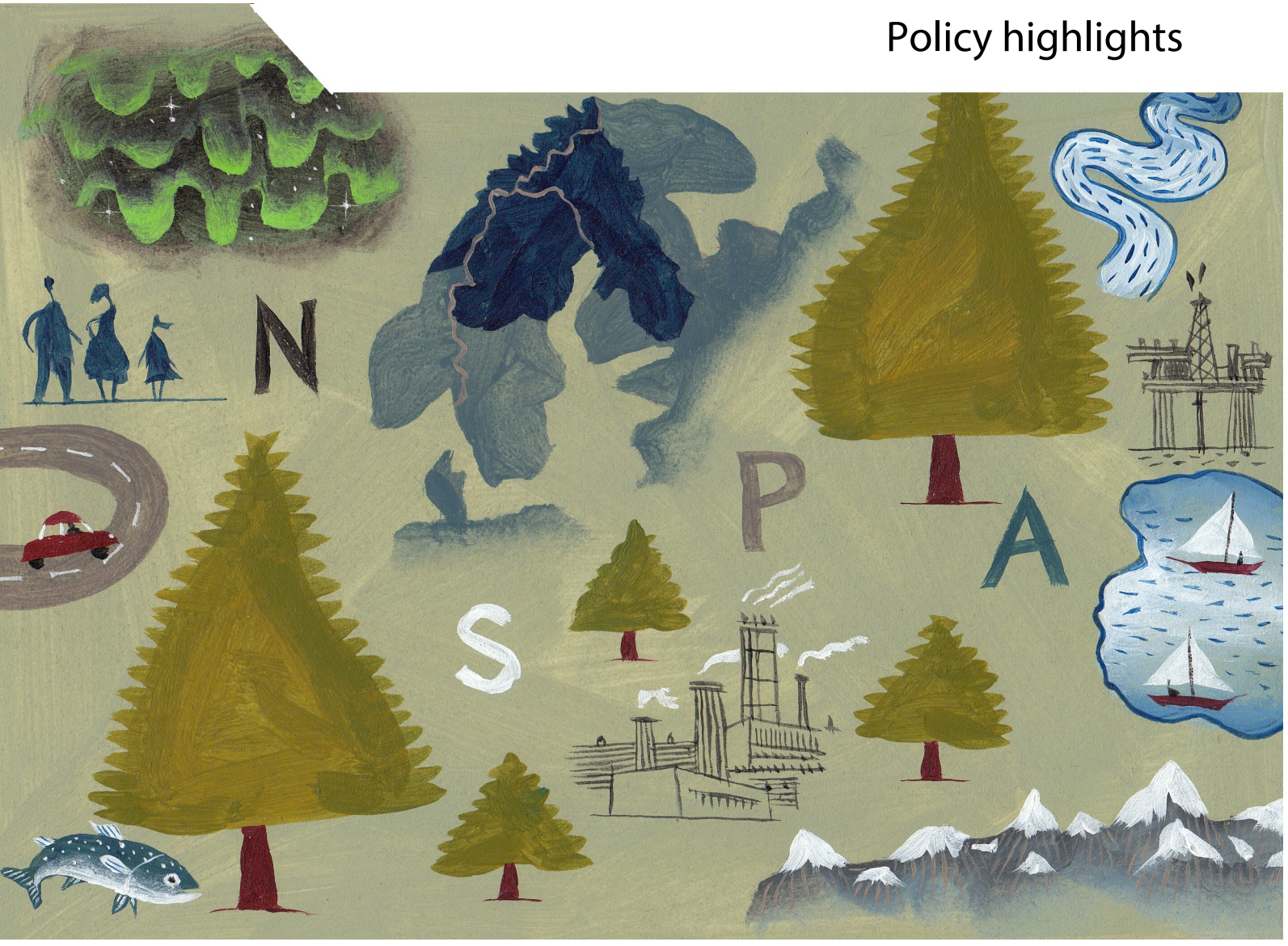
OECD Territorial Reviews: Northern Sparsely Populated Areas

Policy highlights



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Notes

This document summarises the key findings of OECD (2016), *OECD Territorial Review: Northern Sparsely Populated Regions,* OECD Publishing, Paris.
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Part 1: Introduction

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 eastern 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 and Australia. The NSPA has 5 persons every square kilometre, for a total of about 2.6 million people over an area of 532 000 square kilometres, which is comparable to the population of Rome inhabiting the entire area of Spain. The 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. This 'first nature geography' plays a far more important role in the NSPA than in other parts of Europe and other OECD countries.

Realising growth opportunities for these regions is linked to the identification of absolute advantages. These vary by 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 the unique assets by reducing bottlenecks and supporting enabling factors for productivity growth such as skills, innovation, and infrastructure.

The concept of 'smart specialisation'* is therefore a very suitable policy approach for these low-density economies.

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

- 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, and increasing the use of e-technologies in service delivery.
- At a national scale across the three countries sectoral policies and services tend to be designed in a top-down way for the whole national territory. Mechanisms to better tailor and integrate these national sectoral policies (particularly related to skills, innovation, trade and industry, and transport and digital infrastructure) to the particular needs and circumstances of NSPA regions need to be strengthened..
- At a regional scale there are policy recommendations specific to each NSPA region, with some common themes emerging. This includes adding value to absolute advantages by better engaging small and medium-sized enterprises in innovation and business support programmes, and promoting cooperation between regions to maximise the benefit of relatively small research and innovation assets.

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.

**The Smart specialisation approach which has been adopted by the EU combines industrial, educational and innovation policies to suggest that countries or regions identify and select a limited number of priority areas for knowledge-based investments, focusing on their strengths and comparative advantages.*

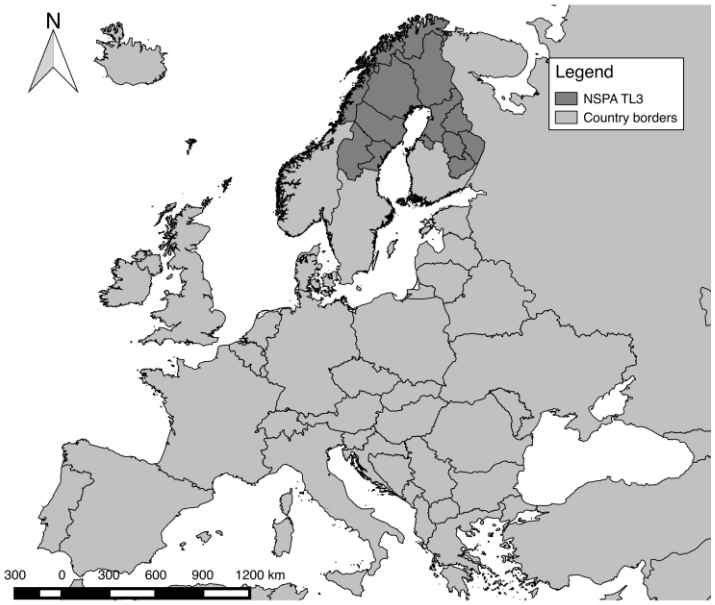
Part 2: Shared challenges and opportunities

Northern Sparsely Populated Areas have collaborated as a network since 2004

The NSPA was established as collaborative network in 2004 to raise awareness of the common issues and circumstances facing these regions within EU institutions, to influence EU policy and to provide a platform for best practice. The NSPA includes the four northernmost counties of Sweden (Norrbotten, Västerbotten, Jamtland-Härjedalen, and Västernorrland), the seven northernmost and eastern regions of Finland (Lapland, Northern Ostrobothnia, Central Ostrobothnia, Kainuu, North Karelia, Pohjois-Savo and South-Savo) and northern Norway (Finnmark, Troms and Nordland).

The NSPA regions are linked by a set of common territorial characteristics which are absent in other European regions, and are recognised in key national and EU policy frameworks. The Accession Treaty for Sweden and Finland to join the EU in 1995 included a special provision to promote the development and structural adjustment of regions with extremely low population densities (8 persons per km or less), which included additional funding targeted to these regions (in 2014-20 this amounts to EUR 305.3 million for Finland and EUR 206.9 million for Sweden). Norway includes a number of measures within the tax and transfer system including a 0% rate for employer social contributions in the co-called Action Zone consisting of the northernmost municipalities of Troms and all of Finnmark (compared to a rate of 14.1% in the southern part of the country).

Figure 1. Northern Sparsely Populated Areas in 14 TL3* regions



**Territorial level 3 (TL3) consists of micro regions within each OECD country. Territorial Level 2 (TL2) consists of macro-regions within each OECD country. Each member country has identified the statistical or administrative geography that provides the best fit for this territorial classification.*

Relatively strong performance in an OECD context

Overall, the NSPA regions performed well in terms of the growth of per capita output. Nine NSPA regions out of fourteen had GDP per capita growth higher than the average of the OECD TL3 regions (1.2%) over the period 2000-2012. Similarly, at the beginning of the period, GDP per capita levels were higher than the OECD average in nine NSPA regions. The Swedish and Finnish NSPA TL3 regions cluster around the OECD average both in terms of GDP per capita growth and levels, whilst Norwegian NSPA regions are distinct because of their high GDP per capita levels that are well above the OECD average. Because of these country effects NSPA regions are rather diverse in terms of GDP per capita levels, which ranged from 22 056 US Dollars for Kainuu to 49 682 US Dollars for Troms at the beginning of the period considered (2000).

There is a general trend of convergence within the NSPA, meaning that their economies are becoming more similar; this convergence may increase the scope for co-operation to address shared challenges. Regions which have GDP per capita levels below the OECD level are catching up. This is apparent for the five more eastern and central Finnish regions which have experienced above-average GDP per capita growth in the period 2000-12. Regions which are most developed are growing slower. The three Norwegian NSPA regions are characterised by low GDP per capita growth but above-average initial GDP per capita levels. The third cluster falls in between, with initial GDP per capita and GDP growth close to the OECD average, and includes all the Swedish regions as well as the two Finnish regions of Northern Ostrobothnia and Lapland

Figure 2. Benchmarking GDP per capita performance in NSPA TL3 regions, 2000-12

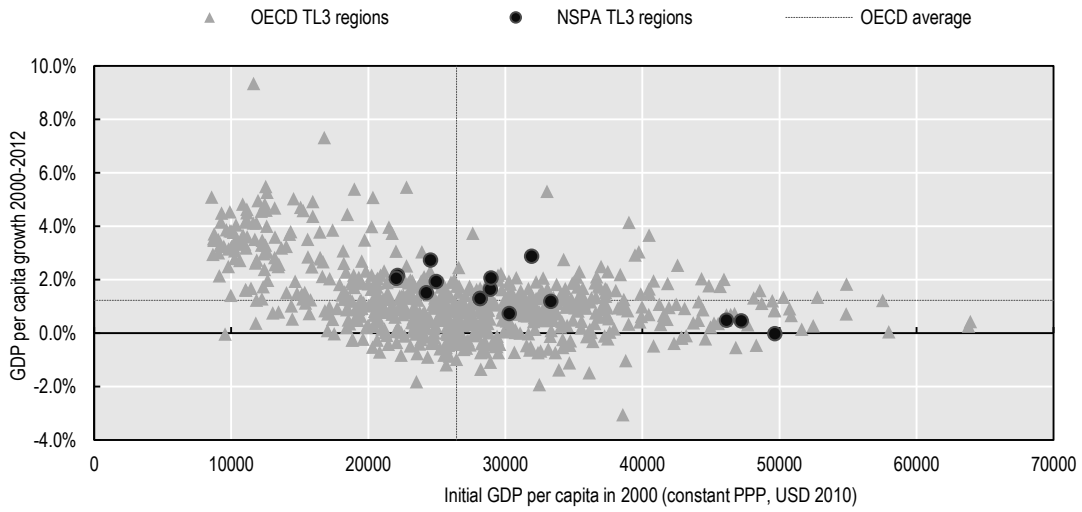
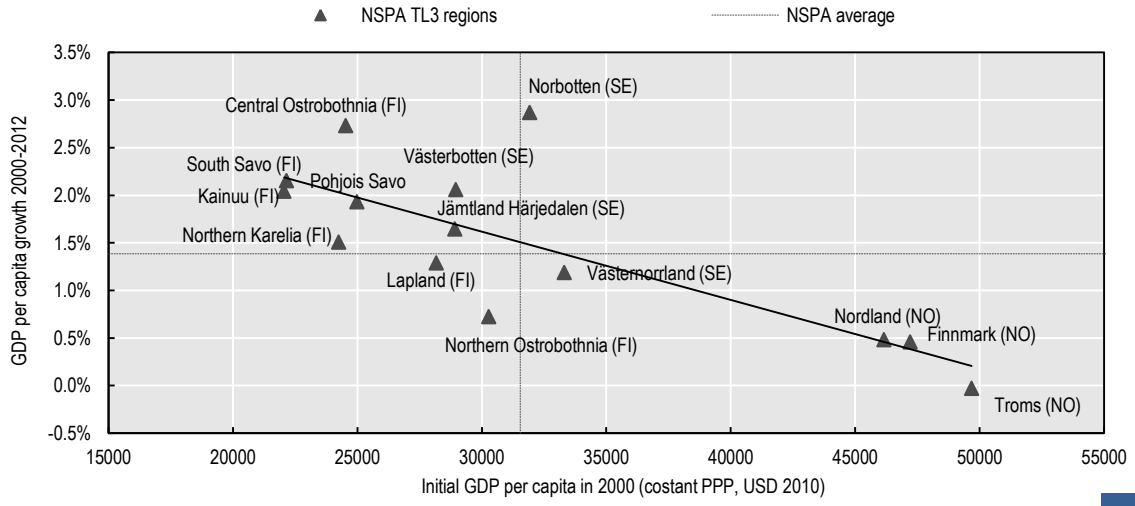


Figure 3. GDP per capita performance of NSPA TL3 regions



Productivity and workforce activation are important to future growth

An alternative measure of economic performance is to look at each regions change in national GDP share. These are given by column 1 of Table 1, which shows that virtually all NSPA regions are growing slower than the rest of their respective countries. In addition, regional economic growth can be decomposed into contributions from: productivity, population, employment rate, and the activity rate. The table shows that the decline in population and the activity rate (percentage of the total population aged 15-64) is detracting from the growth of nearly all NSPA regions. This has been offset somewhat by growth in employment and productivity for some regions.

Productivity and workforce activation are important growth drivers. Applying the decomposition exercise to GDP growth indicates labour productivity as the key driver of economic performance for half of the NSPA regions. In particular, GDP changes are largely explained by changes in labour productivity for Central Ostrobothnia (FI), Lapland (FI), South Savo (FI), Northern Karelia (FI), Nordland (NO), Northern Ostrobothnia (FI) and Troms (NO). On the other hand, employment rate growth plays a very important role for the regions of Norrbotten (SE), Jamtland-Härjedalen (SE), Pohjois-Savo (FI) and Kainuu (FI). Finally, in the regions of Västerbotten (SE), Finnmark (NO) and Västernorrland (SE), labour productivity and employment rate similarly contribute to GDP performance.

Table 1. Decomposing GDP growth in NSPA regions (1999-2012)

	Change in GDP share	Labour Productivity	Population	Employment Rate	Activity rate
Västernorrland	-1.0%	**0.5%**	-0.9%	-0.5%	-0.1%
Jämtland- Härjedalen	-0.8%	-0.1%	-0.9%	**0.1%**	**0.1%**
Västerbotten	0.0%	**0.2%**	-0.5%	**0.2%**	**0.1%**
Norrbotten	**0.7%**	**0.6%**	-0.9%	**1.1%**	-0.1%
Nordland	-1.0%	-0.1%	-0.9%	0.0%	0.0%
Troms	-1.2%	-0.8%	-0.5%	**0.1%**	-0.1%
Finnmark	-1.1%	-0.7%	-0.9%	**0.6%**	-0.1%
South Savo	-0.1%	**0.7%**	-1.1%	**0.4%**	-0.2%
Pohjois-Savo	0.0%	**0.1%**	-0.6%	**0.4%**	0.0%
Northern Karelia	0.0%	**0.5%**	-0.7%	**0.1%**	**0.1%**
Kainuu	-1.0%	0.0%	-1.3%	**0.4%**	-0.1%
Central Ostrobothnia	**1.2%**	**1.6%**	-0.4%	**0.1%**	-0.1%
Northern Ostrobothnia	**0.1%**	-0.3%	**0.3%**	0.0%	0.0%
Lapland	**0.1%**	**0.8%**	-0.9%	**0.2%**	0.0%

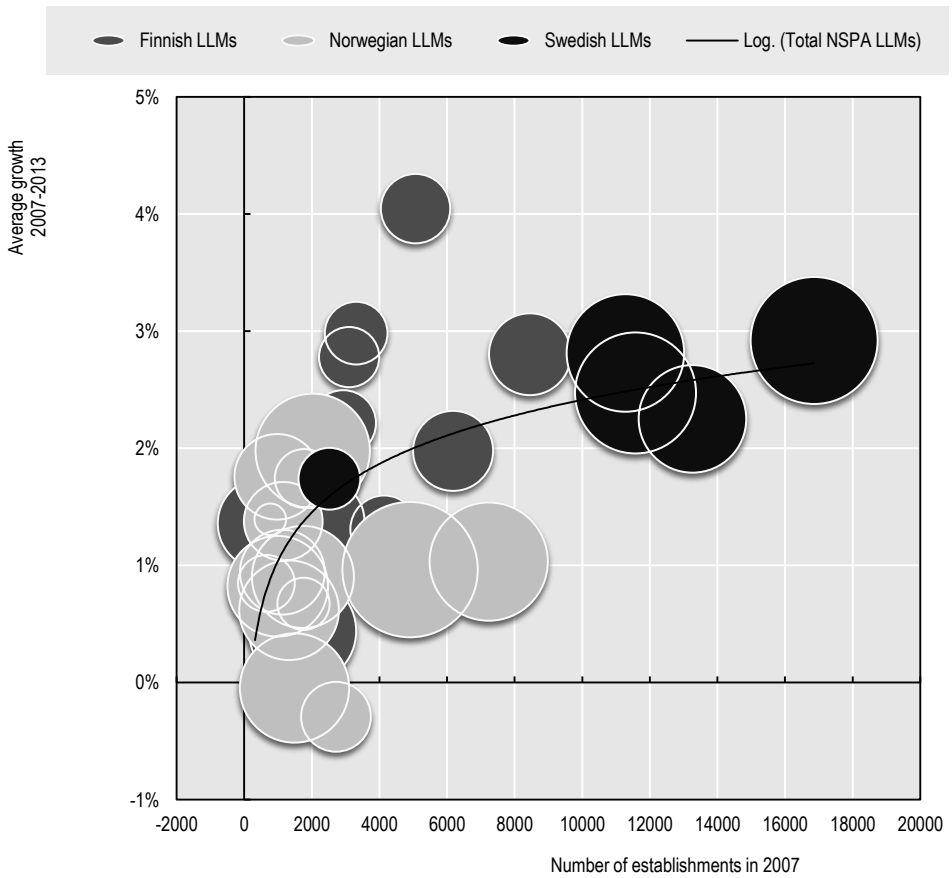
Growth is concentrating in a smaller number of places within the NSPA

One trend which will help address demographic and labour market challenges is the concentration of population and economic growth into fewer places. This trend can be seen in the positive correlation between the initial number of business establishments in a labour market and their growth over time (size of the bubble indicates number of employees within that local labour market). This is also the pattern in regards to population growth. In general within the NSPA municipalities that have small populations without an urban settlement of more than 30 000 in size tend to have declining populations, while municipalities with an urban population above 60 000 mostly have population growth.

This more concentrated settlement structure has a number of benefits which will help NSPA regions address future challenges:

- Increases the size of functional labour markets which will help diversify these economies and the number of jobs which local people can access.
- Greater concentration of population will also reduce the costs of delivering public services.
- Larger urban areas also tend to be more attractive to younger working age people

Figure 4. Establishment growth in NSPA Local Labour Markets (LLMs)



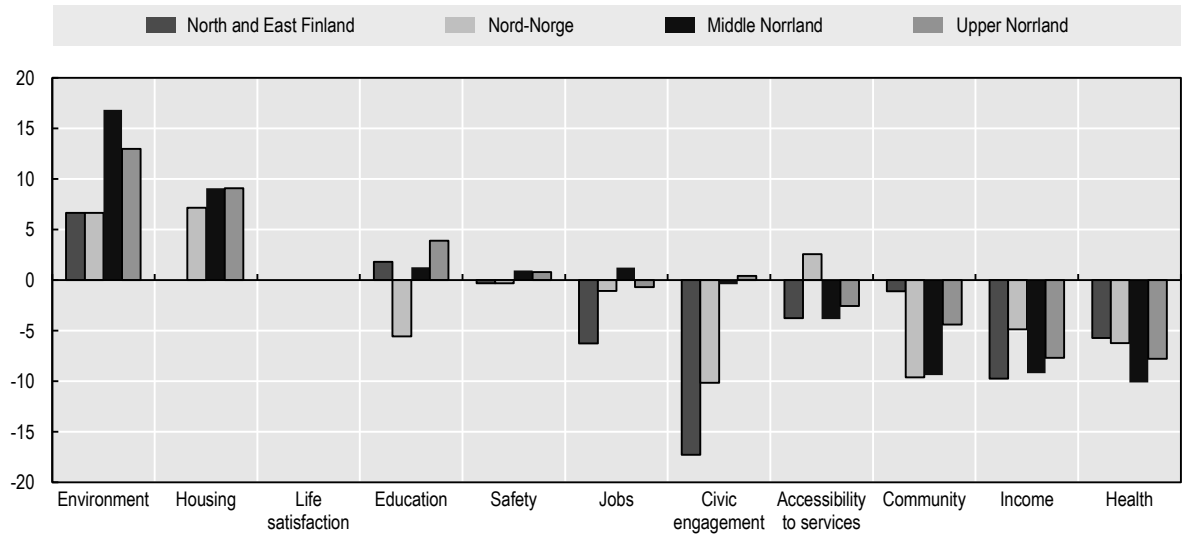
While the NSPA regions lag country averages on some measures of well-being, the differences are relatively small.

Although these regions have performed well in an OECD context they lag country averages on key measures - but the differences are relatively small in some key areas. As with many rural regions the NSPA ranks better in terms of environment and housing, and life satisfaction is the same as the national level. There are relatively small differences in relation to jobs and education which reflects the strong economic performance of these regions in recent times. In eight of the eleven well-being dimensions, all four of the NSPA (TL2) regions record a score higher than the OECD average, and they perform particularly well in: environment, accessibility to services, and life satisfaction. In addition, there are still above average performances in housing, education and health.

Income levels are lower which reflects the productivity challenge facing these regions. In 2014, the disposable income per capita was more than 1 600 US Dollars lower than the national average in North and East Finland (FI) and Middle Norrland (SE), about 1 400 US Dollars lower in Upper Norrland (SE) and about 1 000 US Dollars lower in Nord-Norge (NO). This reflects the differences in levels of productivity between these regions and the respective country averages. For example, in 2012, GDP per worker in Finnmark (NO), Troms (NO) and Nordland (NO) was 15.6, 15.5 and 12.7 percent lower than the Norwegian average.

Although there are economic challenges levels of wellbeing are relatively high which provides a solid platform for future growth. While there are clear challenges for economic growth in future years there is high degree of satisfaction with the overall quality of life by residents of the NSPA. Although levels of wellbeing are somewhat below the level of fellow citizens in the south of each country, it is remarkably high by OECD 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 high likelihood that people will be more likely to remain and a significant part of the demographic challenge will be resolved.

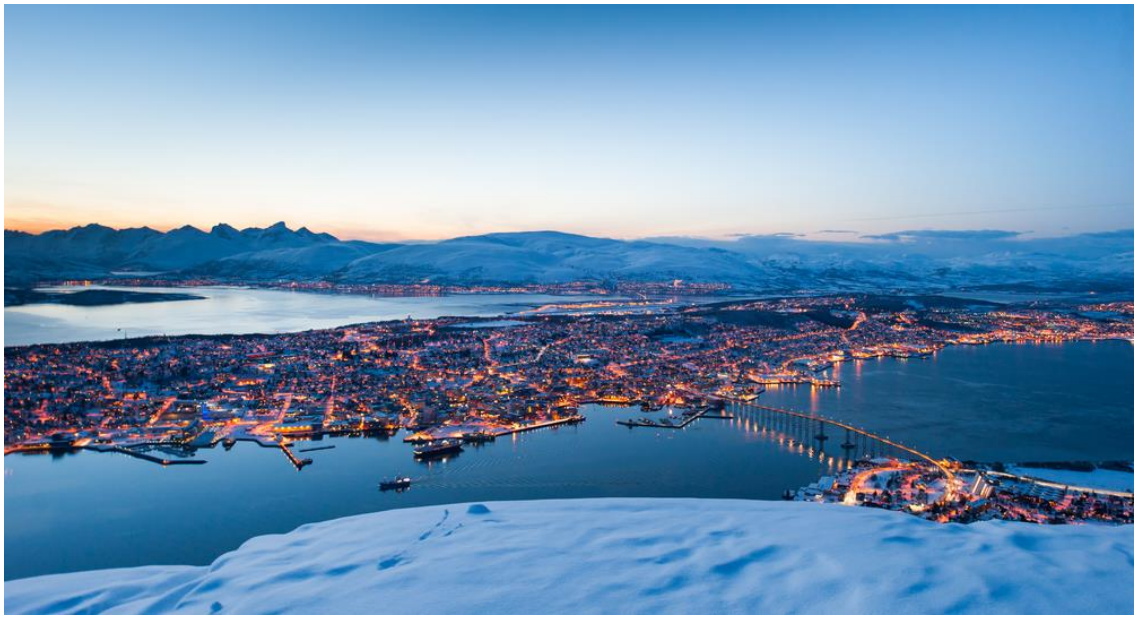
Figure 5. Well-being in NSPA (TL2) regions, difference with national averages



Shared policy challenges and opportunities for NSPA regions

The NSPA regions have distinct characteristics and development conditions which generate shared challenges and opportunities. The NSPA regions share a common set of characteristics related to their peripherality and low-density. Although these regions have a high level of wellbeing they face challenges in relation to income and productivity. Within these regions growth is occurring in a small number of places and is generally linked to the services sector (including services related to the natural resource based activities located in rural areas such as energy production, fisheries and aquaculture, forestry, mining and tourism). There is also a political economy challenge for these regions to ensure that these unique characteristics are reflected in national and European level policies. This generates a number of key policy challenges for the NSPA regions:

- **Demographic change and labour markets:** population ageing which will reduce the size of the future labour force, and there are structural problems in local labour markets including higher levels of youth unemployment and welfare dependence.
- **Service delivery innovation:** demographic change and fiscal consolidation will continue to place pressures on local infrastructure and services. Greater use of e-technologies, and innovative partnerships with the private and community sectors are needed.
- **Improving infrastructure and connectivity:** The NSPA regions suffer from a set of disadvantages associated with their remoteness from markets and long distances between urban settlements, which is compounded by an often challenging topography and harsh climate. Improving infrastructure and connectivity helps reduce travel times and the capacity to participate in national and European markets.
- **Increasing entrepreneurship:** the sustainable development of the NSPA is dependent upon facilitating new forms of economic activity and jobs in areas such as ICT related services, tourism, niche manufacturing, and food production. Local SMEs have a stronger attachment to local communities and offer the potential to provide alternative employment pathways for young people.
- **Smart specialisation and low density economies:** Smart specialisation is based on the idea that collaboration with the private sector enables the identification of areas of comparative advantage, which can guide investment decisions about research and innovation. For NSPA regions, a collaborative approach is needed which builds upon core areas of absolute advantage and facilitates access to external markets.
- **Linking indigenous communities with regional development:** the Sami have an important role in regional economies due to their use of land, involvement in agriculture and food production, and connection with the regions tourism offer. However, the connections with regional and rural development strategies are often inconsistent and weak.



Part 3: NSPA-wide recommendations

Addressing the shared 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 coordinate 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 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 for addressing shared challenges facing the NSPA

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**; and,
    c. Accounting for the **higher unit costs of delivering public services** (due to remoteness, low population densities, and the harsh climate).

2. **Enhance existing cooperation 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 coordination 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 cooperative arrangements between educational institutions.
    d. Working to **facilitate greater interaction among 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 coordinated 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 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 local labour markets).

Part 4: Country level recommendations

Part 4a: Analysis and recommendations for Finland

The regions of north and eastern Finland make an important contribution to the national economy particularly through the tradeable sector. The seven NSPA regions in Finland (Central Ostrobothnia, Kainuu, Lapland, North Karelia, Northern Ostrobothnia, Pohjois-Savo, and South Savo) 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. 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 the north and east of 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.

There has been mixed growth performance over the last two decades. 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.

Analysis and recommendations for Finland

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 Governments 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 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 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 cooperation 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), coordinated with neighbouring countries, and seeks to influence European level infrastructure policies (e.g. the European Commission`s TEN-T Projects).

Recommendations at a national level to support the growth of north eastern Finland (cont.)

2. 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 European Agricultural Fund for Rural Development (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.

3. 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 microenterprises and SMEs to build scale and access opportunities in external market**s, 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. Establish a mechanism to **include the NSPA regions in Finland in a dialogue about the design, delivery and monitoring of national innovation policies**.

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 inter-governmental cooperation**, 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 coordinating European 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 address skills mismatches (for example by looking at lessons from the cases of Regional Competency Platforms in Sweden or Vocational Training Boards in Norway).

Part 4b: Analysis and 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 wellbeing 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 common strengths 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 the country average. Despite relatively high levels of prosperity and wellbeing 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 Nordland, and USD 48 883 in Nordland). The percentage gap with the national level in terms of GDP per capita is -14% for Finnmark, -17% for Nordland, 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 is in terms of high skilled workers in 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 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 a 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.

Analysis and recommendations for Norway

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 and rural 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 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 coordination 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 coordination. 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 coordination. 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 administrate offices of national ministries** at a regional level to provide a better platform for coordination 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**, and ensuring northern counties are engaged in the prioritisation and design of initiatives developed under this policy.

Part 4c: Analysis and recommendations for Sweden

Northern Sweden makes an important contribution to the national economy including key tradeable sectors. The NSPA regions of Sweden (Jamtland-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. 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 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 northern most 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 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.

Analysis and recommendations for Sweden

A place-based approach to regional and rural development will be crucial in organising and delivering investments in key enabling factors for productivity growth. 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 effective 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 northern 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 northern regions. 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 direct 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. The directly and in-directly elected models provide the best scope for greater cohesion in setting regional scale priorities, and for more effective coordination with EU, national policies, and at the municipal level.

Recommendations at a national level to support the growth of 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 coordinate 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 cooperative 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).

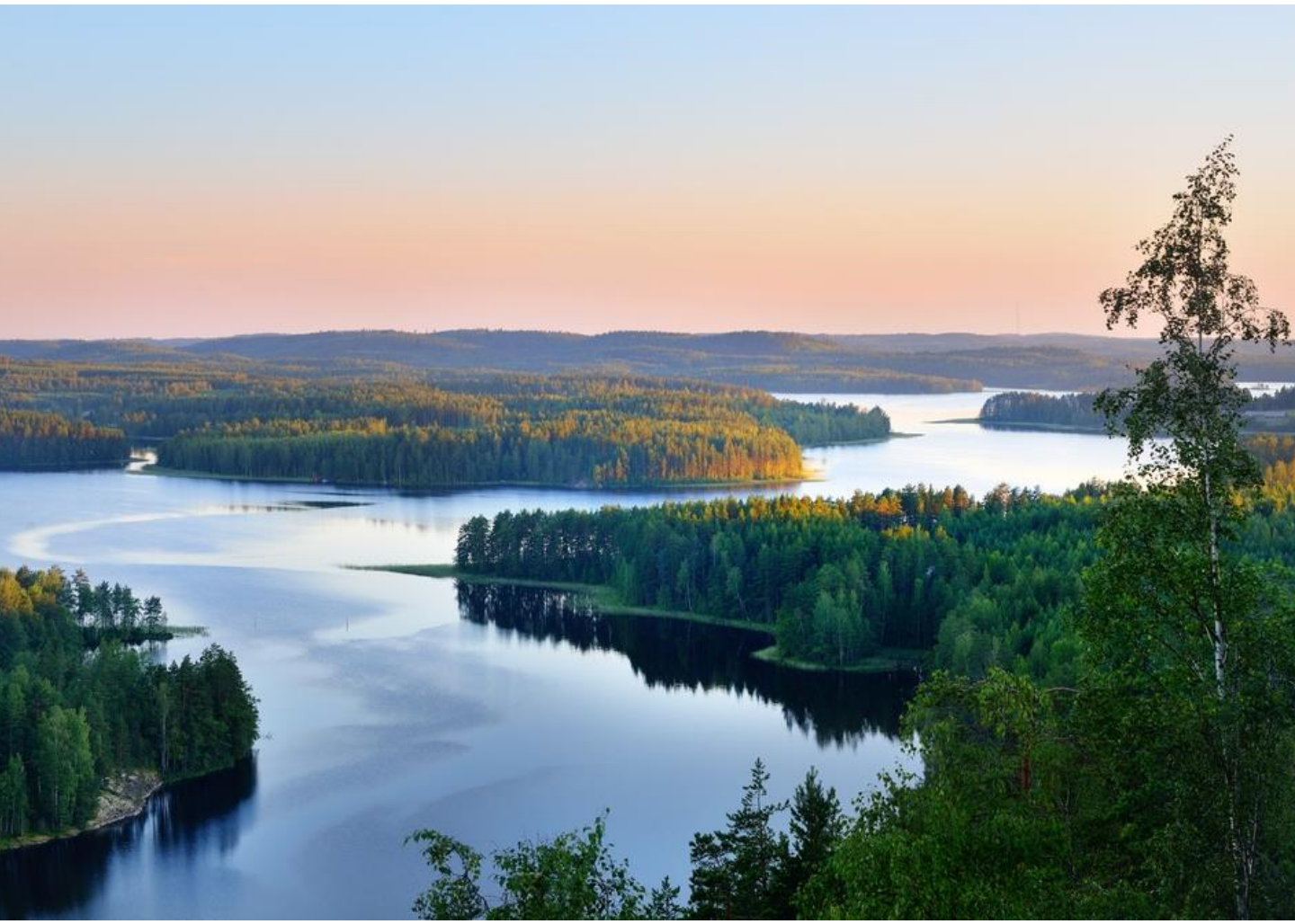
Recommendations at a national level to support the growth of northern Sweden (cont.)

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 coordinating projects under the ESIF**.
    b. Improving **alignment of administrative boundaries of state agencies** at a regional level to provide a better platform for coordination 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 coordination** 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**.



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