Building resilience to global transitions in the Northern Sparsely Populated Areas in the European Arctic

Introduction

The Northern Sparsely Populated Areas (NSPA) of Finland, Sweden, and Norway — Europe's gateway to the Arctic — comprise the northernmost Europe. Strategically located, the NSPA is gaining increasing prominence on both national and EU agendas, driven by emerging opportunities in green technology, Arctic shipping routes, and climate change adaptation. Russia's large-scale invasion of Ukraine has further highlighted the NSPA's strategic importance, given its proximity to the Arctic, abundant natural resources, and shared border with Russia.

The OECD's 2017 Territorial Review of the NSPA identified key opportunities to improve connectivity, foster innovation, and strengthen urban-rural linkages. Since then, additional priorities have emerged — such as addressing demographic imbalances, advancing digital and green transitions, and aligning with the EU's Arctic policy — requiring adaptive, collaborative strategies.

This new OECD report on the NSPA gathers the syntheses findings from the project "*Support to the Implementation Capacity of Sustainable Green Development in the European Arctic Northern Sparsely Populated Areas (NSPA)*", developed by the OECD in collaboration with the European Commission's DG REFORM and for the EU regions of the NSPA funded by the EU's Technical Support Instrument (TSI).

Running from September 2022 to November 2024, the project focused on enhancing multi-level coordination in NSPA for green and digital transitions, as well as improving their capacity to design and manage policies and projects supporting sustainable development.

Summary

The Northern Sparsely Populated Areas face significant challenges, including demographic decline, limited connectivity, and economic reliance on natural resources. However, the region also has strong potential for innovation, green transition, and digital transformation. The OECD report highlights key findings and provides in total about 120 different recommendations at the EU, national, and regional levels in order to overcome challenges and untap potentials.

Key findings include:

- **Demographic challenges**: Aging populations and workforce shortages require targeted policies to attract younger workers and support local services.

- **Economic competitiveness**: SMEs need stronger integration into innovation ecosystems to drive sustainable economic growth and diversify the region's economic base.

- **Connectivity and infrastructure**: Improved transport and digital networks are crucial for regional development and economic integration.

- **Green transition**: Sustainability is a cornerstone for the NSPA regions and progress has been made in emission reduction and renewable energy, however, need further efforts to ensure a just transition.

- **Governance and cooperation**: Enhanced multilevel coordination, local capacity building, better equalization mechanisms and Indigenous inclusion are key to sustainable development.

NSPA characteristics

The NSPA regions are experiencing growth and have taken the lead in innovation and the green transition, despite challenges like population decline and aging demographics. Key strengths include an educated workforce, growing GDP/capita, and improved labour productivity in sectors like agriculture and services. Innovation and exports outperform OECD benchmarks, with trade surpluses and advancements in digitalization. The green transition is strong, with low greenhouse gas emissions and renewable energy dominance. However, challenges are slow productivity growth, low firm density, and uneven digital progress. Addressing these require targeted, place-based policies to enhance competitiveness, manage demographic and geopolitical shifts and ensure equitable resource access.

Demography:

The NSPA regions face challenges from climate change adaptation and demographic decline, harsh arctic environment, low-density economies, and isolated labour markets. Despite these constraints, strengths in natural resources like forestry, mining, and renewable energy are critical for the green transition. Workforce shortages, skill mismatches, and rising public service costs due to aging populations are pressing issues. Economic resilience relies on resource productivity, regulatory support, and labour market participation. Collaboration, innovation, and targeted investments are essential for navigating these challenges and ensuring long-term success.

Competitiveness:

The NSPA regions hold great potential for sustainable development, requiring targeted policies and regional collaboration to address shared challenges. Key priorities include advancing renewable energy, fostering the green transition through incentives and infrastructure, supporting SMEs and start-ups, and improving digital, transport, and education systems. Financial tools like venture capital funds and loan guarantees are essential to drive innovation and economic growth. Tailored strategies addressing each country's specific needs, combined with coordinated efforts, aim to achieve sustainable and inclusive economic progress across the region.

Green Transition:

The NSPA regions have made significant progress in renewable energy, reducing emissions, and developing green industries. However, some regions still face challenges, particularly those dependent on energy-intensive industries or reliant on energy imports. It is essential to create region-specific solutions that consider local economic conditions and available resources. A major concern is the potential decline of traditional industries, which necessitates a "just transition" approach, which ensures fair support for workers and communities. Achieving a balanced transition involves integrating environmental, economic, and social objectives, promoting inclusive governance, investing in infrastructure, and implementing policies that protect local communities and indigenous rights while fostering sustainable growth and economic diversification.

Multilevel Governance:

The NSPA governance framework emphasizes inclusivity and multilevel collaboration, with local and regional governments playing a key role in policy development and service delivery. Subnational governments, empowered with certain degrees of autonomy, engage diverse stakeholders to create policies that meet regional needs. A central focus is the integration of Indigenous rights, ensuring their perspectives are included in regional planning. Participatory processes, such as public consultations and digital platforms, promote transparency and shared responsibility. The many small communities and SME's in the NSPA need adapted place-based policies and support from national and EU level to build development capacity and sustainable growth. Equitable financial mechanisms must address regional fiscal disparities, allowing all communities to benefit from regional growth.

Main Findings

1. **Demographic Challenges**

   o   NSPA regions face **declining and aging populations**, leading to workforce shortages and increased public service costs.
   o   **Rising demand for elderly care and reduced tax revenues** pose financial strains on municipalities.
   o   **Attracting younger workers** through migration and improving regional attractiveness **is essential**.

2. **Economic Competitiveness**

   o   NSPA economies **rely on natural resources** (forestry, fishing, mining, renewable energy).
   o   **Innovation and entrepreneurship are crucial**, especially in digital and green sectors, for economic growth.
   o   **SMEs require better integration into** regional and national **innovation ecosystems.**

3. **Connectivity and Infrastructure**

   o   **Limited transport and digital connectivity** hinder economic integration.
   o   **Investments in east-west transport corridors**, beside the north-south core corridors, **high-speed broadband**, and green infrastructure are necessary.
   o   **Cross-border cooperation** between Finland, Sweden, and Norway is essential for infrastructure development.

4. **Green Transition and Sustainability**

   o   The region has **reduced emissions significantly** and is a leader in renewable energy.
   o   The **green transition must be just and inclusive**, integrating indigenous knowledge and local communities.
   o   **Sustainable industries are priorities**, including green hydrogen, circular economy, and low-carbon transport.

5. **Governance and Multilevel Cooperation**

   o   Better **coordination between local, regional, and national governments** is needed.
   o   **Indigenous communities** (e.g., Sámi) must **have a greater role** in decision-making.
   o   **Cross-border** governance structures **should be strengthened** to leverage EU funding.

Recommendations at Different Levels

1. Recommendations at the EU Level

- Support **NSPA as a model for sustainable rural development** by integrating its strategies into the European Green Deal and Arctic policies.
- **Invest in cross-border infrastructure**, especially east-west transport corridors and digital networks.
- **Create Arctic innovation hubs** focused on green technologies, renewable energy, and circular economy models.
- Ensure a just transition by **providing financial instruments** (grants, low-interest loans) **for marginalized communities** and indigenous populations.
- **Enhance EU Cohesion Policy to better support NSPA-specific challenges** related to demographics, competitiveness, and sustainability.

2. Recommendations at the National Level (Finland, Sweden, Norway)

Demographic and Labour Market Policies

- Develop targeted labour market assessments to **better understand small and isolated regions**.
- **Provide tax incentives and funding to remote areas** to address high living costs and labour shortages.
- Enhance **migration policies to attract skilled workers** and support integration programs.
- **Modernized service delivery** models (e.g., digital healthcare and remote education).

Economic Competitiveness and Innovation

- **Strengthen SME integration into innovation ecosystems** through tax incentives and public-private partnerships.
- **Create digital innovation hubs** to help local businesses transition to green and digital technologies.
- **Promote Arctic-specific research and development** (R&D) in renewable energy and circular economy practices.

Infrastructure and Connectivity

- **Invest in transport corridors** (especially east-west, beside the north-south) and ensure better cross-border coordination.
- **Expand broadband infrastructure** to improve digital access in remote areas.
- **Develop smart grid technology** to ensure energy efficiency and improve renewable energy integration.

Green Transition and Sustainability

- **Support decarbonization of traditional industries** (e.g., mining, forestry, steel) through green technologies.
- **Enhance cross-border collaboration on green energy** and hydrogen production.
- **Improve circular economy practices** and support **sustainable land use planning**.
- **Protect biodiversity and Indigenous rights** in all green transition policies.

3. Recommendations at the Regional NSPA Level

- **Encourage regional cooperation to share best practices** in economic diversification and infrastructure projects.
- Promote sustainable industries by **supporting SMEs in adopting green technologies**.
- **Develop workforce training programs** aligned with local industry needs.
- **Strengthen participatory governance** by involving local stakeholders and Indigenous communities in decision-making.
- **Manage geopolitical risks** by establishing a task force across the NSPA to ensure economic stability and regional security in collaboration with the national government.

Conclusion

The NSPA has the potential to become a **global model for sustainable rural development** by leveraging its **natural resources, innovation capacity, and green economy potential**. However, addressing **demographic decline, connectivity barriers, geopolitical challenges, and governance fragmentation** requires **strong coordination between the EU, national governments, and regional actors**.