

## Research for REGI Committee – Cohesion Policy in Northernmost Regions of the EU

### KEY FINDINGS

- Northern Sparsely Populated Areas (NSPAs) have high economic potentials, especially in the context of Europe's Green and Digital Transition.
- To unlock these potentials, some key challenges need to be overcome: make it possible for companies and public authorities to recruit staff with needed skills, ensure essential levels of transport infrastructure endowment and connectivity.
- Cohesion Policy has successfully supported Research and Development and Innovation (R&D&I) activities, helped develop SMEs and contributed to the diversification of local economies.
- However, limited attention is paid to the preservation of territorial cohesion at the subregional level. More coordinated efforts are needed to address demographic challenges, make NSPA more attractive to skilled workers and overcome recruitment difficulties of NSPA companies.
- Territorial instruments such as Integrated Territorial Investments targeting individual labour market areas could help overcome this challenge. Authorities in both Sweden and Finland have decided not to use such instruments in the 2021-2027 programming period.



The Northern Sparsely Populated Areas (NSPAs) include one NUTS 2 region in Finland (North and East Finland) and two NUTS 2 regions in Sweden (Upper Norrland and Middle Norrland). These regions all have average population densities below 8 inh./km<sup>2</sup> and they benefit from a specific additional allocation under Cohesion Policy.

The NSPAs are regions with high economic potentials. Proactive public policies are needed to unlock these potentials, primarily to overcome their major demographic

The present document is the executive summary of the study Cohesion Policy in Northernmost Regions of the EU. The full study, which is available in English can be downloaded at: <https://bit.ly/3QZ4lCk>

challenges. Value creation is associated to traditionally male dominated primary activities such as mining, forestry and processing industries.

Female employment is concentrated in public services. NSPAs also need to overcome challenges linked to long distances to markets and low connectivity.

In 2019, GDP per inhabitant values in NSPA regions were between 6 % and 60 % above EU27 average values. Lowest values were observed in Finnish regions of South Savo and North Karelia. Norrbotten in Sweden stands out with particularly high values, linked to income from mining and manufacturing. NSPA regions have generally displayed a high adaptive capacity in recent years. Some, especially in East Finland, have experienced periods of high unemployment, but have recovered after a few years. While unemployment levels tend to be higher in Finnish NSPA regions compared to Swedish ones, a lack of human resources will become a main development bottleneck in years to come across the entire NSPAs. Companies have difficulties recruiting staff with the skills and competences they need.

Admittedly, changes in remote working habits during the pandemic have made it possible to attract new residents to NSPA regions, to recruit experts living outside of the NSPA and to develop hybrid work solutions (partly remote, partly face-to-face) within NSPA regions. While this helps overcome some recruitment challenges, coordinated solutions are needed to make NSPAs more attractive to skilled workers.

This challenge has become more acute in recent years. Swedish NSPA regions have attracted a series of major industrial investments that are expected to generate thousands of new employment opportunities. These are mostly concentrated along the coast. Numerous investments in new growth sectors also occur in Finnish NSPA regions.

The key to making NSPA economies more robust and resilient is to develop a greater number of SMEs and to enhance their international competitiveness. This can help establish a more diversified and robust labour market, e.g. offering more attractive employment opportunities to young graduates and women. NSPA regions support the development of internationally competitive SMEs offering support services connected to their existing mining and manufacturing industries.

The green transition of European industries is a development opportunity for NSPA regions. Swedish NSPA regions have access to abundant renewable hydropower and will host Europe's largest wind park in coming years. Access to energy is more problematic in Finnish NSPA regions, especially since the construction of their first nuclear power plant was abandoned in May 2022.

Tourism is another major growth sector. Most NSPA regions experienced a major decline in tourist frequentation because of the COVID pandemic in 2020. This decline was partly compensated in most regions in 2021. Tourism performance was weakest in Norrbotten (Sweden), and strongest in Finnish Lapland.

NSPA regions are confronted to long distances to markets and limited connectivity. The "missing link" of the Bothnian rail corridor ('Norrbottenbanan' in North Sweden) is a potential development bottleneck. In 2021, the Swedish government confirmed that this railway line would be built. The decline in the number of flight connections to and from NSPA airports as a result of the COVID pandemic had a major impact on some localities' accessibility.

Cohesion Policy programmes in Sweden target NUTS 2 regions. However, regional governance is primarily organised at NUTS 3 level. The four Swedish NSPA NUTS 3 regions (two in each programme area) are directly elected. However, they only recently started elaborating strategic regional development plans. This has had an impact on the capacity of regions to implement cohesion policy programmes in some fields, e.g. shift towards a low-carbon economy.

Finnish regions are formally associations of municipalities. Some commentators consider that this weakens regional level governance. However, these regions have been responsible for strategic planning since their creation in 1997. There are eight such regions in the Finnish NSPA. Cohesion Policy in mainland Finland is implemented by a unique national programme.

In both countries, a national authority functions as managing authority of all programmes. However, the selection of projects to be funded is carried out by the regions. In Finland, cohesion policy implementation is closely coordinated with so-called “ELY Centres”, regional state administrative authorities with branches in all regions. Each Finnish region has a complete overview of available funding (including national co-financing) at the beginning of each programming period. Swedish regions to some extent compete for funding and co-financing within NUTS 2 regions.

In the 2014-2020 programming period, support to SMEs is the thematic objective that receives the greatest share of ERDF funding in most NSPA regions. This is consistent with OECD recommendations on the importance of diversifying economic activities. A large part of ERDF funding also goes to support to R&D and innovation across the entire NSPA regions.

“Low carbon economy” receives a considerably larger share of funding in Finnish NSPA regions compared to Swedish ones. The detailed review of measures reveals that this mainly consists in SME support, with variable levels of ambition regarding the greening of economic activities. A broad range of R&D projects have also been financed.

Overall, Cohesion Policy has successfully supported R&D&I activities, helped develop SMEs and diversify local economies. While extractive and processing industries of global significance continue to generate a large part of regional added value, Cohesion Policy contributes to enhance the resilience and sustainability of regional economies by developing ecosystems of complementary and additional activities.

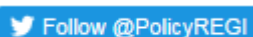
However, regions are still confronted to major demographic challenges. Recruitment of qualified staff is an increasingly important development bottleneck. Continued concentration of population in and around a limited number of major towns affects territorial cohesion in NSPA regions. Remote municipalities are confronted to increasing challenges to preserve the provision of essential services of general interest.

Finnish and Swedish authorities have for different reasons chosen not to resort to Integrated Territorial Investments. In the absence of territorially integrated approaches at the level of local labour markets, the extent to which cohesion policy may effectively help overcome key social challenges (lack of skilled labour, ageing, and gender imbalances) can be questioned. Integrated Territorial Strategies could be particularly purposeful in remote parts of NSPA regions, as part of efforts to promote a territorially balanced development.

## Further information

This executive summary is available in the following languages: English, French, German, Italian and Spanish. The study, which is available in English, and the summaries can be downloaded at: <https://bit.ly/3QZ4lCk>

More information on Policy Department research for REGI: <https://research4committees.blog/regi/>



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