Case study 1: Kainuu, Finland

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Kainuu is north-eastern region of Finland, with a total population of 73,061 in 2018 (Statistics Finland, 2019).

Between 1990-2018, the population of Kainuu declined at an average annual rate of -0.80% (compared with a national population growth of +0.4%) (Statistics Finland, 2019).

Kainuu has eight municipalities and the capital, Kajaani’s population was 36,973 in 2018 (declining at an average rate of -0.2 since 1990). Kainuu’s median age is 46.4 (2017).

Since 1998, the number of deaths has exceeded the number of births, and out-migration exceeded in-migration, thus the Kainuu region is experiencing absolute decline (OECD, 2017).

Kainuu is a landlocked region on the border of Russia and 83.2% of the land is forest. There are three levels of government in Finland: central, regional and local (municipalities).

Finnish local government only has a single tier and they provide two thirds of public services.

Economic profile

In 2016, GDP per capita in Kainuu was € 28,596.30, compared with a national average of € 38,370.04 (Statistics Finland, 2019). Kainuu’s unemployment rate is around 10.8% (2017).

In 2017, the top 5 industries in Kainuu were: (Regional Council of Kainuu, 2018)

1. Bio-economy (renewable natural resources) (502M €)
2. Mining (300.7M €)
3. Energy (226.9M €)
4. Forestry (193.6 M €)
5. Metal (152.5M €)

Drivers of population change

After World War II, urbanisation and rapid changes in occupational structures led to migratory flows from the rural parts of Finland to towns and built up areas, particularly to Southern and South-Western Finland (Karjalainen, 1989).
While the 1970s saw some migration directed from centres towards urban margins, rural out-migration continued throughout the and subsequent decades (Heikkilä & Pikkarainen, 2010; Karjalainen, 1989).

The drivers of population change in Kainuu are predominately economic. Historically, Kainuu’s economy has relied on the primary sector, in particular, mining, paper and pulp industries.

Over time, these traditional industries have experienced pressure due to international competition, lack of demand, declining prices and negative environmental impacts (OECD, 2017). As primary production has slowed, a decline of the availability of employment for the working aged population has occurred.

Thus, economic factors such as negative labour market forces and unemployment are most common reasons for out-migration from Kainuu (Heikkilä & Korhonen, 1995; Karjalainen, 1989).

Natural decline is also driving population change in Kainuu. Aside from a rise in babies born during the post-war boom, the birth rate in Kainuu has declined rapidly (Karjalainen, 1989). Between 1995-2004, falling fertility rates and rising life expectancies contributed to striking change in the age structure of Finland as a whole (Heikkilä & Pikkarainen, 2010). Further, the average death rate in Kainuu has been higher than the national Finnish average since the mid-1960s (Karjalainen, 1989).

Other contributing factors to population change relate to the remoteness and low density of the region and its small urban centre (OECD, 2017).

**Outcomes and implications**

While natural decline has contributed to the altering of the age structure of Kainuu’s population, out-migration has had the most profound effect on population change (Karjalainen, 1989).

Kainuu reached its maximum population in 1963 (108,036 people), before beginning to decline, even though Finland as a whole was growing (Karjalainen, 1989). Aside from a slight population increase between 1977-1984 due to major building project across the border in Russia, Kainuu has experienced a steadily decline (Karjalainen, 1989).

Out-migration is mostly triggered by the decline in availability of employment due to a decreased demand in the primary sector. Kainuu has a high unemployment rate (10.8% in 2018) compared with the national rate (7.4% in 2018) (Statistics Finland, 2019).
In 1985, the unemployment rate in Kainuu was 12.7%, double that of the national average 6.3% (Karjalainen, 1989). As such, the labour market in Kainuu is underperforming compared to Finland as whole (OECD, 2010).

An underperforming labour market has led to a high proportion of young working aged people leaving Kainuu for work and further education (Heikkilä & Pikkarainen, 2010).

Additionally, the withdrawal of the University of Oulu campus in 2013 means there is no undergraduate education options in the region (OECD, 2017). This has led to a lower than average share of highly skilled labour force, further contributing to population change (OECD, 2017).

Limited road networks and large distances from other regions limit Kainuu’s attractiveness for investors, labour mobility and ability to participate in other economic markets. Further, potential investors and businesses face barriers in Kainuu as the region does not have a large metropolitan centre, and lacks business knowledge and services (OECD, 2010). These challenges have contributed to a cycle of loss of human capital and the under-utilisation of the labour force.

Intra-regional migration from the rural areas of Kainuu to the capital Kajaani is also common, creating uneven population shifts within the region itself (OECD, 2010). National trends saw rural populations migrate away from Kainuu to urban centres in Southern and South-Western Finland. However, this also occurred within the region and between 1960-1980 Kajaani was the only municipality that recorded positive net migration in Kainuu (Karjalainen, 1989). The population of Kajaani grew in the early 1990s, before experiencing a decline after 1994 (Statistics Finland, 2019).

High levels of out-migration as a consequence of an underperforming labour market, combined with natural decline, has led to an ageing and declining population in Kainuu.

The implications of these challenges include a declining tax base and a higher demand for high cost services, and thus a dependency on government funding for the public sector. Kainuu relies heavily on subsidies from the national government to service its ageing population (OECD, 2010). Further, due to uneven population change within Kainuu, demands for services often differ between municipalities.

**Policy response**

In response to the outcomes of uneven population change across Kainuu, a new regional government was established, in attempt to increase the efficiency of public service provision and to develop the regional economy (Haveri, Airaksinen, & Jäntti, 2015).
Described as a ‘self-government experiment’, (Haveri et al., 2015, p. 1), the region rescaled decision-making from the local and national levels to an elected council at the regional level from 2003-2012.

Previously, to deliver services across the region cooperation strategies between municipalities in Kainuu were undertaken. Cooperation strategies also included local economic development strategies. However, this approach often resulted in ‘slow and unreliable decision-making’ (Haveri et al., 2015, p. 33).

The self-government experiment sought to restructure this network approach into a hierarchical governance model with more efficient decision-making powers (Haveri et al., 2015). Several concerns led to the self-government experiment, including population decline (absolute decline), an ageing population and a financial crisis.

Under the experiment, the regional council made decisions about services including health care, social welfare and secondary education. The ‘Happenings’ programme, based upon a client perspective model, was designed to identify health care needs across the region (OECD, 2010).

Open forums were undertaken in all municipals with the regional health care team, service providers and residents. The regional council worked with the residents to identify the most important health concerns. Community-tailored solutions were developed to increase the quality, efficiency and availability of health care (OECD, 2010).

To develop the regional economy, the council also made budget decisions regarding funding for economic development initiatives for new businesses and new jobs (Haveri et al., 2015).

The experiment was successful for the increasing the quality and availability of social and health care services. As service costs differed between the municipalities, under the old model some areas experienced problems in providing services, and this was predicted to become more severe as the population aged.

By rescaling local services into one regional organisation and then distributing across the municipalities according to need, service costs were reduced by almost 50%. (Haveri et al., 2015). Before the experiment, health care expenditure was often higher than the national average.

During the experiment, health care expenditure was below the national average. Further, within the new structure, local health care managers and workers were afforded more time to enhance the quality of their services.
Overall, the regional council changed the way services were provided across the region to respond to the changing needs of the ageing population, and this model is still used in Kainuu today.

However, the experiment failed to boost the economy or support any regional economic growth over the eight years. It was found that despite the regional council gaining power to allocate economic resources for regional development, resources were allocated in much the same way as before the experiment.

Decision-making powers were meant to be transferred from the central government to the regional council to aid regional development, however this was not properly implemented. Thus, no new or innovative economic initiatives were undertaken.

Additionally, it was found that the allocation of resources was too heavily focused on the central areas, despite the regional council aiming to also develop rural areas. It was concluded that one model of regional governance was not suitable for both delivering services and promoting economic growth (Haveri et al., 2015).

**Key findings**

- The region is already experiencing ageing and decline
- Accepting policy strategy to manage the consequences
- Local governments can work together to provide more efficient services
- New initiatives must be backed up by actual changes (i.e. decision-making powers for regional development strategies).
- Regions like Kainuu which are declining due to ingrained economic structures (i.e. reliance on primary sector) can focus on accepting strategies to manage the effects of population change.

**References**


