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EUROPEAN UNION

Co-financed by the European Regional Development Fund

Inspire Policy Making with Territorial Evidence

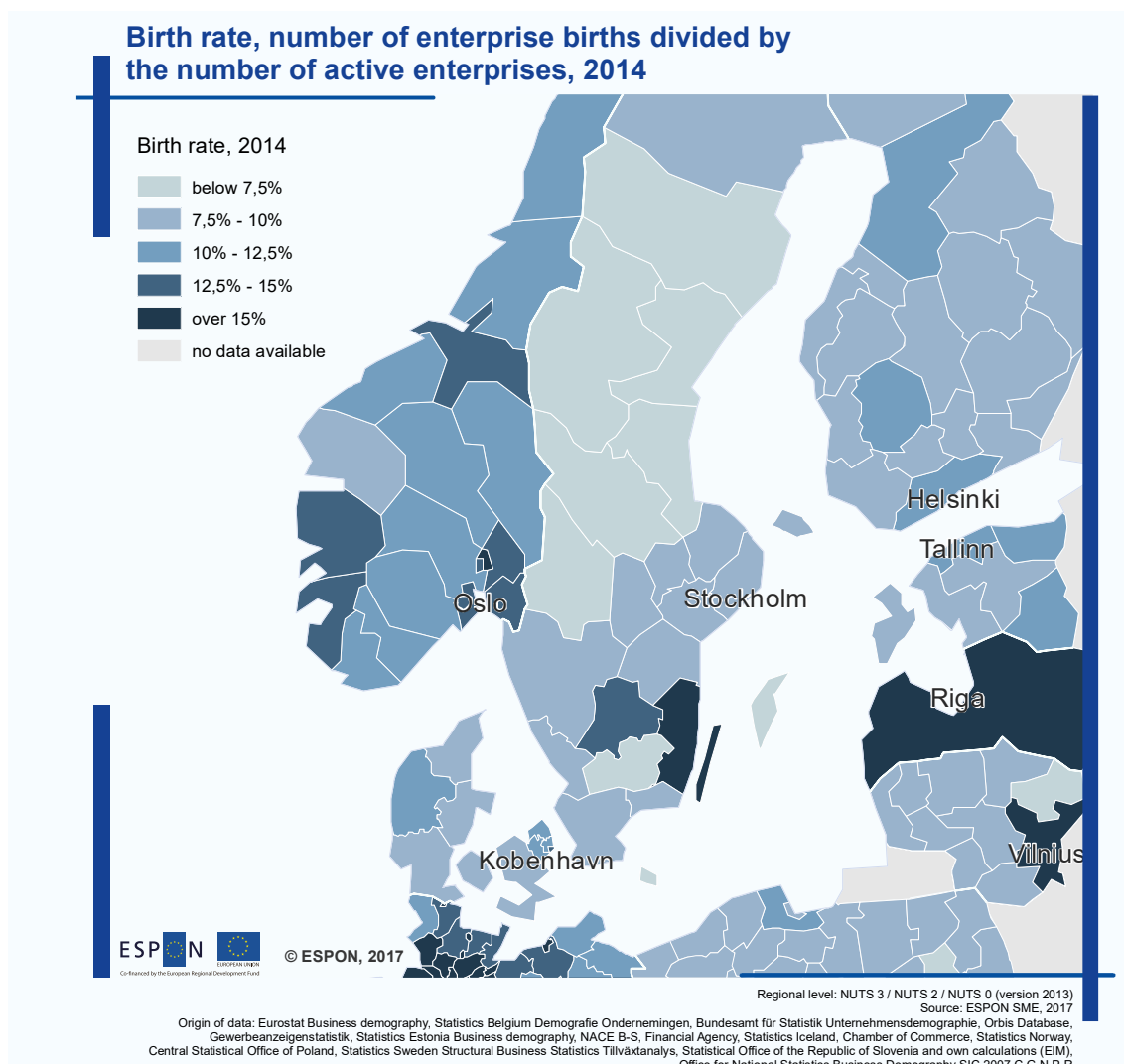
Transnational Brief

Economic development in northern rural regions

Observations and challenges of entrepreneurial development in northern regions

Birth, survival and death rates of SME in northern regions

In Northern Europe, birth rates of SME (Small and Medium-sized Enterprises) are slightly higher in predominantly urban regions than in predominantly rural regions. Norway has rather uniform regional enterprise birth rates (over the average of 11.5% in 2014), but the discrepancy between rural and urban areas (especially the capital regions) is more acute in Sweden and in Finland. In Sweden, the enterprise birth rate for the same year was below 10% almost all over the country, while it exceeded 30% in Stockholm. The situation was quite similar in Estonia and Lithuania, with very high birth rates in the surroundings of Vilnius and Tallinn. Latvia was an exception, with birth rates from 15% to 20% even in rural parts of the country.

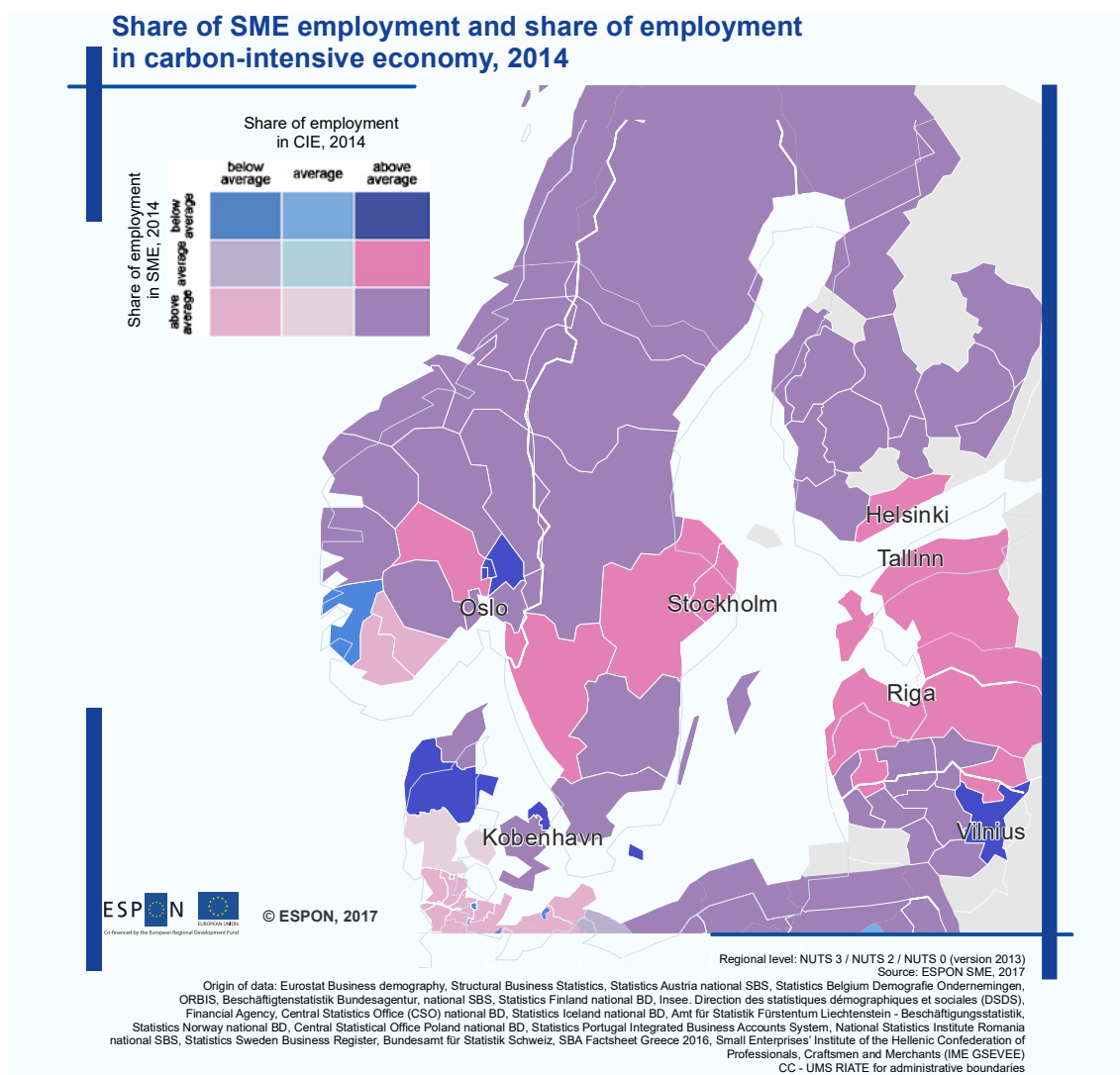


Birth Rate 2014, Number of enterprise births divided by the number of enterprises active in 2014

High SME birth rates, however, often come together with high death rates, as it is the case in Vilnius, with a death rate of above 25%. The number of businesses has decreased between 2008 and 2014 in the aftermath of the crisis in Denmark, Finland, Estonia, and Lithuania. The SME survival rate (i.e. number of businesses still active three years after their creation) varies significantly from one country to another. It did not exceed 40% in most parts of Norway in 2014 but was between 50% to 60% in all regions of Denmark and of Latvia that same year. The situation was more contrasted in Finland, where it was over 50% everywhere but surpassed 60% in many regions, including in Northern rural areas of the country. Lithuania is a specific case with a very high survival rate in recent years (over 70%) in all regions except the capital Vilnius.

SME employment in the carbon-intensive economy

High shares of employment in carbon-intensive SME industries prevail in Northern European regions which makes the overall economic health vulnerable to transformations brought about by the low-carbon economy. This situation is particularly visible in the Baltic States, Sweden and partly in Norway and Denmark.



Share of SME employment and share of employment in carbon-intensive economy, 2014

Shrinking rural regions

Over the past decades, demographic decline has become the normal trajectory for many rural regions as agriculture has been restructured and employment has become increasingly concentrated in urban centres. Between 2001 and 2011, the populations of more than 80% of rural regions shrunk in Lithuania, Estonia, and Latvia. The same phenomenon can be observed, to a lesser degree, in the remote parts of Finland, Sweden, and Norway.

Rural shrinkage is simultaneously a demographic and an economic process. Depopulation, ageing and 'brain-drain' are particularly detrimental to the overall economic and labour market balance. Evidence suggest that significant share of the demand for labour in Northern Europe is concentrated in small rural businesses. The share of people employed in micro-enterprises in predominantly rural regions is higher than in predominantly urban regions: 38% as opposed to 22% in Norway, 29% as opposed to 13% in Finland, 25% as opposed to 11% in Denmark, 48% as opposed to 32% in Estonia.

Responses for future entrepreneurial development in northern regions

Smart Villages

The EU Action for Smart Villages aims at improving the quality of life and support businesses by combining actions of several policy areas relating to rural development, environment, transport and connectivity. A Smart Village is a place-based concept that typically focuses on e-literacy skills, access to e-health and to other basic on-line services, and technological innovation in “green” economic sectors. The concept of Smart Villages does not propose a one-size-fits-all solution. Instead, is responsive to the needs and potentials of the respective regional contexts and supported by new or existing territorial strategies for surmounting local obstacles and promoting balanced territorial development.



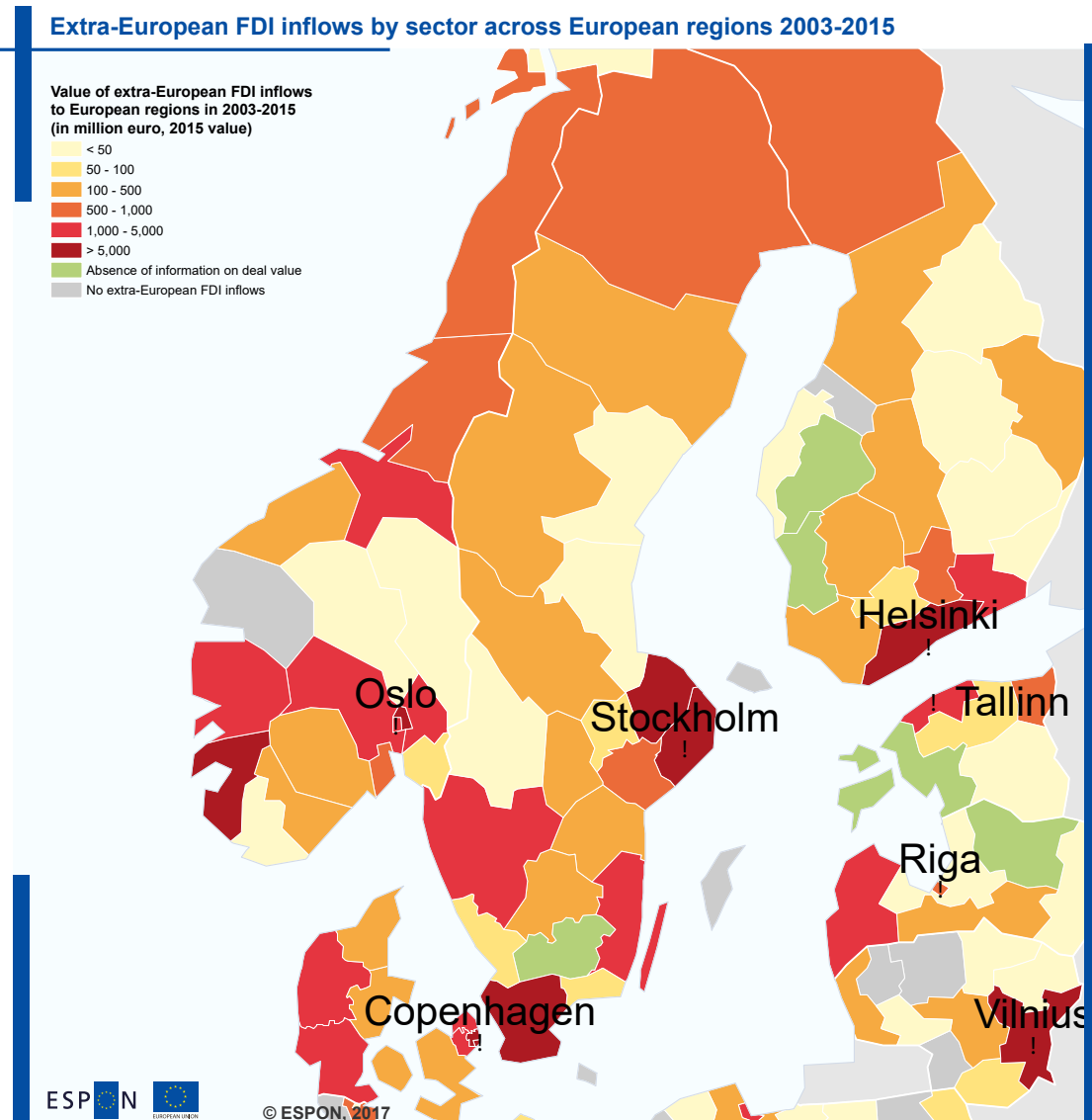
The Finish Study ‘*Smart countryside – development and diversification of rural services through digitisation and experimentation*’, was conducted in 2016, with the goal to explore possibilities for developing and diversifying rural services through digitisation and experimentation. Its main findings reveal that rural residents and businesses are willing and ready to use digital services. The study refers to a particularly positive impact expected in the countryside, bringing services closer to the consumer and reducing costs. However, it also emphasises the need for investment in capacity building to familiarise citizens and companies with the use of digital services, reducing the risk of digital exclusion (by area, age, education or income). The study reveals that solutions must be based on local knowledge and local needs, highlighting the role of the public sector in this aspect. Another recommendation raised in the study is the need to find ways to measure the economic benefits of digitalisation, in order to encourage more businesses digitalise their services and to ensure that people see the benefits. Among the areas for investment in innovative solutions most encouraged by this study are: rural mobility and public transportation; social and healthcare services; remote work and studying. The study also encourages digital experiments

in the fields of social and healthcare services and remote working and studying, suggesting in particular: digital advisory points in local service centres; strengthening digital skills through voluntary peer support organised by NGOs; training digital ambassadors in municipalities and government offices; transmitting voluntary help, peer support or neighbourhood help by digital means; a return of multi-actor, multi-functional and digitalised village schools and developing the digital capital of rural businesses.¹

Source: European Network for Rural Development – Smart Countryside Study (Finland)

Productivity spill-over effects from Foreign Direct Investment (FDI)

Extra-European foreign direct investments (FDI) are associated with positive productivity spill-over effects benefiting local firms within the same industry and within a given region, through channels such as labour mobility between companies, imitation of production or management processes, opening of new markets abroad, adaptation to increased competition or vertical linkages with local firms. However, FDI is unevenly distributed across the EU and has differentiated impacts from one country to another and from one type of region to another. In most Scandinavian and Baltic countries, non-European foreign owned firms accounted for between 0.2% and 0.4% of all companies, and for 3% to 5% of total employment. In Sweden and Norway, they even account for 6.5% of total employment. But the configuration is very different in Latvia, where they account for up to 2.5% of all the companies, and yet only for 3.8% of employment, which suggests the proportion of SME among foreign-owned companies is higher.



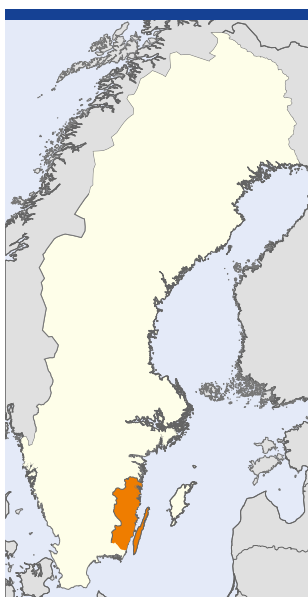
Extra-European FDI inflows by sector across European regions 2003-2015

Foreign companies also tend to concentrate in the capitals or metropolises, especially in the service-sector. This can be observed all over Northern European countries. In Latvia, where extra-European-owned companies are particularly numerous, they account for 7.3% of all companies in predominantly urban areas and for only 1.5% in the rural ones. In Denmark, they account for about 0.5% of companies in rural areas, as opposed to 1.5% in urban ones. In other Northern member states (Estonia, Finland, Norway, Sweden, Lithuania) the percentage of extra-European-owned companies is less than 0.1 %. ESPON evidence suggests that FDI spill-over effects arise via different channels in the different types of regions. In urban regions, where density is highest, spill-over effects seem to be driven by both intra-industry sector channels, such as e.g. labour movements and competition effects, and inter-industry sector channels such as buyer-supplier linkages between foreign and local firms. In rural regions, spill-over effects seem to arise within industries only, which is consistent with a relatively low density and a lower degree of economic diversification.

The contribution of foreign firms to the overall development and competitiveness of the regional economy is facilitated by collaboration between local and foreign firms. Optimising the productivity benefits from FDI requires that FDI policies are integrated into regional development policy and form an integral part of the wide range of instruments that are being applied in the region to build competitive advantage. Such initiatives should focus on integrating firms in the local economy, for instance by hosting events that bring people from different sectors and different types of businesses together, organising round-table discussions to monitor the investment choices of foreign firms and more generally supporting networking efforts at a regional level. Offering “after-care support” to already established firms through regular contacts and consultation is also important, as it will potentially stimulate their expansion, enhance the signalling effect of FDI, and build a strong regional “brand”.

Transformation to green economy

Several rural regions in Northern Europe are succeeding with the transformation from carbon-intensive entrepreneurship to a low-carbon economy. They seize new opportunities emanating from an increased environmental consciousness including the application of circular economy principles to recycling agricultural waste, bio-food, biomass and natural heritage tourism.



Kalmar County (Sweden) is one of the many European rural regions confronted with population decline, and has designed a growth strategy that aims to optimise the county's main assets for sustainable development. It focuses on the green economy through the creation of environmentally-driven businesses. The county benefits from a strong base of small businesses (about 90 % of the companies in the county have less than 10 employees), a vast knowledge on climate and energy issues (67 % of the energy production in Kalmar county runs on fossil-free fuel), and a vibrant countryside with high natural, cultural, and environmental values. With neighbouring counties, Kalmar has notably developed the *Småland Wood Strategy*, which aims to strengthen innovation in the forestry sector, and to increase the attractiveness of this industry for young people.

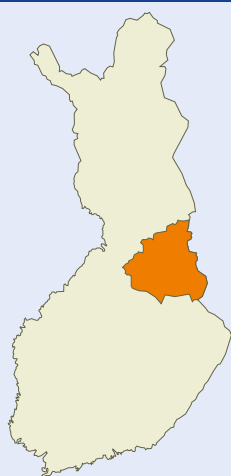
Coping with rural shrinkage

Rural depopulation and marginalisation is an increasing phenomenon in Northern Europe. To address these trends policy-makers essentially have two policy levers: 1) 'going for growth' – reverse shrinking trends and stimulate population growth; 2) 'coping with decline' – accept shrinkage and adapt to its economic and social consequences.



The 2017 Parliamentary Report produced from the enquiry, entitled '*For Sweden's Rural Areas – A Coherent Policy for Work, Sustainable Growth and Welfare*', outlined the need to develop a more integrated and holistic approach to national rural policy. The report outlines three broad overarching goals for developing a coherent rural strategy, including: 1) Equal conditions for citizens to live and work in rural areas; 2) Increasing the capacity of rural areas to exploit opportunities for entrepreneurship and employment in a manner that is sustainable in the long term; 3) Increasing the opportunities of rural areas to contribute towards the positive development of the economy.

The report makes a number of more focused recommendations, such as, emphasising the need for businesses in sparsely populated areas to interact with local, national and global actors. This should be achieved by increasing the financial capital available to businesses, the development of good digital communication opportunities and creating stronger networks with research bodies and innovation centres. Improving access to the labour market and a skilled workforce is regarded as essential. This will be achieved through increased investment in education and training centres, relocating public sector jobs to rural municipalities and offering skilled workers incentives to move to rural areas, including reduced student loans and easy access to services of general interest to improve the quality of living.



Ageing may indeed be transformed into an economic opportunity, as demonstrated by the very original initiative of the municipality of Ristijärvi, in the remote area of Kainuu (Finland). The city has set up an expertise center, called *Seniorpolis*, which develops business operations promoting the well-being and lifestyle opportunities of its senior citizens. These focus on housing, education, learning and care. In cooperation with universities, research institutes and technical high schools, it promotes know-how and business concepts for different senior services and acts as a pilot area for testing new technologies and products to be offered to the elderly. The main objective is to make *Seniorpolis* as a profitable business, which specially takes care of senior citizens' needs, and can potentially attract younger workers and families. *Seniorpolis* has been singled out as a best practice by the OECD in its 2008 Finland Rural Policy Review.

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