>
<th>Kymenlaakso</th>
<th>South Karelia</th>
<th>Whole country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary education</td>
<td>32.4</td>
<td>39.0</td>
<td>36.2</td>
<td>37.7</td>
<td>39.1</td>
<td>37.6</td>
<td>39.1</td>
<td>35.9</td>
</tr>
<tr>
<td>Upper secondary education</td>
<td>34.3</td>
<td>34.8</td>
<td>38.4</td>
<td>38.3</td>
<td>38.8</td>
<td>40.7</td>
<td>39.5</td>
<td>38.3</td>
</tr>
<tr>
<td>First stage of tertiary</td>
<td>11.9</td>
<td>12.8</td>
<td>11.4</td>
<td>12.6</td>
<td>11.2</td>
<td>11.6</td>
<td>10.7</td>
<td>11.3</td>
</tr>
<tr>
<td>Lower university (polytechnic)</td>
<td>9.0</td>
<td>6.8</td>
<td>6.8</td>
<td>6.3</td>
<td>6.5</td>
<td>6.1</td>
<td>6.0</td>
<td>7.2</td>
</tr>
<tr>
<td>Higher university</td>
<td>11.2</td>
<td>6.0</td>
<td>6.3</td>
<td>4.8</td>
<td>4.2</td>
<td>3.9</td>
<td>4.4</td>
<td>6.6</td>
</tr>
<tr>
<td>Post-graduate</td>
<td>1.3</td>
<td>0.5</td>
<td>0.9</td>
<td>0.3</td>
<td>0.3</td>
<td>0.1</td>
<td>0.4</td>
<td>0.7</td>
</tr>
</tbody>
</table>

Source: Statistics Finland, Education Statistics
Table 1.4 exhibits a growth of people holding a lower university degree which is a result of the establishment of 29 polytechnics, which were formed during the last half of the 1990s. Polytechnics are of specific importance for the above mentioned regions Kymenlaakso and Päijät-Häme, because they do not have universities or other higher education institutions. Generally, polytechnics, compared to universities, have closer contact with the regional business community. Polytechnics have gained a clear importance in terms of promoting cooperation with the business community and forming new consortia between universities and polytechnics. Polytechnics also played a role through their involvement in a number of ERDF projects in the 2000-2006 programming period.

Table 1.5 illustrates the income differences which follow a similar pattern as the difference of education levels between the regions in Southern Finland. It is notable that only Uusimaa has an average wage higher than that of the national average. However, the differences between other regions illustrate a deviating pattern as the average monthly wage is higher in Kymenlaakso and South Karelia than in Varsinais-Suomi. This difference is mainly due to the industrial background of Kymenlaakso and South Karelia: especially employees in the paper industry have traditionally had higher wages compared to other industrial sectors. The figures in Table 1.5 are from 2007 directly after the programming period in question. One can assume that the wage trend has changed since then due to the ongoing industrial restructuring.

**Table 1.5 - Average monthly wage in Southern Finland, 2007**

<table>
<thead>
<tr>
<th>Region</th>
<th>€ per month</th>
</tr>
</thead>
<tbody>
<tr>
<td>National average</td>
<td>2,734</td>
</tr>
<tr>
<td>Uusimaa</td>
<td>3,059</td>
</tr>
<tr>
<td>Varsinais-Suomi</td>
<td>2,587</td>
</tr>
<tr>
<td>Kanta-Häme</td>
<td>2,505</td>
</tr>
<tr>
<td>Päijät-Häme</td>
<td>2,520</td>
</tr>
<tr>
<td>Kymenlaakso</td>
<td>2,631</td>
</tr>
<tr>
<td>South Karelia</td>
<td>2,613</td>
</tr>
<tr>
<td>Itä-Uusimaa</td>
<td>2,718</td>
</tr>
</tbody>
</table>

*Source: Statistics Finland, Economic Statistics*

**1.3.1.2 Production system**

As introduced above, the number of new business start-ups in Southern Finland, with the exception of Uusimaa, has increased slowly compared to the national average (Figure 1.3). The low number of new businesses can partly be explained by the dominance of processing industries in Kymenlaakso and South Karelia, which have the lowest degree of entrepreneurship in Finland. A large amount of new enterprises were established between the years 2002 and 2007 but since then, mainly due to the global recession, there has been a decrease in “business births” and an increase in “business deaths”. The majority of businesses established in the Southern Finland Objective 2 area were based in Uusimaa and Varsinais-Suomi.
Southern Finland can be characterised as the economic centre of the country, as approx. 52% of Finland’s most important sectors and approx. 56% of the total number of people in employment are based in the area. The number of entrepreneurs in the area varies greatly depending on economic cycles, but the total number of companies in 2007 was approx. 230,000. Most of these (60%) were one man companies. In Southern Finland, the entrepreneurship rate (percentage of total number in employment) is higher than the national average (9.2%) in Päijät-Häme, Kanta-Häme and Itä-Uusimaa (Figure 1.4). The four remaining regions in Southern Finland can be divided into two groups: first, Varsinais-Suomi and Uusimaa, and second, Kymenlaakso and South Karelia. The former are rural regions, where enterprises are traditionally mostly micro enterprises in the wood processing sector, tourism and welfare services. In the latter group, the food processing industry has traditionally been strong and entrepreneurial traditions have not been as developed as in other regions.

Figure 1.4 - Number of business birth and deaths in Southern Finland, 2001-2008

Source: Statistics Finland, Economic statistics
Figure 1.5 - Entrepreneurship rate in Southern Finland, 2007, in %


Until the end of 1960s Finnish regional development policy was driven by centralised industrial policies, and thus the national government was the central actor. In the 1970s, the role of developers in individual regions was radically altered as local measures assumed greater importance and a more coherent regional policy was created. The main objective of regional policy was now to decrease the push and pull factors precipitating migration through the reduction of regional differences. While regional development remained rather even in the 1980s, the 1990s was a time of economic instability and significant structural change. The deep economic recession of 1991-1993 saw both employment and production declined sharply. However, the economy recovered rather quickly a recovery which was primarily based on the success of export-led and knowledge-based industries.

Since the beginning of the 1990s the role of companies has increased. The wealth and vitality of regions is derived from creating and producing valuable products and services based on the innovative capacity and productivity of enterprises. The role of the public sector is to create enabling circumstances to advance private sector development through policy making. Thereby, policies concentrating on macroeconomics are no longer considered the way forward; instead economic development is now focused on the microeconomic level through the interplay between public authorities, education institutions and companies.

Local production systems in Southern Finland are strongly affected by the changes in the international market, especially the paper industry in Kymenlaakso and South Karelia. The development of the forest cluster (Figure 1.6) illustrates the globalisation process, which has gathered speed after Finland’s accession to the European Union. For instance, R&D investments in the wood processing industry grew in the beginning of the 2000s because of large expansion of the industry abroad, and over 80% of investments in the industry were directed outside Finland. Currently, the main concern of the wood processing industry is to cut costs as

much as possible, which generally entails cutbacks and closing down factories. A, due to high labour costs, capital intensive industry such as the paper industry is not viable for incentives to invest or renew its production systems in Finland.

**Figure 1.6 - Key developments in the Finnish forest cluster**

![Diagram showing key developments in the Finnish forest cluster](image)


The generation of new business activity was set as the main target of the programme. Support for the development of existing businesses in traditional branches of economy was not however precluded. The changing nature of the forest cluster however sets new demands on enterprises which need to able to demonstrate internal and external flexibility. These processes are strongly supported by ERDF funding as several initiatives derived from other policy approaches are integrated into providing a clear regional dimension. This policy approach in most cases focuses on SMEs because of the additional obstacles they typically face in growing and the clear scope for policy intervention. For example, differently oriented advantages and interests are associated with the forest industry, the development of which is of primary importance to the area’s employment and industrial development. In this, the location of the operations of the forest cluster and the related business activities that surround the forest industry provided an additional focus of attention in the programme.

Particularly due to the presence of the capital region, Southern Finland is overall an economically high performing area. The role of SMEs, e.g. as subcontractors, is increasingly becoming important in the business networks of larger companies. Outsourcing activities have been delayed in the wood processing industry due to the lack of qualified SMEs able to operate as subcontractors to larger companies. Thus, in the forest cluster, there have only been a few examples of closer integration between large companies and SMEs in spite of rather extensive public initiatives.
1.3.2 Understanding the geography of structural change

Southern Finland has already been described as an Objective 2 area comprising NUTS3 regions, the area is however also a part of the Province of South Finland. The Finnish provinces illustrate the regional division of the administration of the central government. The provinces are managed by a common regional authority including seven different ministries in policy-making involving the provinces. The Southern Finland Objective 2 area is created solely for the purpose of implementing EU structural funds. Six out of seven NUTS2 regions in the Southern Finland Objective 2 area are part of the Province of South Finland; the only exception is Varsinais-Suomi, which is part of the Province of West Finland. However, the Southern Finland Objective 2 area is a functionally and economically integrated area forming the Southern Finland Regional Alliance, which is a coalition of seven Regional Councils in Southern Finland. Its task is to promote the common goals of the seven Regional Councils (referred to in this report as regions) and represent their interests towards the EU and the national government.

Southern Finland’s Objective 2 area covers 40,797 km², which represents slightly more than 13% of the total area of the country. The total population of Southern Finland is 2.62 million (2008) which is approximately half of the country’s population. The area is relatively densely inhabited in comparison to other parts of the country with a population density of 63 inhabitants per km². The capital region is economically, culturally and in terms of transport and communications the most important centre in Finland. Southern Finland’s Objective 2 area also comprises rural areas in the northern and eastern parts of the area, and therefore, a balanced development of the area also requires an interaction between urban and rural areas at various levels. A major turn in the population development is taking place in Finland with increasing migration to the southern part of the country and to the capital region. Urban settlements are growing especially in the peripheral areas and outside of the metropolitan core area, which means that the sprawling urban structure is generating growth in regions close to the capital region.

Table 1.6 provides a list of the division of GDP per capita in Southern Finland. Southern Finland’s GDP was €82.5 billion in 2003, which accounts for about 56.65% of the Finnish national GDP. Regional differences in GDP per capita in Southern Finland were rather pronounced: Uusimaa had the highest GDP per capita, where it amounted to €35,583 per capita in 2005 and the lowest was in Päijät-Häme, where GDP per capita amounted to €20,740 per capita. Between 2000 and 2005 the growth rate has been strongest in Itä-Uusimaa and weakest in the two eastern regions Kymenlaakso and Etelä-Karjala. The regional GDP per capita in Southern Finland can be divided in three groups: Uusimaa is performing best in the first group, Itä-Uusimaa, Varsinais-Suomi, Etelä-Karjala and Kymenlaakso are all placed in the second group and Kanta-Häme and Päijät-Häme are performing least in the third group. The evident explanation for the worse performance of the third group is that these regions do not have major manufacturing companies. GDP per capita overall in Southern Finland was €32,198, which is 115% of the Finnish average and 148.1% of the EU average.3

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3 Eurostat (2007)
Although Southern Finland has a relatively strong economic performance compared to the national average, the general national development trend is also recognisable in Southern Finland. The country as a whole is increasingly becoming differentiated and wealth is accumulating unequally. It is only the larger centres with a manifold economic structure and university or polytechnics, which prove to be able to improve their economic position. Also in Southern Finland, economic decline has occurred in rural areas and also in urban areas. Since the period 2000-2006, the competitive position of Southern Finland, measured by total production per person, has remained largely unchanged. The total production grew rather rapidly in Etelä-Karjala and Kymenlaakso during the programming period, but since 2006 they have faced new challenges and problems as the paper industry is experiencing severe problems.
2. Regional policy 2000-2006: strategy and objectives

2.1 Regional policy mix for structural change and globalisation

In Finland, Regional policy was centrally managed until the 1980s. In the 1990s two main factors precipitated a change in the Regional policy governance structure towards a more decentralised partnership approach. First, the economic recession at the beginning of the 1990s put a severe strain on the ability of some regions to maintain the structure of economic activity. Second, Finland became a member of the EU in 1995. This entailed the introduction of a programme-based policy in the period 1995-1999, which initially caused coordination problems between EU programmes and domestic Regional policy. The main difficulties were in incorporating the previous system of providing direct support for SMEs in problem regions into EU programmes, and the implementation of a new administrative and management structure based on partnership which proved to be difficult at both the national and regional levels.

During the 2000-2006 period, the policy framework was revised and clarified, and cohesion policy programmes became a more integral part of the Finnish regional development strategy. The new policy framework entailed that national and regional (NUTS3) plans and programmes were developed to steer public intervention towards regional development. The means by which public intervention is now implemented is through a combination of various national programmes, primarily the “Centres of Expertise”, “Regional Centres”, and EU cohesion policy programmes. Moreover, national initiatives have become increasingly important in terms of the management of regional policy. The Centre of Expertise Programme, managed by the Ministry of Employment and the Economy, has played an important role here in promoting the innovative capacity and capitalisation of selected fields of global excellence, while the Regional Centre Programme, managed by the Ministry of the Interior, has facilitated cooperation between local governments and local level development initiatives. There was, however, a certain degree of overlap between authorities in terms of programme implementation. Thus, the Centre of Expertise has a central role in developing regional innovation capacity and the Regional Centre Programme in developing urban areas. Many projects included in the latter programme were also included in the Objective 2 programme. Meanwhile, one key difference between the programmes was that the geographical focus of national programmes was wider than EU cohesion policy programmes which were limited to regions with development problems.

The ERDF programming period 1995-1999 was successful in allocating resources to regional development after a time of severe economic recession. The economy started to recover at the beginning of this period but the development of the national economy was relatively slow, and the unemployment rate remained high. However, during the period, a gradual improvement in the domestic economy took place and the employment rate also eventually improved. On the basis of the development which took place during the previous period, the main priorities of the ERDF programme for 2000-2006 were outlined as creating the

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5 http://www.intermin.fi/intermin/hankkeet/aky/home.nsf/pages/indexeng
prerequisites for regional competitiveness and addressing support for the innovation capacity of SMEs in order to further strengthen the economic structure and the competitiveness of regions in global markets. From the initiation of the 2000-2006 programming period, the national government stressed that policy measures should take into account the differing needs of individual regions, and EU policy should add to and support national policy. Priority was given to the following areas of Regional policy:

- strengthening the national and international competitiveness of regions;
- providing public services on an equal basis across the country;
- pursuit of a balanced regional structure.

The strategy of Southern Finland’s Objective 2 programme for the period 2000-2006 was to “exploit and strengthen the current position of the region as the focal centre for top-class expertise, economic activity and culture for the whole of Finland.” 6 The strategy reflects the importance of the region of Southern Finland for the general economic development of the whole country. Moreover, Turku, one of the three ‘2nd tier urban regions’ is also located in the programme region, further confirming the region’s position of strength in the country. 7 The Objective 2 strategy for Southern Finland focused on the following four areas of development, which demonstrate a focus on both structural change and globalisation:

- globalised and competitive business activity;
- an attractive living environment;
- a strong core of skills;
- well-functioning links.

The mid-term evaluation of the Southern Finland Objective 2 programme was conducted during 2003. The strategy of the programme was not however modified in response to regional or national initiatives dealing with structural change and globalisation in the region. The evaluation recommended that measures supporting entrepreneurship should be allocated a larger amount of funding, but this did not entail that any changes be made in the programme. The advent of the economic recession and insecurity on the labour market during the midterm of the project did however entail, to some extent, that the initiation of some ERDF projects was delayed.

### 2.2 Overall strategy of the 2000-2006 Objective 2 programme

The vision of Southern Finland’s Objective 2 programme was “to be a high-quality centre of the Baltic region”. This vision was facilitated through supporting business collaboration and networking, providing training e.g. in terms of meeting the demands of the information society, increasing the attractiveness of the area and improving infrastructure. The design of the programme supported the fulfilment of this vision through promoting the development of functional networks comprising different sectors in different regions.

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7 The ‘2nd tier urban regions’ are Turku, Tampere and Oulu.
Table 2.1 - Synoptic view of the Objective 2 programme

<table>
<thead>
<tr>
<th>Brief description and objective</th>
<th>Budget (€ and% of total budget)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The emphasised development areas in the Objective 2 programme are:</td>
<td></td>
</tr>
<tr>
<td>· globalised and competitive business activity: new, innovative lines of production, supporting the growth opportunities of key fields, diversifying the productive structure and competitiveness of small and medium-sized industry and service fields;</td>
<td>€952,922 out of which 84.6% ERDF, 15.4% ESF</td>
</tr>
<tr>
<td>· an attractive living environment: high-quality, innovative cultural activity which strengthens our identity; local cultural activity; development of tourism; the vitality of the countryside; strengthening the welfare and quality of life of the residents;</td>
<td></td>
</tr>
<tr>
<td>· strong core of skills: training, research and product development for special expertise and raising of high-quality production;</td>
<td></td>
</tr>
<tr>
<td>· well-functioning links.</td>
<td></td>
</tr>
<tr>
<td>Overall programme</td>
<td></td>
</tr>
</tbody>
</table>

The first priority Axis “INCREASING THE ATTRACTIVENESS OF SOUTHERN FINLAND AND THE COMPETITIVENESS OF ITS ENTERPRISES” is of major strategic importance when dealing with the renovation of the economic structure. It was targeted at improving employment and prosperity in the area. The priority Axis is divided into four measures:

· Increasing and developing small and medium-sized business activity;
· Developing the operational environment of SMEs;
· Development and application of new technology;
· Developing the skills and know-how of business personnel and of entrepreneurs.

The aim of the second priority is to “DEVELOP THE LEVEL OF SKILLS AND HUMAN RESOURCES”. It concentrates on teaching and research establishments and their connections to economic life. The goal here is to improve the population’s level of skills and expertise and its ability to cope with the information society. It is hoped that this measure will help guarantee that a skilled workforce exists for business. The Axis is divided into two measures:

· Improving the training prerequisites for training and research;
· Improvement of access to education and training;

The third priority Axis “DEVELOPING SUB-REGIONAL UNITS, URBAN DISTRICTS AND URBAN AREAS AND SECURING THE FUNCTIONAL VIABILITY AND AMENITIES OF COMMUNITIES” aims to improve the basic infrastructure of the communities. The measure also aims at improving the environment, developing the quality of life and work, and preventing social problems. Maintaining a high quality environment is one way to promote both competitiveness and a sustainable environment for business activities and residential living. Five measures support this objective:

· Developing the infrastructure;
· Developing the environment and the community structure;
· Preventing exclusion and increasing social involvement;
· Developing culture, increasing amenities and the quality of life;
· Developing the actors in the culture and environmental field.

The forth priority Axis gathers together the various measures for technical assistance.

<table>
<thead>
<tr>
<th>Overall programme</th>
<th>Budget (€ and% of total budget)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The first priority Axis “INCREASING THE ATTRACTIVENESS OF SOUTHERN FINLAND AND THE COMPETITIVENESS OF ITS ENTERPRISES” is of major strategic importance when dealing with the renovation of the economic structure. It was targeted at improving employment and prosperity in the area. The priority Axis is divided into four measures:</td>
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</tr>
<tr>
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<td>€952,922 out of which 84.6% ERDF, 15.4% ESF</td>
</tr>
<tr>
<td>· Developing the operational environment of SMEs;</td>
<td></td>
</tr>
<tr>
<td>· Development and application of new technology;</td>
<td></td>
</tr>
<tr>
<td>· Developing the skills and know-how of business personnel and of entrepreneurs.</td>
<td></td>
</tr>
<tr>
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<td>· Improving the training prerequisites for training and research;</td>
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<tr>
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<td></td>
</tr>
<tr>
<td>· Preventing exclusion and increasing social involvement;</td>
<td></td>
</tr>
<tr>
<td>· Developing culture, increasing amenities and the quality of life;</td>
<td></td>
</tr>
<tr>
<td>· Developing the actors in the culture and environmental field.</td>
<td></td>
</tr>
</tbody>
</table>

Source: The Southern Finland Regional Alliance: Southern Finland’s Objective 2 programme 2000-2006. Strategy section. REGIO/2000/0001 -00-00

The different networks were developed based on particularly strong positioned sectors in individual regions. The utilisation of these different strengths in the programming area was considered as follows: “a
common economic development improves the living environment and strengthens the position of Southern Finland in the international environment and in the Baltic region in particular”. Table 2.1 synthesises the overall strategy and objectives of the four axes in the Southern Finland Objective 2 programme.

The Southern Finland Objective 2 programme was strongly committed to developing and strengthening the business environment. The role of SMEs was regarded as crucial in terms of generating new employment and reducing unemployment. SMEs were also viewed as important actors in respect of increasing competitiveness and coping with structural change in the regions. This approach was also emphasised in the national regional development strategy, which underlined the necessity of strengthening the national and international competitiveness of regions. The programme strategy also stressed the importance of improving the innovative capacity and human capital of SMEs as well as the general functional viability of sub-regions and urban areas.

Structural change and globalisation were important dimensions in the programme, and were highly influential in defining the programme strategy and the content of the axes. The Southern Finland Objective 2 area was characterised mainly by industrialised urban regions, which had experienced rapid structural change. Therefore, a priority in the programme was to reinforce the national and international competitiveness of the regions. Globalisation was also emphasised in the programme through measures to improve the innovative capacity and human capital of the regions. In addition, globalisation put pressure on regions to modernise and expand their economic structure as well as to modernise and strengthen knowledge-based innovation in order to meet the challenges of globalisation. The programme was, therefore, based on a broad strategy, identifying the need to reinforce the competitiveness of all regions.

The programme underlined different dimensions of structural change and its impact on communities, which were directly or indirectly affected by continuing changes in the industrial structure. The programme focused on the generation of new businesses, although the renewal and development of existing businesses were also important issues here. One of the major strategic elements in the programme was clustering activities and the establishment of a networked mode of production, which was based on the utilisation of the regions’ sectors of particular economic strength with the assistance of the Centres of Expertise. Moreover, the programme aimed to establish an interregional nature of clusters and the entire value chain. E.g. the forest cluster required that building comparative strengths in several aspects: infrastructure, skilled labour, related industries and technology were supported. In this sense, the programme aimed to differentiate between the various areas and objectives, and also between structural funds joint projects, which were mostly targeted at the facilitation of cluster building and as a response to economic restructuring. Approximately 5% of the financial resources of the programme were reserved for joint projects across regions in Southern Finland. The programme defined three overall themes for the purpose of interregional projects:

- Projects linked to the development of interregional enterprise networks, the development of collaboration between clusters and joint marketing and company staff training within a given area.

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• Projects linked to the essential conditions for, and availability of, training and research activity, and to the development of information society skills and competences.

• Projects linked to the improvement of the state of the environment and the prevention of its further deterioration, cooperation between small and medium-sized urban districts, a focus on the issue of exclusion and the development of tourism.

Representatives of the regional and national authorities\(^9\) stated that issues of globalisation had already been highlighted for a number of years in national development strategies without bringing significant changes to the traditional development practises. Nevertheless, the 2000-2006 ERDF Programme included both internationalisation and structural change as major focus areas. In parallel with the establishment of the Centres of Expertise, the 2000-2006 programming period facilitated changes in the development strategy and demonstrated compliance between the focus of respectively national and EU policy on the issue of globalisation.

Based partly on the ex ante evaluation, priorities for the programming document stressed the importance of supporting the development of international companies and strengthening the development of key sectors in Southern Finland. The objective of creating more globalised and competitive business activities is a result of the fact that the production structure in Southern Finland was sensitive to cyclical trends. Thus an espoused goal of the national government was to support the development of a wider clustering structure. Traditionally, in Finland the ICT and forest industries have been significant for the national economy. The high-tech sector of ICT is not concentrated in Objective 2 areas. The low-tech sector, the forest industry, was however prevalent in Southern Finland. In the programme, emphasis was thus placed on strengthening the skills of employees in this sector in order to strengthen the area’s competitive position on the international market. This entailed initiatives in the form of training and research and development activities in the programme area which had a lower education level compared to the national average. Such ERDF projects generated new employment in manufacturing SMEs, however, the total number of industrial workplaces declined during the programming period. The negative development in employment took place mainly in the eastern part of the programming area where production decreased over this period. This way of coping with structural change, especially in terms of investment in R&D, did however proved to have an influence on the firms involved in ERDF projects and those on their competitiveness and productivity levels.

At the strategic programme level of Southern Finland, a certain degree of complementarity between the ERDF and ESF programmes was identified. ESF projects generally placed more consideration on the horizontal themes of the programme more than ERDF projects. Meanwhile, the respective strategies of the ERDF and the ESF proved to be consistent in terms of supporting a strengthening of the key knowledge and innovation structures in the regions.

\(^9\)The opinions of the regional and national authorities reproduced in this case study were gathered via a number of telephone interviews during the summer of 2009.
2.3 Selected fields of intervention and measures

2.3.1 Selection logic

Table 2.2 - Measures relevant with respect to structural change and globalisation: main features

<table>
<thead>
<tr>
<th>Measures</th>
<th>Brief description (including date of implementation)</th>
<th>Financial weight</th>
<th>Type of intervention</th>
<th>Structural change dimension</th>
<th>Relevance with structural change and globalisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>WP 1.1</td>
<td>Increasing and developing small and medium-sized business activity: Generation of new enterprises and new business activity in order to improve economic structures, facilitating the opening up of market links and supporting the marketing efforts and promotion of product development and research activity</td>
<td>44.6 127.8 2,774</td>
<td>Business support</td>
<td>Production system</td>
<td>***</td>
</tr>
<tr>
<td>WP 1.2</td>
<td>Developing the operational environment of SMES: promotion of new business activity and support the location decisions of firms, promote networking with other firms</td>
<td>5.1 90.7 311</td>
<td>Business support</td>
<td>Production system</td>
<td>**</td>
</tr>
<tr>
<td>WP 1.3</td>
<td>Development and application of new technology: promoting enterprises in know-how, technology and innovation, enhancing technology transfer and adoption between teaching and research establishments and enterprises</td>
<td>4.9 98.8 157</td>
<td>Innovation and technology</td>
<td>Production system</td>
<td>***</td>
</tr>
<tr>
<td>WP 1.4</td>
<td>Developing the skills and know-how of business personnel and of entrepreneurs: improving knowledge and skills of personnel in all aspects of business activity. Primarily addresses key fields and enterprises</td>
<td>5.9 98.8 119</td>
<td>Business support</td>
<td>Socio-economic-change and human capital</td>
<td>**</td>
</tr>
<tr>
<td>WP 2.1</td>
<td>Improving the operating prerequisites for training and research: creation of functional infrastructure for information networks, intensification of cooperation between teaching establishments and enterprises</td>
<td>7.9 98.0 185</td>
<td>Other: human capital</td>
<td>Socio-economic-change and human capital</td>
<td>***</td>
</tr>
<tr>
<td>WP 3.1</td>
<td>Developing the infrastructure: the aim is to have effective, safe and competitive infrastructure in all transport systems. Energy management and water supply and sewerage have to work as well.</td>
<td>10.3 110.4 98</td>
<td>Infrastructure investments</td>
<td>Socio-economic-change and human capital</td>
<td>*</td>
</tr>
<tr>
<td>WP 3.2</td>
<td>Developing the environment and the community structure: development of regional image to attract businesses and services, developing the preconditions for travel and tourism</td>
<td>6.3 135.2 255</td>
<td>Other: tourism &amp; socio-economic change</td>
<td>Socio-economic-change and human capital</td>
<td>*</td>
</tr>
</tbody>
</table>

* Legend: *marginally relevant, **relevant, ***extremely relevant

Source: Southern Finland’s Objective 2 Programme 2000–2006
As noted above, the Objective 2 programme of Southern Finland for the period 2000-2006 was highly focused on enabling adaptation to globalisation and supporting structural change. Consequently, most measures in the programme included, to a varying extent, these issues. The programme had three overall priority areas. First, the priority of the greatest strategic importance involved the development of the area’s economic life and business activity in order to improve economic prosperity and employment in Southern Finland. Second, a further priority was to support teaching and research establishments and help develop their links to economic life while also improving the population’s skills and qualifications levels in respect of the information society while also further enhancing the structures already in place for education and training. Finally, the third priority focused on improving the infrastructure of the communities; the state of the environment; developing the quality of life and the working environment; and helping to prevent social problems such as exclusion. The priority areas and their respective measures are further elaborated in Table 2.2.

Based on a review of the measures, the issue of globalisation is only referred to directly in the descriptions of the Priority 1 measures which focus on the development of SMEs with reference to their relatively low share of exports in their total turnover. The programme stressed that clustering and networking are vital activities in enhancing the export potentials of SMEs. Measure 1.1 “increasing and developing small and medium-sized business activity” in particular highlighted the importance of product development and business development in supporting the growth potential of SMEs. Other measures within Priority 1 also include activities related to globalisation, but not direct interventions as in Measure 1.1. The other Priority 1 measures were mainly targeted at developing and promoting the operational environment of enterprises in order to facilitate the prerequisites suitable for globalisation at a later stage. Support for the business environment during the programming period was a significant factor in creating new jobs and securing existing jobs as well as in creating new businesses. The measures in Priorities 2 and 3 do not include initiatives directly related to globalisation.

Structural change is underlined in the three priorities and it is also emphasised in the overall strategy of the programme. Responding to structural change referred to the operational environment of enterprises. Moreover, increasing the number of businesses and generating employment was regarded as the most important objective in Priority 1. Business development and employment were key themes for the improvement and regeneration of economic structures in areas which had been seriously hit by economic crisis or suffered due to industrial restructuring. There was also something of a differentiation in the geographical dispersion of the projects. Thus, projects in Measure 1.1 were mostly located in those parts of the programme area where the structural problems were most critical. In the eastern part of the programme area, a region which had suffered severe structural problems due to a number of factory closures and lay-offs could be found. Interventions dealing with structural change were directed to the themes of human resources in Priority 2 and infrastructural improvement in Priority 3. Priority 2 recognised the need to improve the level of education and training in order to meet upcoming structural changes. Priority 2 particularly emphasised the challenges of raising the level of technical skills and competences in order to promote business activities. In the long run, investments in education and training were expected to increase employment. However, there are no statistics directly pointing to the generation of jobs as a consequence of
this priority area. Meanwhile, the generation of knowledge and expertise have become an ever more important factor especially in those areas of Southern Finland currently undergoing structural change.

The focus of this evaluation is narrowed down to two measures: 1.1 “increasing and developing small and medium-sized business activity” and 2.1 “improving the operating prerequisites for training and research”. Measure 1.1 has been selected due to its explicit bearing on the budgetary distribution and on the implementation of the programme as a whole. Moreover, the measure has clear implications for both globalisation and structural change. The second measure which has been selected, Measure 2.1, is included due to its centrality in respect of the problems associated with unemployment in selected regions in Southern Finland where the unemployment rate was higher than the national average. In addition, this measure focused on establishing collaborative networks between various teaching institutions and enterprises, including in particular companies in those regions where there were no teaching institutions.

In order to carry out an analysis of the two selected measures, this case study explores two hypotheses developed in the conceptual model. The first hypothesis concerns socio-economic change and human capital, focusing on the regional development potential and the regional skill-base and qualification structure of the labour force and its development in Southern Finland. The hypothesis is defined as follows:

**Hypothesis 1: Socio-economic change and human capital:**

*Structural rigidities in the accumulation and change of regional human capital have negative effects on firms’ responses to the challenges posed by globalisation and on the adoption of economic innovation. Possession of an inadequate skill-base is a reflection of the lack of flexibility in education, rigid labour institutions, or other socio-institutional constraints to mobility and to the improvement of human capital.*

The second hypothesis which has been selected for the case study analysis concerns production systems, and it explores the presence and influence of regional industrial clusters in terms of technology adoption in Southern Finland. The hypothesis is defined below:

**Hypothesis 3: Production systems:**

*The regional production system is embedded in the regional firm structure and labour market. The lack of strong local supply chain linkages and of intra-industry collaborative modes between large firms and SMEs hinders the speed of new technology adoption and the spread of flexible modes of production.*

Hypothesis 1 displays immediate links to Measure 2.1 which focuses on improving the prerequisites for training and research while hypothesis 3 is more closely associated with Measure 1.1 which focuses on increasing and developing SME business activity. Meanwhile, the discussion of the two selected hypotheses will be cross-cutting throughout the case study, taking into consideration both measures. The selected measures are described further in the following section.
2.3.2 Detailed description of the selected measures

This section provides a description of the two measures from the 2000-2006 ERDF programme of Southern Finland which have been selected for this case study.

Measure 1.1: Increasing and developing small and medium-sized business activity

This measure had the largest financial allocation in the programme covering 44.6% of the total programme budget. Consequently, ERDF projects were also concentrated around Measure 1.1 with approx. 60% of the projects within the framework of this measure. Relative to other measures, the share of private funding (approximately 83%) was high in this measure. This was mainly because a great number of the projects included investments, where enterprises provided a larger share of co-financing compared to other measures. The main priorities of Measure 1.1 involved support for starting up new companies and providing support for the development of existing firms. Overall, this measure intended to facilitate the development of clustering and a networked method of production, and of globalisation. A description of the measure is summarised below:

- Generation of new enterprises and new business activity in order to improve economic structures;
- Facilitation of the opening up of market links;
- Supporting marketing efforts and the promotion of product development and research activity.

Measure 2.1: Improving the operating prerequisites for training and research

This measure comprised approx. 4% of the total number of Objective 2 projects. Most of the activities in this measure were targeted at enhancing training and research as a vital part of the business community and of economic activity. The most important dimension of the measure was not merely how to develop connections and interaction between education institutions and enterprises but also how to develop the capacity of educational institutions to respond to the diverse needs of the business community. The main points of the measure are summarised below:

- Creation of infrastructure for information networks;
- Intensification of cooperation between teaching establishments and enterprises.
3. Effects of the selected ERDF measures on the process of structural change and adaptation to globalisation

This section analyses the effects of Measures 1.1 “Increasing and developing small and medium-sized business activity” and 2.1 “Improving the operating prerequisites for training and research” in relation to the process of structural change and adaptation to globalisation in the Southern Finland programme area. The choice of measures, which are part of different priorities of the programme, intends to provide a deeper view into the circumstances of Southern Finland in the programming period 2000-2006. Programme material and second hand sources are the main sources of information for the analysis. Another main source is the interviews which have been conducted with key persons from the enterprises which were beneficiaries of ERDF projects. The interviews are especially significant in terms of analysing Measure 1.1 which involves the development of small and medium-sized enterprises.

3.1 Assessment of the structural and socio-economic effects

3.1.1 Performance of selected measures

Measure 1.1: Increasing and developing small and medium-sized business activity

As already described, Measure 1.1 comprised the strategically most important share of the ERDF programme both in terms of the total budget and number of projects. Table 3.1 provides an overview of the division of financing for the measure demonstrating that private contributions, i.e. companies, have provided the majority of funding. Thereby the private contributions were higher than the contribution of the national authorities. The total financial contribution to Measure 1.1 reached a level of 132% due to the significant amount of private funding for the measure. Measure 1.1 comprised 2,774 projects covering 85% of all implemented projects in Priority 1. However, one should note that the main bulk of these projects were small relative to the size of other Priority 1 measures. Most projects involved initiatives to improve production methods or to introduce new marketing processes. According to the mid-term evaluation, an estimated 75% of Measure 1.1 projects would also have been implemented without ERDF funding, indicating that companies did not depend on this funding. Meanwhile, in terms of the larger projects, companies had the opportunity to apply for loans from Finnvera plc, which is a state owned company specialised in providing finance to private companies. Indirectly, these loans served as a tool for increasing the number of applications for Measure 1.1, as the opportunity to be granted a loan from Finnvera plc, made it more attractive for companies to apply for ERDF funding.
Table 3.1 - Measure 1.1 Increasing and developing small and medium-sized business activity - Overview of expenditures on 31st December 2007

<table>
<thead>
<tr>
<th>Total (in €)</th>
<th>Financial allocations</th>
<th>Financial commitments (%)</th>
<th>Expenditures</th>
<th>%/ 예수 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>European contributions</td>
<td>46,021</td>
<td>45,019</td>
<td>97.8</td>
<td>37,519</td>
</tr>
<tr>
<td>National public contributions</td>
<td>64,930</td>
<td>67,704</td>
<td>104.2</td>
<td>54,848</td>
</tr>
<tr>
<td>Private contributions</td>
<td>324,728</td>
<td>464,177</td>
<td>142.9</td>
<td>388,584</td>
</tr>
<tr>
<td>Total costs</td>
<td>435,679</td>
<td>576,900</td>
<td>132.4</td>
<td>480,951</td>
</tr>
</tbody>
</table>


Table 3.2 provides an overview of quantitative targets in terms of employment generated through Measure 1.1 projects. The overall target for employment was reached by 133%. In a distinction between employment targets for women and men, none of the targets set were achieved, however the target for men came closest to being achieved, both in terms of new and maintained employment.

The number of projects involving the establishment of new businesses was low both in terms of female and male entrepreneurship. This is noteworthy since one of the main objectives of the measure was to establish new firms. In connection to this, it is relevant to note that several studies have pointed out that in an international comparison there is a relatively high threshold for entrepreneurship in Finland. Meanwhile, though the overall number of projects for entrepreneurship was low in Measure 1.1, the impact of the measure in terms of establishing new businesses in areas suffering from structural change was substantial. As introduced above a majority of projects in Measure 1.1 involved the development of already existing companies, especially focusing on marketing efforts and promotion of product development. These projects have facilitated the creation of new jobs which has been highly significant for the areas suffering from structural change.

Table 3.2 – Measure 1.1 Increasing and developing small and medium-sized enterprises - Quantitative target indicators in %

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Women</th>
<th>Men</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>New employment</td>
<td>74.8</td>
<td>198.9</td>
<td>133.1</td>
</tr>
<tr>
<td>Maintained employment</td>
<td>32.1</td>
<td>89.9</td>
<td>59.9</td>
</tr>
<tr>
<td>New businesses</td>
<td>40.3</td>
<td>44.2</td>
<td>43.0</td>
</tr>
</tbody>
</table>

Source: Tavoite 2 ohjelma. Etelä-Suomi CCI 1999

Most Measure 1.1 projects involved companies from the following sectors: the metal industry (metal products and machinery), the furniture industry and other business services. Minor groups represented in the projects were the rubber industry and information processing. These sectors largely correspond to the economic structure of Southern Finland.

Measure 1.1 projects were in most cases carried out in collaboration between companies based in different regions in Southern Finland. This demonstrates a compliance with the objective of the measure to strengthen networking and clustering activities. A number of innovation centres and clusters started to develop in Southern Finland in the beginning of the 1990s. During the 2000-2006 period initiatives were started to
redifine the clusters to be able to better respond to the challenges of globalisation and the ongoing relocation and restructuring of the manufacturing industries. An example is the restructuring process which was taking place in the traditionally dominating wood processing industry in the eastern part of the programme area. A recent policy approach is to form clusters that are wider reaching than regional or local clusters, and establishing links between previously separated clusters, in order to create a better basis for innovation. Measure 1.1 included cluster building as a main factor in increasing and developing SME activities. The National Centre of Expertise Programme has served as a facilitating institution for the ERDF programme of Southern Finland in its initiatives to promote innovation, renew the production structure and generate employment in the regions with specific expertise with an overall goal of building clusters. The National Centres of Expertise are financed by the national government, and they served as facilitators in implementing ERDF projects.

A number of Measure 1.1 projects involved initiatives for internationalisation of SMEs. Figure 3.1 illustrates the number of these projects classified into three groups: micro, small and medium-sized enterprises. The micro-sized enterprises employ less than ten persons, small enterprises less than 50 persons and medium-sized enterprises employ less than 250 persons. During the programming period a total of 415 projects involved internationalisation of business activities. Most of the projects were implemented by small enterprises. It is interesting to note that most of the enterprises in the three different groups succeeded in initiating their planned export activities and were able to establish new connections with foreign trade partners. In Priority 1, the projects involving the intensification of foreign trade did not only concentrate on marketing activities but also on training personnel in the enterprises. Training mainly comprised the facilitation of knowledge about foreign markets. The training elements of these projects were in most cases implemented through the European Social Fund.

All beneficiaries interviewed for this case study participated in internationalisation projects. Through ERDF projects, SMEs generally achieved new business opportunities and increased their export potential to neighbouring countries through networking and working in cooperation with other enterprises in their region. This cooperation partly took place through the development of existing clusters in the region. In the projects, companies’ main activities involved monitoring the development of foreign trade and know-how in a globalised environment, creating opportunities for co-operation between the clusters and identifying future trends for their economic sector. In order to grow through export, SMEs needed to cooperate in a systematic way with suitable national and international partners.
Figure 3.1 – Measure 1.1 Projects concerning the internationalisation of SMEs

Measure 2.1: Improving the operating prerequisites for training and research

Measure 2.1 aimed to improve the operating prerequisites for training and research. Table 3.3 illustrates the division of financial allocations of this measure. The Table shows that the largest contribution of finances came from national authorities. The private sector contributions were limited and only relevant for cooperation projects between education institutions and companies, and projects concerning the development of education suitable for micro-sized companies. The relative share of Measure 2.1 of the total programme funding was 9% but of implemented projects it was only 4%. Though the measure had generally achieved its preliminary obligations, the financial framework of the measure was reduced during a financial reallocation at the end of 2006.

Table 3.3 - Measure 2.1 Improving operating prerequisites for training and research - Overview of expenditures on 31st December 2007

<table>
<thead>
<tr>
<th>Total (in €)</th>
<th>Financial allocations</th>
<th>Financial commitments</th>
<th>%</th>
<th>Expenditures</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>European contributions</td>
<td>23,570</td>
<td>22,576</td>
<td>95.7</td>
<td>20,448</td>
<td>86.7</td>
</tr>
<tr>
<td>National public contributions</td>
<td>24,585</td>
<td>35,355</td>
<td>143.8</td>
<td>32,228</td>
<td>131.0</td>
</tr>
<tr>
<td>Private contributions</td>
<td>17,834</td>
<td>7,055</td>
<td>40.0</td>
<td>6,111</td>
<td>34.3</td>
</tr>
<tr>
<td>Total costs</td>
<td>435,679</td>
<td>576,900</td>
<td>132.4</td>
<td>480,951</td>
<td>110.3</td>
</tr>
</tbody>
</table>

Source: Tavoite 2 ohjelma. Etelä-Suomi CCI 1999

Table 3.4 provides indicators for the quantitative targets for female and male employment. The objective for male employment through Measure 2.1 was reached with 129%. Meanwhile, the average increase in
employment was only 88% due to the amount of new jobs for women which reached only 61%. In the mid-term evaluation 66% of the average employment target was already reached (for men 83%, women 54%). The difference between males and females is higher in reference to the share of maintained employment, where the target levels were achieved by only respectively 13.6 and 10.0%. One should note that this may indicate that the figures of new employment have been overstated.

The number of new businesses established through this measure was very low for both males and females. As the mid-term evaluation also pointed out the targets set for establishing new businesses was exaggerated, especially in comparison with the new employment targets. Thus, evaluators state that it was not possible to reach the objectives of the programme.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Women</th>
<th>Men</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>New employment</td>
<td>60.5</td>
<td>128.6</td>
<td>87.7</td>
</tr>
<tr>
<td>Maintained employment</td>
<td>10.0</td>
<td>13.6</td>
<td>11.8</td>
</tr>
<tr>
<td>New businesses</td>
<td>8.5</td>
<td>7.8</td>
<td>8.0</td>
</tr>
</tbody>
</table>

Source: Tavoite 2 ohjelma. Etelä-Suomi CCI 1999

Measure 2.1 projects mainly concerned application of information technology (26%) and transfer of innovations and technology including the creation of cooperation models between enterprises and education institutions (20% of the projects). These projects were especially prevalent in the part of the programming area which had no higher education institutions.

There proved to be some challenges in implementing Measure 2.1. The eastern part of the ERDF programming area was characterised by larger companies, while the objective of the measure was SMEs. This entailed that more support was required for SMEs to generate endogenous growth contrary to large firms more likely to be concentrated on growth of export. In relation to the presence of large firms, there was also a need to demonstrate how they could benefit the SMEs. Meanwhile, the measure took into consideration the structural differences of Southern Finland between declining and developed regions. It was significant in terms of developing know-how and human resources in the declining regions. One can argue that the measure served as a facilitator for Measure 1.1 which was mainly directed at the internationalisation activities of companies. Thus, Measure 2.1 served as a basis for the development of human resources in the parts of the programming area where companies suffered from skills shortages.

In Southern Finland, particular growth potential was identified in the sectors of ICT, business services, and manufacturing industries taking advantage of information technology. Training and education projects in Measure 2.1 were mainly targeted at these sectors. During the programming period a transformation of the Finnish vocational system was initiated with the introduction of polytechnics. In Southern Finland the polytechnics had an influence on the stimulation of clusters and cooperation between companies, especially in the wood processing and metal industries. These activities led to establishment of institutes for vocational training and joint R&D projects between SMEs, large companies and research centres. However, the ERDF
projects were only to a limited extent granted resources for vocational training. The few projects which involved cooperation between vocational education colleges and companies demonstrated favourable results.

3.1.2 Contribution of selected measures to structural change and globalisation

Relative to other countries, the level of internationalisation of companies was high in Finland from the initiation of the 2000-2006 programming period. However, the number of SMEs that operated on the international markets was limited. In order to facilitate growth and export opportunities for SMEs, the development of so-called mini clusters was initiated which provided links to knowledge institutions. The activities carried out through ERDF projects of the two selected measures have improved companies’ performance in the short term, but it has also improved their long term performance through the development and diversification of new methods and modes of manufacturing technologies. This partly took place through entrepreneurs’ use of advanced production methods and new marketing strategies, exchange of information and transfer of skills and knowledge.

The ERDF programme of Southern Finland mainly comprised projects which were initiated by individual companies in order to develop internal operational processes in production or marketing. However, the 2000-2006 programming period also demonstrated a growth in collaborative projects strengthening networking and clustering activities. Support stimulated the promotion of clusters and collaboration between enterprises, leading to the creation of institutions for vocational training and joint R&D projects between SMEs, large companies and research centres. Programme actions promoted the need for good operating conditions in relation of individual enterprises in order to enhance the long-term sustainable development of the region’s competitiveness through the reinforcement of the regional innovation and knowledge structures. Strengthening the knowledge structure and creating new knowledge-based clusters generates long-term possibilities for better use of available funding at the regional level. The Centres of expertise (see chapter 2.1) in the programme are afforded special emphasis. The network of Centres of expertise will be utilised to meet the training requirements of the firms involved and to oversee the transfer of knowledge and information from universities and research institutions to the individual firms concerned.

Overall, connections between companies in Southern Finland and various education institutions increased during the programming period. Globalisation has caused an increased need for companies to continuously develop their marketing knowledge in order to commercialise products successfully. In combination with marketing, an innovative specialised production process is necessary. The collaboration constellations described above between companies and knowledge institutions intended to increase the resources and capabilities of SMEs to participate in research and development activities. This combined need for marketing development and a specialised production process was included in the programme, and a number of projects implemented such measures. In addition to an ongoing development of production systems and marketing knowledge, a continuant development of human resources was also a priority of the selected measures of the programme. In some instances, projects comprised a number of complementary initiatives. An example of this was the initiation of a project which involved a firm’s application of new technology and subsequently initiatives were carried out to strengthen the marketing competences as well as initial steps for internationalisation of the firm. Below a description of three ERDF projects and their outcome are presented.
Box 1 - Kymdata Ltd (http://www.cadspanner.com/)

Kymdata Ltd is focused on developing ICT solutions mainly for manufacturing enterprises. The CAD-software company Kymdata Ltd was established in 1979 in Kotka and operates mainly on domestic markets. The company’s turnover in 2008 was €3.9 million and it employs 33 persons. Except for Kotka where the headquarter is, the company also has divisions in Oulu, Vaasa and Kuopio and in the Baltic countries. The company’s activities on foreign markets involve trade and marketing while research and development activities mainly take place in the company’s Finnish offices. The company’s competitiveness with regard to leading foreign outlet markets has been successful during 2000-2006 and export generates approximately 5% of the present turnover (0% in 2000).

Research and development activity is a continuous process in the company because it operates in several economic sectors, e.g. the paper industry, the machinery and food industry. The company is focused on product development, and the research and development activities it carries out are based on the needs of the various industries it serves. Innovations in the company are process innovations managed in close cooperation with users, device producers, educational institutions and other parties.

The company’s ERDF funded project aimed to produce a market analysis of the Baltic Countries. The project created a valuable basis for expansion of business activities in the Baltic Countries, and it especially had an influence on an improved quality of marketing efforts in the company. ERDF financing enabled the continuation of marketing processes, because know-how on international marketing was strengthened, and besides the marketing professionals the whole company has gained more knowledge on how to operate in foreign markets.

The project facilitated the marketing operation in Baltic Countries to be a strategic function concentrating on product strategy, segmentation and competitive positioning, while the sales division executed the strategy in terms of selling the product to end-users. The most positive outcome of the project was the opening up to a new market area that has also intensified the cooperation with other companies operating in the Baltic Countries. Meanwhile, the company does not have any plans to relocate product development, because a long process would be required in order for Baltic partners to achieve appropriate competences for product development.

**Total costs** (2006): €54,730, out of which €9,578 was funded by ERDF, €17,787 by the state and €27,365 by private funding.

Box 2 - Eagle Filters (http://www.eaglefilter.fi/)

Eagle Filters is located in Lahti and it was founded in 1995. The company specialises in providing air inlet filters for gas turbine power plants. Its turnover reached €9.3 million in 2008, of which 65% was generated by exports. The company employs 13 persons on a production site in Lahti.

Approximately 3% of the company’s annual turnover is spent on research and development activities, which at present employs three persons in the company. In terms research and development the company has close cooperation with the VTT - Technical Research Centre of Finland, with which the development work has concentrated on product innovations in the company. Research and development does not play a crucial role in its foreign marketing efforts.

The ERDF intervention was primarily aimed at improving product development through automation of the production processes in the company. The project did not directly lead to new investments, but in the longer run the experiences gained showed that the new production methods met the objective of the project. A second aim with the project was after the product development to also promote foreign marketing efforts, which was a challenge for the company, which was relatively new at the time the project was implemented. Combined product development and marketing efforts promoted the operation of the company, while key personnel in production and marketing were given training in creative problem solving.

The project has reinforced the company’s competences in international marketing. It succeeded to reinforce brand equity in order to enhance product quality, to improve customer relationships and relationships with channel partners and to strengthen its prices. The project also proved successful in recruiting new employees, as well as retaining those, who were in danger of becoming temporarily unemployed.

**Total costs** (2004): €87,800, out of which €17,560 was funded by ERDF, €26,340 by the state and €43,900 by private funding.
**Box 3 - Joutsen Finland Ltd (http://www.joutsen.com/index.php/en)**

Joutsen Finland was established in 1936 in Helsinki. In 1954 the company moved to its current location in Riihimäki. The company also has a branch in Estonia. Its production was initially washing feathers and linen. In the 1950s, the company started making sleeping bags, and down-filled clothing was added to the production in the 1960s. In the 1970s, the company started producing clothes, which it is now well-known for. The company’s turnover was €9.4 million in 2997 and it employs 65 persons. The company was been active in exporting for 40 years, and its largest markets except for the EU are Russia, Japan, and Korea. The share of exports as the share of its total turnover was approx. 70% in 2007.

One person is responsible for the research and development activities in the company, where approx. 5% of the turnover is spent. Innovation in the company mainly refers to product innovations related to practicality and style which is carried out by well-known designers. This is the reason why there is only one employee working with research and development. The company has not had experience with technological transfer, but it has had close cooperation with the VTT - Technical Research Centre of Finland and also with universities.

The ERDF project intended to expand marketing of the company’s products to new geographical areas, and the input from ERDF was considered as 'lowering the risk' of marketing efforts in the company. The project did not launch new marketing processes, rather it aimed to process marketing efforts to identify new customers and develop products tailored to these segments of customers.

It was possible through the project to recognise new potential markets and also customers, but the project funding was mainly used for planning larger and long-term marketing efforts. Representatives from the company stated that during the project it was relatively easy to receive funding for technical solutions and developments but not for marketing initiatives. They stressed that product innovations are not viable, if they are not supported by subsequent marketing efforts.

**Total costs** (2002): €76,428, out of which €17,961 was funded by ERDF, €20,253 by the state and €38,214 by private funding.

### 3.2 Assessment of the effects on institutional capacity and policy learning

**Qualitative effects of a political nature**

Since Finland’s accession to the EU in 1995, the national government’s approach to regional development policy has changed, and it is now developed in partnership including a wider spectrum of actors. Thus, the preparation of Southern Finland’s Objective 2 programme was an interactive process between various actors at the regional level. According to interviewees, representatives from different public authorities were invited to present their input during the initial stages of the programme design, and this had an immediate impact in terms of creating institutional awareness about the programme implementation. The ERDF programme design was managed centrally, and input from different regional actors presented some challenges in designing the 2000-2006 programme design in order to take into consideration the different interests. A majority of policy makers interviewed for this case study emphasise the importance of structural funds in establishing networks across governance levels. In the initial stages of implementing structural funds programmes, it was a challenge to create an understanding of the administrative structure comprising the national, regional and local levels. However, this understanding was further developed during the 2000-2006 programming period. Through partnership collaboration the opportunities of EU structural funds became more visible to public authorities.
A majority of interviewees stated that ERDF funds provided financial support which was significant in terms of implementing development projects in Southern Finland. Meanwhile, interviewees also pointed to restrictions in terms of a bureaucratic application procedure which entailed that some potential applicants decided not to apply for funding. Interviewees and the mid-term evaluation also pointed to the fact that the quality of ERDF projects could have been better if there had been more flexibility in both the administration and implementation of the programme. The priorities of the programme were spread across a variety of policy areas in order to reach a diverse group of project applicants. Interviewees indicated that more precise priorities and targets in the programme would have been beneficial in order to allocate funding to narrower focus areas for economic development. Thus, the 2000-2006 Objective 2 programme made the opportunities for funding more visible to businesses and other potential applicants. However, reference was made to limitations of the programme mainly in terms of a bureaucratic application procedure.

Qualitative effects on the policy sphere

According to the mid-term evaluation, the 2000-2006 ERDF programme was generally successful in implementing its objectives, and thus the regional structural differences in Southern Finland were taken into consideration during both the planning and implementation phases of the programme. According to interviewees, compared to before Finland became a member of the EU, the efficiency and openness of the regional development policy has been improved. In connection to this, respondents emphasised the importance of long-term strategic planning and the initiation of collaboration between different actors. Respondents stated that during the implementation of the ERDF programme, there were examples of large scale projects which were influential in terms of generating a more strategic and systematic orientation of regional development policy. Examples of such projects mainly involved innovation and R&D initiatives. Moreover, the ability of the actors implementing the programme at the regional level to identify specific needs of differing regions and sectors was emphasised. Thus, the mid-term evaluation underlined the success of the Objective 2 programme to identify good practices in the programme implementation and to facilitate the development of clusters, e.g. in wood processing.

The interviewees at the regional level addressed criticism to the manner in which Objective 2 areas were defined and how they divided regions. In some cities, the fragmented and complicated structure caused some administrative complications and generated problems in respect of cooperation. In addition, criticism was also directed at the dispersal of resources over a number of policy areas. This problem was again underlined in the mid-term evaluation, which called for more flexibility with respect to the distribution of resources and programme monitoring. Although there were no modifications during the programming period, these problems were taken into account when designing the programmes for 2007-13. Cooperation between the various authorities responsible generally worked rather well in terms of programme implementation. The administrative routines were however generally seen to be overly bureaucratic and this undoubtedly to the creation of imprecise selection criteria and, ultimately, to the poor quality of some projects.

Regional policy was radically reformed after Finland’s accession to the EU with this renewal process continuing to gather pace during the programming period 2000-2006. The need for reform was driven by
ongoing structural change in the Finnish economy and the need to respond to economic integration as well as to increasing globalisation. In this context, the cohesion policy of the EU has had an important influence on the form which the changes ultimately took. The programme-based approach was in addition actually also adopted for various national level regional policy initiatives. This approach, including a wide range of different national and EU programmes and complex administrative structures, was however criticised in the interviews particularly for its tendency to produce complicated and overlapping projects. For the programming period 2007-2013 the system has been somewhat simplified as regional policy is now centred in the new Ministry of Labour and Economy.

*Contribution to improve governance*

During the 2000-2006 programming period, the administration of the ERDF programmes has been the same as in the period 1995-1999. The Ministry of the Interior was responsible for the overall coordination of the structural funds and other ministries participated in the preparation phase of the programmes. In the implementation of the programmes, various ministries were mainly involved to assure that the regional strategies within the programmes did not conflict with the national strategies. Coordination was not a problem as such, but the differences in administrative rules and practices between different ministries caused some problems at national level. The involvement of many different actors at the national level further complicated the administrative burden and also posed difficulties in terms of identifying overlapping or complementary projects e.g. between ESF and ERDF. During the programming period this structure gradually changed, and a higher degree of decentralisation was initiated, thereby further strengthening the role of the regions.

Regional development in Finland involves Regional Councils, which are statutory joint municipal authorities operating according to the principles of local self-government. The councils operate as regional development authorities and regional planning authorities and also look after regional interests. This indicates that the Regional Councils have most important position for general regional policy planning and for the preparation of regional development programmes. On the basis of municipal democracy they articulate common regional needs and work to promote the material and cultural well-being of their regions. The emphasis in the tasks of the councils is on long-term planning comprising of the regional vision and other strategic matters. The Regional Councils co-ordinate and direct the implementation of regional development measures of all regional level actors comprising also the regional state authorities.

The national government, through the Employment and Economic Development Centres, manages various regional development programmes including the structural funds. The establishment of an Objective 2 Committee has however contributed to regional governance, as it has brought together different actors to distribute project funding and thereby cooperate on regional development. The Objective 2 Committee was first established during the programming period 1995-1999, and its legal basis was recognized with the initiation of the 2000-2006 period.

The management of structural funds has introduced a systematic procedure for planning and implementation of programmes. Significant learning in terms of understanding the programme based approach took place during the 1995-1999 programming period. Whereas, learning in terms of implementing
the programme occurred to a greater extent during the 2000-2006 programming period. Interviewees referred to learning processes mainly in terms of understanding the functioning of regional partnership, i.e. the benefit of a range of different actors cooperating on regional development. Moreover, learning has also occurred for the public authorities in terms of establishing a closer cooperation with the business community. During the 2000-2006 programming period, it was still possible to provide direct financial support to SMEs, which facilitated a better understanding between businesses and authorities. Meanwhile, the change which has been introduced with the current programming period is also considered by interviewees to be fruitful, as it requires collaboration between several companies to receive Objective 2 funding thereby further strengthening networking and clustering activities.

With reference to the performance reserve exercise, which intended to improve spending effectiveness of the programme, interviewees emphasised the importance of efficient monitoring and evaluation. It was regarded as both a hindrance and in some instances as a support for the programme implementation. At the regional level, the performance reserve exercise was considered to cause too much bureaucracy and uncertainty in the long term planning of the programme, while, at the national level, the exercise was seen as a useful tool to direct funding to more developed regions. However, overall the performance reserve exercise made implementation of the programme more rigid. In connection to this, de-commitment was an appropriate tool as there is often a need for extra funding in the final stages of the programming period.

**Contribution to entrepreneurship**

Entrepreneurship was a main element, especially in Measure 1.1, in the ERDF programme. Emphasis was especially placed on supporting entrepreneurship in the eastern part of Southern Finland which lagged behind compared to the rest of the programming area in terms of generating new business start-ups. An objective with the focus on entrepreneurship in the eastern part of Southern Finland was that SMEs were considered key players in the ongoing economic restructuring process, and thereby support should be provided for initiatives to establish new businesses. Meanwhile as described in section 3.1.1, the number of actual new businesses which were established compared to the targets set were limited during the 2000-2006 period.

Although the promotion of entrepreneurship was generally seen as one of the main aims of the programme, the vast majority of the funding was distributed to projects targeted at stimulating economic development rather than directly creating new employment possibilities or new enterprises. The programme particularly promoted innovation activities and investment in human capital, and we can say that it was successful in enhancing the competitiveness and networking of SMEs. According to the interviewees, a clear policy choice was made to strengthen the enterprise environment, because the role of enterprises was regarded as crucial in employment creation and in decreasing unemployment. Thus the focus was on improving competitiveness and developing regional restructuring processes. Interviewees from the regional level in particular sought to emphasise that decisions to support particular enterprises were made according to strict criteria and financing was in the main allocated to profitable SMEs.

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10 OECD publishing (2009) Governing regional development policy
A study of investment grants suggests that over 80% of the enterprises receiving funding for investments were growth-oriented and new employment positions were created in about 50% of the enterprises\textsuperscript{11}. The examples given particularly in respect of the information provided in chapter 3.1.2 supports this statement. The allocated funding for these enterprises led to important improvements in production and in the quality of products and services, while support for investment and related R&D activities undoubtedly strengthened the competitiveness of these enterprises. Some examples of the implemented projects include development of new production systems, programs and services, which have been performed in close cooperation with education institutes and research centres. ERDF funded also projects in which early stage companies were for instance involved in cooperation between education institutes which could through ERDF funding acquire new technologies.

4. Conclusions: key findings and main message

Key findings

The Southern Finland Objective 2 programme mainly aimed at increasing economic growth and innovative competitive regional structure, as well as at supporting regional structural change and enabling adaptation to globalisation. The development of SMEs also had an important position in terms of creating new employment and reducing unemployment. Regions of structural change were to be considered as an integrated whole, comprising also the surrounding areas. The programme strategy and performance reveals the importance of the region of Southern Finland for the general economic development of the whole country. The programme was, therefore, based on a broad strategy, identifying the need to reinforce the competitiveness of all regions.

Issues of globalisation had previously been stressed in various national development strategies without producing considerable changes to the traditional development practices. The Southern Finland Objective 2 programme comprised both internationalisation and structural change as major focus areas. In conjunction with national regional policy initiatives (Centres of Expertise), the period 2000-2006 facilitated changes in regional policy implementation and shift towards conformity between the management of respectively national and EU policy on the issue of globalisation.

The main research question addressed was the indication and rationality to which the 2000-2006 ERDF Programme tackles issues of structural change and globalisation. Particularly, the interest in the case study is focused on developing regional potential through the regional skill-base and qualification structure of the labour force. Additionally, attention is drawn to the attendance and influence of regional production clusters in terms of technological adoption.

1. The programme strategy was based on existing regional resources and competences and supported through national regional policy initiatives

The strategy in the Southern Finland Objective 2 Programme aimed to strengthen and develop the areas within the Objective 2 region into one of the main future pillars of the Baltic Sea region. From the perspective of maintaining regional development and competitiveness, the defined strategy was functional and was based on existing regional resources and competences. The economic structure is relatively diverse in Southern Finland and is thus not dependent on single key sectors as is the case for other Finnish structural funds programme areas. The programme did take this into account in the pursuit of its strategic framework regional specialisations within the programme area. Each region was given the ability to allocate funding according to key sectors within the framework of the programme. This development has been supported through national initiatives like the Centre of Expertise programme and the Regional Centre Programme.
2. The programme provided for regions a framework, within which programme implementation process comprised a more flexible approach and a wider spectrum of projects

Regional policy was radically reformed after Finland joined the European Union in 1995, and this reform process continued during the programming period 2000-2006. The reform of regional policy originated from realisation of the need to adapt to the constraints and opportunities afforded by economic and political integration in the EU, but can also be seen as a response to the need to be better able to cope with structural change and globalisation. Several studies have documented the fact that the programme based approach of the structural funds has reinforced the capacity and increased the openness of regional policy as well as emphasised the importance of the regional level policy making. The global trend is towards a concentration on specialisation, but at the same time the global economic structure is changing in a way that points towards benefits for many smaller regions in terms of new production methods and opportunities. The Southern Finland Objective 2 Programme was relatively successful in underlining regional specificities due to the bottom-up process of the programme implementation process. The programme provided a more flexible framework for regions to take into account their different structural problems and challenges. This approach, which entailed the study of different focus areas in specific parts of the area, allowed regions to implement a wider spectrum of projects compared to what had been possible before the introduction of the structural funds in Finland.

3. Enterprises’ performance was promoted through the development and diversification of new methods and modes of manufacturing technologies

The Southern Finland Objective 2 Programme was strongly committed to developing and strengthening the business environment. The role of SMEs in particular was viewed as a crucial factor in terms of generating new employment and reducing unemployment. While new employment was generated in growth companies at the same time however many larger manufacturing companies and less competitive SMEs had to reduce employee numbers during the programming period. The programme undoubtedly however facilitated an increase in employment in the programme area, but with the number of jobs generated, it was still unable to compensate for the overall loss of employment in the manufacturing and agriculture industries. In Southern Finland this trend has been particularly clear in the eastern part of the programme region, where agriculture is still an important industry. Moreover, structural change continues to negatively influence the paper industry.

The activities carried out through the ERDF projects during the 2000-2006 period have clearly however improved company performance through the development and diversification of new methods and modes of manufacturing technologies. This in part took place through entrepreneurs’ increasing use of advanced production methods and new marketing strategies as well as through the exchange of information and transfer of skills and knowledge. The ERDF Programme of Southern Finland mainly comprised projects which were initiated by individual companies in order to develop internal operational processes in production or marketing. However, the 2000-2006 programming period also demonstrated a growth in

collaborative projects strengthening networking and clustering activities. Overall, connections between companies in Southern Finland and various education institutions increased during the programming period. Thus, ERDF projects contributed to structural change both in a long-term and short-term perspective.

4. Necessary to underline and acknowledge the needs of SMEs on building capacities and competencies in opening to new market links

There is need for a more user-oriented approach in respect of the distribution of ERDF funds. Thus, numerous interviewees state that in order to enter new global markets greater emphasis must be placed on market research to obtain the necessary information about customer needs and demands. In many instances small and micro-sized enterprises are unable to access this information themselves. Thus, instead of focusing public intervention directly on exports to global markets, public policies should focus, to a greater extent, on building the capacity and knowledge of SMEs to enter new markets. Human capital and skills are immediately linked to capabilities to develop or renew local productive activities.

The programme implementation succeeded in developing and generating the sort of requisites and internal processes that led to technological upgrading and building of marketing capability in firms. Although it is acknowledged that enterprises’ own technology efforts are essential for improved performance, this is usually for SMEs with limited resources an uncertain and risky process. The study show that collaboration between enterprises and institutional support can play a key role in helping SMEs to build up internal capabilities to compete in regional and global markets.

5. ERDF succeeded in increasing the openness and efficiency of regional policy and allowed more powers to regional level actors

Finally, a key finding in terms of the qualitative effects of the 2000-2006 ERDF Programme was that the efficiency and openness of regional development policy was significantly improved. Regional policy is now more focused on long-term strategic planning and on the initiation of collaboration between different actors. This programming period also ensured that regional level actors are able both to identify and to take into consideration the specific needs of differing regions and sectors.

Coordination of the programme by different ministries (the Ministry of Trade and Commerce, the Ministry of Labour, the Ministry of Education and the Ministry of Agriculture and Forestry) resulted a weak performance of the programme. Coordination was not a difficulty per se but the biggest problem however was considered to be the differences in administrative rules and practices between different ministries as well as their regional agencies. The adoption of the new administrative and management structure based on partnership was not easy to implement either at regional or national level. The involvement of different actors both at the national and regional level further confused the multi-dimensional administrative structure and also caused difficulties to identify overlapping or complementary projects between funds. During the programming period 2000-2006 the policy framework was progressively revised and clarified and cohesion programmes became an integrated part of the Finnish regional development strategy.
Main message

Based on the above account of the extensive job cuts in agriculture and manufacturing industry and the associated problems of long-term unemployment in the region, in contrast to increasing employment in more knowledge-intensive growth industries, one can derive that hypothesis 1 concerning socio-economic change and human capital can, to some extent, be confirmed. Thus, structural rigidities in the accumulation and change of regional human capital would seem to have negative effects on firms’ responses to globalisation challenges and on the adoption of economic innovation. However, in terms of the prevalence of an inadequate skill-base due to a lack of flexibility in education, the case-study analysis points to progress in the form of increased cooperation between SMEs and educational institutions, facilitated by the 2000-2006 ERDF programme.

Structural change and globalisation were important dimensions in the Southern Finland Objective 2 Programme. A major focus of the Programme was to form the basis for a balanced regional structure. The Programme focused on businesses as a tool for strengthening cluster building and the improvement of innovation environments through introducing the possibility to implementing interregional projects in order to develop clusters. The Programme aimed at differentiating between various areas and objectives, and also between structural funds joint projects, which were mostly targeted at the facilitation of cluster building and as a response to economic restructuring. Approximately 5% of the financial resources were allocated to interregional cooperation. The programme also succeeded in strengthening this expertise not just on the basis of enhancing novel competitiveness, but through institutionalising this development as an ongoing operational culture in the region and in the individual enterprises. The three illustrated cases of ERDF projects in Section 3.1 are good examples of this outcome in terms of the programming period. ‘Interregional learning’ was deemed essential in the Objective 2 Programme for Southern Finland, in order to address the potential threat that both individuals and enterprises may begin to re-locate into areas with more positive development prospects thereby posing the risk of “brain drain” in peripheral regions.

The structural change and globalisation themes were visibly and purposefully built into the programme strategy and horizontally into the various measures. Because of this broader aspect, the Southern Finland Objective 2 Programme did not have specifically targeted measures in respect of structural change or globalisation. Thus, different measures were defined in a way that they may ‘organise themselves’ within and also between programme priorities. The measures (Measure 1.1 “increasing and developing small and medium-sized business activity” and Measure 2.1 “improving the operating prerequisites for training and research”) chosen for closer observation each have inbuilt dimensions in respect of structural change and globalisation. The programme and the priorities broadly support the strengthening of the developmental elements which are crucial for the regional and interregional actions undertaken in respect of structural change and globalisation. The results of case studies indicate that the Programme was successful in improving the region’s responsiveness to structural change and globalisation.

Based on the conclusions above, concerning the ERDF programme’s facilitation of cluster-building, focusing on interregional cooperation, it can be derived that the issues confronted by hypothesis 3 were addressed during the 2000-2006 programming period. Thus, the cluster-building initiatives provided attempts to
strengthen the local supply-chain linkages and intra-industry collaborative modes, especially between SMEs. Generally, ERDF projects did not focus on establishing links between SMEs and large firms in order to increase the speed of new technology adoption and the spread of flexible modes of production. It can however be argued that the 2000-2006 ERDF Programme did take the initial steps needed to facilitate such a development in Southern Finland.
5. Annexes

5.1 List of references


• Southern Finland’s Objective 2 programme 2000-2006. Strategy section.


• The Southern Finland Regional Alliance: Sothern Finland’s Objective 2 programme 2000-2006. Strategy section. REGIO/2000/0001 -00-00.
5.2 List of persons interviewed

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- Heinonen, Jarkko. Turku Chamber of Commerce
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- Kavonius, Veijo. Ministry of labour and the economy
- Koivula, Marja. Regional Council of Päijät-Häme
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- Lintilä, Kaisa-Leena. Ministry of labour and the economy
- Sahrman, Keijo. Association of Finnish Local and Regional Authorities
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- Venäläinen, Eero. Helsinki Uusimaa Region

Beneficiaries
- Ahonen, Sirkka-Liisa. Teknoware
- Järvinen, Jukka. Startex Ltd
- Kariluoto, Juha. Eagle Filters Ltd
- Kotkasaari, Eero. Joutsen Finland Oy
- Leppänen, Juha. A-Kassi
- Mentula, Marja-Leena. Mense Oy
- Pynnönen, Jari. Kymdata Oy
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- Stucki, Paul. Orfer Oy
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