



Organising for EU Enlargement

A challenge for member states and candidate countries

MULTILEVEL GOVERNANCE

The Dynamics of EU Cohesion Policy
The Structural Funds as a Vector of Change in Finland

OEUE PHASE II
Occasional Paper 3.4 – 09.04

Jussi Kinnunen

Centre for European Studies
University of Helsinki



FIFTH FRAMEWORK PROGRAMME



Dublin European Institute
A Jean Monnet Centre of Excellence



CENTRE FOR EUROPEAN STUDIES
UNIVERSITY OF HELSINKI

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Series Editor

Mary Browne
assisted by Colin Shaw
Dublin European Institute
University College Dublin

Organising for EU Enlargement Project

European Commission
Community Research Fifth Framework Programme
(Socio-Economic Research)

Project forms part of the
Governance Research Programme
Institute for the Study of Social Change
University College Dublin

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Published as part of
EU Framework V
Organising for EU Enlargement Project
Coordinated by University College Dublin, Ireland

Project banner
Dry Design
Dublin

Printed by
Copi-Print
Library Building
University College Dublin
Dublin 4
Ireland

ORGANISING FOR EU ENLARGEMENT: Challenge for the Member States and the Candidate Countries

The Dublin European Institute, University College Dublin,¹ was awarded, in 2001, a research contract under the EU's Fifth Framework Programme² to carry out a comparative study of the impact of the EU on the structures and processes of public policy in six small countries: **Ireland, Greece, Finland, Estonia, Hungary and Slovenia**. The Project's partnership, under the direction of Professor Brigid Laffan, Dublin European Institute, University College Dublin³, includes: Professor Dr. Wolfgang Drechsler, University of Tartu; Professor Teija Tiilkainen, University of Helsinki; Professor Calliope Spanou, University of Athens; Professor Attila Ágh, Budapest University of Economic Sciences and Public Administration; and Professor Danica Fink-Hafner, University of Ljubljana.

The aim of the research project was to deepen our understanding of the processes of Europeanisation in a number of the existing member states and some of the candidate states.

The research project encompassed the following three objectives:

- The conduct of research which offers immediate policy relevance to key stakeholders in the enlarging Union;
- The conduct comparative, theoretical and empirical research on the management of EU public policy making in three existing member states – Ireland, Greece and Finland – and three candidate states – Estonia, Hungary and Slovenia;
- The shedding light on the capacity of smaller states to adjust and to adapt to the increasing demands of Europeanisation on their systems of public policy-making and thus to identify the barriers to effective, efficient and accountable management of EU business.

Research Strategy

The research design consisted of two phases and within each phase, two levels of analysis. **Phase I** analysed the management of EU business at the macro level of the core executive and was complemented by a micro case study of a recent policy negotiation using decision analysis. **Phase II** of the research broadened the analytical focus to encompass other levels of government – the EU and sub-state – through multi-levelled governance. Here attention was centred upon the emergence of policy networks and the interaction between public actors and the wider civil society in specific, discrete policy sectors.

¹ National University of Ireland, Dublin (University College Dublin).

² European Commission, Community Research Fifth Framework Programme (Socio-Economic Research).

³ This project forms part of the Governance Research Programme, Institute for the Study of Social Change, University College Dublin, www.ucd.ie/issc/ and www.ucd.ie/govern/intex.htm.

Methodology

The study employed two specific methodologies: historical institutionalism and rational institutionalism in a new and innovative fashion. The use of combined perspectives provided a theoretically innovative and new approach to the study of the Europeanisation process. Both approaches could be used as they were applied to different elements of the empirical research.

Academic and Policy Implications

This study's findings provide insight into the manner in which diverse state traditions, institutions and political and administrative cultures influence national adaptation to EU governance and how the interface between national policy processes and the Brussels arena is managed. It is expected that these findings will assist those making and managing policy, thus facilitating adjustments to the changing European Union while also contributing to the growing academic debate on Europeanisation.

At various stages during the course of this project the research findings and analysis were presented to a range of stakeholders and academics to facilitate feedback and enhance the analytical process. Further details about the Organising for EU Enlargement (OEUE) project are available on the project web site www.oeue.net, along with i) the Project Report, ii) the OEUE Occasional Papers and iii) a selection of papers by the research partners which draw on various aspects their project research.

AUTHOR

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ABSTRACT

The EU cohesion policy has had a deep impact on the Finnish politico-administrative system. This paper examines those changes. Finland has always been a unitary state with strong central administration and highly autonomous local level authorities. Membership in the EU meant strengthening of the regional level administration, new legislation and administrative bodies. Management of structural funds has meant introduction of systematic planning of regional programmes. Although adaptation to EU structural programmes has not been without problems, they have resulted in many positive outcomes. Comparison in the field of innovation policy show how even in the same problematic region exists two substantially different cities with diverse strengths, weaknesses, opportunities and threats. Management of regional funds face several challenges in near future that include simplification of administration and procedures, unification of national legislation and guidance (different in different ministries), improving focus of programmes, possible separation of "hard, competing programmes" from "soft programmes" and putting more emphasis on innovative projects.

INTRODUCTION

Economic and social cohesion is an issue of high politics in the EU. The cohesion funds have increased significantly in the EU budget since the 1970's – in direct correlation with the reduction of the funds directed at agriculture (Allen 1996, see also Laffan 1997). The outcome of the cohesion policy is Europeanisation of the national regional policies. Europeanisation means the impact of European integration on the national level politics, polity, policy-making and domestic institutions of government (see Bulmer and Burch 1998a, 1998b). However, a member state is not only an object of Europeanisation but also a subject that influences developments at the European Union level. Thus, one can talk of a two-stage response, the reception of EU policies and programmes and the projection of national preferences (Bulmer and Burch 2000, 47-48). Europeanisation can produce both convergence and divergence (See Héretier and Knill 2000; Hanf and Soetendorp 1998; Harmsen 1999, Green Gowles, Caporaso and Risse 2001, Giuliani 2003). Divergence or not, regional programmes increase planning on the national and sub-national levels simply to meet the demands EU defines.

States are not unitary their goals concerning cohesion. Also the aims of the sub-national actors vary in respect to the national government. The sub-national actors matter both in planning and implementation. Although the Commission built in the 1990's links with the sub-level national actors, the top-down view has not lost its relevance (Allen 2001). Sub-level actors have different roles in member states depending, for instance, constitution and legislative powers, is the country federal or a unitary state. Nonetheless, it is rational to take multi-level governance as the point of departure for this paper.⁴ Multi-level governance refers to the idea that role of state erodes while the part of other actors becomes more robust. Multi level governance is interaction between the formal and informal actors as well as institutions on different levels, from local to the EU level. (See e.g. Hooghe & Marks 2001.) The multi-level governance approach bridges the domestic and the international thereby putting more weight on the interdependence of various level actors. In the member states the ability to adapt depends on the policy preferences of different actors, the capacity of institutions to implement and realize policy change as well as administrative ability to adjust to change imposed by the EU (Héretier 2001).

Finland joined the European Union (EU) in 1995. The EU Treaties include the principle of economic and social cohesion that also Finland had to accept.⁵ Regional differences are reduced through the regional policy. Other parallel concepts used are cohesion and structural policy (Bache 2001). These policies are funded by the EU structural funds and Community initiatives. The aims of this paper are many. Firstly, the paper at hand examines the Finnish regional policy, the politics of regions and the EU's impact on the territorial organisation. Secondly, key actors in implementation of the regional policy are studied. What is the role of the central vs. regional administration? Thirdly, the focus is on the cohesion programmes. What is the legacy of the previous programming

⁴ This paper is part of the Phase II in the '*Organising for EU enlargement*' research project. Discussion Document 03, its follow-up paper and the research template (Laffan 2003) place multi-level governance and the domestic scene to the heart of this inquiry.

⁵ For more details on EU legislation in context of economic and social cohesion during Finland's accession see e.g. Joutsamo & al. 1996:870ff.

period? What is the impact on the domestic arena and the current programming period? Fourthly, the horizontal and sector cases of innovation policy in the Objective 1 region illuminate strengths, weaknesses, opportunities and threats in the field of innovation policy.

The regional policy and the politics of regions

Finland has always been a unitary state. Development of the democratic regional administration was perhaps more problematic than in Sweden or Austria that also became members of the EU in 1995. (Sandberg 2000:185ff.) Before the EU membership Finland had limited regional level but strong central and very autonomous municipal level administration. Until 1960's the administration did not think in terms of regions. First laws concerning regions specifically were adopted then. At that time the main instruments of regional policy were tax relieves and interest aids. More coherent regional policy was created in the 1970's. Migration to cities and to foreign lands was a concern that impacted both the less developed areas and the growth centres. The aim of the regional policy was to reduce push and pull for migration by reduction of the regional differences. The legal instruments (1975 law on regions) supported the role of regions and regional administration. In the late 1970's and 1980's regional development was more balanced as growth subsided and migration to centres and abroad diminished. The idea of the welfare state (the Scandinavian model) also reduced disparity. (Vartiainen 1998, Jauhiainen 2000:80-81, Alus-report 2002: 9ff; 117-125.)

Regional differences gained the attention of the decision- better in the 1980's. The Holkeri government (1987-1991) started planning for reforms of regional administration, for instance, in the form of a ministerial committee where all parties were represented. There was a philosophical agreement between the political parties that reforms were necessary. Nobody denied that. However, the political parties attempted to maximise their power and resource allocation on the regional level. There were conflicts. However, in all regional reforms were not - and are still not - especially highly conflicting issues in respect to other policy areas. In the 1980's key words included 'innovation policy', 'new technology', 'regional identity' and 'network economy'. (Juntunen 2002, 41ff., Niemi-Iilahti & al, 2002.)

The 1990's witnessed the largest administrative reforms in Finland's history. No doubt the EU membership application was one turning point: Aho's (Centre Party) government (1991-1995) aim was to create directly elected *provincial* bodies, putting emphasis on the community level, the bottom-up perspective. The key words were decentralisation and regional democracy. Outcome of the reforms during the Aho government was the compromise between the National Coalitions pro centre administration demands and Centre Party's bottom up approach. The new Regional Law (1994) and the regional administrative experiments were outcomes of the compromise. Many features of the current regional administration were developed during this period. (Juntunen 2002, 46ff.) The decisive change was that now regional policy became programme based. However, Mäkinen (1999, 69) points out that there were step taken to this direction - in a smaller scale - already in the 1980's. In all, adaptation to the new challenge can be considered a success since transfer to programme based regional policy took place swiftly. (Vartiainen 1998, Mäkinen 1999, Jauhiainen 2000:80-81, Alus-report 2002: 9ff; 117-125.)

The Social Democratic Party (SDP) has traditionally supported central administration lead regional government, the top-down view. The SDP also acknowledged the problem of democratic deficit and agrees that changes in administration are inevitable. During Lipponen's I government (1995-1999) development of administration was given to just one minister. In earlier governments there was one minister for central administration and another for regional and municipal affairs. During the Lipponen governments the focus shifted from development of the provincial administration to the development of state's regional administration. Although solutions of the Aho government were not directly abolished, the statute given in 1996 (302/96) signifies change. In all the period of Lipponen I and II governments (where the SDP was the dominant party, although also NC prefers top-down view) resulted in a clearer and more significant role for the state's regional centres and creation of grand provinces in accordance of the SDP long haul goals. When the reforms, reduction of provinces for example, were handled in the Parliament (Eduskunta), it was interesting that many MP's voted regionally rather than according to their party's position. (See Juntunen 2002, 48ff.) The number of provinces was cut down to five during Lipponen's government. Moreover, the number of municipalities decreases "voluntarily". Many of the municipalities are too small to survive the legislative tasks assigned to them. Population in the small municipalities is old and diminishing. Many of these abolishing small municipalities have Centre Party dominance. Another novelty introduced during Lipponen's government was introduction of the urban policy.

The Vanhanen government (2004) house both the Centre Party and the SDP. Thus, the bottom-up and the top-down perspectives are both represented there. However, administrative changes are not planned for one election period only but on much longer haul. In the Vanhanen government there is a minister for municipal and regional affairs. It seems that the question of transferring more power to closer to the citizens remains relevant for the Centre Party. In autumn 2004 municipal elections, the Kainuu region's inhabitants get to vote for members in the regional council directly. This is the first time regional council members are elected in this way. The council is the highest organ in development of the region, arrangement of social and health services as well as certain levels of education. But the election takes place just in one region and it is hard to say if regional elections get wider support.

The territorial organisation

The state and central ministries still dominate implementation of the programmes, although perhaps less than historically. (See Kettunen & Kungla 2003.) The Ministry of Interior is responsible for overall coordination of structural funds. Other ministries manage structural funds within their own policy domain. The ministries include the Ministry of Agriculture and Forestry (e.g. Leader II initiative), Ministry of Trade and Industry, Ministry of Labour (responsible for administration of European Social Fund, ESF, Programme 3), Ministry of Transport and Communications, Ministry of Education and Ministry of Social Affairs and Health.

Currently regional administration consists of five provinces plus Åland (Ahvenanmaa) and nineteen regional authorities.⁶ See also Appendix 1 and 2. Until late 1997 there were twelve provinces but the Government's Regional reform 2000 – a series of measures during the Lipponen I government – cut the number of the provinces down to five. The provinces are “regulatory arms” of central government but without executive functions (Jauhiainen 2000:79). Quite a few decisions are still made on the central level - despite the change. The role regional authorities started to increase in 1990, when responsibility for regional development was transferred from state bound provincial governments to local government bound Regional Councils. Its members are appointed politically. Regional Councils consist of the Assembly, the Board and the Office. Their most important task is to create the economic development strategy for the region (for a thorough account see Jauhiainen 2000, 79). When the programmatic regional planning started with the EU membership, the Regional Councils were not quite ready for the task. The learning process took in practise the whole first programming period. (Kettunen 1998, 1999 and Kettunen & Kungla 2003, interview MI 2003).

⁶ Provinces (Provincet): Law on Province Council 1 § (22/1997); Decision of the the Council of State on Province boundaries and names and locations of Province Councils (121/1997)

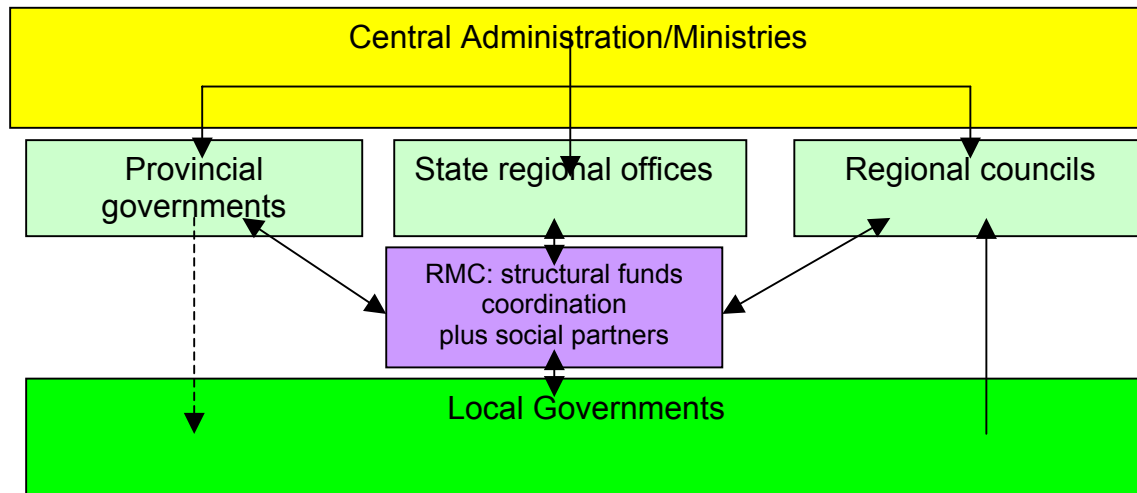


Figure 1. Sub-national structures and management of structural funds⁷

Moreover, there are state regional offices. The *Employment and Business Development Centres* were developed in the 1997 (Lipponen I government) reform to represent national government's interests on the regional level – they are regional offices of the respective ministries apart from the Ministry of Environment that has its own Regional Environment Centres and the Ministry of Education works through Provincial Governments. The Employment and Business Development Centres play a key role in management of Structural Funds. In all the regional level is fragmented and during the past five years new programmes with own inner structures have contributed to fragmentation even further: the *excellence centres* coordinate special fields like technology and metal industry, the sub-regional *growth centres* encourage local governments to cooperate and another sub-regional cooperation programme with wider sphere has its own emphasis. (See Kettunen & Kungla 2003).

Regional Management Committees (RMC) were created to *coordinate* the key actors - regional actors and their municipalities, state authorities and social and economic partners - in regional policy.⁸ Thus, the RMC realises the partnership requirement included in the EU regulations on the Structural Funds. The RMC is not an elected body or an authority but a special body with powers to direct development resources. Therefore, the RMC have sometimes been criticised for the lack of democracy. The RMC were established already during the 1995-1999 programming period. However, legal base for their existence was created in 1999 and the law came into force in the beginning of the year 2000 (N:o 1353/1999). As the coordinating body RMC guide implementation and adjust funding of the EU Structural Funds programmes. There are 19 RMC in Finland. The maximum size of a committee is 24 members plus the chairperson. (Valle 2001, 5ff.)

Local administration has traditionally been very strong in Finland – whereas the EU (Commission) has been claimed to be “municipality blind” (Ryynänen 2003a). Municipalities and cities have

⁷ This picture is an evolution version from the one presented by Kettunen and Kungla 2003.

⁸ It is worth noting that different interest groups are often included in decision-making also on the central level in order to avoid social conflicts in beforehand.

democratically elected bodies for administration and right to tax. The local level was not largely touched by the administrative reform of the 1990's. The "mosaic" of municipalities (although not numbered) can be seen in the Appendix 1. In 2002 Finland had 448 local authorities. Majority of population (69 % of 5 194 901 people) live in the 111 cities and the rest (31%) in other municipalities.⁹ In Helsinki metropolis (including e.g. Helsinki, Espoo, Vantaa and smaller municipalities) area live over 1 million people. In the seven smallest municipalities there are less than 500 inhabitants in each. The number of municipalities is decreasing, however. The smallest municipalities are economically unable to produce their law-determined duties as service producers (school, medical services etc). Therefore, they seek cooperation or even fusion with neighbouring municipalities and towns. There were regional alliances already before the EU era especially in the field of medical care.

⁹ For more detailed information see <http://www.tilastokeskus.fi/> or e.g. <http://www.kuntaliitto.fi/>

Legacy of the programming period 1995-2000

Finland participated 1995-1999 in Objective 2, 5b and 6 programmes as well as in a number of the EU initiatives. The EU programmes are evaluated ex ante, midterm and ex post. This is included in the programming work. In addition to these reports a number academic evaluations have been made of different programmes and policy areas.¹⁰ **Objective 2 Programme** aims for years 1995-1996 were to create jobs by renewing and diversifying production structure of regions, promote competitiveness of companies and enhance internationalisation. Consequently, goals for years 1997-1999 were to increase and renew jobs as well as to diversify production structure, to increase competitiveness of enterprises, to improve skills of labour force and to increase international cooperation. Quantitative objectives were set for these targets, i.e., the number for new jobs to be created in respect to the situation in other than Objective 2 areas and the number for establishment of new enterprises. The interim report carried out by the University of Jyväskylä stated that some of these targets were reached but greater development traits did not change in such a short period of time. Two positive outcomes of the programme included an increase in both the number of jobs and enterprises. This was due to both improving national economy and EU programmes.

Objective 5b programme was implemented 1995-1999 but also 2000-2001 in order to develop rural areas. Public financing frame 1995-1999 was 613,79 million euros to which EU structural funds contributed 194 million euros. Objective 5b areas were located both in continental Finland and on the island of Ahvenanmaa (Åland). University of Oulu produced an interim report of the program in 1997.¹¹ Ex post report was initiated in 1999 and an interim report of it was ready in 2000. The final report was finished in 2001.¹² The main idea behind the 5b programme was in reviving the rural areas as the Finnish agriculture adapts to the Common Agriculture Policy. Quantitative aims were set for narrowing down the gap between the more developed areas and the 5b area, for new jobs, preservation of current jobs creation of new enterprises, diminishing unemployment, reduction of farms, new facilities for farms and raising the education level of the population. The interim report (1997) finds that programme and regional based implementation was not yet fully incorporated in the Finnish administrative system. However, the implementers said that process itself was a long leap forward in regard to partnership and programme based approach. Nonetheless, power relations between actors were ambiguous and apparently there was some friction between the central and regional authorities.¹³ Another problem was inflexibility of the national budgeting system. The evaluation report gave several recommendations for increasing the flexibility of implementation. The recommendations focused on founding of the projects, improving the follow-up and distribution of information. The final report (2001) states that the

¹⁰ The following analysis of programmes and initiatives is to great extent based on the summary in the report of the Ministry of Interior, the so-called ALUS report (2/2002 pp. 31-36). If other documents are used, they are specifically mentioned.

¹¹ Coordinated by regional development centre in Kajaani.

¹² The final report is written by Net Effect Oy, Hilikka Vihinen, Jari Kuusisto and Amazon Cooperation of Savo.

¹³ In one of the early evaluation Kettunen (1998: 6-14) examined implementation of three programmes (Initiative 2, 5b and 6) in three provinces (Varsinais-Suomi, Satakunta and Pohjois-Pohjanmaa). He discovered that in preparation work there were problems with tight timetables, access in preparation stage, scarcity of information and large tolerance for interpretation as well as tension in programming policies between central and regional authorities.

goals and contents of the programme form such a large entity that results were hard to make visible. (See Appendix 4 and also the Alus report 2002:32-33).

Objective 6 Programme had three focus areas: businesses, employment and rural development (agriculture, forestry, fishing and environment). It aimed at developing business activity and competitiveness of companies as well as creation and preservation of adequate living standard in remote rural areas - taking into account the impact of EU membership and state of the Finnish national economy. Quantitative goals were set for reduction of unemployment, development of private services and industrial jobs, development of GDP in respect to nation as a whole as well as employment of young people and women. Interim evaluation of the programme found that pace of the production transfer and migration of population to centres slowed down. However, regional, sub-regional and municipal levels all witnessed deepening gap to the national average. There were several reasons for this: the operational environment was difficult, regional policy as a whole was in ongoing turmoil (aiming towards long haul need and goal oriented approach), programme document provided contradictory views (sector vs. regional) on its implementation and the quantitative goals were too ambitious in relation to the funds. However, the LFA support proved to be of very high salience for Objective 6 area and it was complemented with national funding. The report also found that the programme increased administrative cooperation and lowered boundaries between actors of the different sectors. There was criticism that the environmental authorities were not sufficiently present at project preparation stage. Also sector based budgeting and the role of central administration in fund distribution was criticised. Strengthening legal status of the Regional Management Committees (RMC) was seen important because it would enable working regionally over administrative sector boundaries. The RMCs also enhance innovativeness. The RMC's position was strengthened in 2000.¹⁴

Interreg is the EU **initiative** that promotes cooperation across national borders, through partnership, in order to influence balanced development of multi-regional areas. In other words, the aim is to improve economic and social cohesion regionally. The most important goal of Interreg is cooperation across borders of member and non-member states. Finland implemented seven Interreg II A programmes 1995-1999. During the 2000-2006 the same programmes continue but two of the seven programmes were merged. Moreover, the interim reports of the programmes were not very informative because only few of the projects were finished and sufficient data was not available. Therefore, the reports focused on administrative developments instead of actual results of the programmes. The reports did not find any major problems in design and contents of the projects, though.

Finland had also two **urban programmes**: Joensuu (1995-1999) and Helsinki-Vantaa (1997-1999). During the 2000-2006 Period Finland has one programme covering Eastern Helsinki and Eastern Vantaa. Cities founded administrative committees that implemented these programmes. The committees selected the projects and decided about the funding (both EU and national level funds). Implementation was supervised by a government appointed committee. The EU

¹⁴ The final report on Objective 6 and other programmes can be read at http://europa.eu.int/comm/regional_policy/sources/docgener/evaluation/rado-en.

Commission paid EU funds directly to the cities. The Joensuu programme targeted 12 000 people suburbs (Rantakylä and Utra) that suffered from recession. The idea was that the experiences gained could be utilized also in other similar areas around Finland. There were about 200 projects in all. Most goals were reached. For example, the aim was to create 120 new jobs but the realised total was well over 400. The Helsinki Vantaa programme in turn covered 30000 people in Myllypuro (Helsinki) and 15 000 in Koivukylä and Havukoski (Vantaa). Parallel to Joensuu projects the results of the 300 projects were good. For example, the amount of new jobs created was two times higher than anticipated.

Leader II initiative is administered by the Ministry of Agriculture and Forestry. During 1995-1999 there were 22 local action groups. Within the sphere Leader II programme were one third of Finnish rural area, 825 000 people. As far as funding is concerned, share of private funding was high, 34 % of total funding. Action groups bring together municipalities, associations and active citizens in order to develop the area. This appears to be a productive solution: it has generated good results with relatively small amount of money. The established connections bring long lasting benefit for the region. The good experiences resulted in expansion of action group based model also on a national programme (POMO, Paikallisen Omaehtoisuuden Maaseutu Ohjelma, freely translated to Local Autonomous Rural Programme) that covers about 2/3 of the rural area. Together Leader II and POMO produced approximately 4.700 projects and for most part exceeded given targets. (Alus report: 36.)

The 2000-2006 Programming Period

According to the follow up reports on experiences of the 1995-1999 programming period were somewhat contradictory but mostly positive. One positive aspect was that new resources were allocated to regional development after a period of serious economic recession. On the negative side were experiences of framework conditions that the EU regulations and programmes created in respect to the old national programmes. On case level this meant fragmentation of projects that resulted in inefficiency and coordination problems. Thus, training of personnel in charge was at focus during the first programming period. In all the first programming period was very challenging and did not produce all desired outcomes. (Alus-report 2002:36, Kettunen 1998 and 1999.)

Table 1. Funding of regional programmes 2000-2006 (euro million)

Programme	EU funding	National public funding	Private funding	Total
Objective 1	948,0	948,0	1 715,7	3 611,7
Northern Finland	321,4	321,4	410,3	1 053,1
Eastern Finland	626,6	626,6	1 305,4	2 558,6
Objective 2	502,5	753,8	1 044,5	2 300,7
Western Finland*	284,2	426,2	596,3	1 306,6
Southern Finland*	218,3	327,6	448,2	994,1
Total	1 450,5	1 701,8	2 760,2	5 912,4

* Including so called transition period regions Source: Valle 2002:16.

For the programme period 2000-2006 the Finnish authorities have made four regional and one horizontal (Objective 3) programmes (see the map in Appendix 3). Objective 1 Programmes were two. The first covers Northern Finland: parts of Lappi, Pohjois-Pohjanmaa and Keski-Suomi regions. Eastern Finland Objective 1 programme covers Etelä-Savo, Kainuu, Pohjois-Karjala and Pohjois-Savo. Objective 2 has also two programmes. Etelä-Suomi programme covers Etelä-Karjala, Kanta-Häme and Päijät-Häme. Western Finland Objective 2 programme covers areas from Etelä-Pohjanmaa, Keski-Pohjanmaa, Keski-Suomi, Pirkanmaa, Pohjanmaa, Pohjois-Pohjanmaa and Satakunta regions, (See Appendix 2 and 3.) Moreover, there is a number of EU initiatives – at least eight Interreg programmes have been approved by the Commission as well as Urban, Leader II and Equal programmes (Alus report 2002, 135.) There are also programmes for areas outside Objective 1 programmes, and as a whole, the only areas with no programme are the 12 largest cities. Ahvenanmaa has its own programmes.

The administrative changes were addressed in a report called ALOHA (alueellisten ohjelmien hallinnointi, regional programmes governance) (Ministry of Interior 14/99). The outcome of that report was that both regional and central level administration must be simplified. On the legislative front the ALUS report recommends new legal measures for development of regional administration. A significant change is that the authorities have created a regional collaboration document that helps coordination of structural funds between regions. Measures include more specific determination of the tasks of ministries. According to the proposal the main responsibility of regional policy should remain with the ministries and municipalities. The government should determine the regional policy goals and ministries should prepare the regional measures within their own sector. Regions should prepare programmes that would include an annual plan of central points of action and their financing. Ministries should take these regional plans into account in their own actions and budgeting, and preparation of the state budget. (See summary of ALUS report, of the discussion see also Ryyänen 2003a and Ryyänen 2003b.) Current authorities managing the funds are displayed in the Table 2.

Table 2. Authorities funding the programmes

Ministry/central administration	Regional government	Number
Environment	Regional councils	20
Education	Provinces	6
Agriculture and Forestry	Employment and development centres/dept. of rural affairs	15
Trade and Industry	Employment and development centres/dept. of business	15
Labour	Regional environment centre	13
Trade and Industry/TEKES		
Environment		
Transport and Communications		
Social Affairs and Health		

Source: MI

How much multi-level governance has implementation of the cohesion policy, then, generated? Kettunen & Kungla (2003, p.18) state: *"implementation of the programme has been until recently dominated by the state ministries, especially those of interior, Education, Trade and Industry, Agriculture and Employment... During the current programming period... the system has been altered in a way that regions have now more power in relation to the use of appropriations. The implementation structure, however, is characterised by a strong division of labour. Although in principle regional councils should control and coordinate the programmes, the reality is such that 90% of the programmes are determined by state regional offices."* As a whole, the regional administration is still quite fragmented. It is powerless which makes the holistic reform of regional administration an unavoidable necessity (Editorial of the Administrative studies 2002 issue 3). Moreover, as Kettunen & Kungla (2003) point out the underlying question behind any reform is also the division of labour on the ministry level. It is also a question of power.

The current debate also include the question if the state governed Employment and Business Development Centres should be moved under the jurisdiction of municipal based regional administration (Iilahti & al 2002, Juntunen 2002, 51). It is claimed that the ministries matter excessively and that there is a severe democratic deficit on the regional level as a whole. One of the realized changes is establishment of the RMCs. They bring in the social partners in management of the cohesion funds. The RMCs function well. However, there is plenty of variation how the RMC organise their work and conduct their tasks. In some regions the secretariat has a lot of power and in some cases less. The RMC does not handle all funding, either. There is a threshold that varies regionally: the RMC focuses on the larger projects. The powers of the RMC are proposed to extend to the national level programmes as well (Valle 2002, 5-6, 48ff.). Valle measured centrality of actors with outdegree, indegree and between figures. Outdegree maps actor's direct contacts with other outside actors. Indegree displays the number direct contacts from the outside to the actor. The between-column takes also into account the structure of the whole network. Role of the actors who come in between is central because they control inter-actor communication. The between figure displays actor's importance as an intermediator in the network. (Valle 2002, 59.)

Table 2. Outdegree, indegree and between figures of the RMC actors

		Outdegree	InDegree	Between
1.	Mkliit	2	17	16,18
2.	kunta	2	14	7,45
3.	amk	6	7	1,66
4.	tek	14	13	27,04
5.	teyrit	8	9	5,60
6.	tetyo	9	10	13,05
7.	temaa	9	6	3,16
8.	lhsiv	6	6	8,92
9.	yke	5	4	1,15
10.	metke	17	2	4,22
11.	teipiir	5	2	0,43
12.	yliop	7	3	3,00
13.	finver	4	4	0,00
14.	sak	8	7	3,75
15.	sttk	6	5	0,25
16.	akava	6	6	3,19
17.	tt	10	8	10,53
18.	pt	6	7	2,09
19.	kk	9	11	17,02
20.	yritt	11	11	21,30
21.	mtk	6	4	9,00

Source: Valle 2002, 59.

The local level has not been influenced as much as the regional level during the first programming period. However, cooperation between municipalities has increased during the EU membership. Regional Council members are politically appointed by local governments. The Kainuu regional elections arranged together with the Autumn 2004 municipal elections is an interesting exception, a case of expanding the bottom-up democracy.

5. Innovation policy in Objective 1 area: what about cohesion?

Nokia is the internationally best known Finnish business brand. The success of Nokia shows how even a small country can create suitable conditions for an international business. Indeed, in 2001 Finland ranked at the top in UNDP technology development survey and has continuously had top three positions in the competitiveness surveys of the World Economic Forum, for instance. In the OECD rankings Finland is often at the top level in education. The success of Nokia has changed the Finnish production structures. Moreover, there are signs of problems. Growth is slower, number of new patents decrease and many corporations outsource their production to cheaper countries (Stähle & Sorarauta 2003, 27). The problems have been acknowledged and the Ministry of Trade and Industry (MTI) especially has put emphasis on development of innovation policy by releasing a technology and innovation policy programme and demanding more funds in the 2005 budget. However, the MTI is not the only ministry that deals with the innovation policy. For example, the roles of the Ministry of Environment, Ministry of Interior, Ministry of Labour and the Technology Advancement Centre (TEKES) are pivotal – also horizontally. On the regional level the corresponding departments of the state's regional administration handle the issues relating to the innovation policy.

Cities and regions within Objective 1 area differ a great deal? Here we examine two cities that are quite different by nature. Kuopio is a nearly 90.000 inhabitant university city with a hi-tech profile. The amount of taxed income per capita was 11.837 € in 2002. In a comparison it ranked well above the national average when measured with competition and mobility index. Mikkeli on the other hand is the provincial capitol of over 46.000 inhabitants but does not have a university of its own. The amount of taxed income per capita was 11.086 € (in Helsinki the amount was 16.463 €). Both Kuopio and Mikkeli are located in Eastern Finland (Objective 1 area). In all, Eastern Finland is characterised by (EU programme /00):

- Accelerating migration of population to other areas in Finland
- Bias in population age structure due aging and migration of the young and well-educated people
- Diminishing population and biased age structure narrows opportunities for production and services
- Low income levels and low wealth
- Low amount of companies and focus on traditional sectors
- Strong structural changes on the agriculture sector
- Development difference with the rest of the country has increased in 1990's

Regarding Kuopio and Mikkeli a SWOT (strength, weaknesses, opportunities, threats) analysis was carried out by interviewing a key expert (at TEKES) on the regional level (see Table 3). Profiles of the two cities are different. Mikkeli's strong areas – according to the regional strategy plan - include material composition (e.g. Excel), information and communication services, security appliances, lumber products and metal industry. The interviewee could not, however, at this point say how the emphasis will change for the next planning period that starts soon. One strong point of Mikkeli region is that towns and municipalities are very flexible in arranging suitable conditions for new enterprises. Logistics in the region are also excellent in road transport and freight transport on rail. Kuopio is a university city with a clear hi-tech profile. Whereas Mikkeli has been somewhat hesitant in determining the profile, Kuopio has set ambitious goals to be reached by small steps. Moreover, Kuopio has stayed on the selected course despite of occasional obstructions. Kuopio's hi-tech has to do with well being and the peak projects have to do with medical science, bio-informatics and information technology to serve the field. Kuopio has also managed to make the university and polytechnic institute to have the same vision. Kuopio region enterprises have also managed to seek cooperation and markets abroad, in China, for example. (Interview, Tekes.)

Mikkeli region has certain concerns in innovation policy. Although Mikkeli region – like Kuopio – has a strategy for innovation policy, Mikkeli has not succeeded in making a clear technological profile that would attract business and enterprises. In national distribution of money low number of enterprises and the low profile has meant that the region has received only 1-2 % of national funds. In Mikkeli region lack of own university has a profound effect on R&D as well as cooperation between companies. It is also difficult to get funding for research projects without the institutional framework. However, the University of Helsinki and the Helsinki Business School have set up branches there. Although Kuopio has a university, it is a small one internationally speaking. Its

resources are limited and this can form a problem at times. However, highly educated people form resource at hand in Kuopio. To Mikkeli they must come from elsewhere or seek advanced education from elsewhere. (Interview, Tekes.)

Mikkeli region provide opportunities for the enterprises. Cities and municipalities are very willing to host new companies. The amount of national funding might not diminish but increase. Moreover, companies in the Mikkeli region have knowledge and skills that can be utilised better through networking. However, the partners must be sought from other regions. Finnish regions are small (Ståhle and Sorarauta 2003, 3). Networking could result in diminishing need for imports and increase in exports in certain fields. Kuopio region in turn can provide growth through success in international cooperation. Major threat for Mikkeli is that it becomes marginalised in distribution of funds and networking fails. This would result in economical withering and migration. Kuopio region needs to utilise the current funds before they run out before set goals are reached.

Table 3. SWOT analysis of innovation policy in Mikkeli and Kuopio

SWOT	Mikkeli	Kuopio
Strengths	Provincial centre Flexibility in reception Good logistics and closer to Helsinki region than Kuopio Branches of universities are decentralised to Mikkeli	Universities, polytech and enterprises cooperate successfully Clear hi-tech profile (well-being) Systematic in goals Small steps policy Peak projects in different fields, Attract international companies International cooperation
Weaknesses	No university No peak projects, no geographical concentration of a cluster No systematic goals Enterprises small 1-2 % of national funding Volumes are low	Top companies but a few University is small Basic industry on a narrow base
Opportunities	National funding can increase Knowledge to be utilized in enterprise networks Possible links to Finland and abroad would help increase exports and diminish imports	If enterprises gain a 'critical mass' through international cooperation, prospects for growth are good.
Threats	Marginalisation in national programmes, problems in funding R&D, low visibility, economical withering, migration	Structural and national funding will diminish and time runs out in making progress, negative cycle

The main idea of structural funds is to decrease regional disparities caused by markets or structural faults. Comparison of Mikkeli and Kuopio shows how even in the same problematic region two substantially different cities co-exist with different strengths, weaknesses, opportunities and threats. While funding is pivotal for reduction of disparities, many aspects of the development depend on actors and their force to act. Kuopio is a good example of decisive action towards certain directions, production of well-being innovations. The actors in the innovative systems must also know how to renew, in order for the changes to be permanent.

What about the actors in regional policy, then? Earlier works have examined the Finnish innovation policy and innovation systems. Kuitunen and Oksanen outgo from Freeman's (1987) definition of the innovation system. The basic idea is that an innovation system is a network of public and private actors that generate, import, change and spread new technologies. Actors involved include public authorities, financiers, enterprises, research and information producers (like universities) and interest groups (p. 13.) Administratively cases on the central level were under MoE, MI, MTI, MoL and TEKES (technology advancement centre). Cities involved were Joensuu, Seinäjoki, Jyväskylä and Lahti, so the results are not directly applicable to Mikkeli and Kuopio. Nonetheless, there are numerous indicative findings in the study. It seems the enterprises did receive information of novel projects already in the beginning of the preparations. It turned out that the most important sources were TEKES and the TA (regional technology advancement) centres (see figure 3). Provincial governments were not involved until at the end of the first programming period and that is why their connections were low. Involvement of regional councils was astonishingly low considering their central role in overall administration of structural funds on regional level. (Kuitunen & Oksanen 2001, 41-42).

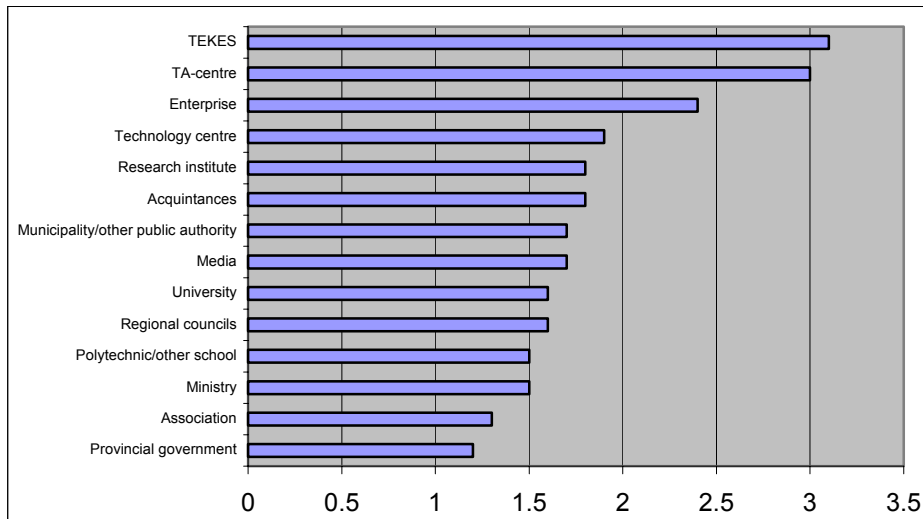


Figure 3. Sources of information in the beginning of projects (1=no information, 5=lot of information)

Source: Kuitunen and Oksanen 2002:42

Another interesting aspect is the question of what kind of cooperation is there between participants? What kind of networks are there in and between actors in projects involving many participants? (See figure 4.) Most favorite partners are the enterprises but the role of universities and technology centers are also pivotal. The least favorite partners are the associations (Kuitunen and Oksanen 2003, 63-64). In another project (Kinnunen 2001) it turned out that universities and other schools could act as honest brokers between enterprises that were competing on the same markets. Neutral partners generated cooperation that could not otherwise be reached.

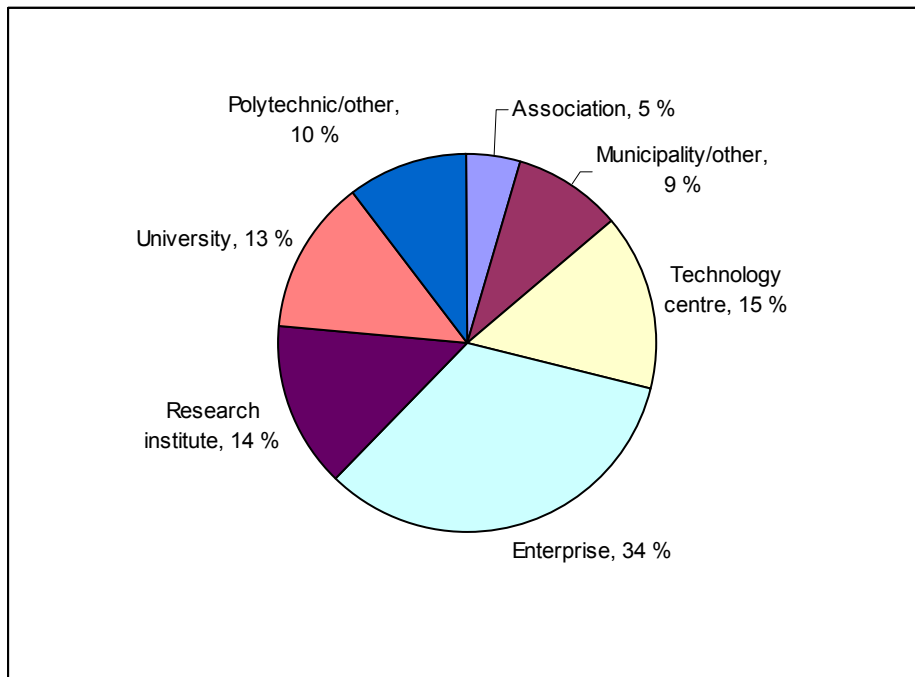


Figure 4. Partners of all projects (rounded numbers not in original study)

Source: Kuitunen and Oksanen 2002:64

According to the Kuitunen and Oksanen study the main problems in cooperation between actors were 1) commitment to the project 2) difference in skills 3) changing of goals and 4) differences in goals. However, it would seem that projects as a whole did not present any major problems in cooperation but especially those partners with already established relationships worked together well and in all trust between partners was not a problem (Kuitunen and Oksanen 2003, 72). According to the study structural funds have had a significant meaning for the Finnish technology policy in form of additional resources for the less developed areas. Main findings of Kuitunen and Oksanen involve the following issues (2003:117ff.):

- 1) Technology projects include objectives connected with business operations, company cooperation and expertise.
- 2) Support for technology activity has controlled the growth of regional differences.
- 3) The programmes have added significant value to the technology activity of the regions.
- 4) Cooperation and strategic thinking of the authorities have increased as a result of the programmes. Problems include insufficient expertise in the field of innovation and heavy bureaucracy of the programmes.
- 5) One problem is sustainability of the programmes, if the funding diminishes in time.

CONCLUSIONS

Europeanisation has had a significant impact on the Finnish politico-administrative system. Structurally the administrative change over the past ten years has been greater than ever before (Niemi-Iilahti & al 2002). Early Finnish studies could not foresee all the changes that membership has implied for regional development (Sandberg 2000:184). New legislation has been introduced, new institutions have been established and the level of international connections of regional level actors has increased greatly. Finland is a unitary state with strong central administration and municipal autonomy. Not surprisingly then, in management of cohesion funds the central administration and its regional offices have a lot of power. The idea of multi-level governance is realized to a lesser extent than is some other member states like Germany with its federal structure. The legislative changes, creation of regional administration and the ongoing reforms show that there still is political willingness for change. In the Vanhanen (Centre Party) government, however, there are two major parties that have traditionally had quite different views about how to go about regional development: the Centre Party promotes bottom-up view and the SDP top-down perspective. Despite the differences neither two deny that the holistic reforms of regional administration are both necessary and acute.

There are also institutional conflicts or turf battles in the administration. In order to succeed reorganization must start from the top, that is, ministry level, by solving the most fundamental political differences and division of labour there. Regional level, then, must also be reorganised in the manner that the administrative structures become more clear and democratic. The Kainuu experiment in autumn 2004 elections is one step to this direction but it is too early to say of its influence on other regions. The local level has not been changed as much as the regional level during the first programming period. Finland has a long and strong tradition of local democracy. Unfortunately the EU is "municipality blind". From the point of view citizens' Europe this is not a good thing.

Management of structural funds has meant introduction of systematic planning of regional programmes. Although adaptation to EU structural programmes has not been without problems, they have resulted in many positive outcomes. The 1995-1999 period was also an era of rapid economic growth, so the real test takes place 2000-2006 – during the slower economic growth. In all, it is clear that a lot of learning took place during the first programming period. One big issue is that authorities have learned to think about programs and regions with a more strategic mindset than before. Also evaluation and reporting of the programmes have clearly improved during the process. On the basis of interviews there are several outstanding issues to be addressed in the near future:

- Simplification of administration
- Simplification of procedures
- Unification of national legislation and guidance (different in different ministries)
- Improving focus of programmes, away from "shopping lists"
- Possible separation of "hard, competing programmes" from "soft programmes"

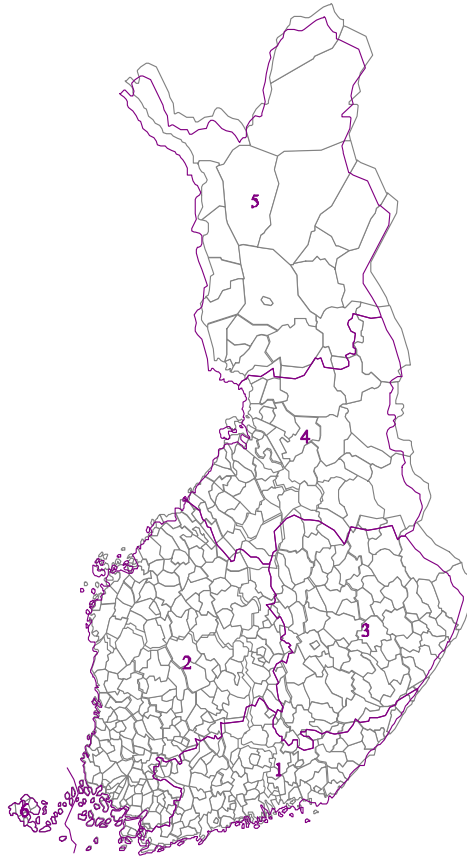
- More emphasis on innovative projects

The major threats:

- Ending of funding (e.g. regional university units that run partly on EU funds)
- Keeping sector policies in force at the expense of regions
- Inflexibility in administration and resistance for change

Appendix 1. The Provinces of Finland

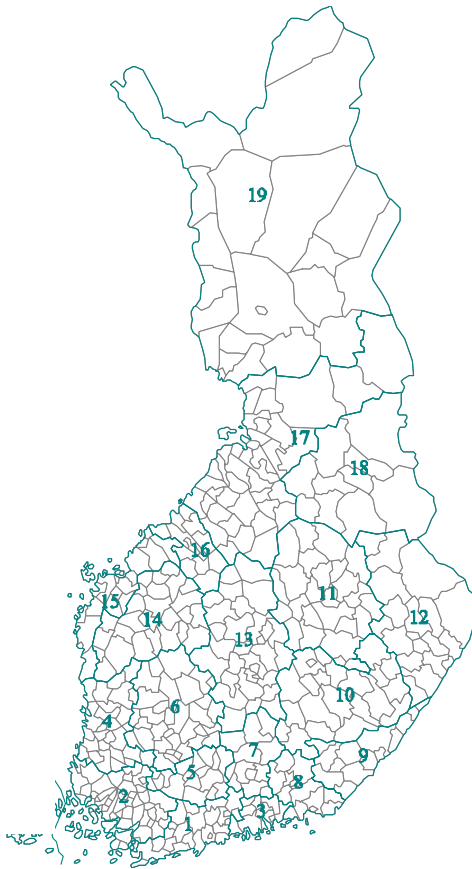
1. Province of Southern Finland
2. Province of Western Finland
3. Province of Eastern Finland
4. Province of Oulu
5. Province of Lapland
6. Province of Åland



Source:
<http://www.intermin.fi>

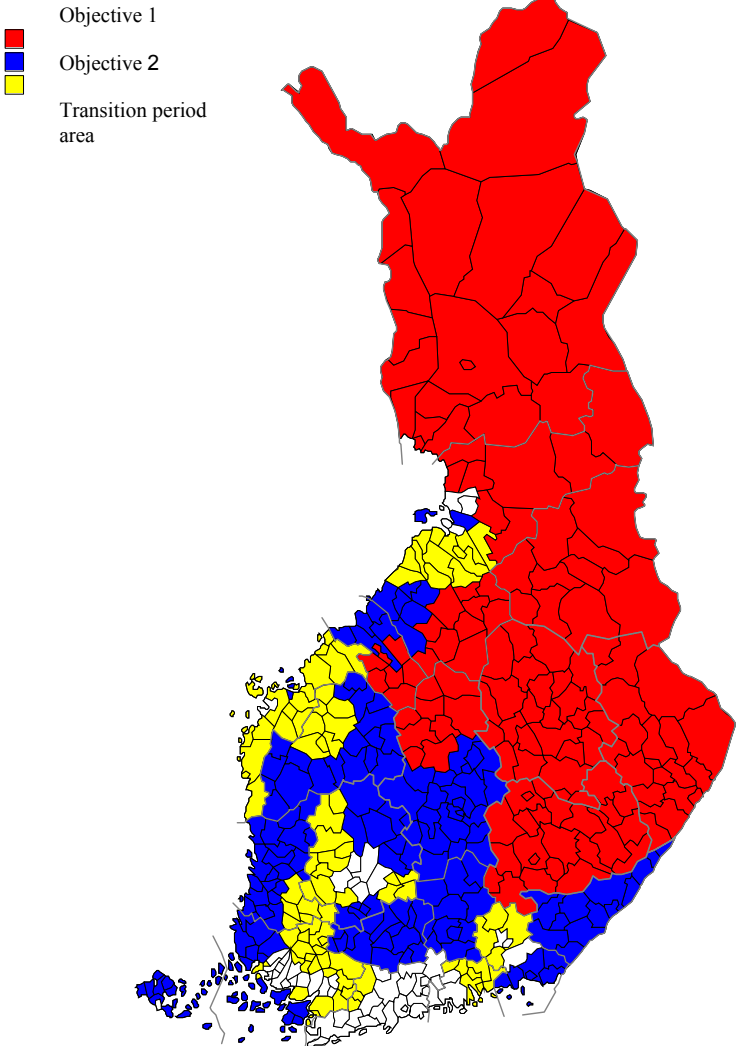
Appendix 2. Regions

1. Uusimaa
2. Varsinais-Suomi (Finland Proper)
3. Eastern Uusimaa
4. Satakunta
5. Kanta-Häme
6. Pirkanmaa
7. Päijät-Häme
8. Kymenlaakso
9. Southern Karelia
10. Southern Savo
11. Northern Savo
12. Northern Karelia
13. Central Finland
14. Southern Pohjanmaa
15. Pohjanmaa
16. Central Pohjanmaa
17. Northern Pohjanmaa
18. Kainuu



Source: <http://www.intermin.fi>

Appendix 3. Finland's 2000-2006 EU regional programme areas



Source: <http://www.intermin.fi/>

Appendix 4. Results as displayed in the final evaluation report (2001)¹⁵

AIM	STAND IN 1995	OUTCOME	AIM/OUTCOME	EXPLANATION
Increase, diversify and amplify SME sector	Size of enterprises small, 90% micro size, problems with diminishing economic activity and unemployment	1995-1999 number of enterprises as well their added value increases	5b programme increased and diversified enterprises	The entire Finnish economy grew strongly during the programme period and mild growth of enterprises would have been expected anyway
Diminish the GNP difference between Eastern Finland and the rest of the country (from 75 % to 85 %)	5b area is 75 % of the national average (=100)	GDP grows 15 %	In 1999 the 5b GDP level is only 70,5 % of the average GDP	Growth on the second half of the 1990's in the 5b area was slower than in other regions average
Creation of 22 000 new or saved jobs to rural enterprises (net increase of 6000 enterprises of which 3000 new type of farms)	352155 jobs in 1993 (drop between 1989-1993 was approximately 90 000)	In 1999 there were 22 000 more jobs than in 1995. Only sectors with a negative development trend were agriculture and forestry.	5b programme has helped in creation of new and stability of old jobs 1995-1999. According to a follow up report 40 000 new jobs were created and 850 sustained	A more realistic explanation is that the programme had an impact on sustained and jobs related to the programme. Most new jobs were created without 5b intervention
Decrease unemployment by 1 % annually	Unemployment rate was 17,7 % in 1995 5619 unemployed	Unemployment rate was 13,6 % in 1999 63 670 unemployed	5b programme has helped in creation of new jobs. A substantial number of people trained by the programme were employed	Quantitative goal of the programme was fulfilled but the main cause was in good general economic development
Improving competitiveness of basic agriculture and expansion of the income sources of farmers	Agriculture sector was in a serious structural change	Continued down fall Employment balance was negative (-12500 people)	Results very modest and partially unintended	Instead of diversification financing has gone to traditional agriculture. One problem is that development of agriculture is separated from development of rural communities
Slowing decrease of the number of farms and create new activities in order to keep 48 000 farms in production	55626 farms in 1995	49337 farms in 1998	The number of farms has decreased in the same pace as in the rest of the country	According to statistics 5b programme has had no direct impact on the number of farms
Development of services and 'pull factors' of the country side	Sparsely populated area with enormous pressure for change. Physical existence of communities at stake as operating environment and services weaken due to continuous migration	5b programme financed projects to improve infrastructure on the countryside	5b programme has been successful in development and improvement of 'pull factors' of the country side as well as activation of social capital and novel culture of doing things	Development of rural areas requires simultaneous development of both physical and social environment. The latter provides a real alternative (with programme funding) to added value.

Source: 5b final evaluation report 2001: 9.

¹⁵ Own translation of the table!

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<http://www.mol.fi>

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<http://www.stm.fi>

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