Better Policies Series

PROMOTING WELL-BEING AND INCLUSIVENESS IN SWEDEN



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OECD

BETTER POLICIES FOR BETTER LIVES

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Foreword

Thanks to strong macroeconomic, fiscal and financial fundamentals and a competitive and diversified business sector, the Swedish economy has weathered the global financial and economic crisis with limited damage and is also proving resilient in the current environment of slow global growth and high uncertainty. This strong economic performance has contributed to a high quality of life in Sweden. The Swedish population is among the most satisfied with life in the OECD, and the country performs well on many measures of well-being. Sweden is also committed to the fight against climate change and the implementation of the 2030 Sustainable Development Agenda.

Impressive as Sweden's track record may be, the country faces a number of challenges. Sweden is one of the leading host countries of refugees, and the large number of asylum seekers that arrived in 2015 has put short-term pressures on the integration system as well as on development co-operation. The country needs to step up efforts to swiftly integrate refugees into the labour market, with particular focus on those with low skills and the many young people who arrive towards the end of their schooling. Finding adequate housing for newly-arrived asylum seekers and refugees is a particular challenge, not least because of structural problems in Sweden's housing market that have led to a shortage in dwellings and soaring house prices. The government's initiative to boost housing supply will certainly help, but it will remain a challenge to get enough housing built to respond to the demand. To boost the overall effectiveness and efficiency of public investment, Sweden also needs to put in place the right incentives to promote sound planning processes and strengthen co-ordination among government institutions.

Another important challenge relates to the declining educational performance of Swedish youth. While the skills of Swedish adults are significantly above the OECD average, those of Swedish youth have fallen below the average. In addition, although Sweden records a relatively low level of income inequality, inequalities in education can be as high as the OECD average. Raising expectations for student performance and improving the school climate can help improve the quality and equity of the Swedish education system. In addition, the country needs to tackle deficiencies in its education funding mechanisms and establish a culture of accountability among education institutions.

While Sweden performs very well on many indicators of environmental quality, the country's high ambitions in this area call for further policy action to advance the transition to a low carbon and circular economy. Emissions in the transport sector remain high, requiring a further alignment of policies with climate action, and the use of resources could be further optimised in an integrated way. Moreover, protection of Sweden's marine ecosystems and freshwater bodies against the emerging challenges of climate change would benefit from a greater use of economic instruments.

The Swedish government is determined to address these challenges and this Better Policies Series brochure has been prepared to support it in this endeavour. Drawing on the expertise and experience of OECD member countries, the brochure lays out key policy priorities in the areas of education, migration, development co-operation, housing, public investment and environmental quality. We look forward to working together with the government of Sweden to design and implement better policies for even better lives in Sweden, so that the Swedish success story can continue.



Angel Gurría
OECD Secretary-General

Key recommendations

- Set high expectations for all students and consolidate support to disadvantaged groups (especially first- and second-generation immigrant students).
- Ensure that school funding effectively responds to equity and quality objectives by privileging improved quality of teaching over reducing class sizes.
- Provide support for employers hiring migrants by reducing the administrative burden associated with wage-subsidy programmes and streamline the requirements so they can be used as a package in which the subsidy gradually declines as tenure increases.
- Enhance early integration activities (e.g. through more opportunities for online language learning) and ensure they start during the asylum process.
- Reduce tax distortions in favour of owner-occupied housing, for example by phasing out deductibility of mortgage interest.
- Address inefficiencies in the land-use planning system and increase incentives for municipalities to allow building.
- Carefully review policies to promote access to affordable housing for disadvantaged households, with a particular focus on the private and municipal rental housing sectors.
- Foster co-ordination across municipalities through financial incentives to promote joint investment projects that have greater regional impact.
- Remove exemptions from the carbon and energy tax.
- Develop an overarching national water and marine strategy to integrate national and regional activities.
- Ensure that Sweden’s impressive commitment to development co-operation within the 2030 Agenda for Sustainable Development is supported by adequate resourcing for implementation.

Table of contents

1. Introduction 1

2. Strengthening the quality and equity of Sweden's education system 5

3. Better integrating migrants into the labour market 8

4. Enhancing the functioning of the housing market 12

5. Increasing the social returns of infrastructure investment 16

6. Fostering green growth 20

7. Supporting sustainable development and poverty reduction globally 25

Bibliography 28

1 Introduction

Sweden has a remarkable track record in sustaining a high level of well-being of its citizens. The country performs above the OECD average in all dimensions of the OECD's Better Life Index, and these good outcomes are typically shared widely across the population. Sweden is one of the leading countries in receiving asylum seekers and a strong supporter of ambitious global goals to fight climate change and implement the 2030 Sustainable Development Agenda. However, for this success story to continue, the country needs to reverse the declining educational performance of its youth, speed up labour market integration of newly arrived immigrants and address infrastructure deficiencies, particularly in the housing sector. Also, Sweden's high ambitions with respect to environmental protection call for further policy action to advance the transition to a low carbon and circular economy.

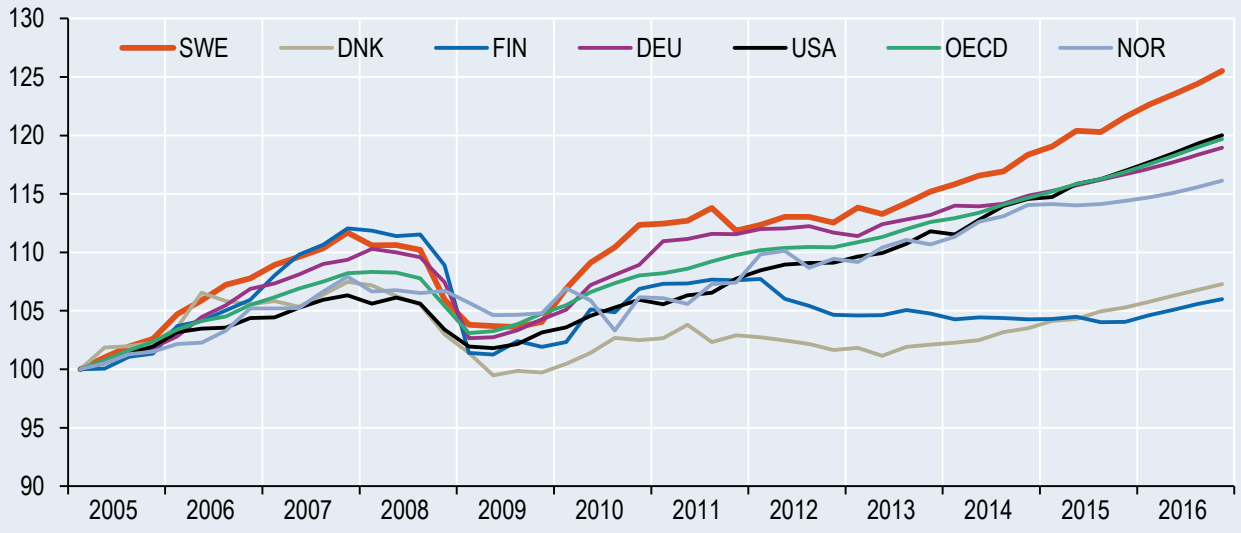
Swedes enjoy a high quality of life

Sweden weathered the global financial and economic crisis with limited damage, thanks to strong macroeconomic, fiscal and financial fundamentals and a competitive and diversified business sector (Figure 1.1). The economy is also proving resilient in the current environment of sluggish global growth and high uncertainty, with expansionary monetary and fiscal policies that support domestic demand, compensating for weak export markets. Sweden's labour force is growing, and unemployment is receding. In the first quarter of 2016, the unemployment rate was 7.1%, down by 1.8 percentage points from its peak in the first quarter of 2010. The share of long-term unemployed in all unemployed was 16.8% in 2014, well below the OECD average of 35.2%. Sweden's strong economic growth is set to continue in the future, although at a slightly slower pace.

This strong economic growth has underpinned Sweden's good performance in terms of well-being. Swedes are among the most satisfied with life in the OECD. The country performs strongly in all dimensions of the OECD's Better Life Index (Figure 1.2). The greatest strengths are work-life balance (only 1.1% of employees in Sweden regularly worked very long hours in 2014, compared to the OECD average of 13%); environmental quality (95% of the population were satisfied with water quality in 2015, compared to the OECD average of 81%, and the level of atmospheric PM2.5 – tiny air pollutant particles small enough to enter and cause damage to the lungs – was half the OECD average in 2013); and health (life expectancy at

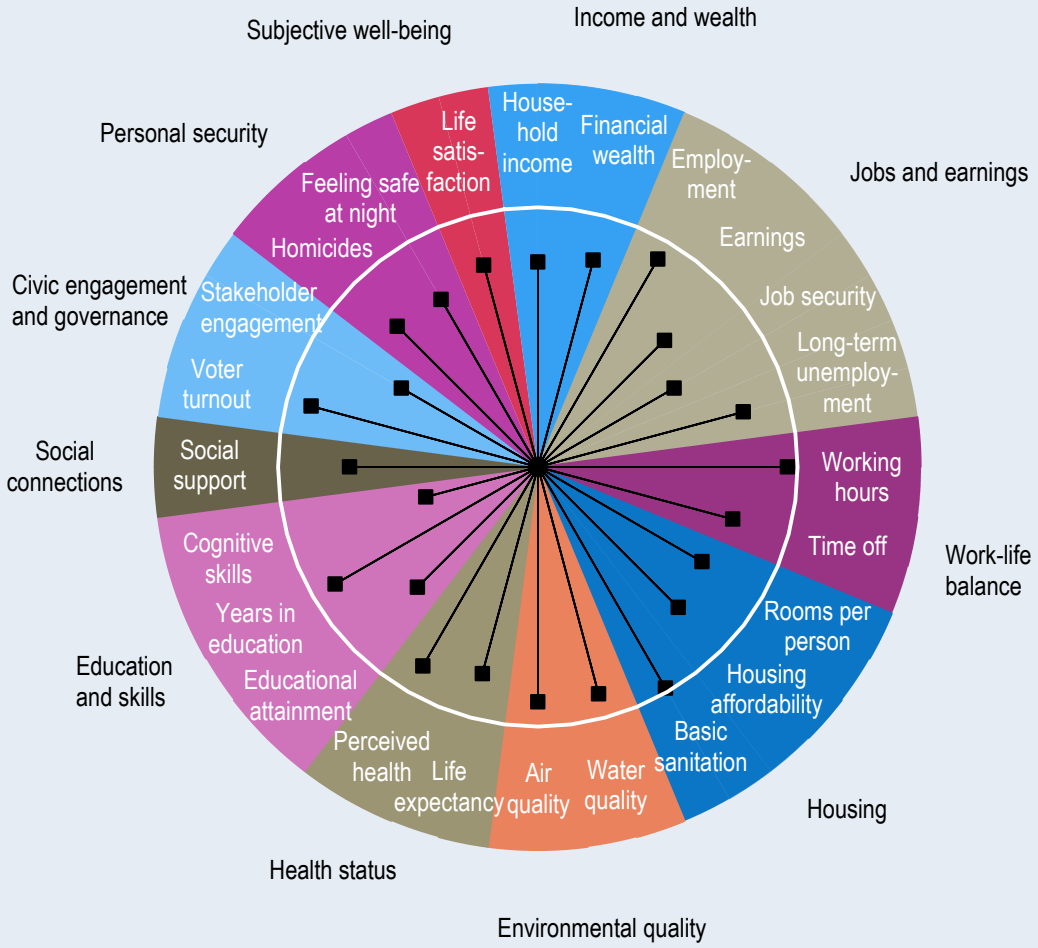
FIGURE 1.1. **SWEDEN'S ECONOMY HAS OUTPERFORMED ITS PEERS**

Real GDP, 2005 Q1=100



Source: OECD Economic Outlook Database.

FIGURE 1.2. **HOW'S LIFE IN SWEDEN?**



Note: The centre of the circle depicts the worst-performing OECD country and the white circle depicts the best-performing OECD country. The black dots at the end of the black lines depict the performance of Sweden. Longer lines show areas of relative strength, while shorter lines show areas of relative weakness.

Source: OECD Better Life Index, 2016, http://www.oecd.org/statistics/datalab/bli.htm.

birth was almost 82 years in 2013, two years higher than the OECD average). Swedes also enjoy a high degree of safety (the share of people who feel safe when walking alone at night is above the OECD average, and the homicide rate is below the OECD average) and benefit from a strong sense of community (in 2015, 92% of people believed that they knew someone they could rely on in time of need, higher than the OECD average of 88%). Voter turnout, a measure of citizens' participation in the political process, was 86% during recent elections, well above the OECD average of 68%.

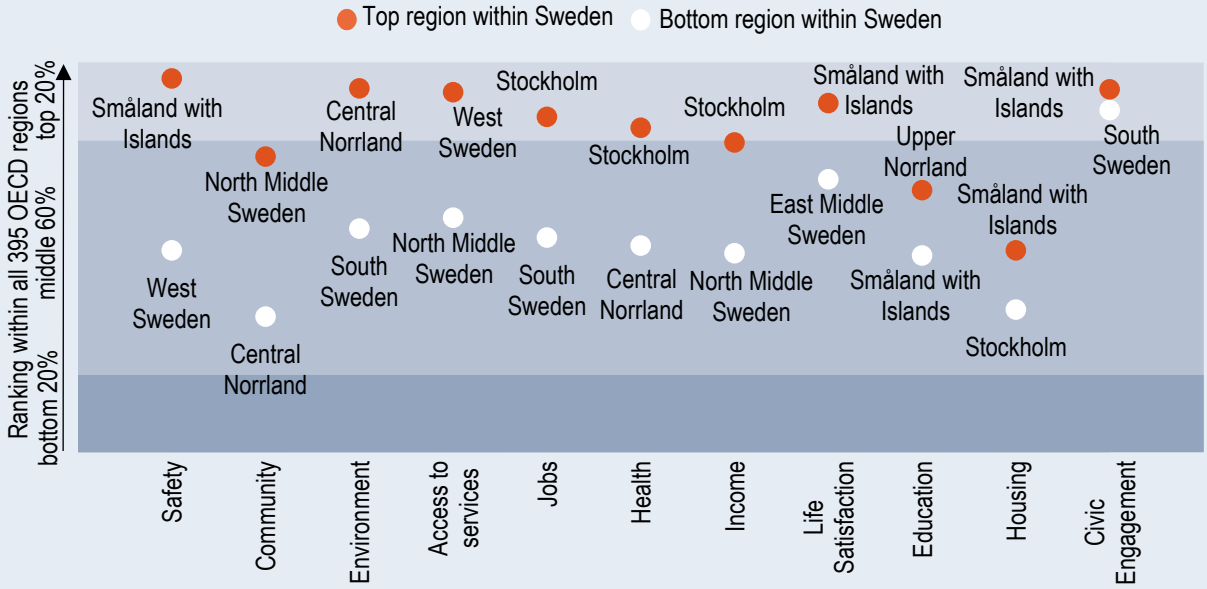
Sweden also displays relatively low levels of income inequality. In 2013, the richest 10% of the population earned 6.5 times the income of the poorest 10%, lower than the OECD average ratio of 9.4 times. Similarly, in 2013, 8.8% of the population earned less than half of the median income (defined as the poverty rate), below the OECD average of 11.3%. Compared to other OECD countries, regional disparities in well-being are also generally low in Sweden (Figure 1.3). The widest regional gaps are found in safety and social connections, although in both cases the low-performing regions are above the OECD average. All Swedish regions rank in the top 20% of the 395 OECD regions in civic engagement, and at least one ranks in the top 20% of the OECD regions in 7 other well-being dimensions: safety, environment, access to services, jobs, health, income and life satisfaction.

But there are also some challenges

First of all, while both the **educational attainment** of the adult working-age population and the literacy and numeracy skills of Swedish

FIGURE 1.3. **REGIONAL DISPARITIES ARE RELATIVELY LOW IN MOST WELL-BEING DIMENSIONS**

Relative performance of Swedish regions by well-being dimensions



Source: OECD Regional Well-Being Database, www.oecdregionalwellbeing.org.

adults are significantly above the OECD average, the cognitive skills of Swedish 15-year-olds are below the average. In the 2012 OECD Programme for International Student Assessment (PISA), Swedish 15-year-olds scored 478 points in mathematics (compared to the OECD average of 494 points), 483 points in reading (compared to the OECD average of 496 points) and 485 points in science (compared to the OECD average of 501 points). In addition, although Sweden records a relatively low level of income inequality, inequalities in education can be as high as the OECD average. For example, children from lower socio-economic backgrounds are more likely to report feeling a lot of pressure from schoolwork than children from higher socio-economic backgrounds (Figure 1.4).

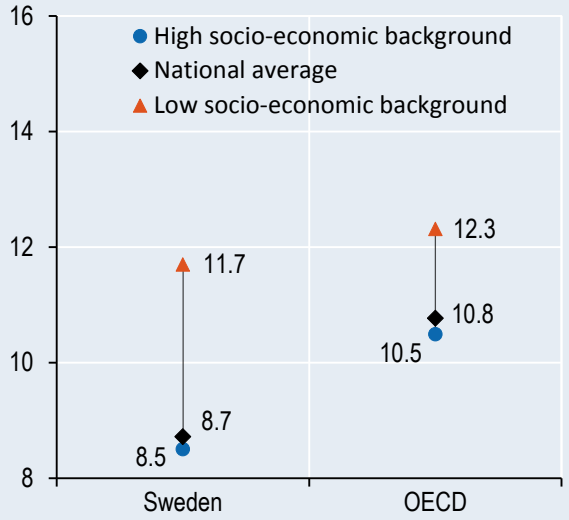
Second, although **immigration** has fallen from a record high of 163 000 asylum seekers in 2015, the current estimate of 60 000 asylum seekers per year is still double the normal level before the Syrian crisis. Sweden has a strong system for integrating migrants into the education system and the labour market, but this large inflow of migrants is clearly a challenge. High migration adds to public spending and, while it has the potential to boost output and employment growth, this is only the case if migrants find suitable jobs. Sweden invests heavily in the integration of migrants, but their labour market outcomes relative to natives are worse than in many other OECD countries. This is partly due to low demand for low-skilled workers in Sweden. Current positive labour market trends will therefore likely meet some headwinds as a large number of low-skilled immigrants enter the labour force, and per capita GDP growth may slow in future.

The refugee crisis is also putting pressure on Sweden's **development co-operation**. Sweden is a key player in the area of development co-operation, thanks to both the quantity and quality of its assistance and its leadership in shaping the global development agenda. However, the high and unpredictable cost of taking care of the newly arrived refugees represents an important challenge. Between 2014 and 2015, the share of in-donor costs for refugees and asylum seekers in Sweden's official development assistance (ODA) almost doubled. In addition, Sweden needs to ensure adequate resourcing for implementing the 2030 Agenda for Sustainable Development, and needs to reverse the decline in its use of developing countries' own systems to implement aid-funded activities.

Another challenge relates to Sweden's infrastructure. Inflation remains well below the 2% target, and negative policy interest rates have fuelled demand for **housing**. In the context of a structural shortage of residential dwellings,

FIGURE 1.4. **CHILDREN FROM LOWER SOCIO-ECONOMIC BACKGROUNDS FEEL MORE PRESSURE FROM SCHOOLWORK**

Percentage of children aged 11, 13 and 15 who feel a lot of pressure from schoolwork



Source: OECD (2015a), How's Life? 2015: Measuring Well-being, OECD Publishing, Paris, http://dx.doi.org/10.1787/how_life-2015-en.

this has led to double-digit housing price increases for the past two years and to higher household indebtedness. High household debt is seen as a moderate risk to financial stability, but as potentially affecting the economy's resilience to shocks. Moreover, while Sweden's performance on the housing indicator of the OECD's Better Life Index is just above the OECD average, it is lower than in other Nordic countries, such as Denmark or Norway. In some regions, notably Stockholm, East Middle Sweden, South Sweden and West Sweden, the number of rooms per person is below the OECD average. The government's initiative to boost housing supply is an important step to address these issues, but getting enough housing built to respond to demand will remain a challenge.

In contrast to most OECD countries, Sweden's GDP share of **public investment** has risen in recent years, largely driven by rising investment at the subnational level, of which the share in total public investment increased by 11 percentage points over the past 15 years. Sweden has a well-developed planning system for infrastructure investment with well-developed cost-benefits analysis and ex ante evaluation methods. But this rise in the share of subnational governments in public investment requires greater co-ordination, both horizontally across municipalities and vertically between subnational governments and the central government. This is all the more important as the share of subnational governments in total investment is set to continue to rise in the light of investment required to renew and/or repair Sweden's transport infrastructure, as well as significant parts of the buildings owned by municipalities and counties.

When upgrading and expanding the country's infrastructure, a particular focus should be on green infrastructure. While Sweden performs very well on many indicators of **environmental quality**, the country's very high ambitions in this area suggest that further policy efforts are needed. Overall, Sweden has the second-lowest emissions of greenhouses gases (GHG) per unit of output in the OECD, but GHG emissions in the transport sector remain far above best-performing OECD countries. Further steps are also needed to expand the use of economic instruments to protect marine ecosystems and freshwater bodies from the effects of climate change and ocean acidification. In the same vein, Sweden could optimise the use of its resources in line with the country's circular economy ambitions.

This publication examines these challenges and proposes policies to address them, based on the experience of other OECD countries. **Chapter 2** discusses how Sweden can improve its education system to make sure it equips all students with the necessary skills to succeed in life, and **Chapter 3** looks at on how the country can improve its integration tools for newly arrived asylum seekers and refugees to make sure they swiftly find decent jobs. **Chapter 4** reviews the country's housing market challenges, including the supply shortage, and **Chapter 5** addresses infrastructure challenges more generally, in particular from a governance perspective. **Chapter 6** examines how Sweden can build on past successes to reinforce progress towards its ambitious environmental objectives, and **Chapter 7** discusses policy reforms to ensure that Sweden maintains its leading position in the area of development co-operation and properly takes into account sustainability considerations.

2 Strengthening the quality and equity of Sweden's education system

The public education system in Sweden has traditionally provided high-quality, equitable and innovative education to children from all social backgrounds, while nurturing a desire for lifelong learning. However, both equity and performance declined following the introduction of a school choice model in the 1990s and the devolution of responsibilities for schooling to municipalities, with no coherent and strong national school system. While the Swedish system still has great strengths in post-secondary academic and vocational education, between 2009 and 2012, the country has experienced the steepest decline in mathematics, reading and science performance of 15-year olds among the countries participating in the OECD's Programme for International Student Assessment (PISA). PISA scores are now below the OECD average in all three areas. Two challenges hinder Swedish schools from delivering high quality and equitable education. First, expectations for student performance appear low in many schools. Combined with poor disciplinary climates, this leads to poor learning environments. Second, structural conditions, including funding mechanisms and the lack of an accountability culture, are not conducive to ensuring high-quality provision for all students. This leads to high variability across municipalities.

Standards and expectations of student performance need to be more ambitious

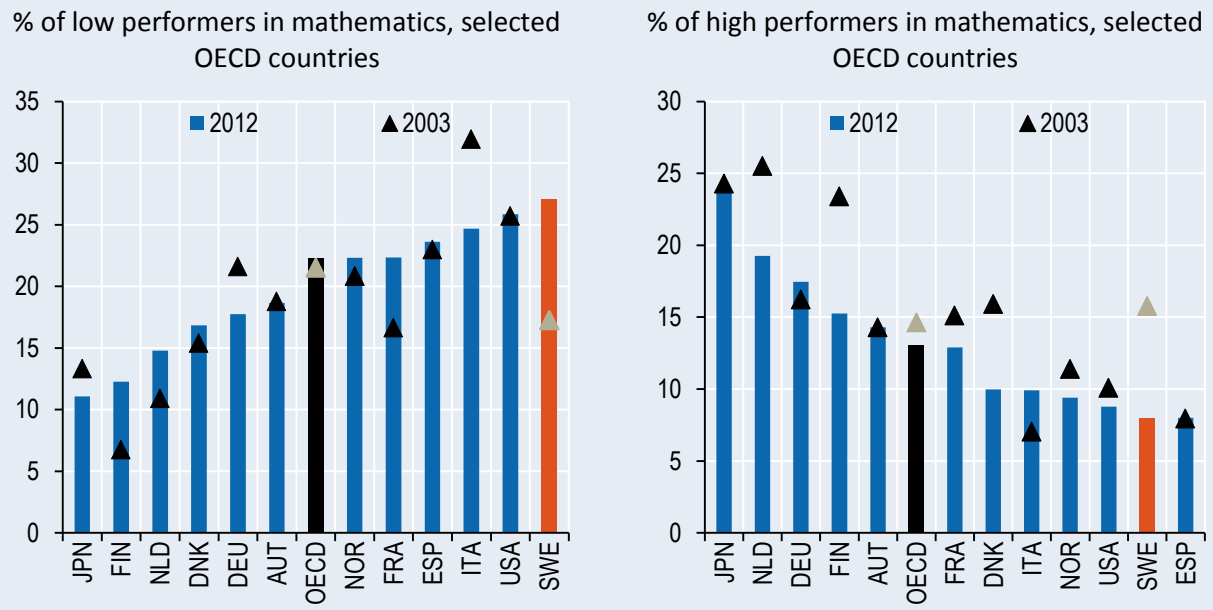
Overall, the number of low performers (below PISA proficiency Level 2) in Sweden has risen. These are students who, in mathematics for example, can at best extract relevant information from a single source and can use only basic algorithms, formulae, procedures or conventions to solve problems involving whole numbers. At the same time, the number of high performers (above Level 5) has significantly decreased (Figure 2.1). These are mathematics students who can develop and work with models for complex situations, and can work strategically using broad, well-developed thinking and reasoning skills. One reason for this drop in performance may be the fact that Swedish schools do not sufficiently motivate students to aspire to higher levels of performance by encouraging student engagement and setting high expectations. PISA reveals that Swedish students tend to be given good marks even when their performance is moderate, and they do not perceive their learning environments to be very demanding. For example, the majority of math problems Swedish students tackle make relatively low cognitive demands: only 33% of students report being asked to do problems that require them to think for an extended time (below the OECD average of 53%). Sufficiently challenging and engaging students will require teaching methods that respond to diverse learning needs, including those at both ends of the performance spectrum.

Strengthening Sweden's education system will also require raising standards and providing adequate support for teachers rather than reducing class sizes. The Swedish government has recently initiated a number of reforms, including changes in initial teacher education and career structure. However, the widely variable capacity of municipalities and schools to support continuing professional development for teachers remains a challenge. A focused strategy to raise the status of teachers and make the teaching and school leadership profession more attractive, along with professional development and collaboration across municipalities, will help teachers deliver the current curriculum more effectively (OECD, 2015b).

Disciplinary school climates are needed

Despite the decline in learning performance, Swedish 15-year-old students generally have a positive attitude towards education, and 95% think that trying hard at school will help them to get a good job. However, they are more likely to arrive late for school than students in any other OECD country and many tend to skip classes, particularly among disadvantaged and immigrant students. In the classroom, noise and disorder are common, and students usually don't start working until long after a lesson has begun. Such environments are not conducive to

FIGURE 2.1. **SWEDEN HAS MANY LOW-PERFORMING STUDENTS, BUT FEW HIGH-PERFORMING ONES**



Source: OECD (2014a), PISA 2012 Results: What Students Know and Can Do (Volume I, Revised edition, February 2014): Student Performance in Reading, Mathematics and Science, PISA, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264208780-en.

learning. Swedish schools need to ensure a healthy school climate that has fewer disciplinary problems and contributes to effective teaching and learning.

High levels of absenteeism and the large number of students who leave upper secondary school without a diploma or study certificate place many Swedish students at risk of being excluded from society, with little chance of success in the labour market. The present dropout rate might be fuelled by the fact that in Sweden, even when youth find employment, many of the jobs do not correspond to their field of study (OECD, 2013a). Swedish students might also be less motivated to study and complete school due to lower incentives in the labour market, as well as a generous welfare system that may be a disincentive to further learning (OECD 2015b). Sweden has taken an innovative approach to address this through the *Plug In* project, a nationwide initiative that aims to reduce the proportion of students who do not complete upper secondary school from 24% to 12% within four years. Implemented by the Swedish Association of Local Authorities and Regions with matching funds from the European Social Fund, *Plug In* operates through decentralised projects which translate national objectives to the regional level, promote regional collaboration, and support the work of schools and municipalities to help keep at-risk students in school (OECD, 2015c).

Deficiencies in structural arrangements impede equity

In the early 1990s, Sweden moved control of schools from the central state to municipal governments which were made responsible for both teachers' salaries and investments in school facilities and the infrastructure for basic and secondary education, with no coherent and strong national school system in place. Today, local governments account for around 75% of public expenditure and 60% of public investment in education (OECD, 2016a). Sweden's decision to allow municipalities to decide on the allocation and distribution of resources does not seem to be delivering better education results, as current funding mechanisms are not meeting the objectives of improving quality while maintaining equity. Different options Sweden can use to ensure equity and especially consistency in school funding across the country include earmarking funding, defining criteria for municipalities and schools and using student funding formulae. School evaluation and accountability also need to be strengthened so that schools, parents and teachers obtain clear and consistent guidance on where they stand and how they can improve.

School choice should enable all students to select the school they would like to attend. However, as Sweden has no clear guidelines for

schools and limited co-operation between municipalities, disadvantaged families often have fewer school choices than the more affluent. The rise in the number of independent schools has contributed to increased competition between schools. This implies that there is a risk that independent schools may well become more selective towards advantaged students, given the same student costs (OECD, 2015b). Providing information about schools to disadvantaged families so that they can make informed choices and prioritising disadvantaged students can help ensure a more diverse distribution of students in schools.

Education opportunities outside of compulsory schooling need to be expanded

The rate of participation in early childhood education and care (ECEC) in Sweden is one of the highest in the OECD. Almost half of 1-year-old children and 94% of 3-4 year-olds are in some kind of ECEC programme, significantly above the OECD average of 81% (OECD, 2015d). Given the rising number of low performers in Sweden, preventive approaches and early interventions should be enhanced to ensure that all students consolidate basic skills starting at the earliest stages. Despite various reforms to ECEC policy in recent years, Sweden needs a much more ambitious and comprehensive reform effort to improve the performance of all students.

Even though Sweden is one of the OECD countries with the highest share of adults participating in education and training programmes, current proposals to expand opportunities for adult education need to be formalised. High-performing VET systems offer students flexible modes of study to balance the needs of working and home life. By recognising prior learning and demonstrated competencies, they can provide pathways and second-chance opportunities for those who have left school.



Key recommendations

- Set high expectations for all students and consolidate support to disadvantaged groups (especially first- and second-generation immigrant students).
- Ensure that school funding effectively responds to equity and quality objectives by privileging improved quality of teaching over reduction in class size.
- Revise methods for school choice to encourage a more diverse distribution of students between schools.
- Build capacity for teaching and learning through a long-term human resource strategy that takes stock of the number and quality of existing providers of teacher education and makes the teaching and school leadership profession more attractive.
- Create a publicly-funded National Institute of Teacher and School Leader Quality.
- Ensure that policy and accountability focus on improvement by defining a set of ambitious education priorities with key stakeholders and developing a comprehensive national school improvement strategy.
- Ensure that reform policies make use of an agreed set of indicators and self-evaluation reporting.
- Strengthen the School Inspectorate by giving it more responsibility for improving schools.

3 Better integrating migrants into the labour market

Sweden has a large immigrant population, many of whom originally arrived as refugees. In 2015, Sweden received over 163 000 asylum seekers, the largest per capita inflow ever recorded in an OECD country, and these numbers are expected to increase in coming years. These large inflows are testing the efficiency of the comprehensive Swedish integration system and have highlighted challenges, notably the integration of low-skilled immigrants and the large numbers of youth who arrive towards the end of their schooling. Swiftly tackling these challenges will be central to successful long-run integration.

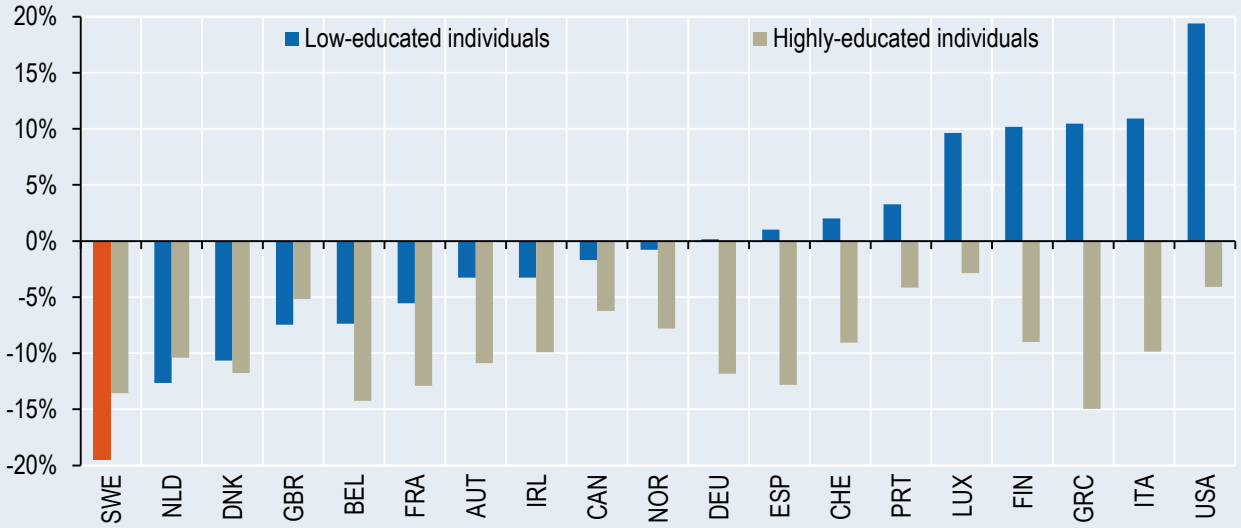
Asylum inflows are testing the integration system of Sweden

Sweden has a large immigrant population and a long-standing humanitarian tradition: 16% of its population was born abroad, and about half of the foreign-born population originally arrived as refugees (or their family did). In 2014-15, Sweden received the largest number of asylum seekers per capita of all OECD countries, and these numbers are expected to increase in the coming years. Sweden is well prepared, with a strong integration system, but these large inflows are bound to cause pressures. For example, the migration agency is struggling to find sufficient lodging to accommodate the new arrivals, and the education system is straining to meet the needs of 71 000 asylum seekers under the age of 18 – equivalent to 3% of Sweden's youth population.

The government has reacted rapidly, with policies to address the rising number of immigrants. Existing policies have been scaled up, and thoughtful new policies have been introduced, such as the *Fast Track* initiative, to speed up integration of new arrivals with skills in occupations facing shortages. Nevertheless, handling time for asylum applications has inevitably increased (from approximately 140 days in 2014 to 250 days in 2015), and housing shortages have led to even longer delays to settle those whose claim has been accepted. Integration must start early to build on the enthusiasm of newly-arrived immigrants. These

FIGURE 3.1. **EMPLOYMENT DISPARITIES BETWEEN NATIVES AND IMMIGRANTS ARE LARGE**

Percentage point difference in employment rates between foreign-born and natives, 25-64 year-olds, 2014 or latest available year



Note: A negative gap means that native-born individuals have a higher employment rate in relation with the total population of native-born people than foreign-born individuals in relation with the total population of foreign-born people. The larger the bar, the bigger the difference between the employment rate of native and foreign-born individuals.

Source: OECD (2016b), Working Together: Skills and Labour Market integration of Immigrants and their Children in Sweden, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264257382-en.



delays mean that integration must start before permanent settlement, with integrating activities extended to those waiting to be permanently settled and those still in the asylum process.

Moreover, even though Sweden invests heavily in the integration of migrants, their labour market outcomes are not as strong as in some other countries. Employment rates among foreign-born Swedes with a high level of education lag 13 percentage points behind their native-born peers and, among the low skilled, the gap is 20 percentage points (Figure 3.1). Much of this is driven by the large proportion of refugees in Sweden's foreign-born population. As in all other OECD countries, refugees have more difficulty than other foreign-born individuals in accessing employment and integrating into the host country's society. Many have very low levels of education – 37% of those who achieved refugee status in Sweden in 2014 held a lower-secondary qualification at most – and face significant challenges in finding work in Sweden's high-wage high-skills labour market. On the other hand, high-skilled refugees, who accounted for 31% of new refugees in 2014, face challenges in presenting their skills and education in a way that Swedish employers can understand.

A comprehensive programme of targeted integration activities is needed

Sweden has a highly-developed programme of targeted integration activities that has provided the template for integration systems across many OECD countries. The core of the integration system is a two-year introduction programme that combines a multifaceted approach to integration into one comprehensive package under the aegis of the Public Employment Service (PES). The introduction programme incorporates labour market activities (such as training or supported employment), municipal-organised civic orientation and language training which may, if needed, extend beyond the two-year introduction period and, since July 2016, is provided under the adult education system. Depending on their skills, qualifications and aspirations, migrants may also be referred for recognition of qualifications, validation of prior learning or entrepreneurial support. Placing the PES at its core has been an important step towards putting labour market integration at the heart of integration policy.

While integration activities are tailored to the needs of individual migrants, the duration is not. The programme is often too long for highly-educated migrants, while those lacking basic skills need a more flexible approach combining longer-term educational support with gradual introduction to the labour market. In 2015, only 28% of low-educated foreign-born men and 19% of low-educated foreign-born women were in employment one year after the programme. Reaching these groups requires more effective co-ordination between the PES and municipalities, which provide education services. In some municipalities this

co-operation is working well, but this must become more systematic across the country. Better support is also needed for youth immigrants. At the end of school, or after the two-year introduction programme, foreign-born youth who have not found employment are supported through untargeted labour market programmes, notably the Job and Development Guarantee for Youth. This programme does not provide language training, although language is a significant barrier to finding employment.

There is room to integrate migrants better into the Swedish education system

In many ways, the ultimate test of integration policy can be seen in the outcomes of the children of immigrants who grow up, learn, and find work in Sweden. According to many indicators, the children of immigrants, particularly those who are native-born, fare better in Sweden than in other European OECD countries. This is particularly striking when considering the challenges faced by their parents, many of whom arrived as refugees. However, the gap between immigrants and native-born students is still a challenge: 59.2% of first-generation immigrants in Sweden did not achieve the baseline level of competence in mathematics, the minimum level required to successfully participate in society, above the OECD average of 40.2%.

Children arriving below the age of 7 to 9 have been found to integrate into the school system with relative ease, but those who arrive after this critical age band are often at a disadvantage. Not only must they expend more effort to learn Swedish, but their acquisition of subject skills is less efficient while they are mastering their new language. A specific hurdle facing many students with an immigrant background is the transition from compulsory school to upper-secondary school. While over 91% of students with native-born parents achieve this minimum standard, as few as one in two young immigrants who arrive after the start of compulsory school manage to go on to upper-secondary school. The figure falls below one in three among young immigrants who arrived less than four years before the end of compulsory school. The residential concentration of immigrants, combined with large numbers of minors arriving at compulsory school-leaving age all contribute to acute difficulties for adolescents entering the school system.

Many of the immigrants who arrive in Sweden towards the end of compulsory school choose to abandon their education. In 2013, close to 38% of immigrants aged 15 to 24 who had arrived after age 15 were no longer in education – the highest figure among the OECD countries for which information is available. Many leave school early because they are keen to find work and begin remitting wages. The incentive to remit is particularly damaging for young unaccompanied minors who are eligible to enter the introduction programme (and receive the associated introduction benefit) from the age of 18.

All levels of government can help provide comprehensive pathways for integration of migrants

Municipalities and counties in Sweden (counties are in the process of being merged into larger regions) play a crucial role in designing and implementing policies for education, health, social protection and housing. However, the increasing number of refugees is placing pressure on local communities and their capacity to deliver services. While funds have been made available, the capacity of municipalities to manage integration issues can vary widely. A whole-of-government approach, integrating the specificities of different territories, is needed to ensure that no community is left behind, especially in rural areas hit by faster rates of depopulation and ageing. Thanks to their awareness of local realities and their proximity to citizens and businesses, subnational governments are also well placed to promote a cohesive policy approach to the integration of migrants across policy domains such as education, employment, housing, health and culture, working closely with the central government through effective multilevel governance.

The central government should be working with local governments to identify best practices at the local level and disseminate good practice to other areas in Sweden that might be struggling with the integration of migrants. A notable example of such good practice is the case of Kalmar County, which has developed a local strategy with stronger partnerships between

public agencies (Niklasson, Barr and Meghnagi, 2016). The strategy, related to the general regional development strategy co-ordinated by the Regional Council in Kalmar County, is based on the assumption that migrants are a vital source of skilled labour who should be treated like other Swedes to further increase the attractiveness of the region. The strategy is signed by 26 parties, including regional and local governments, national agencies and local employers. It identifies five priority areas: jobs and skills development, language training, health, housing and social cohesion and involves a list of activities to be carried out by each partner organisation, including the employment service and the local governments.



Key recommendations

- Provide a coherent pathway for low-skilled migrants by embedding adult education more firmly within the introduction programme, strengthening co-ordination between municipalities and the PES and allowing greater flexibility in the timing of targeted integration efforts.
- Strengthen opportunities to combine work and study through "bridging jobs" that build upon existing skills, while enabling migrants to gain work experience, learn work-related language and network with individuals within their sector.
- Combine employment with vocationally relevant education, organised into modular courses leading to industry-recognised qualifications.
- Provide support for employers hiring migrants by reducing the administrative burden associated with wage-subsidy programmes and streamline the requirements so they can be used as a package in which the subsidy gradually declines as tenure increases.
- Provide language tuition under the Job Guarantee for Youth and widen access to trainee jobs to those without upper-secondary education.
- Make instruments such as temporary training contracts available beyond the introduction programme.
- Complement anti-discrimination legislation with more proactive diversity policies, including the use of diversity consultants.
- Enhance early integration activities (e.g. through more opportunities for online language learning) and ensure they start during the asylum process.
- Involve municipalities more systematically in designing introduction programmes, especially for the low-educated, and link funding for municipalities to the expected costs of integration.
- Create an observatory of local strategies to benchmark outcomes among municipalities and identify good practices that can be replicated where possible.
- Strengthen support for foreign-born students arriving late into the education system by sharing best practices on the use of preparatory education and introductory courses in secondary education.
- Examine the factors that have an impact on the decisions of immigrant youth to remain in school or not, including the eligibility of unaccompanied minors for the introduction benefit from the age of 18.

4 Enhancing the functioning of the housing market

Housing prices are currently rising faster in Sweden than in any other OECD country. The associated increase in household debt generates financial and macroeconomic vulnerabilities, which new macro-prudential measures are trying to mitigate. Reducing the tax bias towards home-ownership would help to cool the housing market, with additional distributional benefits. In a longer-term perspective, structural weaknesses need to be addressed, as the current shortage of housing affects housing affordability, well-being, labour mobility and competitiveness, especially in the big cities. The government's initiative to boost housing supply is welcome, but it will remain a challenge to get enough housing built to respond to demand and accommodate the large flow of immigrants in a way that minimises spatial segregation.

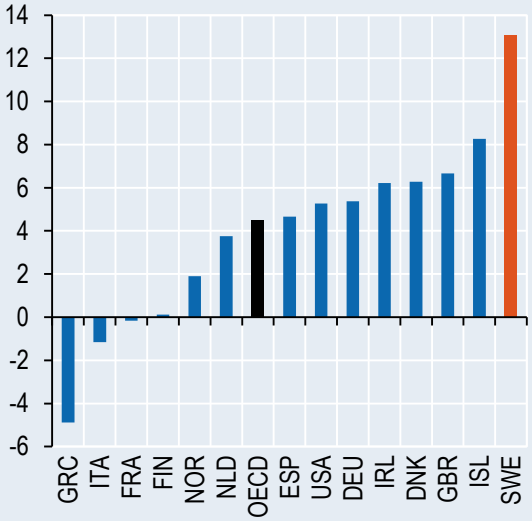
Housing prices and household debt are soaring

Real housing prices in Sweden are rising at the strongest pace in the OECD (Figure 4.1, Panel A). This is all the more remarkable because the global financial crisis of 2008 had only a modest effect on Swedish housing prices, which are now well above historical peaks. Also well above their long-term averages are the price-to-income ratio (about 50%) and the price-to-rent ratio (about 70%) (Figure 4.1, Panel B). These ratios are crude indicators of housing price overvaluation, especially because they fail to capture the evolution of financing and supply conditions, but they have tended to return to their long-term averages in the past, albeit after protracted periods. Current econometric estimates generally point to modest housing price overvaluation (in the range of 10% to 20%). But such estimates have often proved misleading in the past, as large deteriorations in fundamentals triggered sharp price falls. Housing demand is lifted by growth in incomes and population, low interest rates, easy access to mortgages and migration towards the main urban centres. The supply response is slow and weak, partly as a result of stringent planning and zoning regulations. Against this background, it is necessary to contain demand in the short term in order to stabilise the housing market, but in the longer term, it will be essential to address supply bottlenecks to both stabilise the market and provide access to decent housing for all.

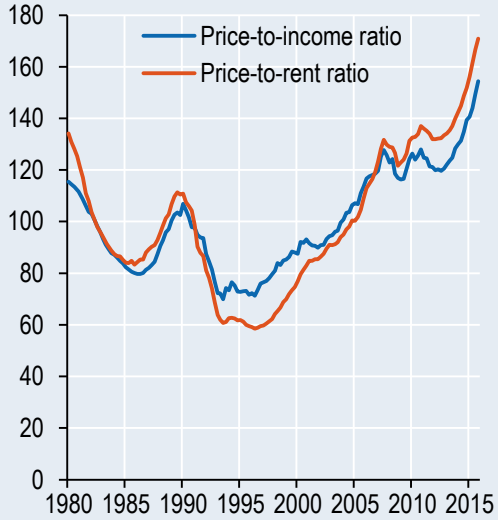
The sharp increases in housing prices in Sweden have been associated with steep growth in household debt (in 2015, household debt

FIGURE 4.1. **REAL HOUSING PRICES ARE SOARING**

A. Percentage change in real house prices, selected OECD countries, 2015 Q4 versus 2014 Q4



B. Price-to-income and price-to-rent ratios, 1980-2015 average = 100



Source: OECD Analytical Housing Prices Database.



reached 180% of net disposable income, more than double the level of 1995), in a self-reinforcing loop. High housing prices have induced households to borrow more, while access to larger loans has allowed them to bid higher for homes. Containing increases in household debt is important for financial stability, even though past experiences of Sweden and other continental Nordic countries suggest that the risk of default on mortgages is limited, even during severe downturns. More importantly, highly indebted households tend to reduce consumption disproportionately when housing prices fall, as illustrated by recent developments in Denmark and the Netherlands, the two OECD countries with the highest household debt-to-income ratios.

Macro-prudential measures and less favourable tax treatment of property can bolster financial stability

The Financial Supervisory Authority has initiated a number of macro-prudential measures to contain the rise in household debt in recent years, including a cap on loan-to-value ratios (LTV) and minimum capital risk-weights on mortgages. A compulsory amortisation requirement for new loans with an LTV above 50% entered into force in June 2016. It could be complemented by a cap on debt-to-income ratios, which are increasing on average. Some flexibility to adapt to specific cases could be provided by setting a maximum percentage of a lender's new loans which should not exceed the cap, rather than an absolute limit, as was done in the United Kingdom.

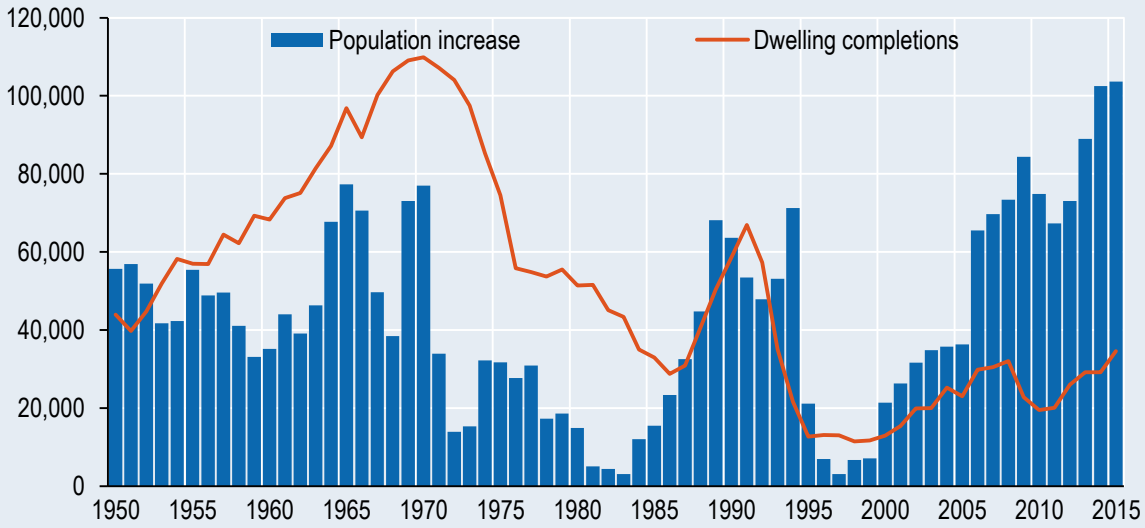
Sweden taxation of residential property is among the most generous in the OECD. There is no tax on imputed rents, property taxes are low, and allowances for mortgage interest deductions are high. Favourable taxation contributes to high demand for housing. In addition, it tends to benefit relatively high-income households most, as they buy more expensive homes, while lower-income households most often rent. Although housing taxation could be amended in several ways, the most straightforward measure would be to phase out deductibility of mortgage interest, perhaps over a period of 10 to 15 years to avoid destabilising the market. Low interest rates and rapidly rising housing prices provide a good opportunity to phase out interest deductibility.

Big cities face a supply shortage

The dwelling stock has failed to keep up with population increases since the early 2000s (Figure 4.2). The National Board of Housing, Building and Planning estimated last year that 710 000 dwellings would need to be built by 2025. This may even be a low estimate if migration flows increase durably, which is difficult to predict. Furthermore, internal immigration towards the main cities worsens the shortages there. Hence, beyond the total number of dwellings, it is important to ensure that enough housing is available in growth areas, in particular to facilitate integration of immigrants in the labour market (see Chapter 3). While accommodating immigrants in slow-growth areas with vacant dwellings can be a short-term solution, the availability of affordable housing in places with high demand for labour is essential for integration. In addition, some companies have complained that the shortage of housing in Stockholm is an obstacle to hiring qualified staff and hence hampers their competitiveness. This could make the capital less attractive for international investors.

To address housing shortages, in March 2015 the Swedish government announced a programme to support dwelling construction, which aims to ensure construction of 250 000 dwellings over the period 2015-20. This is a step in the right direction. Subsidies for construction of rental housing will target demographic growth areas and will be highest for small flats and student dwellings, where the shortage is most acute. Rents will be capped for 15 years, and stringent energy-efficiency norms will be imposed. The cost, estimated at about 0.2% of GDP per year, will be financed by cutting

FIGURE 4.2. **RESIDENTIAL CONSTRUCTION HAS NOT KEPT UP WITH POPULATION GROWTH**



Source: Statistics Sweden.

current tax breaks for domestic building work, including home improvement.

A key challenge is to enhance the responsiveness of housing supply to demand, which has been weak since the early 1990s. One contributing factor is a lack of fiscal incentives for municipalities to parcel out land sites. Sweden is unusual in not having a municipal real estate tax which could strengthen such incentives. While Sweden used to levy a national real estate tax (until the end of 2006), this tax was abolished in 2008 and replaced by a fixed municipal fee with a relatively low cap per dwelling. The government is planning to reinforce incentives for municipalities to encourage construction, notably through increased financing for related infrastructure.

In addition, complex procedures for local land-use hamper housing investment. A large majority of new apartment construction requires changing the local development plan, which entails a time-consuming process. Reforming land-use planning and regulation is challenging, as in most other OECD countries, both because it is a complex area requiring a balance between sometimes conflicting economic, social and environmental objectives and because reforms often face strong political opposition. However, more efficient land-use planning and regulation are essential to achieve a stable housing system with access to decent housing for all, and the government has pledged to work with municipalities to improve the situation. Streamlining land-use planning and regulations could also help foster competition in the construction and building materials industries and help contain construction costs, as both the cumbersome land-use planning process and strict building standards currently give an advantage to established companies over new entrants.

Heavy regulation hampers the development of the private rental market

The Swedish rental market is tightly regulated, and rents are below market levels in high-demand areas. This results in acute rental housing shortages, which affect labour mobility and the attractiveness of the main cities, particularly Stockholm, as business locations. Some measures have been taken in recent years to improve the functioning of the rental market. Since 2011, private landlords, along with municipal housing companies, have participated in annual rent-setting negotiations with the Swedish Union of Tenants on the same terms as the municipal housing enterprises. Legislation passed in 2013, together with generous taxation rules, has also made it easier to sublet dwellings in co-operatives (tenant-owned apartments).

However, low returns for investors and tight regulations remain obstacles to the expansion of the private rental market. Relaxing rental regulations further, in particular in higher segments of the market, would allow supply to expand, especially if combined with less

stringent land-use planning. Easing of rental regulations should be progressive and co-ordinated with other housing market reforms to ensure smooth convergence towards market rents and protect tenants against sudden jumps in rents. Promoting more collaboration among municipal housing companies, which currently operate independently from each other, could also help address supply imbalances within large cities.

Access to housing for low-income households could be facilitated by some prioritisation in the allocation of municipal housing, which is now essentially governed by a waiting list. Allocation rules could be designed to limit the increase in spatial segregation, for example by taking into account the existing social mix in specific locations. In principle, an alternative could be to support low-income households through housing allowances. However, international evidence suggests that in tight markets, housing allowances are not very effective at generating enough new housing supply, tend to be capitalised into rent levels (although this can be mitigated by the design of the benefit) and tend to be costly for public finances.

Smart policies at the local level can strengthen inclusiveness

Housing policies can play an important role in fostering inclusiveness. Sweden has been using housing projects to tackle pockets of deprivation within some areas, such as the Järva section of northern Stockholm, where about 60 000 people live and work. The area hosts a successful ICT-cluster (Kista) with companies such as Ericsson, Nokia and IBM, but also residential areas with severe economic and social difficulties. The Järvalyftet project is designed to transform the area through infrastructure and housing projects over the next 20 years. The new motorway around Stockholm is to be constructed near the area, which will increase mobility opportunities and better connect it to other parts of Stockholm. Smaller houses are to be added and small apartments will be integrated to make it possible for larger families to stay in the area. New housing is planned to look more attractive, and the housing corporations are committed to providing quality services to attract a broader resident base. Furthermore, there will be investments in schools and entrepreneurship programmes to make it easier to start a business in the area. The ambition is to promote the cultural diversity of the area and make it a more attractive place to live and work.

While the Järvalyftet project is still ongoing and results are hard to measure, there are some key lessons that could inform future approaches. One is the importance of ensuring that housing policies are complimented by broader place-based education and social programmes to support successful integration. Extra resources have been devoted to Järva's schools in order to develop new working methods to successfully teach students from different backgrounds who have varying degrees of prior knowledge. The new and innovative component of the Järvalyftet project relates to its long-term nature, as opposed to ad hoc measures. Another new aspect is that there is a political consensus about the *Järva Vision 2030*. This project highlights the importance of building buy-in from all local stakeholders and developing clear communication channels across policy areas to develop an integrated approach.

Key recommendations

- Consider introducing a cap on household debt-to-income ratios.
- Reduce tax distortions in favour of owner-occupied housing, for example by phasing out deductibility of mortgage interest.
- Address inefficiencies in the land-use planning system and increase incentives for municipalities to allow building.
- Streamline regulations to increase competition in the construction and building-materials industries.
- Loosen regulations gradually on at least some segments of the rental market to support the supply of rental housing.
- Carefully review policies to promote access to affordable housing for disadvantaged households, with a particular focus on the private and municipal rental housing sectors.

5 Increasing the social returns of infrastructure development

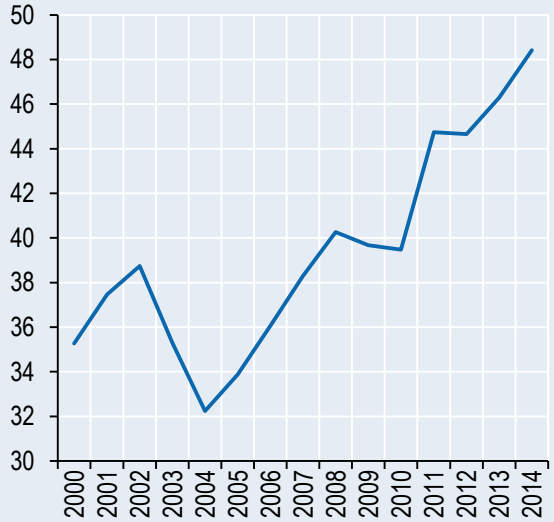
Sweden spends 4.4% of its GDP on public investment, one of the highest shares in the OECD. Contrary to most OECD countries, public investment has been increasing in recent years in Sweden, mainly driven by a renewed emphasis by subnational governments on transport infrastructure investment. Sweden has a strong freight infrastructure that supports its key exporters. However, these assets need to be upgraded to continue to attract direct calls from ever-larger ships. Given the increasing role of cities and regions in public investment and infrastructure development, the right incentives need to be in place to promote sound planning processes and raise the effectiveness and efficiency of infrastructure investment.

Subnational governments account for an increasing share in public investment

Where many countries in the OECD have responded to the economic downturn and rising social expenditures by investing less, Sweden has kept up – or even slightly increased – its public investment activity since 2010. Public investment as a share of GDP has increased by 2.3% since 2009, while across the OECD it decreased by 14.6%. In 2014, public investment accounted for 4.4% of GDP in Sweden, well above the OECD average of 3.2%.

FIGURE 5.1 **SUBNATINONAL GOVERNMENTS ACCOUNT FOR AN INCREASING SHARE OF TOTAL PUBLIC INVESTMENT**

Subnational governments' share in total public investment, in %



Source: OECD (2016a): "Subnational governments in OECD countries: key data, 2016 edition", OECD Publishing, Paris, www.oecd.org/gov/regional-policy/Subnational-governments-in-OECD-Countries-Key-Data-2016.pdf.

The increase in investment was largely driven by subnational governments. While subnational governments accounted for 35% of public investment in 2000, their share had risen to 48.4% by 2014 (Figure 5.1). Subnational governments especially increased their investment in health equipment, transport, general public services, housing and community amenities. The share of subnational governments in public investment is still below the OECD average of 59%, but looming investment pressures at the subnational level mean that it is likely to continue to rise.

These investment pressures are linked to the increasing demand for welfare services provided by municipal and county governments that stems from population ageing and, especially in big cities, population growth. In addition, a significant share of the buildings owned by municipalities and counties (e.g. hospitals and schools) will need replacement and/or repair in coming years, as the bulk of these buildings were built in the 1960s and 1970s (Kommuninvest, 2015).

Similarly, Sweden's transport infrastructure will need to be replaced or repaired in coming years to facilitate commuting, in both rural areas and the largest cities. The national transport plan 2014-25 foresees an increase in resources by 20% relative to the period covered by the previous plan. The plan will improve road and rail maintenance and further develop transport infrastructure. More than 150 investment projects have been identified, including road upgrades, new high-speed railways, an expansion of the Stockholm underground railway system and mining-related infrastructure. This plan will be co-financed by subnational governments. The share of co-

financing, could reach SEK 85 billion (EUR 9 billion) to support the implementation of the SEK 522 billion (EUR 56 billion) national investment plan for transport and communications, according to the Swedish Association of Local Authorities and Regions (including the surplus from the congestion charges in Stockholm and Gothenburg and the surplus from user fees on bridges). Counties (or other regional representatives) are responsible for the regional plans for transport infrastructure which complement the national investment plan. The regional plans are funded by appropriations from the state budget and amount to approximately SEK 36 billion of the SEK 522 billion. In implementing these investment plans, Sweden needs to pay close attention to environmental effects, ensuring that the money is used to promote the construction of green infrastructure (see Chapter 6).

The rising share of subnational governments in public investment necessitates greater co-ordination

Sweden has a well-developed planning system for infrastructure investment, with central agencies on transport and environment playing a key role, and well-developed cost-benefit analysis and ex ante evaluation methods. The challenge lies more in the need to co-ordinate policies between state agencies and counties, and across municipalities/counties for projects with regional impact. Such vertical and horizontal co-ordination is becoming more important over time given the rising share of subnational governments in public investment (OECD, 2014b).

At the national level, the number of agencies involved in infrastructure policy making has been reduced since the 1990s. In 2010, for example, Sweden created the Swedish Transport Agency, responsible for long-term infrastructure planning for all forms of transport – air, rail, road, maritime transport. Still, a large number of agencies remain involved in infrastructure policy-making, with often different perimeters of implementation at the subnational level. The government also recently established a National Negotiation on Housing and Infrastructure to propose a development strategy for high-speed railways from Stockholm to Gothenburg and from Stockholm to Malmö. This makes co-ordination of infrastructure policy quite challenging, both vertically with different territories and horizontally across sectors. Co-operation between central agencies and the subnational level is reported to work best in the larger regions. Evaluations on the functioning of the 'pilot regions' created in Sweden in the late 1990s (Västra Götaland and Skåne) also concluded that the long-term strategic planning of transport infrastructure had improved in these regions, with enhanced involvement of regional bodies in regional and national planning of the road and rail networks (OECD, 2010). The regional reforms and potential merger of counties currently being discussed should be used as an opportunity to clarify the different territorial perimeters of state agencies and to strengthen co-ordination mechanisms with the regions on infrastructure issues.

At the county level, the widening of labour market regions calls for greater horizontal co-operation across counties. Swedish counties are relatively small by OECD standards. This raises issues of competitiveness, as territorial fragmentation can jeopardise implementation of major investment projects that are supposed to encourage growth when each local authority can only define a partial strategy (OECD, 2010). There are fewer but larger functional regions in 2015 than in 1970, due to the increase in economic concentration in Sweden over the past decades. Sweden is currently discussing regional reforms and the potential merger of counties into larger regions. The results of the Parliamentary Committee working on this issue will be released in 2017. Such a merger of counties could be an opportunity to better take into account functional areas in infrastructure planning at the county level.

At the local level, cross-jurisdictional co-operation and regional planning are hampered by insufficient financial incentives for municipalities to promote joint investment projects with greater regional impact and by the municipalities' monopoly on land-use. In addition, the local tax system does not contribute to supporting the development of regional infrastructure. As there are neither local business taxes nor local property or real estate taxes in Sweden, municipalities have few incentives to attract businesses and invest in infrastructure (see Chapter 4). In 2009, Sweden introduced a financing instrument called "real



estate fee", aimed at stimulating local government efforts to attract investment and construction. An evaluation by the Swedish Association of Local Authorities and Regions points to mixed results. Although the revenues have grown comparatively fast since the fee was introduced, the system is rather complicated and leads to an uneven distribution of revenues. Sweden might want to consider replacing this property fee with a true property tax that gives municipalities the power to decide the rates locally. Sweden could also investigate possibilities to separate values of buildings and land, which would allow the introduction of a pure land tax. This would bring stability to local revenue bases, ease pressures to tax labour, and make municipalities even more responsive to local preferences.

Public-private partnerships could provide an alternative to direct infrastructure provision

Funding infrastructure can be done in different ways: direct appropriations from the national budget, user fees or the capture of higher land values that result from better connectivity. The large majority of transport infrastructure investment in Sweden is financed using taxpayer contributions, most directly through the budget. User charges exist to a small extent, especially in the rail sector and in some specific road projects. Public-private partnerships (PPPs) have historically been used very little in Sweden, which has had a strong preference for direct public provision of infrastructure.

More recently, however, this government-driven approach has been put under pressure by concerns that the budget model limits investment at a time when the government is keen to increase the quality of transport infrastructure. While public finances are still healthy, the objective of increasing investment can be complicated if public investment is the sole delivery model. While PPPs might not be the best solution in all situations, there seems to be scope for greater use in Sweden. Evidence from advanced countries suggests that PPPs can lead to lower costs and faster construction, although questions certainly remain about the real efficiency gains. As countries become more experienced in developing PPPs, risk transfer problems tend to decline as knowledge and capacity in the public sector's PPP units become better matched to the skills that private companies bring to the table. OECD has good practice guidance, including reviews of some of the more advanced systems such as the United Kingdom's *Private Finance 2* approach, that Sweden could draw on to explore greater use of the PPP model.

Sweden needs to maintain investment in its key commercial transport assets

A key element of Sweden's overall infrastructure policy is to provide the infrastructure to support its key export industries. This support is most clearly expressed by the country's main port, Gothenburg, which is owned by the city of Gothenburg and handles 57% of Sweden's container traffic (ITF/OECD, 2016). The port is well integrated in the global freight transport system, receiving direct intercontinental calls from container ships coming from Asia. This is of great importance to Swedish exporters, such as the car, forestry and fashion industries, as it means that exported goods will suffer less from delays than at other ports. The container terminal at the port of Gothenburg is operated by a global terminal operator, via a concession granted by the port authority. Thanks to this public-private partnership, investments were made to upgrade the terminal and ready it for calls from the world's largest container ships, even if the port itself is not particularly large in terms of volume. The port of Gothenburg is connected via rail to at least 30 different inland destinations that, in many cases, have dry ports to consolidate local cargo. This system makes Gothenburg one of the most successful rail ports in the world and has helped Gothenburg to reduce carbon emissions from its port, in addition to other leading environmental practices such as providing shore power facilities for ships.

The challenge is to maintain these assets and expand them. If Gothenburg wants to continue having direct calls from the biggest ships, the access channel has to be deepened, the quay walls have to be strengthened and freight railway capacity has to be expanded. More generally, Swedish ports policies need to become more focused (ITF/OECD, forthcoming 2016). Despite Gothenburg's dominance in the national ports system, it is not officially recognised as Sweden's main port, worthy of priority for public investment. As a result, various new container port projects have emerged in Sweden, backed by the local governments that own these ports and consider them interesting sources of local revenue. This fragmentation may not only lead to a duplication of infrastructure, but also risks deconcentrating cargo flows, which may undermine Gothenburg's capacity to attract direct calls due to insufficient volumes of cargo (ITF/OECD, forthcoming 2016).

Key recommendations

- Use the regional reform and merger of counties currently under discussion to clarify the different territorial perimeters of state agencies, align priorities across counties that may merge and strengthen co-ordination mechanisms between counties and the central government on infrastructure issues.
- Foster co-ordination across municipalities through financial incentives to promote joint investment projects that have greater regional impact.
- In the context of an enhanced transport investment plan, develop a focused national ports policy that clearly articulates which ports should fulfil specific roles for the Swedish economy in the different sectors, in particular the container sector.
- Recognise Gothenburg as strategic gateway for trade and freight for the whole country, and prioritise it in terms of public investment.
- As part of that strategy, facilitate the port of Gothenburg's ambition to attract more direct calls by deepening the fairway and container berths, and undertake complementary investments to facilitate maritime access, hinterland connectivity, dry port development and short sea shipping.
- Replace the property fee with a true property tax that gives municipalities the power to decide the rates locally.

6 Fostering green growth

Sweden has sound environmental governance and is among the most innovative OECD countries when it comes to environment-related technologies. Sweden's ambitions with respect to climate change are very high, but further reductions in greenhouse gas emissions would require progress in the transport sector. While higher rates of recycling and incineration of waste have resulted in lower greenhouse gas emissions, there is room to optimise the use of resources in an integrated way. Further steps are also needed to expand the use of economic instruments in the management of marine ecosystems and freshwater bodies against the emerging challenges of climate change and ocean acidification.

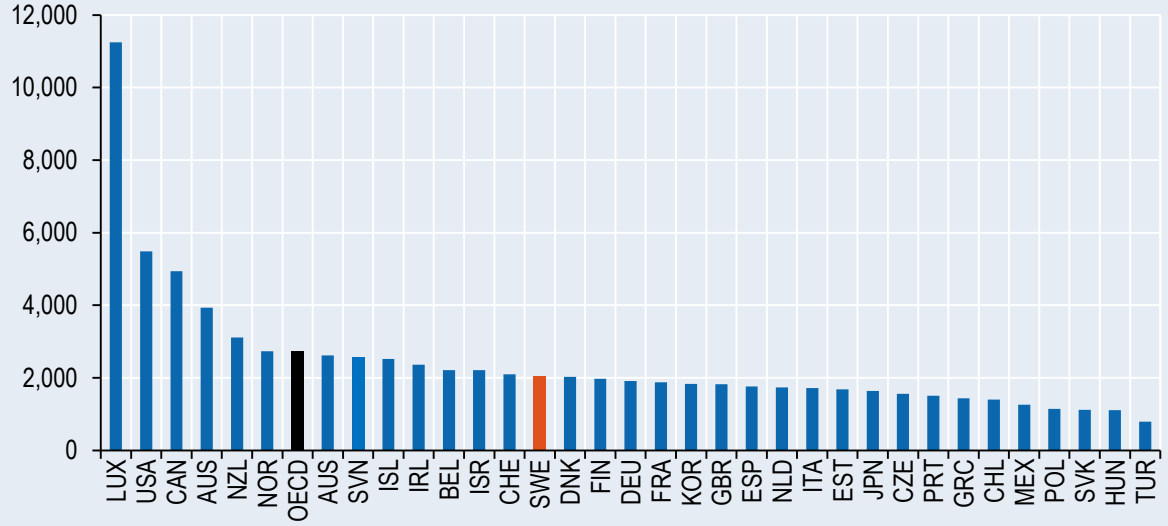
Further efforts to curb greenhouse gas emissions need to focus on the transport sector

Sweden has managed to decouple greenhouse gas (GHG) emissions from economic growth. GHG emissions in Sweden have been gradually declining since 1990 and, in 2014, they were 24% below 1990 levels. Total GHG emissions per unit of output are the second lowest among OECD countries, largely due to the use of renewables and nuclear energy that cover more than two-thirds of Sweden's energy needs. Economic instruments such as carbon taxes and emission trading have been at the core of Sweden's climate policy mix. Sweden has had a carbon tax since 1991 that has been gradually increased from SEK 270 (EUR 29) in 1991 to SEK 1 100 (EUR 120) in 2016. This is significantly above the allowance price of the EU Emission Trading Scheme (ETS).

Transport is the largest source of GHG emissions in Sweden, accounting for one-third of the total (Figure 6.1). While emissions from passenger cars have declined by 15% over 2000-14, mainly due to an increase in vehicle efficiency and the use of biofuels, emissions from heavy vehicles have steadily increased until 2007 and started to decrease in 2010 only. This underlines the size of the challenge Sweden faces to achieve a vehicle fleet independent of fossil fuel by 2030 and meet the country's net-zero emissions goal by 2050. In 2016, the government increased the energy tax on fuel, by SEK 0.48 per litre for petrol and by SEK 0.53 per litre for diesel – less than EUR 0.05 per litre. It has put substantial efforts into phasing out fossil fuel support throughout the last decade, reducing total fossil fuel support by 60% since 2007. However, these efforts have been undermined by a number of exemptions that are not justified on economic or

FIGURE 6.1. **SWEDEN HAS ROOM TO FURTHER REDUCE CO_2 EMISSIONS FROM ROAD TRANSPORT**

CO_2 emissions from road transport in kg per inhabitant, 2014



Source: IEA (2016), IEA CO_2 Emissions from Fuel Combustion Statistics (database).



environmental grounds. Biomass, biofuels and peat are fully exempt from both the energy and carbon tax and there are reduced rates for agriculture and industry outside the ETS. Even though the CO_2 tax rate reduction for diesel used as fuel for machinery in agriculture and forestry was cut to 70% in 2011, it still represents the most significant single support measure, accounting for 60% of the total support in 2014.

To reduce the impact of transport on climate, the government's priority is to provide incentives to avoid unnecessary motorised travel, shift to low-emission and mass-transport modes, and increase the carbon and energy efficiency of fuels and vehicles. Some of these issues require specific transport policy responses, such as fuel economy standards to improve the efficiency of vehicles, a *bonus-malus* system for light cars, and vehicle premiums for vehicles with very low emissions that the government is putting in place. In 2016, the government reduced blending limits for biofuels. The environmental benefits of this measure are uncertain, as the impacts of biofuels on land-use remain a concern.

To reinforce the efforts to curb CO_2 emissions from transport, a broader scope of action is needed. Addressing the policy alignment issue will be crucial as Sweden is preparing the long-term low GHG emissions development strategy called for in the COP 21 Paris Agreement. As a member of the European Union, Sweden will fulfil its intended nationally determined contribution jointly with other EU Member States, which aim at reducing the European Union's domestic GHG emissions by at least 40% below 1990 levels by 2030. Apart from generous tax treatment of company cars and commuting allowances (at 48%, Sweden has one of the largest shares in the OECD of company cars in the total number of registered cars, although the fleet performs relatively well in terms of CO_2 ratings), there are other areas where policies could be aligned with climate action. This involves co-ordination between land-use and transport planning agencies to shorten commuting distances, reduce car use and facilitate mass transit. In Stockholm County, for example, high traffic due to dispersed urban agglomeration is a major source of GHG and fine particle emissions. The government's commitment to spend SEK 500 million (EUR 54 million) per year over the period

2015-18 on state co-financing of local and regional investments in public transport in urban areas is a welcome step to address the problem.

A more widespread use of economic instruments can help protect marine ecosystems

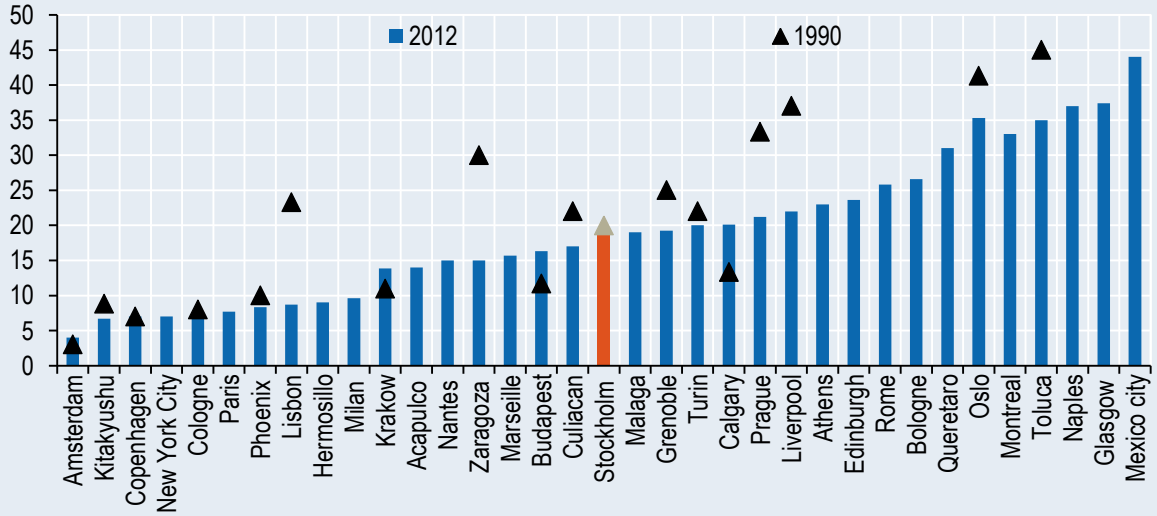
Despite significant efforts, progress has been limited in tackling eutrophication, pollution from toxic substances and overfishing in the Baltic Sea and North Sea. New pressures, such as climate change, ocean acidification and invasive alien species, are emerging. In the Budget Bill for 2016, the Swedish government envisages expanding marine reserves and meeting the Aichi target of protecting at least 10% of coastal and marine areas by 2020. Further work is planned to phase out hazardous substances and microplastics.

While Sweden's approach to shore protection has helped to preserve the coastal environment by prohibiting industrial development within 100-300 metres of the shoreline, an integrated ecosystem approach is needed to ensure a coherent response by municipal and central authorities to conservation and sustainable use of marine ecosystem services. A major challenge is how to assess cumulative impacts in large and complex ecosystems and identify thresholds that may result in irreversible changes. This requires improved data collection and monitoring of ecosystems, populations and species to provide a better baseline, identify changes over time and establish a more rigorous scientific basis for policy evaluation. In addition, there is scope to expand the use of economic instruments and to reinforce conservation and sustainable use of marine ecosystems, for example, by expanding the use of payment for ecosystem services and the trading scheme for discharges of nitrogen and phosphorous to tackle eutrophication. This would be more effective, if it were implemented in co-operation with partners around the Baltic Sea. The creation of biodiversity "banks" in marine ecosystems could further offset degradation due to development.

Achieving sustainable fisheries is also a priority for the Swedish government. Successful implementation of the new Common Fisheries Policy (CFP) is a priority for the country, in particular regarding the obligation for fishermen to eliminate the practice of discarding fish, the objective of returning fish stocks to the level that produces maximum sustainable yield, and of the establishment of multi-annual management plans. At the national level, the design of fishing quota and access regimes, as well as control and enforcement schemes, will help to underpin the landing obligation and the objectives of the CFP. The new European Maritime and Fisheries Fund and the implementation of the EU Marine Strategy Framework Directive should also contribute to the sustainable development of

FIGURE 6.2. **WATER LEAKAGES REMAIN A CONCERN**

Proportion of water loss as a percentage of net water production, selected cities



Source: OECD (2016c), Water Governance in Cities, OECD Studies on Water, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264251090-en.

fisheries. The Directive enshrines in a legislative framework the ecosystem approach to the management of human activities having an impact on the marine environment, integrating the concepts of environmental protection and sustainable use.

The governance of freshwater has improved, but there is room for further progress

The governance of freshwater has improved considerably over the past decades, leading to a gradual fall in freshwater consumption, a rise in the share of waste water that is treated and universal access to water supply and sanitation for the Swedish population at large. Similar trends can be observed at the subnational level. For instance, the City of Stockholm reduced domestic per capita water consumption from 245 litres per year in 1990 to 200 litres per year in 2012, and it currently treats 100% of its waste water. An area that would require more ambitious action relates to renewing and upgrading ageing infrastructure. For instance, in 2012, the City of Stockholm reported the same share of water leakage as in 1990 (19%), close to the average of 21% of the 48 cities surveyed in OECD countries (Figure 6.2).

Economic instruments have played an important role in achieving this progress. In Stockholm, water fees have contributed to sustainable water financing and storm-water treatment. Progress was also made in terms of transparency and accountability, with the public disclosure of benchmarking reports, balanced scorecards and performance indicators. However, there is room for improvement in terms of competitive procurement processes, as collected and purified water is reported to have the lowest number of tenders per procurement process in 2014. Similarly, local participation around lakes and watercourses for a functional basin governance system is challenged by the limited availability of resources and the multiplicity of players at the subnational level.

In Sweden, as in many OECD countries, multilevel co-ordination is essential, because water management is affected by decisions taken in other policy areas, such as land-use, spatial planning, energy, agriculture and solid waste. The frequent mismatch between administrative and hydrological boundaries, which is partly addressed by water conservation associations, requires a multiscale approach from local to basin to national. Despite the existence of several platforms for dialogue and co-ordination mechanisms, policy coherence and the effective implementation of national and EU legislation are affected by inconsistent policies at municipal level and the lack of a strategic vision across levels of government. Ways to address the challenge of ageing infrastructure, growing population and climate change include fostering co-ordination across people, policies and places, in particular through the development of rural-urban partnerships to manage water-related risks (e.g. through flood control mechanisms and water storage) and the implementation of national and local Climate Change Adaptation Strategies.

The use of resources needs to be optimised in an integrated way

As many other countries, Sweden is confronted by the challenge of resource efficiency that expands beyond the management of waste. The right policy mix can help to decrease the amount of virgin materials that are extracted and used, as well as the associated environmental impacts. The government has implemented pay-as-you-throw charging systems for municipal waste, which allow for recovery of service costs. Landfill bans along with tax and producer responsibility schemes have helped to divert municipal waste from landfills while increasing waste recovery. Incineration has become the main treatment method, but removal of the incineration tax in 2010 may have reduced the incentive to sort waste for recycling and contributed to incineration overcapacity.

The impact of these measures on waste prevention is unclear, as generation of municipal waste increased by about 5% over 2000-14, well above the trends in other OECD member countries. Policy efforts have focused on downstream segments of the product lifecycle rather than upstream (i.e. to divert waste away from landfill into material and energy recovery). There is room to reinforce the efforts upstream of end-of-life management, for example through waste prevention by policies that encourage greener product design and measures to change consumer behaviour through the use of product information schemes.

One of the established principles of resource efficiency is that environmental risks should be managed in an integrated way in order to ensure that the overall use of resources is optimised. This approach includes extended producer responsibility (EPR) and green public procurement. The use of EPR has been successful with about 400 such schemes in operation worldwide, most of them in the OECD. In Sweden there are currently eight EPR systems in operation: for batteries, e-waste, packaging, tyres, end-of-life vehicles, graphic paper, medical waste and agricultural film. Extensions of EPR to other sectors, such as textiles, are under discussion. The transition to a circular economy also requires a comprehensive set of policy measures at the macroeconomic and sectoral level to capitalise on synergies with other policies, including climate change. Policy development and evaluation must be supported by internationally comparable material flow accounts and indicators for resource efficiency.



Key recommendations

- Remove exemptions from the carbon and energy tax.
- Promote distance-based and emission-based road tolls for heavy-goods vehicles.
- Assess the interactions among motor fuel taxes, the CO_2-differentiated vehicle tax and other taxes, as well as instruments that undermine environmental objectives, such as company car taxation and commuting allowances.
- Promote low-carbon public transport and mass transit.
- Improve the coherence of marine spatial planning and coastal zone management.
- Develop an overarching national water and marine strategy to integrate national and regional activities.
- Expand the use of economic instruments to protect marine ecosystems, including payment for ecosystem services programmes and the trading scheme for discharges of nitrogen and phosphorous to tackle eutrophication.
- Improve transparency in water pricing policy for different sectors.
- Promote a more efficient delivery of water services through better inter-municipal co-operation and greater private sector participation.
- Upgrade Stockholm's water infrastructure to reduce water leakages
- Assess the environmental and economic impacts of incineration overcapacity.

7 Supporting sustainable development and poverty reduction globally

Sweden is one of the OECD's top performers in terms of the quantity and the quality of its development co-operation. It is also a leader in promoting implementation of the Sustainable Development Goals (SDGs), supporting multilateral organisations, and shaping the global development agenda through its work on shared global challenges. New challenges for Sweden's development co-operation stem from the rising and unpredictable cost of taking care of newly arriving asylum seekers and refugees and delivering on its ambitious plan for implementing the 2030 Agenda for Sustainable Development. Sweden is also working to reverse the decline in its use of developing countries' own systems to implement aid-funded activities, while encouraging new innovative partnerships with the private sector and other non-state actors.

Sweden is an important partner for developing countries

Sweden is one of the world's most generous donors. Sweden is one of only six members of the OECD's Development Assistance Committee (DAC) to have met the UN target of allocating 0.7% of its gross national income (GNI) to official development assistance (ODA). In reality, Sweden is committed to exceeding this target through its annual budget legislation to continue delivering 1% of its GNI to ODA. In 2015, Sweden provided SEK 59.8 (EUR 6.4 billion) in net ODA (preliminary data). This represented 1.4% of GNI and a 36.8% increase in real terms from 2014, mostly due to the increasing cost of support to refugees and asylum seekers within Sweden (payments for refugees' and asylum seekers' transport to the host country, their temporary sustenance and expenditures for voluntary resettlement in a developing country). More than half of Sweden's ODA goes to least developed countries, particularly in Sub-Saharan Africa, where its aid focuses on improving the lives of the poorest and most vulnerable people.

Sweden is also at the forefront of efforts to promote and implement the 2030 Agenda for Sustainable Development and efforts to improve policy coherence for development within the European Union. Sweden also takes a leading role in shaping the development agenda at the global level through its work on shared global challenges – from support for human rights and peacebuilding to prevention of pandemics and climate change. For example, Sweden is the largest per capita donor to the Green Climate Fund and the Global Environment Facility and also contributes to climate financing in developing countries via the Swedish International Development Co-operation Agency.

With other influential donors, Sweden is working for renewed commitment to the principles of effective development co-operation within this agenda, including stronger emphasis on inclusive partnership and strengthening of developing country systems and institutions. Sweden is also a leading advocate for increased support to multilateral organisations, emphasising the importance of core funding support in enabling these organisations to carry out their mandate. For a number of organisations, including the UN Refugee Agency, the UN Population Fund, and UN Women, Sweden is now the leading provider of such support.

Implementation of SDGs requires additional resources and capacity building

Sweden has demonstrated strong leadership on the SDGs, but implementation of the 2030 Agenda for Sustainable Development will require more resources to build capacity and enable reforms, while allowing for adequate time to consolidate changes. In 2014, Sweden announced a relaunch of its Policy for Global Development to take account of the 2030 Agenda for Sustainable Development. Three priority areas were highlighted as a focus for the policy: capital flight and tax evasion, sustainable energy, and corporate social responsibility. All ministries are now developing individual but co-ordinated action plans to implement the SDGs and improve working methods for determining policy trade-offs between different policy areas. Concurrently, the government has initiated an update of its aid policy to take account of the new global goals, the Addis Ababa Action Agenda

for Development Finance and Sweden's Feminist Foreign Policy. The updated aid policy framework will include increased emphasis on addressing sustainable development challenges such as climate change and environmental challenges, in line with the COP 21 Paris Agreement (see Chapter 6). Sweden's Parliament will consider the new policy framework by the end of 2016.

This commitment to global leadership is impressive, but it will require increased capacity and resources to design and update so many policies and strategies simultaneously, particularly given the 2013 DAC peer review finding that Sweden's development co-operation system had undergone rapid change and would benefit from a period of consolidation. The DAC's 2016 follow-up on these recommendations found that the 2014 aid policy framework had helped to clarify the previously complex hierarchy of policies governing Sweden's development co-operation, and that further adjustments to bring Sweden's development co-operation in line with its global commitments to Agenda 2030 should not compromise these achievements (OECD, 2013b; OECD, 2016d).

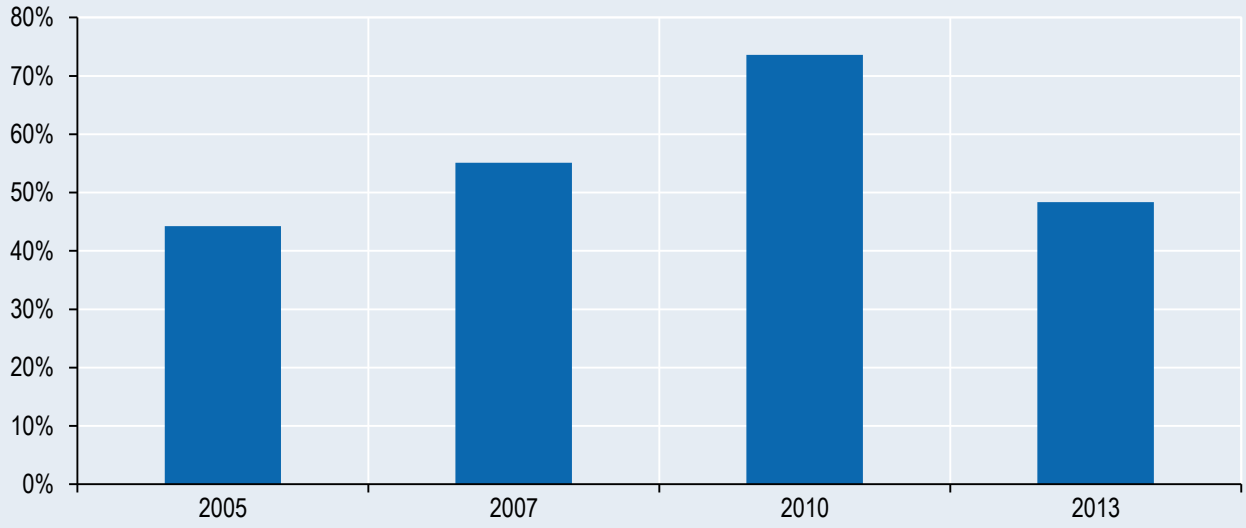
The refugee crisis challenges the predictability of Sweden's development co-operation

Sweden is an increasingly important player in the international humanitarian arena – both in terms of its ongoing financial and policy contribution, as well as its new efforts to improve the links between humanitarian and development work. Sweden has implemented a number of important reforms in recent years that helped speed up disbursements to humanitarian partners and improve communication on administrative requirements (OECD, 2016d). Sweden has also taken a number of concrete steps to assist staff with development co-operation responsibilities in the Ministry of Foreign Affairs and the Swedish International Development Co-operation Agency to take account of the rapidly changing international environment by better integrating humanitarian crisis management and disaster risk reduction into country co-operation strategies.

However, the ongoing refugee crisis is posing new challenges for the country (see Chapter 3). The share of in-donor refugee costs within Sweden reported as OSA has increased steadily over recent years, from 17.6% in 2014 to 33% of Sweden's total ODA in 2015 (preliminary data; Sweden counts costs for all asylum seekers – granted asylum or rejected.) In late 2015, in order to mitigate impacts on Sweden's aid flows to developing countries, the government negotiated to cap in-donor refugee costs at 30% of the ODA budget for 2016. Domestic in-donor refugee costs reported as ODA may still exceed this level, but this will not reduce the ODA budget allocated for international development co-operation.

FIGURE 4.1. **SWEDEN'S USE OF COUNTRY SYSTEMS TO DELIVER AID HAS RECENTLY DECLINED**

% of ODA for the government sector using recipient governments' systems



Note: Average use of budget execution, financial reporting, audit, and procurement systems of 11 recipient countries that accounted for 30% of Swedish bilateral country programmable aid in 2013.

Source: OECD Aid Effectiveness Surveys (2006, 2008, 2011, 2014).

Support to refugees within Sweden has not yet affected aid predictability with partner countries. This is due to the flexibility built into Sweden's ODA budget, where spending can be varied by 10% in any programme in any year, which has essentially provided a pressure valve to enable Sweden to cover additional refugee-related expenditures. As such, the 30% cap should be employed as a temporary measure to be managed without impacting on aid predictability with partner countries – an area where Sweden has a particularly strong reputation to protect (OECD, 2016d).

Sweden needs to strengthen developing countries' ownership, but also develop new instruments with non-state actors

Sweden has made significant progress in improving its development co-operation delivery and partnerships, with more emphasis on inclusive consultation with governments and implementation partners. The government has also announced plans to sharpen the focus on ownership and alignment in its aid policy framework. However, progress is less clear on the DAC's 2013 recommendation that Sweden make better use of developing countries' own systems for implementing aid-funded activities and increase the share of aid delivered through programme-based approaches (Figure 4.1). In 2014, Sweden recorded a further decrease in the Programme-Based Approach, which it attributed to an increase in partnerships with non-state actors (including multilateral organisations) and the private sector, as well as less budget support linked to reducing the risks of development co-operation. Sweden is now working to reverse this trend, including through its commitment to the New Deal for Engagement in Fragile States. Results of this shift are still too early to determine, but recent data show this downward trend is reversing (OECD, 2016e).



An increasing focus on national systems should not discourage Sweden from exploring more innovative approaches in line with Agenda 2030 and the global goals. For example, Sweden's pilot on results-based approaches through country systems and its work on new private sector instruments, including guarantees and loans, is a step in the right direction. The 2016 evaluation by the Swedish Agency of Public Management on the use of non-state instruments, together with Sweden's participation in the DAC's private sector peer-learning exercise, are expected to assist in these efforts. However, in implementing more innovative approaches, Sweden should guard against transferring heavy risk-management requirements for development co-operation to national level-partners (OECD 2016d).

Key recommendations

- Ensure that Sweden's impressive commitment to development co-operation within the 2030 Agenda for Sustainable Development is supported by adequate resourcing for implementation.
- Protect the main objective of ODA (the promotion of the economic development and the welfare of developing countries) and the predictability of aid flows to partner countries by developing cross-government approaches to managing refugee costs in Sweden.
- Make better use of partner country systems and programme-based approaches for design, management, expenditure, monitoring and reporting of development co-operation while exploring new aid instruments to suit specific country contexts and situations, balancing state and non-state partners.
- Ensure that its heavy risk-management requirements for development co-operation are not transferred to national-level partners.

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