Canada

REGIONAL DEVELOPMENT INCENTIVES IN SELECTED OECD COUNTRIES

PROJECT
ASSESSMENT
AND EVALUATION
BRANCH

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REGIONAL DEVELOPMENT INCENTIVES IN SELECTED OECD COUNTRIES

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PROJECT ASSESSMENT AND EVALUATION BRANCH

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PREFACE

Regional development problems are of concern throughout the world. A wide variety of different policies and programs have been designed to overcome these problems. It is important that we in Canada be aware of approaches being followed in other countries. DREE continually monitors regional development policy in other countries. Part of this work involved the development of an inventory of regional industrial incentive instruments. The results form the present report, a kind of catalogue which provides a fairly complete list of regional industrial incentive instruments in several OECD countries.

The catalogue is organized into two parts and is structured so that users can compare and contrast the incentive systems adopted by various countries. Part I provides a brief description of the main regional problems in the countries covered, the main industrial incentives employed, administrative arrangements utilized, spatial and sectoral coverage followed and other issues that may be of interest. Part II is made up of country surveys which cover the same type of material described in Part I above, but in more detail.

The present work has been assembled from secondary information available from public documents of individual countries, OECD publications and a survey of EEC incentives published by the University of Strathclyde. Some of the information may now be outdated as the most recent published material for some countries is five years old. There is also some unevenness in the depth of coverage among the countries treated.

INTERNATIONAL CURRENCY EXCHANGE RATES[1]

Country	Currency	Noon Rate (Aug. 20, 1981)
Belgium	Franc (convertible)	0.03024
France	Franc	0.2046
Germany	Duetschemark	0.4905
Ireland	Punt	1.7920
Italy	Lire	0.000980
The Netherlands	Guilder	0.4414
Norway	Krone	0.1981
Spain	Peseta	0.0122
Sweden	Krone	0.2313
United States	Dollar	1.2116
Great Britain	Pound	2.2524

1. Rates expressed as Canadian dollars as supplied by The Globe and Mail, August 21, 1981.

OVERVIEW
REGIONAL DEVELOPMENT INCENTIVES IN SELECTED OECD COUNTRIES

I. REGIONAL PROBLEMS

In the majority of the OECD countries some regional differences have been identified as persistent over the years and have led to the development of regional policies over decades.

Regional problems that exist today are generally the result of changes that have occurred over many years: the decline of employment in agriculture, mining, forestry and heavy industry, the introduction of new technologies and the relative growth of the service sector. Employment problems have increased in rural and remote areas, in the formerly heavily industrialized areas dependent on mining, ship-building, iron and steel, and textiles, while new growth areas in other regions have experienced urban expansion and the characteristic problems associated with such growth.

To some extent regional problems can be roughly classified as related to: underdeveloped regions, rural depopulation areas, single industry communities, urban problems regions, and areas with industrially weak sectors.

Despite the efforts of the OECD countries over many years, the imbalance between regions is still a characteristic of most economies. New problem areas have emerged while some previously disadvantaged regions have improved their relative position, due, in part, to the worsening situation for traditional manufacturing sectors in the more prosperous regions. Finding solutions to regional problems has not been made easier by the economic developments of recent years, including reduced growth, higher unemployment generally, and the difficulties experienced by large sectors of industry not confined to the problem regions.

II. MAIN REGIONAL INDUSTRIAL AND BUSINESS INCENTIVES

1. TYPES OF INCENTIVES

A wide range of incentive instruments is available in the OECD countries with variations in the scope and manner of application (e.g., industrial development, foreign investment, industrial adjustment, research and development, small business, manpower, urban and public service decentralization). The most frequently employed instruments include investment grants, credit facilities (loans, soft loans, interest subsidies), tax concessions, provision of services to industrial sites, manpower mobility and training assistance. The least frequently used are repayable grants, loan guarantees, working capital and participation loans, equity participation, government procurement, freight concessions, negative controls, tariff reduction or duty remissions, operating cost subsidies, and business counselling services.

The number and value of regional incentives has been growing in most OECD countries in the postwar period. Despite the variety of incentives available, regional incentive expenditure has been concentrated on four types of instruments: capital grants, credit facilities, tax concessions and labour subsidies.

1.1 Capital Grants

Of the four main incentive types, capital grants are the most popular. They are the basic component of most regional packages. Capital grants are highly visible and are usually advertised prominently in regional program promotional literature. A key feature is their flexibility. They can be targeted easily to favour particular activities, areas, project types and sizes. They can be discretionary or automatic, project-related or item-related. All OECD countries have at least one capital grant program. Only in the United States, is the capital grant not the basic element of the regional incentives available. In Belgium and Sweden, the main incentive instruments are closely related to capital grants.

1.2 Credit Facilities

The main incentives related to debt support include soft loans - a combination of loan, interest subsidy and repayment grace period - interest subsidies on private sector loans, public sector loans at preferential rates and forgiveable loans. These are widely used in Italy, Germany, Sweden, the UK and the US.

1.3 Tax Concessions

While there is a wide variety of tax instruments available, they do not appear to be as generous as investment grants, except in Italy and to a lesser extent, Canada, France and Norway. For example, in Italy, income taxes (national and local) may be reduced by up to 27 percent of tax payable not including a ten-year exemption on up to 70 percent of profits reinvested in the South. In France, there is a 100 percent exemption of local business tax liabilities while Norway offers tax exemptions of up to 50 percent of taxable income out of its investment reserve fund.

Most tax instruments are statutory in nature and all are awarded automatically to eligible firms meeting specific criteria. However, the German and Dutch investment allowance which is an automatic capital grant can, at the discretion of the recipient, be taken in the form of an allowance against tax. Depreciation allowances are essentially part of the national tax system and as such are administered by the national tax department, which generally has little direct interest in regional policy. Both types of concessions can be used only when the assisted firm makes a profit in a given period.

1.4 Labour Subsidies

Labour subsidies are not common among the OECD countries, except in Sweden, Italy, France and the UK. Italy's Social Security Concession is a valuable labour incentive to business as it can reduce significantly the social security contributions made by employers. However, most labour subsidies are calculated on the basis of a maximum amount per job. They are used to assist industry in general in Sweden, and the service sector in particular in France and the UK.

2. VALUE OF INCENTIVES

2.1 Nominal and Effective Rates of Award

Italy, Ireland, Northern Ireland and Sweden comprise a top group with award maxima of 50 to 70 percent of eligible investment. The other countries fall into a middle group with award maxima at around 25 percent of eligible investment.

Table 1 presents the maximum and average nominal rates of award for the main regional incentives. The table also indicates the effective value of the maximum award. The effective value accounts for the tax treatment of incentives, delays in payment and asset coverage.

Investment grants, in general, tend to rank first in value, followed by soft loans and tax concessions, and labour subsidies. Among EEC members, Italy, Ireland, and Northern Ireland provide the greatest effective incentive value.

Maximum investment grants in nominal terms, vary between 20 percent (Spain) and 70 percent (Sweden) of capital costs; by contrast effective values in the EEC may vary between 11 percent (Germany) and 35 percent (Italy, Ireland).

Credit facilities display effective incentive values varying within the EEC between 5 percent (Germany) and 12 percent (Italy) of capital costs. Soft loans generally offer the highest values. Interest subsidies rank second and while the maximum interest subsidy is in the order of 3 percentage points in most OECD countries, it is much higher in Italy (10 percent) and Belgium (8 percent).

The value of tax concessions in grant equivalent terms are not available. However, income taxes in Italy may be reduced by up to 27 percent of tax payable, not including a ten-year exemption on up to 70 percent of profits reinvested in the South. As for labour incentives, the highest values are offered in Italy (27 percent of wages) and Sweden (S.kr. 130,000 or $30,000).

There has been an upward trend towards adjustment in the nominal maximum value of incentives, as a result of inflation, except in the UK and the US.

Table 1
Main Regional Business Incentives:
Distribution by Country, Incentive Type,
Maximum and Average Awards

Country	Type of Incentive	MAXIMUM SUBSIDY Value	Grant Equivalent Value Nominal (% of Capital Costs)	Grant Equivalent Value Effective (% of Capital Costs)	Average Nominal Awards (% of Capital Costs)
I. EEC Countries					
Belgium	Interest Subsidy or	8 percentage points		6.2%	3 percentage points
	Capital Grant	27.8% of capital costs	27.8%	12.8%	10.3%
France	Capital Grant	25% of capital costs	25%	12%	10.8%
	Local Business Tax Concession	100% of local tax liabilities			
	Service Location Grant	30,000 FF/job			
Special Fund for Industrial Adaptation (FSAI)	Grant	25% of capital costs	25%		
	Participation Loans	50% of investment	50%		
Germany	Investment Grant	25% of capital costs	25%	11.2%	7.3%
	Investment Allowance	10% of capital costs	10%	6.3%	8.75% to 10%
	ERP Regional Soft Loan	2.5 percentage points		5.3%	
	Special Depreciation Allowance	60% depreciation in first year			
Ireland	Capital Grant (new investment)	50% of capital costs	50%	34.5%	30.5%
	Capital Grant (re-equipment)	35% of capital costs	35%	24.1%	25%
Italy	Capital Grant	56% of cpaital costs	56%	35.7%	26%
	Soft Loan	10.8 percentage points		11.6%	

Table 1 (cont'd)

Country	Type of Incentive	MAXIMUM SUBSIDY Value	Grant Equivalent Value Nominal (% of Capital Costs)	 Effective	Average Nominal Awards (% of Capital Costs)
Italy (cont'd)	Social Security Concessions	Concession of 100% on social security contributions by employers	26% of wages		18% of wages
	Tax Concessions	100% relief on local tax; 50% relief on national tax; national tax exemption up to 70% of profits reinvested in South	27% of tax payable		
	Equity Participation	40% - 50% share of equity			
The Netherlands	Investment Premium	25% of capital costs	25%	12.9%	20%
	WIR Regional Allowance	20% of capital costs	20%	7.7%	
United Kingdom	Regional Development Grant	30% of capital costs (Northern Ireland); 22% of capital costs (Great Britain)	30% 22%	 12.9%	 20.7%
	Selected Financial Assistance:				
	Supplementary Grant or	50% (Northern Ireland); 19.4% (Great Britain) of capital costs	50% 19.4%	 9%	 10.2%
	Soft Loan	3 percentage points			
	Office and Service Grants	£6000/job			

Table 1 (cont'd)

Country	Type of Incentive	Value	MAXIMUM SUBSIDY: Grant Equivalent Value: Nominal (% of Capital Costs)	MAXIMUM SUBSIDY: Grant Equivalent Value: Effective (% of Capital Costs)	Average Nominal Awards (% of Capital Costs)
II. Other OECD Countries					
Canada	Capital Grant	25% of capital costs + $5000/job or $30,000/job or 50% of capital employed			19.6%
Industrial Labour Adjustment Program (ILAP)	Repayable Contribution	50% of capital costs	50%		
	Loan Insurance	$10 million			
	Investment Tax Credit	20%-50% of investment			
Norway	Capital Grant	35% of capital costs	35%		
	Soft Loan (50% of Fund)	interest-free for 3 years			
	Tax-Free Reserve Fund	deductions up to 50% of net income			
	Freight Subsidy	55% of freight costs			
Spain	Capital Grant	20% of capital costs	20%		
	Fiscal Concessions	75% to 95% concessions on fiscal licences, transfer tax, capital tax, local tax, customs duties			
Sweden	Depreciation Loans	60%-70% of capital costs, interest-free and forgiveable after 10 years	60%-70%		

Table 1 (cont'd)

Country	Type of Incentive	MAXIMUM SUBSIDY: Value	Grant Equivalent Value: Nominal (% of Capital Costs)	Grant Equivalent Value: Effective (% of Capital Costs)	Average Nominal Awards (% of Capital Costs)
Sweden (cont'd)	Location Loan	70% of capital costs; interest-free for 5 years; official discount rate plus 3.75 percentage points			
	Employment Grant	130,000 Skr/job paid out in 7 years			
	Freight Subsidy	35% of freight charges			
United States	Loan	65% of capital costs; 100% of working capital			
	Loan Guarantee	90% of loan			

3. INCENTIVE ADMINISTRATION

3.1 Discretionary and Automatic Incentives

One of the key features of regional development incentive administration is the extent to which incentive determination is discretionary. The type of incentive generally has a bearing on whether the incentive is automatic or discretionary. Tax-based incentives, for instance, tend to be less discretionary than grants.

It appears from Table 2 that the incentive package is basically discretionary in Belgium, Spain, Norway and the United States, and basically automatic in Italy. In France, Germany and the UK, some incentives are awarded on a discretionary basis and others on an automatic basis. For example, in France and the Netherlands the grant is automatic up to a certain level and discretionary (in exceptional circumstances in the case of France) beyond that amount. In Germany, the Länder (German states) enjoy considerable discretion in the administration of the investment grant (GA programme) with respect to eligibility and level of incentive. However, the incentive budget and maximum level are specified along with other program elements in an annual plan jointly established by the federal and Länder governments.

Table 2
Main Regional Incentives:
Administrative Discretion by Country and Incentive Type

Country	Incentive	Automatic (A) or Discretionary (D)
Belgium	Interest Subsidy	D
	Capital Grant	D
Canada	Capital Grant	D
	Investment Tax Credit	A
	ILAP Repayable Contribution	D
France	Regional Development Grant	A/D
	Service Location Grant	A/D
	Local Business Tax Concession	A
	FSAI Grant and Participation Loan	D
Germany	Investment Allowance	A
	Investment Grant	D
	Special Depreciation Allowance	A
	ERP Regional Soft Loan	A
Ireland	Capital Grant - New	D
	Capital Grant - Re-equipment	D
Italy	Capital Grant	A
	Soft Loan	A
	Social Security Concession	A
	Tax Concessions	A
Netherlands	Investment Premium	A/D
	WIR Regional Allowance	A
Norway	Capital Grant	D
	Loan	D
	Tax-Free Reserve Fund	A
Spain	Capital Grant	D
	Fiscal Concessions	A
Sweden	Depreciation Loan	D
	Location Loan	D
	Employment Grant	D
United Kingdom	Regional Development Grant	A
	Selective Financial Assistance	D
	Office/Service Industries	D
United States	Loan	D
	Loan Guarantee	D

3.2 Incentive Coverage

The availability or coverage of incentives can be described in terms of a number of features: sector, location, type of project, size, and other conditions. The special features which characterize each type of coverage are noted in the paragraphs below.

3.2.1 Sector Coverage

As indicated by Table 3, most incentive programs are concentrated in the manufacturing sector or parts of it although specific service activities - those with a location choice- are also generally eligible. The primary sector, mining, agriculture, fishing and forestry, etc., is rarely assisted except in Norway, Italy, France and Belgium.

In Italy and Ireland, certain manufacturing activities which are not so-called "priority sectors" are either not eligible or receive lower incentives. This contrasts with the position of most OECD countries where there tends to be very few distinctions made among industries within the manufacturing sector.

Most countries provide some forms of assistance to those service activities which are potentially mobile and/or with strong links to the manufacturing sector such as research and development, data processing, management and consulting functions. France and the UK have special schemes to encourage the location of specific services in problem regions, however, the level of assistance is generally minor compared with manufacturing assistance. In both Germany and the Netherlands, the basic distinction, as far as activity is concerned, is not between manufacturing and non-manufacturing but rather between regionally-exporting and non-regionally-exporting activities. For example in Germany, eligible projects must export over 50 percent of their production outside the region where the project is located.

Manufacturing in most OECD countries is a declining source of employment, relative to other sectors of the economy and there has also been a drop in the number of manufacturing firms available from foreign sources or for relocation to designated regions. Research and development and high technology are being increasingly encouraged.

3.2.2 Spatial Coverage

Major OECD regional incentives cover between 27 percent to 46 percent of the population and 31 percent to 77 percent of the land surface of OECD countries, as shown in Table 4. When all regional incentives are included, up to 70 percent of the population and 93 percent of the area may be covered. It is interesting that something of a "norm" seems to have developed in terms of the population coverage of the geographic areas in the EEC where between a quarter and one-third of the national population fall into designated regions. In Canada, designated regions (including Montreal Special Area) cover about 51 percent of the population and 93 percent of the land area.

Increase in designation coverage has generally resulted from marginal ajdustments rather than major reviews. When there has been a major review as in the UK and Sweden, coverage has been reduced.

Table 3
Main Regional Incentives
Activity Coverage

Country	Incentive	Eligible Sectors Primary	Secondary	Tertiary
Belgium	Interest Subsidy, Capital Grant	X	X	Trade, tourism, management and technical consultancy, and R&D
Canada	Capital Grant		X	Activities related to R&D
	Investment Tax Credit		X	
	ILAP Repayable Grant		X	Selected activities
France	Regional Development Grant		X	Banks, finance, insurance, data processing, R&D and consultancy
	Service Location Grant			Management, technical consultancy, design or data processing.
	Local Business Tax Concessions		X	As Service Location Location Grant plus research, certain hotels and tourist activities.
Germany	Investment Allowance	X	X	Regionally-exporting services (e..g, headquarters functions, credit institutions), tourist activities.
	Investment Grant		X	Basically as Investment Allownace.
	Special Depreciation Allowance	X	X	All
	ERP Soft Loan			Local services

Table 3 (cont'd)

Country	Incentive	Eligible Sectors Primary	Secondary	Tertiary
Ireland	Capital Grant - New		X	Major export-oriented activity may qualify,
	Capital Grant - Re-equipment		X	
Italy	Capital Grant, Soft Loans	X	X	Managerial transfers to the South, selected consultancy, research, repair and maintenance activities.
	Social Security Contribution	X	X	Tourism, commerce, R&D, selected data processing, repair activities.
	Tax Concessions	X	X	Selected data processing, R&D, repair and handicraft activities.
Netherlands	Investment Premium		X	Regionally-exporting services, selected research activities.
	WIR Regional Allownace	X	X	All
Norway	Capital Grant, Soft Loan	X	X	Motel and tourist trade
Spain	Capital Grant		X	
	Fiscal Concessions		X	
Sweden	Depreciation Loan		X	Manufacturing related services, tourism
	Location Loan		X	
	Employment Grant		X	N.A.

Table 3 (cont'd)

Country	Incentive	Eligible Sectors Primary	Secondary	Tertiary
United Kingdom	Regional Development Grant		X	Selected repair and maintenance activities, scientific R&D and training related to manufacturing.
	Selective Financial Assistance		X	Not normally aided
	Office/Service Grants			All office and service activities with a "genuine choice of location".
United States	Loan Loan Guarantee		X	Commercial activities

The degree of specificity of designation criteria varies widely. Most countries do not have or did not make public an explicit and objective system for designating regions. The exceptions are Germany, and the United States. For example, Germany identified labour market areas and ranked them according to three weighted criteria: a measure of unemployment (weight = 1); income per capita (weight = 1) and an index of infrastructure provision (weight = 0.5).

There is a great deal of variation in the spatial flexibility of incentive programming. A distinction between different types of designated regions is made in most countries and within most incentive schemes so that the maximum assistance is frequently available in only a part of the area designated. This is true in France, Germany, Netherlands, Sweden and the United Kingdom. France and Germany display the most complex systems of program differentiation between designated areas. Moreover, some incentives are basically national in character albeit with lower incentive maxima outside designated areas as in Ireland, Belgium and Canada (e.g., employment and investment tax credits).

Table 4
Main Regional Incentives: Spatial Coverage

Country	Designated Problem Regions	Coverage as Percent of National Population	Coverage as Percent of Land Mass	Designation Criteria
Belgium	Development Zones	27	52	- structural unemployment - current or expected decline of important economic activities - abnormal low standard of living - slow economic growth
Canada	RDIA Designated Regions	36	92	- based on economic and social criteria. Economic criteria include both disparity (economic and social) and opportunity criteria
	Montreal Special Area	15	1	- based on labour market conditions, private investment growth and industrial structure
France	PLAT Zones	70	85	
	of which PDR Zones	32	47	Standard Designation: - decline in population - decline in particpation rate - unemployment rate
Germany	GA Areas of which Zonal Border Area	36 12-13	60 20	Designation index of labour market areas based on: - employment shortage (weight = 1) - income per capital (weight = 1) - infrastructure provision (weight = .5) In addition, designation of growth points based on population size.

Table 4 (cont'd)

Country	Designated Problem Regions	Coverage as Percent of National Population	Coverage as Percent of Land Mass	Designation Criteria
Ireland	Designated Areas	27	50	Standard Designation: - high unemployment - high emigration - high dependence on agriculture Temporary Designation: - occurrence of serious industrial loss
Italy	Mezzogiorno	34.2	41	Proposed designation based on: - regional territorial planning - outmigration rate - activity rate - % of industrial employment - total population
	Centre-North Areas	25	40	
Netherlands	IPR Areas	27.4	31.1	- unemployment rate - weak economic structure
	of which Northern Development Area/ South Limburg	17	26	
	of which, WIR Regional Allowance Area	8	9	
Norway		N.A.	N.A.	N.A.
Spain		N.A.	N.A.	N.A.
Sweden		11-29	62-77	areas of chronic unemployment and outmigration.
United Kingdom	Assisted Areas plus Northern Ireland	46.3*	60+	Based on statistics related to: - unemployment - population change - migration - activity rate - earnings per capita - factory buildings In addition: - objectives of regional policy - actual or expected circumstances
	of which, Special Development Areas	12.4*		
	Development Areas	10.1*	60	
	Intermediate Areas	18.3*		

* Figures are computed as a percentage of the working population.

Table 4 (cont'd)

Country	Designated Problem Regions	Coverage as Percent National Population	Land Mass	Designation Criteria
United States	N.A.	N.A.	N.A.	New designation proposals (National Development Bank, 1980): - designated area to meet at least 3 of the 4 criteria for the most recent 5 years - unemployment rate above national average; - employment growth rate below national average - income per capita growth rate below national average - population growth below national average

3.2.3 Project-Type Coverage

Most eligible project types include new facilities, expansions and modernizations. Eligibility rules attached to assistance for a particular type of project are both complex and varied. However, a number of common features stand out. Most countries offer incentives that are project-related rather than item-related except in the UK, Italy and the Netherlands. Also, in contrast with Canada, a few countries allow explicit spatial relocations from non-designated to designated areas. Take-overs are rarely eligible except in France and Italy and to some degree Canada (under ILAP). Conditions usually include the preservation of existing jobs, a percentage increase in or the creation of a minimum number of jobs, or minimum investment size. The maximum rate of incentives does not generally vary with the type of project except in France and Germany.

Changes in coverage have been minor but have tended to widen the coverage, either by extending eligibility to job maintenance projects, as has occurred in the Netherlands, or by reducing the job creation conditions for expansion projects, as is the case in Germany. In the UK, awards for job-saving as opposed to job-creating projects have become more common.

Projects involving reorganization, modernization and rationalization are offered in most countries and are characterized by relatively stringent conditions of award, such as job maintenance, production improvements, efficiency, competitiveness and requirements for change if the establishment is to continue. In addition, to be eligible for assistance in France the applicant must change products, in the Netherlands, Italy and Ireland, must meet sectoral priorities set by the government, and in the UK must make significant improvements in job protection.

3.2.4 Size Coverage

Absolute maxima on project size are not common among OECD countries, while minimum size limits may be prescribed as in Canada, Belgium, Denmark, France and the Netherlands. Many of the incentive schemes in France, Germany, Italy and the UK do not require mininum investment size limits, but may impose minimum job limits (e.g., France and Germany). Canada imposes minimum investment size and job limits according to the project type. The objective of such minima generally appears to be the exclusion of projects where administrative costs outweigh the value of incentives. In the EEC, the usual minimum investment is around the $100,000 mark compared to £500 (about $1,000) in the UK and $5,000 for Canada. Size considerations are important in France and Italy. In France, size conditions tend to put small firms and projects at a disadvantage. In Italy, it is the reverse as no size group is explicitly excluded. For example, the grant rate in the Mezzogiorno declines as the project size increases; in addition, the grant scheme is completely automatic which is likely to benefit smaller projects and firms which tend often to be in a relatively weaker bargaining position in negotiating the terms of offer with regional agencies. In France, the minimum number of jobs for project eligibility varies according to the designated region, the size of the town, the sector, and the type of facility.

Greater attention is being paid to the development of smaller and locally-based industries in disadvantaged regions by adjustment of incentive systems and the establishment of special assistance to encourage local development.

3.2.5 Other Condtiions Affecting Coverage

There are numerous other conditions in addition to those relating to activities, areas, project types and size which play a role in determining project eligibility in each country's regional incentive programs. Although each country has its own particular eligiblity requirements, there are several fairly standard conditions, including project viability, favourable employment effects, positive regional development impact, expansion of the region's industrial base without being in direct competition with other regional activities, and adherence to environmental policies.

3.2.6 Decision Timing

Decision time, by incentive authorities, after the grant application is properly documented, varies widely as shown in Table 5. It takes on average, about four to five months to make a decision for large cases, ranging from one week to two months (all cases) in Ireland and from six to twelve months in Germany. In Canada, it takes an average of 35 days to process all applications and 55 days for large cases exceeding $2 million in investment.

There is a definite trend toward accelerating the decision-making process of incentive authorities. For example, in Germany, processing time for investment allowance applications has been reduced by half. In France, processing time for the main regional assistance program has been reduced from 8 months to just 2 months by increasing the frequency of the relevant committee meetings from once to twice monthly and by employing more staff. In Italy, a common application for both grant and soft loan now suffices and an authorized offer is now issued automatically for investment projects up to 2 billion Lira (about $2 million), leading to reduced delays for small projects.

3.2.7 Payment Timing

Payments of discretionary incentives can be made in one or several installments from the construction stage to the completion stage of the project as indicated in Table 5. In most EEC countries, grant payments can be claimed in line with expenditures on eligible assets. France offers one of the most favourable incentives in this respect in that up to one-third of the grant is paid one month after the decision to offer an incentive has been communicated to the applicant and the balance on the basis of approved plans. In contrast, only 80 percent of claimed expenditures is initially paid in Italy and Canada and in addition, Canada requires the firm to enter into commercial production before this 80 percent is paid. Among non-grant schemes, the slowest payment procedures appear to occur in interest-related subsidy schemes such as in Belgium and the UK and in the tax-related schemes of Germany and Netherlands.

3.2.8 Recent Trends in Incentive Policy

Administrative procedures and eligibility criteria are being simplified or relaxed and the nominal value of incentives is being increased to offset inflation, except in the UK and the US. The UK regional incentive programs have been one of the most generous in the EEC. Cutbacks introduced since 1979 only serve to bring the UK programs more in line with other EEC programs. In the United States, President Reagan is recommending to Congress the elimination of the Economic Development Agency (EDA), the US regional agency, and all regional development commissions, on the grounds that these bodies have made no net contribution to the supply of jobs in the economy.

The general picture in the OECD and especially in the EEC is one of increasing discretion, fairly steady sectoral coverage, widening spatial coverage (with the exception of the UK, Sweden and the US), extending project-type coverage with an emphasis towards job-saving projects, and more relaxed minimum size conditions.

Table 5
Main Incentives:
Decision and Payment Timing

Country	Incentive	Decision and Payment Timing
Belgium	Capital Grant	2 to 6 months to make award decision. Three equal annual installments; the first made one year after award decision, second after 18 months and third after 30 months.
Canada	Grant	Average of 35 days for all cases and 55 days for larger cases to make award decision. 80% of claim paid when commencement of production is verified and balance up to 3 years later.
France	Capital Grant	2 to 8 months to make award decision. Annual instalments over three years. Up to one-third paid one month after award decision. Two months to process claims.
Germany	Investment Allowance	3 to 4 months to make award decision. Six months to process expenditure claims.
	Investment Grant	6 to 12 months to make award decision. Claims submitted in line with expenditures; two weeks to process expenditure claims.
Ireland	Capital Grant - New	Award decision within one week if necessary. Claims submitted in line with expenditures; four to six months to process.

Table 5 (cont'd)

Country	Incentive	Decision and Payment Timing
Ireland (cont'd)	Capital Grant - Re-equipment	6 to 8 weeks to make award decision. Claim processing same as Grant - New.
Italy	Capital Grant	7 to 9 months to make award decision. 80% of claim paid within 2-5 weeks; remaining 20% within six months of project completion.
Netherlands	Investment Premium	4 to 6 months to make award decision Claims cannot exceed 75% of the grant before commencement of production; 2 to 3 months to process claims.
	WIR	Claims submitted within 6 months of the end of financial year in which expenditures occurred.
Sweden	Depreciation Loan	Payments made at the completion of the project.
United Kingdom	Regional Development Grant	5 to 6 months to make award decision. Claims submitted in line with expenditures, 3 to 5 months to process claims. An additional 4 month deferment is imposed.
	Selected Financial Assistance	3 months to make award decision. First claim after one-third of project expenditure, total of 3 to 4 installments annually. Two weeks to process claims.

III. MINOR REGIONAL DEVELOPMENT INCENTIVES

In addition to the major financial and tax incentives described in Section II, there are a number of minor regional development instruments which are summarized in this section, including: loan guarantees, equity participation, assistance to pre-built industrial buildings and industrial sites, progress contracts, government procurements, disincentives and other tax concessions.

1.1 Loan Guarantees

Loan guarantees are widely available in OECD countries but used only on a marginal basis, with the possible exception of Norway, Belgium and the US.

1.2 State Equity Participation

This tool tends to be of minor significance and is generally applied only on a marginal basis in most of the countries surveyed except Italy. Other nations that do employ some public shareholding include Belgium, Ireland, Sweden, France, the Netherlands, and the United Kingdom. Most equity positions are held by special government agencies established to promote regional development in general (Italy, Sweden), industrial adjustment (France), research and development (Sweden, Italy), small business (Italy), or a particular industrial sector (Italy).

The loan participation - a mix of equity participation and loan - is mostly used in France to facilitate industrial adjustment. The conditions of reimbursement depend on the profitability of the assisted firms.

1.3 Pre-Built Industrial Buildings

A number of countries provide pre-built facilities of standard construction or specially designed custom buildings for eligible firms in designated regions. These factories can be bought, leased or rented, often at subsidized rates. They are more commonly provided by local rather than central authorities. Nations providing factory facilities include France, Ireland, Norway, Sweden, Italy and the United Kingdom.

1.4 Serviced Industrial Sites

Perhaps more common than pre-built factories is the provision of serviced industrial sites, often on preferential terms. This instrument is also more commonly provided by local rather than central authorities.

Serviced sites are available for sale or rent in France, Belgium, Ireland, Norway, Spain, the United Kingdom and the United States.

1.5 Progress Contracts

Progress contracts are mainly available in Belgium. These contracts are essentially agreements between the government and an enterprise or a group of firms that specify conditions to be met by the beneficiaries. In Belgium these contracts are available country-wide, with preference given to applicants located in regionally designated areas. They may cover the following areas: new products, prototypes and manufacturing processes, research and development, exports, management rationalization, mergers and public procurement. Assistance in Belgium includes repayable grants and partial payments of consultants' fees. As of 1980, no progress contracts have been made.

1.6 Government Procurement

About half OECD countries use public procurement to achieve regional development objectives. Italy appears to pursue the strongest regional procurement policy of all OECD countries. Binding laws compel ministries and agencies to assign 30 percent of the value of their procurements to the South. Germany and the UK introduced a formalized preferential treatment to contract procurements in designated regions. In the case of the UK, a 5 percent preferential treatment is given to bidders from designated regions. Canada applies an ad-hoc regional procurement approach to the extent that a greater weight may be applied to the value of industrial offsets and benefits generated in designated regions and Montreal Special Area, from major procurements such as the New Fighter Aircraft. The Procurement Review Committees, recently instituted by the Treasury Board Secretariat provide an opportunity for regional consideration to be among the criteria used in deciding on government procurements over $2 million.

1.7 Disincentives

The main use of disincentives is found in France, the Netherlands, Italy and Norway. They are used as a "stick" to induce existing industry to move out of congested areas and into designated areas. Regulations include a system of government approvals before any investment takes place in congested areas. In addition, in France a special tax is levied in the Paris region. In the Netherlands, the tax levy was recently withdrawn, while in the UK, the disincentive policy was phased out a few years ago. In Italy, very large projects must receive the approval of the Inter-Ministerial Committee for Industrial Planning (CIPI).

1.8 Other Tax Concessions

They comprise: tax-free investment funds, investment tax credits, enterprise zones and other minor tax concessions.

1.8.1 Conditional Tax-Free Investment Funds

Firms are allowed to put a specified percentage of their otherwise taxable income into a non-taxable fund for eventual reinvestment in eligible assets in designated areas. The percentage of taxable income available for this incentive, the timing of the re-investment, the eligible asset categories, the interest received and the extent of government control vary by country. These funds are used to promote regional objectives particularly in Norway and to a lesser extent in Sweden, Germany and Ireland. This instrument functions mainly as a national stabilization tool during periods of economic downturn and expansion.

1.8.2 Investment Tax Credits

Investment tax credits are mainly used in Canada and Ireland. In Canada, it varies between 10 percent to 50 percent of the eligible investment. The 50 percent tax credit is limited to areas of chronic high unemployment and low income (6 percent of the national population). In Ireland, it reaches 20 percent of eligible investment.

1.8.3 Enterprise Zones

Enterprise Zones are found in various forms in the UK and the United States, in order to encourage economic activity in specific zones. In the UK, they were recently set up to revitalize areas of urban decay in order to reduce business tax burden, including exemptions from land and property tax, 100 percent capital allowances, and reduction of government controls related to the simplification of local planning procedures, customs processing, statistical requests and training requirements. In the United States, these zones take the form of federally-designated foreign trade areas in which goods enter duty-free or at reduced rates on the condition that they are shipped out to other states or foreign countries.

1.8.4 Other Tax Concessions

A number of other individual tax instruments exist among OECD countries. In Belgium, France and Italy remission of real estate taxes and of registration fees are granted in designated areas of the country. Accelerated depreciation allowances are offered in Belgium, France and the UK. In Norway and Spain reduced import tariffs are offered to eligible firms located in regional problem areas. Special tax rates on mergers and acquisitions are available in France and Spain. Consumer taxes on energy consumption are substantially reduced in the Mezzogiorno.

IV. REGIONALIZATION OF NATIONAL INDUSTRIAL POLICIES

1. ORGANIZATION STRUCTURES

An increasing regional focus is being given to national industrial policies. The degree of regional tilt varies according to the country, with the closest integration of national and regional policies occurring in France, Italy, and Ireland.

Mechanisms of national-regional coordination may comprise several committees, at the ministerial and technical levels, strong decision-making power of a regional department or agency within the Government, and specific rules or formulae applied to public expenditures of ministries or agencies. Regionalized national policies include industrial programming, industrial adjustment, manpower policies, urban policy, procurement and public service decentralization.

In France, DATAR (Délégation à l'Aménagement du Territoire et à l'Action Régionale) closely participates and intervenes in the following areas:

(i) the preparation of the national plan;
(ii) the Inter-ministerial Committee on Foreign Investment;
(iii) The Inter-ministerial Committee on Industrial Structures (Comité Interministériel d'Aménagement des Structures Industrielles - CIASI), in charge of industrial reconversion;
(iv) The Fund for Economic and Social Development ("Fonds de Développement Économique et Social" - FDES); and the Special Fund for Industrial Adaptation ("Fonds Spécial d'Adaptation Industrielle - FSAI);
(v) The Inter-ministerial Committee on Decentralization of Activities outside the Paris Basin, responsible for the Decentralization Fund ("Fonds d'Aide à la Décentralization" - FAD);
(vi) The Fund for Rural and Mountain Areas; and
(vii) The "contrats de pays", a form of GDAs with the regions.

DATAR plays the role of a small, powerful secretariat to the Inter-ministerial Committee for Regional Planning and advises, coordinates, and executes its decisions either directly or through various ministries, including the ministries of Economy, Treasury, Industry and Labour, and the National Credit Institutions. DATAR's power is boosted by being directly attached to the Prime Minister's office.

In Italy, the Inter-ministerial Committee for Industrial Planing (CIPI), enunciates policy objectives and guidelines, and supervises ministries, agencies, public enterprises and state-controlled holdings in order that all specific sectoral programs comply with the development objectives of the South, the main designated region. Binding laws compel state-controlled holdings to locate 60 percent of their total investment, and 100 percent of their investment in new plants, in the South. In addition, ministries must locate 40 percent of their total investment in the South.

In Sweden, the central government is responsible for the balance between regions, whereas the responsibility for balance within these regions rests with the local authorities and state agencies at the county level.

2. DEGREE OF NATIONAL-REGIONAL INTEGRATION

2.1 Industrial Adjustment

In the area of industrial adjustment, France Italy, Canada and Belgium are the most active. In France, the "Fonds Spécial d'Adaptation Industrielle" (FSAI) and "Fonds de Développement Economique et Social" (FDES) are national Funds with regional objectives.

FSAI, a FF 3 billion fund, assists through grants and participation loans, new job creating activities located in areas with problem sectors, such as textiles, shipbuilding and steel. FDES promotes industrial reconversion in those weak sectors and supplements FSAI assistance through long-term loans.

The Fund for Industrial Reorganization and Reconversion in Italy is very much oriented to industrial adjustment, using loans and interest subsidies. It is a national fund with regional objectives. Reconstruction refers to companies seeking to rationalize, renew or update plants while maintaining employment levels. Reconversion refers to companies moving into different product lines, either by modifying existing plants or moving into new ones. Reconversion incentives are available only in the South.

In Canada the $350 million Industry and Labour Adjustment Program (ILAP) promotes industrial restructuring and labour adjustment in designated communities which have experienced large-scale industry dislocation.

2.2 Research and Development

Sweden and Italy use special funds adapted to meet regional objectives in order to promote research and development. In Sweden, the Noorland Fund initiates and supports industrial research and development work in the four most northerly counties. It provides loans for industrial expansion, product development loans, and grants for applied industrial research. Italy also offers grants, soft loans and equity participation.

2.3 Manpower Training

Various countries, particularly Sweden, provide a regional dimension to their manpower programs including job training (France, Ireland, the Netherlands, Belgium) and mobility assitance (France, the UK, the Netherlands, Belgium and Norway).

2.4 Urban Policy

Integration of urban policy at the national and regional levels appears to be strongest in France, although it is also practiced in the UK, the Netherlands, and West Germany. In France, "métropoles d'équilibre" were selected country-wide as focal points of urban development, together with the development of medium-sized towns, through industrial incentives, regulations, special aid to infrastructure and industrial and public service decentralization. In Germany, over 300 growth points have been identified within particular designated regions (GA Areas). In these growth points, aid is concentrated in new and expansion projects.

2.5 Decentralization

Decentralization of government departments into designated regions is applied in varying degrees in France, Sweden, the Netherlands, and the UK.

V. OBSERVATIONS

The work presented in the Catalogue of OECD Regional Incentives has been based on a review of the available literature, and is, therefore, subject to the limitations associated with the use of secondary research materials. it has, nonetheless, been possible to form a number of preliminary observations which are of interest in determining future trends in the type and extent of regional incentives selected. These observations are listed below without attempting to offer critical commentary on the reasons behind or the merits associated with the manner in which regional development is pursued in the various countries studied.

1. RANGE AND APPLICATION OF INSTRUMENTS

A wide variety of regional development instruments are available internationally. However, the number in actual use is relatively small. The major incentives described in detail for each EEC country in the Catalogue represents about 90 percent of the funds available for regional development in the these countries. They include capital grants, soft loans and interest subsidies, tax concessions and labour incentives. Several variations exist in the scope and manner of application of similar instruments in the various jurisdictions.

2. TYPES OF REGIONAL MEASURES

Measures are applied in a wide variety of fields including general industrial development, infrastructure, industrial adjustment, small business, manpower, urban, research and development, transport, government procurement, and decentralization.

3. LEVEL OF INCENTIVES

The range of actual incentive levels as a proportion of the investment varies from 20 percent to 70 percent in extreme cases. Incentives levels tend to concentrate around 25 percent of the investment. Effective values many reach up to 35 percent of investment for grants and 12 percent for soft loans. Comparable figures are not available for tax concessions and labour subsidies.

4. SELECTIVITY OF INCENTIVES

There is a tendency to more selective regional incentives by sector, activity, size of investment, type of project, location, and also towards support to industry on a sectoral rather than regional basis. In some ways, this could have a tendency to dilute the influence of regional incentives.

5. DESIGNATED REGIONS

The definition and size of designated regions tends to vary between countries. For example, there are 4 major designated regions in the U.K., whereas there are more than 300 selected growth points in Germany. Designated regions cover between 27-70 percent of the national population, while the main incentives cover between 27 to 46 percent of the population.

6. IMPORTANCE OF REGIONAL FINANCIAL INCENTIVES VS. PUBLIC INFRASTRUCTURE ASSISTANCE

In most countries except Canada and the U.S.A., financial incentives to the private sector represent a higher proportion of public funds devoted to regional objectives than does public infrastructure assistance.

7. POSITIVE MEASURES VS. NEGATIVE CONTROLS

In some countries, for example, the U.K., France, Italy, Norway and the Netherlands, positive measures to encourage industrial development are supplemented by restraints on industrial and office building development in the more developed regions. However, in the current climate of economic constraint, they are generally not strictly enforced.

8. IMPORTANCE OF MANUFACTURING AND HIGH TECHNOLOGY

Manufacturing in most countries is a declining source of employment, relative to other sectors of the economy. There has also been a drop in the number of manufacturing firms available for relocation to designated regions. Increasing attention is being paid to attracting high technology activities in designated regions.

9. ENCOURAGEMENT OF SMALLER AND LOCALLY-BASED INDUSTRIES

Increasing attention is being paid to encouraging the development of smaller and locally-based industries in disadvantaged regions by adjustment of incentive systems.

10. COMPLEMENTARITY OF INSTRUMENTS

Implementing regional policy entails a combination of several instruments. The working of each type of instrument or method is very much influenced by the existence or absence of complementary measures of other types.

BELGIUM

I. COUNTRY OVERVIEW

1. TYPE OF INCENTIVES

1.1 Major Incentives

Belgium's two major regional incentives, which are both regional versions of national incentive schemes, are the interest subsidy and the capital grant programs. Other regional assistance programs include an accelerated depreciation allowance, various minor tax advantages, progress contracts, and labour training programs.

The interest subsidy is, along with the capital grant scheme, one of the major regional incentive programs. It is a discretionary, project-related concession paid on interest arising from loans made by "approved credit institutes". Projects located in the Development Zone receive a higher rate of award, in terms of percentage of subsidy, subsidy duration, and loan coverage, than do projects in the rest of the country. Nevertheless, the program is available on a national as well as a regional basis and exemplifies the fact that many of Belgium's regional incentives are regional versions of national schemes. The maximum concession for standard projects is 7 percentage points for 5 years on 75 percent of eligible investment. For progress contracts, an extra one percentage point concession is available.

The capital grant is an alternative to the interest subsidy scheme and most of its features are identical. It is discretionary and project-related and can partly or totally replace the interest subsidy in those cases where the investment is at least 50 percent internally financed. The company has a choice on the mix between the grant and the interest subsidy.

The method of paying the capital grant, in just three annual instalments, makes it more attractive than the interest subsidy.

1.2 Minor Incentives

A number of minor incentives are also available. An accelerated depreciation allowance, which is now relatively unimportant due to the possibility of utilizing declining balance depreciation nationally, various tax advantages, including exemption from capital registration tax and from real property taxes, and progress contracts, which offer assistance towards an agreed program of development. State equity participation is also possible. Other forms of incentives include facility and employee relocation cost assistance, training programs, and assistance for infrastructure development.

2. MAIN REGIONAL POLICY

The principal feature of the Belgian regional incentive package is that many of the programs and, in particular, the two major schemes, are basically regional versions of national incentive programs. The Belgium package, like that of other small countries in the European community, is discretionary in nature; and, in terms of both the scale and intensity of its regional aid, it rates about average.

3. MAIN DECISION-MAKING BODIES

The regional Ministerial Committees and the State Secretaries for each region are responsible for decision-making in respect of all regional incentives: the regional Committees for all projects with fixed investments of over BF 200 million, and the State Secretaries for the smaller projects.

All operations, including the establishment of new facilities, a new product development, expansion of existing facilities, conversion projects, and modernizations are eligible for assistance provided that such projects have a stimulating effect on economic expansion and are in the general economic interest. All these operations receive identical treatment.

4. RECENT EVOLUTION OF INCENTIVES

There has been a recent devolution in regional policy administration, such that decision-making power has shifted to the regional centres: Flanders, Wallonia, and Brussels. Beyond having the power to offer their own incentives, the Belgian regions may eventually be in a position to make their own laws, a change which will have a substantive effect on regional policy.

This change took place in July 1979 when the national regional policy committee - the Ministerial Committee for Economic and Social Coordination - was disbanded. This committee had previously been responsible for decisions with respect to the largest projects with over BF 300 million fixed investment, while the regional Ministerial Committees had dealt with projects in the range of BF 200 million to BF 300 million fixed investment, and the Secretaries of State for each region had been responsible for small projects of up to BF 200 million fixed investment. The regional Ministerial Committees are now responsible for all projects with fixed investment of over BF 200 million, while the State Secretaries deal with projects smaller than this. Thus, a great deal of the decision-making has been passed to the regions.

5. SUMMARY TABLE OF MAJOR BUSINESS INCENTIVES

Major Incentives	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
Interest Subsidy	Discretionary, project-related concession on interest payments from "approved credit institutes"	Development Zones	Manufacturing, mining, artisan activities, service sector, tourism, consultancy, research and development	- "standard" projects, 7 percentage points for 5 years on 75% of eligible investment - "progress" contracts, an extra 1 percentage point is available	Ministry of Economic Affairs
Capital Grant	Discretionary, project-related	Development Zones		can replace interest subsidy, has an equivalent value	Ministry of Economic Affairs

II. REGIONAL POLICIES, PROBLEMS AND DECISION-MAKING BODIES

1. POLICIES AND APPROACH

The devolution of power to the regions with respect to decision-making in the awarding of regional incentives is a major recent change in Belgian regional policy.

The Act of 30 December 1970, concerning development areas, established the following criteria for their designation: structural unemployment, whether existing or foreseeable, decline of major economic activities in the area, abnormally low standard of living, and slow economic growth. The Act provides for the classification of two groups of development areas, depending on the seriousness of the problems in those areas, but this distinction is not currently applied.

In 1971 the Belgian government proposed a new map of the assisted areas which distinguished between Category I and Category II Development Zones and included at least part of all but three of the country's 44 administrative districts. The European Commission felt that this was too wide a coverage and proposed in 1972 that only 28 administrative districts be included. The Commission's suggestion is still under discussion, reflecting the very sensitive nature of spatial designation in Belgium. Assisted areas presently cover some 33 percent of the land area of Belgium and hold 39.5 percent of the population.

In the selection of projects for assistance the following general factors are taken into account: the impact on the economic development of the region and of the country as a whole, manufacturing of new products, conservation of energy and raw materials, development of exports, conversion of an industry in difficulty, industrial decentralization and balanced growth, protection of the environment, and technological advance.

The applicant firm must provide evidence of good prospects of viability and profitability, and of the importance of the investment in relation to investment already carried out in the sector concerned. The granting of long-term or medium-term credit by public and private bodies is taken into consideration. Considerable importance is attached to the financial risk involved in the project and to the financial structure of the firm.

Regional policy in Belgium has been progressively widened; by 1976, regions were allocated 7 percent of the national budget. State aids for industrial expansion or conversion and for improvements of national and regional structures are important throughout the country and are more or less evenly divided between the Flemish and Walloon regions. One of the characteristics of regional incentives in Belgium is the low level of incentive discrimination between regions.

Special measures have recently been established in favour of small and medium-size firms. A further development has been the creation of a Fund for Industrial Renewal to support industrial conversion projects in regions hit by structural difficulties, and industrial and technological renewal projects for the iron and steel, textiles, shipbuilding and ship repair industries.

2. PROBLEMS

The criteria used to designate problem areas in 1966/1969 included high permanent unemployment, real or imminent decline of important economic activities, heavy out-migration, and large socially or economically unsettling commuting movements. In 1970, new criteria were suggested - serious structural unemployment and related labour market problems, current or foreseeable decline of important economic activities, abnormally low standard of living, and slow economic growth - but, as already noted, new Development Zones have not yet been designated.

3. DECISION-MAKING BODIES

The December 1970 Act divided the country into three regions: Flanders, Wallonia and Brussels, on the basis of cultural and linguistic differences. Regional matters are dealt with at the national, regional and local level.

At the national level, the National Committee for Economic Growth arranges for labour and industry groups to discuss economic matters with the Government. At the level of the General Administration, certain national bodies perform regional functions. Thus, at the Ministry of Economic Affairs, the inspectorate for economic growth and foreign investment comprises three regional services (in Flanders, Wallonia and Brussels) which examine important project files. The Ministry of Finance also intervenes but only in the case of tax incentives.

The 1974 Act set up regional organizations and regionalized many responsibilities of the central government. Regional policies deal with the following jurisdictions: economic expansion and employment, industry and energy, urbanization, environment, family and demography, health and welfare, forestry, fishing, hunting and water, and communal organizations.

The Planning Bureau is composed of three directorates: general, sectoral and regional. It is responsible for the preparation and implementation of the national five year plan. Regional options are established by the regional directorate in cooperation with the Regional Economic Councils.

The National Committee for Economic Expansion advises Parliament on regional plans prepared by the Regional Economic Councils. It is composed of the Ministers and Secretaries of State for the Regional Economy with regional responsibilities and is chaired by the Minister for Regional Affairs. Each region is represented by a Secretary of State for the Regional Economy.

At the regional and local levels, the Regional Economic Council (CER) is composed of political representatives and social partners (i.e. employers and unions) appointed by the King. The CER has an advisory role on matters related to the regional economy, the coordination and evaluation of proposals of the Regional Development Corporations (SDR), the nominations in the Planning Bureau, the determination of economic development zones of the SDRs, the allocation of regional aid, and the regional development bills.

Each CER is responsible for its region and is allocated an annual operating budget by the Ministry of Economic Affairs. Each of the three existing CERs prepares a regional plan for its region in cooperation with the SDR of the region. Regional plans are then made consistent with the national five-year plan by the Planning Bureau, and then submitted to the national legislative Chambers. Parliament reviews the regional plans after receiving the recommendations of the CERs and the National Committee for Economic Expansion.

The Regional Development Corporations (SDR) are essentially decentralized technical organizations. They prepare regional studies and advise the CER of the region, and are supervised by a Commissioner appointed by the Secretary of State for the Regional Economy. Each of the seven existing SDRs is allocated an operating budget by the Ministry of Economic Affairs. The SDRs initiate industrial projects through the creation and promotion of industrial structures, coordinate regional economic activities, and may borrow with the approval of the Ministry of Finance.

The Industrial Promotion Office (OPI) promotes new industries and manufacturing processes. Its activities are national, but are managed by the CERs. The SDRs can implement industrial projects promoted by the Office.

III. SURVEY OF MAJOR INCENTIVES

1. INTEREST SUBSIDY

1.1 Program Features

The interest subsidy is a discretionary, project-related concession on interest payments arising from loan awards made by "approved credit institutes", i.e. banks and public finance corporations.

The interest subsidy comes out of the development budgets of the three Belgian regions - Flanders, Wallonia, and Brussels, which in turn come from funds of the Ministry of Economic Affairs.

1.2 Rates of Award

Rates of award are discretionary below specified maxima. For Development Zone projects, these maxima vary according to general economic conditions and the technological content of the project being assisted as follows:

	Subsidy (% points)	Subsidy Duration	Loan Coverage
(i) "standard" projects:			
- under "normal" conditions	5	5 years	75%
- under "special cyclical" conditions:	7	5 years	75%
(ii) progress contracts (i.e. advanced technology projects)			
- under "normal" conditions	6	5 years	75%
- under "special cyclical" conditions	8	5 years	75%

The same program is available on a national basis, i.e. administered at the national level, rather than by the regional governments, at the following maximum rates:

	Subsidy (% points)	Subsidy Duration	Loan Coverage
- under "normal" conditions	4	4 years	66%
- under "special cyclical" conditions	4	6 years	66%

In addition, subsidies are available to artisan firms (employing less than 50) at even more advantageous rates. The availability of these various interest subsidies outside the Development Zones significantly reduces the relative incentive advantage offered by a Development Zone location.

1.2.1 Factors Affecting Award Values

Repayment of these interest-subsidized loans is annual on a straight-line basis with a maximum repayment holiday of 2 years. No interest free periods are available.

The interest subsidy is taxed to the extent that, by reducing tax-deductible interest charges, it leads to higher taxable profits.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

This incentive is available to a wide range of activities including manufacturing, mining, artisan activities and businesses in the service sector involved in trade, tourism, management and technical consultancy, and research and development.

While a very wide range of activities is eligible in theory, activity coverage may be somewhat narrower in practice. In evaluating projects, the following are the main criteria taken into account: the employment effect of the project, its regional development impact and relationship to the current industrial base of the region, its viability, its environmental impact, and product type.

1.3.2 Geographical Eligibility

Projects in the Development Zones are eligible. No distinction is made in practice between Category I and II Zones.

1.3.3 Project-Related Eligibility

A wide range of project types are eligible, including the establishment of new facilities, expansions, rationalization, reorganization, spatial relocation and modernization.

With respect to relocations, only projects which move into the Development Zones are eligible, and only the net increase in investment qualifies for assistance.

1.3.4 Size

Small projects, those involving an annual interest subsidy "pay-out" of less than BF 100,000 are not eligible although they may qualify for separate schemes for small and medium-sized businesses. Assuming the award of the maximum interest subsidy is BF 100,000, the "pay-out" limit represents a project with investment of about BF 3.3 million.

1.3.5 Eligible Expenditures

Land, site infrastructure, buildings, plant and machinery are eligible. In addition, expenses incurred through phased payments and leasing are also covered.

1.3.6 Eligible Costs

The subsidy is a fixed reduction in interest payments over a set number of years. Since it relates to actual interest payments, it is based on actual project costs. For interest subsidy purposes, items are valued inclusive of import duties but exclusive of value-added tax (VAT).

1.3.7 Further Conditions Affecting Eligibility

In deciding whether or not to make an award and the level of that award, each project is evaluated by the regional authorities in Wallonia, Flanders or Brussels. Although each region has its own criteria, there are a number of common factors which are taken into account. These include the employment effect of the project, i.e., how much employment is created, the regional development impact i.e., its effect on the expansion of the region, viability, and environmental impact, where obviously the project must be in accord with government anti-pollution measures. There are also product type criteria where the emphasis is on energy-saving products, technologically- advanced products and products exported to non-EEC countries. Job creation is particularly favoured. The relationship of the project to the current industrial base of the region is also important. Projects which expand that base and which represent a new industry in the region are favoured.

1.4 Program Administration

1.4.1 Application Procedure

The applicant firm sends reports outlining the financial viability and manufacturing processing involved to the

Department of Economic Expansion and Foreign Investment of the Ministry of Economic Affairs. The credit institution supplying the loan finance, normally the applicant's bank, sends in the technical report. The bank then provides the loan principal on which the interest subsidy is requested.

1.4.2 Decision Procedure

All decisions are taken at the regional level: in Wallonia, Flanders or Brussels, either by the Secretary of State for the Region, for projects with fixed investment of up to BF 200 million, or by the Ministerial Committee for the Region for all large projects. Project approval may take up to six months, and occasionally longer.

1.4.3 Payment Procedure

The interest subsidy is paid by the administrator to the credit institution which, in turn, loans the agreed amount to the applicant at the market rate less the government subsidy. The grant is paid out in three equal annual instalments. The first payment is made one year after the award decision.

1.4.4 Monitoring Procedure

The award is closely monitored by the credit institution making the loan. The incentive authorities receive an annual report on the financial position of the project from the credit institution. If a project has not fulfilled the conditions of award, the subsidy may be withdrawn or reduced.

1.5 Award Statistics - Interest Subsidy and Capital Grant

No information.

1.6 Further Information

Ministry of Economic Affairs
Service for Economic Expansion and Foreign Investments
Rue de l'Industrie - Nijverheidsstraat, 10 - 1040 Brussels
Telephone: 513.96.40

Secretariate of State for Brussels Regional Economy
Rue de la Loi - Wetstraat, 56 1040 Brussels
Telephone: 511.06.56

Secretariate of State for Flemish Regional Economy
Boulevard Anspach - Anspachlaan, 1 - 1000 Brussels
Telephone: 219.49.90

Secretariate of State for Walloon Regional Economy
Avenue des Arts - Kunstlaan, 19H - 1040 Brussels
Telephone: 219.46.20

2. CAPITAL GRANT

2.1 Program Features

Like the interest subsidy, the capital grant is discretionary and project-related. It can partly or totally replace the interest subsidy in those cases where the investment is at least 50 percent internally financed. The company would then have a choice on the mix between the grant and the interest subsidy.

2.2 Rates of Award

The level of grant awarded is roughly equivalent to the level of interest subsidy which would have been paid out had an interest subsidy award been made. The level of grant is calculated by adding up the undiscounted annual interest subsidies, which would have been due, had the "own finance" of at least 50 percent of project investments been in the form of a ten-year interest-subsidized loan.

2.2.1 Factors Affecting Award Value

The subsidy is calculated as if loan repayment were on a straight-line basis with a maximum repayment holiday of 2 years. Although broadly equivalent to the interest subsidy, the method of paying the capital grant, in just three annual instalments, makes it more attractive than the interest subsidy.

The grant is indirectly taxed whenever profits are made since aided investment must be depreciated for tax purposes net of any grant received.

2.3 Eligibility Criteria

2.3.1 Eligible Activities

The same type of projects are eligible under the grants program as under the interest subsidy scheme.

2.3.2 Geographical Eligibility

This program is available in the Development Zones.

2.3.3 Project-Related Eligibility

Same as for interest subsidy projects.

2.3.4 Further Factors Affecting Eligibility

A project has the choice between an interest subsidy and a capital grant only if at least 50 percent of project investment is internally financed.

2.4 Program Administration

2.4.1 Application Procedure

This is basically as under the interest subsidy scheme. One minor difference is that the application need not be made through an approved credit institution but can be lodged directly with the regional administration.

2.4.2 Decision Procedure

Same as for the interest subsidy scheme.

2.4.3 Payment Procedure

The grant is paid in three equal instalments, the first of which is made one year after the award decision is made.

2.4.4 Monitoring Procedure

The incentive administration authorities receive an annual report on the financial position of the company. If conditions of award are not met, payments may be delayed, though rarely completely withheld unless the project does not actually start.

2.5 Award Statistics and Further Information

No information available.

IV. SUMMARY OF MINOR INCENTIVES

1. GOVERNMENT LOAN OR BOND GUARANTEE

1.1 Program Features

The Government may grant a state guarantee for the repayment of principal and interest with respect to loans and convertible bond issues subscribed by the National Investment Corporation.

1.2 Rates of Award

When the state guarantee is given with respect to loans granted by private credit organizations, its amount may not exceed 75 percent of the sum outstanding after realization of any collateral which may have been lodged with the lender.

The guarantee is granted only to businesses unable to find sufficient security to obtain normal credit from credit institutions. The loan or bond guarantee can be obtained jointly with an interest-rate subsidy. The guarantee is subject to the payment by the beneficiary of a guarantee fee of .25 percent of the guaranteed amount plus 0.05 percent of that amount per year of credit period.

1.3 Program Administration

Applications for a state guarantee are made to the credit institutions. The decisions in these cases are taken jointly by the Minister of Finance and the Minister of Economic Affairs or the Secretaries of State of the regional economy.

2. FISCAL CONCESSIONS

2.1 Program Features

Fiscal incentives include exemption from real estate income tax, accelerated depreciation, and exoneraton from registration fee.

Accelerated depreciation allows double the normal depreciation level to be given on buildings, machinery, and equipment.

Real estate income tax exemptions allow eligible investment in fixed assets to be exempted from the property tax applicable to these fixed assets - land, buildings and plant, for a period of not more than five years.

Exoneration from registration fees means that no registration fee is required in the case of a capital issue of businesses eligible for regional development assistance.

2.2 Project Eligibility Criteria

The granting and amount of the first two fiscal incentives mentioned above may depend on the socio-economic significance of the project and the amount of equity.

2.3 Program Administration

These incentives are administered by the Ministry of Economic Affairs.

3. EMPLOYMENT PREMIA

3.1 Program Features

A part of the regional assistance may be replaced by the allocation of employment premia with respect to investment creating new employment.

3.2 Rates of Award

The amount varies with the number of new jobs created and the zone where the project is located. In certain circumstances, the premium may be doubled, if the investment contributes either to the creation of a growth pole, the introduction of high technology, or a new industry in the country.

3.3 Project Eligibility Criteria

Irrespective of the level of investment, an employment premium may be given to small and medium-sized businesses with less than ten employees.

3.4 Program Administration

Payment is made within a period of five years. As in the case of interest rate subsidies, the employment premium is not subject to income tax.

4. JOB TRAINING AND MOBILITY

4.1 Program Features

Financial and technical aid may be given for job selection, training and transfer.

4.2 Rates of Award

Up to 35 percent of wages, salaries, and living expenses of the trained personnel may be provided. This aid may be increased to 45 percent in areas where lay-offs in the coal industry have created social or economic problems. Assistance of up to 50 percent, including travel costs, can be given when training occurs outside the country. This percentage may be further increased for training of older personnel (55 years old or more).

4.3 Program Administration

"L'Office National de l'Emploi" administers the program.

5. PROGRESS CONTRACTS

5.1 Program Features

The Act of December 1970 introduced the concept of country-wide Progress Contracts such as administrative contracts, business reconversion or restructuring contracts.

5.2 Rates of Award

Twenty-five percent of the cost of the consultants' fees for industrial restructuring or management reorganization is awarded for a three-year period, and 80 percent of the cost of new manufacturing processes or prototypes, repayable after the project has reached the profitability stage.

As of 1980, no progress contract has been made.

CANADA

I. COUNTRY OVERVIEW

1. TYPES OF INCENTIVES

1.1 Major Incentives

Canada has five major incentive instruments which account for most of the development assistance specifically directed at improving opportunities in slower growth regions of the country: Regional Development Incentives Act (RDIA) Grants, Montreal Special Area Industrial Incentives Grants, Tax Credits, industrial incentives provided under Subsidiary Agreements between the federal and provincial governments, and repayable incentives, grants, and loan insurance through the Industry and Community Development Program.

The Regional Development Incentives Act (RDIA) Grant, the major component of the Regional Development Incentives Program (RDIP), is the major Canadian regional development incentive. It is a discretionary, project-related grant program available to firms involved in manufacturing and processing in designated regions of the country. Rates of award vary according to the type of project proposed. For new facility and new product expansion, the lesser of 25 percent of authorized capital cost (ACC) plus $5,000 per job created, 50 percent of the capital employed in the operation or $30,000 per job created is available to an eligible applicant. For modernizations and volume expansions, the lesser of 20 percent or $6 million is offered.

The Montreal Special Area (MSA) Incentives Grant is a discretionary project-related grant offered to firms investing in Montreal and the surrounding area. In Metropolitan Montreal, firms involved in selected activities characterized by rapid growth or a high technology content may receive MSA grants. Firms planning to invest in the satellite towns around Montreal and in the Outaouais region in manufacturing, processing, or research and development activities may also be offered grants under the program. MSA grants may amount to 25 percent of the capital cost of a facility. They are the second major component of the RDIP.

Tax credits are available on an automatic basis to reduce federal taxes payable in three major areas: investment, scientific research and employment. Rates of award for tax credits related to investment and scientific research are higher in the designated regions, although they are available on a national basis. Tax credits related to jobs created are not restricted by type of activity, although the rates vary depending on the region of the country in which the eligible firm is located.

In specially designated areas of the country as much as 50 percent of an investment in the manufacturing or processing industries may be claimed against federal taxes. In other regions, claims range from 7 percent to 20 percent. Expenditures on scientific research in the Gaspé and Atlantic region are eligible for a 10 percent higher credit than elsewhere in the country. Employers are also able to claim a larger employment tax credit in the designated regions, Gaspé and the Atlantic region than elsewhere in Canada.

Subsidiary Agreements under the General Development Agreements (GDA) and the Prince Edward Island Comprehensive Development Plan offer a number of incentives including grants, forgiveable loans, interest rebates, and managerial services to projects on a discretionary basis. Eligible activities are not restricted and the rates of award are negotiated for each subsidiary federal/provincial agreement.

The subsidiary agreements provide for joint federal-provincial assistance to industry and, more significantly, for building the infrastructure to assist industry in establishing in underdeveloped areas. Assistance under the GDAs is highly discretionary in terms of location, eligible sectors, and instruments.

The Industry and Community Development Program Repayable Contributions equal up to 50 percent of the capital and preproduction expenses may be offered to firms within a designated community for restructuring or adjustment within the community or to outside firms investing in projects in the designated communities in manufacturing processing or approved commercial activities. Grants up to 75 percent of consulting fees for feasibility studies and project management may also be provided to local firms requiring restructuring in certain cases. Loan Insurance on loans up to $10 million may also be provided.

1.2 Minor Incentives

In addition to the major incentives described above, there are six other programs of importance to the Canadian regional economic development assistance package: RDIA Repayable Incentives, RDIA Loan Guarantees, Special Agricultural and Rural Development Act Grants, Development Corporations' incentives the Local Economic Development Assistance Program and the Magdalen Island Special Area Program grants.

RDIA Repayable Grants are discretionary, project-related incentives offered to firms investing in manufacturing and processing facilities in designated regions of the country. They are repayable either conditionally or unconditionally, as determined at the time of award offer.

They are available through the RDIA program and are provided instead of grants in situations where it is deemed inappropriate or unnecessary to provide an outright grant, but where some assistance is considered warranted.

RDIA Loan Guarantees are discretionary, project-related loan guarantees provided under the RDIP and offered to firms in designated areas involved in manufacturing, processing and selected commercial activities. For shared-risk loan guarantees, 90 percent of the loan amount is available. For incremental loan guarantees, 25 percent of the balance of the loan is available.

Special Agricultural and Rural Development Act (ARDA) Grants are discretionary, project-related grants offered to encourage development in rural areas with native populations, principally in western and northern Canada: the Yukon, Northwest Territories, British Columbia, Saskatchewan and Manitoba.

A number of Development Corporations have also been established to invest directly or through joint ventures with private firms in regions of slower growth. Development Corporations are established on the basis of federal/provincial agreements, each one separately negotiated. The Newfoundland and Labrador Development Corporation, New Brunswick Multiplex, Mainland Investments and the Cape Breton Development Corporation offer assistance in the form of loans, grants, equity participation, and managerial services on a discretionary basis to eligible applicants in the areas in which their jurisdiction lies.

The Local Economic Development Assistance Program (LEDA) offers discretionary planning grants to selected communities. Eligible activities are not restricted and rates of award are variable.

Magdalen Island Special Area Program Grants are offered to small businesses in manufacturing, and in selected primary and tertiary sectors.

2. MAIN REGIONAL PROBLEMS AND POLICIES

The most serious problem of relative economic disadvantage in Canada is generally regarded to be the large geographic region encompassing eastern Quebec and the Atlantic provinces. To this must be added smaller areas or regions of rural economic depression elsewhere in the country, many of which are characterized by narrow economic bases, remoteness and/or predominantly native populations.

Development in the industrial areas of central Canada has also slowed in recent years, owing in part to increased energy prices, increasing international competition for key manufactured products, and low activity in mineral exploration and development. By contrast, Western Canada's overall growth has remained relatively strong although the region continues to depend heavily on initial processing of resources which is limited to a few locations. Certain significant regions and people, such as the northern areas and native people, have not shared in this overall development in this region.

The major measures designed to deal with regional development problems are joint federal-provincial agreements and the federal government's industrial incentives programs. Certain of the subsidiary agreements which implement longer term comprehensive development agreements between each province and the federal government provide industrial incentives to business, although most of the subsidiary agreement expenditures are directed to infrastructure development.

Grants, repayable incentives and loan guarantees are offered to industry locating in designated areas under the Regional Development Incentives Act Program. Grants are also offered through the Montreal Special Area Industrial Incentives Program and Magdalen Islands Special Area Program. Approximately 51 percent of Canada's population and 93 percent of the land area are found within these regions; the designated regions alone encompass 36 percent of the population.

The federal government also uses a number of other programs to reduce disparities between the regions including equalization payments which provide higher proportionate payments to the poorer provinces, and subsidized rail rates to the Atlantic and Western provinces. Tax credits for investment, employment and research and development are also higher in the slower growth regions.

3. DECISION-MAKING BODIES

The federal Department of Regional Economic Expansion (DREE) administers the RDIA and Special Area Programs as well as having the federal responsibility in individual subsidiary agreements. A large part of DREE's responsibilities and operations are handled by regional, provincial and branch offices. Only large and sensitive incentive applications are referred to headquarters for a decision. On these, the Minister receives recommendations from an interdepartmental Regional Development Incentives Board.

The Department of Finance determines the level and regional bias for tax credits as well as the level of equalization payments made to the provinces. Finance must also approve any RDIA Loan Guarantees offered to business.

4. RECENT EVOLUTION OF INCENTIVES

Recognition of the consequences of disparities between the regions of Canada led to the introduction by the federal government of a number of regionally directed development programs beginning in 1961. During the period from 1961 to 1968, regional development programs were designed to solve specific regional problems and were administered by different federal agencies. In 1969, DREE was created to coordinate the various federal regional programs and to introduce new measures to deal with regional disparity. New DREE initiatives at that time included industrial incentives offered under the Regional Development Incentives Act (RDIA) and assistance to Special Areas where economic development was particularly slow.

In the early 1970s, the RDIA was amended to allow more flexibility in eligibility criteria, repayable incentives and a standard formula for smaller projects. At the same time, the P.E.I. Comprehensive Development Plan and GDAs were concluded with the provinces and significant decision-making and administrative responsibilities were moved to the regions.

In 1977, the Montreal Special Area was introduced to deal with specific development problems in Metropolitan Montreal and the surrounding area. Two separate Montreal Special Areas with different eligibility criteria were created in 1980 and research and development expenditures were made eligible for grants.

Very recent developments include the introduction of the Local Economic Development Assistance Program (LEDA) in 1980 to provide planning grants to communities with persistently high unemployment and the creation of the Magdalen Island Special Area Program in 1981 to encourage small and medium-size business development in the Magdalen Islands. The Industry and Community Development Program was also introduced in 1981 to aid firms in designated communities experiencing recent high unemployment to restructure and adjust to better meet foreign competition and to encourage new investment in these communities by outside firms.

5. SUMMARY TABLE OF MAJOR BUSINESS INCENTIVES

	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
I. Major Incentives					
1. Regional Development Incentives Act (RDIA) Grant	Discretionary, project-related grants	Designated Regions	Manufacturing and processing	For modernizations and volume expansions: lesser of 20% of ACC* or $6 million. For new facilities and new product expansions: lesser of 25% of ACC plus $5,000 per job created, 50% of the capital employed in the operation or $30,000 per job created	Federal Department of Regional Economic Expansion (DREE)
2. Montreal Special Area (MSA) Industrial Incentives Grant	Discretionary, project-related grants	Metropolitan Montreal (Area 1)	Selected high growth/high technology manufacturing and processing, R&D	25% of ACC	DREE
		Satellite towns around Montreal and Outaouais region (Area 2)	Manufacturing and processing, R&D		

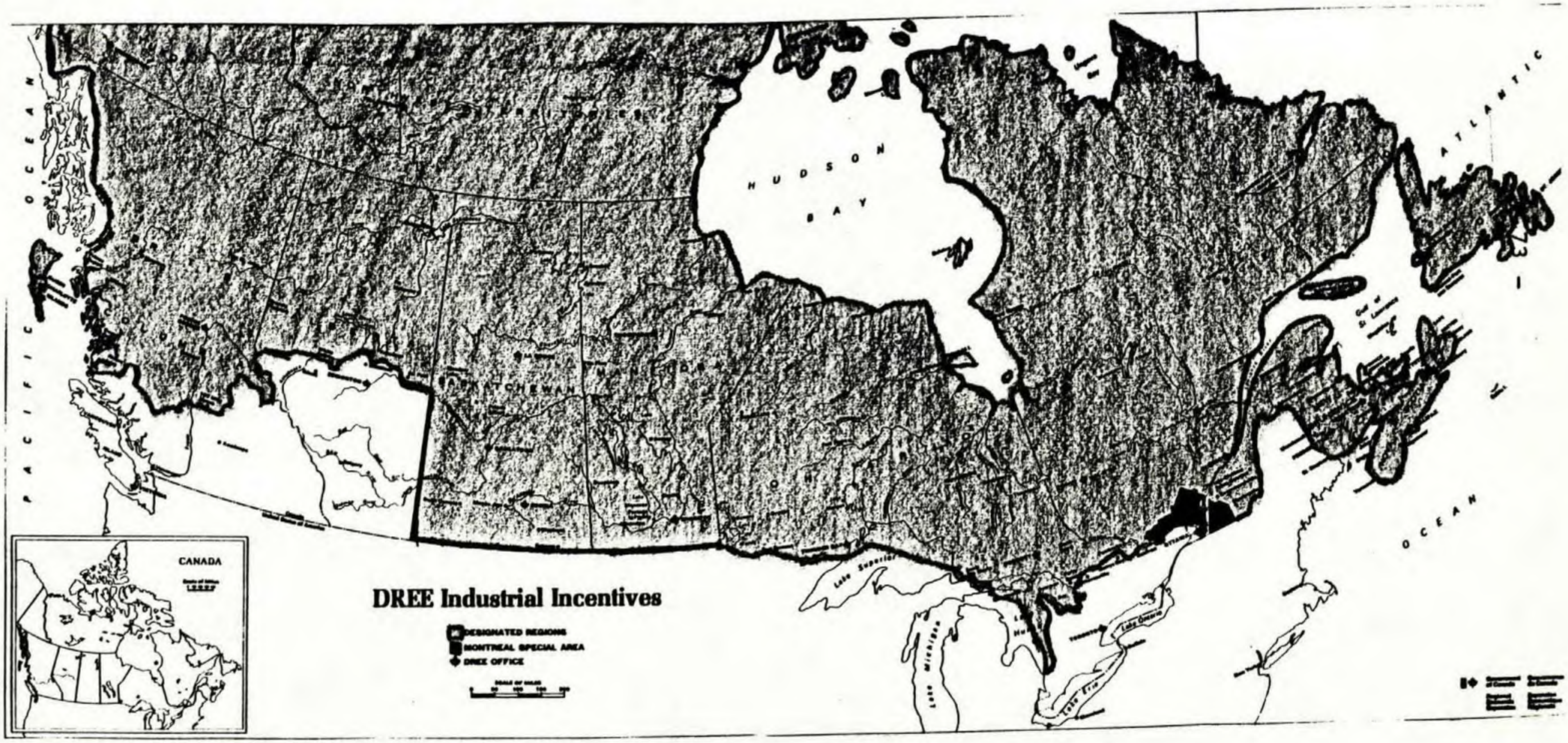
* ACC – Authorized Capital Costs

	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
3. Tax Credits					
- Investment	Automatic credit to reduce federal taxes payable	Specially designated regions	Manufacturing and processing	50% of capital costs	Federal Department of Finance
		Gaspé and Atlantic provinces	Manufacturing, processing and selected resource industries	20% of capital costs	
		Other designated regions		10% of capital costs	
		Rest of Canada		7% of capital costs	
- Scientific Research	Automatic credit to reduce federal taxes payable	Gaspé and Atlantic provinces	Scientific research	20% of capital costs	Finance
		Rest of Canada		10% of capital costs	
- Employment	Automatic credit to reduce federal taxes payable	Gaspé and Atlantic provinces	Not restricted	$2.00/hr.	Finance and the Canadian Employment and Immigration Commission (CEIC)
		Other designated regions		$1.75/hr.	
		Rest of Canada		$1.50/hr.	
4. Subsidiary Agreements under General Development Agreements (GDA) and Prince Edward Island Comprehensive Development Plan	Discretionary project-related grants, forgiveable loans, interest-free forgiveable loans, interest rebates, promotion and managerial services	Depends on particular subsidiary agreement, but may be used in non-designated regions	Not restricted	Depends on particular subsidiary agreement	Federal/provincial

	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
5. Industry and Community Development Program Repayable Contributions, Consulting Grants, Loan Insurance	Discretionary, project-related repayable contributions, consulting grants and loan insurance	Designated communities	Manufacturing, processing and commercial activities approved by the Minister	50% of the eligible capital costs 75% of consulting costs Loan insurance up to $10 million	Industry, Trade and Commerce
II. Minor Incentives					
1. RDIA Repayable Grants	Discretionary, project-related, either conditionally or unconditionally repayable grants	Same as for RDIA grants	Designated Regions	Same as RDIA	DREE
2. RDIA Loan Guarantees	Discretionary, project-related loan guarantees	Manufacturing processing and selected commercial activities	Designated Regions	For shared-risk loan guarantees: 90% of loan For incremental loan guarantees: 25% of balance	DREE
3. Special Agricultural and Rural Development Act (ARDA) Grants	Discretionary, project-related grants	Rural areas with native populations in Yukon and Northwest Territories, B.C., Saskatchewan and Manitoba	Not restricted	Not restricted	DREE

	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
4. Development Corporations - Newfoundland and Labrador Development Corporation, New Brunswick Multiplex Mainland Investments Cape Breton Development Corporation	Discretionary, loans, grants and equity participation, promotion and managerial services	Varies	Varies	Varies	Federal/provincial
5. Local Economic Development Assistance Program (LEDA)	Discretionary, grants,	Selected communities	Not Restricted	Varies	DREE and CEIC
6. Magdalen Islands Special Area Program Grant	Discretionary, grants	Magdalen Islands	Manufacturing, selected primary and tertiary industries	50% of capital costs of less than $330,000	DREE

DESIGNATED REGIONS - CANADA



II. REGIONAL POLICIES, PROBLEMS AND DECISION-MAKING BODIES

1. POLICIES AND APPROACHES

Direct federal and joint federal-provincial incentives are offered to business in Canada. The RDIA Program, the Montreal Special Area Industrial Incentives Program and the Magdalen Island Special Area Program offer direct federal grants, and to a much lesser extent, loan guarantees and repayable grants to businesses locating in areas of slow economic development. At least part of each province is designated as eligible for incentives under these programs. Designation criteria have been based on general economic disparity and opportunity, social and administrative criteria. For the Montreal Special Area, specific factors were considered including market conditions, private investment growth and industrial structure and adjustment. Expenditures on these incentive programs account for less than 20 percent of DREE's annual expenditures.

Subsidiary agreements authorized under General Development Agreements, and the PEI Comprehensive Development Agreement account for the bulk of DREE's budget. Actual industrial incentives, however, account for only a small part of the federal funds for subsidiary agreements, the major part being directed to investments in infrastructure. The share of federal funding of subsidiary agreements is designed to take account of the relative disparity of each province and ranges from 50 percent federal participation in Alberta to 90 percent in Newfoundland.

2. PROBLEMS

The Atlantic region of Canada has generally experienced slower economic growth than the national average for an extended period of time. While disparities continue to persist between this region and the rest of Canada, in recent years the region has maintained a stable population along with some growth in job creation, investment and output. Ocean-related industries, such as fishing and off-shore mineral exploration and recent off-shore oil and gas discoveries provide the potential for continuing development in the region, although it is likely that not all communities will share in the development and some disparities will persist.

Quebec's economy has developed below potential for the past twenty years. Weak investment in the manufacturing sector, increasing energy costs and continued reliance on increasingly non-competitive, labour intensive industries has limited development in this province. A particular problem area is Montreal, where a gradual shift of industry and commerce to centres outside the province have restrained Montreal from achieving its full potential.

While typically a region of strength, Ontario's proportion of Canada's overall GNP has declined in recent years. Some reasons for this trend are rising energy costs, increasing foreign competition impacting on traditional Ontario manufacturing and processing industries, poor demand in certain major industries such as automobiles and farm equipment, and competition for new investment from profitable energy-related projects in Western Canada. Certain single-industry communities in Northern Ontario are experiencing particularly high levels of unemployment because of poor demand for certain primary products.

High prices and strong demand for the agricultural, mineral and energy products have contriubted to relatively strong overall growth in the Western region of Canada. Nevertheless, the large influx of investment has tended to concentrate in specific areas and large disparities have arisen between various areas in the region. Most of Saskatchewan, Manitoba, and the Northwest and Yukon Territories have not shared in the rapid economic development and high native unemployment remains a major problem in the region.

3. DECISION-MAKING BODIES

DREE is responsible for coordinating federal regional development programs and for introducing new measures to reduce regional disparities. The Department offers major industrial incentives through the Regional Development Incentives Act Program and the Montreal Special Areas Industrial Incentives Program. The Department is highly decentralized with four regional offices, ten provincial offices and twelve branch offices. These offices have responsibility for administering the two incentives programs and for making decisions on all but large or sensitive cases.

The final decision on large or sensitive applications is made by the Minister of DREE based on the recommendations of the Regional Development Incentives Board. The Board has permanent representatives from the Departments of Finance, Industry Trade and Commerce, Environment, and from the Canadian Employment and Immigratin Commission and the Foreign Investment Review Agency. Other federal departments may also be represented in cases involving projects in their areas of jurisdiction.

Industrial incentives offered through subsidiary agreements are determined jointly by DREE and provincial officials.

A panel with private and public sector representation makes decisions regarding assistance provided under the Industry and Community Development Program. Tax policy and equalization payments to the provinces fall under the jurisdiction of the federal Department of Finance. The actual administration of the Income Tax Act is managed by the Department of National Revenue. The Department of Finance must also approve any loan guarantees offered through the RDIA Program.

III. SURVEY OF MAJOR INCENTIVES

1. REGIONAL DEVELOPMENT INCENTIVE ACT GRANT

1.1 Program Features

Regional Development Incentives Act (RDIA) Grants are discretionary, project-related grants offered for the expansion and modernization of existing facilities or for the establishment of new facilities in designated regions.

The legislation for the Regional Development Incentives Act expires on December 31, 1984.

1.2 Rates of Award

As shown in the following table, entitled Maximum Rates of RDIA Grants, the maximum rates of award depend on whether the applicant invests in a new facility or a facility that will produce a new product (a new facility or new product expansion), or modernizes or expands a facility producing the same product (a modernization or volume expansion).

Maximum Rates of RDIA Grants

Type of Investment	Maximum rates
New facility or new product expansions	the lesser of: (i) 25% of ACC* plus \$5,000 for each direct job created (the first 20% of ACC cannot exceed \$6 million); (ii) 50% of the capital employed in the operation (see Section 1.7.1 for a definition); (iii) \$30,000 for each direct job created.
Modernizations or volume expansions	The lesser of 20% of ACC <u>or</u> \$6 million.

* ACC is Approved Capital Cost.

1.2.1 Factors Affecting Award Values

Subject to the maximum rates, the actual amount paid on smaller projects is generally determined using a standard formula. The standard formula, presented in the table below, applies to Category A projects (less than $300,000 ACC and fewer than 40 direct jobs) and to Category B projects (less than $2,000,000 ACC and less than 100 direct jobs.

Standard Formula for Category A and B Projects

New Facility of New Product Expansion

a. Atlantic Region - 25% of ACC plus 30% of one year's wages and salaries (average of second and third year of commercial production)

b. Other Designated Regions - 25% of ACC plus 15% of one year's wages and salaries (average of the second and third year of commercial production).

Modernization or Volume Expansion

20% of ACC in all designated regions.

In the case of Category C projects ($2,000,000 ACC and 100 direct jobs or greater) and certain sensitive Category A and B projects, the level of the award is determined on the basis of the benefits and needs of the individual project.

While the grant is not subject to taxation, the applicant must reduce his capital cost allowances for tax purposes by the amount of the grant.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Grants are available to most manufacturing and processing operations; initial processing operations such as petroleum refining, newsprint production, and the production of mineral concentrates from ore, are not eligible for RDIA incentives.

Within the manufacturing and processing sectors, administrative grant ceilings are established below the maximum for certain sectors. Unless a special exception is made by the Minister, grants to projects in the garment industry cannot exceed 40 percent of the ACC while grants up to 80 percent of the ACC are permitted in other eligible industries.

1.3.2 Geographical Eligibility

RDIA grants are provided only to applicants planning to invest in the designated regions of Canada indicated below:

1. Newfoundland, Nova Scotia, New Brunswick, Prince Edward Island (Atlantic Region)

2. Quebec with the exception of the Montreal Special Area

3. Northern Ontario, down to and including

   (a) most of the Districts of Parry Sound and Nipissing;
   (b) Renfrew, Pembroke and surrounding areas

4. Manitoba, Saskatchewan, the North West and Yukon Territories

5. Northern Alberta, down to 60 miles north of Edmonton

6. Northern British Columbia, down to 60 miles north of Kamloops.

The Cabinet, in consultation with the provinces, may designate any region of 12,500 square kilometres or more eligible for RDIA incentives. Under the RDIA, the Cabinet may designate a region only if opportunities for productive employment are "exceptionally inadequate" and incentives will encourage investments that make "a significant contribution to economic expansion and social adjustment" in the region.

1.3.3 Project-Related Eligibility

Part or all of the grant is calculated as a percentage of the approved capital costs (ACC).

The approved capital cost includes the cost of each eligible asset, the direct costs of designing, acquiring, constructing, transporting and installing the asset, the cost of insuring the asset during construction, the cost of insuring leased machinery and equipment during construction, and the capital expenditure on leased machinery and equipment when the applicant will use the asset for its economic life or holds an option to purchase the asset at a later date.

The capital employed in the operation, which is used to calculate the maximum size of a grant, includes the ACC, the value of other fixed assets not included in the ACC, such as land and certain transportation vehicles, and the working capital.

The acquisition of existing facilities may be eligible for a grant if production has ceased or will almost certainly cease for reasons beyond the control of the present owner. Other capital which may be eligible includes machinery and equipment leased from a Canadian operation, mobile equipment which remains in a specified section of the designated region for at least five years, and pollution equipment which is part of, but not the whole of the new investment.

1.3.4 Size

Approved capital costs must be at least $25,000 to qualify for an incentive. Exceptions are made for investments in new facilities or new product expansions which will create at least 5 new jobs; in such cases, the capital costs may be as small as $5,000.

1.4 Program Administration

1.4.1 Procedure

An applicant requests an RDIA grant by submitting to the provincial office a Regional Development Incentives Program Application with details concerning the applicant and the proposed project. An officer is assigned to the application and reviews the application to ensure that all the required information is present. Depending on the size and sensitivity of the project, the application may be sent from the provincial office to the regional office, or from the regional office to headquarters for a final decision.

1.4.2 Decision Procedure

The decisions for over 85 percent of the applications are made locally by the regional assistant deputy ministers or provincial director-generals. These officials have the authority to make decisions on specific applications involving projects of the following sizes:

Provincial Director-Generals - projects with less than $670,000 ACC and 40 jobs

Regional Assistant Deputy Ministers	- projects with less than $2 million and 100 jobs.

Projects of $2,000,000 ACC or 100 jobs or greater and certain sensitive cases are referred to the Minister for a final determination. On these cases, the Minister is advised by the Regional Development Incentives Board, an inter-departmental body with representatives from the Departments of Finance, Industry, Trade and Commerce, and Environment and from the Canadian Employment and Immigration Commission and the Foreign Investment Review Agency. Depending on the nature of the particular project, representatives from other departments such as Fisheries and Oceans, Indian and Northern Affairs, Energy, Mines and Resources, Agriculture, or Consumer and Corporate Affairs may also be on the Board.

In deciding whether to make an offer of a grant and the appropriate amount, the Minister and regional Assistant Deputy Ministers and Directors-General consider the following factors, among others:

1. Timing of application. The application must be made before any contract for buildings, machinery or equipment has been signed.

2. Economic and social benefits. The extent of the economic and social benefits to the region are considered in deciding whether to offer the maximum amount, a lesser amount or to reject the application.

3. Financial need. Only projects that demonstrate a strong probability that they would not proceed in the designated region without an RDIA grant are eligible for such assistance.

4. Commercial viability. The project is evaluated to determine whether it has a reasonable chance of succeeding and providing increased employment in the long run.

5. Cost to other governments of providing utilities or services for the project.

6. Cost of preventing or eliminating pollution resulting from the project.

7. "Stacking" or assistance the project will receive from other government agencies, and from other federal programs.

The offer of an incentive remains open for 90 days. If an applicant does not meet the deadlines specified in the offer for commencement of construction and commercial operation, the incentive may be withdrawn, although the Minister may, at his discretion, extend the deadlines in unusual circumstances.

To remain eligible for an RDIA grant the applicant must:

1. Comply with other government regulations including the requirements of the Foreign Investment Review Act and the Environment Protection Regulations.

2. Cooperate with Canada Manpower Centres in recruiting and training employees and in employing as many residents of the region as practicable.

3. Have an equity participation in the facility equal to 20 percent or more of the capital employed in the operation. When the investment involves an expansion or modernization, the applicant must have 20 percent equity participation in both the new investment and the capital employed in the operation that existed before the modernization or expansion was made.

4. Insure the facility.

5. Continue to produce at the same level in other operations which produce similar or identical products as the new facility.

6. Provide Canadian manufacturers a reasonable opportunity to provide the machinery and equipment. On larger projects, this may be an important factor in determining whether an offer should be made.

7. Abide by any special conditions written into the letter of offer.

After the application has been properly documented, the decision time for all applications is on average 35 days and 55 days for large C cases, alone.

1.4.3 Payment Procedures

The applicant may receive up to 80 percent of the incentive 30 days after the project enters commercial production. The final payment is made within 2-1/2 years of the start of commercial production for modernizations and volume expansions, and within 3-1/2 years for new facilities and new product expansions. The initial and final payments are only made after an incentives officer has certified through an inspection of the facility and a review of the financial and other records that the conditions of the offer have been met.

1.4.4 Monitoring Procedure

Projects may take from 2-1/2 years to as long as 6 years to progress from the initial filing of the application to the conclusion of the control period.

For RDIA grants, the control period during which time the project is monitored to ensure compliance with the conditions of the grant is 2 years of commercial production for modernizations and volume expansions and 3 years of commercial production for new facility and new product expansions.

DREE may begin action to recover money paid out for projects which were discontinued during the control period or for which the amount of jobs or capital invested was less than originally forecast at the time of payment. When recovery becomes impossible, the debt may be deleted with Treasury Board and Parliament's approval.

1.5 Award Statistics

RDIA Grants (Excluding Repayable Grants)

	1975-76	1976-77	1977-78	1978-79	1979-80
Number of Projects Approved (net offers)	484	468	502	668	746
Value of Grants Approved ($'000)	63,548	47,649	87,616	90,295	105,451
Associated Eligible Assets ($'000)	238,402	198,388	411,173	357,278	428,960
Associated Employment (direct jobs)	11,208	8,398	11,214	11,356	11,968

2. MONTREAL SPECIAL AREA GRANT

2.1 Program Features

The Montreal Special Area (MSA) Grants are discretionary, project-related incentives designed to encourage manufacturing investment in two areas in the Montreal plain and Outaouais regions. MSA grants are based only on the approved capital costs of the project.

The objectives of the MSA program are the modernization, expansion and establishment of manufacturing facilities and the transfer of technology and fixed assets in industrial research and development to the special areas. The legislation governing the Montreal Special Area incentives is contained in the DREE Act, and has a termination date of March 31, 1984.

2.2 Rates of Award

The maximum award is 25 percent of the approved capital cost (ACC).

2.2.1 Factors Affecting Award Value

Same as RDIA grants.

2.3 Eligibility Criteria

2.3.1 Eligible Activities

Most manufacturing and processing activities and R&D expenditures are eligible in Area II, but in Area I only investments in the following selected high growth/high technology activities are eligible for grants:

1. Prepared and quick frozen foods
2. Plastics products
3. Primary metal, metal fabricating, machinery
4. Transportation equipment
5. Electrical products
6. Chemical and chemical products
7. Certain scientific and professional equipment
8. Record, sound, metal wire and tape recordings
9. Recording equipment
10. Industrial research and development and research centres.

The notable differences between MSA grants and RDIA grants is the inclusion of industrial research and development in eligible activities for MSA grants and the limitation to selected high growth/high technology manufacturing and processing industries in Area I.

2.3.2 Geographic Eligibility

Area I includes most of Metropolitan Montreal. Area II includes the satellite towns around Montreal and the Outaouais region.

As indicated in paragraph 2.3.1, only specific high growth/high technology industries are eligible in Area I, while in Area II most manufacturing, processing and industrial research and development activities are eligible.

2.3.3 Project-Related Eligibility

Except for expenditures on research and development, the nature of eligible activity is the same for MSA grants as for RDIA grants. In the case of a project for research and development, the costs of acquiring licences, patents and prototypes, of constructing and testing prototypes, and of adapting foreign technology to Canadian standards may also be eligible for a grant. Furthermore, eligible research and development expenditures are not limited to the manufacturing and processing industries and may include expenditures on research and development in such activities as farming, fishing and construction.

2.3.4 Size

In Area I, the approved capital cost of the facility must be $200,000 and above to be eligible for a grant. In Area II approved capital cost must be $100,000 and above.

There is no maximum for the size of the project.

2.3.5 Eligible Expenditures

Except for expenditures on research and development the assets which are eligible for MSA grants are the same as for RDIA grants.

2.4 Program Administration

2.4.1 Application Procedure

Application procedure is the same as for RDIA grants.

2.4.2 Decision Procedure

Same as for RDIA grants.

2.4.3 Payment Procedures

The payment procedures are the same as those for the RDIA grants for modernizations and volume expansions.

2.4.4 Monitoring Procedure

Same as for RDIA grants, except for research and development projects which are normally monitored for 5 years. With those involving the transfer of technology and research, the applicant must be prepared to provide a report that will enable DREE officials to evaluate the overall benefit of the project to the economy.

2.4.5 Decision Procedure

Similar to RDIA grants

2.5 Award Statistics

Montreal Special Area Grants (Excluding Repayable Grants

	1977-78	1978-79	1979-80	1980-81
Number of projects approved (net offers)	48	101	175	235
Value of grants approved ($'000)	4,990	12,520	39,613	69,132
Associated Eligible Assets ($'000)	30,717	80,355	216,730	379,661
Associated Employment (direct jobs)	1,039	2,625	4,278	6,801

3. TAX CREDITS

3.1 Program Features

Higher tax credits are available to persons or companies investing in facilities and providing employment in regions of slower economic development. Three forms of such tax credits are available: investment tax credits, scientific research tax credits, and employment tax credits. The investor uses the tax credit to reduce directly his federal taxes payable.

Regional Tax Credits

Program	Maximum Credit	Eligible Regions	Eligible Activities
Special Investment Tax Credit	50%	Specially designated regions	Manufacturing and Processing
Investment Tax Credit	20%	Atlantic provinces & Gaspé	Manufacturing, Processing and selected Resource industries
	10%	Other designated regions	
	7%	Rest of Canada	
Scientific Research Tax Credit	20%	Atlantic provinces & Gaspé	Scientific research by other than a small business
	10%	Rest of Canada	
Employment Tax Credit	$2.00/hr	Atlantic provinces & Gaspé	No restrictions
	$1.75/hr	Other designated regions	
	$1.50/hr	Rest of Canada	

3.1 Investment Tax Credits

3.1.1 Program Features

The investment tax credit is an automatic credit designed to encourage industrial investment in particular regions of the country. The maximum tax credit for an eligible investment is calculated as a percentage of the capital cost of the investment. It ranges from 7 percent of the capital costs in the higher income regions of Canada to 50 percent in specially designated regions where high unemployment and low income are particularly pronounced.

3.1.2 Rates of Award

In any one year the tax credit for new investments is the lesser of:

1. total credits earned for the current year (see Table 3) and the preceding five years minus all credits claimed during the preceding five years; or

2. $15,000 plus 50 percent of the remaining tax payable over $15,000.

The formula means any unused amount of the tax credit may be carried forward for up to five years.

The investment tax credit is considered a form of assistance for the acquisition of depreciable assets and therefore, the capital cost allowances must be reduced by the amount of the credit.

3.1.3 Eligibility Criteria

3.1.3.1 Eligible Activities

The 50 percent Special Investment Tax Credit may only be claimed for investments in processing and manufacturing facilities as defined for purposes of the Regional Development Incentives Act.

Other investment tax credits may be claimed for investments in processing and manufacturing as well as investments in selected resource industries. These would include investments in facilities for such activities as the operation of oil and gas wells, the extraction and initial processing of minerals and metals, oil exploration and drilling, farming and fishing.

3.1.3.2 Geographic Eligibility

As shown in the preceding table, tax credits may be claimed for investments in facilities located in the specially designated regions (50 percent), the Gaspé and Atlantic provinces (20 percent), other RDIA designated regions (10 percent) and elsewhere in Canada where the investment tax credit is 7 percent of the capital cost.

3.1.3.3 Project-Related Eligibility

Only investments in new buildings and new machinery and equipment are eligible.

3.1.4 Program Administration

3.1.4.1 Application Procedure

The investor claims the tax credit on his annual income tax return. In situations where the Department of National Revenue, which administers the Income Tax Act, requires verification or certification of the eligibility of the project, the Department of Regional Economic Expansion provides it. Any changes to the Income Tax Act are the responsibility of the Department of Finance.

3.2 Scientific Research Tax Credit

3.2.1 Program Features

Tax credits for current and capital expenditures on scientific research related to a Canadian investor's business are higher in the Gaspé and Atlantic provinces than elsewhere in Canada for investors other than small businesses. Small Canadian businesses are entitled to a 25 percent tax credit for scientific research expenditures anywhere in Canada.

3.2.2 Rates of Award

An investor is entitled to claim 20 percent of expenditures on scientific research made in the Gaspé and Atlantic provinces against their taxes payable. Elsewhere in Canada the tax credit is 10 percent of eligible expenditures.

The same formula and tax treatment as the investment tax credit apply for scientific research expenditures.

3.2.3 Eligibility Criteria

3.2.3.1 Eligible Activities

Only investments by a Canadian investor in scientific research related to his business are eligible.

3.2.3.2 Geographic Eligibility

Tax credits are higher in the Gaspé and Atlantic provinces (20 percent), compared to 10 percent elsewhere in Canada.

3.2.3.3 Project-Related Eligibility

Expenditures eligible include capital and current expenditures made directly by the taxpayer on scientific research related to his business and payments by the taxpayer to an approved association, an educational institution, a research centre, or another Canadian corporation for scientific research related to his business.

3.2.4 Program Administration

Same as for investment tax credits.

3.3 Employment Tax Credits

3.3.1 Program Features

The employment tax credit was introduced in 1978 to encourage employers, particularly in slow-growth regions, to hire unemployed workers in addition to their regular staff. As with other tax credits it is used to reduce taxes payable. No new employers may apply for the employment tax credit after March 31, 1981.

3.3.2 Rates of Award

The rates of the tax credit are $2.00/hr. in the Gaspé and Atlantic Provinces, $1.75/hr. in other designated regions and $1.50/hr. in the rest of Canada. The credit may apply for up to 40 hours per week for each eligible employee and for a duration of 3 to 12 months.

3.3.3 Eligibility Criteria

3.3.3.1 Eligible Activities

All businesses are eligible.

3.3.3.2 Geographic Eligibility

The level of the employment tax credit depends on the particular region where the employment occurs, although it may be claimed anywhere in Canada. In the Gaspé, Atlantic provinces and other designated regions the credits are higher than in the rest of Canada (see Section 3.3.2).

3.3.3.3 Project-Related Eligibility

For an employer to be eligible for the credit, the following criteria must be met:

1. The employer must enter into an agreement with the Minister of Employment and Immigration prior to March 31, 1981 in accordance with the requirements of the program.

2. The new job must be full-time and continue for at least three months.

3. The new employees must be hired through a Canada Employment Centre.

3.3.4 Program Administration

3.3.4.1 Application Procedure

After entering into an agreement with the Minister of Employment and Immigration through a Canada Employment Centre, the employer claims the employment tax credit when filing his annual tax return.

4. SUBSIDIARY AGREEMENTS

4.1 Program Features

The federal government has signed General Development Agreements (GDA) with each of the provinces except Prince Edward Island, which already has a similar Comprehensive Development Plan until 1984 under previous legislation. Each GDA covers a ten-year period and provides a statement of the development priorities to be pursued, the extent of federal-provincial coordination, the support that will be given by each level of government and the means by which the federal and provincial government will make joint decisions.

The actual commitment of resources to implement GDAs is made through a number of subsidiary agreements. These may be initiated by either the federal or provincial government and have fixed terms from one to ten years (usually about five years). Each subsidiary agreement specifies the cost-sharing arrangements and the upper limit of federal financing. For each subsidiary agreement, a joint federal/provincial management system is established to monitor the projects established under the agreement and to evaluate the effectiveness and efficiency of the project relative to the objectives of the GDA.

Only a small proportion of DREEs subsidiary agreement expenditures is directly related to providing industrial incentives, the largest part of the funds being used for infrastructure development and natural resource activites. In estimates for 1981-82, for instance, only 20 percent of the expenditures on subsidiary agreements would be related to capital investment compared to 44 percent for infrastructure and distribution facilities. Nevertheless, a wide variety of incentive instruments are applied to all sectors of the economy and small business in particular, including grants, interest-free forgiveable loans, forgiveable loans, loans, interest rebates and subsidies, and assistance in market development and management.

4.2 Rates of Award

Each subsidiary agreement specifies the maximum amount which the federal government will provide in support of the agreement.

A maximum financial commitment is established for each subsidiary agreement. The proportion of federal funding varies according to the relative per capita income of the province with which the agreement is made. Thus, in Ontario, Alberta and British Columbia, each of which have per capita incomes above the national average, the federal proportion may be as much as 50 percent; for subsidiary agreements with Quebec, Manitoba and Saskatchewan, the federal participation rate may reach 60 percent; in Nova Scotia and New Brunswick, 80 percent; and in Newfoundland and Prince Edward Island, 90 percent.

4.3 Eligibility Criteria

4.3.1 Eligible Activities

The subsidiary agreements are not limited to particular activities, unless a limitation is included in the GDA with the province. Subsidiary agreements are being used for the following purposes: to develop training and education resources, to stimulate capital investments in energy, natural resources and research and development, to improve provincial infrastructure, especially transportation facilities, and in certain provinces for market development.

4.3.2 Geographical Eligibility

Unlike RDIA grants, assistance under the subsidiary agreements is not restricted to particular regions. A particular subsidiary agreement may be used to provide incentives to a business locating in a region not specifically designated under the RDIA program. The subsidiary agreements also provide a means of providing incentives to individual communities and small areas in non-designated regions which are unable to achieve their full economic potential.

As noted previously, there is some discrimination between eligible geographic areas in that the proportion of federal funding of subsidiary agreements is highest in provinces with the lowest per capita income. Within each province, certain regions may be identified as requiring particular assistance. Consequently, some areas within each province may receive a disproportionate amount of assistance under the subsidiary agreements.

4.3.3 Project-Related Eligibility

Subsidiary agreements are intended to achieve one of the following objectives:

1. to follow up on any development opportunity which cannot proceed without special intervention;

2. to fill gaps or rectify any shortcomings in economic measures deemed essential to development;

3. to provide a given special area with all the facilities or material means necessary for its development.

4.4 Program Administration

Regional and provincial offices of DREE and the provincial government work together to develop, implement, manage and monitor individual subsidiary agreements. Other federal departments may also participate on particular projects related to their areas of concern and expertise.

Depending on the particular agreement, the planning and negotiations involved in a particular subsidiary agreement may take up to two years.

Agreements are subject to regular direction of a federal-provincial management board. Nevertheless, day-to-day delivery is usually left up to the provinces.

A proposal for a subsidiary agreement may be initiated internally within DREE or by a province. If the Regional Assistant Deputy Minister (ADM) of DREE considers the proposal of merit, a preliminary analysis of the proposal is carried out. This involves interdepartmental and federal-provincial study and precedes any serious discussions between DREE and the provincial governments.

If the preliminary analysis indicates a promising proposal, a project proposal for detailed analysis involving a work program and the consultation mechanisms between the provincial and federal governments is approved by the Deputy Minister of DREE. Other federal departments are invited to participate in the detailed analysis prior to presentation of the detailed proposal to the province. A mechanism for analysis involving the federal and provincial project teams is established to carry out the analysis.

The detailed analysis usually results in the production of a proposal for a subsidiary agreement which requires the approval of both the regional ADM and DM for further action. Following their approval, a subsidiary agreement is drafted and, after final comments and the approval of the sponsoring federal Ministers, the agreement is submitted to Treasury Board, and in some cases Cabinet, for final approval. On-going consultations with the provinces continue during this final period of preparing the subsidiary agreement.

5. INDUSTRY AND COMMUNITY DEVELOPMENT PROGRAM: REPAYABLE CONTRIBUTIONS, CONSULTING GRANTS AND LOAN INSURANCE

5.1 Program Features

The program offers repayable contributions for capital investments, grants for consulting studies and project management and loan insurance in designated communities. The incentives are offered to firms within the designated communities to achieve efficient and sustained growth through industrial restructuring and to outside firms investing in the designated communities and creating new jobs.

The program is part of the Industry and Labour Adjustment Program (ILAP) introduced in 1981 to promote industrial restructuring and labour adjustment in designated communities which have experienced recent large-scale industry dislocation resulting in a significant increase in unemployment. The Program is expected to provide $350 million over three years.

5.2 Rates of Award

Up to 50 percent of the capital and preproduction costs net of any other government assistance may be paid as an interest-free repayable contribution for the establishment, expansion or restructuring of firms.

Up to 75 percent of the consulting costs for comprehensive analysis, proposed development, feasibility studies of a merger or acquisition and comprehensive project analysis may be provided as a grant.

Loan insurance on loans up to $10 million may be also provided in certain cases.

5.3 Eligibility Criteria

5.3.1 Eligible Activities

In the case of a firm located within a designated community (community firm) the repayable incentives are offered to a firm to adjust or restructure its operations to improve its long-term viability in international markets or to adjust to changes in the domestic and external economic environment. No activities are specified and industrial and commercial enterprises are eligible.

For a firm from outside the community planning an investment in the community (external firm) repayable incentives are offered to projects in manufacturing, processing or other commercial activity approved by the Minister of Industry, Trade and Commerce

5.3.2 Geographic Eligibility

At the present time, Windsor, Ontario; Sydney, Nova Scotia; Port Cartier and Sept-Iles, Quebec; and Tracey and Sorel, Quebec have been designated. Cabinet determines which communities are eligible for assistance. Communities may be designated for one year with a maximum of two six-month extensions. The intention is that only 5 or 6 communities be designated at one time.

5.3.3 Project-Related Eligibility

Projects involving the production of new or improved products, new or different markets, modernization or improvements, expansions for new or expanding markets, or mergers and acquisitions are eligible for assistance.

The eligible capital costs include leased capital costs and leasehold improvement, but exclude working capital, capital stock, pollution equipment, land, and mobile units.

5.3.4 Size

The preproduction and capital costs must be at least $100,000 to be eligible. No maximum is specified.

5.4 Program Administration

The federal Department of Industry, Trade and Commerce (IT&C) is responsible for administering the consulting grants and repayable incentives. The Canadian Employment and Immigration Commission and federal Department of Labour are responsible for administering the Labour Adjustment Package.

An Industry and Community Development Panel of the Enterprise Develoment Board of IT&C is directly responsible for administering the Program. The Panel consists of five members from the private sector, including one representative from organized labour, and representatives from the federal Departments of Industry, Trade and Commerce, Finance, Regional Economic Expansion and from the Canadian Employment and Immigration Commission and the Federal Business Development Bank.

The Panel is empowered to authorize the grants for consulting studies and the capital-related repayable incentives or loan insurance up to a $10 million maximum. A sub-committee of 3 panel members has also been established to authorize contributions up to $200,000.

Prior to applying for assistance, the firm must not have obtained or paid for consulting services or incurred preproduction expenses or capital-related costs. Criteria which the Panel uses in deciding individual applications include the viability of the project and company, the incrementality of the project, the economic benefit to the community and Canada.

In very special cases where a project offers exceptional benefits but would not be undertaken if repayment was required, the Enterprise Development Board may waive all or part of the repayment.

IV. SUMMARY OF MINOR INCENTIVES

1. RDIA REPAYABLE GRANTS

In addition to providing outright grants, unconditionally repayable grants and conditionally repayable grants are also provided under the Regional Development Incentives Program when:

- projects involve higher risks commensurate with higher return;
- projects show only marginal economic social benefits;
- projects are ineligible for a loan or loan guarantee;
- applicants prefer a repayable grant;
- public interest would not be served through an outright grant;

Unconditionally repayable grants approximate an interest-free loan. For tax purposes, the recipient of this incentive is not required to reduce his capital cost allowances by the amount of the incentive, as is the case for outright grants. Offsetting this benefit the recipient must repay the incentive according to the payment schedule set out in his agreement with DREE.

Conditionally repayable grants must be repaid if the recipient achieves certain objectives such as a specified profit level. For tax purposes, this incentive is initially treated as a grant and the recipient must reduce his capital cost allowances by the amount of the incentive. If the recipient later repays the incentive, he may reclaim the foregone capital cost allowances and thereby reduce his taxes in future periods.

Both types of repayable grants are subject to the same rates of award, eligible activitity sectors, eligible geographic regions, evaluation criteria and program administration as RDIA grants. Because these incentives involve repayment of the amount of the incentive, they may require a longer monitoring period to ensure repayment.

2. RDIA LOAN GUARANTEES

A loan guarantee for repayment of principal and interest may be offered to an investor encountering difficulties in raising debt capital for investments in facilities in designated areas. In addition to investments in manufacturing and processing facilities, loan guarantees may also be provided to finance the establishment of certain commercial activities, specifically business offices, warehouse and freight handling facilities, shopping centres, convention, hotels or motels and recreation facilities and research facilities.

Manufacturing or processing firms must be eligible for a development incentive in order for the project to be eligible for guarantee support.

Two types of guarantees are provided: shared-risk guarantees which protect the lender for a specified percentage of any loss sustained on a loan after liquidation of security and incremental guarantees which can insure fully that portion of a loan the lender would not advance without a guarantee. A shared-risk guarantee cannot exceed 90 percent of the loan, while the loan cannot exceed 80 percent of the total capital cost of the facility. Incremental guarantees cover up to 25 percent of the loan balance.

Unlike other assistance provided under the RDIA, loan guarantees require the approval of the Minister of Finance in addition to that of the Minister of DREE.

3. SPECIAL AGRICULTURAL AND RURAL DEVELOPMENT (ARDA) GRANTS

Incentive grants may be provided for projects associated with primary production, social adjustment projects and for acquiring or investing in any commercial undertaking in the primary resource, processing, manufacturing and service industries.

The grants are available to native people and others investing in projects that will improve economic conditions of native people in the Yukon and Northwest Territories, B.C., Saskatchewan and Manitoba. The grants are provided to create job opportunities, and to improve salaries and living conditions for rural residents, particularly native people.

4. DEVELOPMENT CORPORATIONS

Several corporations have been established under the DREE Act and through other authorities to provide assistance to investors modernizing, expanding or establishing facilities in certain areas of slower growth. The two most important development corporations are the Newfoundland and Labrador Development Corporation (NLDC) and the Cape Breton Development Corporation (DEVCO).

NLDC assists small and medium-sized businesses in Newfoundland and Labrador. The federal government provides funds for the corporation to make loans in these areas, while the provincial government provides funding for equity participation by the Corporation. The Corporation may also provide management advisory services to businesses planning to invest in Newfoundland and Labrador.

DEVCO promotes development on Cape Breton Island in Nova Scotia. It provides loans, grants and equity participation to rehabilitate and modernize the mines in the Sydney coal field and to broaden the economic base and opportunities for employment outside of the coal industry. There are no restrictions regarding the activities that are eligible or the size and type of assistance available.

5. LOCAL ECONOMIC DEVELOPMENT ASSISTANCE (LEDA)

The Local Economic Development Assistance (LEDA) program is a recently created program designed to promote community-based development initiatives. The Program will provide funding, expertise in project management and assistance in obtaining other financial assistance to communities experiencing continuing high unemployment. DREE and CEIC jointly administer the Program.

6. MAGDALEN ISLANDS SPECIAL AREA INCENTIVES GRANT

Under the Magdalen Islands Special Area Incentives Program grants may be offered to applicants investing in the manufacturing industry and selected primary and tertiary industries. The grants are designed to assist small and medium-sized businesses and may amount to as much as 50 percent of the approved capital costs provided these costs are less than $330,000.

FRANCE

I. COUNTRY OVERVIEW

1. TYPE OF INCENTIVES

There are a large number of incentives available in France as part of the regional economic assistance package.

1.1 Major Incentives

The major incentives taken together account for more than 85 percent of French regional incentive expenditures. They are the regional development grant, the service location grant, the local business tax concession, and the special fund for industrial adaptation.

The Regional Development Grant (PDR - *prime de développement régionale*) is the most important incentive and is aimed primarily at the manufacturing sector. It is project-related and basically automatic, although there is room for some administrative discretion in the case of large projects. Assistance is based on an award per job created to a maximum amount expressed as a percentage of eligible investment - FF 25,000 per job for projects involving new facilities and FF 22,000 per job for expansions up to a ceiling of 25 percent in the maximum rate zone, FF 20,000 per job for new facilities and FF 17,000 for expansions up to a 17 percent ceiling in the intermediate rate zone, and FF 15,000 per job for new facilities and FF 12,000 per job for expansions up to a ceiling of 12 percent in the minimum rate zone.

The Service Location Grant (PLAT - *prime de localisation de certaines activités tertiares*) is directed at assisting companies which create or develop services relating to management, technical consultancy, design, and data processing.

Awards are offered to projects which meet minimum job targets at the following rates: FF 20,000 per job created in the PDR zones and FF 10,000 per job created elsewhere in France outside the Paris region. A further FF 5,000 or FF 10,000 per job is offered to particularly attractive projects in terms of job creation.

The Local Business Tax Concession (éxonération de la taxe professionnelle) allows a maximum 100 percent exemption from local business tax over a period of five years. However, local business tax rates vary markedly throughout the country.

1.2 Minor Incentives

These include:

- PLAR Service Location Grants,
- Special incentives for craftsmen,
- Grants for small business,
- Grants for the farm and food processing sectors,
- A decentralization indemnity to assist the relocation of activities from the Paris and Lyons areas,
- Moving and relocation subsidies,
- Disincentives applicable in the Paris Basin,
- Other tax concessions,
- Assistance from local authorities,
- Job training assistance, and
- Other forms of assistance.

The Special Fund for Industrial Adaptation (FSAI - "Fonds Special d'Adaptation Industrielle") awards grants and low interest loans from the Economic and Social Development Fund (FDES - "Fonds de Développement Économique et Social"). The FSAI was initiated in 1978 for a limited duration of three years to assist areas suffering from steel and shipbuilding closures. It is currently available in six small areas affected by the decline of these two industries. The Fund has a budget of about FF 3 billion and can award grants of up to 25 percent of eligible investment in combination with low interest loans on a further 25 percent of investment.

2. MAIN REGIONAL PROBLEMS AND POLICY

In comparison with the programs of other OECD countries, the PDR is one of the schemes most closely linked to job creation. The French scheme is also special in that it has designed incentives specifically aimed at the regional development of service activities. The UK and Sweden are the only other OECD countries to have developed an incentive of this type. As well, award decision, while largely automatic, leaves room for discretion in the consideration of exceptional projects. Increasing use has been made of these exceptional treatment provisions in recent years. France belongs to a middle group of EEC countries in respect of the scale of her regional incentive policy.

3. MAIN DECISION-MAKING BODIES

At the national level, the main decision-making body with respect to eligibility and generally with respect to rates, insofar as they are open to discretion, is the Ministry of the Economy. The Ministry relies to a large extent on the advice of the _comité un ter_, which is the major advisory body for economic and social development programming. This committee includes the _Crédit hôtelier, industriel et commercial_, a major state credit organization in France, representatives of DATAR, France's key regional policy agency, the French Treasury, the Ministry of Industry and the Crédit national, another major state credit institution in France.

For projects involving investments of less than FF 10 million, the decision-making power is delegated to the Préfet of the département. Generally speaking, most awards are made at the local, département level in line with detailed, centrally determined guidelines.

4. RECENT EVOLUTION OF INCENTIVES

In 1976 there was a significant administration devolution under the PDR scheme. The 95 départements in France replaced the 22 regions as the sub-national decision-making level. The size of projects to be decided in Paris increased from FF 5 million to FF 10 million.

There has been a general tendency in France to expand the scope and intensity of regional incentive schemes in recent years. Increasing use has been made of exceptional treatment provisions in awarding aid whereby projects which appear to be of special value to an area, but are not "automatically" eligible for incentives may nevertheless be considered for assistance. The comité un ter now has more discretion regarding rates of award for incentive programs.

A further area of increased flexibility is that it is possible for awards to be limited to three times the contribution to the project coming from the applicant firm's own funds. As well, additional discretion and flexibility in respect of the timing of award payments is now possible. An advance of up to one-third of the grant amount may now be offered.

5. SUMMARY TABLE OF MAJOR BUSINESS INCENTIVES

Major Incentives	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
PDR Regional Development Grant	automatic, project-related, capital grant (some discretion re projects in "special need" areas)	PDR Zones	Manufacturing	Zone 1 - up to FF25,000 per job job created, up to 25% of eligible investment Zone 2 - up to FF20,000 per job created, up to 17% of eligible investment Zone 3 - up to FF15,000 per job created, up to 12% of eligible investment	Ministry of the Economy and DATAR
PLAT Service Location Grant	automatic, project-related grants (some discretion re "special need" areas)	PDR zones and rest of France excluding Paris Basin	services related to management, technical, consultancy, design or data processing	FF20,000 per job created in PDR zones, FF10,000 per job in other eligible areas, extra FF5-10,000 per job created, available depending on nature of project	Ministry of the Economy and DATAR
Local Business Tax Concession	automatic, project-related concession		Manufacturing some service activities	100% exemption from business tax, liabilities for 5 years	Ministry of the Economy

II. REGIONAL POLICIES, PROBLEMS AND DECISION-MAKING BODIES

1. POLICIES AND APPROACH

Industrial incentives for regional development are intended to encourage new activities and the expansion of existing activities in certain areas, the revival of declining industrial zones, and the decentralization of activities from Paris and Lyons. Generally, higher rates are awarded to projects involving the development of new facilities than for the expansion of existing activities.

The award of incentives is not entirely automatic. The general economic criteria for the selection of projects under each of the incentive schemes include the extent of the project's impact on economic development, whether or not the project involves conversion of a sector in difficulty, industrial decentralization and balanced growth, and the protection of the environment. The economic criteria applied to individual firms relate to the viability, profitability and dynamism of the firm, and the importance of the investment in relation to existing investment by the firm in the sector in question.

Great importance is attached to the creation of new jobs and the stabilization of employment.

Account is taken of the source and form of outside finance, external sources of assistance and of the financial risk of the investment project by comparison with the capacity of the enterprise. The proportion of funds contributed by the applicant firm must be equal to one-third of the total amount of the award. Eligibility thresholds depend on the size of the project and the number of jobs to be created.

The amount and type of incentives are graduated throughout the country. France is divided into four incentive zones as outlined in Table 1. Zone A includes most of Western, Central and Southwestern France, Corsica, and the border areas near Germany. These areas include declining industries where industrial reconversion is sought or where the labour force needs stable employment. Zones B and C comprise special areas where problems of a particularly serious nature may exist. Zone D covers the Paris and Lyons regions.

Three factors are taken into account for standard designation purposes: the level of employment in the area, the decline in population due both to out-migration and falling birth rates, and the rate of decline in the ratio of active population to total population in the area.

2. PROBLEMS

According to OECD, as of 1976, conditions of recession have created new problems in the traditionally more developed regions of France. Appropriations granted to regional development programs have generally been substantially increased. The effect has been support of employment in regions most affected by industrial conversion and the strengthening of their infrastructure.

3. DECISION-MAKING BODIES

La Délégation à l'Anénagement du Territoire et à l'Action Régionale, DATAR, is the key regional policy agency. It is in charge of the inter-ministerial coordination of the regionalization of the national infrastructure budget. DATAR ensures that regional policy is implemented. It is the executive arm of the Prime Minister and has political influence and authority on the National Planning Commission (CNAT). CNAT is a body of 77 members from all regions and professions which advises the "Commissariat Général au Plan". The Commissariat in turn guides the work of the CNAT and is responsible for the regionalization of the national economic development plan.

The Regional Council is comprised of national and regional representatives from the national assembly and commune councils. The "préfet", named by the government, is its executive officer, and is in charge of one of the twenty-two régions de programme or programming regions.

The Conseil Économique et Local which advises the Regional Council, is made up of representatives from various regional organizations such as unions, and employer's federations.

At the central level, the Ministry of Treasury funds and manages the major incentive schemes. The Ministry of Industry draws up a report on each applicant and presents a recommendation to the comité un ter, of which it is a member, which is generally accepted. The comité un ter, chaired by the Credit national, is the major advisory body to the Ministry of the Economy, which is the main decision-making body in respect of eligibility and rates, insofar as they are open to discretion. DATAR is highly influential within this comité.

The Crédit national is the major institution in France responsible for the financial analysis of each project contained in the Ministry of Industry's reports.

TABLE 1
TYPES OF INCENTIVES AND
ELIGIBLE AREAS

Incentives	Zone A	Zone B	Zone C	Zone D
Grant for regional development	Yes	No	No	No
Grant for certain non-industrial activities	Yes	Yes	Yes	Yes, but not in the Paris Basin Area
Grant for R and D activities	Yes	Yes	Yes	Yes, but not in the Paris Basin Area
Decentralization indemnity	Yes	Yes	Yes, only for transfers from the Paris and Lyons areas	No
Exemption from local business tax	Yes	Yes	Yes, only for transfers from the Paris and Lyons areas	No
Accelerated depreciation of construction costs	Only in western areas of France	No	No	No
Reduction of tax on capital gains from sales of land	Yes	Yes	Yes	No
Subsidies for personnel training and personnel moving expenses	Yes	Yes	Yes	No
Grant for small business	Yes	Yes	Yes	Yes
Grant for farm and food processing	Yes	Yes	Yes	Yes
Loan and loan participation	Specific Industrial Sectors in areas with problem sectors			

III. SURVEY OF MAJOR INCENTIVES

1. REGIONAL DEVELOPMENT GRANT - PDR

1.1 Program Features

The PDR-Regional Development Grant is a project-related capital grant administered in a generally automatic manner within a matrix of award conditions related to the three PDR zones.

The grant accounts for 45 percent of regional development incentive spending. PDR funds are from the budget of the Ministry of the Economy which has overall responsibility for regional policy funds. The funds are administered by the Ministry of the Economy working in close relation with DATAR.

1.2 Rates of Award

The standard rates of award are based on a fixed amount per job created up to a ceiling expressed as a percentage of eligible investment. The rates of award vary according to geographic location (there are three award zones) and type of project (new facilities versus expansion projects). The following award matrix is in effect:

Table 2
RATES OF AWARD
PDR GRANT

Standard Rates	Amount per Job Created (FF) New Facilities	Expansions	Investment Ceiling (% of Eligible Investment)
Maximum Rate Zone (Zone 1)	25,000	22,000	25
Intermediate Rate Zone (Zone 2)	20,000	17,000	17
Minimum Rate Zone (Zone 3)	15,000	12,000	12
Project Exceptions			
Projects with over FF 10 million invested	Award may be greater than for standard award projects		25% ceiling
Projects with over FF 30 million invested or if more than 300 jobs created	25,000 Receive maximum rate zone awards when located in designated areas outside but near to the three standard PDR zones	22,000	25%
Projects in areas of severe local unemployment	25,000 Maximum rate zone awards throughout the standard PDR zones	22,000	25%
	15,000 minimum rate zone awards if located elsewhere in France outside Paris Basin	12,000	12%
Expansion Projects in factories with more than 800 employees		Every job beyond 800th created by expansion projects subject to a limit of FF10,000 per job irrespective of location	

1.2.1 Factors Affecting Award Values

With respect to tax treatment, for depreciable assets, the grant is taxed indirectly whenever taxable profits are made. For non-depreciable assets, such as land, the grant is divided into five equal instalments for tax purposes, with tax paid over five years.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Manufacturing is eligible; food processing is included. Extractive industries are not normally eligible unless the regional importance of the project is deemed "undeniable", which is rare. Nationalized and semi-public firms are eligible only if they operate under competitive conditions.

1.3.2 Geographical Eligibility

Projects located within the three PDR zones are eligible. In December 1978, these zones accounted for 32 percent of the population and 47 percent of the surface area. In addition large projects located in certain designated areas outside, but near to, the standard PDR zones are also eligible, as well as projects located in areas of severe local unemployment, as long as they are outside the Paris Basin.

The eligibility of projects in any area is conditional on their fulfilling the conditions of award for these areas, in particular, the minimum job and investment targets. These targets favour upland and rural areas and Corsica over the rest of the PDR zones, and smaller population centres of less than 15,000 population over larger centres. Rates of award are most favourable in Zone 1, the Maximum Rate Zone.

1.3.3 Project-Related Eligibility

Eligible are: projects involving the establishment of new facilities and expansions; the reorganization of an establishment previously in decline, including a complete change of product and the maintenance of existing jobs; spatial relocation, if it involves a move into the PDR zones; takeover subject to stringent rules to ensure that the establishment being taken over is independent of the firm effecting the takeover.

1.3.4 Size

Small projects are excluded from the PDR program to the extent that eligibility criteria require that minimum job and investment targets must be met (see Table 3).

1.3.5 Eligible Expenditures

Land, site infrastructure, buildings, plant and machinery, and the cost of preliminary studies are eligible expenses. Eligibility is limited to new capital investment which is part of the production process.

In addition, expenses related to instalment payments, purchases on credit, renting, and leasing qualify for assistance. In the case of leasing, the grant is paid to the leasing company, but must then be passed on to the firm using the leased asset.

Table 3

Size of Locality	New Facilities: Minimum Investment	New Facilities: Minimum Jobs	Expansions: Minimum Investment	Expansions: Minimum Jobs/Increase Labour Force
(a) General Case				
less than 15,000	FF300,000	10	FF300,000	10/25% overall or 50/10% or 120 extra jobs
over 15,000	FF800,000	30	FF800,000	30/25% overall or 120 extra jobs
"Large Project" Areas	FF10 million	100	not eligible	
(b) Upland and Rural Areas and Corsica				
less than 15,000	FF300,000	6	FF300,000	6/20% overall or 50/10% or 120 extra jobs
15,000-49,999	FF500,000	15	FF500,000	15/20% overall or 50/10% or 120 extra jobs
over 50,000	FF800,000	30	FF800,000	30/25% overall or 120 extra jobs

1.3.6 Further Conditions Affecting Eligibility

The project must be considered viable. The firm must undertake to complete the project and meet the job and investment targets agreed to at the time of the award decision within three years of the project start. In addition, the firm must be up-to-date with tax and social security payments and not have committed a serious fiscal misdeed in the past.

Account is also taken of the source and form of outside finance and the financial risk. The proportion of own funds must be equal to one-third. The general economic criteria include the extent of the project's impact on economic development, the conversion of a sector in difficulty, industrial decentralization, balanced growth and the protection of the environment.

1.4 Program Administration

1.4.4 Application Procedure

The administration of the PDR grant program is two-tier. The lower tier, the *département* level, deals with the great majority of applications following guidelines laid down by the Ministry of the Economy.

Application is not by form, but follows detailed guidelines laid down for the applicant. Potential applicants normally contact the *préfecture* of the *département* where the project is located. Applications for assistance for projects involving investment of less than FF 10 million are submitted to the Competition and Consumer Affairs Directorate of the *département* and for larger and sensitive projects to DATAR.

1.4.2 Decision Procedure

At the national level the decision with respect to eligibility is taken by the Minister of the Economy who generally accepts the decision of his advisory body, the *comité un ter*. Important committee members are representatives of DATAR, the French Treasury, the Ministry of Industry, and the *Crédit national*, a major credit institution responsible for the financial analysis.

At the sub-national level the *préfet* of the *département* makes the eligibility decision (rates at this level are standard) in accordance with the advice of the local Committee for the promotion of employment. The key members of this committee are the *préfet*, and the representatives of the Competition and Consumer Affairs Directorate, the *trésorier-payeur général*, who is responsible for the payment at the *département* level, and the local branch of the Bank of France, which, in difficult cases, aids the Competition and Consumer Affairs Directorate in the financial analysis of the project. The national level also deals with all cases involving investment of FF 10 million or more.

Normally, two to three months are required for a decision to be made. The process used to take (pre-1980) six to eight months. However, new procedures have been introduced to reduce the time required to make a decision on incentive awards.

1.4.3 Payment Procedure

The PDR grant is paid in annual instalments over a maximum of three years with an advance of usually one-third of the award.

1.4.4 Monitoring Procedure

Awards are fixed on the basis of job and investment forecasts agreed at the time the award was approved. Where they are not met within the three year condition period, there will normally be a pro rata reduction in the agreed award such that the eventual value of the award will depend on jobs and investment actually created. Before the final instalment is paid detailed checks are made by the Competition and Consumer Affairs Directorate with regard to the job and investment targets set. Extensions of a year have become more common recently due to the depressed economic climate.

1.5 Award Statistics - PDR Grant

	1974	1975	1976	1977	1978
Number of Applications Approved - nationally	119	100	106	92	97
- sub-nationally	343	289	471	793	688
- total	462	389	577	885	785
Expenditures Committed (FF)					
- nationally	286.1	306	351.4	204.5	223.1
- sub-nationally	92.2	77.5	157.4	315.2	250.1
- total	378.3	383.5	508.8	519.7	473.6
Investment Associated (FF '000)					
- nationally	3327	2970	3275	2329	3870
- sub-nationally	1008	526	1308	1878	1495
- total	4335	3496	4583	4207	5365
Jobs Associated					
- nationally	22013	19944	18587	12121	13952
- sub-nationally	14543	11208	16412	25713	20117
- total	36556	31202	34999	37834	34069

1.6 Further Information

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2. SERVICE LOCATION GRANT - PLAT

2.1 Program Features

The Service Location Grant, PLAT, is a project-related grant administered in a generally automatic manner if award conditions are met, but with some discretion to give increased awards to certain projects.

PLAT funds are from the Minister of the Economy and are administered by the Ministry working in close relation with DATAR.

2.2 Rates of Award

The basic rates of award for eligible service projects are: FF 20,000 per job created in areas where the PDR is available and FF 10,000 per job created in other areas eligible for the PLAT. In both these types of area an extra FF 5,000 or FF 10,000 per job created can be awarded depending on the nature of the project. In the eligible non-PDR area - the basic award is FF 10,000 per job - FF 15,000 per job created or FF 20,000 per job created can be given under special circumstances. The maximum available is therefore up to FF 30,000 for special projects in PDR zones.

One of the factors taken into account in deciding whether to offer an extra FF 5,000 or FF 10,000 per job created is "the nature of the activity". This discretion is used to favour financial sector projects since such projects usually are expected to have the greatest economic impact.

2.2.1 Factors Affecting Award Value

For certain new facilities projects and expansions, generally those carried out by small firms, the amount awarded per job created is limited to three times the company's own contribution to the project. Failure to meet the relevant job target can lead to final payment being held back or the whole award being cancelled. For tax purposes, the PLAT is divided into five equal instalments and fed into taxable profits over five years.

2.3 Eligibility Criteria

2.3.1 Eligible Activities

The PLAT program is limited to companies which initiate or expand services relating to management, technical consultancy, design or data processing. This includes tertiary function projects of manufacturing firms.

In Lyons, only "high level services" are eligible. This means banking-related projects, in line with the policy aim to establish Lyons as a banking centre to counterbalance the attraction of Paris.

2.3.2 Geographical Eligibility

There are two PLAT zones - the PDR areas indicated on the map and the rest of France apart from the Paris Basin. The PDR areas account for 32 percent of the national population and 47 percent of the surface area. The whole of France, outside the Paris Basin, holds 70 percent of the population and covers about 85 percent of the surface area. The Lyons area is eligible for the PLAT under certain circumstances noted in paragraph 2.3.1 with respect to banking-related projects, and accounts for around 4 percent of the population. The wide spatial coverage recognizes the difficulties of trying to encourage service activities to locate outside the Paris Basin and to a lesser extent in Lyons.

2.3.3 Project-Related Eligibility

Projects involving the development of new facilities and expansions are eligible, as well as relocation if it involves a transfer from the Paris Basin. Moves within the PLAT area may be eligible at the discretion of the administration.

Minimum job targets must be met for projects to be eligible. These targets favour the development of new facilities over expansions. In the area of Lyons, only new facilities are eligible for support.

2.3.4 Size

Small projects are excluded. The following minimum job and investment targets must be met within three years:

New facilities	:	30 jobs (15 in "exceptional" cases)
Expansion	:	30 jobs and a 50 percent increase in workforce or 100 jobs.

In determining jobs created, only permanent (non-seasonal) jobs are counted with part-time jobs being converted into full-time equivalents.

2.3.5 Eligible Expenditures

The PLAT award is on the basis of jobs created only as verified by the local employment office.

2.3.6 Further Conditions Affecting Eligibility

The project must be considered viable. The firm must complete the project and meet the minimum job targets specified within three years of the project start. In addition, the firm must be up to date with tax and social security payments.

2.4 Program Administration

2.4.1 Application Procedure

Unlike the PDR and the local business tax concession, the PLAT is administered solely from Paris. Applications are made to DATAR. There is no specific application form, but applicants are required to provide information based on detailed guidelines available from DATAR or the Interministerial Information Centre.

2.4.2 Decision Procedure

Both eligiblity and rate decisions are taken by the Ministry of the Economy which generally accepts the decision of the advisory body, the comité un ter. This is the same committee which is involved in administering the PDR scheme at the national level. Decisions regarding eligibility tend to be "automatic" if the conditions of award are met, but there is some scope for discretion with respect to rates.

Two to three months is usually required for a decision to be received by the applicant firm.

2.4.3 Payment Procedure

The PLAT award is divided into five equal instalments and paid over a five year period.

2.4.4 Monitoring Procedure

Before the final PLAT payment is made, the Competition and Consumer Affairs Directorate checks with other relevant local services, including the tax, social security, and manpower and employment offices, to ensure that the job targets have been met within the three-year condition period. If the various checks are not satisfactory the final payment cannot be made and a demand to repay the earlier payments may be made.

2.5 Award Statistics - PLAT

	1976	1977	1978
Number of Awards Approved	26	47	36
Expenditure Committed on the Basis of Awards Approved (FF mill)	23.1	39.9	37.2
Jobs Associated	1888	2131	1946

2.6 Further Information

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3. LOCAL BUSINESS TAX CONCESSION

3.1 Program Features

The local business tax concession is a project-related concession awarded automatically in those areas where it is available to projects fulfilling the award conditions.

The local business tax is paid in quarterly instalments by all local businesses to the local commune and département. Each of these administrations is responsible for its own portion of the tax and tax rates vary widely throughout France. The basis of the tax concerns two items: the company's payroll in the locality and its stock of fixed assets.

Communes and départements decide whether or not to offer a concession and the level of that concession within the maxima laid down by the Ministry of the Economy.

3.2 Rates of Award

The maximum possible award is a 100 percent exemption from local business tax liabilities for five years. Award rates are set by the commune and département where the project is located and, once set, apply to all projects in the locality.

3.2.1 Factors Affecting Award Values

It is taxed when profits are made.

3.3 Eligibility Criteria

3.3.1 Eligible Activities

Eligibility is basically limited to the manufacturing sector, but includes a range of service activities. Nationalized and semi-public firms are eligible only if they operate under conditions of competition. Services are eligible where they are not dependent on local markets and therefore have a choice of location. Hotels are eligible where located in medium-sized towns designated for special development.

Hotels and tourism are eligible only in respect of the development of new facilities. Minimum job targets for eligible projects vary, amongst other things, by activity. For industrial projects at least 10 jobs are required in localities of less than 15,000 (6 jobs in the Upland and Rural Areas and in Corsica) and 30 jobs in larger localities (15 jobs in the Upland and Rural Areas and in Corsica). For service projects (which would qualify for the PLAT) at least 30 jobs are required (reduced to 10 if the project includes the establishment of a head office outside Paris but increased to 100 for certain service extensions). For research projects (which would qualify for the PLAT) at least 10 jobs are required. For hotels setting up in the towns designated for tourist developments there are no job requirements.

3.3.2 Geographical Eligibility

There are three zones where the local business tax concession can be made available - Zone A (the PDR areas), Zone B and Zone C (eligible for the local business tax concession only in respect of decentralizations from Paris and Lyons). Not all départements and communes within these zones will operate the incentive. Each decides whether or not to offer the concession and the level of award within the maxima established by the Ministry of the Economy.

Only projects which dencentralize from the Paris Basin and from Lyons are eligible in Zone C. In addition the concession is available to tourist projects only in areas eligible for the corresponding grant, and to hotels only in the designated tourist development centres. For industrial projects the minimum job targets set favour Upland and Rural Areas and Corsica, and smaller population centres of less than 15,000 over larger ones.

3.3.3 Project-Related Eligibility

Projects involving new facilities and expansions are eligible, as are relocation projects, if the move involves transfer out of Paris or Lyons. Takeover projects qualify subject to stringent rules to ensure the establishment being taken over is independent of the firm affecting the takeover.

3.3.4 Size

Small projects are excluded. Minimum job targets must be met. These are broadly equivalent to those established for the PDR and PLAT grants programs.

3.3.5 Further Conditions Affecting Eligibility

The tax concession is awarded as an exemption from local business tax liabilities for a maximum period of five years. The project must be considered viable. The firm must complete the project and meet the minimum job targets within three years of the project start. The firm must not have committed serious tax misdeeds, be up to date with social security payments and, except in the case of a decentralization, maintain all jobs in other branches of the business.

Table 4
ELIGIBLE SIZE GROUPS
LOCAL BUSINESS TAX CONCESSION

	General Case		Upland and Rural Areas and Corsica	
Size of locality	15,000	15,000+	15,000	15,000+
New Facilities Project - Industry (No. of jobs created)	10	30	6	15
Expansion Project - Industry (No. of jobs created)	10 & 25%	30 & 25%	6 & 20%	15 & 20%
or	50 & 10%	120	50 & 10%	50 & 10%
or			120	120
New Facilities Project - Service Sector : (No. of jobs created)	30 (20 if head office set up outside Paris)			
Expansion Project - Service Sector : (No. of jobs created)	30 & 50% or 100			
New Facilities Project - Research: (No. of jobs created)	10			
Expansion Project - Research : (No. of jobs created)	10 & 30% or 50			
New Facilities Project - Tourism : (No. of jobs created)	10			

3.4 Program Administration

3.4.1 Application Procedure

There is no application form, but applicant firms must fulfill requests for detailed information similar to what is required for the PDR grant application. One application is used for both incentives. Potential applicants normally contact the préfecture of the département where the project is located and applications are normally submitted to the local tax office.

3.4.2 Decision Procedure

Assuming the locality in which the applicant firm is located offers the business tax concession, responsibility for the decision to offer an exemption from taxes lies with local elected bodies - the conseil municipal of the commune and the conseil géneral of the département. Their decision must then be ratified by the Minister of the Economy. The eligibility decision for projects of less than FF 10 million is taken by the local tax director, on the basis of information collected as part of the PDR scheme. The eligibility decision on projects which are considered "problem" cases and projects over FF 10 million is taken at the national level by the Minister of the Budget, acting on the advice of a specialist tax committee.

At the local level, (i.e., for projects of less than FF 10 million), the decision on the award of the tax concession requires two to three months. At the national level, (i.e., for large projects and for "problem" cases) the award decision takes an average of six months.

3.4.3 Payment Procedure

The tax is withheld following the award decision until the exemption is used up.

3.4.4 Monitoring Procedure

Monitoring is nominally done by the local tax office and takes the form of a check on jobs created. Reliance is placed on the monitoring done by the Competition and Consumer Affairs Directorate as part of the various grant schemes.

The local business tax concession can be wholly or partially taken back if the job target is not met within the three-year condition period (or longer if an extension is granted which, as with the PDR scheme, has become increasingly common). Where the concession is taken back the company must pay all outstanding tax, together with an "interest" payment because of the delay.

3.5 Award Statistics - Local Business Tax Concession

	1976	1977	1978
Number of Concessions Approved	753	882	830
Total Value of Concessions in Terms of Revenue Foregone (FF million)	4,356	6,000	N.A.
Jobs Associated on the Basis of Awards Approved	31,042	38,600	34,800

3.6 Further Information

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4. SPECIAL FUND FOR INDUSTRIAL ADAPTATION (FSAI)

4.1 Program Features

The Special Fund for Industrial Adaptation (Fonds Spécial d'Adaptation Industrielle) was set up in 1978 and is available in six small areas seriously affected by the decline of the steel and shipbuilding industries.

4.2 Rates of Award

Two types of assistance are available out of a budget of FF 3 billion. Grants of up to 25 percent of eligible investment can be awarded together with low interest participation loans, a mix of loan and equity participation, from the Economic and Social Development Fund (FDES, Fonds de Développement Économique et Social), on a further 25 percent of investment.

The low-interest participation loans are long-term with a maximum term of 20 years and are considered as equity. No guarantee is required and there is a grace repayment period of between 3 to 5 years at a reduced rate of interest. Conditions of reimbursement depend on the profitability and results of the business. In the event of bankruptcy, the participation loan is reimbursed last.

4.2.1 Factors Affecting Award Value

Assistance from the FSAI can be accumulated with tax concessions, decentralization indemnity, and job-training assistance.

4.3 Eligibility Criteria

4.3.1 Eligible Activities

Problem sectors in the manufacturing and processing industry such as steel, shipbuilding and textiles are eligible, and, exceptionally, projects in the tertiary sector. For FDES loans, eligible investments must meet the objectives of regional development and job creation and job preservation conditions.

4.3.2 Geographical Eligibility

Eligible projects must be located in the residential zones (labour market zones) where employment is threatened.

4.3.3 Project-Related Eligibility

Eligible investments include new establishments or expansions and must create at least 50 jobs within three years.

4.4 Program Administration

4.4.1 Decision Procedure

Within eight days, the applicant is informed about the acceptance or refusal of the application. If accepted, an economic and financial evaluation is carried out by a national credit institution. The FSAI then makes a final decision on the acceptability of the project, and on the amount and conditions of the offer.

Credit assistance is provided as a last resort where long-term credit cannot be provided by the normal credit institutions.

4.3 Eligibility Criteria

4.3.1 Eligible Activities

Problem sectors in the manufacturing and processing industry such as steel, shipbuilding and textiles are eligible, and, exceptionally, projects in the tertiary sector. For FDES loans, eligible investments must meet the objectives of regional development and job creation and job preservation conditions.

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Within eight days, the applicant is informed about the acceptance or refusal of the application. If accepted, an economic and financial evaluation is carried out by a national credit institution. The FSAI then makes a final decision on the acceptability of the project, and on the amount and conditions of the offer.

Credit assistance is provided as a last resort where long-term credit cannot be provided by the normal credit institutions.

The delivery system is such that it must respond very rapidly (maximum of one month) to applicants, relative to the other regional instruments. The applicant submits its application to FSAI and DATAR.

4.4.2 Payment Procedure

One-third of the assistance offered is disbursed two months after the offer is made and the balance is paid according to the execution of the program by the recipient.

4.4.3 Monitoring

Monitoring and control is the responsibility of the Competition and Consumer Affairs Directorate.

IV. SUMMARY OF MINOR INCENTIVES

There are a number of other incentives offered as part of the French regional aid package. Although they account for less than 15 percent of total expenditures on regional assistance, these programs are nevertheless important to the national firms able to meet the award conditions.

These additional development incentives comprise five types:

- direct cash grants,
- special assistance for decentralization from the Paris and Lyons regions,
- tax concessions,
- loans and participation loans,
- assistance from local authorities, and
- disincentives in the Paris Basin.

1. PLAR SERVICE LOCATION GRANTS - RESEARCH AND DEVELOPMENT ACTIVITIES

1.1 Program Features

The Service Location Grant (PLAT), described in the section on major incentives does not include research activities which has its own scheme - PLAR. Businesses creating or developing scientific or technical research departments in certain locations qualify for a grant that can be applied to pure and applied research and development activities.

1.2 Rates of Award

The grant is based on a percentage of the investment, excluding taxes. For investments of less than FF 10 million, the percentage is 15 percent in all areas except the Paris Basin, and 20 percent in cities considered as research centres outside the Paris Basin.

For investments in excess of FF 10 million, the rate is negotiated within the 20 percent limit. The grant may not exceed FF 25,000 per job except in special cases.

1.3 Project Eligibility Criteria

To be eligible, new facilities projects must result in the creation of at least 10 new jobs. Expansions of existing facilities must meet the following conditions:

- an increase in the labour force by at least 30 percent, or

- at least 50 jobs, in the case of a transfer of activities out of the Paris Basin, a creation of activities new to the company, or a first expansion.

These investments must be carried out within 3 years. If the project involves the creation of at least 150 jobs, the period may be extended to five years.

1.4 Program Administration

Administration procedure is the same as that for the Regional Development Grant (PDR).

2. SPECIAL INCENTIVES FOR CRAFTSMEN

2.1 Program Features

Special benefits have been devised for craftsmen whose proposed investment does not meet the job creation requirements of the regional development and location grants.

2.2 Rates of Award

A grant of 15 percent of expenses is awarded in the case of a change in the business of the company, and a specially devised Decentralization Indemnity is available for subcontracting craftsmen who move or locate outside the Paris Basin.

In the case of the creation of new activities, specific grants are awarded for investments in towns and cities, in rural areas with less than 5,000 inhabitants, and in mountain areas of no more than 20,000 inhabitants.

2.3 Program Administration

Applications are processed by the "Préfectures de départements.

3. GRANT FOR SMALL BUSINESS

3.1 Program Features

This grant is available country-wide. At least 6 jobs must be created within a period of 3 years.

3.2 Rates of Award

Up to FF 50,000 is available country-wide, and up to FF 80,000 in zones benefitting from the regional development grant.

4. SPECIFIC GRANTS TO THE FARM AND FOOD PROCESSING SECTORS

4.1 Rates of Award

The following grants are available to eligible projects:

- up to 20 percent of the investment;
- up to 35 percent when the investment is eligible for both the specific grant and the regional development grant (PDR);
- up to 30 percent if the project contributes to the disposal of European agricultural products on a continuous basis and if the project is located in a regional development grant (PDR) zone.

4.2 Program Administration

For assistance not exceeding FF10 million, applications are submitted to the Prefecture de départements. For assistance above FF10 million, applications are submitted to DATAR and the Ministry of Agriculture.

5. DECENTRALIZATION INDEMNITY

5.1 Program Features

Industrial companies located in the Paris Basin which transfer all or part of their production facilities outside of this area may receive a partial reimbursement of their expenses: transportation and other related expenses including disassembly and reassembly.

5.2 Rates of Award

Assistance is equal to 60 percent of the transfer cost, including disassembly, transportation, and reassembly of industrial equipment. If the indemnity exceeds FF 500,000, the 60 percent rate may be reduced.

5.3 Factors Affecting Eligibility

To be eligible at least 500 square metres of industrial premises must be vacated, and the reinstallation must be made outside the Paris Basin. Industrial premises are deemed vacated either when they are abandoned by the enterprise or, in certain cases, when they are transformed into administrative or sales offices.

5.4 Program Administration

Applications are processed by DATAR.

6. SUBSIDIES FOR MOVING PERSONNEL AND RELOCATION EXPENSES

6.1 Program Features

Employees who change their domicile to follow an enterprise when it moves may apply for the reimbursement of transportation and moving expenses incurred by them and their dependents. Transportation will be reimbursed on the basis of second class rail fare. Moving expenses for household goods will be reimbursed but cannot exceed the rates applied by the French railway.

Employees who change their domicile to follow an enterprise when it moves may also apply for a relocation indemnity, based on a multiple of the minimum guaranteed salary. Payments are made in two installments, one in the first month and one six months after the arrival of the employee at the new location.

Applications for employees of the same enterprise will generally be submitted as a group for the enterprise on behalf of the employees.

7. DISINCENTIVES APPLICABLE IN THE PARIS BASIN

7.1 Program Features

Regulations tending to control and/or limit the development of activities within the Paris Basin include the Consent or procédure d'agrément and Special Taxes or redevance.

Consent of the Ministry of Equipment and Housing

Approval from the Ministry of Equipment and Housing is required for the creation or expansion of any industrial facility if the total useable surface area is in excess of 1,500 square metres. This approval is also required for the construction of office space if the useable surface area is over 1,000 square metres.

Applications are filed with the Ministry of Equipment and Housing and reviewed by the Decentralization Committee, located at DATAR.

Special Taxes

A special tax is applied on construction of office space and industrial facilities within certain areas of the Paris region.

The tax rate varies with the area and with the nature of the construction. It is equal to FF 25 to FF 150 per square metre of useable surface for industrial facilities, and FF 200 to FF 400 per square metre of useable surface for office space.

8. OTHER TAX CONCESSIONS

8.1 Program Features

Businesses and industrial enterprises which conform their investment plans to the regional development policy may benefit from certain tax relief measures, including some or all of the following:

- exemption from local business tax, a primary incentive already described in detail,
- reduction of transfer taxes,
- accelerated depreciation of construction costs, and
- reduction of the tax on capital gains from the sale of land.

Eligible areas are indicated in Table 1, Types of Incentives and eligible Areas (Section I, paragraph 1).

These tax relief measures are discretionary and can be accumulated.

8.1.1 Reduction of Transfer Taxes (réductions du droit de mutation)

Eligible enterprises may obtain a reduction of the transfer taxes applicable to the purchase of a business, in which case the rate is reduced from 17.2 percent to 2 percent, and the purchase of plants more than five years old, in which case the rate is reduced from 13.8 percent to 2 percent.

8.1.2 Accelerated Depreciation of Construction Costs (amortissement exceptionnnel)

Upon completion of the construction of an eligible enterprise, the residual value may be depreciated over the normal depreciable life of the construction.

8.1.3 Reduction of the Tax on Capital Gains from the Sale of Land (réduction d'impôt sur les plus values foncières)

Eligible enterprises may obtain a reduction of the capital gains tax on land from 25 percent to 12.5 percent (within the limit of 5 percent of the investment) from the sale of development land when such gains are reinvested in operations complying with regional policies within 3 years.

8.1.4 Other Tax Relief Measures

Other tax relief measures may be given through agreement with the government. Such measures may favour a beneficiary company by granting the favourable tax treatment provided for mergers to the sales and acquisitions of assets, or by permitting the surviving company in a merger to carry forward the prior losses of either party to the merger.

8.2 Application Procedures

Applications are filed with the Regional Tax Divison of the Ministry of Economy and Finance.

9. ASSISTANCE FROM LOCAL AUTHORITIES

9.1 Program Features

Five industrial regions of France are headed by special commissioners charged with promoting industrialization and reconversion of declining industry in the Northern, Western, Lorraine, Massif Central and Mediterranean Coast regions.

Together with DATAR, these commissioners can provide domestic and foreign investors with local assistance, including information, plant sites, and costs of labour.

Similarly, in other parts of France, help is also available at the local level from regional organizations.

The Ministry of the Interior sets up the conditions under which local authorities may participate in the financing of such programs.

Various local authorities: municipalities, semi-public companies, Chambers of Commerce, and Industry may give considerable help to local economic development projects.

There are two main types of assistance: assistance for plant sites, and assistance for industrial plants.

In addition, job training assistance is also available.

9.1.1 Assistance Concerning Plant Sites

Local authorities may transfer ownership of prepared plant sites at less than cost, i.e. up to 75 percent of the appraised value. The assistance may generally be granted only in those zones where the regional development grant is available.

9.1.2 Assistance Concerning Industrial Plants

In the areas where the regional development grant is awarded at the rate of FF 25,000 per job, industrial plants may be acquired by lease with option to purchase, with a maximum of fifteen-year terms, or by purchase, with payment spread over a maximum of fifteen years.

In the other areas where the regional development grant can be obtained, the same advantages are available up to 75 percent of the purchase price.

In Zone B, local authorities may grant a lease of industrial premises with option, but only up to 50 percent of the purchase price.

10. JOB TRAINING ASSISTANCE

10.1 Program Features

Assistance is available to reimburse part of the job-training expenses of firms creating or decentralizing facilities outside of the Paris basin and to facilitate conversion of declining activities.

10.2 Rates of Award

Assistance partially covers expenses for equipment and technical and educational materials used during the training program, costs of supervisory personnel, and salaries and social expenses of the trainees.

Such assistance may be made by adjustment of the special tax on all enterprises with more than ten employees.

10.3 Eligible Activities

Eligible projects involve training of labour, who will be called upon to perform new tasks in connection with changes of activity of specialization and re-training or re-adaptation of workers laid off by other enterprises.

Training may take place either at a local training centre or at the enterprise itself.

To be eligible, an enterprise must appoint persons from among its qualified personnel to become instructors and place the necessary premises, machines and raw materials at the disposal of the personnel being trained.

10.4 Program Administration

The nature and amount of assistance are determined by an agreement with the National Employment Fund Agency. Applications are processed by the Regional Labour Director of the region.

11. OTHER FORMS OF ASSISTANCE

11.1 Program Features

In conjunction with industrial incentives, other types of incentives and measures are used. The first two relate to housing and communications. The last two deal with urban policy and infrastructure development.

11.1.1 Housing

DATAR is endowed with a special fund to promote housing policies which it may disburse in conjunction with the Ministry of Equipment. This fund is designed to encourage the decentralization of housing projects which the regions cannot achieve through their own programs. The minimum size of project for each locality is 30 housing units. A project of a smaller size may generally be accommodated within the framework of regional housing programs.

11.1.2 Communications

Enterprises may be given a preference in the connection of telephone and telex lines.

11.1.3 Urban and Towns Policy

Selective development of métropoles d'équilibre as focal points of urban developments in each region together with development of medium-sized towns is encouraged through industrial grants and special aid to infrastrucutre, industrial decentralization and improvements in communications.

11.1.4 Infrastructure Development

Provision of infrastructure in all forms is offered. The infrastructure requirements of regional policy are met in two ways. First by inter-ministerial coordination to ensure that investments by the various ministries are consistent with regional objectives. Second, and less important, by the use of special funds, such as the FIAT (Fonds d'Intervention à l'Aménagement du Territoire), the Decentralization Fund, FAD (Fonds d'Aide à la Décentralisation), and the Fund for Rural and Mountain Areas to supplement the normal budget of various ministries to assist the establishment of activities in the regions.

FEDERAL REPUBLIC OF GERMANY

I. COUNTRY OVERVIEW

1. TYPES OF INCENTIVES

The German regional incentives package comprises four major programs: the investment allowance, investment grant, depreciation allowance, and the ERP regional soft loan. Minor incentives include a freight transport subsidy program, tax-free reserves and the preferential award of government contracts.

1.1 Major Incentives

The Investment Allowance, an automatic project-related capital grant, is the principal element of the Germany incentive package. At the recipient's discretion, it can also be taken in the form of an allowance against tax. The rate of award is 10 percent of eligible expenditures in the Zonal Border Area, and 8.75 percent in the rest of the designated areas, called "GA Areas" (Gemeinschaftsaufgabe).

An Investment Grant is also available and paid out by the GA program funds. The grant scheme is discretionary, project-related and normally takes the form of a capital grant. Maximum rates of award depend on project location and type and relate to the total of all forms of regional assistance, including the investment allowance, received by any applicant project. However, the Zonal Border Area benefits in particular from the investment grant program.

The Special Depreciation Allowance (SDA) is an automatic, item-related accelerated depreciation allowance available only in the Zonal Border Area. The rate of award is up to 50 percent of the cost of moveable assets and up to 40 percent of immovable assets.

The Regional Soft Loan (ERP) is a largely automatic, project-related concessionary loan which can be awarded only to small or medium-sized firms for projects that are not eligible for the investment allowance or investment grant. These projects would be "non-primary effect" projects of a basically local character and including local services such as wholesale and retail trades, craft activities and restaurants. In the Zonal Border Area, the rate of interest is 2.5 percentage points below the rate applying to equivalent national loan programs for the same category of firm, and in the rest of the GA Areas, it is 1.5 percentage points below this rate.

1.2 Minor Incentives

There are a variety of incentives available only to projects located in the Zonal Border Area. These include a freight transport subsidy, which is the only one of its type in the European Community countries, tax-free reserves to be utilized by firms located in the frontier region, and the preferential award of certain government contracts to firms in the Zonal Border Area.

Incentives available in all development regions include reductions of up to 30 percent of market value in the sale price of land.

2. MAIN REGIONAL PROBLEMS AND POLICY

Germany is the only EEC country which operates its regional incentive package within a federal system. The policy approach to the spatial coordination of incentives between the federal and state (Länd) levels allows the states (Länder) to offer additional grants which dovetail with the principal GA programs. In addition, the designation of the special regional assistance areas is overt and explicit.

Growth points and the Zonal Border Area receive the maximum rates for regional assistance. Some instruments are available in all areas but with a lower rate structure outside the Zonal Border Areas, while others are provided only in specified regions.

The establishment of new facilities, expansion, conversion and basic rationalization of commercial firms qualify as eligible investments. Expansion projects are favoured over rationalization and reorganization projects. Service sector investments are also eligible if the investment is likely to substantially improve regional earnings.

The acquisition of land in specified cases, the acquisition or leasing of buildings, and the purchase of machinery and equipment are also eligible for regional assistance.

The total regional development assistance offered to any one project must not exceed a maximum rate of award which is established on the basis of project location and type. The maximum rates vary between 10 and 25 percent of eligible investment. In the Zonal Border Area and the growth points higher rates of award are offered than in the rest of the GA Areas.

3. MAIN DECISION-MAKING BODIES

The Inter-cabinet Committee for Spatial Planning (IMARO) is the main federal coordinating agency for spatial planning. The Inter-governmental Cabinet Commission for Spatial Planning (MKRO) is responsible for the establishment of infrastructure at acceptable intervening distance for all inhabitants. The Joint Task Force for the Improvement of Regional Economic Structures, a joint federal/state planning committee, draws up an annual strategic framework for the establishment of rules for regional policy coordination in Germany.

4. RECENT EVOLUTION OF INCENTIVES

In 1969 regional policy became the joint responsibility of the federal and state governments through a new constitutional arrangement. An institutional basis in the form of a Joint Task Force for the Improvement of Regional Economic Structures, was provided for a coordinated federal and state approach to regional policy.

Under the Investment Allowance Act of January 1979, the rate of award was increased from a uniform 7.5 percent to the present differentiated rate structure of 10 percent in the Zonal Border Area and 8.75 percent elsewhere in the GA Areas. These developments reflect the pressures felt in Germany to increase both the scale and the intensity of policy under current economic conditions.

5. SUMMARY TABLE OF MAJOR BUSINESS INCENTIVES

Major Incentives	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
Investment Allowance	Automatic, project-related capital grant - can be taken as an allowance against tax (rare)	Zonal Border Area, GA Areas	Manufacturing, service activities: tourism, mail order, financial institute, data processing	10% of eligible expenditure 8.75% of eligible expenditure	State Ministry for Economic Affairs
Investment Grant (GA Program Funds)	Discretionary, project-related capital grant	Zonal Border Area GA Areas	Manufacturing, service activities, tourism, mail order, financial institute, data processing	25% of eligible investment 10% of eligible investment	State Ministry for Economic Affairs
Depreciation Allowance	Automatic, item-related accelerated depreciation allowance	Zonal Border Area Only	Agriculture, forestry, fishing, extractive, manufacturing, construction, utilities sector	50% of cost price of moveable assets 40% of immoveable assets, taken in addition to standard straightline depreciation	Federal Minister of Finance
ERP regional Soft Loan (for small and medium-sized businesses)	Automatic, project-related concessionary loan	Zonal Border Area GA Areas	"non-primary" effect: local services - wholesale & retail trades, craft activities, restaurants	2.5% points below rate for equivalent national programs 1.5% below	Federal Minister of Finance

II. REGIONAL POLICIES, PROBLEMS AND DECISION-MAKING BODIES

1. POLICIES AND APPROACH

Three basic conditions for federal assistance are laid down in the Constitution: "to ward off a distrubance in the national economic equilibrium, to equalize differential economic strength in the federal territory, and to promote economic growth".

Germany has provided its population with a strong economic environment in which no apparent serious structural problems exist. The differences in living standards between and within the various regions are some of the smallest in the world.

According to the Constitution, regional development is one of the three special areas in which federal-state cooperation is mandatory provided that the tasks involved are of national significance. Governments at the federal and state level jointly devise four-year rolling plans with the individual state being responsible for the administration and implementation of the actual programs of which there are 22 semi-autonomous states (Länder). This process allows joint input, while maintaining state autonomy. Exceptions occur when the federal government administers large programs of an inter-regional nature such as the construction and maintenance of highways and federal waterways. The overall funding arrangements require formal federal-state agreements, while the actual cost-sharing formulae are determined by the Constitution and subsidiary legislation. Individual states are reimbursed for their outlays by the federal government to predetermined federal contribution levels.

This division of power and plurality of interest has often led to problems in the implementation of regional policy. In order to provide a more systematic and effective regional policy, West Germany has instituted a number of programs designed to provide better integration of effort and more effective delivery of benefits.

The designation of Federal Growth Centres is part of the attempt to equalize economic growth throughout Germany. Following post-war reconstruction, spontaneous decentralization of industry began to occur. To protect the countryside from haphazard industrial development and to create the conditions for further economic growth, a development program to identify central locations in structurally weak rural areas was established. These localities were called "Federal Growth Centres". This allowed the concentration of aid in centres which formed a focal point for surrounding regions and helped to ensure that rational use of infrastructure was made by industry and the population.

Industrial assistance is concentrated in those Centres within a commuting distance of one hour, containing at least 20,000 people. By 1979, there were 312 of these Centres which now form the hub of regional development policy.

The selection of Growth Centres has presented some difficulties as every state and municipality wishes to have designated Centres. Selection is made by the Lander Governments within specified federal guidelines, which include: a large local labour market, the presence of minimum sanitary, social, educational and other cultural amenities, and a pre-existing core of industrial settlement.

The GA Areas (Gemeinschaftsaufgabe) hold approximately 36 percent of the national population, including the population of West Berlin, and account for approximately 60 percent of the Federal Republic's surface area. Within the GA Areas, the Zonal Border Area holds 12 to 13 percent of the national population.

New establishments and project expansions are eligible only if located in GA Area Growth Points.

The 1969 Investment Allowance Act provided that assistance could be offered in (a) areas with a level of activity "substantially below" (or expected to fall below) the national average and (b) areas suffering or liable to suffer major adverse structural changes. To make this operational, empirical labour market areas were identified and ranked according to three weighted criteria: a measure of employment shortage (weight = 1), income per head (weight = 1), and a measure of infrastructure provision (weight = 0.5). Lengthy political discussion then followed before the GA Areas were finally agreed upon in 1974. The Growth Points identified were required to have a minimum population of 20,000 though the average population of Growth Points in any Land was to be at least 60,000. Since the 1974 designation a number of fairly minor changes have taken place. The designation system is currently under review.

2. PROBLEMS

Although there is a degree of unevenness in the population distribution, employment structure, and per capita Gross Domestic Product, there is no major regional problem area as is common in many of the other OECD countries.

Areas that suffer from regional problems are typically small in size and have a relatively weak economic structure with per capita incomes that fall below the national average. Structurally weak areas include old industrial areas with little diversification and economic sectors exhibiting low growth rates: coal mining, the iron and steel industry and textiles. These "structurally weak" areas fall into three basic categories:

- the Eastern border area and West Berlin which were cut off from their economic hinterlands with the establishment of the German Democratic Republic;

- single sector areas, such as the coal areas of the Ruhr and Saar;

- rural areas with excessive dependence on the low-income agricultural sector.

Many people resident in these areas are forced to migrate out of these regions in order to find suitable employment. For those who do work in these areas, income levels are low and there are local job shortages that result in isolated pockets of high unemployment.

3. DECISION-MAKING BODIES

As noted earlier, the need to coordinate federal and state interests and priorities, with respect to regional development programs is one of the major difficulties encountered in the planning and administration of German regional aid.

Coordination bodies established for regional development comprise three major groups. The State and Federal Inter-Governmental Cabinet Commission for Spatial Planning (MKRO) established in 1967, is principally concerned with the establishment of infrastructure at acceptable intervening distances for all inhabitants. The Intercabinet Committee for Spatial Planning (IMARO) is the main federal coordination agency for spatial planning. The Federal Regional Planning Program, established 1975, provides the constitutional mandate for the provision of equal living standards for all Germans in the Federal Republic regardless of location.

The Joint Task Force for the Improvement of Regional Economic Structures, established in 1969, is a planning committee of federal and state representatives which draws up an annual framework plan. The planning framework includes rules for regional policy coordination throughout Germany. The annual plans have also been used to provide guidelines for federal and state planning in other areas of regional relevance: housing, transport, and urban renewal for example.

III. SURVEY OF MAJOR INCENTIVES

1. INVESTMENT ALLOWANCE

1.1 Program Features

The investment allowance is an automatic project-related capital grant which can, at the discretion of the recipient, be taken as an allowance against tax.

Key among a variety of conditions, is that the project, to be eligible for an investment allowance, must create or safeguard jobs.

1.2 Rates of Award

The rate of award is a fixed 10 percent of eligible expenditure in the Zonal Border Area and 8.75 percent of eligible expenditure elsewhere in the so-called "GA Areas". However, a project is only allowed a certain total amount of regional assistance from all forms of assistance available. These award maxima give preference on a regional basis as follows:

(i) Border zones - 25 percent of total funds (12 towns),

(ii) Special key areas elsewhere - 20 percent

(iii) Normal key areas - 15 percent (229 towns), and

(iv) Less handicapped key areas - 10 percent (51 towns).

1.2.1 Factors Affecting Award Values

The incentive is taxed as income. Grant recipients can add the award directly to taxable income in which case it is taxed if profits are made, or it can reduce the value of the depreciable assets.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Manufacturing is eligible. Tourist projects which are located within GA Tourist Areas are eligible, as are a number of other service activities: mail order, import/export trades, headquarters of credit institutes and insurance companies, publishers, and the production of software for data processing.

In addition, eligible projects should be operated for profit and shown to have a primary effect. Such an effect is present when over 50 percent of goods or services supplied by the establishment seeking assistance are sold outside the region where the project is located. There is a list of primary effect activities for administrative purposes, but projects involving non-listed activities may still apply if it is felt that a primary effect can be shown for the case in question.

1.3.2 Geographical Eligibility

The GA Areas are eligible, and the areas within the GA which have been designated GA Tourist Areas.

Rates of award discriminate in favour of the Zonal Border Area, the rate there being 10 percent as against 8.75 percent elsewhere in the GA Areas. Award conditions also favour this area. Basic rationalization and reorganisation projects are eligible only in the Zonal Border Area.

New facilities, expansion projects and takeovers are only eligible if located in Federal Growth Points. In the case of an expansion project, the permanent labour force of the establishment must increase by 15 percent or 50 additional jobs, whichever is less.

1.3.3 Project-Related Eligibility

Projects involving new plants, expansion, rationalization, reorganization and spatial relocation activities are eligible. Modernization projects qualify if they are related to the tourist industry.

1.3.4 Project Size

Size criteria play no direct role in the investment allowance scheme. No assistance is available to an investment project if the investment cost per job created or maintained exceeds DM 3.6 million. However, this ceiling is rarely exceeded.

1.3.5 Eligible Expenditures

Site infrastructure, buildings, plant and machinery are eligible expenditures. Expenses related to instalment payments also qualify for assistance.

1.3.6 Further Conditions Affecting Eligiblity

Financial criteria are also considered in establishing the eligibility for assistance and the aid ceiling, as well as the degree to which an investment will impact positively on the regional economy, industrial decentralization and balanced growth, and prospective firm viability and profitability.

Assistance for spatial relocation may be refused where it involves a transfer from Berlin. The project must be in accordance with land-use planning regulations.

1.4 Program Administration

1.4.1 Application Procedure

Potential applicants normally contact the State Ministry for Economic Affairs, but in some states, other agencies such as sub-regional administrative bodies are authorized to receive applications. A description is required of the investment project and of the future prospects of the firm, and the availability of finance necessary to undertake the project.

1.4.2 Decision Procedure

The initial appraisal of the application project is carried out at the state government level. The state reviews the application and seeks the assessment of the local Chambers of Commerce, or Chambers of Handicraft Trade, and the local Labour Office. The eligibility decision is taken by the Federal Ministry of Economics. Decisions on small projects involving fixed capital investment of less than DM 10 million are the responsibility of a federal agency called BAW, Bundesamt für Gewerbliche Wirtschaft. The award decision requires an average of four months. Awards are disbursed by the local tax office responsible for the applicant firm.

1.4.3 Payment Procedure

The investment allowance is normally paid by the local tax office in a single payment within a week of the processing of the claim. The award may also be taken as allowance against tax. In this case, the payment is made when the tax becomes due. However, for liquidity reasons, firms rarely choose to accept the award in the form of a tax allowance.

1.4.4 Monitoring Procedure

Local tax officials may audit the books of the recipient firm to ensure the incentive has been used for the purposes agreed to.

1.5 Award Statistics - Investment Allowance

	1974	1975	1976	1977	1978
Number of applications approved	3,505	3,627	3,491	3,192	3,190

	1974	1975	1976	1977	1978
Value of allowances paid out (DM mill)	800	579	462	476	385
Value of allowances approved (DM mill)	673	690	623	512	726-829

	1974	1975	1976	1977	1978
Value of eligible investment in projects approved (DM mill)	8927	9201	8310	6820	8294

	1974	1975	1976	1977	1978
Jobs associated with projects approved	173,169	151,773	152,026	133,205	136,632

1.6 Source of Further Information

Bundesministerium für Wirtschaft
Villemonblerstrasse 76
5300 Bonn 1
Federal Republic of Germany

Tel.: 0221-761

2. INVESTMENT GRANT

2.1 Program Features

The investment grant is a discretionary, project-related incentive paid out of the funds of the GA-programme, half being provided by the federal level and half by the states. It normally takes the form of a capital grant. Most of the program conditions are identical to those of the investment allowance scheme.

2.2 Rates of Award

Maximum rates of award vary according to location and project type and relate to the total regional assistance received with respect to the applicant's investment project. As noted in the description of the investment allowance, the maxima favour the Zonal Border Area and particular types of Growth Points over the rest of the GA Areas, and new facilities and expansion projects over basic rationalizations and reorganizations.

2.2.1 Factors Affecting Award Values

There is provision for awarding up to 25 percent of eligible investment for non-Growth Point projects, where the standard maximum is 15 percent, if such projects are in close proximity to the border with the German Democratic Republic.

2.3 Eligibility Criteria

2.3.1 Eligible Activities

Manufacturing projects are eligible as are tourist activities, when located in GA tourist areas and a number of specifically named service activities: mail order, import/export trades, headquarters of credit institutes and insurance companies, publishers and the production of soft-ware for data-processing.

Regarding award conditions, tourist projects qualify only when they are located within GA tourist areas. Regarding rates of award, the states have at least the scope, within the maximum preferential rate ceilings, for discriminating between eligible activities.

2.3.2 Geographical Eligibility

Projects in the GA Areas and the specially designated Tourist Areas within the GA Areas are eligible.

The maximum preferential rates vary according to location and project type. In terms of location the Zonal Border Area is favoured over the rest of the GA Areas; Growth Points are favoured over non-Growth Points; and particular types of Growth Points are favoured over other Growth Points.

2.3.3 Project-Related Eligibility

New facilities, expansion, rationalization, reorganization, and spatial relocation projects are eligible. Limitations on eligibility are the same as for the investment allowance program except in the case of take-overs which are eligible regardless of location within the GA Areas. It should also be noted that

where a takeover saves a firm from imminent closure, the relevant maximum preferential rate (the same as for new facilities projects in the location in question) is reduced in line with the proportion of the labour force which is not retained. Any new investment associated with the takeover, however, is eligible for the full maximum.

2.3.4 Project Size

Where eligible investment in an establishment totals more than DM 250 million over a period of three years, the grant is not payable on that part of the eligible investment exceeding DM 250 million.

2.3.5 Eligible Expenditure

Land, infrastructure, buildings, and plant and machinery are eligible. Expenses related to instalment payments also qualify for assistance.

2.3.6 Eligible Costs

Expenditure items are valued free of value-added tax but inclusive of any import duties paid.

2.3.7 Further Conditions Affecting Eligiblity

Among a series of conditions affecting use of assets the most important are: moveable assets must remain on the assisted establishment, and immovable assets must be used exclusively by the assisted firm for its own purposes.

2.4 Program Administration

2.4.1 Application Procedure

The same application form as for the investment allowance is used. Usually the application is lodged with the State Ministry for Economic Affairs but in some states other agencies are authorized to receive applications.

2.4.2 Decision Procedure

The states have almost complete discretion with respect to eligibility, and also regarding award rates, as long as the sum total of specified regional aid received by the project does not exceed the relevant maximum preferential rate.

The federal level is involved only insofar as it is represented on the Planning Committee of the GA Program - the Committee which draws up the annual Framework Plan and must ratify those few projects given awards not in accordance with the Framework Plan guidelines.

Both the eligibility and the rate decision are the responsibility of the State Ministry for Economic Affairs, working within the Framework Plan guidelines. In addition to its own resources the State seeks the views of other local bodies, in particular, of the local Chamber of Commerce and for small projects, the Chamber of Handicraft Trades. The local Labour Office reviews the employment implications of the proposed investment. Decision-making periods of between 6 and 12 months are not unusual.

2.4.3 Payment Procedure

Claims are submitted as expenditures are made and are processed within two weeks.

2.4.4 Monitoring Procedure

The control period is three years, although some states prefer to extend it to five years.

An award once made may be cancelled if any of the award conditions are not fulfilled.

2.5 Award Statistics - Investment Grant

	1974	1975	1976	1977	1978
Number of grants approved	595	1241	1621	1690	1685
	1974	1975	1976	1977	1978
Value of grants approved (DM mill)	150	312	351	352	407
	1974	1975	1976	1977	1978
Value of eligible investment in projects approved (DM mill)	2377	5588	4868	4460	5880
	1974	1975	1976	1977	1978
Jobs associated with projects approved	44100	76957	81254	86574	75051

2.6 Source of Further Information

Bundesministerium für Wirtschaft
Villemomblerstrasse 76
5300 Bonn 1
Federal Republic of Germany

Tel.: 0221-761

3. SPECIAL DEPRECIATION ALLOWANCE

3.1 Incentive Type

The special depreciation allowance, SDA, is an automatic, item-related accelerated depreciation allowance. To be eligible, the investment must generally be undertaken by an establishment engaged in productive profitable activity and must be located in the Zonal Border Area.

3.2 Rates of Award

The rate of award is up to 50 percent of the cost price of moveable assets, i.e. plant and machinery, and up to 40 percent of immoveable assets, i.e. buildings, taken in addition to standard straight-line depreciation. In the case of a moveable asset with a ten-year life, the maximum first-year write-down would be 60 percent, i.e. 10 percent ordinary depreciation plus 50 percent SDA. There is virtually no administrative discretion in the scheme. Whether or not the whole award is used is at the discretion of the recipient.

3.3 Eligibility Criteria

3.3.1 Eligible Activities

Projects in the agriculture, forestry, fishing, extractive, manufacturing, construction, utilities, and selected services are eligible.

3.3.2 Geographical Eligibility

The Zonal Border Area, holding 12 to 13 percent of the national population, is eligible.

3.3.3 Project-Related Eligibility

SDAs are item- and not project-related. All projects are eligible, insofar as they involve new fixed depreciable investment.

3.3.4 Project Size

Where projects involve investment giving rise to an SDA of DM 1.5 million or more the award decision of the state tax authorities requires the approval of the Federal Minister of Finance.

3.3.5 Eligible Expenditure

Site infrastructure, buildings, plant and machinery, and vehicles insofar as they add to the capital stock of the firm are eligible. Expenses related to instalment payments also qualify for assistance.

3.3.6 Eligible Costs

Eligible investment is valued free of value-added tax but inclusive of any import duties paid.

3.3.7 Further Conditions Affecting Eligibility

A key condition is that an SDA, once awarded, may only be taken insofar as it does not generate a loss for an applicant firm or exacerbate an existing loss. This 'loss clause' aims to prevent essentially Non-Zonal-Border-Area firms exploiting the depreciation advantages available in the Zonal Border Area by generating losses which can then be offset against other tax liabilities of subsidiaries outside the Zonal Border Area.

Assisted moveable assets must remain in an establishment of the recipient located in the Zonal Border Area for three years following their acquisition while assisted immoveable assets must be used exclusively by the recipient over the same time period.

3.4 Program Administration

3.4.1 Application Procedure

The states are free to determine how the application is made. There is no official form. Application is normally made by a written statement sent to the local tax office responsible for the applicant firm. Application is possible at any time but must be made at the latest with the final tax return for the financial year in which the investment for which an SDA is sought was acquired.

3.4.2 Decision Procedure

The scheme is administered at the state level by the tax authorities following guidelines set down by the Federal Minister of Finance. Award decisions are made by the tax authority of the state in which the applicant firm has its registered office. Where projects involve investment giving rise to a special depreciation allowance of DM 1.5 million or more the award decision of the state tax authorities must be approved by the Federal Minister of Finance. If approval is withheld at the federal level no SDA is awarded.

3.4.3 Payment Procedure

SDAs relate to the next instalment payment of tax and are therefore obtainable in advance of the final tax bill for the year in which the investment on which the SDA is based was made.

3.4.4 Monitoring Procedure

Awards are policed to the extent that the local tax office may visit the premises of the applicant firm and require access to the books for the purposes of a general scrutiny.
SDAs awarded may be cancelled or a repayment of an award demanded if any or all of the award conditions are not fulfilled or if the conditions of use are not maintained.

3.5 Award Statistics - Special Depreciation Allowance

	1974	1975	1976	1977	1978
Number of SDAs awarded	12,317	11,894	12,339	12,663	14,993

	1974	1975	1976	1977	1978
Value of allowance taken (DM mill)	959.9	986.8	983.3	1299.3	1667.9
Estimated value of foregone tax revenue (DM mill)	480	480	480	510	885

	1974	1975	1976	1977	1978
Estimated associated investment (DM mill)	2778.9	2893.9	2851.0	3061.0	3946.9

3.6 Source of Further Information

Bundesministerium der Finanzen
Graurheindorferstrasse 108
5300 Bonn 1
Federal Republic of Germany

4. ERP REGIONAL SOFT LOAN

4.1 Program Features

The ERP regional soft loan is a project-related incentive which, although discretionary in theory, is automatic in practice insofar as all applicants who fulfill the conditions of award can expect to receive assistance at the maximum rates of award.

The project requesting assistance must have a local character effect.

4.2 Rates of Award

The rate of interest (fixed for the duration of the loan) moves in line with market rates. In the Zonal Border Area it is currently 2.5 percentage points (and in the rest of the GA Areas 1.5 percentage points) below the rate applying to the loan program for small and medium-sized firms operated by the Kreditanstalt fur Wiederaufbau (KW) loan programs broadly equivalent to the ERP scheme and available throughout the Federal Republic. No interest free periods are available. The loan principal covers between one-third and two-thirds of eligible investment up to a maximum of DM 200,000. Loan duration varies according to the nature of the assets being financed: 10 years for plant and 15 years for buildings. There is a standard principal repayment holiday of 1 year. Guarantees are necessary. The applicant's bank being required to stand as full guarantor for the loan vis-à-vis the KW, with the applicant firm in turn providing the bank with guarantees.

4.2.1 Factors Affecting Award Values

The interest concession is taxed to the extent that, by reducing tax-deductible interest charges, it leads to higher taxable profits.

4.3 Eligibility Criteria

4.3.1 Eligible Avtivities

Eligibility is limited to activities which are local in character, which may include some very small manufacturing activities, local construction and, especially, local service activities, including wholesale and retail trades, handicraft trades and restaurants.

4.3.2 Geographical Eligibilities

The ERP program is restricted to the GA designated areas. No use, however, is made of the designated Growth Points, nor of the GA tourist areas.

The rate of interest to be charged on ERP regional loans is one percent per annum lower in the Zonal Border Area than in the rest of the GA Areas.

4.3.3 Project-Related Eligibility

New facilities, expansion, rationalization, reorganization, modernization and spatial relocation projects are eligible. In the case of expansion projects an increase of at least 15 percent of the existing labour force is required. In the case of spatial relocation, account may be taken of assets disposed of in the old location and the loan reduced accordingly.

4.3.4 Project Size

Assistance is limited to small and medium-sized firms of permanent character operating for profit. These are defined as firms having a maximum labour force of 100, although there is discretion to aid labour-intensive firms with labour forces up to 500, and a maximum sales revenue of DM 50 million per annum.

The share of the ERP loan decreases in proportion to the size of the investment.

Eligible Investment	ERP Share	KW Loans
DM 75,000 or less	full two-thirds	-
DM 75,000 - 150,000	DM 50,000	the balance
DM 150,000-600,000	one-third	the balance
over DM 600,000	DM 100,000	the balance

4.3.5 Eligible Expenditures

Site infrastructure, buildings, and plant and machinery are eligible. Expenses related to instalment payments qualify for assistance as well.

4.3.6 Further Conditions Affecting Eligibility

A key condition is that the applicant firm must satisfy its bank of the viability of the project such that the bank stands as guarantor for the loan vis-à-vis the KW. In addition the loan can only be granted if there is a proven need. A further condition is that the project must be financed by an appropriate contribution of 'own finance' - either from own funds or raised on the private capital market. A suitable level of own contribution is deemed to be 50 percent of investment costs for small porjects with some reduction for larger projects, although the actual percentage is not stringently enforced. Finally, the project must be commercially viable.

4.4 Program Administration

4.4.1 Application Procedure

Application is by form and is accompanied by a description of the applicant's investment plans. Applications are made through a bank, normally the applicant firm's own bank.

4.4.2 Decision Procedure

In preparing the initial application, an appraisal of the project is carried out by the applicant's bank. Unsuitable applications would tend to be screened out at this stage. The formal eligibility decision is however made by the KW acting on behalf of the Federal Minister of Economics and in accordance with guidelines laid down by the Minister. The rate decision is also made by the KW, with the maximum invariably being awarded. Overall decision-making time is four to six weeks.

4.4.3 Payment Procedure

In theory, the whole loan must be taken up within a year of the date of the award decision. The total interest due on the loan is calculated at the end of the quarter in which the final payment is made.

4.4.4 Monitoring Procedure

The applicant's bank is required to monitor the project to ensure that the conditions of award are met. The applicant's bank is required to cancel the loan granted to an applicant when conditions of award are not met.

4.5 Award Statistics - ERP Soft Loan

	1974	1975	1976	1977	1978
Number of loans approved	5325	4668	3893	5606	7270

	1974	1975	1976	1977	1978
Total Value of Loans approved ERP & KW (DM million)	388	341	310	480	618

	1974	1975	1976	1977	1978
Eligible investment associated with loans approved (DM mill)	1743	1311	1145	1785	1345

	1976	1977	1978
Associated new employment	11800	18600	20900

4.6 Source of Further Information

Kreditanstalt fur Wiederaufbau
Palmengartenstrasse 5-9
6000 Frankfurt
Federal Republic of Germany

IV. SUMMARY OF MINOR INCENTIVES

1. REGIONAL ACTION PROGRAMS (RAP)

1.1 Program Features

Loans and subsidies for infrastructure support are provided to municipalities in accordance with the Regional Action Programs, mainly in those localities designated as growth centres. Special loan funds are used to supplement local funds to provide the improvements in existing infrastructure and public services needed to attract suitable industry. Industrial estates, highways, waterways, water, power, sewage and communications systems, education facilities, retraining centres, and tourism may be funded on a discretionary basis.

The necessity of a new and more comprehensive approach to the task of improving regional economic structure led to the creation of the RAPS. The original 12 RAPs were created in 1969; today there are over 21 RAPs, each of which lasts for 5 years. Together they cover all development areas except Berlin.

The RAPs enable funds to be applied more efficiently and concentrate assistance according to geographic and economic priorities.

Each program is tailored to the specific needs and potential of the individual regions. The creation of new jobs and the maintenance of existing ones are the main concerns of the RAPs. Job targets are quantitatively assigned. Within each region, the measures to be taken and the funds to be provided are projected for five-year periods and are designed to be incorporated within the system of forward financial planning.

1.2 Rates of Award

In cases of extreme need, up to 100 percent of the costs may be subsidized by the Federal Government.

1.3 Geographic Eligibility

Each program is designed to cover a large, physically continuous area of towns and their surrounding countryside, that have been designated as development areas by the federal and state authorities. This structure allows direct assistance to be applied to regional problem areas that straddle state borders.

1.4 Program Administration

The funds to be applied are provided jointly by the federal and state authorities on an equal basis. RAPs are a part of the Joint Scheme which includes the Joint Task Force for the Improvement of Regional Economic Structures. The RAPs provide the federal and state governments with documentation on which to approve expenditures. They also make it possible to monitor the effectiveness of the various regional policies.

2. FREIGHT TRANSPORT SUBSIDY

2.1 Program Features

The objective is to enable firms with previous economic ties with East Germany to compete in new markets in West Germany.

2.2 Rates of Award

The freight subsidy allows a 50 percent reduction in transport taxes.

2.3 Geographical Eligibility

It is only available to firms in the Zonal Border Areas.

REPUBLIC OF IRELAND

I. COUNTRY OVERVIEW

1. TYPE OF INCENTIVES

1.1 Major Incentives

The two major business and industrial assistance programs in Ireland are essentially national incentives but with a regional development focus in that higher rates of award are available in designated areas of the country. Both of the programs involve capital grants awarded by the Industrial Development Authority, one for new industry, the other for modernization and re-equipment costs.

The IDA New Industry Grants are discretionary, project-related capital grants offered to new industry, both domestic and foreign, for the purchase of land, buildings, plant and machinery.

In terms of rates of award, the Industrial Development Act established a two-tier grant structure. The basic grant would not exceed 40 percent in the Designated Areas (DAs) and 25 percent in the Non-Designated Areas (NDAs) with an extra maximum 20 percent grant available to projects which satisfied "additional criteria".

In practice, however, the rates are negotiable up to 50 percent of eligible costs in the Designated Areas and up to 35 percent elsewhere in the country.

The IDA Modernization and Re-Equipment Grants are also discretionary, project-related capital grants to assist with the modernization of plant, machinery and buildings in existing industries at rates of up to 35 percent of eligible costs in the Designated Areas and up to 25 percent elsewhere.

1.2 Minor Incentives

In addition to the major incentives summarized above, a number of smaller assistance programs are also available. They include the IDA Investment Grants for small industry, which are similar in coverage to the IDA grants for New Industry, and are especially tailored to the needs of small-scale enterprises, interest rebate grants, loans and loan guarantees, training grants, a depreciation allowance, remission of local taxes, the provision of industrial facilities and housing assistance, state equity participation, research and development grants, and investment allowances. These programs are summarized in Section IV.

2. MAIN REGIONAL PROBLEMS AND POLICY

Few of Ireland's regional incentives differ dramatically in character from the national economic development schemes, although there is rate discrimination in favour of the Designated Areas. Policies and strategies, especially for industrial development, have been adopted on a national basis.

Ireland's regional development schemes, along with those of Belgium and the US, have one of the lowest regional spatial differentiation in the OECD. Given the severity of the Republic's overall economic problems, this lack of significant regional differentiation is understandable.

In addition, the Irish package is one of the most powerful in the European Community in terms of scale and intensity.

3. MAIN DECISION-MAKING BODIES

The Industrial Development Authority (IDA), the principal organization involved in regional incentive schemes, is an autonomous agency responsible for administering industrial development incentives and awarding investment grants. The IDA is a state-sponsored body outside the civil service, responsible to Parliament through the Minister of Industry, Commerce and Energy.

Other incentives are administered by national and local government departments and agencies: the Regional Development Organization, the Department of Local Government and the Regional Tourism Authority. Training grants are administered by the Industrial Training Authority (AnCo).

4. RECENT EVOLUTION OF INCENTIVES

There is a tendency to widen incentive coverage through the dropping of explicit cost per job limits and the encouragement to locate in Dublin.

5. SUMMARY TABLE OF MAJOR BUSINESS INCENTIVES

Major Incentives	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
IDA New Industry Grant	Discretionary, project-related capital grant	National coverage, higher rates in Designated Areas of country	Manufacturing	50% of eligible costs in Designated Areas, 35% rest of country	Industrial Development Authority, Department of Industry, Commerce and Energy
IDA Modernization and Re-Equipment Grant	Discretionary, project-related capital grant	National coverage, higher rates in Designated Areas of country	Manufacturing	35% of eligible costs in Designated Areas, 25% rest of country	Industrial Development Authority, Department of Industry, Commerce and Energy

II. REGIONAL POLICIES, PROBLEMS AND DECISION-MAKING BODIES

1. POLICIES AND APPROACH

The Irish incentives package is national in character rather than purely regional. National economic policies and strategies, particularly for industrial development, have been adopted to secure economic progress for the country as a whole. Within this context, attention is paid to the needs of the disadvantaged regions, though not exclusively to them. Rate discrimination among the various grant programs favour the designated regional development areas.

A framework for the planned development of urban centres, in addition to the national capital, has also been designed. Strategic planning targets for regional industrial growth covering the entire country have been formulated and industrial incentives, rather than constraints, have been developed to secure a satisfactory industrial location pattern, emphasizing the encouragement of foreign investment. In addition, incentives have been supplemented by appropriate infrastructure policies.

The aim of industrial incentives has been to ensure a fast rate of overall growth and to provide an acceptable standard of living to the population of all regions. Regional policy is directed at reducing the pressures leading to internal and external migration.

The legal maxima for investment assistance differ among the Designated Areas, Non-Designated Areas, and Gaeltacht Areas, which are the areas in which the Irish language is the vernacular. The limits on assistance are based on the degree of economic disparity among the regions.

Although the whole country is eligible for all of the major economic development incentives, a distinction is made between Designated (DAs) and Non-Designated Areas (NDAs) in terms of award maxima. The DAs cover about half the national territory and in 1979 held 27 percent of the population. These areas were designated for special assistance as a result of their high unemployment, large-scale emigration and dependence on agriculture.

The geographic guidelines for regional development are as follows:

- the regions of Donegal, the North-West, parts of the North-East, the Midlands, the Mid-West and the South-West,

- the urban expansion zones in and around Cork City, the Limerick/Shannon/Ennis area, Waterford, Galway, Dundalk, Drogheda, Sligo and Athlone,

- the counties or large towns of strategic importance in each region, including relatively large towns in areas remote from existing major towns, and

- continued special effort for the development of the small, scattered and underdeveloped areas mainly along the West coast in which the Irish language is the vernacular (Gaeltacht Areas).

2. DECISION-MAKING BODIES

The following agencies are involved in the coordination of regional development activities.

The Industrial Development Authority (IDA), an autonomous agency independent of both the public and private sector, is the principal organization concerned with administering the incentives for industrial development and awarding investment grants. The IDA has extensive discretionary powers that cover the entire country. The IDAs two major capital grant programs account for over 90 percent of IDA grant expenditures. In addition, the IDA administers other capital grant schemes which assist small industries, export-oriented services (a purely national scheme), joint ventures and processing and product development. Loan guarantees, interest rebates and equity financing are also offered by the IDA. Other incentives are administered by national and local government departments and agencies.

The Industrial Training Authority (AnCo) provides a wide range of training for specified industries. The training may be provided free of charge, or at a subsidized rate according to the location of the recipient firm.

The Regional Development Organizations are composed of non-statutory agencies in each region which coordinates regional programs within their respective jurisdictions. Membership includes representatives from the Industrial Development Authority, the Regional Tourism Authority, and the Department of Local Government.

Under the Local Government Act, each local planning authority is required to generate and implement regional development in its respective area. The Department of Local Government has the authority to coordinate the various programs of the municipal planning authorities.

III. SURVEY OF MAJOR INCENTIVES

1. IDA NEW INDUSTRY GRANTS

1.1 Program Features

This scheme to assist the development of new industrial facilities is a discretionary, project-related capital grant program. Along with the IDA Modernization and Re-Equipment Grants program it is a major national economic development incentive. Funds are provided by the Department of Industry, Commerce and Energy.

1.2 Rates of Award

Grants to new industry, both domestic and foreign, are determined as a percentage of eligible fixed asset investment. The Industrial Development Act envisaged a two-tier grant structure: the basic grant not exceeding 40 percent in the Designated Areas (DAs) and 25 percent in the Non-Designated Areas (NDAs), with an extra maximum 20 percent grant being offered to projects satisfying "additional criteria". In practice, rates are negotiable up to 50 percent in the DAs and up to 35 percent in the NDAs for acceptable projects.

If the investment per job is less than £10,000, grants generally do not exceed £5,000 per predicted job at full production in the DAs, £4,000 in the NDAs, and £3,000 in Dublin.

1.2.1 Factors Affecting Award Value

The Industrial Development Authority (IDA) decision regarding the appropriate rate of award is based on the assurance that a project is viable. This implies a number of conditions: that a project will provide or maintain employment, of a reasonably permanent nature, will be carried on efficiently, and that financial assistance is necessary to ensure its establishment, maintenance or development.

Extra aid is justified where the employment created is of particular significance, i.e. in areas of high unemployment, where local materials are utilized, where the project has a high technological or scientific content, and where the industry involved has exceptional growth potential.

In addition, products with the following characteristics tend to be favoured: products with fast market growth in international markets, where there is little risk of the technology involved becoming obsolete, with high value-added in Ireland, with low investment per job created. Specifically for capital-intensive projects, firms likely to receive assistance show the following characteristics: manufacturing of products with good potential for linkage or spin-off benefits by creating work for existing firms, development of a skilled workforce, and the utilization of local materials, agricultural products, or other national resources.

The building element of the grant is indirectly taxed whenever profits are made since assisted buildings can only be depreciated for tax purposes net of any grant received. In contrast, the plant and machinery element is free of tax since capital allowances apply to the total cost of assisted plant and machinery. However, with the nationally available Export Sales Relief program and generous capital allowances, little tax is paid by grant-assisted projects.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Eligibility is limited primarily to manufacturing. Services do not normally qualify under this scheme although the establishment of a head office or a major export-oriented branch in the banking, finance and insurance sector would qualify.

The program allows IDA to concentrate assistance on viable, export-oriented industries. Industrial priorities are reviewed every six months with target industries being chosen on the basis of market growth potential, particularly in international markets, high technological content, linkage to existing industry, and high employment content. Current targets include electronic and computer industries, mechanical engineering, high technology textile manufacturing, industrial support industries, iron and steel foundries, consumer products, and health care products. Priorities can change in response to market conditions.

1.3.2 Geographical Eligibility

Grants are available in all areas within the Republic but with a higher maximum rate of award in the DAs than in the NDAs. The current differential is 15 percentage points. As of 1978, the maximum rate of award was available to projects locating in Dublin in an effort to reduce this city's high unemployment rate. Up to 1976, projects had been directed away from the capital.

1.3.3 Project Eligibility

New facilities and expansions are eligible. New Industry Grants are limited to new projects or major expansions which provide employment for more than 50 persons and investment of over £400,000 in eligible fixed assets. While not eligible for New Industry Grants, takeovers may qualify in the context of the IDA Restructuring Program, which aims to facilitate mergers and takeovers.

1.3.4 Size

Small industries with less than 50 employees and with machinery and property valued at less than £400,000 are not eligible.

1.3.5 Eligible Expenditures

Land, site infrastructure, buildings, and plant and machinery are eligible. Fixed capital expenditures must be directly relevant to the production process to be eligible.

Expenses related to installment payments, purchases on credit, rentals, and leasing are also eligible.

1.3.6 Eligible Costs

The grant offer is an agreed fixed sum negotiated on the basis of fixed asset investment and jobs. However, grant payment is based on actual expenditure - the invoiced amount, including transportation and installation costs where appropriate, net of value-added tax, certified as paid by the applicant.

1.4 Program Administration

1.4.1 Application Procedure

Although there is no formal application form, applicants must supply historical information on the firm's growth and performance, a financial statement, and a description of the proposed new development project.

1.4.2 Decision Procedure

The IDA Board is responsible for both the eligibility decision and the rate decision. The Board meets weekly to take decisions on new grant applications. Prior to this meeting a Senior IDA Manager based in Dublin reviews the project and negotiates the level of grant award. If the application is fully documented, an award decision can be taken in a week's time if necessary.

Proposed grants in excess of £1.25 million are referred to the government for approval (approximately 10 percent of the applicants).

1.4.3 Payment Procedure

Grants for buildings are provided upon completion of the project or in stages for large projects. Grants for plant and machinery are made when eligible assets are on site and have been paid for.

1.4.4 Budget Provision

Funds are provided primarily by the Department of Industry, Commerce and Energy. The IDA budget is set annually on the basis of current and likely future commitments. In 1978, grants in aid from the Department of Industry, Commerce and Energy amounted to £85.1 million out of a total IDA budget of £98.7 million. The balance is derived from sources such as rents and grant repayments.

1.4.5 Monitoring Procedure

Project progress is monitored over a ten-year period through occasional visits by officials from the Grant Administration Unit and the IDA regional offices. Grants can be revoked or cancelled by the IDA and repayment demanded if within the ten-year period the company fails to meet the conditions set down at the time of the award approval or if the company ceases to exist.

1.5 Award Statistics - IDA New Industry Grants

		1974	1975	1976	1977	1978
Number of projects approved:	DA	32	33	n.a.	n.a.	n.a.
	NDA	69	58	n.a.	n.a.	n.a.
	All Areas	101	91	142	208	208
Value of grants approved (£m)	DA	19.362	12.497	17.445	19.314	18.037
	NDA	28.490	23.778	21.496	58.349	78.321
Associated eligible fixed assets (£m)	DA	92.883	54.808	n.a.	n.a.	n.a.
	NDA	135.255	85.245	n.a.	n.a.	n.a.
	All Areas	228.138	140.053	109.408	397.177	265.365
Associated employment		14,573	10,722	12,905	17,336	21,379

1.6 Further Information

IDA, Ireland
Lansdowne House
Dublin 4

Telephone: (01) 686633

2. IDA MODERNIZATION AND RE-EQUIPMENT GRANTS

2.1 Program Features

This program is a discretionary, project-related capital grant scheme. As with the other grant schemes, funds are provided by the Department of Industry, Commerce and Energy through the Industrial Development Authority.

2.2 Rates of Award

Re-equipment grants are available to assist with the modernization of plant, machinery and buildings in existing industries at rates of up to 35 percent of eligible costs in the Designated Areas (DAs) and up to 25 percent of eligible costs in the Non-Designated Areas (NDAs).

2.2.1 Factors Affecting Award Value

Whether the project is located in the DAs or NDAs is the major factor affecting the value of award. For tax purposes, the amount of the asset expenditure is usually not reduced by the value of the grant that might have been received.

In respect of tax treatment, see paragraph 1.2.1. The two major IDA grants programs are administered in a similar manner.

2.3 Eligibility Criteria

2.3.1 Eligible Activities

Eligibility is limited to those sections of the manufacturing sector where the need for industrial adjustment is most severe, including: food processing, drink, tobacco, clothing, footwear, textiles, wood and furniture, paper and printing, chemicals and pharmaceuticals, glass, clay and cement, metals, plastics, and engineering. Within these sub-sectors assistance is restricted to existing industry where adaptation is required to maintain or expand existing markets and employment.

The criteria set out by the Re-equipment and Modernization Consultative Committee are specific to each sector and follow a review of that sector. They include such considerations as the need for specialization and improvement of product, for exploitation of overseas markets to make up for a lack of excess capacity in the domestic market and for long-term planning.

2.3.2 Geographical Eligibility

The grant is available throughout the Republic, but with higher maximum rates of award in the DAs than in the NDAs. The differential is 10 percentage points.

2.3.3 Project-Related Eligibility

Reorganization, rationalization and modernization projects, which are viable and which maintain existing employment through increased efficiency and competitiveness, are eligible.

2.3.4 Size

As is the case with the New Industry Grants program, small industries (machinery and property worth less than £400,000) are not eligible, but do qualify for aid under the IDA Small Industry Program.

2.3.5 Eligible Expenditures

Land, plant and machinery, site infrastructure, vehicles, buildings and working capital are eligible. Although fixed asset investment is eligible, assistance is concentrated on plant and machinery.

Expenses related to installment payments, purchases on credit, rentals, and leasing, are also eligible. Eligibility is conditional on the asset in question being essential to the production process.

2.3.6 Eligible Costs

The costs eligible for assistance are the same as for the New Industry Grants program.

2.4 Program Administration

2.4.1 Application Procedure

There is no formal application form. Applicants must supply the same information as for the New Industry Grants scheme.

2.4.2 Decision Procedure

Policy decisions on the criteria to be adopted in examining applications under the Modernization and Re-equipment scheme are taken by the Re-equipment and Modernization Consultative Committee. This is a ten member committee which includes representatives from the IDA, the Department of Industry, Commerce and Energy, the Irish Congress of Trade Unions, the Confederation of Irish Industry, and three semi-state bodies involved in industrial finance. This committee makes recommendations to the IDA.

The task of the Domestic Industries Committee is to examine individual applications. This Committee is responsible for both the eligibility and the rate decision. Prior to the Committee's decision a Senior IDA Manager reviews the project and negotiates the level of grant award with the firm.

Award decisions normally take six to eight weeks.

2.4.3 Monitoring Procedure

The procedure is the same as for the New Industry Grants.

2.5 Award Statistics - IDA Re-Equipment Grant

		1974	1975	1976	1977	1978
Number of projects approved	DA	36	58	n.a.	n.a.	n.a.
	NDA	164	223	n.a.	n.a.	n.a.
	All Areas	200	281	241	170	146
Value of grants approved (£m)	DA	1.721	2.303	3.215	4.927	3.028
	NDA	7.458	14.708	10.249	13.204	8.337
	All Areas	9.179	17.011	13.464	18.131	11.365
Associated eligible fixed assets (£m)	DA	5.591	6.490	n.a.	n.a.	n.a.
	NDA	30.206	83.690	n.a.	n.a.	n.a.
	All Areas	35.979	90.180	44.925	76.347	46.286
Associated employment		2124	1560	991	830	559

2.6 Further Information

IDA, Ireland
Lansdowne House
Dublin 4

Telephone: (01) 686633

IV. SUMMARY OF MINOR INCENTIVES

A number of smaller economic development programs are summarized in the following section. As with the two major grant programs, these incentives are available on a national basis with higher rates of award offered in the designated areas. The Remission of Local Taxes scheme and the Investment Allowance are two exceptions. They are available only in the DAs.

1. IDA INVESTMENT GRANTS FOR SMALL INDUSTRY

1.1 Program Features

Small industries, that is, those employing not more than 50 people and with machinery and property valued at not more than £400,000 are eligible. Industries of this size are not eligible for New Industry Grants.

1.2 Rates of Award

The IDA Small Industry Program is specially-tailored to the needs of small industry with rates of award up to 60 percent of eligible fixed investment in the DAs and up to 45 percent in the NDAs, and 35 percent for machinery only in Dublin.

1.3 Eligibility Criteria

Industrial and factory buildings, and machinery and equipment are eligible for small industries in the manufacturing and in parts of the service sector. In the service sector the company must operate internationally.

2. INTEREST REBATE GRANTS

2.1 Program Features

The IDA is empowered to make grants on a discretionary basis toward the reduction of interest charges on loans for fixed investment, including industrial and factory buildings and machinery and equipment, by industries in manufacturing and in certain parts of the service sector provided that they operate internationally.

3. LOAN GUARANTEES

3.1 Program Features

The IDA may guarantee the repayment of loans for industrial investment, including industrial and factory buildings and machinery and equipment, of industries in manufacturing and certain parts of the service sector provided that they operate internationally.

3.2 Program Administration

The IDA approves each project on a discretionary basis. Minimal use of this instrument has been made to date.

4. TRAINING GRANTS

4.1 Program Features

Grants may be provided towards the cost of training workers in specified industrial undertakings.

4.2 Rates of Award

Up to 100 percent of the training costs for workers in new industries may be offered.

4.3 Eligibility Criteria

Training positions in eligible industries include manufacturing and certain service industries provided that they operate internationally. The training can take place in Ireland or abroad. Grants may also be provided to cover salaries, travel expenses, instructors, consultants and management training expenses.

4.4 Program Administration

The IDA approves each grant that satisfies the basic prerequisites on a discretionary basis. In addition, the Industrial Training Authority (AnCo) operates training courses that are geared to the particular training needs of specific industries.

5. DEPRECIATION ALLOWANCE

5.1 Program Features

Depreciation allowances are offered and are related to expenditures on specified industrial fixed assets, including industrial and factory buildings and machinery and equipment. These fiscal concessions are disbursed on an automatic basis provided certain prerequisites have been met.

5.2 Rates of Award

The following allowances are granted: an initial depreciation allowance of up to 50 percent during the first year and 4 percent annual depreciation allowance in each succeeding year. For expenditures on specified industrial fixed assets made after 1 January, 1980, up to 100 percent of the total cost of fixed plant, machinery and buildings can be written off during the first year.

5.3 Eligibility Criteria

Projects in the DAs and NDAs are eligible.

6. REMISSION OF LOCAL TAXES

6.1 Program Features

Remission of a portion of local taxes to be paid over a period of up to 10 years is allowed on profits from industrial operations.

6.2 Rates of Award

Up to two thirds of the amount of local taxes for a period of up to 10 years is offered.

6.3 Eligibility Criteria

The profits must be realized from industrial operations in designated areas only. Approval of the incentive is a discretionary decision made by local authorities. This program is not applicable in the NDAs.

7. PROVISION OF INDUSTRIAL FACILITIES

7.1 Program Features

Ready-built factories and serviced lots are made available for sale or rent to approved industries in the designated areas. Factory space and serviced lots can be rented or sold. Rents may be subsidized. The IDA utilizes this tool on a discretionary basis.

8. HOUSING

8.1 Program Features

The IDA provides assistance in the provision of housing for key personnel in specified industries.

9. EQUITY PARTICIPATION

9.1 Program Features

The IDA is authorized to take up shares in the capital of specified industrial firms. This particular instrument has only been used in a small number of cases which were considered to be of major importance.

10. RESEARCH AND DEVELOPMENT GRANTS

10.1 Program Features

The grant may be applied to costs associated with research and development carried out either at the factory or at an IDA research facility.

10.2 Rates of Award

The amount of the award is the lesser of 50 percent of project cost or £15,000 per employee.

11. INVESTMENT ALLOWANCES

11.1 Program Features

A portion of the eligible capital costs expended on new plant and machinery, other than road vehicles, in designated areas, can be claimed in the first year. The IDA approves each project on a discretionary basis.

11.2 Rates of Award

Up to 20 percent of the eligible capital costs can be claimed. In conjunction with normal Investment Grants for New Industry, eligible capital costs in designated areas may be eligible to receive a combined write-off of up to 120 percent in the first year.

11.3 Eligibility Criteria

Investment allowances are only available in the DAs.

ITALY

I. COUNTRY OVERVIEW

1. TYPE OF INCENTIVES

In Italy, the major regional incentive programs of which there are four: the Cassa Grant, the National Fund soft loan, social security concessions and tax concessions, are available in the Italian Mezzogiorno, which includes Sardinia and Sicily and all of the area south of Rome.

Minor regional incentive programs are more widely available than the four major incentives and include equity participation, research and development grants and loans, and assistance from the Fund for Industrial Reorganization and Development.

1.1 Major Incentives

The Cassa Grant is an automatic, project-related capital grant with a basic rate of award ranging from 40 percent for projects under L2 billion to just over 20 percent for the largest projects. Projects in priority sectors or priority areas receive an additional 20 percent above the basic grant, while projects qualifying on both counts - in a priority sector and located in a priority area, receive 40 percent above the basic grant.

The "National Fund" Soft Loan is a loan program subsidized by the "National Fund for Subsidized Credit". It is a national, project-related scheme, but both eligibility conditions and rates of award favour the Mezzogiorno. In this area of Italy, the rate of interest is 70 percent below the average market rate for medium and long-term loans. The loan principal covers 40 percent of total investment and the duration of the loan is ten to fifteen years with a three to five year principal repayment holiday.

The Social Security Concession is automatic and is limited to the Mezzogiorno. It is a full 100 percent concession on employer social security contributions. Labour hired between 1 July 1976 and 31 December 1980, where the labour represents an addition to the establishment's labour force. The concession is payable for ten years from the date the additional labour is hired.

Tax Concessions are the fourth major component of Italy's regional incentive schemes. Three types are available: two relating to the local income tax, ILOR, and one to the profits tax, IRPEG. There is a ten-year ILOR exemption for industrial projects in the Mezzogiorno and small industrial projects in parts of the Centre-North; exemption of up to 70 percent of the ILOR tax liability where taxable profits are invested in the Mezzogiorno; and a ten-year exemption on 50 percent of IRPEG for firms which establish themselves and locate their headquarters in the Mezzogiorno.

1.2 Minor Incentives

In addition to the major incentives, which concentrate awards in the Mezzogiorno, there are a number of smaller regional assistance programs. None of these incentives is of significance within the Mezzogiorno and few are awarded in this southern region.

Equity participation in companies sponsoring new ventures in the Mezzogiorno may be entered into by a number of special financing corporations, such as FIME, INSUD, FINAM, and ESPI, which have been established to promote, develop and expand small and medium-sized companies. There is a Fund for Industrial Reorganization and Reconversion, and a number of other programs including government procurement, infrastructure development, labour incentives, other tax concessions and the Mediocredito Soft Loan scheme.

These and a number of other minor incentives are summarized in Part IV.

2. MAIN REGIONAL PROBLEMS AND POLICY

The Mezzogiorno is the region of Italy at which most of the major assistance schemes are directed. The incentives package for this area is wide-ranging in scope and covers all the main regional incentive types, including the only major labour-related subsidy in the European Economic Community. At its maximum award values, Italy's regional incentives package matches the Irish and Northern Ireland measures. However, the promotion of small and medium-sized firms is emphasized and available assistance declines rapidly as project size increases.

The Mezzogiorno regional incentive package is an almost totally automatic system. This absence of administrative discretion is a unique feature of the southern Italian programs.

3. MAIN DECISION-MAKING BODIES

The board of the Cassa per il Mezzogiorno is the major decision-making body of the organization which administers the Cassa grant and the soft loan scheme.

The SCIs, Special Credit Institutes, evaluate the projects applying for soft loans and provide the funds to approved projects.

The CIPE, Interministerial Committee on Economic Planning and the CIPI, Interministerial Committee on Industrial Planning, have a role to play in ensuring that projects conform to national, regional and local economic plans.

4. RECENT EVOLUTION OF INCENTIVES

Changes relating to size, coverage, award rates, and size groupings were introduced in 1979 which reflect a new outlook whereby larger projects have become more acceptable. Increased awards were made available for projects over L15 billion and administrative procedures were changed so that only projects over L30 billion, previously L15 billion, involved the CIPI. In addition, other administrative changes have simplified procedures for small projects.

The Mezzogiorno is seldom subdivided for incentive purposes. However, between 1971 and 1976 assistance was concentrated in areas of heavy depopulation, and since 1976, the emphasis has been on depressed areas, both areas of depopulation and of overpopulation.

The "National Fund" Soft Loan scheme has only recently become fully operational although it was legally established in 1976. It replaces two previous programs focussing on small and medium-sized businesses and substantially simplifies the application process. Besides simplifying application, the decision procedure has been speeded up for small projects. A system of loan bridge financing was introduced in 1979 whereby the SCI can give loans at concessionary rates to projects awaiting approval.

II. REGIONAL POLICIES, PROBLEMS AND DECISION-MAKING BODIES

1. POLICIES, PROBLEMS AND APPROACH

The pursuit of national industrial objectives in Italy is conditioned to the primary requirement of concentrating in the Mezzogiorno all initiatives creating employment opportunities.

In 1975, the Mezzogiorno share of Gross Domestic Product was only 25 percent as compared with 24.1 percent in 1951. Between 1950 and 1975, about 1 percent of the national income (US $36 billion, at 1976 prices) was spent on assisting the South, US $14 billion for infrastructure and US $10 billion for direct incentives to industry.

The 1975-1980 five-year plan allocated US $21 billion to the South, including US $6.8 billion for incentives to industry and US $792 million for industrial site infrastructure. The rest was allocated to general infrastructure: water supply, roads, hospitals, agriculture, tourism, fisheries, crafts and technical assistance.

The Mezzogiorno holds 19.1 million people (1978 figures), 34.2 percent of the Italian population, and has a labour force of 6.7 million, 31.1 percent of the labour force in Italy. It covers 123,000 square kilometres, 41 percent of the country's surface area.

The Mezzogiorno region was defined in 1950. Other regional priority areas for assistance were to be delineated by the regions, based on criteria such as the rate of migration, proportion of active population employed, and proportion of resident population engaged in industrial activities. These indicators identify two types of depressed areas: areas of heavy outmigration, depopulation and general decline, and areas of migration, overpopulation and congestion.

In addition to the more substantial assistance programs available to projects in the Mezzogiorno, three other conditions are of importance to all regional incentive schemes. The project and the applicant firm must be technically, financially, and economically viable, based on an evaluation conducted by the SCI of market prospects, employment effects and productive capacity. The project must conform with national, regional and local planning. And the regional authority where the project is located must not oppose the project.

2. DECISION-MAKING BODIES

The major decision-making body with respect to project approval is the Cassa per il Mezzogiorno, which is the basic administrative organization for both the grant scheme, and the soft loan. It is an autonomous agency with authority to initiate and select "Special Projects": for example, water resources, agriculture, research and development, and overall upgrading of the Mezzogiorno interior. Projects applying to both schemes must first be formally evaluated by the SCI (a Special Credit Institute designated by the government to issue soft business loans). The Cassa ensures that award conditions are met and regional authorities where the project is located have 30 days to submit their views before the Cassa board of directors makes its decision.

In the case of all programs which concentrate incentives in the Mezzogiorno, the Minister for the South presents the "certificate of conformity" to the project if it fits with national, regional and local economic development plans. If the project is valued at more than L30 billion the decision is made by the CIPI, the Interministerial Committee on Industrial Policy, based on a recommendation by the Minister for the South. In addition, projects over L10 billion must obtain an authorization from the CIPE, Interministerial Committee on Economic Planning, before proceeding. This is part of the Italian national disincentive/location control system.

The Interministerial Committee for Industrial Planning (CIPI) presided over by the Prime Minister is a special committee of Ministers that shapes national and regional industrial policy. CIPI was established in order to better integrate regional and national policies. This committee enunciates policy objectives and guidelines and supervises Ministries and agencies in order that all specific sectoral programs comply with general priority goals of development of the South (Mezzogiorno). CIPI has the power to control the location of large new private plants and their expansion (over US $8 million). Firms can be penalized if a CIPI ruling is ignored (up to 25 percent of investment).

In terms of other regional incentive schemes, the INPS, the main social security institute in Italy, develops the guidelines and checks the eligibility of applicants for the Social Security Concession.

In addition, government ministries are bound by law to assign 40 percent of their investment spending to the South; and 30 percent of their procurement must be made in the South.

State-controlled holdings such as IRI (steel, automation, shipbuilding, telecommunications), ENI (oil and gas, petrochemicals, nuclear), and EFIM (assistance to declining sectors) are used in conjunction with regional agencies such as FIME, and FINAM (see Part III, Section 7) to further regional objectives. They are bound by law to spend 30 percent of their procurement, 80 percent of their total investment and 100 percent of their new investment in the South.

Public enterprises have to submit their five-year investment plans (size, location, etc.) to the Minister of the Budget and Economic Planning.

The Cassa and other Ministries have increasingly decentralized responsibilities in agriculture, fisheries, tourism, handicraft, vocational training and physical planning activities to regional and local authorities. The regional authorities participate in the planning process by being represented on a committee with power to advise and make proposals on matters submitted to them by CIPI. To finance their new responsibilities, the southern regional/local authorities were given 60 percent of the Cassa fund for financing regional economic plans.

III. SURVEY OF MAJOR INCENTIVES

1. CASSA GRANT

1.1 Program Features

The Cassa Grant scheme is an automatic, project-related capital grant for investment in the Mezzogiorno.

1.2 Rates of Award

Rates of award as a percentage of eligible investments are paid as follows for eligible Mezzogiorno projects.

Project Size (fixed investment)	Basic Rate (per cent)	Priority Location or Priority Sector	Priority Location and Priority Sector
up to L2 billion	40	48	56
L2 - L7 billion	40-33	48-39.6	56-46.2
over L7 billion	33-20	39.6-24	46.2-28

The decreasing rate of grant by project size arises because the first L2 billion of eligible (fixed) investment is subsidized at 40 percent, the next L5 billion at 30 percent and anything remaining at 20 percent.

1.2.1 Factors Affecting Award Value

The basic rate of award depends on project size. In addition, higher rates are paid if the project is in a priority location and/or a priority sector.

Projects in priority sectors, as specified by the government, or priority areas, as defined by the regions, receive one fifth above the basic grant. Projects in priority sectors and areas receive two fifths above the basic grant.

For income tax purposes, the grant is treated as income and is taxed. It may also be placed in a special reserve and used for covering losses, if losses occur.

1.3 Eligiblity Criteria

1.3.1 Eligible Activities

Manufacturing is the major activity eligible for the grant; extractive, excluding the extraction of fluid and gaseous fuels, is also covered.

Eligible manufacturing activities have to fit sectoral plans prepared by the CIPE, the Interministerial Committee on Economic Planning, or an attempt must be made to relate the project to the relevant plans, which currently exist for the food, chemical, electronics and energy sectors. As noted earlier, projects in the priority sectors designated by the CIPE receive 20 percent above the basic rate.

The selection of priority sectors by the government has been made with reference to any combination of the following features: labour-intensity, high-technology, materials requirement based on Mezzogiorno's agricultural and mining resources, import-saving with regard to those sectors of the country as a whole which are heavily dependent on foreign sources.

1.3.2 Geographical Eligibility

Projects must be located in the Mezzogiorno.

1.3.3 Project-Related Eligibility

Eligible project types include the establishment of new facilities, expansions, modernization and reactivation, which covers takeovers of bankrupt plants. In all cases, a significant portion of extra industrial capacity should be created.

1.3.4 Size

No size group is excluded, but smaller firms receive a higher rate of award on eligible fixed investment.

1.3.5 Eligible Expenditures

Site infrastructure, buildings, plant and machinery, and on-site vehicles, as well as those which are part of the production process, are eligible. Land is excluded.

Instalment payments and leasing expenses are also eligible.

1.3.6 Eligible Costs

The grants are based on a percentage of actual fixed investment costs on eligible items of expenditure. Duties, if charged on the items is included, but not value-added tax or interest charges.

1.3.7 Further Factors Affecting Eligibility

Certain explicit award conditions must be met. The project must receive a positive evaluation by the Special Credit Institute (SCI), a certificate of conformity proving that it is in line with national economic plans and objectives from the Minister for the South, and approval from the regional authority where it plans to invest. In addition, at least 30 percent of fixed investment in the project must be "own funds".

1.4 Program Administration

1.4.1 Application Process

Application is by form to an SCI (a medium and long-term lending institute), which conducts a technical, financial and economic evaluation of the process.

1.4.2 Decision Procedure

The basic eligibility decision is taken by the Cassa's board of directors. The criteria are set down in Mezzogiorno legislation and supplemented by administrative guidelines laid down by the CIPE and the CIPI, Interministerial Committee on Industrial Policy.

There must be no objections from the regional authorities where the project is located, and the project must receive a certificate of conformity from the Minister for the South, or from the CIPI for projects over L30 billion. Decision timing is related to the size of the project. Projects of up to L30 billion must be processed by the Cassa within designated time periods, in total, a maximum of nine months. Projects of over L30 billion taken an unspecified time which varies from project to project.

1.4.3 Payment Procedure

The grant is paid into the applicant's bank account. Eighty percent of the claim is paid immediately by the Cassa; the remaining 20 percent is paid after the project is completed.

1.4.4 Monitoring Procedure

Policing of awards is done by the SCI which keeps a check on the evolving financial situation of the project or firm.

1.5 Award Statistics

	1974	1975	1976	1977	1978
No. of awards approved	1,690	1,933	2,266	2,012	3,051
No. of awards paid out	1,125	1,579	1,429	1,350	1,389
Incentive cost of offers approved (L billion)	375	301	339	353	624
Incentive cost of offers paid out (L billion)	109	198	215	227	198
Eligible investment on basis of offers approved (L billion)	2,020	1,272	1,253	1,454	2,195
	1973-75				
Jobs on the basis of applications approved	200,710		62,100	60,786	65,842

1.6 Further Information

Cassa per il Mezzogiorno
Servizio Industria
Piazza J.F. Kennedy, 20
I-00144 Rome EVR
Telephone: 59911

2. "NATIONAL FUND" SOFT LOAN

2.1 Program Features

This soft loan is awarded automatically on a project basis; the subsidy element comes from the "National Fund for Subsidized Credit".

Mezzogiorno projects receiving a soft loan will also obtain a Cassa grant covering a minimum of 20 percent of eligible investment.

2.2 Rates of Award

The interest rate reduction is a fixed percentage of the average market rate of interest for medium and long-term loans. It is fixed for the period of the loan; no interest free periods are available. The loan principal covers 40 to 60 percent of total fixed investment. Loans are of up to fifteen years duration in the Mezzogiorno and up to twenty years elsewhere.

2.2.1 Factors Affecting Award Value

The interest rate concession varies by region. Project location and project type also affect the available loan principal.

Loan Feature	Mezzogiorno	Insufficiently Developed Centre	Insufficiently Developed North	Other Centre	Other North
(i) Concession (as percent reference rate):					
	70	60	60	40	
(ii) Coverage (as percent "global" investment):					
	40	60	60	50	
(iii) Loan duration in years (repayment holiday duration):					
New facilities	15(5)	10(3)	10(3)	not eligible	
Other project types	10(3)	10(3)	10(3)	10(3)	

2.3 Eligibility Criteria

2.3.1 Eligible Activities

Manufacturing is the major eligible activity; extractive, excluding the extraction of fluid and gaseous fuels, is also included.

As with the Cassa grant, projects must correspond with the CIPE sectoral plans. There are, however, no priority sectors as under the Cassa scheme. The rate of concession is determined solely by location.

2.3.2 Geographical Eligibility

All of Italy is eligible; however, the Mezzogiorno is favoured over the insufficiently-developed zones of the Centre and North, and they in turn are favoured over the remainder of the Centre and North.

In terms of the concession, the percentage reduction of interest is 70 percent in the Mezzogiorno, 60 percent in the insufficiently-developed zones of the Centre-North, and 40 percent in the remainder of the Centre-North. The Mezzogiorno is also favoured with maximum loan coverage: 40 percent plus a Cassa grant, compared with 60 percent in the insufficiently-developed zones of the Centre-North and 50 percent elsewhere. The maximum loan duration is fifteen years with a five year principal repayment holiday for new facilities projects, as against ten years with a three year principal repayment holiday in other areas.

2.3.3 Project-Related Eligibility

Most project types qualify in the Mezzogiorno and the insufficiently-developed Centre and North, but only modernizations are eligible elsewhere in the Centre and North.

New facilities and expansion projects are eligible in the Mezzogiorno and the insufficiently-developed zones of the Centre and North. In the Mezzogiorno, all modernization and reactivation projects are also eligible, as are spatial relocations and takeovers if they are part of a new facilities, expansion, or modernization project.

2.3.4 Size

In terms of size coverage, all projects qualify in the Mezzogiorno, while in the insufficiently-developed zones of the Centre and North, only projects of up to L5 billion and L3 billion respectively, are eligible.

The following project and firm size limits apply in the areas shown:

		Project size limit (fixed investment)	Firm size limit (fixed assets)
(i)	Mezzogiorno	none	none
(ii)	Insufficiently-developed Centre:	up to L5 billion	up to L7 billion
(iii)	Insufficiently-developed North:	up to L3 billion	up to L4 billion
(iv)	Remaining Centre and North:	up to L2 billion	up to L4 billion

Firm size is calculated on the basis of "fixed assets". Soft loans are not paid on project costs exceeding L30 billion of fixed investment.

2.3.5 Eligible Expenditures

Land, site infrastructure, buildings, plant and machinery, on-site vehicles, as well as those which are part of the production process, and working capital qualify for assistance. Instalment payments and leasing expenses are also eligible.

2.3.6 Eligible Costs

"National Fund" Soft Loans are a percentage of actual overall investment costs. Duties, where relevant, are included in the cost, but not interest charges or value-added tax.

2.3.7 Other Factors Affecting Eligibility

As with the Cassa grant, the project must "pass" a technical, financial and economic viability evaluation. The loan investigation is thorough since the SCI supplies the loan principal. Conformity to national economic plans and approval by the regional authority are also required.

2.4 Program Administration

2.4.1 Application Procedure

The application form is the same as for the Cassa grants. Application is made to a SCI (a credit institution) which awards the loan principal and assumes the commercial risk attached to any loan offer made. The SCI undertakes a commercial, financial and technical evaluation of the project.

Once an investment project has been formally recognized by a credit institution as qualifying for a soft loan, and while approval is pending, the credit institution involved is authorized to extend advance soft loans under the following conditions: duration cannot exceed two years; rate of interest is equal to 40 percent of the official rate and applicable to the eligible part of the investment; the soft loan is to be paid along with the actual outlays of the project sponsor's equity.

2.4.2 Decision Procedure

The board of directors of the Cassa takes the formal eligibility decision regarding the award of a concession, the rate of which is determined by the location of the project. The same eligibility criteria must be met as for the Cassa grant. The SCI has the responsibility of determining the project's viability since it will be risking its own funds; it also determines the loan coverage, loan duration, and principal repayment holidays. A maximum nine months is required to process projects of between L2 billion and L3 billion. For larger projects an unspecified length of time is require.

2.4.3 Payment Procedure

Loan interest due for repayment is calculated and then divided up into six monthly repayments over the life of the loan.

2.4.4 Monitoring Procedure

Policing of awards is done by the SCI. Monitoring of employment levels is undertaken and can lead to a withholding of the concession. If the conditons of use are not met, then payment of the interest concession is suspended.

2.5 Award Statistics - National Fund Soft Loan

	1974	1975	1976	1977	1978	1979
No. of offers (Mezzogiorno only)	815	1,075	935	763	995	
Budgeted Expenditure for Interest Subsidies:						
Mezzogiorno (L billion)				65	135	173
Centre-North (L billion)				35	120	164
Associated Investment (for Mezzogiorno only):						
Fixed Investment(L billion)	2,112	3,307	1,251	487	818	
Eligible Stocks (L billion)	553	895	419	601	483	
Total Investment(L billion)	2,665	4,202	1,670	1,088	1,301	
Jobs Associated (for Mezzogiorno Loans only)	52,451	51,853	15,109	14,788	24,600	

2.6 Further Information

Same as for Cassa Grant.

3. SOCIAL SECURITY CONCESSION

3.1 Program Features

This program involves the automatic repayment of social security contributions paid by employers. The concession is limited to the Mezzogiorno. It is payable on labour hired between 1 July 1976 and 31 December 1980, where these represent an addition to the labour already employed.

3.2 Rates of Award

The concession is a full 100 percent of employer social security contributions payable for ten years from the date the additional labour is hired. The employer contributions represent a total of between 26 and 27 percent of wages and salaries for the majority of workers.

3.2.1 Factors Affecting Award Values

Where there are taxable profits, the concession is taxed. Profits are taxed at a rate of 15 percent for ILOR, the local income tax, and 25 percent for IRPEG, the national income tax. Tax concessions are available in the Mezzogiorno only.

3.3 Eligiblity Criteria

3.3.1 Eligible Activities

The concession is limited basically to manufacturing, and parts of the extractive sector and the service sector, including commerce, research and development, industrial repair and maintenance, and tourism. It is also restricted by its nature to job-creating firms.

3.3.2 Geographical Eligibility

The Mezzogiorno region is eligible.

3.3.3 Project-Related Eligibility

The social security concession is not project-related.

3.3.4 Size

No size group is excluded from eligibility.

3.3.5 Eligible Expenditures

The concession is related to additional jobs created.

3.3.6 Further Factors Affecting Eligibility

Establishments are eligible only if they increased the number of jobs between 1 July 1976 and 31 December 1980 in the Mezzogiorno, over and above their employment levels at 30 June 1976.

3.4 Program Administration

3.4.1 Application Process

The administration is unique in that employers essentially "pay themselves" by determining their eligibility, calculating the amount due, and then withholding the social security contributions.

3.4.2 Decision Procedure

Eligibility rules are set out in the legislation. Following guidelines produced by INPS, the social security body, employers decide whether they are eligible; their decision is then checked by INPS.

In the past, processing time has been variable. New administrative procedures instituted in 1979 are aimed at completing the processing of applications in ten days.

3.4.3 Payment Procedure

The employer simply withholds the concession which he has calculated is due to him when making his INPS return.

3.4.4 Monitoring Procedure

Monitoring is done by the INPS and includes checking on the firm's eligibility, ensuring the claims are genuine by checking employment lists periodically. In the case of incorrectly withheld concessions, payments of a sum totalling five times the amount withheld may be demanded.

3.5 Award Statistics

	1975	1976	1977	1978	1979
INPS Contributions Foregone (Incentive cost in L million)		(½ year) 439	10,972	55,000	100,000
Total Value of All INPS Concessions (in L million)	701,175	766,035	995,870	1,225,000	1,291,000
Jobs Associated (Estimated)		(½ year) 300	6,800	30,000	50,000

3.6 Further Information

Instituto Nazionale della Previdenza Sociale, INPS
Direzione Generale
Ufficio Contributi
Via Ciro il Grande, 21
I - 00144 - Rome EUR
Telephone: 5 90 51

4. TAX CONCESSIONS

4.1 Program Features

Three distinct regional tax concessions are included - a ten-year exemption on the local income tax (ILOR) for projects in the Mezzogiorno and in parts of the Centre and North, referred to as the "ILOR ten-year exemption"; an exemption on up to 70 percent of the ILOR tax liability where taxable profits are used to invest in Mezzogiorno, referred to as the "ILOR reinvestment exemption", and a ten-year exemption on 50 percent of the national profits tax, IRPEG, for firms which are founded and locate their headquarters in the Mezzogiorno, referred to as the "IRPEG ten-year exemption". All three incentives are automatic tax concessions. Both ILOR concessions are project-related, while the IRPEG concession relates to firm profits.

4.2 Rates of Award

The ILOR ten-year exemption offers a full 100 percent exemption from the ILOR tax on profits (15 percent of taxable profits). Eligible projects are basically all industrial projects in the Mezzogiorno plus small industrial projects in the insufficiently-developed zones of the Centre and North. The profits relating to such projects are valued according to the procedures for determining the ILOR (and IRPEG) tax base.

The ILOR reinvestment exemption is a full 100 percent exemption from the ILOR tax on that part of taxable profits which is reinvested in eligible Mezzogiorno projects, up to a maximum of 70 percent of taxable ILOR profits.

The IRPEG ten-year exemption is a 50 percent exemption from the IRPEG tax on company profits (25 percent of taxable profits) for ten consecutive years, the concession being a consequence of company establishing in the Mezzogiorno. The firm must not only be legally constituted in the Mezzogiorno and have its headquarters there it must also have no production plants outside the Mezzogiorno.

4.2.1 Factors Affecting Award Value

The tax concessions are not taxed since the payment of ILOR is not deducted from the tax base of IRPEG or any other tax base.

4.3 Eligiblity Criteria

4.3.1 Eligible Activities

The concessions are restricted to industrial manufacturing activities; only services of an industrial character are eligible: selected repair activities, and handicraft trades, data processing, and research and development.

4.3.2 Geographical Eligibility

Basically, projects located in the Mezzogiorno are eligible. The ILOR ten-year exemption is also available to firms of up to L2 billion fixed investment in the insufficiently-developed zones of the Centre and North.

4.3.3 Project-Related Eligibility Criteria

New facilities, expansion, modernization, spatial relocation and takeover activities may qualify for ILOR concessions.

The IRPEG concession is firm-based and by its nature is limited to new facilities projects.

4.3.4 Size

All size groups are eligible in the Mezzogiorno. In the insufficiently-developed zones of the Centre and North, where only the ILOR ten-year exemption is available, eligibility is limited to firms with fixed investment up to L2 billion.

4.3.5 Eligible Expenditures

This section is relevant only to the ILOR reinvestment exemption since this is paid in respect of project expenditure. (The IRPEG and ILOR ten-year concessions are profit-related; they are not related to eligible items). Land, site infrastructure, buildings, plant and machinery, vehicles related to the production process, and working capital are eligible expenditures.

Expenses related to instalment payments and purchases on credit qualify as eligible expenses.

4.3.6 Further Factors Affecting Eligibility

No concession can be claimed until profits are being made; thus aided projects must be viable.

For the ILOR concessions, eligibility is limited to industrial activities. For the IRPEG concession, eligibility is limited to companies with legal headquarters in the Mezzogiorno which carry out industrial activities. The IRPEG ten-year exemption is normally awarded to companies which are also eligible for the ILOR ten-year exemption.

4.4 Program Administration

4.4.1 Application Procedure

There is no official application form. Application is made by a written statement appended to the tax declaration sent to the district tax office.

4.4.2 Decision Procedure

The eligibility decision is automatic, taken by the district tax office.

4.4.3 Payment Procedure

Tax concessions are paid through the payment of lower tax demands than would have been due without the concession.

4.4.4 Monitoring Procedure

There is no monitoring of the ILOR and IRPEG ten-year exemptions. These concessions are applied for and paid out "after the event". In the case of the ILOR concession, this is after an eligible project has located in the Mezzogiorno or in the insufficiently-developed zones of the Centre-North and, in the case of the IRPEG concession, after a company has been established in the Mezzogiorno.

4.5 Further Information

IASM, Instituto per l'assistenza allo sviluppo del Mezzogiorno
Viale Pilsudski, 124
Rome
Telephone: 8 47 21

ASSONIME, Associazione fra le societa italiane per azioni
Piazza Venezia, 11
Rome

IV. SUMMARY OF MINOR INCENTIVES

1. FUND FOR INDUSTRIAL REORGANIZATION AND CONVERSION

1.1 Program Features

In 1980, additional financing has been made available from a "Fund for Industrial Reorganization and Reconversion" which operates on a country-wide basis, but with a regional tilt.

Two types of incentives are available: soft loans and interest subsidies. Soft loans are offered at 15 percent of the market rate of interest if the project is located in the South, 20 percent in other designated areas, and 30 percent in the rest of Italy. This assistance is offered for up to fifteen years. Interest subsidies can reduce a company's interest burden to 30 percent of the market rate in the South, 40 percent in other designated areas, and 60 percent elsewhere.

Financial help is given in the proportion of one-third soft loan, two-thirds interest-subsidized loans.

1.2 Rates of Award

The amount of incentive varies according to the project type. For reconstruction projects, assistance is limited to 70 percent of the total cost of the project located in the South and 50 to 60 percent for projects located elsewhere, depending on the size of the investment. The 50 percent applies to project costs of more than US $2.4 million and 60 percent when the cost is less than US $2.4 million.

For reconversion projects, assistance is limited to 40 percent of the project costs.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Activities of the following type are eligible: production of energy-saving and anti-pollution equipment, wood and paper, electronics, chemicals, textiles and clothing, iron and steel, machine tools, leather and footwear, aircraft, cars, high technology, food, and urban transport equipment.

1.3.2 Geographical Eligibility

For each priority sector, the Ministry of Industry has drawn up development plans, outlining the government's industrial policy for that sector. Although no territorial restrictions exist on the siting of new investments, application for projects in the South have a better chance of being approved.

1.3.3 Project-Related Eligibility

Assistance is available for reconstruction and reconversion projects. Reconstruction refers to companies seeking to rationalize, renew, update, or move plants while maintaining employment levels. Reconversion refers to companies moving into different product lines, either by modifying existing plants or moving into new ones. Reconversion incentives are only available in the South.

1.3.4 Size

Small businesses have a better chance of qualifying for financial help.

1.3.5 Further Conditions Affecting Eligibility

The required amount of owner equity is 30 percent of the project investment cost.

2. EQUITY PARTICIPATION

2.1 Program Features

Equity participation in companies sponsoring new ventures in the Mezzogiorno may be entered into by special financing corporations: FIME, INSUD, FINAM and ESPI.

2.1.1 FIME

The purpose of FIME - Finanziaria Meridonal - is to promote, develop and expand small and medium-sized companies located in the Mezzogiorno. It can take a non-controlling interest and an equity position not exceeding 40 percent of company capital. The amount of financial assistance provided is proportional to its equity position but FIME can also make available technical, administrative and organizational assistance to the promoted ventures.

FIME is involved with small and medium-size companies in the industrial and service sector and in the processing of agricultural produce.

The criterion of taking only minority interests means that the management responsibility is retained by the majority partners and is in line with the need for FIME to preserve its predominantly promotional nature.

FIME can also collaborate with promoters of ventures by seeking further underwriters for company capital, should their available finance be insufficient. Majority partners may have the right to take over the FIME interest in accordance with the terms and evaluation criteria previously agreed upon.

2.1.2 INSUD

INSUD operates in the manufacturing sector and in tourism. It is also responsible for a program of reforestation.

INSUD provides approved investors ("technical partners") with 50 percent of the risk capital needed for new manufacturing ventures and technical, administrative, and organizational assistance to the promoted ventures.

When the new company is established, the technical partner can buy up the INSUD shareholding on previously agreed terms.

2.1.3 FINAM

FINAM promotes and develops agricultural activities by implementing projects for the production, conservation, processing, and marketing of agricultural produce, both by means of separately formed companies and by using and promoting local cooperatives.

FINAM can take equity positions in companies at the time of their formation, providing them with technical, administrative, and financial assistance to implement agricultural projects. FINAM can also enter into commercial agreements governing the promotion, coordination and implementation of investment programs of companies of common interest, provided they tend towards the setting up of agricultural production ventures or cooperatives.

FINAM is specifically involved in special meat and citrus fruit projects aimed at improving production in the Mezzogiorno.

2.1.4 Regional Holding Companies

In addition to the above three companies, other public holding companies operate on a regional level.

ESPI is empowered to set up joint ventures in Sicily, while SFIRS is entitled to equity participation in companies located in Sardinia.

2.1.5 Leasing

FIME-Leasing was set up by FIME for the purposes of leasing complete plants and industrial equipment. Leasing is restricted to the construction, expansion, reactivation, and modernization of small and medium-size industrial facilities. Leasing rentals benefit from grants and incentives similar to those provided for industrial settlement in the Mezzogiorno.

At the expiry of the leasing contract, the plants leased can be purchased by the lessee for the equivalent of 1 percent of their purchase value.

Other financial leasing companies operate in the Mezzogiorno although only in the machinery leasing field.

3. OTHER TAX CONCESSIONS

3.1 Program Features

3.1.1 Exemption from Registration, Mortgage and Cadastral Taxes

All land purchased from the Regional Industrial Development Consortia for industrial siting purposes is exempt from registration, mortgage and cadastral taxes (which range from 6 percent to 9 percent).

3.1.2 Reduction of Consumer Revenue Tax on Electric Power

For enterprises operating in the Mezzogiorno until December 1980, the consumer revenue tax on electric power is reduced by 50 percent. For the power used in production processes or for heat production, in electrochemical and electroplating production activities, as well as in the thermal power plants and hydraulic service power plants of all industrial facilities, total exemption from the revenue tax may be obtained.

3.1.3 Value-Added Tax Reductions

A reduction of 4 percent of the value-added tax is granted on the purchase and import of machinery and equipment qualifying for depreciation between October 1977 and September 1978. (The period of eligibility may have been extended).

4. GOVERNMENT PROCUREMENT

4.1 Program Features

Up to 30 percent of procurements from ministries and agencies are assigned to companies located in the Mezzogiorno.

5. INDUSTRIAL DEVELOPMENT CONSORTIA

5.1 Program Features

Forty-eight public Regional Industrial Development Consortia provide for the development and operation of one hundred and fifty-six industrial parks.

6. INFRASTRUCTURE DEVELOPMENT

6.1 Program Features

The Cassa provides aid to infrastructure and social equipment in the South. It can also provide grants of 30 to 50 percent of the cost for housing for workers, industrial buildings, and water storage.

7. LABOUR INCENTIVES

7.1 Program Features

Enterprises in the Mezzogiorno employing young people (15-29 years) registered in the special youth unemployment lists receive benefits: US $73 per month per employee for two years for the offer of permanent employment, and US $0.46 per hour for one year for on-the-job training, and for hours actually worked, which must be no less than 20 hours per week (the remaining hours being set aside for training purposes). For every young person given permanent employment at completion of job training, the enterprise is entitled to receive US $73 per month for one year.

8. OTHER INCENTIVES

8.1 Program Features

There is, in addition, the Mediocredito Soft Loan scheme for small and medium-sized firms, and an interest subsidy for groups of problem-area authorities.

THE NETHERLANDS

I. COUNTRY OVERVIEW

1. TYPE OF INCENTIVES

1.1 Major Incentives

The Netherlands offers two major regional assistance programs: the Investment Premium and the Special WIR Regional Allowance.

In addition, a mixed premium grant, which combines a capital grant based on investment and a per job payment for employment created, is available as an alternative to the Investment Premium.

The Investment Premium (IPR) is the major Dutch regional incentive. It is a project-related, automatic capital grant program with fixed rates of award of 25 percent of eligible investment up to Fl. 16 million. Additional assistance for investment beyond Fl. 16 million is discretionary and at a rate which varies by location of the project.

A mixed premium version of the IPR, including labour and capital grants, is available in place of the IPR capital grant. This program is attractive to labour-intensive projects and consists of a grant of 15 percent of eligible investment up to a maximum award of Fl. 2.4 million and a sum of Fl. 12,500 for each permanent job created up to a maximum mixed premium of Fl. 5 million.

The Special WIR Regional Allowance is one of four incremental premiums available in addition to a basic WIR national premium. The basic WIR incentive was introduced in 1978 and is an automatic, item-related incentive covering all types of fixed investment. It is awarded in the form of reduced tax payments when profits are made and in the form of grants when losses occur.

The four incremental premiums are: a small scale allowance, a large project allowance, a physical planning allowance, and the special regional allowance, which is offered in the major Dutch problem regions at a rate of 20 percent of eligible building costs and 10 percent of eligible open air installation costs.

1.2 Minor Incentives

In addition to the major incentives described above, only two other truly regional incentives are available in the Netherlands: the Lelystad employment premium, a labour subsidy available only in the town of Lelystad and due to expire at the end of 1980, and a site preparation grant paid to municipalities to assist in construction and infrastructure development of new industrial sites.

However, there is also a program to relocate government services in underdeveloped areas, and disincentives to discourage further industrial growth in the already-congested western part of the country. These incentives, along with several other smaller assistance programs, are summarized in Section IV.

2. MAIN REGIONAL PROBLEMS AND POLICY

In order to secure a better distribution of economic activity throughout the country, restrictive measures, which include the selective regulation of commercial investment, levies on investment in real estate, and a system of licensing, are being applied in the congested western region together with the dispersal of some government activities to less-developed areas. These actions complement positive measures in the fields of physical and social infrastructure and the use of industrial incentives which are applied in areas where development is to be actively pursued.

The Dutch incentives package consists of only a few programs. Each is administered in a relatively straightforward manner. In contrast with many of the other smaller countries in the European Community, administrative discretion is minimal. The system is perhaps one of the most geographically discriminatory among the EC countries, particularly with the introduction of the WIR investment account in May 1978.

3. MAIN DECISION-MAKING BODIES

The Ministry of Economic Affairs has primary responsibility for regional development policy. The Netherlands Restructuring Company (NETHEM) and the state-owned Development Company for the North (NOM) are development corporations with a mandate to increase regional economic growth.

4. RECENT EVOLUTION OF INCENTIVES

Regional policy in the Netherlands has gone through a number of phases, beginning with the introduction of ad hoc measures to stimulate investments in selected areas of the country. More recently, this effort has been concentrated and finally confined to the North and South Limburg regions. The need for a comprehensive long-term approach to planning, including physical planning, has been recognized with the introduction of the WIR investment account which allows most assisted projects, in particular those eligible for the Special WIR Regional Allowance, to obtain the maximum award compatible with the aid ceilings set by the European Economic Community.

5. SUMMARY TABLE OF MAJOR BUSINESS INCENTIVES

Major Incentives	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
Investment Premium (IPR)	Automatic, project-related grant	Selected growth nuclei in Northern Development Area, Reconversion Area of South Limburg, and a number of other centres.	Manufacturing Services if firm has a choice of location. Laboratories, research departments if directly related to industrial activities.	25% of capital costs up to Fl. 16 million. Additional assistance for investments greater than Fl. 16 million is discretionary and at a rate which varies by project location.	Federal Ministry of Economic Affairs
WIR Regional Allowance (one of four incremental premia offered as part of national WIR program)	Automatic, item-related. Reduced tax payments when profits are made. Grants when losses occur.	Northern Development Area, Reconversion Area of South Limburg	Not restricted, item-related	20% of eligible building costs, 10% of eligible costs.	Federal Ministry of Economic Affairs, and the Inland Revenue Department.

II. REGIONAL POLICIES, PROBLEMS AND DECISION-MAKING BODIES

1. POLICIES AND APPROACH

In order to reduce the economic disparity between the prosperous West and the less-developed South and North and to provide a more equalized standard of living throughout the country, regional policy in the Netherlands aims to:

- decrease congestion in the west,
- protect open spaces and the environment,
- reduce regional economic and social disparities, and
- reduce commuting.

During 1972, it was decided to concentrate further regional development programs in North and South Limburg. At present, regional policy distinguishes two zones:

- development and reconversion areas - the northern part of the country, and South Limburg, respectively, and
- areas where restricted growth is intended - the provinces of South-Holland, Utrecht and North-Holland.

Regional policy concentrates on capital investment grants, infrastructure projects, and the decentralization of government services through a policy of dispersion of central government agencies to the North and South Limburg regions. In the West, regional policy emphasizes the use of investment regulations and the transfer of government services out of the well-developed regions.

The majority of industrial incentives are now concentrated in North and South Limburg. To facilitate the orderly dispersal of assistance programs, Development Centres and Favourable Industrial Areas have been identified in these two regions.

The main emphasis of regional policy in the northern part of the country concentrates on stimulating economic activity to achieve a more balanced distribution of population and income. To implement this policy, an overall regional economic development plan (OSP) was prepared in 1976, based on an integrated long-term program that considers the effect of international and national trends on the economic, social and political interests.

In South Limburg, a vigorous reconversion program is planned to compensate for employment lost as a result of the closing of numerous coal mines. Part of this program will include the transfer of central government jobs to the region and an improvement in the regional incentives package. A long-term plan, similar to that for the North, has been instituted.

To alleviate the congestion in the West, incremental development in this area is directed to designated Growth Centres. For the restricted growth regions, specifically the West, the main policy objective is to slow down investment in order to reduce the disadvantages of over-congestion and establish a more even distribution of investments over the entire country. A large number of central government jobs will be relocated from the West to North and South Limburg by 1985. These policies will be implemented by the selective regulation of commercial investment, levies on investments in real estate, and by a system of licensing.

Regional development assistance is also available, on a temporary basis only, to industry located in the Temporary Development Centres in the relatively prosperous eastern provinces.

To receive assistance all projects must fulfill a number of basic conditions: the project must help strengthen the economic structure of the region; it must be consistent with the development policy for the relevant sector; the investment must provide new jobs and be commercially viable; a minimum of 35 percent of the investment must be financed from the firm's own resources.

2. PROBLEMS

Industrialization and the importance of international trade have concentrated much of the economic growth in the three western provinces: North-Holland, South-Holland and Utrecht. The three northern provinces: Groningen, Friesland and Drenthe, suffer from a decline in the peat industry and a loss in employment due to the mechanization of the agricultural sector. Unemployment in the North is high and net migration to the West continues. In the southern province of Limburg, the decline in the importance of the coal industry, the closure of many of the textile mills, and the problems associated with being a border area with limited economic hinterland, have led to structural unemployment and out-migration of workers to the West.

During the last decade, the spatial problems have become more apparent, in particular, the problems posed by the high concentration of population and economic activity in the West. Good factory sites have become scarce and other related difficulties, such as housing and water shortages, air pollution and the inefficient use of available land, have resulted. This situation has introduced not only the need to cope with the specific problems of congestion, but also the requirement for promotion of industrial development in the regions of out-migration in order to reduce the pressures on the overburdened West.

3. DECISION-MAKING BODIES

The Netherlands is basically a federal democracy consisting of a strong central government and twelve provincial governments. In contrast to other federal OECD nations, for example, Australia and Germany, the central government has retained much of its authority over the planning and implementation of regional policy.

The Ministry of Economic Affairs has the primary responsibility for regional development policy. This Department administers the system of industrial incentives and, in association with other ministries, the restrictive regulations employed in the West. It also liaises with the provincial and municipal authorities. A Northern Liaison Commission provides for meetings between the Ministry of Economic Affairs and other federal ministries and the provincial governments of the northern provinces.

Responsibility for physical planning rests with the Ministry of Housing and Physical Planning. Coordination of structural planning, both physical and economic, is secured through interdepartmental organizations and coordination committees.

The Ministry for Culture, Recreation and Social Affairs administers the resettlement reimbursement scheme which applies to workers who move for reasons covered by the government's labour market policy, as well as the program to facilitate the employment of the handicapped.

The state-owned Development Company for the North (NOM) coordinates many of the industrial incentive programs for this region. This organization plays an important coordinating role between the private and public sector. The Limburg Institute for Development and Finance (LIOF) performs a similar function in the South Limburg region. The Netherlands Restructuring Company (NETHEM) is involved with economic development programming at the national level.

At the provincial government level, there is an Economic-Technological Institute for each province which conducts research on regional structural policy, labour market policy, and so on.

III. SURVEY OF MAJOR INCENTIVES

1. INVESTMENT PREMIUM (IPR)

1.1 Program Features

The Investment Premium (IPR) is an automatic, project-related capital grant. It is the most important Dutch regional financial incentive and was introduced in 1967 to encourage firms to establish or expand in North and South Limburg, the two areas designated for major regional development.

The IPR is paid out of the budget of the Ministry of Economic Affairs.

1.2 Rates of Award

The standard award is 25 percent of eligible fixed investment up to a maximum award of Fl. 4 million, except in a few specified municipalities (see paragraph 1.3.2) where the award is 15 percent of the investment costs of fixed assets up to a maximum of Fl 2.4 million. For larger projects, an additional discretionary award can be made for eligible investments above Fl. 16 million.

As an alternative to the standard award of 25 percent of eligible fixed investment (but not the 15 percent grant), a so-called "mixed premium" is available consisting of a grant of 15 percent of eligible fixed investment up to a maximum award of Fl. 2.4 million plus Fl 12,500 for every permanent job created by the project. The maximum automatic award is Fl 5 million. Beyond this maximum, there is discretion in the amount awarded. The grant relating to jobs created is paid one year after any construction related to the project is completed. This mixed premium is particularly attractive to labour-intensive projects.

1.2.1 Factors Affecting Award Value

The investment premium is taxed indirectly in that aided investment can only be depreciated for tax purposes net of the premium received.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Manufacturing is eligible. Services are eligible only if they have a choice of location. Laboratories and research departments are eligible if they are directly related to the development of industrial activities.

In certain areas (see paragraph 1.3.2) only industrial projects can receive assistance. Firms in sectors where overcapacity exists or poses a threat are not eligible.

1.3.2 Geographical Eligibility

The IPR is available in selected growth nuclei in the Northern Development Area, which is basically agricultural, in the Reconversion Area of South Limburg, where the coal mines were shut down in 1966, and in a number of other growth nuclei in Overijssel, North-Brabant and Gelderland.

The total eligible areas cover 31 percent of the country's land area and hold 24 percent of the population. The Northern Development Area and the Reconversion Area of South Limburg together cover 26 percent of the country and hold 17 percent of the population.

There is no explicit and quantified system for designating the eligible areas. Designation is the responsibility of the Ministry of Economic Affairs. Designated areas tend to have a poor socio-economic structure, high unemployment and a weak economic structure.

The situation is complex with respect to discrimination among eligible areas. All growth nuclei in the Northern Development Area and the Reconversion Area of South Limburg qualify for 25 percent IPRs for industry and services. A number of centres within these areas, however, only qualify for 15 percent IPRs for industry and services. All other 15 percent IPRs are limited to projects in industry which involve the construction of new facilities or expansion. Twenty-five percent IPRs for new industrial facilities and expansion are available in the growth nuclei in Gelderland and North-Brabant.

1.3.3 Project-Related Eligibility

New facilities and expansion projects are eligible. Spatial relocation is eligible where it involves moving from the heavily populated areas of the Southwest to the IPR areas, but not within the IPR areas themselves.

1.3.4 Size

Projects with eligible fixed investment of less than Fl. 200,000 are not eligible.

1.3.5 Eligible Expenditures

The costs of purchasing land, site infrastructure, buildings and plant, and machinery are eligible investments.

Expenses related to instalment payments and purchases on credit are also eligible.

1.3.6 Further Conditions Affecting Eligibility

Project goals must be compatible with regional labour markets and the regions' long-term plans for industrial development. The project must be viable. At least 35 percent of fixed investment costs must come from the firm's own funds and there must be an acceptable relationship of own to outside capital after completion of the project, as judged by the Minister of Economic Affairs.

Any investment that will result in total or partial transfer of business from any of the designated growth centres is not eligible, nor is a business that is moved to an incentive area from a region that is close to the incentive area.

1.4 Program Administration

1.4.1 Application Procedure

Applications are sent to the relevant development company which acts as an intermediary, i.e., Northern Development Company, the South Limburg Development Company, the Overijssel Development Company. It is then passed on to the appropriate provincial government. In regions where a development company does not exist, as in North-Brabant, applications are sent directly to the provincial government.

1.4.2 Decision Procedure

The views of the relevant local authority on possible environmental and physical planning objections are sent with the application to the appropriate provincial government. The Economic-Technological Institutes at the provincial level help the government evaluate the project. The provincial government's recommendation is then passed on with the application to the Minister of Economic Affairs for a final decision. The eligibility decision is dependent solely on the conditions of award being met. Rate discretion is limited to investment beyond Fl. 16 million.

The application/decision procedure takes on average four to six months to complete.

1.4.3 Monitoring Procedure

Once the grant has been paid by the Ministry of Economic Affairs, there is no policing arrangement. The premium will be paid, however, only if the applicant realizes the plans set out in the application, if plant and machinery are working within a year of the completion of the building, and if the financial conditions of the award are met. After the final investment premium payment, payback, in full or in part, occurs only if the entrepreneur received another premium or similar financial support from a third party for the same project.

1.5 Award Statistics

Number of Projects Approved: Statistics are not available cumulatively until 30 June, 1976 and annually thereafter:

	Industrial Projects		Service Projects	
	New Facilities	Expansions	New Facilities	Expansions
until 30.6.76	269	841	15	17
30.6.76-30.6.77	18	155	2	28
30.6.77-30.6.78	20	171	5	20
Value of Grants Approved (Fl. million)				
until 30.6.76	465.7	550.4	20.6	7.0
30.6.76-30.6.77	26.1	107.5	1.7	17.5
30.6.77-30.6.78	43.3	169.4	10.6	15.1
Associated Eligible Fixed Assets (Fl. million)				
until 30.6.76	2964	4980	98	28
30.6.76-30.6.77	138.6	480.3	6.7	70.7
30.6.77-30.6.78	239.8	982.9	42.5	60.6
Associated Employment (Applicant estimates)				
until 30.6.76	23006	31466	1171	207
30.6.76-30.6.77	803	1922	95	676
30.6.77-30.6.78	725	2621	151	278

1.6 Further Information

Ministry of Economic Affairs
Bureau Informatie
Postbus 20101
2500 EC's-Gravenhage

Telephone: 070-81 40 11 extension 2325

2. INVESTMENT ACCOUNT - SPECIAL REGIONAL ALLOWANCE (WIR)

2.1 Program Features

The Special WIR Regional Allowance is part of a national business incentives package introduced in May 1978. In addition to the special regional allowance, three other incentives comprise the total WIR incentives program: the small-scale allowance, physical planning allowance and large project allowance, which are described in subsequent sections. The basic WIR incentive is an automatic, item-related award covering almost all types of fixed investment in the form of reduced-tax payments when profits are made and in the form of grants when there are losses or insufficient profits.

The objectives of the WIR as a total program include the stimulation of small-scale enterprise, rural and urban planning and other industrial projects, in addition to regional economic development.

2.2 Rates of Award

The rates of award of the basic WIR premium are available nationally and vary considerably depending on the nature of the investment, for example: new buildings are eligible for 18 percent of investment costs, while fixed open-air installations, such as an immovable crane, are eligible for 13 percent of investment costs.

2.2.1 Factors Affecting Award Value

The basic WIR premium, plus whichever of the four additional premia is available to any given project, cannot exceed 50 percent of the investment in eligible buildings and 25 percent of the investment in eligible fixed installations.

For investments located in the western region, the amount of the incentive is partially offset by the application of the Selective Investment Regulation Levies (described in section IV, paragraph 1.1).

The WIR may be considered a tax refund. As a result, it is not taxed, nor does it change the fiscal depreciation basis of aided assets.

The special regional allowance is available for investment in buildings, new as well as existing, at a fixed rate of 20 percent, and for investment in open-air installations, insofar as it is not simply replacement investment, at a fixed rate of 10 percent. The standard WIR assistance, incremental WIR allowances, and the IPR premiums cannot exceed the EEC imposed ceiling of 20 percent of the value of the investment. To the extent that this percentage is exceeded, the excess will be deducted from the IPR premium.

2.3 Eligibility Criteria

2.3.1 Eligible Activities

The WIR scheme is item-related and not project-related and is limited to applicants who are liable to corporate taxation in the Netherlands and who invest at least Fl 2,000 in fixed assets in any one year.

2.3.2 Geographical Eligibility

The basic WIR premium is national, but a special regional allowance is used in certain designated areas lying within the Northern Development Area and the Reconversion Area of South Limburg to augment the national premium.

While the basic WIR premium is available nationally, the special regional allowance is available only in parts of the Northern Development Area and the Reconversion Area of South Limburg. Areas eligible for the special WIR regional allowance cover about 9 percent of the country's area and hold about 8 percent of the population (based on 1978 population statistics).

2.3.3 Project-Related Eligibility

No project-type conditions have been imposed on the special regional allowance as far as buildings are concerned. Fixed open-air installations are eligible only if they involve new economic activity. The construction of new facilities and expansions are eligible with respect to such installations, but project activities concerned with rationalization, reorganization, and modernization are eligible only if net productive capacity is increased.

2.3.4 Size

The basic WIR premium (and hence the four additional programs) is available only to entrepreneurs who invest at least Fl 2,000 in fixed assets in any one year.

2.3.5 Eligible Expenditures

In addition to new and existing buildings used for business purposes, new open-air installations, for example, immovable cranes and oil refineries, are eligible for the special regional allowance.

The WIR is based on actual investment costs. Items are valued according to their purchase price or their construction or production costs. Most costs borne by the entrepreneur are regarded as investment costs.

Industrial buildings built for lease to others, investments made by investment funds and pension plans are ineligible. Interest charges are not eligible.

2.4 Program Administration

2.4.1 Application Procedure

There is virtually no administrative discretion in the WIR scheme, which is implemented through the Dutch tax system. Applicants have a legal right to the WIR if the award conditions are met. There is an official application form for the WIR Special Regional Allowance on open-air installations, but not for the allowance on buildings. The latter is handled by Inland Revenue as part of the tax system. For investment in open-air installations, the Investment Account Department provides a statement setting out what proportion of investment is eligible for the special regional allowance. This is then taken into account by the Inland Revenue in determining tax liabilities.

2.4.2 Decision Procedure

Rates of award are fixed. The Investment Account Department of the Ministry of Economic Affairs makes the eligibility decision, which is dependent solely on the award conditions being met. Tax liability is then assessed by Inland Revenue. The value of the award is decided on the basis of the tax liability.

2.4.3 Monitoring Procedure

Once the basic WIR premium and additional allowances have been paid there is no policing arrangement geared specifically to the WIR. If an aided asset is sold within a given time period, the WIR received on that asset must be repaid. The time periods to which this repayment stipulation applies vary according to the nature of the investment but the range is between six and eighteen years.

2.5 Award Statistics

No information is available. The scheme has only been operating since May 24, 1978.

2.6 Further Information

Dienst Investeringsrekening
Postbus 10073
8000 GB Zwolle

Telephone: 05200 - 30930

3. SMALL SCALE ALLOWANCE (WIR)

3.1 Program Features

The Small Scale Allowance is another of the incremental premiums for which a firm may be eligible in addition to the basic WIR assistance. The WIR offers an incremental grant towards eligible investments made by firms with an annual investment less than Fl 800,000. The size of the extra premium is graduated and is dependent on the amount of the investment.

3.2 Rates of Award

The rate decreases uniformly as the size of the investment increases from 6 percent on investment of between Fl 2,000 and Fl 33,000, to 0.25 percent on investment of between Fl 766,667 and Fl 800,000.

The other aspects of this program correspond to the basic WIR assistance.

4. PHYSICAL PLANNING ALLOWANCE (WIR)

4.1 Program Features

This incremental premium applies to companies moving out of the congested western regions into designated growth nuclei. It is available to entrepreneurs moving the whole or part of their activities from those parts of the SIR (Selective Investment Regulations - see section IV, paragraph 1.1) area not designated as growth nuclei for physical planning purposes to one of the eight SIR area growth nuclei, or to one of the five "growth cities" outside the SIR area.

4.2 Rates of Award

The rate of award is 15 percent of investment in buildings and 7.5 percent of investment in fixed open-air installations.

This WIR premium relates only to that portion of an investment involving the relocation of economic activities. New establishments are not eligible. The Investment Account Department of the Ministry of Economic Affairs decides on the eligibility of each investment on a case-by-case basis. Other conditions are similar to those for the basic WIR assistance program.

5. LARGE PROJECT ALLOWANCE (WIR)

5.1 Program Features

An allowance, in addition to the basic WIR premium, is available for large projects. It is an incremental job-related premium for investments in buildings, and plant and machinery in excess of Fl 30 million.

5.2 Rates of Award

Fl. 25,000 per new job is paid for project investment in excess of Fl. 30 million. The extra premium cannot exceed in aggregate 4 percent of the total investment.

For investments in excess of Fl 30 million, at least Fl 8 million must be dedicated to the erection of business buildings or fixed equipment. Other stipulations are similar to those for the basic WIR assistance.

IV. SUMMARY OF MINOR INCENTIVES

In addition to the IPR and the WIR, the basic scheme and its four components, which are the two major programs described in Section III, several other regional development programs are available in the Netherlands. These programs are summarized below.

1. SELECTIVE INVESTMENT REGULATIONS (SIR)

1.1 Program Features

The most recent Selective Investment Regulations legislation was introduced in June 1978 and was intended to be used as the major "stick" to induce existing industry to move out of the congested West and into the designated regional development areas. The instrument is used also to regulate new industry wishing to locate in the western regions.

A system of investment licences, an obligation to report new investments and a series of levies (which have been temporarily suspended) constitute the main components of the SIR legislation.

1.2 Rates of Award

Although the levy system is temporarily suspended, the levy schedule as a percentage of the total investment value is as follows:

- gaining a building licence for new buildings costing more than Fl 25,0000	15%
- building licences for new buildings built by investment trusts, pension funds and savings banks	5%

- fixed open-air installations costing in excess of Fl 500,000. 8%

1.2.1 Factors Affecting Award Value

The SIR levy is treated as if it were a direct tax and is accounted for in the standard corporate tax returns. Payment is due within ten months of the end of the taxation year in question.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Although most investments in the regulated areas are subject to the SIR, certain investments are exempted. They include investments in public service buildings, churches, buildings used for environmental preservation, buildings used in the provision of goods and services to the elderly, recreation facilities, and buildings destroyed due to natural disasters.

1.3.2 Geographical Eligibility

The SIR is applied only in the western regions of high population density.

1.3.3 Project-Related Eligibility

Most projects in the SIR areas fall under the regulations except as indicated in paragraph 1.3.1.

1.4 Program Administration

The SIR legislation is administed by regional corporate tax departments.

2. LELYSTAD EMPLOYMENT PREMIUM

2.1 Program Features

A combination capital and labour subsidy was available for the establishment of new industry or services in Lelystad. This instrument was scheduled to terminate on 1 January 1980. It has been utilized as part of the broader locational planning policy.

2.2 Rates of Award

Under this spatially focused program, the following assistance was available: up to a maximum of 25 percent of the eligible investment in fixed assets, maximum Fl 3 million, and up to Fl 10,000 for each employee who received a permanent job with the assisted enterprise and relocated in Lelystad.

2.3 Eligibility Criteria

The conditions for this program are as follows: the minimum investment must exceed Fl 400,000, at least 40 percent of funds must be self-generated, and at least ten new employees must be employed by the new enterprise. Other conditions are identical to those for the IPR, except that the debt-equity ratio differs from the Investment Premium requirements.

3. LOAN GUARANTEES

3.1 Program Features

The Central Government offers loan guarantees covering private sector loans for eligible industrial fixed asset investments of all types.

3.2 Eligibility Criteria

The service sector is also technically eligible. The specific assistance offered is determined on a case-by-case basis.

4. STATE EQUITY PARTICIPATION

4.1 Program Features

The main purpose of this instrument is to enable firms to invest in land, buildings, machinery and equipment, including transportation equipment.

Total state shareholding and public sector loans over the period of March 1976 to March 1978 have amounted to Fl. 135 million.

4.2 Eligibility Criteria

All types of industrial investment in fixed assets are eligible. The service sector is also technically eligible.

The specific assistance is determined on a case-by-case basis.

4.3 Program Administration

The Netherlands Restructuring Company (NETHEM), the state-owned Development Company for the North (NOM), and the Limburg Institute for Development and Finance (LIOF) can all hold equity positions. To date, NOM has been involved in twenty-seven projects involving state equity positions.

5. DECENTRALIZATION OF CENTRAL GOVERNMENT AGENCIES

5.1 Program Features

More than 16,000 jobs will be moved from the West to North and South Limburg by 1985 as part of the strategy to redistribute the population and economic activities.

An example of this policy is the relocation of part of the Post Office from the Hague to Groningen in the northern region.

6. MOBILITY ASSISTANCE

6.1 Program Features

The Migration Rule of 1971 and the Migration Rule of the North are both administered by the Ministry of Social Affairs. These Rules offer mobility assistance to the employees of firms, moving to and within assisted areas. For example, businesses that have moved from the West, that are establishing subsidiary operations in the assisted areas and that are moving into the North, as well as unemployed or soon-to-be-unemployed individuals in the West, North and South Limburg regions, are eligible for assistance.

NORWAY

I. COUNTRY OVERVIEW

1. TYPE OF INCENTIVES

1.1 Major Incentives

Loans, loan guarantees, investment grants, relocation grants, training grants, and grants for surveys and planning are the major incentives available through the Regional Development Fund. In addition, there are a number of other funds which provide economic assistance on a regional basis.

Loans and loan guarantees are part of an industrial incentives program administered by the Regional Investment Fund. Long and medium-term loans are offered at current market rates, for a period of 30 years with, frequently, an interest holiday of three years.

Investment grants are intended to direct the establishment, relocation and expansion of firms to certain parts of the country. Grants are offered at the following rates primarily to industrial but also to service activities: up to 35 percent in Northern Norway, up to 25 percent in parts of the south, and 15 percent in other areas with high unemployment or a weak economic base.

Reserve Funds is a scheme whereby businesses located anywhere in Norway can invest pre-tax income in production projects in designated areas of the country. Up to 45 percent of the allocations to the fund are ultimately tax-free if used in Northern Norway and Namdalen, and 35 percent in other development areas.

The Establishment Controls Act requires that approval be given for the expansion or conversion of a site, a building, or plant in non-designated areas. It is a form of a disincentive in order to redirect industrial development in designated areas.

Infrastructure Investment Programs include a package of four incentive schemes for assisting infrastructure projects: land purchase bonds, general financial aid to municipalities, special regionally-oriented aid to municipalities, and special measures for Northern Norway.

1.2 Minor Incentives

In addition to the major incentives, there is a regional transport subsidy and three other programs to assist industry, administered by the Regional Development Fund: relocation grants, manpower training grants, and survey and planning grants.

2. MAIN REGIONAL POLICY

The Regional Development Fund was established in 1961 to finance and coordinate the application of a package of regional industrial incentives. The main objective of these incentives is to increase permanent employment opportunities in areas with high unemployment and an underdeveloped industrial base.

The Fund acts as a lender of last resort. Loans have accounted for the largest share of the Fund's total financial support commitments. This share has ranged from 67 percent in 1971 to 58 percent in 1975.

II. SURVEY OF MAJOR INCENTIVES

1. INDUSTRIAL LOANS AND LOAN GUARANTEES

1.1 Program Features

Loans and loan guarantees are the major component of the Regional Development Fund's assistance to industry.

Loan guarantees are offered on loans raised through banks or other credit institutions. Since 1971, commitments under the loan guarantee program have accounted for about 9 to 13 percent of the Fund's total support commitments.

1.2 Rates of Award

The Fund offers long and medium-term loans at current market rates. The term of the loan may be extended to 30 years for the erection of municipally-owned leasable industrial buildings and for other buildings in the areas of most severe economic disparity. Loans for financing leasable industrial buildings constructed by the public sector may be eligible for an interest-free period of three years. In exceptional cases, the Fund offers direct loans for operating capital.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Manufacturing and other industrial enterprises receive most of the support, but firms engaged in mining, the energy sector, the building and construction trade, certain service industries, especially hotels and other tourism enterprises, and some firms in the primary sector are also eligible.

1.3.2 Geographical Eligibility

The areas eligible for the Fund's programs are not clearly defined. Most of the south is, however, excluded.

1.3.3 Eligible Expenses

Loans for investments in buildings, machinery, and equipment are eligible.

1.4 Program Administration

1.4.1 Decision Procedures

The Fund administers the loan and loan guarantee programs. The State is responsible for the fulfillment of the Fund's loan guarantee obligations.

2. INVESTMENT GRANTS

2.1 Program Features

Investment grants are another major part of the package of industrial incentives made available through the Regional Development Fund. Introduced by the Fund in 1971, the objective of the grant scheme is to influence the location of new plant facilities, relocating firms, and expansions.

Investment grant share of the Fund's total financial support commitments has grown from 17 percent to 26 percent.

2.2 Rates of Award

Grants are offered at the folloiwng rates, based on investment already committed:

- up to 35 percent in the three counties of North Norway and in selected municipalities in other areas;

- up to 25 percent in 104 municipalities in the southern area;

- up to 15 percent in other areas having high unemployment or a weak economic base.

2.2.1 Factors Affecting Award Value

The grant is neither taxable nor does it affect the firm's basic depreciation allowance on the capital equipment concerned.

2.3 Eligibility Criteria

2.3.1 Eligible Activities

The following activities are eligible for investment grants: manufacturing, including handicrafts, the repair and maintenance of ships and fishing vessels, mining, the service sector, in particular the hotel and tourist trade, and certain projects in the primary sector.

In the areas where the maximum rates of 35 and 25 percent apply, the list of eligible industries also include: the repair and maintenance of motor vehicles, manufacturing of construction equipment and agricultural machinery, the wholesale trade sector, laundries and cleaning establishments, and office and service functions in the mining, manufacturing, handicraft, business services, and transportation industries. Industries in mining, energy-intensive industries and those which are dependent on raw materials usually receive a lower rate than other industries.

2.3.2 Geographical Eligibility

The boundaries within which the Regional Development Fund's assistance programs apply are not precisely defined by statute. In general, however, projects in most of the southern counties do not receive support.

2.3.3 Eligible Expenditures

Grants are given for investment in buildings, equipment, and machinery.

2.3.4 Further Conditions Affecting Eligibility

In order to qualify for an investment grant, the investment must be at least N.Kr. 30,000 and in calculating the value of the grant as a percentage of the total investment, only the balance in excess of N.Kr. 25,000 is taken into consideration.

2.4 Program Administration

2.4.1 Decision Procedure

The Fund administration determines the amount of the grant according to an overall assessment of each individual case; usually this serves to reduce the rates below the maximum rate allowed.

3. RESERVE FUNDS

3.1 Program Features

The Regional Taxation Act enacts fiscal policy for promoting regional development. Under the Act, the owner of a business anywhere in Norway may deposit pre-tax income into reserve funds which are used for investment in substantial productive assets in Northern Norway and Namdalen and in specified regions of Southern Norway having severe unemployment problems.

3.2 Rates of Award

An investment project which is financed by means of these reserve allocations must begin within five years after the reserve allocation was made. Up to 45 percent of the allocations to the fund are ultimately tax-free if used in Northern Norway and Namdalen, and 35 percent in other development areas.

In any one year, the reserve allocation must amount to a minimum of N.Kr. 10,000.

3.2.1 Factors Affecting Award Value

The Act in certain cases will allow a form of accelerated depreciation in Northern Norway and Namdalen of up to 50 percent of the book value of productive assets. The deductions claimed in any one year, along with deductions for initial allowances, may not exceed 50 percent of that year's income.

The provision for accelerated depreciation means that the depreciation is completely written off at an earlier point in time.

3.3 Eligibility Criteria

3.3.1 Eligible Activities

This fiscal tool does not apply to incomes derived from petroleum extraction and pipeline transport in the continental shelf, nor may reserve funds be used for investment in petroleum operations.

3.3.2 Eligible Expenditures

In certain circumstances, it is possible for the funds to be used for the purchase of shares giving full or partial equity in companies involved in economic activity in Northern Norway, Namdalen, and other development areas. The act also provides that in special cases, depreciation may be allowed before the particular plant or asset has been brought into use.

4. INFRASTRUCTURE INVESTMENT PROGRAMS

These programs offer to municipalities land purchase bonds, planning and infrastructure grants.

4.1 Program Features

Infrastructure investments are usually financed through the Annual Budget; investments in industrial enterprises are financed through private and public banks and credit institutions.

4.1.1 Land Purchase Bonds

This instrument aids municipalities to obtain land for development purposes. Land purchase bonds are interest-bearing promissory notes administered by the Municipal Bank which are used as a means of payment for the acquisition of land by public authorities.

Property owners who are paid for their land by means of land purchase bonds are exempted from paying income tax on the profit of the sale if they hold the bonds until all of the repayment instalments are paid. The bonds are issued by the Bank of Norway, and the government guarantees payment of principal and interest. The repayment period is usually 15 years with semi-annual repayment instalments.

In special circumstances, the Municipal Bank makes cash loans for municipal acquisition of land to be used for housing where the property owner wants a cash settlement as well as land purchase bonds. The Municipal Bank also has in place a special loan scheme to allow loans to municipalities for site preparation where housing development has been held back by lack of adequate sites.

The Bank has a special scheme of loans for infrastructure investments to municipalities dealing with the problem of development of areas with particular depopulation problems. These loans are used to finance access roads, harbour installations, water supply and sewage disposal systems, and land purchase where payment must be made in cash. These loans must be related to specific projects.

4.1.2 General Financial Aid to Municipalities

The Environment Ministry provides grants for the planning and preparation of land utilization, water supply, sewage systems, garbage disposal, etc. In some cases, the grants may be used for the planning of outdoor recreation areas. Grants may be given in cases where the costs of planning and preparation exceed the capacity of the municipality. These grants are awarded on the basis of regional plans and priorities rather than on the basis of an individual municipality's needs.

4.1.3 Special Regionally-Oriented Aid to Municipalities

The Ministry of Local Government and Labour provides grants to municipalities for infrastructure projects which promote economic growth in the underdeveloped regions. Financial aid in this form cannot be linked to a specific economic enterprise, for it is considered that this would lead to competition between municipalities. The financial assistance may amount to 70 percent of the total cost of the project.

4.1.4 Special Measures in Northern Norway

Funds are set aside in the Fiscal Budget for grants for special development measures in Northern Norway. Eligible types of projects are municipal improvement programs, such as street construction, harbour development and the construction of public buildings. These projects are usually carried out in the winter to provide off-season employment opportunities.

5. ESTABLISHMENT CONTROLS ACT

5.1 Program Features

The objective of the Establishment Controls Act is to promote economic activity by directing new industrial development, relocation of industry, and expansions to designated underdeveloped areas of the country.

On a national basis, approval is required for the expansion or conversion of a site, a building, or plant if the project is to be used for economic activities.

Special arrangements apply in particular municipalities and approval is required for the construction, expansion or conversion of buildings used for economic activities.

The Fund also undertakes information work and provides guidance on location to entrepreneurs.

The overall national arrangement covers development projects involving capital costs of at least N.Kr. 25 million or requiring 100 man-years at a work-site or 100 permanent jobs. For the agricultural processing industries, the sawmills industry, and the hotel industry, the capital cost limit is N.Kr. 10 million, and for retail trade, N.Kr. 5 million. The special arrangement applies to projects where the floor space is a minimum of 500 square metres. Exceptions are allowed for both sets of provisions.

5.2 Eligibility Criteria

5.2.1 Eligible Activities

The following economic activities are covered by the Act: manufacturing, wholesale and retail trade, hotels and restaurants, banking and finance, insurance, real estate, business services, vehicle repairs, appliances and personal commodities, laundry and cleaning services, and photographic businesses. In addition, parts of the Act apply to specified projects in the mining industry, utilities, communications, and transport sectors.

III. SURVEY OF MINOR INCENTIVES

1. REGIONAL TRANSPORT SUBSIDIES

1.1 Program Features

This program was originally established in 1971 and revised in 1976. The purpose of the subsidy program is to stimulate economic development through reducing the disadvantages of long distances and poor transportation facilities. The scheme supplements the existing transport subsidy arrangements and freight adjustment schemes.

The subsidy covers finished goods and semi-finished goods at a certain stage of manufacture. The subsidy is limited to goods travelling at least 300 kilometres, and originating from a point within a subsidy area. The total cost of transportation for the applicant must amount to at least N.Kr. 5,000 per year.

There are three broad subsidy areas: parts of Northern Norway, parts of Southern Norway and parts of Central Norway, which have varying subsidy rates of up to 55 percent.

2. RELOCATION GRANTS

2.1 Program Features

Relocation grants may be offered to firms which transfer activities from a relatively highly developed region to a relatively underdeveloped region. These are offered in addition to other public programs of subsidizing the training of labour.

Together with grants to cover training, surveys and planning, the relocation grants make up approximately 3 or 4 percent of the Regional Development Fund's total financial support commitments.

2.2 Eligiblity Criteria

2.2.1 Eligible Activities

All sectors normally eligible under the other activities of the Fund are eligible.

2.2.2 Eligible Expenditures

The relocation grants cover extra expenditures involved in planning the move, dismantling equipment, transporting it, transportation insurance, personnel moving expenses, repairs, and losses incurred during the temporary lapse in productivity due to the transfer.

3. MANPOWER TRAINING GRANTS

3.1 Program Features

A grant to train manpower may be offered to firms which transfer to or establish in an underdeveloped area. In certain cases, the grant may also be given to firms which expand or reorganize production and in so doing substantially increase their labour force.

Together with grants to cover relocation and surveys and planning, the manpower training grants account for approximately 3 or 4 percent of the total financial commitments of the Fund.

3.2 Eligibility Criteria

3.2.1 Eligible Activities

All sectors eligible under the Fund's other forms of assistance are eligible.

3.2.2 Eligible Expenditures

These grants may be applied to instructors' pay, the purchase of teaching materials, and other expenses connected with the training programs.

4. SURVEY AND PLANNING GRANTS

4.1 Program Features

The Fund may provide grants to firms to undertake surveys and planning of specific projects. In addition, the Fund may also give grants to firms for analytical reports not related to specific projects. The goal of this instrument is to assist the underdeveloped regions by mapping out their economic potential.

SPAIN

I. COUNTRY OVERVIEW

1. TYPE OF INCENTIVES

1.1 Major Incentives

The major business incentives offered in Spain in support of regional development include: investment grants, loans and loan guarantees, and tax and customs duty concessions.

Investment grants at up to 20 percent of fixed capital costs are available on a discretionary basis for industrial buildings, machinery and equipment, industrial land and site preparation in the Special Territorial Programmes, Zones of Preferential Industrial Siting and Concerted Action Areas. Ten percent is available to projects in the Development Centers. Capital costs must exceed 40 million pesetas or create at least 100 jobs.

Loans and loan guarantees are also offered on a discretionary basis to projects with the same minimum figures for capital costs and job creation criteria as for the investment grant scheme. Assistance valued at up to 70 percent of the investment is available in all four areas identified as eligible for special regional assistance.

Tax and customs duty concessions are also offered in the four areas designated for regional assistance. There are a variety of concessions: fiscal licence, transfer tax on capital issues, tax on paid up capital, tax on interest for foreign obligations, local taxes on establishment and expansion of enterprises, municipal rates and surcharges, and customs duty.

Assistance to the maximum value of 95 percent of the taxes that would be charged and 75 percent of the customs duty is available to projects of the type eligible for the investment grant and loan programs.

1.2 Minor Incentives

A number of minor incentives are also offered in Spain: the right to compulsory purchase in three of the four designated areas (excluding the Zones of Preferential Industrial Siting), and free depreciation during the first five years in all four areas. Equity participation, professional training assistance, and expropriation measures are also in effect as part of the regional development programs.

2. MAIN REGIONAL PROBLEMS AND POLICY

The principal problem in Spain's economy today is the comparatively low level of income per capita despite rapid economic growth in the sixties and seventies. According to the OECD, national policy has tended to be primarily concerned with problems of overall growth rather than regional distribution.

3. MAIN DECISION-MAKING BODIES

The Departments of Finance and Industry and the Presidence du Gouvernement are the principal bodies reponsible for approving projects and rates of award.

4. RECENT EVOLUTION OF INCENTIVES

During the period 1967-1977, the number of assisted regions rose. However, the level of assistance and the maximum amount of funding available per project, which is approximately 20 percent for all assisted regions, have remained relatively unchanged.

5. SUMMARY TABLE OF MAJOR BUSINESS INCENTIVES

Major Incentives	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
Investment Grants	discretionary, project-related capital grant	Special Territorial Programmes Zones of Preferential Siting Concerted Action Areas	Manufacturing	20% of capital invested	Departments of Finance and Industry
		Development Centres		10% of capital invested	
Loans & Loan Guarantees	discretionary, project-related	all 4 areas identified above as eligible for special regional assistance	Manufacturing	70% of capital invested	Departments of Finance and Industry
Tax and Customs Duty Concessions	several types: - fiscal licence - transfer tax on capital issues - tax on paid-up capital - tax on interest for foreign loans - local taxes on establishment and expansion of enterprises - municipal taxes - customs duty	all 4 areas noted above	Manufacturing	95% of taxes that would be charged 75% of customs duties	Departments of Finance and Industry

II. REGIONAL POLICIES, PROBLEMS, AND DECISION-MAKING BODIES

1. POLICIES AND APPROACH

Regional incentive programs are concentrated in four areas designated for special regional assistance. Incentives are available in certain Spanish provinces which are eligible for the Special Territorial Development Programmes, the Industrial Development Centres, the Zones of Preferential Siting and Concerted Action Areas.

The awarding of assistance in Spain is dependent on a number of factors including whether or not there is industry in the area, the degree of development, and the number of jobs created or maintained by the proposed project.

In the fifties, the Government embarked on Special Territorial Development Programmes for certain Spanish provinces with a backward economy but with potential for agricultural development. The most important "Special Programmes" under way, as of 1976, included the Badajoz, the Jaen and Tierra de Campo plans.

In 1964, the Government introduced the concept of Industrial Development Centres and made available a series of incentives for industries in selected sectors to set up in certain regions of the country. Each centre is between 100 and 200 kilometers in radius. In addition to offering incentives to private enterprises, the state provides public investment for preparing the physical infrastructure and social requirements needed for industrial development.

Zones of Preferential Siting are areas with specific problems of economic development, large-scale migration, or an economic structure largely dependent on agriculture. In these areas the Government has created a system to encourage the establishment of new industries and, at the same time, has made a considerable effort to modernize the technical and social infrastructure. These zones include the Canary Isles, the Gibraltar area, border areas adjacent to Portugal (Extremadura) and the Cutica Valley.

The Third Development Plan (1972-75) focussed on selective regional industrialization, a program of Concerted Action, and designated Large Areas of Industrial Expansion. The Plan sets out to delineate large regions covering several provinces in order to encourage the setting up of industrial complexes through concerted actions that are complementary or interrelated to give an effect of balance over the whole territory. These regions include parts of Galicia in North-West Spain and Andalusia in the South.

Successive national plans since the mid-sixties have included regional objectives for public investment in infrastructure, education, training, health services, industrial housing, and urban development. To attract industry to selected locations a variety of incentives are offered, mainly for the development of new facilities. As of 1976, new constitutional developments were expected to enhance the role of regional administrations.

2. PROBLEMS

The economy advanced rapidly in the sixties and early seventies, but the key feature was still the comparatively low level of income per capita, with the result that national policy was primarily concerned with problems of overall growth rather than regional distribution. The dynamism of the economy, however, produced marked regional changes: considerable shifts in population, strong internal migration, greater concentration in urban areas, and a decline in rural agricultural areas.

3. DECISION-MAKING BODIES

The scale of assistance varies according to the merits of individual cases in relation to national, industrial and social policy criteria. Assistance is discretionary and selective. The system enables a group examination to be made of all applications which are then checked against projects already approved and underway.

The Ministry of Development Planning is responsible for national planning. The Ministry is divided functionally into the Departments of Economic, Social and Regional Planning, and Supervision of the Plan. The Commission of the Supervision of the Plan coordinates the National Plan among the various Ministries. The Institute of Planning Studies provides technical planning support for the preparation of the Plan. The Regional Planning Delegations are composed of fifteen regions covering the whole country.

The National Institute for Industry (INI) is a public agency which undertakes investments according to the national industrial strategy. As of 1976, according to the OECD, there appears to have been little coordination between INI and the regional policy.

As of 1976, the "Bill on Local Government" was under study before the Parliament. The purpose of the bill was to create the Regional Planning Department within the Ministry of Development Planning. This Department was to be responsible for the preparation and implementation of regional policy. The Ministry of Industry is to be reorganized to include the establishment of a new branch with horizontal rather than industry sector responsibility to coordinate the location of industry, regional industrial development, small and medium businesses, industrial pollution abatement, and intersectoral industrial relations.

The Regional Planning Commission is designed to bring into play the direct and active participation of the regions. They will have a consultative role and will complement the Technical Services Provincial Commissions made up of civil servants. Representation in the Regional Commissions is to be drawn from civil servants, members of Parliament, the Chamber of Commerce and Trade Unions.

The new administrative machinery is expected to give a greater coherence to the formulation and implementation of regional policy. It is anticipated that it would lead to the drawing up of a general scheme of spatial strategic planning for the whole country, the coordination of national strategic planning in the medium-term with regional economic planning and sectoral policies, and the drafting of regional plans for each region.

III. SURVEY OF MAJOR INCENTIVES

1. INVESTMENT GRANT

1.1 Program Features

The Investment Grant is a discretionary, project-related incentive.

1.2 Rates of Award

The grant is based on a percentage of the capital investment. A maximum of 20 percent of the investment is offered in three of the zones designated for regional assistance: Special Territorial Programmes, Zones of Preferential Industrial Siting and Concerted Action Areas, and 10 percent to projects in the Development Centres.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Activities in the manufacturing sector are eligible. Regional assistance is also granted to projects designed to meet deficiencies in publicly provided facilities.

1.3.2 Geographical Eligibility

Projects in the four zones designated for regional assistance, Special Territorial Programmes, Zones of Preferential Industrial Siting, Concerted Action Areas and Development Centres, are eligible.

1.3.3 Project-Related Eligibility

The types of industrial projects eligible for regional assistance are the building of new plants, the manufacture of a new product, the expansion of existing plants, conversions, and modernizations.

1.3.4 Size

To be eligible, the capital costs of a project must exceed 40 million pesetas and create at least 100 jobs. This second condition is applied with some flexibility.

1.3.5 Eligible Expenditures

Expenses eligible for assistance are the acquisition of land, buildings, machinery and equipment. Transportation equipment, plant and outside transportation equipment of a very special nature may be eligible for assistance.

1.4 Program Administration

1.4.1 Decision Procedure

The decision-making bodies responsible for the award of this development incentives are the Departments of Finance and Industry and the "Presidence du Gouvernement".

1.4.2 Monitoring Procedure

Efforts are made to ensure that proper use is made of the assistance received.

2. LOANS AND LOAN GUARANTEES

2.1 Program Features

The loan and loan guarantee programs have features identical to the investment grant scheme.

2.2 Rates of Award

Loans and loan guarantees of up to 70 percent of the investment are available in the four zones in the absence of other financing sources. The loan period is limited to six years. The rate of interest is one-half or 1 percent below the official rate according to whether the credit is below or above 50 million pesetas.

3. TAX AND CUSTOMS DUTY CONCESSIONS

3.1 Program Features

A variety of tax and customs duty concessions are offered: fiscal licences, transfer tax on capital issues, tax on paid-up capital, tax on interest for foreign obligations and loans, local taxes on the establishment and expansion of enterprises, municipal rates and surcharges, and customs duty.

3.2 Rates of Award

Assistance to the maximum value of 95 percent of the taxes that would be charged and 75 percent of the customs duty is available to projects that would qualify for the investment grant and loan programs.

3.3 Geographical Eligibility

The four areas designated for regional assistance are eligible.

SWEDEN

I. COUNTRY OVERVIEW

1. TYPE OF INCENTIVES

1.1 Major Incentives

The major incentives include depreciation loans, industrial location loans, employment grants, training assistance, the investment reserve fund and varied forms of assistance.

Depreciation loans can be granted for both buildings and machinery. They are interest- and amortization-free and the degree of write-off is decided by the authority concerned, usually half the amount borrowed after three years and the remainder after seven.

Industrial location loans are available for investments in buildings and machinery, and also for marketing projects, product development, and other similar projects. Relief from interest payments and repayment of capital is offered.

Employment promotion aid is a grant given for net increases in employment. It can total S.Kr. 40,000 per person over a three-year period in Aid Area 4, S.Kr. 80,000 per person over a five-year period in Aid Area 5, and S.Kr. 130,000 per person over a seven-year period in Area 6, where employment problems are greatest.

Training aid is granted to enterprises which take on new personnel that need highly specialized training. It is planned to extend this aid to include already employed personnel to be trained for new tasks.

The Swedish Investment Reserve Fund (IRF) is used as a fiscal tool for stabilizing employment levels and to a lesser extent as a policy tool for regional development. Corporations are allowed to deduct up to 40 percent of their pre-tax profits from taxable income as an investment reserve for future use. Release of funds from the IRF and the application of those funds is strictly controlled by the Labour Market Board.

Aid granted according to the system of offers is available when other types of assistance are unsuitable. The form this assistance can take is decided on a case-by-case basis and is linked to well-defined conditions, primarily in the form of new job opportunities provided by the recipient. This type of assistance is available in all aid areas to projects in the private service sector, to national organizations and for administrative functions in large industrial enterprises. For other operations, the system of offers can be used in Aid Areas 4, 5 and 6.

1.2 Minor Incentives

A number of minor grants, while more limited in scope and coverage, are nevertheless important to the constituencies they serve. They include transport subsidies, tax equalization grants, emergency relief grants, and the Norrland Fund. These are summarized in Part IV.

2. MAIN REGIONAL PROBLEMS AND POLICY

The country is divided into six aid areas, each with a certain level of subsidies to firms willing to invest within the area. The level of aid is lowest in Aid Area 1 and highest in Aid Area 6. These six areas encompass 77 percent of the area of the country and 20 percent of the population. In these divisions, great importance has been attached to the need for new job opportunities in order to equalize the employment rate.

The mainstream of aid goes to the so-called forestry counties, to groups of municipalities with long-term employment problems, and to regions suffering from chronic employment problems.

3. MAIN DECISION-MAKING BODIES

The decision-making procedures for regional policy aid are in the process of being decentralized to the county administrative boards, the county labour boards, and the National Labour Market Board. The county administration boards are to decide on depreciation and location loans for projects with a total investment of up to S.Kr. 5 million and the limit for the Labour Market Board will be raised to S.Kr. 15 million.

Companies and groups with over 500 employees submit information relating to investments and employment to a special committee of the Ministry of Industry at an early stage of their planning. The committee informs the companies on the goals of regional policy and the government aid available.

4. RECENT EVOLUTION OF INCENTIVES

The dominant theme of the incentives policy in the 1960s was to create jobs in economically depressed or remote regions through relocating firms to these areas. Instruments used in this period encompassed subsidies, loans, and the selective use of investment funds. Most of the companies relocating were plants or subsidiaries of large national firms, although another frequent type of relocation involved return migration by small entrepreneurs wishing to set up operations in their area of origin. In this period, the procedures involved in regional incentives were very discretionary. Incentives were offered as well by the venture capital companies which the government established in the 1960s and by similar institutions with specific mandates to promote industrial development, such as offering aid to high-risk, high-technology firms.

In the 1970s, regional incentives shifted away from the localization thrust of the 1960s and focussed on the adjustment problems of mature and declining industries and on the vulnerability of company towns. Regional incentives in the 1970s evolved to give priority to the support of new, small companies. A number of fully or partially state-owned development companies, similar to the venture capital companies of the 1960s were established in the late 1970s. These companies, which receive support from labour and industry as well, are usually oriented to a specific problem, such as restructuring the steel industry, or have a specific mandate, such as to provide loans to small companies or entrepreneurs who wish to establish a plant in a depressed region.

II. REGIONAL POLICIES, PROBLEMS, AND DECISION-MAKING BODIES

1. POLICIES AND APPROACH

The general goals set for regional policy have changed little over the years; to the extent possible, people in all parts of the country should have equal access to employment, services and a good environment, especially relating to land use. In sparsely populated areas, this means that the state has a responsibility to provide a certain level of services. Regional policy also aims to distribute job opportunities in such a way that a reasonable regional balance is achieved, not only on an interregional basis, but intraregionally as well, i.e. within each of the 24 counties (each with 200,000-300,000 inhabitants). Regional policy also attempts to counter the one-way migration from the northern forested part of the country that occurred in the 1950s and 1960s. Balanced geographical mobility between different parts of the country is thus another regional goal.

2. PROBLEMS

In spite of the more balanced population mobility in the 1970s, there are still great differences in the proportion of the population that is gainfully employed, not only between aid areas and other parts of the country, but also within the different counties. This problem mainly affects women and older men. Forecasts in the County Planning System give little indication that access to work will even out to any great extent either among or within the different counties.

Regional balance presupposes that no part of the country grows in a way which will have a negative effect on other regions. However, employment opportunities are much better in the Stockholm region than in the Gothenburg and Malmö regions. According to the Stockholm County Administrative Board, it may be necessary to apply measures to slow industrial growth and demand for labour in the Stockholm region.

3. DECISION-MAKING BODIES

The County Planning System's goals parallel those of regional policy for employment, service, and a good environment. Therefore, the system covers all sectors of significance to the achievement of these goals; it is also the instrument for long-term employment planning at the county level.

Co-ordination between County Planning and the planning of the central authorities is being developed so that decisions at the central level can be taken into account in regional planning and vice versa.

A new allocation of S.Kr. 35 million is being made to County Planning in order to enable the Boards to develop proposals for concrete measures, and further decentralize responsibility and authority to the county level.

III SURVEY OF MAJOR INCENTIVES

1. DEPRECIATION LOANS

1.1 Program Features

From 10 to 70 percent of investment costs can be financed through a depreciation (write-off) loan, depending on location.

1.2 Rates of Award

The rates vary from up to 10 percent of the approved cost of acquiring buildings and machinery in Area 1, to up to 70 percent of the approved cost of buildings and up to 60 percent of the approved cost of machinery in Area 6. In normal cases, the loans are below the maximum available rates.

The job-creation potential figures heavily in the calculation of the amount of the loan. The subsidy per new job of write-off loans is calculated for each application.

1.2.1 Factors Affecting Award Value

The depreciation loans are not interest-bearing and are usually depreciated, after a decision by the National Labour Market Board, by 50 percent of the value of the loan after three years and the remainder after seven years.

1.3 Eligible Activities

Regional aid can be provided for enterprises which carry on industrial activities, activities allied to industrial activities, services for industry, and certain work undertaken by consultants. Tourist activities in Aid Areas 4, 5, and 6 are also eligible.

In addition, it is possible for the government, after examining the merits of each individual case, to decide to grant aid to firms engaged in some other form of activity. The pre-condition for aid is that the activities are of special importance from the aspect of regional policy.

1.4 Geographical Eligibility

Projects must be located in the development areas. Aid Areas 1 to 6 comprise 29 percent of Sweden's population and 77 percent of the land area. Assisted areas 4 to 6, which have the highest priority in the granting of aid, comprise only 11 percent of the population, even though they account for 62 percent of the area of the whole country.

1.5 Project Eligibility Criteria

1.5.1 Eligible Expenditures

Depreciation or write-off loans are available for investment in ground installations, buildings, machinery, fittings, and fixtures.

1.5.2 Other Factors Affecting Eligibility

There are a number of general terms on which all regional aid is provided:

- all activities are to achieve satisfactory profitability and provide employees with permanent employment;

- at least 40 percent of the number of new jobs created as a result of the aid are to be reserved for each sex, although exemptions can be made if there are special grounds.

1.6 Program Administration

1.6.1 Application Procedure

For depreciation loans, application is made to the County Administration where the investment is to take place.

1.6.2 Decision Procedure

A decision is made by the County Administration, the National Labour Market Board, or the government, depending on the size of the investment.

2. LOCATION LOANS

2.1 Program Features

Location loans and other forms of development aid for industry and commerce share the same features as described for the depreciation (write-off) loans.

2.2 Rates of Award

The interest rate is usually the current national bank rate plus 3.75 percentage points.

While the term of the loan is being decided, the expected economic life of the project in question and similar conditions are evaluated.

2.2.1 Factors Affecting Award Value

For most cases, the life of the loan may run up to 20 years, and for enterprises in the tourism industry, 25 years. There may be an interest-free period on these loans of 5 years.

2.3 Project Eligibility Criteria

2.3.1 Nature of Eligible Activities

New facilities and expansion projects are eligible, as are activities related to the relocation of an industry or business, product development, marketing measures, and other similar measures.

2.3.2 Eligible Expenditures

Location loans are available for investment in buildings, machinery, the acquisition of factory buildings intended for the activities concerned, and the acquisition of current assets.

3. TRAINING GRANTS

3.1 Program Features

Training grants, which are determined on a case-by-case basis, are one of two main forms of grants available based on employment impact.

Firms may apply for training grants if they take on new employees who need training in the context of establishing or expanding their business activity. There must be a need for training for special skills.

3.2 Rates of Award

Grants are given for the number of newly appointed employees; at most, however, by the number the workforce will increase. The grant consists of a sum per trainee and per working hours.

3.4 Program Administration

3.4.1 Application Procedure

Applications are submitted to the County Employment Board.

3.4.2 Decision Procedure

The Board reviews the application and submits it with a recommendation to the National Labour Market Board which makes the decision; in some cases, decisions are made by the government itself.

4. EMPLOYMENT GRANTS

4.1 Program Features

Employment grants are paid to firms for each person-year by which the number of person-years employed during the calendar year has increased in relation to the highest number of person-years during the three preceding years.

4.2 Rates of Award

Grants are paid for a period of three to seven years in total depending on the assisted area. In Area 4, grants are paid for three years and a total of S.Kr. 40,000 per employee, in Area 5, for five years and a total of S.Kr. 80,000, and in Area 6, for the full seven years and a total of S.Kr. 130,000.

4.3 Program Administration

4.3.1 Application Procedure

Applications are made to the County Employment Branch.

4.3.2 Decision Procedures

Decisions concerning employment grants are usually made by the County Employment Board, and in certain cases by the National Labour Market Board.

5. SPECIAL AID

5.1 Program Features

In exceptional circumstances, the Government may offer a development grant to firms which do not qualify for other forms of aid. Firms receiving special aid must comply with certain standards, particularly relating to job creation. It is available only in Areas 4, 5, and 6 for most industries, although in the service sector, national organizations and administrative functions of large industrial firms, it may be provided in all of the assisted areas.

6. SWEDISH INVESTMENT RESERVE FUND

6.1 Program Features

The Investment Reserve Fund (IRF) in Sweden is used as a fiscal tool mainly for purposes of equalizing employment levels in industry between high-level and downturn periods, and to a lesser extent as a special policy tool for regional development and environmental policy. Although the IRF was introduced in 1938, it did not play an important role until 1955 when the system was reformed.

For stabilization purposes, the government announces periods of "general release", during which investment from funds in an IRF are approved. There are different degrees of general release, depending on the employment situation; a general release of up to 50, 75 and 100 percent is allowed. This means that the indicated percentage of demanded amounts from investment funds can be used.

The funds may also be released through special authorization from the government. This use of the IRF is similar to accelerated depreciation (AC) or an investment tax credit (ITC) for a particular time period during which the government wants to stimulate business investment. For regional development, the government authorizes use of the IRF to invest in particular regions of the country. This is similar to AC or an ITC for assets used in a particular geographical region.

6.2 Rate of Award

Under the system, corporations are allowed to deduct up to 40 percent of their pre-tax profits from taxable income as an investment reserve for future uses. Of this amount, 46 percent must be deposited in a blocked, non-interest bearing account with the Swedish central bank, and the remaining 56 percent may be used by the corporation as working capital. Thus, the amount in the IRF represents a tax-free appropriation for future investment. The incentive is an immediate improvement in cash flow due to the tax deferral.

The incentive aspect of the IRF, like that of accelerated depreciation (AC) or of investment tax credit (ITC), is essentially a tax deferral related to investment at a particular time or in a particular place. Like AC or ITC, the tax deferral from the IRF represents an interest-free loan from the government to the corporation. The loan can become a perpetual loan over time for growing corporations. The cash flow effect occurs much sooner for the IRF than for AC and ITC, but all three are only beneficial to profitable firms.

6.3 Project Eligibility Criteria

6.3.1 Eligible Expenditures

If the funds in the IRF are used for government-approved investments, the corporation is allowed immediate depreciation of the assets for tax purposes, plus an additional deduction from the taxable income of 10 percent of the value of approved assets. In other words, the corporation is allowed to expense 110 percent of the value of approved assets. Provided the IRF is used for approved purposes, the corporation is effectively allowed to depreciate assets before they are acquired.

If a corporation uses its IRF without government approval, 110 percent of the amount used is added to income for tax purposes, the additional 10 percent representing a penalty for unauthorized use of the IRF. A corporation can withdraw 30 percent of any amount that has been in the IRF for five years and use it in any way without penalty.

6.4 Program Administration

6.4.1 Application Procedure

Even during a period of general release firms must apply in writing to the Labour Market Board describing how they want to use their funds. If the Board approves the demand, the firm may immediately utilize 46 percent of the authorized amount, which comes from the blocked account of the Bank of Sweden.

The lapsed time from the submission of a written demand to an authorized decision is one to two months.

6.4.2 Decision Procedure

During a period of general release, decisions on how investment funds may be used are taken by the budget department based on recommendations from the Labour Market Board. The Board's recommendations are founded on their analysis of employment level statistics.

When there is no general release every demand is subject to a special investigation. Of these, about 40 percent are decided solely at the Labour Market Board level. The rest of the decisions are taken by the budget department.

Business associations are consulted before a general release period. The Fund is generally well regarded by industry associations and individual businesses.

6.4.3 Monitoring Procedures

A company making allocations to the IRF is subject to control by the local tax authorities. It is also the role of the company's auditors to monitor allocations being made.

The Bank of Sweden is responsible for the blocked accounts. The Swedish Labour Market Board is the authority which oversees how investment funds are used.

At the central government level, the investment fund is the responsibility of the budget department, formerly the finance department.

The Swedish National Auditing Board has conducted a number of performance reviews of the investment fund system, a responsibility it shares with the budget department and the Labour Market Board.

6.5 Award Statistics

	1956-1975
Value of allocations made to fund	S.Kr. 17.5 billion
Value of investments drawn from fund	S.Kr. 11.5 billion
No. of companies involved in the IRF	6,000

Two thirds of the allocations were from companies with more than 1,000 employees; these represent 125 of the total 6,000 firms that have allocated profits to the reserve.

Three quarters of the allocations were from the manufacturing sector; in particular, 30 percent from mechanical workshops, 15 percent from the forestry and paper industry, and 10 percent from the wood manufacturing industry.

In terms of the use of investment funds, 50 percent has been concentrated in large urban areas, Stockholm, Gothenburg and Malmö, plus the west coast of Sweden.

IV. SUMMARY OF MINOR INCENTIVES

1. TRANSPORT SUBSIDIES

1.1 Program Features

Two main types of transport subsidies are available for freight and public transport assistance. These were introduced in 1971 to offset the transport costs associated with a location in a remote assisted area.

Subsidies are payable for the transportation of goods by road and rail from assisted areas involving distances of at least 250 kilometres. Eligible commodities are agricultural and food products, manufactured and semi-manufactured products processed within the area. Commodities which are not eligible are ores, metals, slightly processed semi-manufactured goods, timber products, pulp, oil and petroleum products.

Subsidies are also paid for the transportation of goods into an assisted area if the goods are to be processed in the assisted area.

In order to promote public transportation in poor and thinly populated areas, the central government in 1973 substantially increased subsidies for unremunerative bus and rail traffic in these areas. In addition, inland airline traffic is subsidized to achieve the same objectives. Telephone charges in assisted areas have also been reduced for both firms and individuals.

2. TAX EQUALIZATION GRANTS

2.1 Program Features

Tax equalization grants make it possible for municipalities to provide a comparable level of services. In the underdeveloped regions, the effect of these grants on public sector employment is considered to be substantial.

3. EMERGENCY RELIEF GRANTS

3.1 Program Features

The central government also provides grants in periods of high unemployment for emergency relief work. In the assisted areas this is an important source of financing for the construction of roads, sports and recreation facilities, health services, child-care facilities, and so on.

4. THE NORRLAND FUND

4.1 Program Features

This fund was established in the four most northerly counties. The fund initiates and supports industrial research and development work in an attempt to help broaden the scope of economic activity in the region. It provides loans for industrial expansion, product-development loans (which are repayable conditionally, depending on whether the product is ultimately marketable), and non-repayable grants for applied industrial research to firms, institutions and individuals.

UNITED KINGDOM

I. COUNTRY OVERVIEW

1. TYPE OF INCENTIVES

In discussing the United Kingdom regional incentive package a distinction is made between assistance available in Great Britain and in Northern Ireland.

1.1 Major Incentives - Great Britain

The British regional incentive package consists of three major instruments: the regional development grant, selective financial assistance grants and soft loans, and the office and service industries scheme.

The Regional Development Grant is an automatic, item-related, i.e. asset-related, capital grant of 22 percent of eligible expenditures in the Special Development Areas (SDAs) and 15 percent in the Development Areas (DAs). Only activities in the manufacturing sector are eligible.

Selective Financial Assistance Grants and Soft Loans are discretionary and project-related and can take the maximum value of the British regional package up to aid ceilings set by the European Commission. The rate of interest for the soft loan is fixed at 3 percent below the commercial rate; the rates of award for the grant are at the discretion of the awarding office.

Projects must be related to the establishment of new facilities, expansions, rationalizations, modernizations, spatial relocations, and takeover activities in the agricultural, forestry, fishing, extractive, manufacturing, construction, utilities, and service sectors.

The Office and Service Industries Scheme is discretionary, project-related assistance in the form of job creation grants and grants to assist with the moving expenses of employees transferred to new facilities. It is available to all office and service activities that are potentially mobile. The awards are made to firms that move to or set up in the assisted areas: up to £6,000 per job in the SDAs, £4,000 in the DAs and £2,000 in the IAs. Employees are paid a removal grant of £1,500 to relocate in the designated areas.

1.2 Minor Incentives - Great Britain

Minor regional incentives in Britain are of much less importance compared with the three major programs. There are, however, a large number and variety of programs available, including the following:

- government subsidized construction;
- grants and allowances for workers transferred into or between assisted areas;
- preferential awarding of government contracts;
- moving assistance for industry;
- the national small firms subsidy;
- temporary employment subsidy;
- industrial location advisory service;
- plant and machinery leasing assistance;
- government decentralization;
- infrastructure support;
- tourism support; and
- training services.

These incentives are summarized in Section IV.

1.3 Major Incentives - Northern Ireland

The incentives available in Northern Ireland are different from the British regional aids in two major respects. There is a greater variety of incentive types offered, including a labour premium, the British version of which was abandoned in 1977, and the rate paid in Northern Ireland in the case of discretionary awards tends to be higher.

Under the Northern Ireland system there are two major incentive packages to choose from.

The Capital Grant is an automatic, item-related capital grant fixed at 30 percent of approved capital expenditure. Manufacturing activities, including the ship-repair industry, are eligible. As the grant is item-related, all projects in Northern Ireland are potentially eligible.

The Selective Assistance Program is a discretionary package of assistance including industrial development grants of up to 50 percent of eligible expenditure, employment grants, interest relief grants and soft loans. Projects related to new facilities, expansions, rationalizations, reorganizations, modernizations, spatial relocations, and takeovers in the agricultural, forestry, fishing, extractive, manufacturing, construction, utilities, and service sector are eligible.

1.4 Minor Incentives - Northern Ireland

Minor incentives common to the British package are available in Northern Ireland as well. In addition, there are a number of minor incentives unique to Northern Ireland, including selective employment premiums, training assistance and local tax remission. These are summarized in Section IV.

2. MAIN REGIONAL PROBLEMS AND POLICY

There are three main types of designated problem areas in the United Kingdom: Special Development Areas (SDAs), where the problems are most acute, Development Areas (DAs), and Intermediate Areas (IAs), in decreasing order of regional disparity, as well as the whole of Northern Ireland. The British incentive package operates within the three above-mentioned areas.

Northern Ireland is very much a special case. Most forms of assistance are available for the whole area.

3. MAIN DECISION-MAKING BODIES

In Great Britain, the Department of Industry plays a lead role in setting guidelines for eligibility criteria and rates of award. However, most of the aids are administered with a high level of regional devolution through the regional offices of the Department of Industry in England, the Scottish Economic Planning Department in Scotland and the Welsh Office in Wales.

These offices decide on whether or not to make an award and the level of the award on the advice of the region's Regional Industrial Development Board - a body of experienced local industrialists, trade unionists, businessmen, and professional people.

In Northern Ireland, the Department of Commerce in Belfast is the main administrative body responsible for selecting projects and setting the level of award.

4. RECENT EVOLUTION OF INCENTIVES

In July 1979, a number of changes were introduced to the UK incentives package which are in sharp contrast to the trend towards policy escalation found elsewhere in the European Community. The United Kingdom changes have resulted in a clear cutback in the scale of regional incentive policy. In many respects, however, the changes have simply succeeded in bringing the scale of UK regional assistance policy closer to the other countries in the EEC.

With respect to activity coverage, eligibility for the Regional Development Grant was withdrawn from the mining and construction industries, research and development, training activities and repairs and maintenance expenditures.

With respect to spatial coverage, the coverage of the SDAs, DAs and IAs was reduced from over 43 percent to about 25 percent of the British working population. These changes will be put into effect over a three year period.

With respect to size coverage, as part of the changes made in July 1979, minimum value requirements for assets were raised from £100 to £500 for plant and machinery and from £1000 to £5000 for buildings and works.

In addition, IAs will no longer be eligible for regional develoment grant assistance as of 1 August 1980.

5. SUMMARY TABLE OF MAJOR BUSINESS INCENTIVES

Major Incentives	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
Great Britain Regional Development Grant	Automatic, item-related capital grant	Special Development Areas (SDAs) Development Areas (DAs)	Manufacturing	22% of eligible investment 15% of eligible investment	Department of Industry,
Selective Financial Assistance Grants & Soft Loans	Discretionary, project-related grants and subsidized interest rates		agriculture, forestry, fishing, extractive, manufacturing, construction, utilities, service sectors.	grant rates of award at discretion of awarding office; loan interest fixed at 3% commercial rates	"
Office and Service Industries Scheme	discretionary, project-related assistance - job creation grants and grants to assist with moving expenses	SDAs DAs Intermediate Areas (IAs)	office and service activities that are potentially mobile	£6000 per job created £4000 per job created £2000 per job created + £1500 grant per employee to cover moving expenses	"
NORTHERN IRELAND					
Capital Grant	Automatic, item-related capital grant	all of Northern Ireland	manufacturing, shop-repair industry	30% of eligible investment	Department of Commerce
Selective Assistance Program Grants & Soft Loans	Discretionary, project-related grants - industrial development grants, employment grants, interest relief grants, soft loans	all of Northern Ireland	agriculture, forestry, fishing, extractive, manufacturing, construction, utilities, service sectors	50% of eligible investment	Department of Commerce

II. REGIONAL POLICIES, PROBLEMS, AND DECISION-MAKING BODIES

1. POLICIES AND APPROACH

Policy objectives have been left as fluid as possible in order to accommodate the ever changing economic environment and Britain's constant struggle with balance of payment deficits, inflation, and limited private investment. This approach has resulted in such loosely defined objectives as "the prevention of regional imbalance" and "the regimentation of the regions".

The value and extent of coverage of the three major regional assistance programs available in Britain nevertheless place the British package at the upper end of a middle group of European Economic Community countries. The programs available in Northern Ireland are valued on a par with those in the Republic of Ireland and Italy.

2. PROBLEMS

Programs are aimed at alleviating a number of problems in the specially designated areas which have been identified as the principal areas in need of assistance. There is a desire to reduce the unemployment levels, increase the industrial activity in these regions, and slow down the migration out of the northern regions into the southeast.

Area designation is left to Ministerial discretion. A statistical picture of areas under review is built up using unemployment data, population and migration statistics, activity rates, earnings per capita and other regional data. The whole of Scotland, Wales, Northern Ireland, Northern and North-West England, Yorkshire and Humberside, some parts of the Midlands, and most of South-West England are designated as assisted areas.

The SDAs, DAs and IAs held 13.1 percent, 10.7 percent and 19.4 percent, respectively, of the British working population in 1978, for a total of 43.2 percent of the British population and 40.8 percent of the UK population, of which Northern Ireland accounts for a further 5.5 percent of the UK total. As noted in the section on Recent Evolution of Incentives, the changes announced in July 1979 will reduce the spatial coverage to 25 percent of the British working population.

3. DECISION-MAKING BODIES

Numerous agencies at the various levels of government are involved with the administration and implementation of regional instruments. At the central level, the Department of Industry is the main agency for regional development. At the regional level, except Northern Ireland, an Economic Planning Council and an Economic Planning Board have been established. Regional planning authorities also are present at the municipal level. There is much private/public consultation and representation at all levels in the above agencies.

III. SURVEY OF MAJOR INCENTIVES

1. REGIONAL DEVELOPMENT GRANT (RDG)

1.1 Program Features

The regional development grant is an automatic item-related, i.e. asset-related, capital grant.

RDGs are paid by the Department of Industry.

1.2 Rates of Award

New rates of award were announced in July 1979, and are fully operative as of August 1980. Rates vary by location and by type of asset and are based on a percentage of eligible expenditure. They are as follows:

Eligible Areas	Plant/Machinery		Buildings	
	New Rate	Old Rate	New Rate	Old Rate
Special Development Areas (SDAs)	22%	22%	22%	22%
Development Areas (DAs)	15%	20%	15%	20%
Intermediate Areas (IAs)	nil	nil	nil	20%

Intermediate Areas (IAs) are no longer eligible for regional grant development assistance.

1.2.1 Factors Affecting Award Value

The RDG is a standard "automatic" grant. Rates are fixed and the grant is not subject to tax.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Manufacturing and selected repair and maintenance activities are eligible.

1.3.2 Geographical Eligibility

The SDAs and DAs are eligible; IAs were no longer eligible as of 1 August 1980. The assisted areas will be cut back in August 1980 and August 1982 to the extent that they will cover just 25 percent of the British working population, as opposed to the current 43.2 percent. Northern Ireland accounts for 5.5 percent of the total.

Rates of award favour SDAs over DAs. The differential in rates, as of August 1980, is 7 percentage points.

1.3.3 Project-Related Eligibility

RDGs are item- and not project-related.

1.3.4 Size

RDGs are awarded on an item-by-item basis. Plant and machinery costing less than £500, and buildings costing less than £5000 are excluded.

1.3.5 Eligible Expenditures

Site infrastructure, buildings, and plant and machinery are eligible.

Expenses related to instalment payments, purchases on credit, renting and leasing also qualify for assistance.

1.3.6 Eligible Costs

Interest and service charges and value added tax (VAT) must be deducted from the cost of the eligible item.

1.3.7 Further Conditions Affecting Eligibility

RDGs are paid out only on eligible assets provided on "qualifying premises", i.e. premises used mainly for manufacturing activities. To qualify, more than half the employees on the premises must be engaged in manufacturing activities. Once premises qualify, an RDG is paid on all the eligible assets provided on those premises whether or not these assets are in fact used for qualifying activities.

To be eligible the assets must have been in use on qualifying premises for at least a year.

1.4 Program Administration

1.4.1 Application Procedure

Application is made on forms supplied by the Department of Industry. Completed forms are submitted to the RDG Office responsible for the area in which the qualifying premises are located.

1.4.2 Decision Procedure

The scheme is administered by the four regional RDG Offices. Where problems arise, the Headquarters Division of the Department of Industry in London is contacted for a ruling. Decision time may vary between two weeks and five months.

1.4.3 Payment Procedure

Claims are submitted in line with expenditures (usually in blocks). It takes an average of nine months to process a claim, including a four month imposed deferment (as a cost-saving measure).

1.4.4 Monitoring Procedure

The Department of Industry monitors awards through the RDG regional Offices. Each RDG has a four-year condition period attached to it during which the conditions of award must be observed. Most assets will be inspected at some stage.

The Department of Industry has the power to demand repayment of the full grant if the conditions of use are broken.

1.5 Award Statistics - RDG

	1974/75	1975/76	1976/77	1977/78	1978/79
Number of applications processed	35,966	40,675	43,368	40,657	39,018
RDG expenditure(£m)	212.8	324.9	407.7	393.4	416.9
Investment associated with applications processed (£m)	1028.1	1565.8	1983.7	1894.2	2007.0
RDG Expenditure Associated With Each Job Created (£)	1417	2264	2026	2184	1911

1.6 Source of Further Information

Department of Industry
Regional Policy and Development Grants Division
Abell House
John Islip Street
London SW1P 4LN

Telephone: 01 211 3000

2. SELECTIVE FINANCIAL ASSISTANCE (SFA)

2.1 Program Features

Selective Financial Assistance is discretionary project-related assistance, normally in the form of a soft loan or a grant, including interest relief grants, and grants to assist the moving cost of employees required to relocate. Grants are more frequently awarded.

SFA funding comes out of a vote of the Department of Industry - Regional Support and Regeneration. The Scottish and Welsh Offices have their own votes.

The aim is to encourage a wide range of manufacturing industry, as a supplement to RDGs, as well as job-creation and the development of potentially mobile service projects.

2.2 Rates of Award

The rate of interest for the SFA soft loan is fixed at 3 percent below the commercial rate. Interest-free periods are available for up to three years in SDAs and two years in DAs and IAs. Loan duration is five to seven years. The maximum loan is determined by the lower of two ceilings; a cost per job limit and the European Community aid limits, both of which include any RDGs awarded. The award of a SFA grant is given strong preference because it is considered to involve lower public expenditure and is easier to monitor. Rates of award are at the discretion of the awarding office, within guideline limits of: £6000 per job in the SDAs, £4000 in the DAs, and £2000 in the IAs.

2.2.1 Factors Affecting Award Values

In the case of both the SFA soft loan and the SFA grant the amount actually awarded is the minimum necessary for the project to go ahead. The cash flow position of the firm is considered as well as the unemployment situation in the area where the project is located. Projects in employment "blackspots" are likely to receive higher rates of award: for example, areas with widespread closures in coal, steel and shipbuilding industries.

The interest concession attached to an SFA soft loan award is taxed to the extent that, by reducing tax deductible interest charges, it leads to higher taxable profits. SFA grants are regarded as income and are therefore taxed to the extent that this increases taxable profits.

2.3 Eligibility Criteria

2.3.1 Eligible Activities

Agriculture, forestry, fishing, extractive, manufacturing, construction, utilities, and services are eligible activities. Service activities qualify only if they have a choice of location and are not primarily concerned with local needs.

A preference for new technology in certain regions may be reflected in the level of awards offered.

2.3.2 Geographical Eligibility

The SDAs, DAs, and IAs are eligible.

2.3.3 Project-Related Eligibility

Projects related to the development of new facilities, expansions, rationalizations, reorganizations, modernizations, spatial relocations, and takeover activities are eligible. These projects must create or maintain jobs.

2.3.4 Size

In cases where the project maintains jobs, a "substantial number" of jobs, usually at least 100, must be maintained.

2.3.5 Eligible Expenditures

Expenditures related to land, site infrastructure, buildings, plant and machinery, vehicles, and working capital are eligible.

Expenses related to instalment payments, purchases on credit, renting, and leasing also qualify for assistance.

2.3.6 Further Conditions Affecting Eligibility

The project must be viable. Any assistance given is a one time only award. Positive returns must begin to materialize within 3 years.

2.4 Program Administration

2.4.1 Application Procedure

Application is by form to the regional office of the Department of Industry where the project is located.

2.4.2 Decision Procedure

The scheme is administered by the regional offices of the Department of Industry in England, the Scottish Economic Planning Department in Scotland, and the Industrial Finance Division of the Welsh Office in Wales. Awards are made within guidelines laid down by the Department of Industry headquarters, which is also responsible for ensuring the guidelines are applied consistently and for approval of any decisions taken outside the guidelines. Treasury approval is also required in such cases.

The Regional Industrial Development Boards, consisting of unpaid members with experience in industry, advise on cases processed by the Department of Industry's regional offices which are responsible for the eligibility and rate decisions. In England if the project is very large, decisions are made by Department of Industry headquarters. Award decisions take an average of three months.

2.4.3 Payment Procedure

Claims are made annually, usually in three or four instalments. The first claim usually follows defrayal of one-third of project expenditure in fixed assets.

2.4.4 Monitoring Procedure

Every assisted project is monitored by an officer at the awarding office to ensure that project progress is in line with employment levels specified in the application.

Grants are "self-monitoring" in that checks can be made at the payment of each instalment. If conditions are not met, payment is discontinued.

2.5 Award Statistics - Selected Financial Assistance

Number of Awards Offered	1974/75	1975/76	1976/77	1977/78	1978/79
IRGs (Interest Relief Grants)	599	560	742	866	972
soft loans	113	91	56	30	12
removal grants	99	107	80	72	63
Value of offers made (£'000):					
IRGs	25336	34682	63093	140200	112284
soft loans	35950	25432	19552	10455	3347
removal grants	2320	2164	2318	2209	1076
Employment associated with offers made:					
IRGs	62783	38023	77932	81031	85058
soft loans	15637	14378	9030	3496	1589
removal grants	1536	1009	1525	619	956
Total	87386	62808	91139	86660	87603
Investment Associated Total offers made (£m)	69.2	75.5	86.8	154.9	124.3

2.6 Further Information

England: Department of Industry
Regional Support and Inward Investment Division
Kingsgate House
66-74 Victoria Street
London SW1 6SJ

Telephone: 01 212 7676

Scotland: Scottish Economic Planning Department
Industrial Development Division
Alhambra House
45 Waterloo Street
Glasgow G2 6AT

Telephone: 041 248 2855

Wales : Welsh Office
Industry Department
Block 2, Government Buildings
Gabalfa
Cardiff CF4 4YL

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3. OFFICE AND SERVICE INDUSTRIES SCHEME (OSIS)

3.1 Program Features

The Office and Service Industries Scheme is a discretionary, project-related assistance program offered in the form of job creation grants and removal grants paid to essential staff required to move to new facilities located within the assisted areas.

These grants were introduced in March 1979. As yet there is little experience of the operation of the scheme. It replaced a package of more varied incentives, including rent relief grants and soft loans.

The source of funds is the same as for the SFA program.

3.2 Rates of Award

Job creation grants are awarded on the basis of each additional job created within 3 years by firms moving to or setting up in the assisted areas (SDAs, DAs and IAs) at the following rates:

Special Development Areas	:	up to £6,000 per job
Development Areas	:	up to £4,000 per job
Intermediate Areas	:	up to £2,000 per job

Removal grants of £1,500 are paid through the company to essential staff moving with their work. A maximum of 30 percent of the jobs provided in the assisted areas can be aided in this way.

3.2.1 Factors Affecting Award Value

The job creation grant is regarded as income and is taxed to the extent that it increases taxable profits. Removal grants are non-taxable.

The quality of the jobs to be provided influences awards considerably. Those projects involving highly skilled jobs are more likely to be awarded maximum rates.

3.3 Eligibility Criteria

3.3.1 Eligible Activities

All office and service activities are eligible. The project must involve a potentially mobile activity.

Rates of award are at the discretion of the awarding office to the award maxima, but do not vary among different types of service activity.

3.3.2 Geographical Eligibility

The SDAs, DAs and IAs are eligible.

3.3.3 Project-Related Eligibility

Eligible project types include the establishment of new facilities, expansions, and spatial relocation. Most cases dealt with are the latter because of the eligibility rules which call for a potential mobility requirement.

3.3.4 Size

Any size project is eligible.

3.3.5 Eligible Expenditures

Removal grants are fixed sum grants of £1,500 when removal costs exceed this amount.

3.3.6 Further Conditions Affecting Eligibility

For employee removal grants, the individuals covered must have been employed for at least six months prior to the relocation and must remain at the new location for at least six months. The move must result in the creation of at least 10 new jobs in the assisted area.

3.4 Program Administration

3.4.1 Application Procedure

Application is by form to the regional offices of the Department of Industry in England, the Scottish Economic Planning Department in Scotland and the Industrial Finance Division of the Welsh Office in Wales, which administer the scheme in the various regions of the country.

3.4.2 Decision Procedure

A report based on the application is drawn up and a recommendation made to the relevant advisory board.

The board advises and the administrative offices decide whether to accept or reject the application or suggest amendments. Both the eligibility and the rate decisions are the responsibility of the regional offices.

As is the case with the SFA scheme, the Department of Industry headquarters establishes the guidelines.

Timing is approximately the same as for the SFA scheme.

3.4.3 Payment Procedure

The initial instalment is a fixed sum and the second instalment is not made until the end of the 3 year condition period or when the project is completed, whichever comes first.

3.4.4 Monitoring Procedure

As with the SFA program, every assisted project is monitored by the awarding office. The amount paid is scaled down if the original job targets have not been met. If employment is less than forecast, an adjustment is made to the second grant instalment.

3.5 Award Statistics - OSIS

	1974/75	1975/76	1976/77	1977/78	1978/79
Number of offers made	93	94	58	67	79
Value of offers made (£m)	2.645	2.314	3.280	7.718	6.750
Employment associated with offers made	2,737	2,067	2,652	3,945	3,774

3.6 Further Information

Same office contacts as for SFA scheme.

4. NORTHERN IRELAND CAPITAL GRANT

4.1 Program Features

The Northern Ireland Capital Grant is an automatic, item-related capital grant paid out of the budget of the Department of Commerce in Belfast.

4.2 Rates of Award

The rate of award is a fixed 30 percent of approved capital expenditure.

4.2.1 Factors Affecting Award Value

Capital grants may occasionally be combined with an interest relief grant or loan. Grants are not subject to tax.

4.3 Eligibility Criteria

4.3.1 Eligible Activities

Manufacturing is eligible. Stone crushing, ship-repair and scientific research, if it relates to manufacturing also qualify. Leasing companies are eligible in respect of assets provided for qualifying processes.

4.3.2 Geographical Eligibility

The whole of Northern Ireland is eligible. Northern Ireland contains 5.5 percent of the total UK working population.

4.3.3 Project-Related Eligibility

All projects are eligible since grants are item-related.

4.3.4 Size

All size groups are eligible.

4.3.5 Eligible Expenditures

Buildings and plant and machinery used in the process of manufacturing or ship-repairing are eligible expenditures.

Expenses related to instalment payments, purchases on credit, renting and leasing also qualify for assistance.

4.3.6 Eligible Costs

Interest, value-added tax (VAT), and service charges must be deducted from capital costs.

4.4 Program Administration

4.4.1 Application Procedure

Application is by form submitted to the Northern Ireland Department of Commerce.

4.4.2 Decision Procedure

All decision-making is the responsibility of the Department of Commerce.

The normal delay between application and the receipt of the grants including the deferrment period, is about five and a half months.

4.4.3 Payment Procedure

Application is made only when the grant becomes payable, i.e., when the expenditure has been incurred. Payment of the grant is then made in one instalment.

4.4.4 Monitoring Procedure

Inspectors of the Department of Commerce monitor the award through spot-checks.

4.5 Award Statistics - Northern Ireland Capital Grant

	1974/75	1975/76	1976/77	1977/78
Number of applications approved	1,116	1,233	1,457	1,727
Expenditure on grants (£'000)	12,172	25,438	25,277	27,694
Associated eligible investment (£m)	37.4	84.6	84.3	100.2

4.6 Further Information

Department of Commerce
Chichester House
64, Chichester Street
Belfast BT1 4JX

Telephone: (0232) 34488

5. NORTHERN IRELAND SELECTIVE ASSISTANCE

5.1 Program Features

Selective assistance is an umbrella term for a package of incentives consisting of the following: (a) Industrial Development (ID) grants, (b) employment grants, (c) interest relief grants (IRGs) or soft loans, (d) government factories, (e) removal grants, (f) key workers grants and loans. Only the first three are discussed here as they are the most significant. The package is project-related and discretionary.

The funds come from the budget of the Department of Commerce.

5.2 Rates of Award

(a) ID grant: the rates of award are a fixed percentage of capital investment and vary with the Industrial Development (ID) Zone (see para. 5.3.2) in which the project is located:

ID Inner	:	40 percent
ID Intermediate	:	45 percent
ID Outer	:	50 percent

(b) employment grant: a per-capita grant related to the number of additional jobs created or maintained by the project. There is no specified rate of award.

(c) IRGs: the interest concession is three percentage points and is paid against loan interest actually incurred by a company. There is a maximum interest-free period of three years. The grant covers all eligible investments up to the level of two maxima: the cost-per-job and public sector contribution limits, as well as EEC ceilings, taking into account other elements of the package which are awarded. The duration of the concession is up to 7 years.

5.2.1 Factors Affecting Award Values

ID grants of 40 and 45 percent are not taxed. Grants of 50 percent are taxed but only to a minor extent. The employment grant is regarded as income and is therefore taxed to the extent that it leads to higher profits. IRGs are taxed in the same way as the employment grant. The concessionary element of a loan reduces debt servicing charges and is thus taxed insofar as it increases taxable profits.

5.3 Eligibility Criteria

5.3.1 Eligible Activities

Agriculture, forestry, fishing, extractive, manufacturing, construction, utilities, and services are all eligible activities. However, only services with a genuine choice of location are eligible. The aim is to safeguard jobs.

Discretion is used to favour industries new to Northern Ireland, particularly high technology projects. Projects involving a high degree of value-added may also be favoured.

5.3.2 Geographical Eligibility

The whole of Northern Ireland is eligible, consisting of three ID zones: Inner, Intermediate and Outer, which radiate from Belfast. However, the precise boundaries are not publicized. There is a great deal of flexibility regarding the coverage of these zones.

5.3.3 Project-Related Eligibility

Projects related to the establishment of new facilities, expansions, rationalization, reorganization, modernization, spatial relocation and takeover are eligible. All projects must involve job creation or maintenance.

5.3.4 Size

There are no criteria related to size.

5.3.5 Eligible Expenditures

Eligible expenditures include land, site infrastructure, buildings, plant and machinery, vehicles, and working capital.

Only new plant, machinery and buildings are eligible for ID grants.

Expenses related to instalment payments, purchases on credit, renting and leasing also qualify for assistance.

5.3.6 Eligible Costs

All assets are valued net of credit purchase surcharges, trade discounts and value-added taxes (VAT). Import duties are eligible.

5.3.7 Further Conditions Affecting Eligibility

There are three key conditions: the project must be viable, positive returns must materialize within 3 years, and the assistance should make a difference to the nature, scale or timing of the project. Projects should lead to a significant improvement in performance and should strengthen the national and regional economy by improving efficiency or introducing new technology or products.

5.4 Program Administration

5.4.1 Application Procedure

Application is by form submitted to the Department of Commerce in Belfast.

5.4.2 Decision Procedure

The scheme is the responsibility of the Department of Commerce which uses its discretion to decide on eligibility and award rates. Firms with less than 50 employees are dealt with by the Local Enterprise Development Unit (LEDU). A recommendation is made to the Industrial Development Advisory Committee, which is similar in terms of role and responsibilities to the advisory boards in England, Scotland and Wales.

Approximately three months is required for an award decision to be made.

5.4.3 Payment Procedure

The claims procedure depends on the type of assistance. For the ID grant, claims are submitted quarterly. For the employment grant, claims are made at the end of each year. For interest-related subsidies, the subsidies are claimed as interest in a lump sum or in instalments depending on what arrangements have been built into the offer.

5.4.4 Monitoring Procedure

The award is monitored by Department of Commerce inspectors.

ID and employment grants are subject to repayment and loans may be discontinued if any of the award conditions are broken. Failure to meet job targets is the most common cause.

5.5 Award Statistics

	1974/75	1975/76	1976/77	1977/78	1978/79
No. of projects	145	139	150	158	N.A.
Expenditure on: (in £'000)					
ID grant (plant and machinery)	11,129	3,799	8,191	6,927	7,754
ID grant (buildings)	7,625	9,179	4,312	1,519	2,473
Employment grant	2,085	1,728	2,615	6,227	9,011
Removal grant	81	117	225	155	430
IRG and others	365	5,254	4,641	3,288	3,085
Loans	8,269	7,529	1,644	15,581	38,322
Total	29,555	27,608	21,629	33,696	61,075
Jobs Associated	5,117	1,487	3,787	2,537	6,143

5.6 Further Information

Department of Commerce
Chichester House
64, Chichester Street
Belfast BT1 4JX

Telephone: (0232) 34488

IV. SUMMARY OF MINOR INCENTIVES

1. GOVERNMENT SUBSIDIZED CONSTRUCTION

1.1 Program Features

The government subsidization of construction of factories and other industrial buildings makes available such facilities for sale or rent at reduced rates in the assisted areas for manufacturing, mining and construction activities.

1.2 Rates of Award

Custom-built facilities are for sale only. The repayment period is 15 years at a fixed rate of interest. Factories built in advance of demand are for sale or rent. Rents are at prevailing local levels in Great Britain and at subsidized rates in Northern Ireland. Depending on the location, the facilities may be occupied rent-free for up to 5 years if employment has been created or sustained.

2. GRANTS AND ALLOWANCES FOR TRANSFERRED WORKERS

2.1 Program Features

Grants and allowances are provided on a discretionary basis to employees in the manufacturing, mining and construction industry who are moved into or between assisted areas.

3. PREFERRED AWARDING OF GOVERNMENT CONTRACTS

3.1 Program Features

Government contracts are awarded on a preferential basis, with a premium of up to 5 percent, by government purchasing departments, nationalized industries, and other public bodies to firms in assisted areas. This procedure occurs on a discretionary basis.

4. MOVING AND SETTLING-IN COST ASSISTANCE FOR INDUSTRY

4.1 Program Features

Assistance is available on a discretionary basis to help defray the costs incurred by new industry moving into the assisted areas.

4.2 Rates of Award

The amount of assistance available in Britain is up to 80 percent of eligible costs for the removal of machinery and equipment, and in Northern Ireland, up to 100 percent of the costs of transfer, as well as substantial contributions towards setting up costs. Employment grants to be used against managerial costs are also offered.

4.3 Eligible Activities

The manufacturing, mining and construction sector, and selected service industries, provided that they employ at least 10 persons and have a genuine locational choice between the rest of Great Britain and an assisted area, are eligible.

5. THE NATIONAL SMALL FIRMS SUBSIDY

5.1 Program Features

This subsidy has a regional dimension in that the service sector is also eligible in the SDs and SDAs. In the rest of Great Britain only small manufacturing firms qualify.

5.2 Rates of Award

Small firms, defined as having less than 50 employees, are able to claim a premium for jobs provided at the rate of £20 per week for each full-time job provided and £10 per week for each part-time job provided over a period of up to 26 weeks.

6. TEMPORARY EMPLOYMENT SUBSIDY

6.1 Program Features

This subsidy of £20 per employee per week is used to combat recession and redundancy and is paid to firms in assisted areas to retain labour.

7. INDUSTRIAL LOCATION ADVISORY SERVICE

7.1 Program Features

The Advisory Services Program is an instrument established to promote industrial expansion in the assisted areas. Detailed information about suitable locations is available free of charge to assist industries in the selection of appropriate sites for facilities.

8. PLANT AND MACHINERY LEASING ASSISTANCE

8.1 Program Features

Assistance is available to firms in the designated areas involved in the manufacturing, mining and construction sectors, as well as in certain service industries, provided they employ at least 10 people and have a genuine locational choice. The cost of plant and machinery leased for a minimum of 4 years is eligible for selective assistance.

9. GOVERNMENT DECENTRALIZATION

9.1 Program Features

The decentralization of government services has involved moving various government departments and supporting agencies from the Greater London area into the assisted areas to bolster local economies.

10. EQUITY PARTICIPATION

10.1 Program Features

Equity participation is available on a discretionary basis for assisted firms in the mining, manufacturing and construction sector. The following authorities are authorized to hold equity positions: the National Enterprise Board, the Scottish Development Agency, Welsh Development Agency, and the Northern Ireland Development Agency.

11. INFRASTRUCTURE SUPPORT

11.1 Program Features

Support for infrastructure development is available for out-of-date infrastructure which needs to be replaced in older towns and cities and new infrastructure which must be provided for the first time in many rural areas. The government provides basic service grants to the appropriate infrastructure authority to upgrade or provide services in transport, power, lighting, heating, water and sewage in cases where the creation of new jobs can be expected.

12. TOURISM SUPPORT

12.1 Program Features

Support is available for the development of tourism, particularly for the publicizing of scenic areas outside the main tourist centres, in the assisted areas and in those areas which can be visited outside the main tourist season.

Grants or loans for tourist accommodation, catering facilities, conference centres and car parks are available. Pilot projects designed to establish new tourist growth points within the Development Areas in the High Pennines, Scarborough district, North Devon, Cornwall, Scotland and Wales have been initiated. This incentive is administered by the English Tourist Board, the Scottish Tourist Board and the Welsh Tourist Board.

13. TRAINING SERVICES

13.1 Program Features

Training mainly for skilled labour, is provided free of charge to manufacturing, mining and construction industries in assisted areas. Courses are offered at 58 skill centers dispersed among the major industrial centres. This program was designed to provide training for adults to prepare them for new employment. Allowances are paid to trainees supplemented with grants toward travel and lodging expenses where necessary. Training services are also offered to employers to provide basic and advanced skills in instruction, supervision and management.

The Training Services Agency operates the Training Opportunities Scheme (TOPS).

14. SELECTIVE EMPLOYMENT PREMIUMS

14.1 Program Features

Selective employment premiums are paid on an automatic weekly basis in Northern Ireland to the employer for each employee working in an eligible manufacturing position.

14.2 Rates of Award

The amount of the premium varies with age and status of the job: £2.00 weekly is paid for each full-time adult employed, £1.20 for each full-time juvenile, £1.00 for each part-time adult, £0.60 for each part-time juvenile.

15. TRAINING ASSISTANCE - NORTHERN IRELAND

15.1 Program Features

Training assistance in the form of grants is offered to employers in Northern Ireland to train employees to fill new jobs.

15.2 Rates of Award

Assistance is available at the following rates for agreed periods of basic training: £15 per week for employees aged 18 and over, and £8 per week for employees under 18.

16. LOCAL TAX REMISSION - NORTHERN IRELAND

16.1 Program Features

Remission of local taxes is available in Northern Ireland for up to 45 percent of local taxes to eligible industries on a virtually automatic basis.

UNITED STATES

I. COUNTRY OVERVIEW

1. TYPES OF INCENTIVES

1.1 Major Regional Assistance Programs

The major incentives include business loans, working capital loans and loan guarantees to businesses for industrial buildings, machinery and equipment. In addition, a major public works infrastructure assistance program is offered to state and local authorities.

Business Development Assistance Loans, Working Capital Loans and Loan Guarantees provide direct business assistance. Long-term direct business development loans for up to twenty-five years are available for up to 65 percent of the cost of acquisition of fixed assets (land, buildings, machinery and equipment) for the location or expansion of industrial and commercial projects in eligible areas. Working capital loans for up to 100 percent, for a duration of 5 years, are also available.

The business loan program aids those projects that cannot be financed through banks or other lending institutions. Evidence of rejections by two financial institutions is required before the Economic Development Agency (EDA) can consider an individual application.

In addition, EDA will guarantee up to 90 percent of business loans as an inducement to encourage private financing that cannot be financed through banks or other lending institutions. EDA had approximately $170.4 million available for direct business loans and guarantees in FY 1979. Total business assistance is limited to not more than $10,000 per job created or preserved.

<u>Grants and Loans for Public Facilities</u> are offered by EDA to state and local governments and non-profit organizations in designated areas for such public facilities as water and sewer systems, access roads to industrial parks, port facilities, railroad sidings, tourism facilities, vocational schools, flood control projects, and site improvement for industrial parks. Projects must tend to improve the employment prospects of the long-term unemployed, low-income families and assist in the creation of long-term economic improvement in the area.

In order to qualify for these grants and loans, areas must develop an Overall Economic Development Plan. Grants are up to 50 percent of the cost though it can be increased to 80 percent in areas of special distress. When loans essential to the project are difficult to obtain, EDA can act as lender of last resort.

In fiscal year 1979, EDA allotted approximately $228 million for this program.

1.2 Minor Incentives

There are a number of minor incentives available to state and local government authorities. They include economic development grants, grants for planning assistance and trade adjustment assistance. In addition, there is an Indian Industrial Development Program, research and technical grants and other federal community development programs.

Economic Development Grants are provided by EDA to help state and local areas meet special needs arising from actual or threatened unemployment as a result of economic dislocation or other severe changes in economic conditions. Grants may be offered to develop or carry out an economic adjustment plan for any of the following: public facilities, public services, business development, planning, rent supplements, mortgage payment assistance, research, technical assistance, training, relocation of individuals, unemployment compensation or other appropriate assistance to carry out an adjustment plan. EDA allotted $88.5 million for these purposes in FY 1979.

Grants for Planning Assistance are provided to state and local governments to assist them in undertaking economic development planning. Grants are provided to local governments in Redevelopment Areas to assist them in developing their multi-county districts. This funding is used for planning, staff salaries and other administrative expenses of economic development organizations. Funds are also provided by EDA to state and local governments to assist them in developing the capability to undertake the economic development planning in coordination with the multi-county districts. Particular emphasis is placed on reducing unemployment and increasing incomes. In fiscal year 1979, EDA allotted $38.2 million for these purposes.

Trade Adjustment Loans and Loan Guarantees to Businesses and Communities are provided to firms and communities adversely affected by increased imports. Financial assistance under this Act may be used for capital equipment, buildings, land, and for working capital purposes. Technical assistance is provided to help develop and implement a firm's recovery proposal. Communities may also receive Trade Adjustment assistance. Approximately $94 million of business loan funds were dedicated to these purposes in FY 1979.

The Indian Industrial Development Program is intended to assist in the development of self-sustaining economies on Indian reservations by encouraging industry to locate on Indian reservations. Projects are considered for funding assistance on a case-by-case basis.

Grants for Technical Assistance are provided by EDA for technical assistance studies and activities designed to find solutions to specific problems in designated areas. EDA allotted $34.6 million for these purposes in FY 1979.

Research Grants are available through an EDA-sponsored research program directed at determining the causes of unemployment, underemployment, underdevelopment and chronic depression in the various areas and regions of the nation and to assist in the formulation and implementation of national, state and local economic development programs. EDA allotted $5.5 million for these purposes in FY 1979.

Other Federal Community Development Programs also provide substantial funds for regional development. Federal agencies with regional functions include: the Department of Housing and Urban Development (HUD), the Department of Agriculture, the Environment Protection Agency (EPA), the Department of Labour, and the Department of Health, Education and Welfare (HEW).

2. MAIN REGIONAL PROBLEMS AND APPROACHES

The range of policy instruments available for federal use to influence the location of economic activity is comparatively restricted when compared to those used in many other OECD countries.

The funds allocated to EDA are remarkably small given the magnitude of the problems with which the various programs are intended to deal. The activities of the EDA are in fact a relatively small part of the total activities of the federal government which have an impact on regional economic development.

The most direct role played by the national government in regional development is through the construction of major public works, particularly in the field of water resource development.

Regional economic development programs in the United States basically provide assistance to regions, states, and communities to assist them in dealing with economic distress or to cope with special adjustment problems.

Project eligibility is determined on the basis of a number of economic and social criteria. The extent of the project's impact on the economic development of the region, energy conservation, raw materials conservation, development of exports, manufacture of new products, conversion of a sector in difficulty, industrial decentralization and balanced growth, and technical advancement are among the major factors taken into account. In terms of industrial firms, its prospects for viability are of principal importance.

Operations eligible for regional assistance include the establishment of new facilities, manufacture of a new product in an existing facility, expansion of an existing facility, conversion projects, and modernizations. All these operations are handled on the same basis. In fact, all industrial or commercial sectors located in designated areas are eligible for assistance.

The area in which the project is located must qualify as part of an approved overall economic development plan. No relocation of jobs must result; regional participation is essential.

There are three types of regions designated as eligible areas for regional development: Redevelopment Areas, Economic Development Districts, and Economic Development Regions.

3. MAIN DECISION-MAKING BODIES

The Economic Development Agency (EDA) is the major federal body responsible for administering regional aid programs. It pays, for example, up to 75 percent of operating expenses of the Economic Development Districts, which are responsible for coordinating the delivery of a number of federal, state and local social improvement programs.

In addition, a number of other levels of government are involved in regional development. There are 21 federal multi-state regional development commissions, basically modelled on the Appalachian Regional Commission established in 1965, and several important federal-regional interagency committees, including the River Basin committees, and ten Federal Regional Councils.

Under the U.S. political system, nearly all of the planning and execution of regional economic development programs and projects falls to state and local governments. These levels of government have their own incentives and powers. They can control the use of land and the issuance of building permits. They can actively attempt to influence private industrial locations through financial and fiscal inducements, land use controls, and the issuance of building permits.

The Appalachian Regional Commission and the multi-state regional economic development commissions established under the Public Works and Economic Development Act provide the sole mechanisms for formal federal-state cooperation in regional economic development planning. Federally-assisted economic development districts facilitate local area-wide economic development planning.

4. RECENT EVOLUTION OF INCENTIVES

Federal budget cuts introduced in early 1981 have effectively cancelled most US regional aid programming. The Reagan administration is calling for a reduction in appropriations for economic development and would leave only $50 million in the FY 1982 EDA budget for program closeout activities.

5. SUMMARY TABLE OF MAJOR BUSINESS INCENTIVES

Major Incentives	Type	Eligible Areas	Eligible Activity	Maximum Rates	Jurisdiction
Business Development Assistance Program	Direct fixed asset loans, direct working capital loans, loan guarantees	EDA Redevelopment Areas, Economic Development Centres	Industrial Commercial	-$10,000 per job created or saved -loans up to 65% of total asset value -working capital loans up to 100% of required amount -loan guarantee up to 90% of amount owing on guaranteeed obligation	EDA
Public Works Program	Grants loans	EDA Redevelopment Areas, Economic Development Centres	Public utilities and Services	50% to 80% of eligible costs	EDA

II. REGIONAL POLICIES, PROBLEMS AND DECISION-MAKING BODIES

1. POLICIES AND APPROACH

Three types of regions have been designated as eligible areas.

Redevelopment Areas are characterized as a county, labour area, or city where employment or family income figures reveal conditions of economic distress; they are those areas experiencing or about to experience a sudden rise in unemployment due to the closing of a major source of work.

An Economic Development District is a multi-county district, containing at least two Redevelopment Areas. The district plans and manages economic development programs on behalf of redevelopment areas.

These programs include a variety of federal, state and local programs that are regional in scope, such as health, law enforcement, and housing.

The District has a development board, representative of area economic, political, civic, and social interests, and includes representatives of the unemployed. Minorities must be represented in proportion to their numbers, but not necessarily exceeding 25 percent. This board is responsible for developing an economic action plan for the area, called an Overall Economic Development Program (OEDP), the purpose of which is to provide the District organization with a management plan and work program.

The Economic Development Agency (EDA) pays up to 75 percent of the administrative expenses of District organizations once it has approved the District's Overall Economic Development Program. The District is then officially designated by the Assistant Secretary of Commerce for Economic Development and becomes eligible for additional financial assistance. This assistance includes, for instance, a 10 percent bonus on public works. Depending on the seriousness of local economic distress, single Redevelopment Areas, under general provisions of the EDA Act, are entitled to grants ranging between 50 and 80 percent of the project cost to help finance public works projects of an economic development character.

Within the Economic Development District, practical help is also available for member governments, commissioners and mayors of small towns who may not be experts in all aspects of government. Funds are provided through the District concept to enable them to receive technical assistance.

Districts may be designated as clearing houses to review and comment on applications for government assistance of all kinds in their areas. To help them in this work of preventing duplication of effort and avoiding waste, EDA can provide financial aid to defray part of the costs involved in the review procedure.

Economic Development Regions encompass Economic Development Districts. They are multi-state areas with economic, geographic, historical, and cultural bonds. The concept provides for the creation of regional commissions to carry out long-range economic development programs. The commissions are federal-state partnerships.

2. PROBLEMS

Regional policy places a large degree of reliance on local initiative. Communities working in conjunction with the Economic Development Agency and multi-state organizations define needs and seek the appropriate form of federal assistance.

EDA has identified several weaknesses with current U.S. regional policies and programs. These include: fragmentation of programs and resources, conflict in procedures adopted by the different institutions, wide divergence in delivery systems, a gap between the responsibility for dealing with problems and the authorities to correct the problems, conflicts and overlapping jurisdictions between numerous institutions and agencies at the operational level, e.g., between the economic development projects of EDA and other central agencies which can contribute to local economic development.

3. DECISION-MAKING BODIES

The first multi-state regional development organization, the Tennessee Valley Authority, was established in 1933. However, it is solely an entity of the federal government and later developments were directed towards establishing joint federal-state regional development commissions in preference to purely federally-created bodies. The legislation establishing these new federal multi-state organizations was enacted in 1965.

There are potentially 21 federal multi-state regional development commissions:

- The Appalachian Regional Commission,
- twelve designated Regional Economic Development Commissions, (designated under Title V of the Public Works and Economic Development Act of 1965),
- eight River Basin Commissions.

In addition, there are a number of important federal-regional interagency committees. These include:

- three River Basin interagency committees, and
- ten Federal Regional Councils (FRCs).

The Appalachian Regional Commission, established in 1965, is the most comprehensive multi-state regional development organization in the United States. It has responsibility for planning and executing a broad range of development-oriented programs through its member states and their multi-county development districts.

The Commission consists of the Governors of the thirteen Appalachian states, together with a Federal Co-chairman appointed by the President. This body oversees commission operations. While the Federal Co-chairman holds a veto power, this authority thus far has not been used.

Twelve other multi-state regional economic development commissions modeled on the Appalachian Regional Commission have been designated. The territory they embrace covers nearly all of the United States except portions of California, Texas, and several areas in the Midwest and South.

The commissions, which are lodged organizationally under a Special Assistant to the Secretary of Commerce, have no control over related actions by other federal agencies. Rather, they are charged with coordinating and assisting state and local economic development planning. They are authorized to provide technical assistance and grants for state planning assistance, "supplementary grants" to increase the federal contribution on other aid programs, and funds for demonstration projects, planning studies, and training programs, as well as projects in energy, transportation, vocational education, and health.

The River Basin commissions, another type of multi-state regional commission, are concerned with water resource management, one of the most regional of governmental concerns. The basins of the largest river networks include parts of many states, and actions taken which use or pollute these resources have considerable impact downstream. Effective management requires coordination among several states as well as a number of federal agencies.

The Water Resources Planning Act of 1965 established a Federal Water Resources Council and authorized creation of six River Basin commissions composed of a representative of each member state and representatives from each of several concerned federal agencies.

Ten Federal Administrative regions have been established to provide for improved coordination among federal programs. A Federal Regional Council has been established in each of these regions. The Federal Regional Councils have been devoted to simplifying and coordinating the administration of assistance programs and to serve as a point of contact between the states, cities, and Washington.

Multi-county planning and development organizations are engaged primarily in multi-jurisdictional planning, coordination of program activities, and policy formulation related to economic development, water quality, transportation, and social services. They are generally created under the provisions of state legislation, are composed of local government representatives, and receive federal financial aid. They are intended to provide for decentralization of decision-making from the state government. The 1977 Census identified 1,932 such organizations.

In addition to federally funded programs, state and local governments offer a variety of financial and fiscal incentives.

Fiscal and financial incentives are the type of regional incentive commonly used by state and local governments to enhance state and local economic development. They include: efforts to make the overall structure and rate of taxes - the "tax climate" - attractive to industry by offering tax incentives, specific exemptions, temporary tax abatements, or preferential assessments that lower business operating costs, and financial incentives such as loans, loan guarantees, and interest rebates. In addition, new firms are provided with certain public services, such as roadways or utility hookups at zero or reduced cost.

Many states grant property tax exemptions ranging up to fifteen years on land and buildings used by new businesses. More than half the states extend the concession to newly purchased equipment and machinery. These exemptions are usually authorized by the state; the local government then has the option of whether or not to use them.

Other fiscal concessions include reductions in the state corporate property and personal tax, excise, raw material, inventory and sales tax. Free port exemptions entitle property stored in one state, but destined for shipment to another state, to exemption from taxation as inventory. Export incentives are applied to the extent that a firm selling its product out of state has its state income tax liability reduced.

III. SURVEY OF MAJOR REGIONAL ASSISTANCE PROGRAMS

1. BUSINESS DEVELOPMENT ASSISTANCE PROGRAM

1.1 Program Features

EDA offers assistance in the financing and, under special circumstances, the refinancing of business development projects in the form of direct loans to finance the cost of fixed assets, direct loans to provide working capital, and loan guarantees to private borrowers by private lending institutions to finance the cost of fixed assets, working capital, and project-related expenses incurred through rent or leasing payments. Limited interest subsidies in conjunction with these loans are also available.

1.2 Rates of Award

EDA financial assistance is generally limited to not more than $10,000 per job created (or saved), computed with reference to the total of all forms of EDA assistance offered to the project.

Direct fixed asset loans may not exceed 65 percent of the total cost of land, buildings, machinery, and equipment for industrial or commercial enterprises. Depending on the availability of funds and/or the nature of the project, EDA may limit its loans to less than 65 percent of these costs.

Direct working capital loans may be in the full amount required by the applicant.

Guarantees extended by EDA on loans or leases may not exceed 90 percent of the amount owing on the obligation guaranteed.

Interest subsidies will only be approved concurrently with a guaranteed fixed asset loan to which they relate, providing that the loan is made at a fixed rate of interest.

1.2.1 Factors Affecting Award Value

Although the EDA legislation permits the maximum EDA financial assistance indicated above, each project is evaluated on an individual basis and may receive less than the maximum permitted by law.

EDA business development assistance may extend to twenty-five years. However, the duration of fixed asset loans, whether direct or guaranteed, and leases of fixed assets is limited to the useful life of the fixed assets to be acquired. Working capital loans, whether direct or guaranteed, lease guarantees, and interest subsidies are limited to a term of not more than five years.

Interest rates on EDA loans are determined by the cost of government borrowing and are reviewed and set quarterly. Rentals on guaranteed leases must be reasonable. Interest rates on EDA-guaranteed loans by private lending institutions must be consistent with the marketplace.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Industrial and commercial activities are eligible. The organization applying may be a business, a non-profit association, a state or political subdivision, including municipalities, quasi-public corporations or authorities, Indian tribes, private lending institutions, including banks, savings and loan associations, insurance companies, investment bankers, and venture capital investment companies.

1.3.2 Geographical Eligibility

Business development projects must be located in EDA redevelopment areas, economic development district growth centres, or other areas of such districts where the financial assistance provided will be of substantial direct benefit to the residents.

1.3.3 Project-Related Eligibility

EDA business development assistance is offered for the purpose of upgrading an area economically through creation or retention of permanent, well-paying jobs for local residents. EDA cannot help a business to relocate from one area to another. When an applicant wishes to expand to a new location while continuing operations at a previous location, EDA will check carefully to determine that employment will not be reduced at the existing place or places of business.

1.3.4 Eligible Expenditures

Business loans, working capital loans, and loan guarantees are available for the purchase of industrial buildings, machinery and equipment.

1.3.5 Further Conditions Affecting Eligibility

EDA expects all projects to be adequately supported by investment capital. At least 15 percent of the total eligible costs for projects involving direct fixed asset loans must be in the form of equity or a subordinated loan, repayable at the same rate as the EDA loan. A specified portion of this amount must be held by the state, or by a community or area organization. An exception is made for projects involving financial participation by Indian tribes.

The requirement for 15 percent minimum equity investment also is applied to other types of EDA financial assistance. For projects involving working capital, the project should be in operation and have existing net working capital of at least 15 percent of its total requirements.

To stimulate investment by private lenders, EDA encourages applicants for direct fixed asset loans to borrow amounts above the first 15 percent from private lending institutions. Such loans may be repaid before the EDA loan and may be secured by liens having precedence over the EDA lien, if it is necessary for accomplishment of the project. The required financial assistance must not be available from other sources.

EDA cannot assist an industrial or commercial concern when there is an anticipated long-range excess capacity situation with respect to the goods or services to be created by the proposed project.

In addition, project construction contractors must pay the wage rates required by the Davis-Bacon Act and must comply with the nondiscrimination provisions of the Civil Rights Act of 1964 relating to employment practices.

1.4 Program Administration

1.4.1 Application Procedure

Applicants must apply for EDA assistance before the commencement of the project. A detailed financing package is generally developed in consultation with EDA prior to submission of an application. Bank loans are negotiated between borrower and bank in accordance with normal lending practices. Lease terms are negotiated between lessor and lessee.

In terms of payment procedure, loan or rental payments should be monthly; for seasonal businesses, payment schedules may be structured appropriately.

In addition, the offer of assistance requires that all financing for the project, including working capital, be firmly committed before EDA's assistance can become effective. EDA also generally requires that the operating company abide by certain limitations on its operations which are customary to commercial lenders, such as salary, fixed asset and dividend limitations, maintenance of net working capital and debt-equity ratios.

1.4.2 Decision Procedure

EDA makes its own analysis of a project before making a decision on the merits. It may seek advice from other Government agencies that have expert knowledge in the field of the project.

The project must be consistent with the EDA-approved Overall Economic Development Program (OEDP) for the area in which the project will be located. Each project must be approved by an agency of the state or political subdivision directly concerned with economic development.

2. PUBLIC WORKS PROGRAM

2.1 Program Features

The EDA provides grants and loans for public works and development facilities through a program designed to encourage economic and social growth in the eligible areas.

2.2 Rates of Award

Direct grants of up to 50 percent of total eligible project costs are awarded to eligible projects in designated areas.

EDA may also make public facility loans in severely distressed areas.

2.3 Eligibility Criteria

2.3.1 Eligible Activities

Public utilities and services related to public works facilities are eligible. However, no financial assistance may be provided for projects involving the generation, transmission, or distribution of electrical energy, for projects involving the production or transmission of gas, or for projects that would be in competition with an existing privately-owned public utility.

2.3.2 Geographical Eligibility

To be eligible for assistance, a project must be located within an EDA-designated area or designated Economic Development Center and must be consistent with the approved Overall Economic Development Program (OEDP). The principal requirements for an area's designation are high unemployment, a large concentration of low-income families, substantial rural out-migration due to lack of job opportunities, or an actual or threatened rise in unemployment due to the closing or curtailment of a major source of employment.

2.3.3 Project-Related Eligibility

Grants and loans are awarded for the construction, rehabilitation, alteration, expansion or improvement of public works and public services.

Projects must improve the opportunities for the successful establishment or expansion of industrial or commercial plants or facilities, assist in the creation of additional long-term employment opportunities, or primarily benefit the long-term unemployed and members of low-income families.

2.3.4 Eligible Expenditures

Grants and loans may be used to acquire and develop land and facilities, and related machinery and equipment for public works and public services.

2.3.5 Further Factors Affecting Eligiblity

Other conditions which must be met include the following:

- beneficiaries of EDA-financed projects must comply with the nondiscrimination provisions of the Civil Rights Act of 1964, relating to employment practices and operation of the project;

- all construction work is subject to the requirements of the Davis-Bacon Act and the Contract Work Hours Standards Act relating to federally-financed construction projects. Local labour must be used to the maximum extent possible;

- no financial assistance may be provided for projects that would result in increased production of goods, materials or commodities, or the availability of services and facilities, when efficient capacity exists to meet estimated demands; and

- no financial assistance will be provided for projects intended to facilitate the relocation of industry or jobs from one area to another.

2.4 Program Administration

2.4.1 Application Procedure

Applicants may be states, local subdivisions, Indian tribes, private or public non-profit organizations and associations representing an EDA-designated Area or Economic Development Center.

Applications are provided at a pre-application conference; this is an informal briefing session to facilitate the preparation of a formal application with full supporting documentation.

IV. SUMMARY OF MINOR INCENTIVES

1. SPECIAL ECONOMIC DEVELOPMENT AND ADJUSTMENT ASSISTANCE

1.1 Program Features

A 1974 amendment to the Public Works and Economic Development Act of 1965 added several job-creating programs to the Economic Development Administration. One such scheme is the Sudden and Severe Economic Dislocation Program (SSED) for areas which have experienced economic dislocations involving structural changes in their economy. The program tools include Adjustment Planning Grants, Preliminary Adjustment Planning Grants, and Adjustment Implementation Grants.

Adjustment Planning Grants are awarded to eligible applicants for the purpose of developing an Adjustment Plan. Such a plan must identify the nature, causes, magnitude, and impact of the dislocation, the adjustment needs arising from the dislocation, the proposed measures for addressing the needs, and the method of implementing the program. It must consider the needs of both the dislocated workers and the local economy and must present a complete program for dealing with the dislocation problem. Due to the emergency nature of SSED problems, the Adjustment Plan should be completed within three to six months. Award of an Adjustment Planning Grant does not imply that implementation funding will automatically follow.

When the actual extent of a dislocation is difficult to determine, but there is reason to believe it may be severe, a Preliminary Adjustment Planning Grant may be awarded for the purpose of identifying the potential nature and magnitude of the dislocation impact. If warranted, a regular Adjustment Planning Grant will be awarded subsequently.

The SSED Program can fund the implementation of related activities encompassed by the approved Adjustment Plan with a single Adjustment Implementation Grant. Such assistance may be combined with funds from other EDA programs, and funds from state, federal and local sources, as appropriate.

1.2 Rates of Award

The maximum amount of an Adjustment Implementation Grant is usually $3,000 per job retained or replaced, with an upper limit of $5 million per grant. Normally, a grant awarded under the program represents a maximum of 75 percent of an applicant's total need. A non-federal share is normally expected as evidence of state and local government involvement.

The minimum interest rate allowance is four percentage points below the interest rate charged under EDA's Businesss Development Program. Repayments may be maintained in a revolving loan account and reused for other economic development and adjustment activities.

1.3 Eligibility Criteria

1.3.1 Eligible Activities

Activites in business, industry and the public service sectors are eligible.

1.3.2 Project-Related Eligibility

There are virtually no limitations on the types of projects that can be funded under an Adjustment Implementation Grant, but each project must be fully supported by an approved Adjustment Plan.

Adjustment Planning Grants and Preliminary Adjustment Planning Grants may be offered to develop plans for any of the following: public facilities, public services, business development, planning, rent supplement, mortgage payment assistance, research, technical assistance, training, relocation of individuals and businesses, unemployment compensation through the U.S. Department of Labour, or other appropriate assistance.

1.3.3 Eligible Expenditures

Adjustment Planning Grants and Preliminary Adjustment Planning Grants normally are used to purchase consultant and staff services.

1.3.4 Other Factors Affecting Eligibility

Dislocations that can make an area eligible for SSED assistance include the loss of a significant number of jobs owing to a sudden curtailment of economic activity, such as the closing of a major employer or a natural disaster, or a sudden major change in an area's economy that increases the need for local government services far beyond that government's capability to provide them.

In order to qualify for consideration under the program, eligible job loss dislocations must have occurred within the preceding twelve months or be expected to occur within two years, and must meet the following minimum test of impact severity:

	For Areas Within Standard Metropolitan Statistical Areas	For Areas Not in Standard Metropolitan Statistical Areas
If the unemployment rate of the applicable Labor Market Area or SMSA exceeds the national average:	The dislocation must amount to 0.5% of the employed population or 4,000 direct jobs.	The dislocation must amount to 2% of the employed population or 500 direct jobs.
If the unemployment rate of the applicable Labor Market Area or SMSA is equal to or less than the national average:	The dislocation must amount to 1% of the employed population or 8,000 direct jobs	The dislocation must amount to 4% of the employed population or 1,000 direct jobs

Surpassing the minimum impact threshold does not ensure assistance under the SSED Program for an area. The above standards are the minimum criteria for consideration of an area. Additional factors, such as the total number of jobs lost and the extent to which program funds will lever investments from other sources, are considered.

Requests for assistance available to applicants through other EDA authorities or other federal programs, such as unemployment compensation, or mortgage payment assistance will not receive priority consideration under the SSED Program.

The SSED Program is intended primarily to avert a threatened dislocation, or replace jobs lost as a result of a recent dislocation. Accordingly, requests for assistance from communities experiencing rapid increases in population will not receive priority consideration under the SSED Program.

1.4 Program Administration

1.4.1 Application Procedure

To be eligible for assistance, an applicant may be a designated EDA redevelopment area, or a non-profit organization determined by EDA to be the representative of a redevelopment area, an Economic Development District, a state, county, city or other political subdivision of a state, a substate political unit, or consortium of such units, or an Indian tribe. In general, the smallest entity capable of dealing effectively with an economic dislocation problem is deemed the proper applicant.

The prospective applicant contacts the local Economic Development Representative for the region in which the applicant is located. In most cases, the initial application will be for an Adjustment Planning Grant.

The Regional EDA Office will prepare a written summary of the proposed project for review by the Regional Project Review Committee (PRC). The PRC will then forward the proposal, with its recommendation, to EDA headquarters in Washington, D.C. where EDA's Policy Development Committee will decide whether the project will receive assistance and what type.

1.4.2 Monitoring Procedure

Recipients of grants are required to submit a complete report for each year that EDA assistance continues and for one year thereafter. The reports would include a general evaluation of the effectiveness of the assistance in meeting the economic adjustment needs of the area.

2. PLANNING GRANTS FOR ECONOMIC DEVELOPMENT

2.1 Program Features

The EDA awards planning grants at the state, multi-county and community levels for the development of a capability for economic development planning that is comprehensive and coordinated with other programs.

The EDA may make a grant to a state to cover up to 75 percent of the cost of an economic development planning program. Such planning must be conducted cooperatively with the state's political subdivisions and Economic Development Districts. It must consider the provision of public works to stimulate development, economic opportunities, and employment choices for individuals, support sound land use, enhance the environment, and preserve open spaces.

At the sub-state level, the Public Works and Economic Development Act states that EDA-assisted economic development planning must be "a continuous process involving public officials and private citizens" in analyzing local economies, defining development goals, determining project opportunities, and formulating and implementing a development program.

2.2 Eligibility Criteria

2.2.1 Geographical Eligibility

Grants may be made to development organizations representing groups of counties authorized by EDA, at the request of the Governor, to be provisional Economic Development Districts, and grants may be made to one organization in a qualified Redevelopment Area or other depressed area when such areas are not included in a multi-county Economic Development District. Sometimes excepted from this limitation are qualified Indian groups with substantial populations.

2.2.2 Eligible Expenditures

Grants made to development organizations within Economic Development Districts may be used for administrative expenses of the District Organizations, including staff salaries.

2.2.3 Other Factors Affecting Eligibility

EDA planning assistance grants require the grantee to have its own professional planning staff.

Grants to Economic Development Districts or Redevelopment Areas will not be continued beyond one year in the absence of a currently approved OEDP.

All applicants for grants for economic development planning must comply with the nondiscrimination provisions of the Civil Rights Act of 1964 relating to employment practices and to the conduct of their operations.

All applicants must also agree to the law which forbids discrimination on grounds of sex, and to abide by the law which bars discrimination against any otherwise qualified handicapped individual.

2.4 Program Administration

2.4.1 Application Procedure

An application for a planning grant made by a substate organization must have the endorsement of the state(s) in which the applicant is located. In addition, prior EDA approval must be secured for professional staff to be paid with EDA funds before contracts may be let or consultants hired.

2.4.2 Decision Procedure

The underlying purpose of all EDA activity, however, is the creation of jobs for the chronically unemployed and underemployed. Multi-county, city and county development organizations funded by EDA must, therefore, have on their governing bodies not only locally elected officials, but also private citizens, and representatives of the major governmental, economic, and social groups.

3. INDIAN INDUSTRIAL DEVELOPMENT PROGRAM

3.1 Program Features

To assist in the development of self-sustaining economies on Indian reservations throughout the United States, the EDA encourages expanding industry to locate on Indian reservations. The program makes available public works grants for roads, sewers, waterlines, site preparation, and other elements of the infrastructure that industry needs for efficient operation, technical assistance to help develop strategy and assess the feasibility of specific lines of development, and loans and loan guaranteees to help establish businesses and manufacturing plants.

The program is intended to encourage Indian participation in ownership and management of plants located on reservations. This concept is consistent with the policy of Self Determination and with the desire of Indians to participate in the planning of their economic future.

3.2 Eligibility Criteria

3.2.1 Geographical Eligibility

The project must be located on an Indian reservation.

3.2.2 Project-Related Eligibility

The EDA Indian Industrial Development program provides opportunities for American industry to participate in the development of reservation economies through the support of an Indian enterprise that can provide a service or product and various contractual arrangements such as joint ventures or production contracts with management participation by non-Indian corporations.

3.3 Program Administration

3.3.1 Application Procedure

To maintain and expand existing employment on Indian reservations, and to help develop Indian entrepreneurs, the Indian Industrial Development Office provides assistance to reservation industry. The industrial development staff is available for consultation with management to identify problems. The staff then helps locate sources of financial assistance and technical support to solve these problems.

3.3.2 Decision Procedure

The EDA Indian Industrial Development program is administered by the Indian Desk of the Economic Development Administration through its Indian Industrial Development Office.

4. OTHER PROGRAMS

EDA trade adjustment assistance is available for firms deemed eligible because of the adverse effects of increased imports. The objective is to facilitate the orderly transfer of resources to alternative uses and to assist firms in adjusting to new competitive conditions. However, this EDA program is not focussed on specific regions.

HUD provides in addition to federal housing assistance, two major community and economic development programs. Community block grants can be provided for public works and community development and to strengthen the fiscal base. In 1979, it provided up to $2.7 billion in metropolitan areas and $800 million in rural areas.

Urban Action Development Grants, the other HUD program, provided up to $400 million for "strategic" public investment to stimulate private investment.

The Department of Agriculture makes loans or grants ($1.3 billion) to public, quasi-public and non-profit institutions and certain Indian tribes for essential community facilities in non-metropolitan areas such as water and waste disposal.

The EPA administers federal grants ($4 billion) for water treatment facilities.

The Department of Labour administers the Employment and Training Program ($8.5 billion).

HEW administers vocational and technical training programs which are integrated into state and local economic development programs and are an important component of multi-state economic development programs.