

Coping Strategies and Regional Policies
– Social Capital in the Nordic Peripheries –
Country report Iceland

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Nordregio 2002

Nordregio Working Paper 2002:5
ISSN 1403-2511

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Stockholm, Sweden
2002

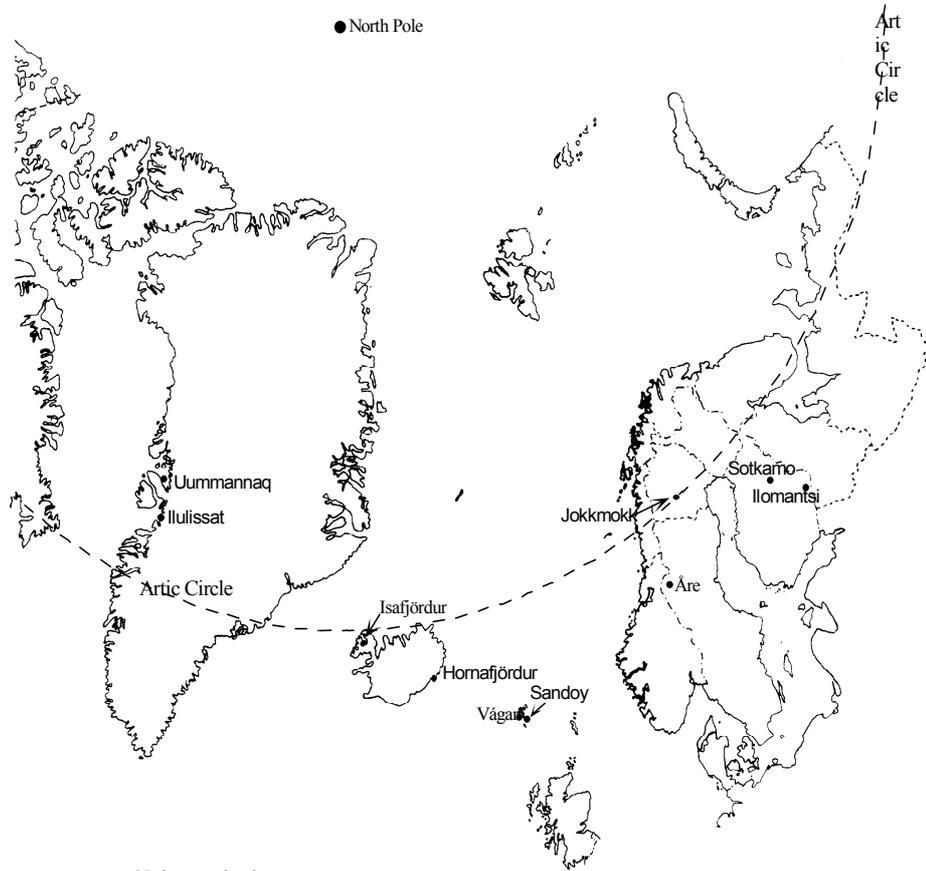
Preface

This country report is one of five country reports (Nordregio working papers) of the research project *Coping Strategies and Regional Policies, Social Capital in Nordic Peripheries*. The research includes fieldwork during 2001 in Greenland, Iceland, the Faroe Islands, Sweden and Finland two localities per country, two projects per locality. The project was co-operatively conducted by researchers from the University of Iceland (Reykjavik), the Research Centre on Local and Regional Development (Klaksvík, Faroes), the Swedish Agricultural University (Uppsala), the University of Joensuu (Finland) and Roskilde University (Denmark). Researchers from these institutions are responsible for the five country reports. A comparative report written by Jørgen Ole Bærenholdt summarizes the country reports

The project is part of the Nordic research programme *Future Challenges and Institutional Preconditions for Regional Development Policy*. The programme is commissioned by The Nordic Council of Ministers / Nordic Senior Officials Committee for Regional Policy (NÄRP). A pilot phase of the programme was reported in 2000 (Nordregio Report 2000:1). This report is one of eight studies in the 2000-2002 phase of the programme. A final phase will start in 2002 and end in 2004.

Nordregio wishes to thank the editors as well as the other researchers involved in this work, as well as the members of the Programme Steering Committee: Bue Nielsen (Denmark), Kari Gröhn (Finland), Kristin Nakken (Norway), Nicklas Liss-Larsson (Sweden), Kjartan Kristiansen (Faroe Islands), Bjarne Lindström (Åland Islands) and Hallgeir Aalbu (Nordregio).

Stockholm, August 2002



--- Nation-state borders
 Region/province borders

0 500 km

Coping Strategies and Regional Policies
 Social Capital in Nordic Peripheries.
 Localities studied, NORDREGIO - project 2000-2001.

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1. Introduction

This paper comprises the final report from the Icelandic part of the project, “Coping Strategies and Regional Policies, Social Capital in Nordic Peripheries”. The case studies presented here concern two Icelandic localities: Ísafjörður and Hornafjörður. These two localities were chosen in part because the two researchers had previous knowledge of them: anthropologist Unnur Dís Skaptadóttir who studied two examples of new economic ventures in Ísafjörður, and geographer Karl Benediktsson who investigated a further two in Hornafjörður. Apart from the advantage of familiarity, the localities very well fulfil the main criteria for the Nordregio research project: that innovative development projects can be identified in the period 1990–2000 and that these have been influenced to a greater or lesser degree by regional policy.

Ísafjörður is located in the northwest of the country and is a town of some 2800 inhabitants. It is the main centre of the larger municipality of Ísafjarðarbær. Ísafjörður is an example of a relatively large town by Icelandic standards, with a rather diverse economy, although still reliant upon a narrow economic base: fisheries. This is on one hand a weakness, but Ísafjörður is on the other hand notable for the way in which local firms have been able to build on the experience created in the fisheries sector and turn it into technological innovation. One of the projects studied is related to fish processing technology. The other is concerned with tourism, which has become a very important sector in the economy of many Icelandic localities.

The second locality, Hornafjörður, is a municipality of nearly 2400 people in the southeast that includes the town of Höfn together with several rural districts. Höfn is also primarily a fishing town, but interesting attempts are being made by the municipal government and other actors to create a milieu for innovation that is not often seen in similar communities. One of the projects studied in Hornafjörður relates to this form of “local” regional policy. As in the case of Ísafjörður, this also involves tourism, albeit not in a town but in a rural setting.

As already explained, the two authors divided their responsibilities regarding fieldwork and analysis. Both researchers were assisted by students during fieldwork and during the initial analysis of interviews. In all, 16 interviews were conducted during the period from March to June 2001. Most of these were taped and transcribed, and then analysed with reference to the concepts and theoretical ideas that formed the basis of the research project. Draft versions of the analyses from both localities were presented at a conference held by the UNESCO MOST Circumpolar Coping Processes Project in Storfjord, Norway, 6–10 June 2001.

In the report, an initial discussion of the history and current emphases of Icelandic regional policy is followed by the presentation, in separate chapters, of the projects studied in Ísafjörður and Hornafjörður. In each locality chapter, a short description of the historical and geographical context is provided and then the actual cases are discussed. The report concludes with a comparative analysis of the cases from the two localities.

2. Regional policy in Iceland

New and vigorous policy for regional development should preferably be called something other than “regional policy”, to free it from the association of that term with half-hearted measures, clientelist politics, and mountains of reports (Pálsson 1987: 54).

The design and implementation of Icelandic regional policy over the past decades has been the subject of many commentaries, some of which are tinged with profound disillusionment, as the above quote indicates. Indeed the quote itself was found in a paper delivered at a conference, held in 1997, tellingly entitled “Has Regional Policy Failed?” This has continued to be a prominent issue in public and political discourse. Currently, regional policy can perhaps best be described as being in a state of flux. The legitimacy of traditional regional development measures is being questioned. Their ineffectiveness in cleaning up the debris left by the typhoon of “economic restructuring” in fisheries and agriculture – the traditional mainstays of regional economic life in Iceland – is increasingly obvious.

2.1 The history of regional policy

The motive for formulating a regional policy in Iceland, and the history of its implementation, has many parallels with the experience of neighbouring countries. The “regional problem” has long been in evidence. Out-migration from rural areas to coastal towns and villages started early in the century with the development of the fishing industry, and Reykjavík gradually became the country’s politico-economic pivot. In the first half of the 20th century Iceland had no development policies with an explicitly regional content, but only general policies of nationwide economic development coupled with sectoral policies that had a differential impact on the regions. A “productivist” regulatory system for agriculture, established in the 1920s and 1930s, aimed at securing the place of small-scale family farmers in the national economy (Benediktsson 2001). This contributed to substantial investments in the countryside in general. A state-driven “modernization offensive” in the fisheries sector following the Second World War leading to the major investment in fishing vessels and processing plants that was to be instrumental in securing, for the time being at least, the existence of many coastal towns.

Be that as it may: Regional imbalances increased during the war – due in part to British and later American occupation – and afterwards continued to intensify. This led to the creation of special funds for regional development in the 1950s, funds that constituted the first actual regional policy measures (Byggðastofnun 1986). These funds provided finance for a variety of development projects in industry and fisheries. However, little in the way of definite regional planning was undertaken in order to direct this capital to specific locations, although the first regional plan was produced as early as the mid-1960s for the West Fjords, by Norwegian experts (Efnahagsstofnunin 1969).

Not until the 1970s was a concerted effort made to address the regional issue. The institutional framework was changed. A specific Regional Development Fund was established in 1972 and greatly enlarged in 1975, providing loans and grants for new fish processing plants and trawlers, as well as various small-scale industrial and agricultural projects. The transportation infrastructure – roads, wharves, and airfields

– was also greatly improved. During the same period, the central government also invested heavily in social infrastructure such as schools, health centres, and various other services as a means of levelling living standards. In this regard, Iceland followed the thinking and practice of the other Nordic countries, which also emphasized general welfare and the regional equalization of living conditions. Increased stress was put on socio-economic planning as a tool for coordinating development efforts in larger regions (Byggðastofnun 1986).

For a few years in the 1970s the flow of migrants to the southwest was stemmed, but it was soon to resume. Continuing efforts during the 1980s and 1990s, now channelled through the Institute of Regional Development, which inherited the functions of the earlier Fund, did not however manage to turn the tide. The legally-defined task of the Institute was to “promote a regional development that is cost-effective from the national point of view” (Lög um Byggðastofnun nr. 64/1985) – a goal which admittedly can be interpreted in a variety of ways. It came to mean something like “keep the economy going in all localities around the country”. Among the chief instruments used to achieve this goal were the provision of grants and soft, long-term loans, as well as the institute itself taking direct shares in the companies it assisted. The Institute is governed by a board of politically elected members, with board membership seen as a highly desirable post for politicians.

The Institute lent generously in the 1980s for projects such as fur farming, which was for a time promoted by various agricultural authorities as almost a panacea for rural regions faced with the contractions of conventional farming. In addition, many aquaculture projects received financial assistance, with great hopes pinned on this new economic activity in times of crisis in conventional fisheries. However, both these strategies failed abjectly as Icelandic producers were not competitive on the global market, where prices fluctuated substantially and consumer whims fluctuated even more. The same fate befell many of the small-scale textile workshops that were established around the country with the Institute’s help to provide employment for a hitherto neglected part of the population: Rural women. The Institute of Regional Development subsequently had to write off a large part of its outstanding loans. Moreover, frequent allegations of politically motivated lending to particular firms or individuals did damage to the credibility of the Institute among the general public. Finally, the Institute was increasingly called upon to solve particular crises stemming from the restructuring of the fisheries sector, by providing capital for resurrecting bankrupt fish processing plants for instance, these often being the sole economic base for the village concerned. No less than 60 % of all loans and grants were destined for the fisheries sector, for instance, during 1985–1995 (Ríkisendurskoðun 1996: 47). A substantial part of this capital was not recovered.

It is in no small part because of this chequered history that critical voices gradually became more prominent, questioning the lack of a clear direction to the policy as well as the bluntness of the instruments most commonly used for intervention. For instance, regional development plans became increasingly criticized for being mere data collection exercises rather than tools for bringing about meaningful change. In recent years, the very legitimacy of the central state pursuing regional policy has been questioned.

2.2 The interplay of regional development and sectoral policies

A large part of the inability of previous regional policy to create a “balanced” development pattern must be attributed to the regional dimensions, both implicit and explicit, of the various sectoral policies. The most important of these concern the two major economic sectors in the regions: fisheries and agriculture. Together, these sectoral policies have had a much more profound impact on local communities than have regional policies in the usual sense of the word.

Regarding the former, the history of the catch quota system, introduced in 1984, has been discussed a number of times (e.g. by Árnason 1995, Eythorsson 1996, Pálsson 1996). Its subsequent modification into a fully-fledged Individual Transferable Quota (ITQ) system in 1990, coupled with many other changes related to the “marketization” of the fisheries, has impacted greatly, albeit rather variably, on regions and localities. Considerable concentration has occurred (Pálsson and Helgason 1999, Haraldsson 2001), with fewer, larger firms commanding an ever-increasing proportion of the quotas. The fisheries sector has thus become “de-territorialized”: The majority of people in the fishing towns no longer have any say in the decisions made about the use of resources swimming at their doorstep. For many smaller localities, the development of small-scale fishing partly outside the ITQ system has been a successful coping strategy, though this is now also being reined in – this time in the name of constitutional justice, as all but the small-scale fishermen are already more or less fully subjected to ITQ management.

The outcome of restructuring in the fishing and fish processing industries is still not a settled matter, nor indeed is the future direction of fisheries policy itself. Reports arguing that the depopulation of fishing localities cannot be explained primarily by changes in the regulation of fisheries (Þjóðhagsstofnun 2000) are countered with other reports which argue strongly that the effects of the ITQs on smaller fishing localities have indeed been definite and detrimental (Haraldsson 2001). In the political arena, proposals for separate management systems for small-scale coastal fishing versus trawling and other large-scale fishing have been given a rather frosty reception by those in power. Such a dual system, its proponents argue (from all political parties, we might add), would enable both a renewed territorial embeddedness of a form of production in which experiential local knowledge abounds, and no less importantly, a move towards more environmentally sensitive fisheries industry.

A small concession has been made, however, in the form of a local, non-transferable quota allocated by the Institute of Regional Development. Some 1500 tonnes of these “locality quotas” were allocated in this fashion in 1999, mostly to localities that were in trouble at that particular time, as well as to some of the other localities most dependent on small-scale fisheries. Many argue that this is much too small to have any real say in the long-run, but it has proved difficult to find a method of allocation that is thought to be fair and impartial.

Farming regions have had their own brand of production quotas introduced, with however rather depressing results for sheep farmers in particular. Pastoral farming has received market protection and financial assistance of varying kinds since the 1920s, and for a long time most farmers were to all intents and purposes immune from “market signals” (Benediktsson 2001). This led to the overproduction of several commodities, which a new regulation system introduced in 1979 sought to address.

Gradually the system was changed so that the volume of production and prices are now decided in direct agreements between the Farmers' Organization and the Minister of Agriculture. When introduced, this arrangement meant a drastic cut in production of sheep meat in particular, which has hit some of the most marginal regions in the countryside rather hard. A process of specialization at the farm and regional level is underway but, in the case of sheep farming, limitations on the transferability of production have remained in place. All things considered, agricultural policy has had very definite regional effects. In fact, a long-standing debate is whether it is possible or desirable to design agricultural policy purely from the standpoint of that sector as a market-based activity. This mirrors debates elsewhere in Europe over a more integrated rural policy instead of a narrowly conceived agricultural one, as evidenced for example in the EU's Cork Declaration from 1996 (European Conference on Rural Development 1996).

Several financial instruments are available for those attempting to generate new projects in rural areas. The Productivity Fund for Agriculture (*Framleiðnisjóður landbúnaðarins*), established in 1966, has supported innovation in rural areas primarily with small grants to establish various new activities. Up to half of the fund's assistance has gone into farm tourism projects (*Framleiðnisjóður landbúnaðarins* 2001) and it has been an important player in the rapid growth of this economic activity. The fund also supports projects undertaken by various organizations and researchers, which are considered to be of direct or indirect value for the farming population. The Tourism Fund (*Ferðamálasjóður*) also provides capital for investment in the tourist economy.

2.3 Changes and contradictions in ideology and practice

It is perhaps difficult to discern a definite ideological direction in Icelandic regional policy and practice during its initial decades, apart from a general populist slant which aimed to please everyone everywhere: this was, and to some extent still is, characterized by *ad hoc* "solutions" to particular local problems, such as the closure of a fish processing plant, rather than a coherent ideological blueprint. Nevertheless, the 1990s saw a significant change of orientation. In line with a hegemonic politico-economic ideology, which puts great faith in the nimble fingers of the "invisible hand" instead of the allegedly clumsy state, more emphasis was put on innovation and entrepreneurship, and less on maintaining population levels in all localities. The tone was set in a request, dating from 1992 by Davíð Oddsson – Prime Minister of the centre-right government still in power at the present time of writing – that the Institute of Regional Development put its main emphasis on defining "growth areas" where the conditions for a coherent and well-functioning regional economy are met (Byggðastofnun 1993:5–6). It was suggested that most state assistance should and would be directed towards such areas, but the Institute's lending functions would be diminished. More marginal regions, outside the orbit of the defined growth areas, were supposed to receive only limited assistance to ease the pain of restructuring.

In a subsequent series of parliamentary resolutions on regional policy, emphasis on the overall maintenance of the settlement patterns has given way to an emphasis on strengthening certain core towns that are supposed to provide the best possibility of offering alternatives to Reykjavík and the Southwest – although it has never been explicitly specified by the authorities which particular towns they should be. Curiously, in the resolution that forms the basis for current efforts a very ambitious

and specific goal is set, namely that population increase outside the capital region be no less than the countrywide average, and that it shall be at least 10 % from 1999 to 2010 (Alþingi 1999). When the resolution was passed, few of those familiar with Icelandic population and migration statistics considered this to be a realistic goal, and it is doubtful whether even the very authors of this policy statement thought so either. The Institute of Regional Development, in reviewing the progress of the past two years, soberly states in its report that this goal is now “further away than it was at the beginning of the planning period” (Byggðastofnun 2001:8).

Several times, during this decade of “rethinking”, the institutional environment of regional development has been substantially changed, which in itself perhaps points to a “crisis of legitimation” and regulatory instability. The Development Department of the Institute of Regional Development was moved, in the late 1990s, from Reykjavík to the northern town of Sauðárkrókur, with the rest of the Institute (Business, Operation, and Legal Departments) following in 2001. New staff members were hired, as few of the people previously working at the Institute in the capital followed it to the new location. Moreover, following an overhaul of the legislation for the Institute, as of 2000 it has been located under the Minister for Industry and Commerce, rather than directly under the Prime Minister as was previously the case.

Concomitantly, the management of projects and funds has been changed. Regionally based development agencies and innovation funds have been strengthened, against a somewhat more limited role of the Institute of Regional Development itself as a financier of new projects. A new innovation fund was created out of several of the old sectoral funds that were previously of most importance: Creating the New Business Venture Fund (*Nýsköpunarsjóður atvinnulífsins*). This fund is supposed to provide risk capital for new and innovative ventures, with strict requirements for proper business planning. However, the fund itself does not have a specific regional orientation – and in fact the directors have seen it necessary to stress that they “do not take the location of projects into consideration, but solely the market opportunities they offer” (Byggðastofnun 2001: 11).

Apart from the fanciful overall population goal in current regional policy, the aforementioned parliamentary resolution shows a no-nonsense appreciation of the multiple aspects of the question of residential preferences and living conditions (Alþingi 1999). The overall economism implicit in the growth-centre policy is somewhat tempered by reference to non-economic aspects: environment, culture, and the regional–local quality of life in general. Some of this is influenced by the results of a large-scale opinion survey carried out in 1997 for the Institute of Regional Development by social scientists at the University of Iceland (Ólafsson 1997). The survey pointed to the importance of various factors which people value in their localities, other than merely “having a job”. The measures proposed for regional development are grouped under four headings that indicate this: a) innovation, b) education, knowledge and culture, c) equalization of living costs, and d) environmental improvements (Alþingi 1999).

Some practical progress has been made in these fields in recent years (Byggðastofnun 2001). Attempts have also been made to tackle issues ranging from the development of distance education to the equalization of space-heating costs. The Institute of Regional Development has also taken on the coordinating role in a network of

regionally-based development agencies (e.g. the Westfjords Development Agency (*Atvinnuþróunarfélag Vestfjarða*), and the Business and Regional Development Centre of East Iceland (*Þróunarstofa Austurlands*), both discussed in more detail below) and national institutions, such as the New Business Venture Fund and the R&D-institute for the industrial sector, IceTec (*Iðntæknistofnun*). This has created an arena for cooperation between important actors that were not well connected to each other previously. The aim is to ensure that some of the jobs created in the “knowledge economy” do in fact end up in the regions instead of in Reykjavík – something that is surely close to the heart of the current “regional problem”.

However, notwithstanding a significant ideological shift towards “knowledge”, “learning” and “innovation” as being the most important ingredients in successful coping strategies for the localities, and certain tangible actions in this regard, some peculiar gaps between rhetoric and practice are evident where central government is concerned. A distinctly old-fashioned “smokestack chasing” approach appears to be back with a vengeance – in fact it may never have disappeared from the minds of many political notables. For the Eastern Fjords, for instance, a single “final solution” to the region’s problems has been offered up: the construction of a huge – and environmentally hugely controversial – hydroelectric station, coupled with the establishment of an equally gigantic aluminium smelter by a multinational company (*Norsk Hydro*). Forceful attempts have been made to silence dissidents, local and extra-local, who argue that this would lead the communities down a dangerous path of a one-dimensional economy, albeit of a kind different from the previous one which was based on the fisheries industry.

In response to severe difficulties in many of the smaller towns some two to three years ago, a company that offered a very different solution entered the spotlight briefly. This had to do with the transfer of assorted back-office functions and routine data processing of the central government ministries and various national institutions to some of these localities, with the help of advanced data transfer technology. Great hopes were pinned on this by the Institute of Regional Development as well as by local people in many of these communities. Several municipal authorities entered into partnership with the company to develop the infrastructure necessary for such “distance processing” and to train a workforce. This has not however provided the relief expected, partly at least because of the lack of interest in the idea, if not downright resentment of it, by the central institutions concerned. Very little has been achieved in practical terms.

2.4 Accenting the local: An emerging consensus?

In Icelandic regional policy debates at the present time, two discursive strands seem to be emerging as particularly important. One of these fits well into the meta-discourse of globalization, and stems from a consideration of Iceland’s position in a world of global competition. Its advocates assert that the only legitimate “regional policy” is one that aims to ensure the long-term competitiveness of Iceland as a whole – an almost microscopic economic entity in a global market. According to this argument, the question is partly one of creating attractive conditions for global firms, but no less of maintaining attractiveness for the highly mobile cohorts of young Icelanders with specialist higher education. For these people, who are among the key actors in the emerging knowledge economy, the world is their oyster. And “101 Reykjavík” (the central area of Reykjavík) has in fact gone some way in establishing a reputation as

one of Europe's hip and creative urban areas. Do Ísafjörður or Hornafjörður matter at all in this grand scheme of things?

Well, perhaps. We shall concentrate more on the second strand of the present regional argument: the reinforcement of the local scale. We may note that these two strands are not necessarily mutually exclusive. In any case, many observers have come to the conclusion that a shift in the opposite direction in the scale of regional policy may offer the best prospects for bringing about positive and fundamental change. Local coping strategies based on local development policies, designed and carried out by municipal authorities rather than by the state, may stand a better chance of success in the new, market-oriented, environment than centrally devised plans. Several municipalities have taken up the challenge and attempted to put in place structures that enhance the networking capacities of local communities and local entrepreneurs and help them connect with circuits of theoretical knowledge. This is particularly evident in the case of Hornafjörður, discussed below.

This has some relation to the changes in municipal governance that have taken place in the past ten years or so. For most of the 20th century, urban localities were governed separately from rural municipalities (*hreppar*), the existence of which could in many cases be traced into the distant past. With the depopulation of rural areas coupled with improved transport infrastructure, the amalgamation of municipalities became a key issue in the 1980s and 1990s (Félagsmálaráðuneytið 1991, 1992). Moreover, the state has pursued a policy of transferring some important social tasks to the municipal level, for instance the schools, which has added to the pressures for amalgamation. In many parts of the country, including both the localities discussed in this report, urban and rural areas have merged into geographically large and economically more diverse municipal entities that are better able to provide the various services expected by the inhabitants. The shift towards larger municipalities has also contributed to the increased emphasis on local planning and the formulation of coping strategies at the municipal level.

The stated ideology behind the enlargement and strengthening of the municipalities is one of devolution and more efficient democratic processes (Byggðastofnun 1986). Some people involved in local government accuse the national state of simply wanting to move difficult and costly functions to the local level, without providing the means for the municipalities to properly carry out these functions. Even so, these moves fit well with an increased ideological, theoretical and practical emphasis on "endogenous development" rather than "top-down" approaches to regional development policy. At the same time the importance of networking and social capital at the local level has become obvious for many workers in regional development circles.

In sum, our judgement is that Icelandic regional policy in its direct form has moved in a direction that is increasingly sensitive towards local coping strategies. Many of the building blocks for assisting these communities in formulating such strategies and carrying them out are now in place, for instance funding structures and regional innovation bureaus. Whether this is enough to secure the continued existence of these local communities is however another matter, and here the wide-ranging and often contrary effects of sectoral policies have to be considered. With these thoughts in mind we now proceed to the presentation and analysis of the cases from Ísafjörður and Hornafjörður.

3. Cases from Ísafjörður

3.1 Location and background information

Ísafjörður is located in the Northwestern part of Iceland, in the West Fjords. It is the largest town in the Municipality of Ísafjörður (*Ísafjarðarbær*, see Fig. 1). It is also the largest town in the West Fjords and an important administrative and service centre for the whole region. The municipality of Ísafjörður, is the result of an amalgamation in 1996 when Ísafjörður, three smaller villages and two districts were combined. On the first of December 2000 there were 4246 inhabitants in Ísafjörður municipality (Hagstofa Íslands 2001). At that time there were 2782 people living in the town of Ísafjörður and an additional 303 in the neighbouring village of Hnífsdalur, which is most often considered together with the main town. The three outlying villages, Suðureyri, Flateyri and Þingeyri, all have around 350 inhabitants. The remaining 117 people of Ísafjarðarbær live on farms scattered through the rural areas.



Fig.1: The Municipality of Ísafjörður

The population of the villages has fluctuated substantially, but has since the mid-1980s generally been declining (Hagstofa Íslands 1997, 2001). The population of Ísafjörður itself was more or less stable from 1950 until the mid-1970s, when investments in the fisheries industry and in various social services contributed to a short phase of growth (Fig. 2). Since the early 1990s however, Ísafjörður has experienced a steady population decline. In 1997 a tunnel that goes through the mountain between Ísafjörður, Flateyri and Suðureyri was opened. The forked tunnel, which is 9 km in length, links all three places together and as a consequence the area

is now much better connected than before. Flateyri and Suðureyri can now easily be reached from Ísafjörður all year round in just 15–20 minutes. In fact, Ísafjörður Municipality together with the neighbouring villages of Bolungarvík (1000 inh.) and Súðavík (180 inh.) can increasingly be looked upon as a single local labour and services market. Whereas before people had to drive over high mountain roads that were hard to keep open in the winter months, today people commute for work between these localities and the inhabitants of the villages go to Ísafjörður for shopping and various services. Only Þingeyri is somewhat further removed from the core area, with a mountain pass in between.

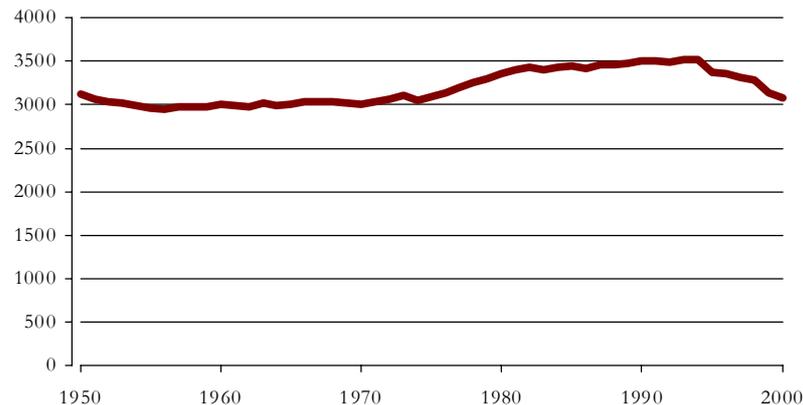


Fig. 2: The population of Ísafjörður 1950–2000. The small village of Hnifsdalur (see Fig. 1) is included. (Source: Hagstofa Íslands 1997, 1992–2000, 2001)

The West Fjords as a region are clearly demarcated geographically on a peninsula from the rest of Iceland. Steep mountains and long fjords characterize the landscape, and with very little lowland available, farming opportunities are very limited. Good harbour conditions are however to be found in some of the fjords and good fishing grounds are located nearby. Thus fisheries have always been important to the region. Until the beginning of the 20th century, fishing was however usually combined with some form of farming. Ísafjörður itself, which has very good harbour conditions, was for a long time one of the largest fishing centres in Iceland. In addition to the fisheries, trading was also an important activity. In the second half of the 16th century, foreign merchants established a trading post there, which grew into the main trading centre of the West Fjords. Indeed, the best-preserved cluster of 18th century buildings in Iceland is to be found in Ísafjörður. These are the buildings of Danish monopoly merchants: warehouses as well as residential houses from the period 1757–1788. One of these now houses the maritime division of the West Fjords Folk Museum. In 1786 – a couple of years before the Danish monopoly on trading was abolished – Ísafjörður was given municipal status as one of six official trading centres in Iceland (Ísafjarðarbær 2001). Until the First World War there was direct trading from Ísafjörður to places such as Bergen and Copenhagen, but after that trading was increasingly conducted through the capital of Iceland, Reykjavík (Jónsson 1984). Ísafjörður maintained its role as a regional centre, but grew at a slower rate than many other towns, such as Akureyri and of course Reykjavík.

Being a commercial centre for the region, Ísafjörður contains a wide assortment of service firms: shops, banks, insurance companies, garages, car rentals, hotels, several guest houses, restaurants and so on, providing jobs for many people. The level of

municipal services is also quite high, as is the number of educational and cultural institutions. The municipality of Ísafjarðarbær provides many essential services, such as a hospital, apartments and homes for the elderly, and a home for the disabled. Five childcare centres and four primary schools (age 6 to 16) are also to be found here. There is also a high school (students of age 16 to 20). Most students who continue at the tertiary level after finishing high school go to Reykjavík, but several subjects can now be studied “locally” through distance learning from the University of Akureyri, the University of Iceland in Reykjavík or the Iceland University of Education. There are also five music schools in the municipality, Iceland’s first music school in fact having been established in Ísafjörður in 1911. There is also a recently founded art school in Ísafjörður. This points to the existence of a rich cultural life, which is an important aspect of the local identity. For example, local people proudly point out that the art gallery that has exhibitions all year round, concerts are commonly held regularly, and that the local amateur dramatic society puts on plays every year.

Ísafjörður also has a sizeable immigrant population, which goes back several decades. Most of the international migrants work in the fisheries, but they also hold other jobs. In recent years the fish processing industries in many Icelandic localities have come to rely more and more on migrant workers from abroad. In Ísafjörður many of these people have settled down. Also, some East Europeans have for example come to work there as music teachers, and refugees have settled there as well. People from around 40 different ethnic backgrounds now live in the municipality. The municipal authorities have chosen to capitalize on this multiculturalism and use it to the advantage of the region. In July 2001 the Westfjords Multicultural and Information Centre (*Fjölmenningarsetur á Vestfjörðum*) was opened in the town. This is a trial project financed by the Ministry of Social Affairs.

The fisheries are still the single most important industry in Ísafjörður. However, great changes have taken place in the fisheries sector as in almost all aspects of the Icelandic economy in recent years. These transformations have had a significant effect in Ísafjörður as in most other fishery-based towns and villages across the country. The changes are the result of several factors, such as a market-oriented quota system and new production technology. Companies have been merged and vessels sold on (with their quotas). The fisheries sector has thus decreased dramatically in the town, reflecting what has happened across the region as a whole. In fact, the West Fjords have lost a greater proportion of quotas since the ITQ system was established than has any other region: in the “fishing year” 2000–2001 the region had only 45 % of the quotas it had in 1992–1993, when all species are considered (Haraldsson 2001:7). With increasing limitations on access to the fisheries in the last decade, the inhabitants have had to search for new coping strategies in order to be able to continue to live and work there.

The Westfjords Development Centre (*Þróunarsetur Vestfjarða*) and Westfjords Development Agency (*Atvinnuþróunarfélag Vestfjarða*) were both established in the 1990s and can be interpreted as signs of such new coping strategies at the municipal and regional levels, and of a changing society that no longer can depend on a single resource. The Westfjords Development Agency was established in November 1996. It is a limited company owned by the Institute of Regional Development, the Association of Local Municipalities in the West Fjords, a women’s group named *Atkonur*, and various individuals and businesses in the West Fjords. The agency is

located in Ísafjörður. Its services are mostly free of charge, as working capital comes from the Regional Institute of Iceland and Association of Local Municipalities in the Westfjords. The main goal of the development agency is to “strengthen industries of the Westfjords and to enrich life in the Westfjords by permanently improving the grounds for commerce” (Atvinnuþróunarfélag Vestfjarða 2001). The various municipalities in the West Fjords are too small to organize such an agency on their own. The agency thus serves as a mediator between them and larger units such as state institutions, outside buyers and banks.

The Development Centre is a different yet related project. Established in 1999, this is a *place* where the different public and private research institutes, associations and agencies are located, the Development Agency being one of them. The Icelandic Fisheries Laboratories have a branch there, focusing in recent years mostly on shrimp products, both frozen and preserved. Other agencies who have their offices there are for example: a branch of the food research project *MATRA* (run by IceTec and the Agricultural Research Institute); the West Fjords Centre for Further Education; the Association of Local Municipalities in the West Fjords; the Employment Office of the West Fjords; and a branch office of the Administration of Occupational Safety and Health.

These two attempts – the Development Agency and the Development Centre – are planned coping strategies by various private and public actors. Both are conscious attempts by the local administrators and local businesses to attempt to create more variety in the job market as well as to create a more interesting work environment in order to keep their educated people in the town and to attract more such people to it. The projects chosen for this study were initiated in the 1990s and both are initiatives that can be seen as attempts to add variety to the job market. They are both based on local initiative and local networks. Only one of them works to a great extent with the Development Agency and the Development Centre, although the links are in a way not formal but based more on personal ties and on the fact that the same individuals are involved in the various activities.

The two projects chosen for this study were *3X-Stál*, a company that produces high-technology products for the processing of shrimp; and *West Tours*, a tourist agency. Both of these were initiated in the 1990s. The case of 3X-Stál is one of a new project that builds very much on earlier experience and knowledge in the fisheries industry and in particular on shrimp processing. The processing of shrimp (*Pandalus borealis*) has for a long time been important in Ísafjörður. It was here in fact that shrimp catching began in Iceland in 1924. In 1936 the first shrimp -processing factory was established. For most of the time workers peeled the shrimp by hand but in 1956 the first machine for this task came to Ísafjörður. 3X-Stál builds on this history of shrimp processing. It is thus a project that is in a way linked to the earlier resource based production of Ísafjörður. However with new knowledge and new and direct accesses to global markets they have developed high-technology products for the processing of shrimp.

Tourism has a short history in the region but is now seen as a growing industry in Ísafjörður municipality as in other parts of the West Fjords and across Iceland in general. The West Tours agency offers a variety of sightseeing excursions around Ísafjörður and the surrounding areas, to the nature reserve of Hornstrandir and to other

parts of the West Fjords, both on land and on sea. West Tours links many smaller projects in the region and makes them more accessible to tourists coming to the region.

The two projects represent two different cases of local entrepreneurship. They are very much the results of a few individual initiatives and thus not the result of direct regional policy. However they are very much in tune with the new development policy based on the notion of local initiative. They are also in tune with the economic plans of the Ísafjörður municipality. The two cases were selected after consultations with a number of individuals living in Ísafjörður, the mayor of Ísafjörður and people involved with the Development Agency of the West Fjords. A field study was conducted in Ísafjörður in late March 2001. Six individuals were interviewed, in particular, people involved in running the selected companies and other people in the municipality. In the interviews, emphasis was put on asking about the networking practices of innovative local actors and the discussions were aimed at figuring out the networks and relationships that could be viewed as contributing to the production and use of social capital.

3.2 Case A: 3X-Stál

As was noted above, 3X-Stál is a manufacturer of seafood and shrimp processing equipment. Examples of their products are: thawing line, pre-grading line, in-feeding line and ice feeder. They offer standardized as well as specialized solutions for most of the processing units, which are commonly known within the industry. Through cooperation and alliance projects with their customers they have focused their analyses, technical “know-how” and design strategy on maximizing their productivity by simplifying the production process and by minimizing the waste of raw materials.

Three men born and raised in Ísafjörður established 3X-Stál in 1994. The original initiative came from two of them – friends who had been studying shipbuilding together in Ísafjörður. After they finished their education they were working for a local high- technology company until one of them left to continue on in further education in Reykjavík. When he finished his studies two years later he needed work, and wanted to return home. Then the two of them decided to start working together, but since they were worried about not having enough work they agreed that if there was little work to be had, they would take it in turn to go out every other day. This was however never a problem as they had enough work servicing the plants in the region. The third man (or third X) became involved a little later. He had been working in a shipyard in Denmark and wanted to return home so they offered him the chance to become their partner in the new company. He is the brother in law of one of them.

These three individuals started 3X-Stál. They did not have much initial capital and thus when they began their operation they thought that they might not have enough work for all three. As mentioned above, the two of the men who started 3X-Stál had a former connection with a high-technology company in Ísafjörður. This company, called POLS, was established in 1986 (but has a history dating back to 1966) to produce electronic weighing equipment and it has been very successful in inventing and marketing its products all over the world. The initiators of 3X-Stál were inspired by POLS but decided not to compete with them but to focus on a different product. Because of the importance of the shrimp industry in the town and the local knowledge available about shrimp production they decided to focus on technology for the

processing of shrimp and servicing shrimp processing companies. They began their work by servicing the local companies, and one of the men had long experience in working in shrimp processing. They saw the whole of Iceland as their market area from the beginning, and very soon, or within the first year, they had gained a foothold all over Iceland. However, before long they found that markets abroad beckoned. Just two years after they commenced production, or in 1996, they had thus begun to sell to Canada.

The connection to Canada came about because of the importance of shrimp processing in Ísafjörður. Some Canadians who were going to establish their own shrimp processing plants in Canada came to Ísafjörður to examine the shrimp processing factories there. When visiting the plants in Ísafjörður they noticed that some of the equipment carried the label of 3X-Stál, and the owners of the factories also pointed it out to them. “That is how it all began to roll”, said the man interviewed for this project at 3X-Stál – one of the three founders of the company. After that 3X-Stál began to receive enquiries from Canada, and from there they decided to participate in a trade show in Boston, where many Canadians were due to attend. They have now been showing their products there for four years in a row.

Table 1: The development of the company 3X-Stál

Year	No. of staff	Characteristics and important developments
1994	3	Operating in a rented building (100m ²)
1995	4	
1996	6	
1997	9	Company moves to a larger building (700 m ²) <i>Atlas Technologies</i> established
1998	15	<i>Stálnaust</i> established
1999	15	
2000	22	
2001	24	<i>3X-Stál Inc.</i> established Company moves to a larger building (1500 m ²)

Source: Information provided by the company

The growth of 3X-Stál has been very fast. In 1994 the three founders started in a rented building of 100 m². By 1997 there were already nine persons employed and the business had moved to a building of 700 m². A year later they established a new production facility in the capital area, called *Stálnaust*, along with two men who had decided to move south. Today they own 60% of that company. The reason for the investment in *Stálnaust* is not because 3X-Stál felt any need to be in the capital area. The primary reason being that the two men who worked for them wanted to relocate. All of those who left the company and moved south have gone to *Stálnaust*. Currently six men work there. 3X-Stál invested in the company in the capital area in order to keep their knowledge within the company and not to lose them, or their knowledge, to

other companies. At the time of the field study trip there were 24 people working for the company in Ísafjörður and they were just about to move to a new building of 1500 m².

In addition during 2001 they established a company in Canada, *3X-Stál Inc.*, with three men. Two of them are Canadians and one of them is from Ísafjörður. The company has been servicing over 80 percent of the Icelandic shrimp plants. The future strategy is to develop further markets in Brazil, Argentina and Chile. 3X-Stál are just beginning to make their products known on the west coast of the United States. The Internet is very important for the development of international marketing. Drawings of equipment and organizational plans for processing lines are sent back and forth many times with small changes here and there before they come to agreement with a client in Canada or the United States. This is a process that would have taken months before the Internet was developed. They have recently been working with an Internet company in drawing all the equipment in a three-dimensional form. The goal is to design a shrimp factory and then meet the client on the Internet and “walk through it” together, somewhat like in a computer game. Because of this technology, the company’s location in this part of Iceland has become less and less important from the clients’ point of view. Indeed this question often does not arise until after signing a contract.

Although the geographical location of the company is not important for the marketing of the products it has so far been important in the development of the company and the development of the products. Thus being located in Ísafjörður has been very important thus far and this was repeatedly stated in the interviews conducted. The *raison d’être* for specializing in the development of equipment for shrimp production came from being in a town where shrimp production was important and where those who ran the factories were quite willing to work with the new company on the development and testing of its products. The man interviewed at 3X-Stál, and one of the three founders of the company, expressed it thus: “We knew people who trusted us so they let us come in and try. This is why it was important to be here and not somewhere else.” Hence, immediately after they had started production they had contacts with the shrimp processors in the West Fjords who enabled them to develop their products. This product development was done in close association with the end users, who told them what kinds of products they would like to have and commented on their work and discussed it with them through the process of trying the equipment under actual working conditions. He was not sure if they would have been able to get this solid ground had they been located somewhere else, where shrimp plants were few and far between. He continued, saying:

“I think the company would not have developed in this direction if we had not been located here. ... They let us try out any product that we think we can sell. It is all born exactly here in this location. For example, we never send a product to Canada to be developed there, it would never work out. We have to be able to get the product in somewhere to try it out and develop it further, because nothing is just created on the floor and goes straight into a factory. Everything needs adjustment time, and it is extremely important when developing a product to be able to just walk into the next freezing plant and just take over the production process... “

All this outweighs, he said, being located in a peripheral region. Transportation is of course an added expense, as costs would obviously be cheaper if the business was located in the capital region. However, there are usually five or six trucks that come to Ísafjörður every day all year round. And usually they can get the material they order for their products delivered the next morning all the way to their door.

Another advantage of being in Ísafjörður is that the work force is very stable. Most of the employees stay with the company for a long time. The directors have also tried to make it an attractive workplace for the newly educated by paying well and by providing a good working environment compared to that which they have seen during their visits to other companies. One disadvantage of their peripheral location however in terms of the labour market is that there are not that many people to choose from in such a small town.

Working with those who run local shrimp plants is not the only thing that has helped facilitate innovation. Networking between 3X-Stál and other fisheries-related industries to be found in town is also important. The company works with and for those who are involved in the running of POLS and *Netagerð Vestfjarða* (a manufacturer of trawls and nets). The three companies have not made a formal agreement on cooperation, but they continue to benefit from each other's existence. For example, 3X-Stál generally includes scales from POLS in the processing plants they design. However, if the customer asks for equipment from another company then this is provided. Today, the innovation of new products often comes from discussion with users, who tell them it would be good to have a machine that could do this or that, and sometimes they find out themselves, when making a new piece of equipment, that another is missing. As the man from 3X-Stál said: *"Through the years we have gained technical as well as production "know-how" from the users of our equipment."*

Informal ties within the town – social capital – built on trust have thus helped facilitate innovation. It is locals – although some of them have gone away for work or for further education – who are the producers of this social capital. They have established a network among themselves, though this does also include some outside actors. Nevertheless, a great deal of the work done abroad is by men from the parent company in Ísafjörður. For example, 3X-Stál is, at the current time of writing, setting up a shrimp processing plant in St John's in Newfoundland. They have rented a building and have a repair shop and service centre in Canada, in order to be closer to their client base there, and to be able to service their customers more easily. One of their workers – an engineer – has just moved there and will stay for a year in order to start it up. Two technicians have gone there to help him.

This is a company which corresponds well to the current development policies, as pursued by the Ísafjörður municipality and other agencies, although it should be noted, that such policies had nothing to do with the original establishment of 3X-Stál. As the mayor of Ísafjarðarbær pointed out, *"the company fits exactly into what we want to have here and to the policy of the Westfjords Development Agency. It not only provides interesting jobs for those with education but also other jobs. For example now when they are renovating a big building for their production that creates jobs for the building industry."* The mayor talked about how the relations between 3X-Stál and POLS and their relations with the fisheries sector in general have had very

positive effects. They are able to do things here that they would not be able to do elsewhere, for instance in Reykjavík, where they would in all likelihood not have been able to try out their products in real situations to the same extent.

3.3 Case-project B: Vesturferðir ehf

Vesturferðir – or West Tours in English – is a tourist agency that links many smaller projects in the West Fjords region and makes them more accessible to Icelandic and foreign tourists. The main products of West Tours are trips of many shapes and sizes in the West Fjords: boat trips, hiking trips and short sightseeing trips for passengers on cruise ships. The agency takes a 10 % fee from those to whom it services. The main focus when promoting the area is on wild nature and colourful history. Tourism operators in the West Fjords want to promote it as an area characterized by “untouched nature” and free from industrial pollution and other complications.

West Tours was established in 1993 by a couple that had moved from Reykjavík to Ísafjörður to run a hotel. They soon found a need existed to offer organized tours to the area. In their opinion an agent that would organize tours for others was needed in the region. Before this there had already been a tourist office in Ísafjörður, which primarily served to sell tickets for Icelandair as well as a few other trips within the area. This travel agency went bankrupt in 1992. The couple, who were both interviewed for this project, decided to wait for one year to see if someone would start a new travel agency but then, when this did not occur, decided to take it upon themselves, along with the Iceland Tourist Bureau, in 1993. They have been planning to increase the share stock because of a lack of capital, particularly as they started to keep the office open all year round. West Tours is in fact the only travel agency in the region.

Until 1998 the agency was only open in the summertime. It was located in the high school, where the tourist information centre of Ísafjörður was also located. The season started in the beginning of June and the bureau closed at the end of August. Then they put all of their material into boxes and stored it for the winter months. The telephone line was then re-directed to the Hotel (run by the same couple), where enquires were answered during the winter months. Already at this early stage in the company’s development, West Tours began to organize a number of boat tours and hiking trips. They also provided information for guests on what could be done in the region. In 1996 they moved to the building where they are now located, and since then they have kept the office open throughout the winter months. At the same time they made an agreement to take care of all tourist information for the municipality of Ísafjörður. Demand has increased dramatically, and they answer the telephones all day every day and all year around. There are two full time positions at West Tours all year round and three more staff are added in the summer season. One woman, who has stayed from the beginning with West Tours, was interviewed for this study. She has a Certificate in Hotel Management and has recently finished a university degree in business administration with a special focus on tourism in the area.

Because of the contraction of jobs in the fish industry in Ísafjörður municipality many people have been looking towards tourism. This sector has been on the local public agenda for years. It has grown in importance in the West Fjords and provides seasonal and part time jobs for various groups of people. In Ísafjörður there is now one hotel, three guesthouses, and five boats that offer trips for tourists. Local shops and

restaurants benefit from tourism, and there are those in all of the villages of the municipality who make and sell handicraft items. A few places rent out horses and fishing is available in rivers and lakes.

Jobs in tourism are however for the most part seasonal and part time in nature. It is an unstable economic activity that is not possible to define as a single sector. Many people that are not engaged in tourism do however directly benefit from increasing numbers of tourists.

West Tours organize the trips along with the boat owners, bus owners and others. Almost all the boat owners who cater to tourists work with them and also the local bus operators. Although they only run the agency and sell tickets for others they are very much involved in organizing tours along with the various service providers. The two most popular trips they sell are the boat trip to the island Vigur, and hiking tours to Hornstrandir – a deserted area that is now a nature reserve. For those who want to go hiking in Hornstrandir for some days, they provide all the services needed, so potential hikers only have to bring their own clothes. Tours for cruise ship passengers have also been increasing in recent years, with 479 such passengers taken on trips in 1995 with this number rising to 2800 in 2000. These people are taken on short bus trips to the nearby villages. In these tours West Tours try to incorporate a cultural programme, such as music or plays that portray the history of the area. Teenagers hired by the municipality have become very much involved in this cultural programme in the summer months. As there are not that many buses in the area they provide only short trips so that more people can go.

In 1996 a new tourism consultant started to work in the region. She is a staff member at the Westfjords Development Agency and comes originally from Germany. She works for the whole of Westfjords, trying among other things, to create a positive attitude toward sustainable tourist development in the area. Since 1999 there has also been a man working among other things on tourism and environmental issues (Local Agenda 21) for the municipality of Ísafjörður. He is originally from Ísafjörður, and returned after finishing a degree in Geography at the University of Iceland in Reykjavík. He was interviewed for this study. His task in relation to tourism is to work on policy -making, the general promotion of the area, and to make the area more accessible by preparing maps of hiking trails. When he was interviewed at the end of March he was organizing the “Skiing Week” that is always held there in the week before Easter, an event that attracts many visitors. This man stops by in West Tours regularly to discuss various issues with the manager there.

The woman who works for West Tours, the regional tourist consultant, and the tourist representative of Ísafjörður work together on various issues such as general planning, development of infrastructure and on the promotion of the area. They have participated in conferences and courses on tourism – particularly in the West-Nordic context. They have also cooperated in the planning or organizing of trips in the area and in the formulation of tourism policy for the region. These individuals also have a great deal of informal ties and meet during the week for informal discussions. The municipality representative said that he stops by in the West Tours office at least once a week. The woman who runs West Tours said that she has benefited greatly from this formal and informal cooperation. There do not seem to be many conflicts among them and they and the various other actors seem to work well together.

West Tours is involved with the Westfjords Development Agency in other ways as well. The company was one of the instigators of the Development Agency in 1996 and both formal and informal connections exist between them. One of the owners of the travel bureau, and the woman who initiated it, has been very much involved with the Development Agency, and remains a member of its steering committee, which in the past she has chaired.

In spite of this great degree of close networking and strong local social capital, in Putnam's sense of the term, tourism is taking longer to grow and expand than people had initially expected in the early 1990s when many saw it as *the* solution to the problem of out-migration. Although tourism is expanding in the area it is not growing to the same extent as in other parts of Iceland. Today there remains a lack of capital and a lack of actual tourists. There are various reasons for this. The development of tourism in the region suffers because of the region's own peripheral location. The roads in the West Fjords are not as good as in other parts of Iceland and flights can be delayed because of weather and landing conditions. However, transportation has improved greatly in the last decade. One of the reasons for this is that most product transportation is no longer by ship but by truck. Thus the roads are kept open and the flights are more frequent than before.

The Icelandic Tourist Board also takes part in the running of the tourist information centre. However, the people interviewed found it hard to work with the Board. They complained that it was not interested in the West Fjords and that it had not been helpful in promoting the area. They claimed that not only were they not interested in the region, but that it was even difficult to get their attention. In fact there was very little talk of any non-local or mobile actors. Thus it may be said that in this case, important non-local actors are missing and this could be one of the main causes of the continuing problems over numbers and viability.

4. Hornafjörður

4.1 Location and background information

The present-day Municipality of Hornafjörður (*Sveitarfélagið Hornafjörður*) is the result of a recently completed amalgamation of five rural communities with the town of Höfn. This is an elongated municipality, covering a 200 km long, narrow strip of land on the SE-side of the ice cap of Vatnajökull (Fig. 3). The inhabitants amounted to 2370 on the 1st of December 2000, of which 1769 lived in Höfn (Hagstofa Íslands, 2001). A small village of some 100 people has formed in the district of Nes, a few kilometres inland from Höfn. The remaining 500 or so inhabitants live on farms scattered through the five rural districts.

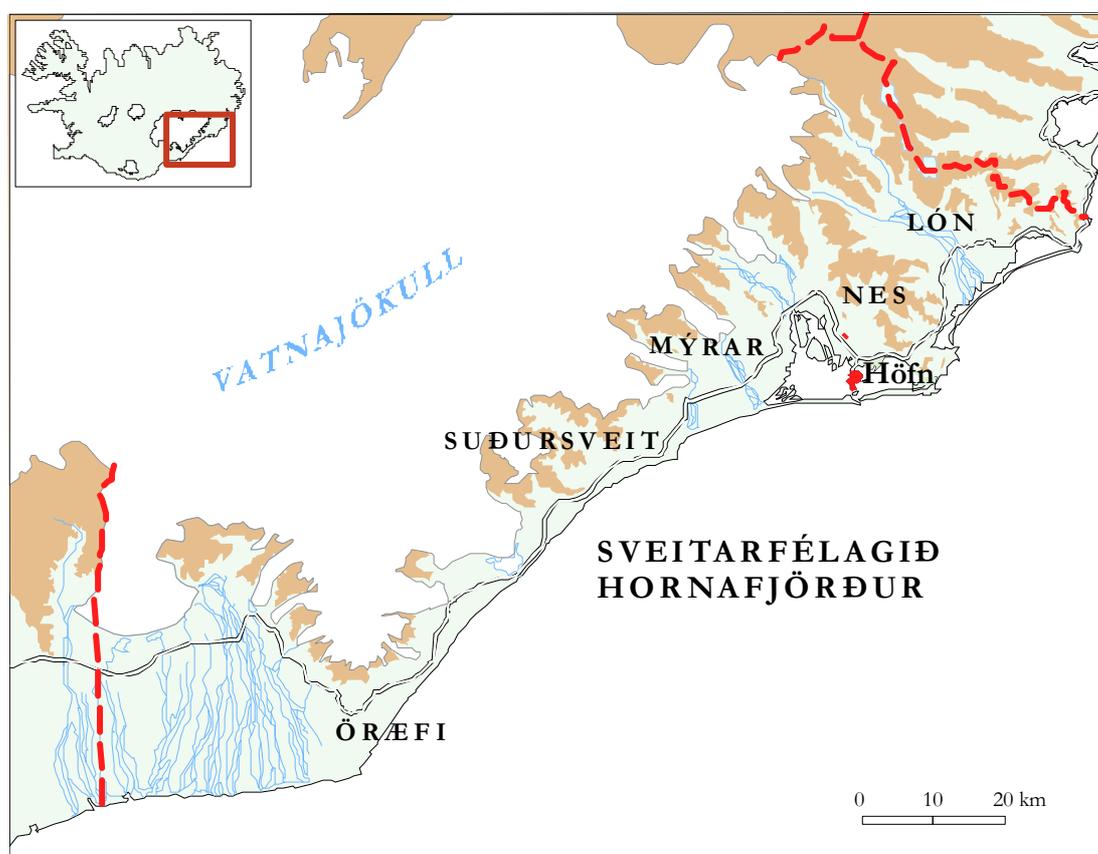


Fig. 3: The Municipality of Hornafjörður

The region has for many years been a backwater in economic terms. To a large extent this was due to the existence of difficult natural conditions. Farming was constrained partly by the lack of extensive highland common pastures, but even more so by the numerous glacial rivers that constantly altered their courses and destroyed pastures, hayfields and even whole farming properties during the most severe floods. The rivers also made land transportation very difficult and thus the region had only tenuous connections with the rest of the country. Not until after the mid-20th century was this isolation ended, when the rivers were gradually hemmed in by barriers and bridged. In 1974 the final obstacle was cleared, with the building of several large bridges in Skeiðarársandur that at last closed “the Circle” – the road encircling Iceland.

Sea transport was also long problematic. While the local subsistence farmers had long pursued small-scale coastal fishing, harbour conditions were difficult for larger ships. For centuries, the farming population had to travel all the way to Djúpivogur, some 100 kilometres to the east of Höfn, to conduct their trade. Late in the 19th century a merchant station was set up at the inlet of Papós in the district of Lón, but this was moved in 1897 to Höfn which, in spite of a difficult tidal entrance through the sand bar, offered better possibilities for the expansion of trading and fishing activities (Gunnarsson 2000).

The advent of motorized fishing boats created new possibilities for Höfn. Its growth in the 20th century from a small village to today's town resulted from the development of a relatively diverse fishing industry. In addition, the town fulfilled an important role as the only service and processing centre for the agricultural areas of the Southeast. In the first half of that century, the demersal fisheries provided seasonal employment for local farmers. Due to proximity to the fishing grounds, many boat owners from the Eastern Fiords moved their operations to Höfn during the first half of the year, creating bonds between these communities. The fish was either salted or air-dried and, starting in WWII, iced and exported directly. Freezing of filleted fish started in 1952 (Gunnarsson, 2000). Later, pelagic fish and crustaceans added variety to the fisheries sector. The landed catch is now more varied than in other fishing towns, including high-value species such as the Norway lobster (*Nephrops norvegicus*), but a good part of the Icelandic lobster catch is landed at Höfn. The town has in recent years promoted this lovable creature as a central part of its image, for instance with a "lobster festival" being held each summer.

To an even larger extent than in many other Icelandic towns, the local cooperative – here *Kaupfélag Austur-Skaftfellinga* or *KASK* – has long been a central pivot in the region's economy. This cooperative was established in 1920 by farmers, for processing and marketing their products and for supplying them with the necessary inputs. Gradually, with the growing importance of the fisheries, the interests of the cooperative turned to fish processing. By the 1970s an initial local economy characterised by small-scale producers and mini-capitalists had given way to an almost "corporatist" one: KASK had built up processing plants for meat, milk, and fish, and had a virtual monopoly on retail trade. For instance, during the times of expansion in the fisheries in the 1970s, KASK invested in one of the country's largest and most modern fishing plants. This was for many years the largest single provider of employment in Höfn, not only for local people, but also for large numbers of seasonal labourers from all over Iceland, who lent the town a somewhat transitory character at times.

But even if KASK was powerful, the cooperative never completely took hold of the basic production units – the fishing vessels. The fisheries were based not on large trawlers, as in many other towns, but on a variety of smaller boats and ships which changed fishing gear according to season. Ownership and running of these boats continued to be in the hands of individual entrepreneurs and small companies, some part-owned by the cooperative. A certain "entrepreneurial spirit" was therefore kept alive in spite of the overwhelming size of the cooperative, which acted more as a "benevolent giant", providing an assured market in the large fishing plant and assisting the smaller units in various other ways, ranging from supplies and provisions

to bookkeeping. In the 1980s, though, KASK's subsidiary, *Borgey*, acquired a large trawler in an attempt to secure an even flow of fish through its large plant.

As was pointed out previously, the radical restructuring of Iceland's economy during the 1980s and 1990s changed many of the conditions of existence for communities such as Hornafjörður. In a more market-oriented environment, where innovative strategies to ensure flexible accumulation became the order of the day, many – though not all – of the large cooperatives found themselves ill-equipped to cope. Their umbrella organization, SÍS, went bankrupt. With the introduction of catch quotas and, in particular with the lifting of quota transfer restrictions in 1991, a reorganization process was set in train, which is still far from over. This process involved a spate of mergers and acquisitions and, in general terms, the consolidation of the means of production into the hands of a few large companies.

Moreover, KASK was also forced to restructure itself. The trawler was sold, together with its quota. The fish-processing factory was separated from the cooperative itself under the name of *Borgey hf*, which had been one of the fishing companies in which KASK had the majority of shares. This was then sold to another local company a few years later. Similarly, the meat processing operation was eventually sold to a large meat processor headquartered in Reykjavík. The small dairy factory was also closed, with KASK receiving payments to do so from a restructuring fund aimed at rationalizing the milk processing industry. Retail trading was handed over to a retail chain spearheaded by KÁ, another and much larger cooperative. Hence, in the space of a few years, KASK as a whole was redirected into being primarily a holding company and property manager, rather than being directly involved in production or retailing.

The local community was apprehensive towards these changes, fearing mass unemployment as in so many other localities that had experienced the convulsions of restructuring in the name of the market. However, this did not happen. Instead, small-scale fishing and fish processing by local entrepreneurs became more important in the town's economic makeup. Tourism has become a major economic sector, involving lodging establishments of various kinds, restaurants and tour operators, who take advantage of the drawing power of "Europe's largest glacier", Vatnajökull. Attempts were also made by the municipal authorities and other actors to strengthen processes of innovation, with interesting and promising results, as will be discussed in the first project description below. The managing director of *Norðurís* – the company discussed in the following section – offers a rather positive assessment of the local community: "They do not ask 'what can the state do to help us', but rather the basic question is 'what can we do; what are we doing here'". He considers the ground rather fertile in Höfn for innovation and entrepreneurship. However, he also comments that a typical "village mentality" is present among a section of the town's inhabitants, manifested in scepticism towards anything new and distrust of innovators with too radical ideas.

The merging of the six municipalities during the 1990s has given a series of new roles to Höfn. In fact, the new Hornafjörður Municipality entered into an agreement with the state to become a testing ground for the transfer of some functions from the central to the local state, in fields such as primary education and health services. In general, the inhabitants are satisfied with the outcome although some difficult

decisions have had to be made, such as closing down a rural school due to rural depopulation.

All things considered, Höfn can be said to have adjusted markedly better to the recent changes in the fisheries sector and the economy in general than have many other towns. It has managed not only to hold on to its people but also to attract a significant number of settlers from other regions. Only during the last two years or so has the town started to show a negative migration balance (Fig. 4), provoking some alarm among local politicians and concern among the population at large.

The rural areas, on the other hand, have lost significant numbers of people in recent decades, although such decline has varied from one district to the next. This is partly a long-term trend (Fig. 5), related to both economic transformation and the general processes of social and cultural change, which have affected all regions of Iceland beyond the capital area, and particularly the rural areas. Nevertheless, the five formerly separate rural municipalities of present-day Hornafjörður have been greatly affected by the “inverse regional policy” implicit in the agricultural policy pursued by the central government over the past twenty years. The backbone of agriculture in the region is traditional sheep and dairy farming. During the “productivist period” in Icelandic agriculture – from WWII until the end of the 1970s (Benediktsson 2001) – considerable expansion took place in this region, helped by the “taming” of the rivers, which made extensive cultivation possible. This production increase was however curtailed with the aforementioned new regulatory measures in 1979, and the region’s traditional pastoral economy suffered. Recently some diversification of agricultural production has occurred, but in general the agricultural sector has weakened as an economic base. Many if not most farm families now supplement their incomes with off-farm work, those located close to the town of Höfn obviously being in a better position to do so.

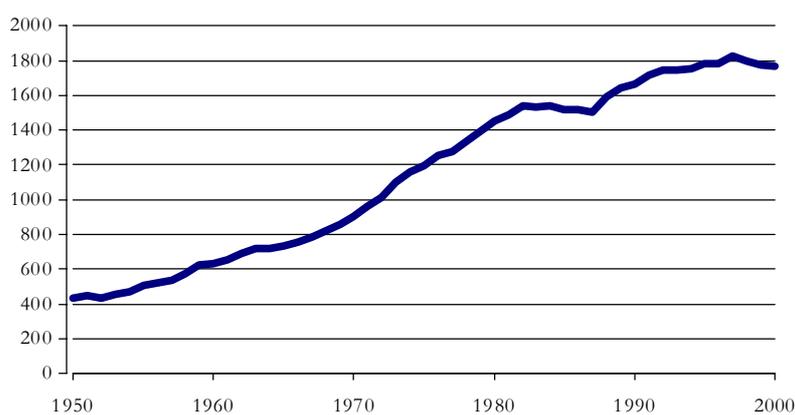


Fig. 4: The population of Höfn 1950–2000
(Source: *Hagstofa Íslands 1997, 1992–2000, 2001*)

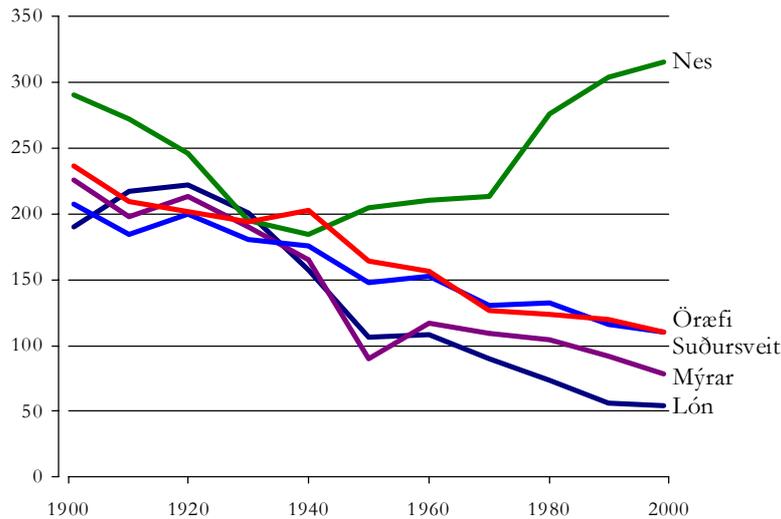


Fig. 5: The population of the rural districts 1900–2000
(Source: Hagstofa Íslands 1997, and unpublished data)

Examples can however be found of successful on-farm innovation. Some of these involve the diversification of agricultural activities – the production of arctic char, for instance, semi-organic potato growing, and pig farming, but most emphasis has been put on tourism. It is hardly an exaggeration to say that every other farm now has a sign indicating that some tourist services are available. Nowhere is this more evident than in the westernmost district of Örfæfi. Three innovative tourist operations in Örfæfi are thus the subject of the second project description from the Hornafjörður case.

4.2 Case-project A: Norðurís hf.

As outlined above, fishing and fish processing has long been the mainstay of the economy of Höfn. Most of the processing has been of a fairly simple nature: Freezing, salting, or reduction (fish-meal processing). The firm analysed in this section, *Norðurís hf.*, is the first to utilize advanced biotechnology in the processing of marine products. Below, the nature of the innovation itself will first be outlined, followed by a description of the formation and structure of the company and a discussion of the nature of networking and social capital in this case.

Norðurís is a young firm, established in 1999. Its products are twofold. First, the processing of cold-active enzymes from cod, for sale to a sister company called *Ensímtækni ehf.*, located in Reykjavík, as well for own use. Second, the company now produces three types of seafood concentrates, for use in restaurants and in the food processing industry, whenever seafood flavour is needed (NorthIce 2001). Currently, “taste” from lobster, shrimp (*Pandalus borealis*) and pollock (*Pollachius virens*) are available.

Seafood flavourings or fish stock cubes are nothing new of course, but they are usually produced by, first, preparing fish stock by boiling, then drying it and finally adding various salts and additives. Norðurís offers a very different product: it is produced by digestive enzymes which break down the proteins of the fish or crustacean and preserve its original flavouring ingredients intact, making additives or salts wholly unnecessary. The method is altogether more gentle than conventional ones, as it uses “natural processes to conjure up the pure taste and fragrance of each type of fish material processed”, as the company’s home page puts it (NorthIce 2001).

The end product is a concentrate, which has limited shelf life. In fact, one could speak of this simply as “liquefied lobster” (or shrimp, or pollock) rather than a conventional flavouring ingredient. The unpretentious pollock seems the odd one out in the company of crustaceans, but it is used for the production of a basic fish flavour with a variety of uses whereas the other flavours are more suitable for quite specific gastronomic creations only.

The enzymes that are the key to this are themselves processed from a resource which until now has been of no commercial value (albeit highly esteemed by seagulls): cod viscera. Most of this is thrown overboard as fish is gutted at sea, precisely to prevent the onset of auto-digestion by the enzymes found in the cod’s stomach. In this case, the enzymes are isolated and then quietly put to work on the seafood. The equipment consists of vats of varying sizes, pumps, micro-filters, pipes and so on. Utmost hygiene must be observed at all times. After the transmogrification of the raw material is complete, the product is put into 1.1 kg plastic containers.

But how did this innovative firm become established at Höfn? The answer to that question is related, first, to the general development policy pursued by the municipal authorities, and second, to a fortuitous combination of circumstances.

Concerned with the town’s rather one-sided dependence on traditional fishing and fish processing, and faced with uncertainty in this sector in the 1990s, the local government started planning for an innovation centre, under the bold Icelandic title of *Nýherjabúðir* and even grander English title of “Hornafjörður Science Park”. This still very much constitutes work-in-progress, but Norðurís can be considered the first fruit of this initiative. The basic idea is to make innovation and access to knowledge central parts of community life, by “introducing new thought, technology and practices to strengthen education, development and employment in the region” (Nýheimar 2001). This is to be achieved through the creation of a centre which physically brings together the local college, the college library as well as the local public library, and offices of those extra-local institutions which are concerned with research and development in fields relevant to the locality, for instance the University of Iceland, Fisheries Research Institute and the Business and Regional Development Centre of East Iceland. A specialized building, *Nýheimar* (“NewWorld”) was under construction at the current time of writing (late 2001), which is expected to create the synergy effects sought.

In 1999, a manager was hired for the centre: a social scientist with a postgraduate degree from a Danish university, who had previously worked in Africa for ICEIDA – the Icelandic International Development Agency. One of her first tasks was to familiarise herself with the research and development work undertaken in the various departments at the University of Iceland. She contacted a physicist in the Faculty of Science, who had been charged with the task of liaising with innovation bureaus such as the budding one at Hornafjörður, and together they visited researchers. In the Chemistry department they came across scientists who had been working with enzyme technology for some twenty years. In 1996 these scientists had formed the company *Norður ehf.* and had then embarked upon a large research and development project in association with a British biomedical firm (Ensímtækni 2001). By 1999 they had developed, at the laboratory scale, the method of breaking down proteins

with the help of the cod's digestive enzymes, and had a patent pending. Norðurís, and its sister company Ensímtækni, were formed in order to develop marketable products. Several features made Höfn a feasible location for the venture. First, the possibility of obtaining large quantities of the basic raw material: cod viscera. Here we come across yet another actor: the current managing director of Norðurís. A chemist by training, for some years he acted as the countrywide director of fish inspection. At that time he had successfully lobbied for the introduction of a regulation which stipulated that all fish caught in Icelandic waters must be gutted at sea, as part of a drive to increase the quality of raw fish for processing. Subsequently he was recruited to manage the large fishing company at Höfn, Borgey – and changed his mind regarding the handling of catch: research done partly at Borgey showed that for small boats that only went out for a day at a time, swift cooling with ice was more important than gutting in keeping the catch fresh. Hence, he again successfully lobbied for a change to the regulation, allowing small-scale fishermen to land their catch un-gutted, provided that the fish had been chilled with ice immediately after having been caught. Fishermen at Höfn and in several other places started doing this.

A second advantage of Höfn was the presence of an unused building, which had until 1995 contained KASK's dairy factory. It had been built in 1973, tailor-made for milk processing and thus highly suitable for production of the kind Norðurís was starting, also requiring thoroughly hygienic conditions.

As a result, in October 1999 the Reykjavík-based Norður ehf. and KASK, together with the New Business Venture Fund and a few individual investors, created the new company, Norðurís. Most of the direct capital came from the Fund and the investors, as well as some of the scientists behind the innovation, but local participation was mainly in the form of KASK's provision of a suitable building for the production. The next step was to recruit staff with the right qualifications. Again, the legacy of the dairy factory helped. The former production manager there, a local man with qualifications from Denmark as a milk-processing specialist, had been working elsewhere since the closure of the factory. A member of the municipal government and sitting in fact on its Committee for Economic Development, he had observed and played his part in the birth of the new company. His experience with delicate food processing and product development in the milk industry was in fact just what Norðurís needed. He then recruited another qualified milk technician, a young local woman. The chemist, former manager of Borgey, was appointed as managing director, albeit located in Reykjavík. He had lived in the capital before coming to Höfn seven years earlier to manage Borgey, but had family ties to Hornafjörður since his childhood days. As discussed before, Borgey had by this time been sold/merged with another fish processing company in Höfn and his former job was no longer there. The company faced risks of two kinds when it started. The first involved technology, or rather the risk inherent in scaling up the production process from a laboratory to industrial scale. That this would work was by no means certain. But technical problems have been more or less solved. In fact, the company can no longer obtain enough raw material from the Icelandic fisheries. Lobster shells are now imported from the eastern seaboard of Canada, albeit from a lobster species (*Homarus americanus*) that gives a slightly different flavour from that of the Norway lobster. Part of the reason for importing lobster is also the fact that the Canadian lobster is landed live and the shells are thus totally free of additives, whereas sulphite is used for preservation on Icelandic lobster boats. Whole shrimp is also imported from

Norway. Apart from this, shrimp and especially pollock are bought on the Icelandic fish markets, but not specifically procured from the fisheries at Höfn.

The second major risk is proving something of a bottleneck, namely the response of the market. Initially, Norðurís aimed mostly at the restaurant and catering market and tried to establish its own brand. The company introduced the products to restaurateurs in Iceland, Denmark, and Finland, and got a generally positive response, but this has not automatically translated into orders placed. The chefs' world is full of traditions and artistic individuality, and it is not easy to enter with an innovative, hi-tech product. The preparation of stock for soups and sauces is one of the vital techniques in any chef's professional repertoire. It involves a highly personal touch and many chefs regard it almost an insult to offer them a product which takes much of the mystery out of it, as the managing director of Norðurís conceded: "It is rather like offering a painting machine to an artist, and telling him 'Now you don't have to paint anymore yourself. The machine does it for you!'"

The company has therefore changed its strategy somewhat from its first forays into the market. Now the emphasis is primarily on getting into the large-scale catering market rather than gourmet restaurants, and second, on securing a foothold in the food processing industry. Norðurís has negotiated a contract with a large, German-based company which serves restaurants and caterers in Germany, Austria and Switzerland. This involves the German firm marketing the product under its own brand name rather than that of Norðurís. Moreover, the production manager has made good use of his connections within the milk industry both in Iceland and in Denmark – where he received his education – to introduce NorthTaste to his former colleagues as a flavouring substance for spread cheeses and other products. A lobster-flavoured spread is already in production in Reykjavík. Trials are underway in cooperation with a Danish food processing company with a milk-based, seafood-flavoured soup, which is UHT-treated.

The people of Höfn are generally very positive towards the new company, but there is also concern that this new and somewhat mysterious industry will not bring the number of jobs many were hoping for when the news got out of its establishment. Some impatience is evident, as the production manager had clearly sensed: "*The way the locals talk, it is like... if things do not happen immediately – preferably yesterday – then they are written off.*" In fact, he stated that one of his first tasks, after he took on the job, was to lay to rest false local expectations surrounding the company.

The critics have a point. Norðurís is never going to be as large an employer in the town as the "Fordist" fish factories of the 1970s and 1980s were. With further growth, some food processing scientists and technicians would be needed for product development, but even if everything goes according to plan, the maximum number of staff would only be in the order of five to ten. On the other hand, the employees are highly skilled and the company's policy is to pay good wages. These are therefore quite valuable jobs for a town such as Höfn.

In this context, it is worthwhile considering whether this really is a firmly locally embedded company. The "naturalness" and purity of the product is emphasized by the brands and image the producer is striving to establish. The company's name identifies it with the north in general and Iceland in particular: NorthIce in English. The logo

portrays the ice-crowned mountain of Örafajökull – not only the highest peak in the municipality of Hornafjörður, but in the whole of Iceland. Collectively, the products are called NorthTaste – LobsterTaste, ShrimpTaste and PollockTaste respectively. The colours of the Icelandic national flag are visible on the containers. The product is thus associated both with Iceland and this particular locality, although this is done in a rather subtle manner.

In fact, the managing director himself states, “there are no particular economies of location in Höfn, but no particular diseconomies either”. The decision to locate his own office in Reykjavík rather than Höfn was tied partly to the fact that he had already decided to move back to the capital with his family, where they owned a house. It was also partly related to the convenience of being located both in the largest domestic market and the centre of the Icelandic restaurants scene, and just as importantly, close to the international airport in Keflavík as the promotion of the products abroad inevitably required frequent travel. Moreover, an advertising agency in Reykjavík plays a crucial role in the marketing campaign. If (or when) Norðurís is made a fully-fledged stock market listed company, it will be up to the shareholders to decide on the future location of both its offices and its production facilities. What embeddedness there is then, relates mainly to the initial combination of events and personalities, which led to the company’s creation in the first place.

4.3 Case-project B: Rural tourism in Örafi

Tourism has grown by leaps and bounds in Iceland in recent years: in the year 2000 over 300 000 international tourists visited the country. Most come to experience the natural beauty of Iceland. As noted above, Hornafjörður has emerged as a major tourism region, being particularly well endowed with natural phenomena which outsiders often find irresistible, first and foremost the Vatnajökull glacier and all that goes with it. Local tourist operators and the local authorities have actively and successfully promoted the region as being “in the realm of Vatnajökull”. There is some concern however that many of the visitors crowd into relatively few places, with the concomitant risk of environmental damage, and efforts are thus now underway that aim to ensure a more even distribution. The major tourist spots include Skaftafell National Park in Örafi, the periglacial lake at Jökulsárlón, and Skálafellsjökull, both in Suðursveit, and in the far east Stafafellsfjöll/Lónsöræfi, a colourful and extremely rugged mountain area that has been designated as a nature reserve.

Örafi is the westernmost of the five rural districts that are now included in the municipality of Hornafjörður. It is also the part of the municipality where tourism has had the most pervasive effect on the local economy. Several tourist operators in Örafi have pursued quite innovative strategies in this regard. Social capital of a particular kind is quite evident when looking at these operations.

A national park was established at Skaftafell, in the far west of Örafi, in 1967. Skaftafell had been one of the largest farms in the district for centuries. The place was also a gateway for those travelling across Skeiðarársandur or Skeiðarárjökull and the farmers there were in good contact with those on the western side of this then-almost-impassable tract of the country. Conservationists had long had their eyes on Skaftafell because of the particularly complex and dynamic interplay of glaciers, outwash plains, mountains and lush birch vegetation found there. The National Forestry Agency attempted to secure land there, but the farmers who then owned the property

declined their bids, arguing that Skaftafell with its remnants of the original Icelandic birch woods was no place for the large-scale planting of foreign conifers. Instead they entered into negotiations with the Conservation Authority and thus was born Iceland's first fully-fledged national park. It quickly became a major destination for domestic and international tourists.

In the 1960s and early 1970s the district was still without a road connection to the west, and only in 1967 did it in fact become possible to drive between Höfn and Öräfi. Nevertheless, domestic tourists had started to discover the beauty of the district in the 1960s, arriving by air to a small airstrip which was then served by Iceland's domestic airline, or by large all-wheel-drive trucks that were able to ford the rivers on Skeiðarársandur. There was very little in the way of organized tourist services at this time, visitors relying instead on the age-old tradition of rural hospitality. The farm families housed and fed the guests, who did not have to worry much about paying the bill at the end of their stay.

The completion of the roads and bridges on Skeiðarársandur in 1974 catapulted the district into the commercial world of tourism. In conjunction with the road construction project, large campgrounds were constructed and a service centre built at Skaftafell. A sizeable part of the Icelandic nation immediately took to the road and completed "The Circle" during the mid-1970s. The dust then settled, but only temporarily, on the then still unpaved roads. Soon international tourists followed. The number of visitors to Skaftafell is now estimated to be in the vicinity of 150 000 people each year (Anna Dóra Sæþórsdóttir, pers. comm. November 2001), most of these coming in the period from June to the end of August.

In the 1980s, with the decline in the viability of sheep farming, the eyes of local people increasingly turned to these new flocks of visitors and they started developing accommodation facilities and subsequently recreational services. Three such ventures will now be described: *Hótel Skaftafell*, *Öræfaferðir*, and *Flosi*. This is followed by a discussion of their relationship to regional policy at the local and national levels, and to forms of social capital.

Hótel Skaftafell is a hotel with some 40 rooms, located at Freysnes, on the main road a few kilometres east of the boundaries of Skaftafell National Park. It is quite literally the product of the park – not only because of the obvious demand for accommodation close to such a major tourist destination, but also because of the personal histories of those behind the project. The hotel is owned and managed by a young woman who grew up on the farm in Skaftafell and, so to speak, grew up with the park. Skaftafell had been the property of her family for centuries. Her father was instrumental in the creation of the park in the 1960s, as discussed above, and became the first park manager. He was a highly respected person outside as well as within the district, with a firm footing in local rural culture but at the same time he and his wife were accustomed to dealing with outsiders, be they international scientists or plain pleasure-seekers. During the first two decades of the park's operation, he had experienced how his former farming property had become a major tourist destination but as the Nature Conservation Council remained chronically under-funded, the financial means to prepare the park for such a high number of visitors had not been forthcoming.

In the late 1980s the daughter married a man from the vicinity of Höfn and started a family of her own. They very much wanted to settle down near her parents' property. However, farming was not a viable livelihood strategy, particularly because of the regulatory environment for agriculture. She considered the possibility of following in her aging father's footsteps by working for the Nature Conservation Council in the park, perhaps taking over its management when he retired. Frustrated by the lack of funding for the park however, her parents strongly advised her against it. Instead they suggested that she and her husband set up a guesthouse at Freysnes, on a part of the original property which had not been included in the park. They reasoned that a well-equipped guesthouse or hotel would supplement rather than compete with other accommodation facilities then available in the district: camping, sleeping-bag accommodation, or huts. Many others thought that more simple facilities would be more feasible, but the parents' opinion was confirmed by the then Director of Tourism, to whom they sought advice.

In 1987 construction started at Freysnes – long ago the site of a farm, until a disastrous eruption in Öræfajökull laid much of the district to waste in 1362. They started with a two-storey house for themselves, with five rooms for renting out and an extra small flat on the ground floor. The first year of operation was in 1988. Already in the following year they added eight rooms in a separate building. More extensions were added in the following years, some of them movable cabin units originally used as temporary housing for workers at the hydropower-projects in the southern highlands. In the autumn of 1996 they were in the process of constructing what they envisaged as the final twelve rooms, when the forces of nature intervened: an eruption started in Grímsvötn, in the middle of Vatnajökull. Suddenly the hotel was overrun with international as well as Icelandic scientists and media personnel who wanted to observe at close quarters the course of events. The eruption simmered for some weeks, but eventually, it brought the expected result: a flood of catastrophic proportions on Skeiðarársandur, which destroyed or damaged several bridges and a long stretch of the main road.

This natural disaster was a godsend for the hotel business, particularly as it occurred well after all the summer tourists had left. Rebuilding of roads and bridges commenced as soon as the flood had subsided and soon the hoteliers started building as well. They added a further nine rooms and a lobby which connected the formerly separate accommodation wings. Their original guesthouse, which they envisaged as "*just small and neat*", had grown into a fully-fledged country hotel with 40 rooms.

During summer they employ around 20 people, most of these coming not from Öræfi but from elsewhere. Staffing is a difficult problem due to the hotel's location. They must furnish accommodation for the staff and pay for travel. In winter they are there by themselves more or less, but in contrast to almost all other hotels in the countryside they are open for business all year round, catering to long-haul freight truckers and general traffic between East Iceland and the capital. The location on the eastern edge of Skeiðarársandur is convenient; as it is common for drivers to have to wait, sometimes overnight, because of strong winds or sandstorms.

The financing of these investments has been somewhat difficult. Initial capital was obtained through a loan from the Tourism Investment Fund. The Institute of Regional Development has also lent them money. But rarely have they been able to obtain

sufficient funds for their building projects. They have had to rely on short-term bank loans, taken only when they are convinced that they already have adequate bookings next season for the rooms they are constructing.

Öræfafaerðir ehf., called in English *Coast-to-Mountains*, is a very different and altogether smaller operation. This is a team of father and son, offering a variety of specialized tours in the district. They are based at their home farm in the middle of Öræfi, some 15 km east of Skaftafell. The concept which started it all is a deceptively simple one: Tourists are put on a tractor-drawn hay-cart and transported over sands and shallow waters to Ingólfshöfði, a rocky promontory on the coast, a few kilometres south of the farm. The place offers not only vistas of exquisite bird life – great skuas, puffins, and various other seabirds – but it is also steeped in history. The farmer, a man of considerable character and wit, shows people around and tells them stories of times past. This tour has become something of a hit among both Icelandic and foreign tourists, and allegedly nobody has complained that his guidance is in Icelandic only. He himself says that, in case there are foreigners among his passengers, he simply speaks his Icelandic more slowly – then they understand everything!

The history of this enterprise goes back a little more than ten years. Just before 1990 the farmer decided to quit sheep farming. He was highly indebted, partly due to a recent divorce, but because of general state policy to reduce the production of sheep meat he received payments for giving up farming. This enabled him to pay off his debts. To earn some income he took on the job of looking after the lighthouse in Ingólfshöfði. This necessitated frequent trips to this much gazed at, but seldom-visited, part of Öræfi.

A guide with one of the tour bus companies that took their groups to Öræfi got wind of this and, in the summer of 1991, asked the farmer to take a group of hers there. This was repeated several times during the summer and the business was thus started. The following year the farmer approached the various authorities to obtain all the necessary permits to develop the tour. In his own words, “I maybe did not exactly get any permits, but they indicated that they would not do anything to stop me”. He was particularly pleased with the result of his approach to the Occupational Health and Safety Inspection Agency – these people had just visited Skagen in Denmark, and had seen a tractor pulling a load of tourists, albeit on board a contraption somewhat different from his own.

Gradually he managed to clear all institutional hurdles. He soon discovered however that he needed a more powerful four-wheel-drive tractor. He approached a fund designed to assist farmers to diversify for a loan to buy one. The answer was an immediate no, as the fund’s managers were convinced that lending to one farmer for a tractor, even if it were to be used for a purpose quite different from farming, would set a dangerous precedent for the fund.

The number of those going on the tour has grown gradually. In the year 2000, between three and four thousand made the trip. Many of these come through organized group tours. Apart from participating in the Vestnorden travel fair, he has not embarked on any major publicity exercises among tour organizers. But despite that, he is now well known in the business: “Everybody knows about me. It is very strange, but I am much talked about”.

Then, in the mid-1990s, he started involving his son. At this time Öräfi was still a separate municipality, with just over 100 inhabitants. A committee of four persons, himself included, was appointed by the local government to look into ways of strengthening the employment base in the district. They concluded that there was need for further development of recreation and specialized tours. His own son took on this challenge. An avid mountaineer and ice-climber, he started taking small groups of adventure hikers on trips in the district. These included treks to the top of Hvannadalshnjúkur, Iceland's highest peak. This necessitated substantial capital outlays for specialized equipment and 4WDs, and a good part of the takings from the father's tractor tours were used for this purpose. Also a small grant from the Institute of Regional Development helped them somewhat. Now their small firm has become firmly established. It has a presence on the web, with a site designed and written by the son. The father is extremely happy that his son, who is recently married, now has means of livelihood that will enable him to stay in the area.

Flosi hf. is the name of the firm that provides the final example of tourism in Öräfi. Located in Svínafell, a cluster of farms just east of Freysnes, this is a complex involving a swimming pool, campsite, and simple huts for sleeping, together with a building for cooking and eating, laundry etc. This sounds simple and not altogether novel, but the original innovation and the one which has led to the development of *Flosi hf.* as a general tourist services firm, has at first sight very little to do with tourism. This is a high-temperature waste incinerator, that burns all the waste generated in Öräfi. The heat generated is used for heating the swimming pool, which was the beginning of the complex.

This story goes back some ten or fifteen years. It involves a mechanic, married to a woman from one of the farms in Svínafell. The woman was (and is) a teacher and headmaster of the local school, but the man had some difficulty in securing a job for himself in the area. They tried their hand at fur farming and built a shed for foxes on their property, as during the 1980s fur farming was heavily promoted as a means of diversifying rural economies all over Iceland. World market prices for fur plummeted, however, and most of these farms have now been out of business for some years. Moreover, those located far away from feed stations, such as the one in Svínafell, were in a particularly difficult position.

Hence, the mechanic had to find an alternative means of livelihood. His next-door neighbour was the national park at Skaftafell, where during the summer months, campers and day-trippers generated a large quantity of waste. Disposal of the waste was problematic, but much of it was burned in a rather primitive way at the park. The authorities of the park at this point had already asked the municipality to find better ways of waste disposal. From observing this the mechanic developed the idea of setting up a waste incinerator and harnessing the energy thus released.

At first the local government (of Öräfi, then still a separate municipal entity) was sceptical and support was not forthcoming. This changed after he had hinted that he would be forced to move out of the community to find work. In the end a deal was made with the municipality to install the incinerator. In 1989 the mechanic went to inspect such units in Europe, and in the end a quality high-temperature incinerator, suitable for burning medical waste, was bought from a producer in Liechtenstein. It was installed in the shed that had housed the foxes previously and was in operation in

1993. A separate firm was created around this, *Brennu-Flosi hf.*, with the municipality owning 75 % and the mechanic and family 25 %. The municipality paid for the equipment, whereas the family's contribution consisted of the building and the labour in setting up the incinerator. No loans or grants were obtained from regional development funds. An agreement was made with park authorities to collect and dispose of waste from the park. In addition, the incinerator takes care of waste from all farms in Öräfi.

The next step was to build the swimming pool. Iceland has a highly-developed "pool culture", due to the abundance of geothermal water, but in certain regions such as Öräfi and the southeast in general this is not available. Having a swimming pool is a definite competitive advantage in the world of tourism. A circular pool was bought and set up and changing rooms constructed. The pool was opened in 1994. It became very popular with both national park guests and travellers on the main road. Soon the demand for a campsite or other accommodation at this beautiful location became obvious and the family started developing their tourist services in this direction. This is still expanding, with a total of sixteen huts currently being planned.

5. Comparative analysis and discussion

We have presented case studies from two different municipalities in Iceland. Neither of them should be viewed as “typical” of Icelandic localities, but they do provide useful examples of different kinds of social capital and an understanding of the complex interrelations between the policies and instruments of regional and local development. Policies that have changed the respective roles of central and local government have impacted on both municipalities, which now consist of both urban and rural areas. Both of the towns studied, Höfn and Ísafjörður, based their existence in the past to a very large extent on fishing and fish processing. Both were faced with uncertainties in the 1990s because of changes in the fisheries sector and the economy in general, to which the local authorities have had to adjust. Höfn has managed better to hold on to its population and attract settlers from other regions, enjoying – in contrast to most other areas outside the capital and surrounding area – steady population growth until quite recently. Ísafjarðarbær on the other hand has experienced a steady population decline since the early 1990s. However, in both municipalities out-migration has been greater from the rural areas than from the towns.

In both locations we examined, on the one hand, high-technology companies that can be viewed to be employing strategies that involve the restructuring of traditional resource-based industries. These companies are engaged in knowledge-based production and they provide examples of new forms of local partnership. On the other hand, we examined examples from the “new economy”, namely tourism projects. The projects can all be viewed as coping strategies, and all involve innovations as defined for the purposes of this project (see Preface to this report). Regional policy has been a factor in these coping strategies to a varying degree and in various ways. All of them are basically in tune with the politico-economic ideology of both state and the regions since the 1990s, which emphasizes local initiatives, entrepreneurship, and human capital, operating in a market-oriented environment. However the social capital aspect that is so important for the cases presented here has not been an explicit part of the discourse.

Beginning with the projects in Ísafjarðarbær, we can see that both projects are primarily individual initiatives. They are embedded in the locality and neither came about because of any direct regional policy. In the case of 3X-Stál, it was primarily local initiative of three young men who wanted to live in the town where they were born and raised, and wanted to provide jobs for themselves. They combined their knowledge of high-technology production with local knowledge of shrimp processing in their innovation of new products for a world market. Local networks were essential in the initial stages and in the development. When examining the fast expansion of 3X-Stál we notice two very important aspects. First, the fact that shrimp processing and local knowledge of shrimp processing was there. Second, the fact that the persons from 3X-Stál knew those who operated the processing plants in the area and were trusted to come in and try their products and discuss the new innovations with them. There were no particular regional policy regulations that facilitated this innovation.

In the latter example of West Tours, we can see that they are more involved with the Westfjords Development Agency and have more contact with the municipal authorities through working with the tourist representative of the municipality, both

informally, and formally. Although this is a private company it has developed through cooperation among the different private and public actors working together on the formulation of policy, development of products, and marketing. Non-local bridging has not been as successful. West Tours has not been as successful as its founders hoped when they established it in 1993, but the agency has nevertheless shown steady growth. The problem of the slow growth of tourism in the West Fjords is however not only caused by a lack of social capital or of important non-local actors, but is probably the result of many combined factors such as its location away from the long-established tourist circuits in Iceland, of relatively weak infrastructure, and of not being successful enough in selling an “image”.

In terms of regional policy, both these companies are very much in tune with current policy leanings, by both the state and the municipality, both of which put emphasis on local initiatives, entrepreneurship and human capital. What is not emphasised by the policy makers – though it is essential in the two projects here – is the question of social capital. Both projects are well embedded in the locality and are very much about making and maintaining networks. Both build to a great extent on the local history of the fisheries and remain part of the present re-making of the fisheries sector. One of them builds new technology based on local knowledge, while simultaneously being part of the process that sees the need for labour being steadily eliminated. The other presents the history of the fisheries to tourists as well as showing them present day fisheries based villages.

The cases from Hornafjörður municipality are connected with regional development in a different way from those of Ísafjörður. The presence of Norðurís does, like 3X-Stál, rest on the basis of the local fisheries, but unlike the case of 3X-Stál the initiative did not come directly from local inhabitants. Its establishment in Höfn is related to the general development policy of the region and is thus more of a planned strategy from the beginning. Norðurís owes its existence to regional policy in two ways: First, to the community development policy pursued by local authorities – a kind of “local” regional policy. Indeed it was the municipality that was instrumental in making the initial connection between KASK and other actors in Hornafjörður and the University researchers. And second, a debt is owed to the increased political pressure over the past decade on central, Reykjavík-based, institutions such as the University of Iceland, to better serve the towns and regions outside the Southwest. This has resulted in the increased participation of at least some such institutions – certainly of the University – in local development initiatives. This provided the background for bringing together the different actors. It did not hurt that the physicist who acted as the University’s connection to Nýherjabúðir at Höfn personally knew those working in the chemistry department. Beyond these two aspects, regional policy in the form of capital earmarked for specifically regional development, or direct technical assistance, has been of no consequence.

As far as social capital goes, it is clear that although the project is in many ways a typical case of technological innovation and market-based entrepreneurship, the successful combination of actors in this case was made possible by certain local characteristics of trust and cooperation. Information flowed freely between the municipal authorities and the institutions they were establishing, and the major economic actors, KASK and Borgey. The strong cooperative legacy in Höfn may have something to do with this, although it could be argued that the cooperative in its

current form is little different from any ordinary capitalist firm. Moreover, this is clearly a case of successful “bridging” of different worlds: theoretical university-generated knowledge, marketing knowledge, and experiential knowledge accumulated by locals working in the fishing and milk processing industries in Höfn. Again, the history of Höfn may partly explain the success: the mobility and relative openness of the local society resulting from the presence of both seasonal labour and longer-term migrants from many parts of Iceland. Seen from the viewpoint of those spearheading the municipality’s development activities, the task is now to enhance the type of social capital that is necessary to keep open and secure the lines of communication between the local world and worlds beyond the locality.

The three stories of the tourist operators in Öräfi may appear to be archetypical fables of heroic entrepreneurs – solitary figures who realise their visions against considerable odds, and certainly without much help from “regional policy” of any kind. But they also provide an example of a whole, which is greater than the sum of its parts. In Öräfi one finds certain synergy effects in tourism, which are realised through a particular kind of social capital, based mainly on “bonding”. This was a close-knit rural community before the advent of tourism. Self-help and local cooperation went hand in hand, as in many other rural communities, but unlike some others – including other rural districts in Hornafjörður – these social bonds have not weakened or disappeared.

Many of the people interviewed in Öräfi commented on the spirit of cooperation, which they considered so important for their development activities. For instance, the hotel owner in Freysnes says: *“I am really happy to live out here in Öräfi, because the district... that is the people in the district, how they work together.”* Close cooperation exists between all three of the establishments described here. They complement each other and promote each other’s activities. All are closely embedded territorially through the utilisation of specific resources and also by their intertwining with the local social world.

The inclusion of Öräfi in the enlarged municipality of Hornafjörður has however created some measure of friction. . Some people in Öräfi feel that they are simply too distant physically from the municipal authorities and that amalgamation has not brought any significant benefits to them. Some even see this as a clash of incompatible cultural worlds, indeed the hotelier notes, *“the mentality is totally different. Höfn is a fishing town whereas Öräfi is a rural area. We have nothing to gain from Höfn.”* She has opted out of cooperation with a tourism coordinating body set up for the municipality as a whole, because of what she perceives as a lack of acknowledgement of the special importance of her own home district – and particularly of her old family-farm-turned-national-park. Clearly the local government has to tread carefully and must try and develop its own internal “regional policy” and cooperative strategies so as to avoid any real or perceived exclusion. Nevertheless, the further development of tourism has great potential in the locality, and in order to maximise it coordinated efforts are necessary.

To the original research question about “whether, how and why regional policies work in concert with coping strategies locally”, we can say that the four projects show weak linkages to the implementation of formal regional development policy, but the cases more or less work in concert with the basic ideas of local initiatives and

entrepreneurship. In all of them we find that trust and cooperation are very important components in their development histories as well as in their day-to-day workings. The three building blocks of “coping strategies”, as that concept is formulated in this research project, are important: innovation, networking, and identity building. With regard to innovation, all projects are, albeit to a different degree, making something new based on what was already there. This is particularly true for the tourist projects and 3x-Stál, but to a lesser extent also for Norðurís even though their product makes substantial use of local resources. If one looks at networking, the projects show processes of local development that are no longer as dependent on the local-national nexus as was once the norm, but rather more on local networks and on the local-global nexus. The third aspect – identity building – is not as clear-cut in all cases. However we find that both Norðurís and the tourist projects of Öräfi have been cultivating an image based on local identity in their marketing, symbolized by the ever-present glacier Vatnajökull. In Ísafjörður this is however simply not the case. When 3X-Stál markets its products it does not associate itself with a particular place, and tourism operators in the West Fjords, such as West Tours, have not as yet been able to find a strong unifying symbol for their region.

The fact that social capital was a positive factor in these cases does not have to imply that this is always so. We have outlined cases that can be looked upon as success stories, more or less. Many local inhabitants view these projects positively and point to them when giving examples of something that can work and something that gives hope for the future of the localities. However, we should freely acknowledge the selectivity here and warn against premature generalizations, which would in any case go against the philosophy of this research project. We could have ended up with cases of strong social capital and failure; or of weak social capital and success. But it should be clear from our analysis that the strong social capital in these cases was still an essential element in the innovation process.

It is our contention that micro-social and contextual analysis of local coping strategies such as has been attempted here can considerably enrich the regional policy discourse in Iceland and, hopefully, influence the formulation of strategies that enable localities do deal with global opportunities in a meaningful way.

Acknowledgements

The authors wish to sincerely thank all the persons interviewed in relation to the case studies. They also wish to thank their research assistants, Anna Lúðvíksdóttir (assistant to UDS) and Hlynur Torfi Torfason (assistant to KB). Financial assistance from the University of Iceland, which made it possible to employ them, is also gratefully acknowledged.

Persons interviewed

Albert Eymundsson, mayor of Sveitarfélagið Hornafjörður, Höfn

Albert Högnason, 3x-Stál, Ísafjörður

Anna María Ragnarsdóttir, Hótel Skaftafell ehf, Freysnes

Áslaug Alfreðsdóttir, West Tours, Ísafjörður

Ásmundur Gíslason, chair of tourism organization, Árnanes

Eiríkur Sigurðsson, production manager, Norðurís hf, Höfn

Eyjólfur Guðmundsson, school principal and chairman of Nýherjabúðir, Höfn

Halldór Árnason, managing director, Norðurís hf, Reykjavík

Halldór Halldórsson, mayor of Ísafjarðarbær, Ísafjörður

Inga Jóna Halldórsdóttir, director of municipal administration, Höfn

Ólafur Örn Ólafsson, West Tours, Ísafjörður

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