



OECD Territorial Reviews

Northern Sparsely Populated Areas



Executive summary

The northern sparsely populated areas (NSPA) of Finland, Norway and Sweden are becoming increasingly important to the geopolitical and economic interests of these countries and the European Union (EU). The NSPA regions are located on the periphery of Europe and are part of Europe's gateway to the Arctic and the east of the Russian Federation (hereafter 'Russia'). A changing climate, access to hydrocarbon and mineral resources, and shifts in relations with Russia are changing the political and economic landscape. The sustainable development of these regions is crucial to managing such strategic risks and opportunities.

Within the EU, these regions have unique geographical characteristics and more closely resemble rural regions in countries such as Canada, Australia and Chile. The NSPA has five people for every square kilometre, totalling about 2.6 million people over an area of 532 000 square kilometres, comparable to the population of Rome inhabiting the entire area of Spain. The three NSPA regions share a similar natural environment – a harsh climate, abundant natural resources, relative lack of agriculture, a strong potential for renewable energy, long distances from markets, and high cost of land transport. The natural environment plays a far more important role in the NSPA than in most of southern Europe where high-density settlements are buffered from nature by a built environment that limits the impact of nature on people and firms.

Low-density economies (LDEs) such as those in the NSPA lack the agglomeration benefits of cities that are generated by sharing facilities, inputs, and specialisation, larger labour markets, and knowledge spillovers. However, this report finds that high productivity growth is possible in LDEs and low-density regions can overcome their disadvantages through other mechanisms. For instance, there are a wide range of industries in LDEs, such as forestry or mining, where vertical integration represents an advantage and essentially overcomes the need for sharing facilities. LDEs can also attract workers from other regions and abroad with higher wages or the availability of environmental amenities. ICT broadband can enhance connectivity in remote areas and thus the spread of new ideas.

Realising growth opportunities for these regions is linked to the identification of absolute advantages. These vary by country and region and primarily include minerals and energy, fisheries and aquaculture, forestry, renewable energy, and tourism-related services. These activities are generally connected to an immobile asset such as resource endowments, coastal topography or national parks. The key policy question then is how to add value around unique assets by supporting factors that enable productivity growth such as skills, innovation, infrastructure and the business environment. The concept of "smart specialisation" is therefore a very suitable policy approach for LDEs. If well applied, it can be used to identify and focus on the areas of absolute advantage, and then add value around them through diversification.

Within the NSPA, the regions' economies are becoming more similar and this convergence may increase scope for co-operation in addressing shared challenges. NSPA regions with GDP per capita levels below the OECD level are catching up. This is apparent in the five more eastern and central Finnish regions that experienced above-average GDP per capita growth in 2000-12. NSPA regions that are most developed are growing slower. The

three Norwegian NSPA regions are characterised by low GDP per capita growth in the period 2000-12 but above-average initial GDP per capita levels compared to the OECD average. There is a third cluster, in between the catching-up regions and the low growth ones, with initial GDP per capita and GDP growth close to the OECD average. This includes all the Swedish regions as well as the two Finnish regions of Northern Ostrobothnia and Lapland.

Despite their remoteness and harsh climatic conditions, well-being is high in the NSPA, above OECD averages and slightly below national averages. While citizens in the NSPA generally experience lower employment and income outcomes than the country average, other factors such as housing, the environment and accessibility to services are above or close to the national level, indicating potential for attaining higher living standards. This suggests that if it is possible to increase employment levels, raise productivity, and improve both the functioning and geographic extent of local labour markets in the NSPA there is a higher likelihood that people will remain and a significant part of the demographic challenge will be resolved.

The report sets out policy recommendations at a cross-border, national and regional scale to enhance prosperity and well-being across the NSPA. These policy recommendations are integrated and designed as a complementary package. They include:

NSPA-wide

- Establishing an agreed work programme amongst the NSPA regions which is integrated with national government decision making and addresses shared opportunities and challenges such as improving east-west transport connections, reducing occupational and skills barriers to labour mobility, addressing barriers to business growth such as access to finance, and increasing the use of e-technologies in service delivery.

At the national level

- Strengthen mechanisms to better tailor and integrate national sectoral policies with the particular needs and circumstances of NSPA regions, particularly for skills, innovation, trade and industry, and transport and digital infrastructure. In the cases of Finland and Sweden this also includes strengthening the role of the new regional autonomous bodies and county councils in co-ordinating national and EU regional and rural policy funds at a regional scale.

At the regional level

- Add value to absolute advantages through better engagement with small and medium-sized enterprises (SMEs) via innovation and business support programmes and through regional co-operation to maximise the benefit of relatively small research and innovation assets.
- Improve connectivity to markets through continued investment in broadband as well as stronger east-west linkages to create competition with predominantly north-south infrastructure connections.
- Strengthen labour market and service delivery efficiency through better skills matching with employer needs and through strategies to concentrate population and resources in a smaller number of urban centres.

Delivering on these policy recommendations will depend upon proactive leadership and continuing to strengthen joint action by NSPA regions, with EU and national government partners.

Assessment and Recommendations

Enhancing collaboration to address shared challenges and opportunities

The NSPA forms part of Europe's gateway to the Arctic and Russia and faces particular development challenges because of its particular geographic features and location

The economic and geopolitical importance of the NSPA regions to the EU and member countries has been increasing due to a changing climate, access to hydrocarbon and mineral resources, and shifts in relations with the Russian Federation (hereafter 'Russia') and other Arctic countries. A changing climate is placing new pressures on ecosystems and traditional ways of life, and opening up new opportunities for resource extraction. The NSPA is Europe's gateway to the Arctic and northern Russia, and is important for energy security, food production and technological innovation, which is increasing its geopolitical importance to member countries. This importance is recognised by the EU and the national governments of Finland, Norway and Sweden. The EU, Finland, Norway and Sweden have each released Arctic policies in recent years, which set out commitments for the sustainable development of the northern regions. As an existing (albeit weak) institution the NSPA is an important stakeholder in helping to achieve these strategic policy objectives.

The NSPA regions are different to other regions in Europe because of the harsh climate, strong natural resource endowment, and long distances between settlements and from markets. The particular geography of the NSPA, combined with the small population, makes the region particularly dependent on the export of raw and semi-processed natural resources. Large scale resource extraction and industrial processing associated with mining, forestry, oil and gas, fishing and aquaculture, and agriculture are important to the economic base of these regions. There is also a growing market in international tourism that is once again oriented around natural and cultural assets, which is also an important source of creativity and entrepreneurship. Within these broad parameters there are also important technological innovations occurring within the regions with niche manufacturing and services, and cutting edge research and innovation linked to the Arctic climate and environment. The NSPA generally has productivity levels above the OECD average, although they lag behind other regions in the Nordic countries.

Despite challenges associated with peripherality and low density these regions generally have high levels of well-being and prosperity in the context of the OECD

While there are clear challenges for economic growth in future years there is high degree of satisfaction by residents of the NSPA with their overall quality of life.

Although the level of satisfaction is somewhat below that of fellow citizens in the south of each country, it is remarkably high by OECD standards. While citizens in the NSPA generally experience lower employment and income outcomes than the country average, other factors such as housing, the environment and accessibility to public services are above or close to the country level. This suggests that if it is possible to increase employment levels, raise productivity, and improve both the functioning and geographic extent of local labour markets (LLMs) in the NSPA there is a higher likelihood of retaining and attracting people, and a significant part of the demographic challenge will be resolved.

There is significant diversity in economic and social outcomes within these regions. Economic and population growth is increasingly concentrating in a smaller number of larger LLMs somewhat offsetting the broader impacts of population ageing and decline. Further incentivising this process and better linking smaller communities through broadband will help address the demographic challenge. Firms in the NSPA are mainly small and the most common specialisation for small firms is in natural resources whilst for large establishments it is as public sector service providers. Large private sector firms are declining in absolute numbers and as a share of all firms. In some parts of the NSPA there is a fairly strong rate of new firm formation, but in other parts there seems to be a lack of entrepreneurial behaviour by local people. Related to this is a very high rate of employment in the public sector especially in some of the smaller municipalities that are not part of a larger LLM.

Enhancing cross-border collaboration would enable NSPA regions to better address common challenges and opportunities

Addressing the common challenges and opportunities facing the NSPA will require an enhanced approach to cross-border collaboration which is focused on key enabling factors for growth and productivity (skills, innovation and infrastructure). There are already a number of cross-border collaborations supported by the EU and national governments which encompass these issues and there is scope to better co-ordinate and align them to address the key challenges facing the NSPA. The NSPA itself does facilitate knowledge-sharing but primarily functions as a way to engage with the EU and influence EU policy settings including the distribution and use of cohesion funds. As a result, there is a lack of collective approach amongst the NSPA regions to influence the sectoral policies of national governments so they can be better tailored and integrated to the unique challenges and opportunities facing the NSPA. Strengthening this place-based approach to policies would allow the regions to better exploit complementarities (e.g. between food production and tourism, ICT and service delivery, and between urban and rural areas). Identifying how to strengthen this NSPA-wide collaboration and better connect it to national level forums would need to build upon existing institutions such as the Nordic Council and the Barents Euro-Arctic Council.

Recommendations to more effectively address the shared challenges facing the NSPA regions

1. Continue to ensure that the unique characteristics of the NSPA regions (a harsh climate, long distances from markets, and a small number of isolated settlements) are effectively incorporated into national and European level policy settings for regional and rural development, and service delivery. This includes:
 - a. recognising the importance of improving infrastructure for connectivity
 - b. the need to focus scarce economic development resources in areas of absolute advantage
 - c. accounting for the higher unit costs of delivering public services (due to remoteness, low population densities, and the harsh climate)

2. Enhance existing co-operation across the NSPA by better linking this network with the Nordic Council and developing a work programme to help facilitate knowledge-sharing, harmonise policies and regulatory settings where it is appropriate, and monitor the implementation of EU and national policies that have cross-border implications. This work programme should focus on addressing shared challenges and opportunities with objectives such as:
 - a. increasing the use of e-technologies, and innovative partnerships with the private and community sectors to drive service delivery innovation
 - b. adopting a more integrated approach to infrastructure planning, investment, and maintenance including identifying new ways to work with the private sector (this includes improving cross-border planning and investment co-ordination to facilitate improved east-west linkages)
 - c. improving the functioning of labour markets, for example, by harmonising certification and skills requirements for similar occupations, and facilitating co-operative arrangements between educational institutions
 - d. working to facilitate greater interaction among local labour markets (LLMs) with common characteristics and opportunities in areas such as higher education, research and innovation, particularly when they are in different countries
 - e. encouraging a more co-ordinated approach between NSPA regions to smart specialisation which builds upon core areas of absolute advantage, provides better support for SMEs and start-ups for example by addressing barriers such as access to finance, and facilitates access to external markets
 - f. better linking Sami communities with regional and rural development policies to help create new employment and business opportunities for local communities.

3. Strengthen governance mechanisms within each country which facilitate a partnership approach between the national governments and NSPA regions in the design and delivery of key sectoral policies (education and skills, health, transport and broadband infrastructure, and innovation). A joint approach to working with the NSPA regions in each country will help ensure policies better reflect the unique needs and circumstances of these regions, and incentivise enhanced collaboration between regions and municipalities (including at the scale of LLMs).

NSPA recommendations for Finland

The regions of north and eastern Finland make an important contribution to the national economy particularly through the tradeable sector

The regions of north and eastern Finland (Central Ostrobothnia, Kainuu, Lapland, North Karelia, Northern Ostrobothnia, Pohjois-Savo, and South Savo) make an important contribution to the economic growth and well-being of the country. The seven regions constitute 19.6% of the country's economy, 23.9% of the population, and 66.9% of its land area. They are key part of Finland's economy because of commodities and related manufacturing for export (e.g. wood, paper and pulp products, technologies, chemicals and minerals), services (tourism and ICT related), and their significant environmental assets (fresh water and wilderness areas). Growth in exports from north and eastern Finland has significant benefits for the national economy and Helsinki through linkages related to transport and logistics, downstream processing, and demand for professional, scientific and technical services.

The common thread linking the growth dynamics of these regions are a small range of absolute advantages linked to their natural and locational assets. The regions of eastern Finland, close to the border with Russia, share similar advantages. They have the forestry resources, lakes and wilderness areas, and proximity to Russia. To varying degrees these regions have developed value-added services and manufacturing linked to these advantages. Pohjois-Savo (Kuopio) and North Karelia (Joensuu) also benefit from a development dynamic linked to their major urban settlements which has enabled a clustering of economic activity, and research and education institutions. For Central and Northern Ostrobothnia the locational advantages of the Gulf of Bothnia have been important to the historical development of their economies. As trading ports they have developed an industrial base which has evolved into communication and health technologies and steel processing (Northern Ostrobothnia), and chemical manufacturing (Central Ostrobothnia). Lapland shares similarities with the eastern regions but differs because of its location closer to the Arctic and the important role of extractive industries and tourism to its economic base. Finally, it is important to note all regions share a common opportunity for significant growth in nature-based tourism, although in differing forms.

Recent economic performance has been poor due in part to challenging macroeconomic conditions

In terms of levels of GDP capita all the Finnish NSPA regions are below the OECD average of USD 35 812, and the country level of USD 38 359. The gap with the county level ranges from -27% (Kainuu) to -12% (Central Ostrobothnia). Four of the seven regions converged toward the country's GDP per capita level in the period 1995-2012: Central Ostrobothnia (closed the gap by 14%), South Savo (closed the gap by 4%), North Karelia (closed the gap by 3%), and Pohjois-Savo (closed the gap by 1%). The other three regions continue to lag the national level, and fell further behind in the 1995-2012 period: Lapland (by -7%), Northern Ostrobothnia (by -6%), and Kainuu (by -11%). These findings emphasise the importance of increasing productivity for these regions.

The performance of the regions in north and eastern Finland must also be assessed within the context of challenging macroeconomic conditions for the country, particularly

since the financial crisis. The country has been hit hard by three external shocks: decline in markets for electronic exports, lower demand for paper, and the collapse in export markets to Russia due to sanctions. There has been a structural decline in markets for paper and pulp since the early 2000s, which would have had a larger disproportionate impact on the Finnish NSPA regions. These external shocks have had a significant impact on economic performance of Finland. In 2015, output was 7% below the level of 2007. Resource-based export industries have been further challenged by an inability to depreciate the national currency and by rigid wage bargaining processes.

Lifting the economic performance of Finland's NSPA regions will require an integrated approach by national and regional governments to investing in enabling factors for productivity growth at a regional level

The government's economic programme is focusing on improving the cost competitiveness of Finnish industry and the economy's resilience to change including through wage restraint and fiscal consolidation. The government is also initiating a significant reform of the regional level which will result in the creation of new elected autonomous regions with additional responsibilities for health and social care. This economic and reform context will have important implications for the NSPA regions. In the medium term, exports will be important to the recovery of Finland due to slow household income growth and lower public spending. The NSPA regions of Finland will play an important part in this growth strategy because of the export orientation of their economies. However, this requires sustained efforts to develop new products and markets through investment in key enabling factors for productivity growth (innovation, skills and infrastructure). Because regions will have more autonomy and resources it will be important they have greater opportunities to adapt national policy settings (e.g. in education or infrastructure). The impacts of fiscal consolidation on the quality of infrastructure and services within the NSPA regions will also need to be carefully considered and managed.

A place-based approach to regional development will be crucial in organising and delivering this approach to investing in key enabling factors in north and eastern Finland. Finland's regional policy, *Competitive Regions and Smooth Everyday Life* (2016-2019) provides a strategic framework for the government's regional development priorities. Each region's development strategy applies this framework to their needs and circumstances. This policy framework is relatively narrow and focuses primarily on business competitiveness, and social and environmental objectives have less emphasis. At a regional level current regional development priorities largely reflect the European Regional Development Fund (ERDF) and European Social Fund (ESF) which focus on priorities such as innovation and entrepreneurship, and skills and workforce participation. However, it is important to broaden this focus. Realising the growth potential of these regions will depend upon broadening the regional development policy framework, for example, by effectively engaging with and influencing national sectoral policies, in particular education and skills, innovation and transport infrastructure. The government's current programme of regional reform provides the opportunity to deliver a broader approach to regional development policies, which will effectively integrate EU Structural and Investment Funds (ESIF), national and local policy areas, such as, infrastructure, innovation, and education and training.

Recommendations at a national level to support the growth of north and eastern Finland

1. Improve outcomes for the transport network in north and eastern Finland by:
 - a. working with some pilot regions to prepare a long-term infrastructure plan (integrated and aligned with their regional development and land-use plan) to provide a common framework for guiding the decision making of the national government, local municipalities and private sector actors in regards to transport and communications networks, and water and energy infrastructure (and rolling them out to other regions in subsequent years)
 - b. strengthening co-operation across NSPA regions to develop shared priorities for investing in the transport network which is integrated within the national transport planning cycle (recognising their unique status as sparsely populated regions), co-ordinating with neighbouring countries, and seeking to influence European level infrastructure policies (e.g. the European Commission's TEN-T Projects)

2. Support better entrepreneurship and innovation outcomes in north and eastern Finland by:
 - a. improving incentives and support through national programmes for engaging rural SMEs in north and eastern Finland in innovation initiatives (particularly related to the bioeconomy), and ensuring this is complementary to initiatives funded through the European Regional Development Fund (ERDF), and the European Agricultural Fund for Rural Development (EAFRD)
 - b. providing capacity and technical support for start-ups and SMEs to access financial instruments (subsidised loans and guarantees) through the ERDF to complement grants based funding
 - c. continuing to support initiatives (such as regional clusters) which enable local micro-enterprises and SMEs to build scale and access opportunities in external markets, and support them in accessing national research and innovation resources (this is particularly important in specialised services and niche manufacturing within the forestry supply chain)
 - d. elevating the role of northern Finland (Lapland, Kainuu, and Northern Ostrobothnia), and Lakeland as international tourism destinations within the national strategy for tourism growth and development, and providing support for regions to undertake joint planning and prioritisation of tourism development across these areas
 - e. encouraging NSPA regions to collaborate on joint opportunities related to their smart specialisation strategies (e.g. in relation to the bioeconomy and niche manufacturing), and linking with research and higher education institutions in urban centres such as Oulu, Tampere and Helsinki (and internationally)
 - f. establishing a mechanism to include the NSPA regions in Finland in a dialogue about the design, delivery and monitoring of national innovation policies

3. Develop measures to promote service delivery innovation in north and eastern Finland by:
 - a. establishing an on-line portal or clearing house of innovative service delivery and public procurement practices which can be shared and disseminated amongst public and private service providers at a regional and local level
 - b. ensuring continued support through the EAFRD for co-investing with regions to extend broadband access for rural remote communities (e.g. to share service points) and firms to improve access to services and markets
 - c. providing support and incentives for innovative on-demand transport services for rural remote communities

Recommendations at a national level to support the growth of north and eastern Finland (continued)

4. Deliver better policies for the development of north and eastern Finland as part of the implementation of the forthcoming regional government reform by:
 - a. ensuring that the new regional autonomous authorities have the policy and technical expertise to take a leadership role in regional development policies with municipalities and other private, public, and third sector actors at a regional and cross regional scale
 - b. developing a partnership based approach to intergovernmental co-operation, for example, by broadening the scope of the Regional Development Programme prepared by each region to include initiatives and commitments from key national Ministries (e.g. Education and Culture, Transport and Communications, Agriculture) that achieve mutually agreed productivity enhancing outcomes
 - c. strengthening the role of the new regional autonomous authorities in setting priorities and co-ordinating EU and national regional and rural development funding at a regional level
 - d. establishing more effective governance arrangements to align education and training provision with the needs of firms at a regional scale, and better addressing skills mismatches (for example by looking at lessons from the cases of Regional Competency Platforms in Sweden or Vocational Training Boards in Norway).

NSPA recommendations for Norway

The regions of northern Norway play an important role in efforts to diversify the country's export base

The three northern counties in Norway (Finnmark, Nordland and Troms) constitute 7.7% of the national economy, 9.4% of the population, and 35% of Norway's land area. A significant proportion of the country's natural resources, amenities, heritage, and indigenous culture are also located in this part of the country. Petroleum related products makes up two-thirds of Norway's exports. A significant proportion of recent and planned offshore activities are located in the north of the country in the Norwegian and Barents Sea. The northern regions also play an important role in the national energy sector with hydroelectricity and wind power. As the exchange rate has depreciated in recent times due to lower oil prices it is important that the country continues to diversify its economy. Northern Norway is competitive in fisheries and aquaculture and tourism, which are two areas where Norway has opportunities in a global context.

In spite of the structural challenges of population ageing, the location of these regions and their small scale, they have high levels of prosperity and well-being within the context of the OECD. These regions have a small range of absolute advantages primarily related to their resource endowments. They have been able to diversify activities related to these advantages in terms of processing and the provision of specialised professional and technical services. All three regions share a

common strength in fisheries and aquaculture, renewable energy, and various forms of natural and cultural based tourism activities. Finnmark is the smallest in terms of population size and the most peripheral. Its economy has a strong dependence upon extractive industries. Nordland and Troms have larger economies but quite different growth dynamics. The economy of Nordland is shaped by the historical relationship between extractive industries, processing and energy production. The public sector plays a more important role in Troms with the presence of the university and hospital, and other public administration functions.

Although growth performance is strong in an OECD context, productivity is lagging behind the country average

Despite relatively high levels of prosperity and well-being in the context of the OECD the regions of northern Norway are lagging compared to the country average. Compared to the OECD average of USD 35 812, levels of GDP per capita are relatively high in the northern regions (USD 49 869 in Finnmark, USD 49 490 in Troms, and USD 48 883 in Nordland). The percentage gap with the national level in terms of GDP per capita is -16% for Finnmark, -17% for Troms, and -18% for Nordland. In the period 1997-2012 GDP growth for Finnmark was 0.9%; Nordland was 0.56%, and Troms 0.41%, which is on average 1% lower than the rate of growth for the country. The strongest economic performer in the north has been Finnmark with productivity growth at the same level as the country and higher growth in the employment rate. As a result, it has been closing the gap in GDP per capita with the country level. Nordland and Troms have experienced productivity growth rates lower than the country average, and have diverged from the national average in terms of GDP per capita.

The northern regions are lagging the country average in relation to key enabling factors for productivity growth (skills, innovation and business environment, and infrastructure). The only region close to the national average in terms of high skilled workers is Troms, which would be due to the presence of the university and regional hospital. In terms of innovation there is a mixed picture. Given the industry structure, lack of research presence, and remote location the patent levels would be expected to be low relative to the country. However, start-ups are also low, and there is probably scope to increase this, particularly for activities related to tourism. Internet capacity may be a binding constraint in this sense, which is lower than the national average, and there is also a significant range between the regions, which indicates regionally specific geographic and policy factors. Future prosperity will depend upon building new business opportunities linked to areas of absolute advantage, which can be realised through support for existing SMEs and for entrepreneurs. Continuing to mobilise private and public sector actors through collaborative processes such as smart specialisation strategies will be important. Bottlenecks and gaps related to transport and communications infrastructure will also need to be addressed. Addressing skills mismatches and improving workforce participation for at-risk groups should be a future priority particularly given the impacts of an ageing population.

The country's regional and rural policy is narrow in scope and reflects a largely top down and sectoral approach to national policies

Norway's regional policy provides considerable support for rural areas and the north of the county through the tax system, and through specific economic and community development programmes. In addition, the government has a High North Policy which provides specific investments to strengthen growth and competitiveness in Arctic areas. These policies are designed to meet the goal of balanced national development and maintain the existing settlement structure of the country. Overall, the focus of the government's regional policy is relatively narrow (regional planning, broadband infrastructure, and support for business), which reflects the portfolio of responsibilities of the Department of Local Government and Modernisation.

The northern counties take a broad and inclusive approach to regional planning which encompasses a wide range of sectoral policies. However, national sectoral policies are not well adapted or integrated with regional plans. Realising policy objectives at a county level will be dependent upon co-ordination and alignment with sectoral ministries at a national level. Beyond specific programmes funded by the Ministry of Local Government and Modernisation, national policies related to innovation, research and higher education are not well connected to the regional level. Similarly, bodies responsible for regional development have an inconsistent engagement with transport planning and prioritisation. The regional level also lacks influence over the design and delivery of key social services, which is apparent in the education and skills system.

The government is currently preparing a new white paper on regional policy, and is considering other reform measures to improve vertical and horizontal co-ordination

Improving the governance of regional development will go some way to addressing these issues. Norway currently has a strongly sectoral approach to policies with the national government setting the priorities and funding arrangements. Local municipalities play a strong role in the delivery of public services and infrastructure, however; they are relatively small and this generates complexity in service delivery at a regional and local level. The government is currently preparing a new white paper on regional policy. There are also two white papers that have been prepared on regional and municipal reform which propose some measures to give more power and autonomy to counties and municipalities, and improve mechanisms for vertical and horizontal co-ordination. These reforms should provide the scope for a more integrated place-based approach to regional and rural development.

Recommendations at a national level to support growth in northern Norway

1. Support entrepreneurship and innovation in the northern regions of Norway by:
 - a. enhancing initiatives that build scale and link together SMEs to access external markets, and R&D and innovation opportunities (particularly niche value adding in relation to fisheries and aquaculture, the processing industry, and tourism)
 - b. facilitating linkages and complementarities between the smart specialisation strategies being developed by each of the three counties, including scope to link related firms, and building relationships with research institutions in southern Norway and across the NSPA
 - c. improving access to finance for local start-ups and SMEs through a combination of brokering and facilitating relationships with investment funds in the south of the country, and investigating the viability of a venture capital fund for the north based on a community development finance model.
2. Improve transport and accessibility for northern Norway by:
 - a. providing targeted regional incentives and support for rural areas (where there is a lack of sufficient scale for private providers) in the northern regions to address broadband gaps, extend e-services initiatives for rural communities, and share good practices (particularly in terms of providing choices and transition support for school students in remote areas)
 - b. supporting the three northern counties to develop a joint position on transport priorities which can be considered and responded to within the process of setting priorities in the national transport plan (a more integrated approach for these regions is justified because of the unique mix of issues related to climate conditions, coastal and island communities, low population densities, and cross-border transport linkages).
3. Strengthen the role of county councils to co-ordinate skills and education in partnership with relevant stakeholders. This includes setting strategic priorities for education and training, increasing the scope for adapting and tailoring courses to local needs, and working proactively with businesses (particularly the SME sector) to address skills mismatches.
4. Ensure the rural and regional policy white paper includes an assessment of how national sectoral policies can be better adapted to support enabling factors for productivity growth in northern Norway (e.g. skills, employment, higher education and research, and transport).
5. Improving the governance of regional development in the northern regions by:
 - a. supporting municipalities to organise planning and service delivery at the scale of LLMs, particularly to enhance linkages with urban areas
 - b. further supporting and incentivising collaboration and joint ventures between the three northern counties in the design and delivery of national policies (for example in relation to the prioritisation and delivery of improvements to the transport network)
 - c. aligning the geographic boundaries of administrative offices of national ministries at a regional level to provide a better platform for co-ordination between levels of government
 - d. strengthening mechanisms to engage national sectoral ministries in regional and rural development planning and decision making
 - e. strengthening the regional dimension in the government's High North Policy by ensuring northern counties are engaged in the prioritisation and design of initiatives developed under this policy.

NSPA recommendations for Sweden

The economic performance of the regions of northern Sweden has been strong, particularly those areas with extractive industries

The NSPA regions of Sweden (Jämtland Härjedalen, Norrbotten, Västerbotten, and Västernorrland) constitute 8.6% of the national economy, 9.1% of its population, and 54.6% of its national land area. Wood and paper, chemicals, minerals and basic metals are all major exports for Sweden and important to the overall economic performance of the country. These industries are mostly located in the north of the country. The economic performance of northern Sweden is important for the country as a whole. In northern Sweden iron and wood is extracted and then processed in larger centres in cities such as Lulea, Umea and Sundsvall along the coastal corridor. These processed products (e.g. steel products, wood and pulp) are transported further afield to locations in southern Sweden and across Europe. This provides critical inputs for the manufacturing sector in southern Sweden, and for professional and technical services located in the capital. The transportation of these goods reinforces the importance of the capacity and efficiency of the transport network for northern Sweden. The northern regions also play an important role in the national energy sector with over half of the country's energy production coming from hydroelectricity.

There is mixed economic performance compared to the national average. The strongest performers have been the northernmost regions of Norrbotten and Västerbotten. In the period 1995-2012 these regions grew at a rate of 2.23% and 1.87% compared to the national average of 2.43%. Norrbotten, in particular has benefited from its strong mining base. Both of these regions have also combined increasing productivity and jobs growth at levels above the national level. The weaker performers have been Västernorrland and Jämtland Härjedalen. In the same period the economies of these regions grew at an annual average rate of 0.97% and 0.98% respectively. However, Västernorrland also has had an impressive productivity performance with a significant proportion generated by shedding labour. Jämtland Härjedalen has experienced weakening productivity and jobs growth, particularly after the crisis. Youth unemployment is also rising more rapidly in these regions in the aftermath of the crisis compared with Norrbotten and Västerbotten.

There are different growth dynamics in these regions based on their resource endowments, location, industrial industry, and population size and density. These regions are in the far north, which generates challenges (e.g. in terms of road maintenance) but also significant opportunities (e.g. data centres and technology testing). Norrbotten benefits from iron ore mining and to a lesser extent forestry and related value adding. Västernorrland and Västerbotten have large forest industries but have also been able to develop urban economies based around the provision of public and private services and value-adding manufacturing. Västerbotten also benefits from a significant higher education presence and also from mining activity. Jämtland Härjedalen has a strong focus and history of tourism development, and on engineering intensive manufacturing.

Better engaging the regional level in national sectoral policies would aid in delivering the objectives of Sweden's national strategy for regional growth

A place-based approach to regional and rural development will be crucial in organising and delivering this approach to investing in key enabling factors. Consistent with OECD good practice the national regional policy framework *Sweden's National Strategy for Sustainable Regional Growth and Attractiveness* provides a framework for investing in these enabling factors and guides the use of the European Regional Development Fund (ERDF) in the country. Each region's development strategy applies this framework to their needs and circumstances. However, this funding is relatively small and realising the growth potential of these regions depends upon effectively engaging with and influencing national sectoral policies. Different governance bodies are also responsible for delivering the ESF and EARDF at a regional level which increases the risk of a fragmented approach to investment which is not aligned with a coherent growth strategy for each region.

In Sweden, national sectoral policies and services tend to be designed in a top down way for the whole national territory. Beyond some capacity building measures and access to national programmes, the national innovation agenda is not well connected to the regional level. The national policy focuses on frontier technologies and funding support on larger scale R&D connected to them, which does not match with the innovation profile of many businesses in the northern regions. Bodies responsible for regional development have a weak and inconsistent engagement with transport planning and prioritisation, which is also the case for spatial planning. The regional level also lacks influence over the design and delivery of key social services, which is apparent in the education and skills system. As such, national sectoral policies are not effectively tailored or adapted to the unique and varied circumstances facing the four Swedish NSPA regions.

Transitioning to a single model of governance for regional development would help enable a more bottom-up approach

Improving the governance of regional development will go some way to addressing these issues. There are currently three different governance models for regional development across the four NSPA regions in Sweden. Two of the regions (Norrbotten and Västernorrland) still rely on national agencies, through County Administrative Boards that take a lead role in regional development. From 1 January 2017 directly elected county councils will take over this in the two regions. Region Jämtland Härjedalen and Västerbotten have respectively established directly, and indirectly, elected bodies with a mandate for regional development. Of the three approaches, the directly and in-directly elected models provide the best scope for greater cohesion in setting regional scale priorities, and for more effective co-ordination with the EU, national policies, and at the municipal level.

Recommendations at a national level to support growth in northern Sweden

1. Increase the productivity and competitiveness of the northern regions by:
 - a. supporting these regions to facilitate new economic opportunities by linking smart specialisation strategies with areas of absolute advantage (including niche manufacturing and services associated with resource extraction, energy production, and forestry, and leveraging the Arctic climate and know-how)
 - b. facilitating access for SMEs related to these core areas of absolute advantage to build scale, and connect them with opportunities to access external markets, and R&D and innovation opportunities (particularly specialised services related to the primary sector and health technologies)
 - c. ensuring that the national tourism strategy includes clear measures to better link and co-ordinate existing marketing and destination management efforts across the northern regions (for example better linking-up efforts along the coast of the Gulf of Bothnia), and facilitate a co-operative approach with regions that have complementary assets in Norway and Finland
 - d. increasing the scope of Regional Competency Platforms to adapt vocational training and education and employment services within their region (including at the scale of LLMs)
2. Improve connectivity and access to services by:
 - a. providing better incentives and support for the northern regions to extend e-services initiatives for rural communities, and share good practices such as the provision of e-health services in the region of Västerbotten
 - b. reducing barriers and disincentives for service delivery innovation in rural communities, including sharing resources and involving voluntary organisations in the design and management of services (e.g. more flexibility in how schools can share teaching staff and other resources)
3. Improve the governance of regional development in the northern regions by:
 - a. strengthening the role of county councils in setting priorities and co-ordinating projects under the ESIF
 - b. improving alignment of the administrative boundaries of state agencies at a regional level to provide a better platform for co-ordination between levels of government
 - c. ensuring that proposals for regional and municipal mergers properly consider the costs and benefits of these changes for communities in low-density/sparsely populated areas
 - d. allocating a competency for spatial planning and transport planning and co-ordination to the body responsible for regional development in the region, and ensuring these regional spatial plans are integrated with planning for regional transport and communications infrastructure (thereby helping to facilitate urban-rural linkages and complementarities in land use and infrastructure between different rural municipalities)
 - e. ensuring the relevant regional level body with competency for regional development has a lead role alongside the County Administrative Board in the development of the National Transport Plan

