OECD Territorial Reviews

# SWEDEN

## 2017

## MONITORING PROGRESS IN MULTI-LEVEL GOVERNANCE AND RURAL POLICY



OECD

# OECD Territorial Reviews: Sweden 2017

MONITORING PROGRESS IN MULTI-LEVEL GOVERNANCE AND RURAL POLICY



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# *Foreword*

Policies for economic growth, jobs, human capital and environmental sustainability have greater impact when they recognise the different economic and social realities where people live and work. National governments are thus challenged to rethink how to harness the potential of different types of cities and regions to prepare for the future.

In 2009, the OECD conducted a territorial review of Sweden at the request of the Swedish Ministry of Enterprise, Industry and Communication (known in 2016 as the Ministry of Enterprise and Innovation). This resulted in the review, *OECD Territorial Reviews: Sweden 2010*, published in February 2010, that focused on: 1) the trends, achievements and challenges of regional development in Sweden; 2) how to exploit cross-sector synergies through regional policy in Sweden; 3) how multi-level governance arrangements could support more effective regional development.

Sweden has recently revised its National Strategy for Sustainable Regional Growth and Attractiveness 2015-2020 and is laying the foundations to develop a renewed rural policy. In addition, a committee has been appointed to examine county mergers in order to create fewer – and larger – regions. As part of these initiatives, the Swedish government is seeking to understand the progress made with respect to the OECD's 2010 territorial recommendations, and the current challenges for regional development in Sweden within the context of its revised national strategy.

To this end, the Swedish government has requested that the OECD conduct a review in order to:

- assess the primary regional policy changes since 2010 and the extent to which recommendations from the 2010 OECD territorial review have been implemented
- contribute to an ongoing discussion on a new rural policy in Sweden, using the OECD Framework for Rural Policy as a basis
- focus on the multi-level governance challenges faced, placing special attention on regional reforms and municipal mergers
- assess the strengths and challenges faced in implementing the OECD Principles on Effective Public Investment across Levels of Government.

Since 2010, Sweden has continued to prioritise its dual objective of territorial growth and territorial equity. Many of the recent trends are marked by a clear evolution in multi-level governance capacity and a strengthening in the role of regions, as recommended in 2010, and supported by the National Strategy for Sustainable Regional Growth and Attractiveness 2015-2020. Two topics appear to be of increasing importance with respect to Sweden's regional development. The first concerns rural Sweden and whether it has been "left behind", not only in its development but also in the government's discourse. Sweden has recently set up a committee to provide recommendations for a renewed rural policy. The second debate, and one that is drawing increasing attention, centres on

regional and municipal governance. Rural policy and multi-level governance are thus the two special chapters of this report. The first chapter provides an overview of the degree of implementation of the recommendations made by the OECD in 2010.

This review was carried out by the OECD Regional Development Policy Committee (RDPC). The RDPC provides a unique forum for international exchange and debate on regional economies, policies and governance. The RDPC has developed a number of activities, including a series of national Territorial Reviews. These studies follow a standard methodology and a common conceptual framework, allowing countries to share their experiences and disseminate information on good practices. The RDPC has also endorsed the Recommendation on Effective Public Investment across Levels of Government, as a key instrument to support multi-level governance.

# *Acknowledgements*

This report was produced by the Public Governance and Territorial Development Directorate of the OECD under the direction of Rolf Alter and Luiz de Mello. It was supervised by Dorothée Allain Dupré, in the Regional Development Policy Division led by Joaquim Oliveira Martins. Chapter 1 of the report was written by Dorothée Allain Dupré and Varinia Michalun. Chapter 2 on rural development was written by Chris McDonald. Chapter 3 on multi-level governance was drafted by Antti Moisio and Varinia Michalun. The report also benefited from contributions from Felix Arnold, Chiara Allegri, David Freshwater and Johannes Weber. Valuable comments and inputs on the report were received from Isabelle Chatry, Enrique Garcilazo, Luiz de Mello and Joaquim Oliveira Martins.

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The OECD extends warm thanks all the stakeholders from central ministries, subnational governments, academia, civil society met during the mission organised in April 2016 in Sweden: more than 150 different stakeholders were met. The OECD also would like to thank the Ministry of Enterprise and Innovation for the organisation of the seminar to discuss the various issues addressed in this report and some preliminary recommendations.

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The report relies on a broad variety of sources, including interviews during the mission, answers to a questionnaire completed by Sweden and OECD Reviews recently conducted on Sweden in different policy areas.

Joanne Dundon, Jennifer Gardner, Kate Lancaster and Pilar Philip provided guidance to prepare the publication. Ms. Julie Harris edited the final manuscript and prepared it for publication.

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## Country profile of Sweden

**Area** (square kilometres): 410 313

**Population**: 9.6 million people

**Form of state**: Unitary state with a constitutional monarchy and parliamentary democracy

**Political system**: Executive branch headed by the Chief of State (the King) and the Prime Minister elected by the Parliament; judicial branch with the Supreme Court as the highest tribunal; and legislative branch with a unicameral Parliament directly elected for a four-year term.

**Monetary unit**: Swedish krona

### Economic trends (2015)

**GDP growth** (yearly % changes based on 2000 prices): 3.8% (2015), projected 3.42% (2016)

**GDP per capita** (USD at PPP): 46 419

**Unemployment rate** (% labour force): **7.4%**

### Public finances (2014)

**Debt**: 62.5% GDP

**Share of sub-central government spending in total spending**: 47.4%

**Share of sub-central government revenues in total revenues**: 79.5%

**Share of taxes in sub-central government revenues**: 53.7%

### Living standards

**Life expectancy at birth**: 82

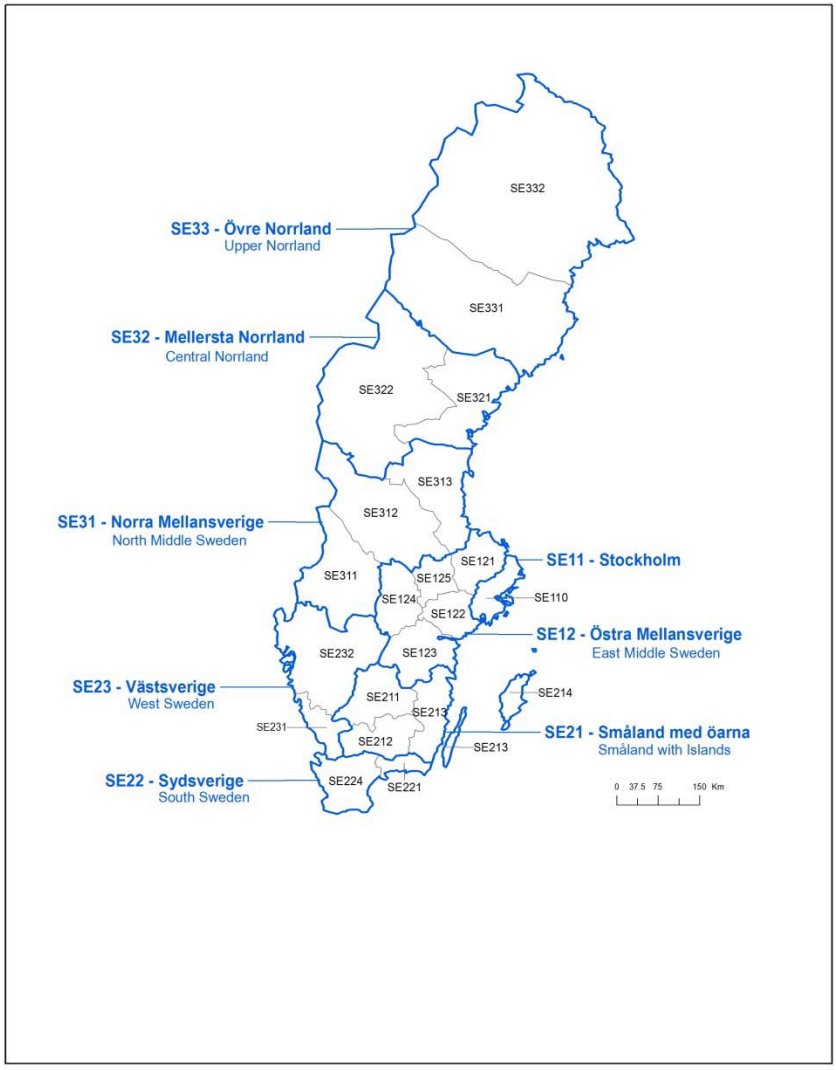
**Income inequality** (Gini coefficient): 0.274

**Tertiary attainment in population aged 25-64**: 35.2%

### Territorial and institutional framework

Sweden has a two-tier system of subnational government:

- **20 County Councils** (*landsting*) at Territorial Level 3: They are run by directly elected assemblies and are mostly responsible for health services (80% of their budget). They may also engage in promoting culture, education and tourism. The responsibility for regional and local public transport is shared between the municipalities and the County Councils (but accounts for less than 6% of County Councils' budgets). Ten County Councils have responsibility for regional development policy. In addition, there is *Gotland* – a municipality with County Council responsibilities.
- **290 municipalities** (*kommuner*) at Territorial Level 4: They are responsible for basic and secondary education, kindergarten, elderly care, social services, communications, environmental protection, fire departments, public libraries, water and sewage, waste management, civil defence, public housing and physical infrastructure.




**TL2 : 8 Riksomraden**
**TL3 : 21 Län**

## Territorial Levels 2 and 3

| | |
|---|---|
| **SE01-STOCKHOLM** | **SE07-MELLERSTA NORRLAND** |
| SE010-Stockholms län | SE071-Västernorrlands län |
| **SE02-OESTRA MELLANSVERIGE** | SE072-Jämtlands län |
| SE021-Uppsala län | **SE08-OEVRE NORRLAND** |
| SE022-Södermanlands län | SE081-Västerbottens län |
| SE023-Östergötlands län | SE082-Norrbottens län |
| SE024-Örebro län | **SE09-SMAALAND MED OEARNA** |
| SE025-Västmanlands län | SE091-Jönköpings län |
| **SE04-SYDSVERIGE** | SE092-Kronobergs län |
| SE041-Blekinge län | SE093-Kalmar län |
| SE044-Skåne län | SE094-Gotlands län |
| **SE06-NORRA MELLANSVERIGE** | **SE0A-VAESTSVERIGE** |
| SE061-Värmlands län | SE0A1-Hallands län |
| SE062-Dalarnas län | SE0A2-Västra Götalands län |
| SE063-Gävleborgs län | |

# Executive summary

Sweden's deep-rooted commitment to equity and inclusive development is well recognised. Among OECD members, it consistently ranks in the top third in terms of gross domestic product (GDP) per capita, and it maintains one of the lowest GINI indices of regional disparity in GDP per capita. Sweden, however, also faces regional-level challenges experienced in other OECD countries, such as an ageing population, internal migration and an influx of foreign migrants, including refugees. In addition, its rural areas are feeling "left behind"– not only in their development but also in the government discourse.

A desire to understand performance and to refine policy design and implementation over time is not only characteristic of the Swedish public sector, but may also be a driver behind its success. This *OECD Territorial Review: Sweden 2017* monitors the country's progress in multi-level governance practices and rural policy development since 2010 until 2016. It finds that the territorial challenges facing Sweden are not dramatically different: the impact of demographic change – certainly ageing but also internal migration flows and immigration – remains significant, and the work to ensure regional growth based on local competitive advantages is ongoing. What has shifted in this six-year period is the increasing demand for a policy to specifically support rural development, and a re-evaluation of sub-national governance and administrative structures.

To assist Sweden in meeting and maintaining its territorial objectives, in 2010 the OECD issued a series of approximately 30 recommendations, and Sweden has been quite successful in taking them on board. Over 50% have been fully or partially implemented, and initiatives to support an additional 30% are ongoing. Activity to promote greater institutional co-ordination and regional governance has been particularly strong. Sweden has also been refining its approach to regional growth policy and multi-level governance practices as a means to address its territorial challenges.

Sweden's National Strategy for Sustainable Regional Growth and Attractiveness 2015-2020 is one initiative introduced to support broader government priorities and promote a more explicit results-oriented approach to regional development. This, in combination with efforts to build urban-rural linkages that promote greater inter-municipal co-operation in public service delivery, and regional development strategies that prioritise planning based on functional regions, nourish a robust approach to regional development. Moving forward, however, there will likely be a need for more integrated planning at the functional regional level and there is more work to be done in terms of institutional co-ordination with respect to migrants. This includes a need for greater vertical co-operation between central level agencies and municipalities, horizontal co-ordination at the municipal level, and particular care to avoid service duplication or overlap (e.g. in employment services).

The multi-level governance system, often described as an "hour-glass", is rounding out in the middle as more counties receive regional development responsibilities. Care

should be taken however, that adjustments to the list of county competences does not jeopardise Sweden's asymmetrical and innovative approach to decentralisation, which thus far has successfully permitted it to adjust governance structures and competences according to territorial capacity. The result has been a strongly context-dependent approach to regional governance and development rather than an "one-size-fits-all" approach.

Over this same period, Sweden has been somewhat less successful with respect to integrating rural development into the broader spectrum of regional development work. The possibility of developing a rural policy, as is currently being discussed, could help better integrate rural development into regional development approaches. It may also be a positive step towards addressing the aforementioned feeling of being "left behind" expressed by rural areas. Key among the challenges facing Sweden's rural areas are an ageing population and a stagnant or declining population level in the more remote areas. In addition, six out of eight rural regions have a GDP per capita and productivity level lower than the Swedish average, and rural regions are under performing in labour productivity growth. To manage these challenges a commonly agreed upon and applied definition of rural areas that builds on the existing work of Sweden's Agency for Growth Policy Analysis would be helpful. While Sweden has developed an approach that reflects the diversity of its rural landscape, this is not consistently used across the government. More effective mechanisms and incentives are needed to link rural programmes with regional growth and sector-driven policies. This could help ensure a "rural articulation" that is consistent, coherent and solidly integrated in the country's broader growth policy and sector activities. For example, spatial planning and service delivery are two areas where action can be taken to improve complementary ties for rural development. This includes developing rules and/or incentives to facilitate strategic spatial planning at a regional scale, and to strengthen mechanisms that link infrastructure to land-use planning. Equity in the provision of public services and local accountability in terms of quality and efficiency are strong, however funding arrangements may not always be suitable for sparsely populated areas, discouraging social innovation and inter-municipal co-operation at a functional scale.

Overall, the Swedish subnational governance model works well: local governments are able to provide high-quality services; there is a transparent and trusted democratic system; and subnational authorities are reasonably well equipped financially to meet their high level of task and expenditure responsibilities. Moving forward, Sweden will need to pay additional attention to revenue and financing sources as pressures on local level budgets rise and the demand for investment increases. This can mean adjusting and improving the use of tax revenue, including the reintroduction of a property tax or a land tax, improving the transparency of the equalisation system, and strengthening co-ordination for subnational public investment. Consideration could be given to the co-financing of central government investment by subnational governments, as well as making better use of alternative financing methods, such as public-private partnerships (PPPs).

At the time of writing this report, Sweden was exploring the possibility of a significant regional reform that would have reduced the number of counties from 21 to 6. This reform, as it was presented, is no longer on the table for discussion, and time will tell what steps Sweden decides to take with respect to regional administrative change. This said, the points made in this report with respect to the process behind regional reform remain valid for consideration, including: the need to consider current and future competence attribution when thinking about county size and capacity, as well as

functional labour markets when determining county boundaries. The empirical evidence supporting merger reform outcomes is mixed, suggesting that subnational government mergers are not a "simple" solution for complicated concerns, and mergers alone may not result in desired efficiency or equity results; complementary measures are often necessary. This is not an argument against regional reform. In a country like Sweden, however, where geographic, demographic and socio-economic differences between counties can be significant, an asymmetrical to regional governance approach may continue to be beneficial, and care should be taken to ensure such nuance.

Since 2010 Sweden has maintained and strengthened its commitment to territorial growth and inclusiveness, demonstrating a strong will to adjust, refine and introduce new elements in its approach to regional development. It does not shy away from discussing reform and implementing change when consensus has been reached. Looking to the future, Sweden's capacity to meet its territorial objectives appears solid, though there are some areas, such as rural policy, subnational investment and regional governance structures, where it needs to further build on its success.

# Background on the Territorial Review

In 2009, the OECD conducted a territorial review of Sweden at the request of the Swedish Ministry of Enterprise, Industry and Communication (known in 2016 as the Ministry of Enterprise and Innovation). This resulted in the review, *OECD Territorial Reviews: Sweden 2010,* published in February 2010, which focused on: 1) the trends, achievements and challenges of regional development in Sweden; 2) how to exploit cross-sector synergies through regional policy in Sweden; 3) how multi-level governance arrangements could support more effective regional development.

Sweden recently revised its National Strategy for Sustainable Regional Growth and Attractiveness 2015-20 and is laying the foundations to develop a renewed rural policy. In addition, a committee has been appointed to examine county mergers in order to create fewer – and larger – regions. As part of these initiatives, the Swedish government is seeking to understand the progress made with respect to the OECD's 2010 territorial recommendations, and the current challenges for regional development in Sweden within the context of the revised national strategy.

To this end, the Swedish government has requested that the OECD conduct a review in order to:

- assess the primary regional policy changes since 2010 and the extent to which recommendations from the 2010 OECD territorial review have been implemented
- contribute to an ongoing discussion on a new rural policy in Sweden, using the OECD Framework for Rural Policy as a basis
- focus on the multi-level governance challenges faced, placing special attention on regional reforms and municipal mergers
- assess the strengths and challenges faced in implementing the OECD Principles on Effective Public Investment across Levels of Government.

# Assessment and recommendations

## Overview

Sweden's deep-rooted commitment to inclusive growth combined with territorial equity is well recognised, and the country has demonstrated its resilience in the global economic turmoil of the late 2000s. The Swedish economy recovered quickly from the 2008-09 financial crisis, and today it is one of the few countries where the gross domestic product (GDP) per capita (USD 46 974 in 2014) is higher than in the pre-crisis period, and is currently 17% higher than the OECD average. Employment is also growing, by about 1% per year since 2010, and labour force participation is the highest in the European Union. The unemployment rate has remained steady, fluctuating between 7% and 8% since 2011 after reaching a five-year peak of 8.9% in the first quarter of 2010, consistent with the global economic situation. Sweden is one of the few OECD countries where public investment has increased, and in 2015 it had among the highest public investment levels in the OECD area, representing about 4.3% of the country's GDP. Labour productivity is also high, and combines with a strong knowledge-based economy, highly skilled workers and strong innovation capacity at the national level. At a territorial level, disparities are relatively low, illustrated by the generally small gap between the wealthiest 20% and poorest 20% of TL2 regions, a gap that has remained relatively stable for the past decade. In addition, the disparities in regional well-being indicators are also low and perceived life satisfaction is high compared to other OECD regions.

Among the key challenges highlighted in the report, *OECD Territorial Reviews: Sweden 2010*, was Sweden's ability to sustain its territorial equity focus in the long term, while at the same time ensuring that regional actors had sufficient space to develop growth strategies that built on local competitive advantages. Noted among the potential obstacles to achieving this objective in 2010 were the global financial crisis and an ageing population: their impact – in terms of resource availability and service demand – making the need for regional growth policy and innovative approaches to public service delivery even more critical. Since 2010, Sweden has continued to prioritise inclusive growth and territorial equity. There has been a clear evolution in multi-level governance capacity, including a strengthening in the role of regions, and a move toward stronger co-ordination of regional policy.

Today, in 2016, the challenges that confront Sweden's ability to maintain its commitment are the same, and simultaneously different. The current and future impact of demographic change – certainly ageing but also migration (internal migration flows and well as immigration) – remains front and centre. In addition, there are two territorial debates that Sweden is managing. The first centres on rural Sweden and the question of whether it is being "left behind" in government discourse and with respect to development. The second revolves around regional and municipal governance and the

adequacy of current structures. In a timely fashion, the Swedish government is discussing how to address these issues.

The purpose of this review is three-fold. It begins with an overview of where Sweden currently stands with respect to regional development, particularly in light of the 2010 OECD territorial review and the recommendations therein. Chapter 2 seeks to support Sweden as it moves forward in the development of a rural policy. Finally, Chapter 3 focuses on how regional governance structures are evolving from an institutional and financial perspective, toward a strengthened regional tier. It considers the territorial implications of the regional reform currently being investigated. Finally, it applies the OECD Recommendation on Effective Public Investment across Levels of Government as a matrix to identify strengths and challenges in Sweden's multi-level governance system of public investment.

## Sweden has successfully progressed with respect to the 2010 territorial recommendations

Sweden has been quite successful in taking on board the recommendations of the OECD 2010 territorial review. It has done particularly well in terms of fully or partially implementing recommendations for promoting greater institutional co-ordination and regional governance. It has been somewhat less successful in implementing recommendations concerning the integration of rural development into broader regional development work. Overall, out of more than 30 recommendations, it has implemented or partially implemented over 50%, with the implementation of about an additional 30% under way (see Chapter 1, Annex 1.A1). This has been achieved in a climate of solid economic performance and strong territorial equity, despite a challenging environment.

### *Sweden has made strong inroads in implementing a regional growth policy*

Sweden's approach to regional development policy has been continuously evolving since the 1950s, without losing its focus on promoting equity between regions. Most recently, Sweden introduced its National Strategy for Sustainable Regional Growth and Attractiveness 2015-2020 aimed at supporting broader government priorities, and promoting a more explicit results-oriented approach to regional development by introducing and strengthening tools for regional growth policy. The strategy stresses the involvement of state agencies in regional growth efforts, complemented by the need for greater regional level leadership in strategic management, co-ordination and the development of regional growth efforts.

Efforts are being made to build urban/rural linkages in Sweden, expressed in part by increasing levels of inter-municipal co-operation in public service delivery, and regional development strategies that prioritise planning based on functional regions. Moving forward, and as stressed by the National Strategy for Sustainable Regional Growth and Attractiveness 2015-2020, there will likely be a need for more integrated planning at the level of functional regions. In addition, as Sweden continues to implement and refine its regional development strategy, there are some points that merit remaining top of mind and be considered in any regionally focused debate or dialogue.

### *Pressures from demographic change persist*

Demographic pressure in Sweden is manifesting in at least three ways. First, is the ageing population that puts pressure on service delivery needs and capacity and on the social welfare system (including healthcare and pensions). An ageing population also means fewer people who can provide necessary services as they eventually retire, and rather than provide services, they begin to use the services they themselves once provided. Second, is internal migration, with people moving from one region to another for diverse, but often persistent, reasons (e.g. opportunities, quality of life, etc.). Finally, the increasing level of external migration since 2012, particularly among refugees and asylum seekers affects national and subnational government capacity to provide service and ensure sufficient infrastructure (e.g. housing, schools, health clinics, etc.). Generally speaking, a whole-of-government approach is needed, integrating the specificities of different territories, especially rural communities that are experiencing faster rates of depopulation and ageing. There is additional work to be done in terms of institutional co-ordination with respect to migrants. This includes a need for greater vertical co-operation, particularly between central-level agencies and municipalities; horizontal co-ordination at the municipal level and care to avoid service duplication or overlap, for example with respect to parallel employment services.

### *The multi-level governance system is shifting but Sweden should proceed with some caution*

Sweden's multi-level governance structure, characterised by an "hourglass" shape – with strong upper (central) and lower (municipal) tiers, and a slimmer middle (county) tier – appears to be rounding out, as more County Councils gain regional development responsibilities. This is in keeping with the 2010 OECD recommendation to encourage greater devolution of regional development competences to County Councils. However, care should be taken that these important adjustments do not jeopardise Sweden's existing asymmetrical and innovative approach to decentralisation, which to date has successfully permitted it to adjust governance structures and competences according to territorial capacity, thus taking a highly context-dependent approach to regional governance and development rather than a one-size-fits-all approach.

Sweden is strengthening its dialogue-based approach to multi-level governance and improving its capacity to co-ordinate the interests of a diverse set of actors in the political and civil service spheres. The effort is supported by the Forum for Sustainable Regional Growth and Attractiveness. Improved co-ordination among counties and central agencies that intervene at the regional level, however, seems harder to accomplish. This is despite some successful moves to address issues of inter-agency co-ordination, for example in the transport sector with the creation of the Swedish Transport Administration (*Trafikverket)*. Subnational finance is another area where implementation of the OECD 2010 recommendations has been somewhat less successful. This is particularly true with respect to local revenue sources that may need to be strengthened or further diversified to help meet increasing investment needs and service demands.

### *There is hope that regional reform will help address some of the outstanding challenges*

The 2010 OECD territorial review noted and supported a trend toward county mergers. The reform currently under discussion formalises this earlier trend and aligns

with the rising consensus in Sweden that there is a need for adjustment at a regional scale. The difference is that while in the past Sweden has taken a unique "bottom-up" and asymmetric approach to regionalisation and regional reform – mergers and merger partners were strictly the choice of counties who presented their proposals to the government – this time it is the government directing the reform process, though agreement would be sought. The reform could help address issues of scale, which are more important in the southern rather than northern parts of the country and could be an opportunity to improve co-ordination and coherence in the activities of counties and central government agencies that intervene at a subnational level. The reform focuses on the question of scale and does not address the issue of competencies. It is important however to put this issue on the table, even if no decision is taken at this stage. In addition, the reform should not seek to eliminate the possibility for continued asymmetric decentralisation, particularly in competence allocation.

## Towards a rural development policy for Sweden

### *Sweden's rural areas have high levels of well-being and prosperity, but perform differently*

Compared to its urban and intermediate areas, Sweden's rural areas rank better in terms of housing (reflecting housing market pressures in urban areas) and the environment. Rural areas rank lower on health, income, community, and accessibility to services. In terms of the other five dimensions of well-being (jobs, education, life satisfaction, civic engagement and safety), outcomes are relatively similar between urban, intermediate and rural areas. In terms of economic prosperity, rural regions in Sweden performed relatively well, particularly in terms of GDP per capita compared to the OECD average. Sweden's rural regions perform well in all dimensions of well-being in comparison with OECD regions, not only in terms of income. In terms of GDP per capita growth, most rural regions in Sweden had an annual growth rate above or similar to the OECD average between 2000 and 2012.

Rural regions in Sweden face a common challenge of population ageing and stagnant or declining population growth in more remote areas. There are variations in population growth within regions with most growth concentrating in fewer urban centres, which is occurring in the context of a general trend of ageing. There are significant variations in population within rural Sweden. For example, across the northern regions the trend is toward concentration due to faster population growth in the larger urban centres (predominantly on the coast), and population decline in small centres, particularly in the interior. Despite recent population growth arising from increased international migration, a large share of elderly population represents a challenge for most rural regions, which also face gender imbalance. There are a number of ways to address these issues including better connecting rural areas to cities, increasing access to broadband, and promoting service delivery innovation.

The tradable sector plays an important role in shaping the economic performance of rural areas, which emphasises the importance of smart specialisation strategies that are tailored to the differences apparent across rural Sweden. Consistent with the general trend across the OECD, six out of eight rural regions have a GDP per capita and a productivity level below the Swedish average. Västernorrland has the highest levels of GDP per capita and labour productivity among the rural regions in Sweden. Västernorrland benefits from

a diverse and high-performing tradable sector (forestry and associated processing), and has also developed a more sophisticated services sector based around business and financial services. In terms of labour productivity growth, rural regions generally underperformed compared to the rest of Sweden. Only two rural regions (Västerbotten and Kronoberg) had labour productivity growth higher than average between 2000 and 2012. Västerbotten has experienced increasing productivity in its tradable sectors (mining, forestry and manufacturing) during this period. Kronoberg experienced relatively strong productivity growth prior to the crisis and recovered quickly afterwards. The region specialises in the manufacturing of machinery and equipment, and also has a higher level of specialisation in finance, insurance and research and development (R&D) services than other rural regions in the south.

These differences have also shaped the impact and recovery from the crisis. Southern rural regions that had economies with a larger proportion of the manufacturing sector were hit harder by the economic crisis. Before 2008, the rural regions with the highest productivity growth were Jämtland and Västerbotten in the north, and Kalmar in the south. During the crisis, the most vulnerable regions were Kalamar, Blekinge, Kronoberg, and Dalarna with economies largely based on manufacturing. The three northern regions, more dependent on natural resource, are the only rural regions that experienced a lower than average productivity drop between 2008 and 2009. Kronoberg, Gotland and Kalmar have had a relatively strong recovery after 2009; Blekinge is struggling to reach pre-crisis levels of productivity.

### *Sweden should apply a commonly agreed definition of rural areas, which builds on the existing work undertaken by Swedish Agency for Growth Policy Analysis, and provide support for it to be used consistently across government*

Rural Sweden is relatively unique within the OECD because of the diversity of its landscape and the existence of all types of rural regions: from those within, and in proximity to, functional urban areas (FUAs), to remote rural areas. The southern part of the country is more densely populated than the north, while the north is characterised by different areas such as a sparsely populated interior with population concentrated in cities along the coast. In remote rural areas there are places that have very concentrated populations in few centres (such as Norrbotten), and others where the population is more evenly distributed (such as Jamtland-Härjedalen). The OECD typology is not well suited to describing this reality. Functional economic areas measured by labour market interactions provide a better way to capture this diversity. These regions can be used as a basis for differentiating between various types of rural regions.

Sweden has developed an approach that better reflects the diversity of its rural landscape, but it needs to be applied consistently across government to improve rural policy decision making. The Swedish Agency for Growth Policy Analysis (*Tillväxtanalys*) has developed its own territorial classification largely adapted from the OECD taxonomy. The basic classification contains three types of municipalities that are determined by identifying: municipalities with less than 20% of their population in rural areas and a total population of at least 500 000 in adjacent municipalities (predominantly urban); other municipalities with less than 50% of their population in rural areas (intermediate); and, municipalities with at least 50% of their population in rural areas (predominantly rural). This methodology has also been applied to the analysis of functional labour markets (FLMs), which are identified through the analysis of journey-to-work data. Applying this definition consistently across state agencies would help

enable the capacity to tailor and co-ordinate public policies in order to match the challenges and opportunities facing different rural places.

### *The current Parliamentary Inquiry into rural policy provides an opportunity to develop a more coherent rural policy to address these challenges and opportunities*

Sweden is currently conducting a Parliamentary Inquiry into rural policy and has a strategic opportunity to evaluate and improve its approach to rural development. The Parliamentary Committee conducting the inquiry into rural development provides a platform to develop a more integrated and holistic rural development policy for Sweden. The work of the committee was framed to a degree by the debate since the 2014 national elections about whether rural Sweden is being left behind in the country's growth and development. Poor broadband and mobile phone connections and reduced access to services have been identified as manifestations of this growing divide between urban and rural areas. The committee has released an interim report and some of the key areas identified are: developing new economic activities linked to natural resources; implementing new ways of working with rural communities; and focusing on broadband access and skills as key policy priorities.

Rural policy issues are not sufficiently represented in Sweden's growth policy. Sweden's regional growth policy is a broad and integrated approach, and combines EU and state funding to invest in key enabling factors for growth at a regional level. Underlying this policy framework are different funding and governance arrangements for regional and rural policies, which are the consequence of EU funding rules. This results in different scale of investment, and different entities responsible for the rural development and regional growth policy at a regional level. Better co-ordination between different European structural and investment funds is a current priority of the European Commission. More effective mechanisms and incentives are needed to link the rural programme with the regional growth policy, and other sector policies.

Sweden currently lacks a coherent vision for rural areas developed in collaboration with sectoral ministries, county and municipal councils, and other key stakeholders (e.g. business, local action groups [LAGs], and the not-for-profit sector). As a result, sectoral policies such as education and health services, spatial planning, and transport do not have a clear and coherent "rural articulation". To address this issue a national rural policy for Sweden should be developed that articulates a clear vision for the future growth and development of rural Sweden, identifies strategic challenges and opportunities, outlines a set of clear priorities and measurable outcomes to address them, and makes distinctions between different types of rural areas. It will need to be supported by appropriate implementation mechanisms including dedicated funding to help deliver on rural development priorities, and approaches such as rural proofing to ensure rural issues are properly considered in decision making.

### *Strengthening the role of political bodies at a regional level in regional and rural development will help deliver a more integrated approach and realise policy complementarities for rural places*

Sweden's model for the governance of rural policy is not consistent with regional policy and this reduces the scope for an integrated approach. Rural policies are governed at a regional level by County Administrative Boards (CABs), which are decentralised

agencies of the national government. There are currently three different models for implementing regional policy in Sweden, which include CABs, directly elected County Councils, and indirectly elected County Co-ordination Bodies. The future evolution of this county governance model should aim for consistency, and enhancing democratic accountability for regional and rural policies. Consistency in administrative structure is important in terms of the national government establishing clear governance, monitoring and accountability arrangements to deliver national priorities. However, specific regional and rural development policies should reflect the preferences and aspirations of the region. County Councils and County Co-ordination Bodies which are led by political representatives in each region provide the best opportunity to achieve this outcome.

Policy complementarities are based on the principle that mutually reinforcing policies generate higher returns because policies — territorial and sector-based — are more effective where they are co-ordinated and aligned along similar goals and objectives, and adapted to the particular circumstances of rural places. There are two key areas where Sweden can take action to further realise the complementarities for rural development: spatial planning and service delivery. Currently, there are no rules or incentives to facilitate the development of strategic spatial plans at a regional scale. Land-use planning now occurs only at the municipal level, and interrelationships at a functional or regional scale are not properly accounted for. Mechanisms to link infrastructure and land-use planning are also weak. Sweden's model of service delivery has a number of benefits including equity of service provision, and local accountability for the quality and efficiency of service delivery. However, nationally designed rules and funding arrangements are not always suited to sparsely populated areas, and there is a lack of incentives for social innovation and co-operation between municipalities at a functional scale.

Questions of geographic scale are central to current reforms to subnational governments in Sweden. These issues are covered in depth within Chapter 2 of the report, and outline the importance of considering these questions alongside other factors such as changes in grant systems, a revision of fiscal rules and/or the reassignment of subnational government tasks. The regions of northern Sweden are already comparatively geographically large and any reform proposals should properly consider the costs and benefits of these changes for families and communities in low-density areas. Evidence shows that at a certain point reducing administrative fragmentation in rural areas tends to produce no, or detrimental, results in terms of economic growth. This is due to the increased distances required to administer and deliver public infrastructure and services in low-density areas. In addition, consolidation of public services imposes higher travel costs on citizens and can reduce social cohesion. The regions in northern Sweden are already comparatively large. For example, Norrbotten in the north has a total land area of 97 257 square kilometres, which is larger than Hungary or Portugal.

### Recommendations to develop a more effective approach to rural policies

1. Apply a commonly agreed spatially differentiated definition of rural areas, which builds on the existing work undertaken by Swedish Agency for Growth Policy Analysis, and provide support for it to be used consistently across government.
2. Develop a whole of government rural policy framework in collaboration with sectoral ministries, regions and local communities that:
   a. articulates a clear vision and objectives for the development of rural Sweden based on a well-being framework with measureable outcomes
   b. identifies how national sectoral policies (e.g. innovation, spatial planning, transport, etc.) will be tailored and adapted to the needs and circumstances of different rural areas
   c. is complementary and integrates effectively with the existing regional growth policy.
3. Ensure this rural policy framework has mechanisms to facilitate and monitor implementation, which includes:
   a. allocating responsibility for implementing regional growth and rural policy at a regional level to the political body (either a County Council or County Co-ordination Body) currently responsible for regional growth policy, and tasking them to prepare an integrated regional and rural development strategy (in the case where a CAB is responsible for regional growth policy this responsibility should be transitioned to a regional policy body)
   b. ensuring these strategies are based on the identification of regional needs, priorities and assets for urban and rural areas (and not constrained by EU priorities or funding rules), and is prepared in a collaborative way with CABs, municipalities, LAGs and other key stakeholders
   c. tasking CABs to negotiate binding commitments from national sectoral ministries about how they will tailor and adapt policies to deliver on the regional and rural strategies prepared by each region
   d. establishing a National Rural Advisory Committee made up of representatives from subnational governments, business, communities and the third sector that reports to the Prime Minister's Office and provides advice and act as champions for the development and implementation of the rural policy
   e. implementing improved guidance and tools for policy makers to take better account of rural needs and issues in the design and implementation of sectoral policies at a national and subnational level
   f. creating a national rural development fund, which subnational governments and third sector actors can use to leverage Common Agricultural Policy (CAP) Pillar 2 and European Regional Development Fund (ERDF) and other funds to deliver outcomes in line with the national rural policy priorities, and regional and rural development strategies at the county level.
4. Support regions to deliver better services and realise policy complementarities by:
   a. reducing administrative/regulatory barriers and developing stronger incentives for regions and municipalities to broker innovative service delivery solutions for rural communities (with a particular focus on supporting social entrepreneurs and the third sector)
   b. allocating a spatial planning competency to the County Councils, and ensuring these regional spatial plans are integrated with planning for regional transport and communications infrastructure (thereby helping to facilitate urban-rural linkages and complementarities in land use and infrastructure between different rural municipalities)
   c. ensuring that proposals for regional and municipal mergers properly consider the costs and benefits of these changes for families and communities in low-density areas.

## Reforming the Swedish hourglass: More than just boundaries

The Swedish model of subnational governance and government works well. Sweden's municipalities and counties provide high-quality services; the democratic system is transparent and trusted by citizens; and the subnational finance system offers a sound base of funding for all subnational governments while enabling autonomy in subnational decision making. There are challenges, certainly, but addressing them will mainly require fine-tuning existing practices, rather than major structural shifts or embarking on wholesale change.

### *Further refine Sweden's multi-level governance system to better support equity and efficiency aims*

Sweden's multi-level governance framework – one that is hourglass shaped and characterised by asymmetrical decentralisation – has worked well thus far. It is, however, in the process of changing: the middle is rounding out as counties become stronger by gaining more responsibilities, particularly for regional development.

Sweden is one of the most decentralised countries in the world in terms of public service delivery and expenditure: about 25% of the country's GDP is accounted for by subnational government expenditure, and the subnational government enjoys extensive spending, taxing and decision-making autonomy. In Sweden, nearly all redistributive tasks have been devolved from the central government to counties and municipalities. This makes overall co-ordination capacity, proper incentives, and fiscal equalisation, critical for policy success, particularly with respect to ensuring equitable welfare throughout the country.

Thanks to a variety of mechanisms (e.g. co-operative capacities, municipal enterprises, access to credit, etc.) as well as Sweden's "financing principle", which eliminates the possibility of unfunded mandates, subnational authorities are currently reasonably well equipped financially to meet their high level of task and expenditure responsibilities. More attention will need to be paid, however, to subnational revenue sources and financing, as new challenges emerge. Concerns expressed in the 2010 OECD territorial review – notably a large elderly population, impacting local public budgets and pensions systems – remain high on the policy agenda. However, new concerns, linked to the integration of migrants and asylum seekers in the labour market, skills development and pressures on the housing supply have also become important challenges for local budgets.

Tax revenue could be better used with some adjustments. Currently, income tax is the only subnational tax and, while it is a fundamental source of subnational income, greater diversification remains necessary particularly to ensure revenue stability and set proper incentives for improved land-use planning at the subnational level. The reintroduction of a property tax or barring that, and to the extent possible, the introduction of a land tax may be helpful. Central level grants are also an important revenue source, especially for small and medium-sized counties and municipalities. In particular, there is an increasing use of earmarked grants to fund specific policies. While these can be a useful alternative to normative regulations, they can affect spending autonomy and financial transparency as well as the accountability of local decision making, compared to a situation where subnational governments are steered with legal obligations and funded by general grants. Greater reliance on earmarked grants can draw subnational government attention away

from local needs and preferences, distorting decision making and impacting allocative efficiency.

While steps have been taken to enhance transparency of the equalisation system, the equalisation system remains complex. Among its most pressing challenges are: 1) the income equalisation model may weaken the incentive of Swedish subnational governments to develop their own tax bases; 2) the cost equalisation model is based on a large number of models and variables contributing to a lack transparency and opening it up to "gaming" by municipalities; 3) a rather surprisingly high use of structural grants that are supposed to strengthen municipalities with small populations and/or problematic labour markets, but which are received, to a greater or lesser extent, by 96.5% of municipalities.

### *Adjusting public investment for regional development*

Sweden's high level of decentralisation does not necessarily extend to public investment, despite the fact that it belongs to the set of countries (i.e. Denmark, Germany, Norway and Poland) with large increases in public investment, rather than small increases or constant or declining investment levels. In 2014, the central government was responsible for just over 51% of all direct public investment compared to an OECD average of 41%. This said, it is also one of the few countries where the expansion in public investment was predominantly carried out by the subnational level, in most others – and especially since 2009 – it has been the central level that drives greater investment spending. Investment spending is currently motivated by four factors: population growth, population ageing, migration, and the need to renovate and/or replace aged residential and public properties. Overall, Sweden's subnational investment needs go beyond healthcare and social services; they extend into education, transport and infrastructure. One risk is that the growing need for investment spending may result in greater fiscal liabilities and greater demand for external financing.

In any case, Sweden's high degree of decentralisation, increasing role of subnational governments for investment and rising challenges linked to an ageing population and the integration of migrants, call for more vertical and horizontal co-ordination, particularly in investment decisions. The OECD multi-level governance indicators of public investment show that the main challenges lie in the lack of stability of capital transfers, and the slightly lower level of vertical and horizontal co-ordination of public investment, compared to the OECD average.

There is a strong tradition of horizontal co-operation at the subnational level, for example through voluntary municipal federations and in voluntary county partnerships. Vertical co-ordination overall is being strengthened at the central level via the Forum for Sustainable Regional Growth and Attractiveness. The challenges lie rather in the need to further improve co-ordination of the numerous state agencies involved in regional development, both at the central level and vertically with counties.

Subnational investment decisions are dominated by the municipal level, and there is a high yearly variance in investment spending, which indicates that subnational investment plans appear pro-cyclical. Greater investment volumes in recent years have increased the fiscal liabilities of the subnational level, however, investments tend to be funded from own savings. Over the next five years or so, municipal and county investments are expected to continue to grow at an estimated annual rate between 4% and 6%. This means

that there will probably be a growing demand for external financing, as it is unlikely that all subnational investment will be financed with own savings.

To meet the growing demands for subnational public investment, even greater co-ordination will be necessary, and this is not an easy task. The central government does not directly intervene in subnational investment activity. While dialogue processes are successful, greater use of other mechanisms could further strengthen co-ordination efforts. These include co-financing of central government investment by subnational government, and increasing direct central government financing of subnational investments in cases where considerable externalities can be identified. Horizontal co-ordination could also be stronger, for example among agencies with a regional or local focus, and by improving their "territorial logic". Greater co-ordination of policies and the territorial approach could facilitate subnational (particularly county) relations with agencies and improve overall coherence. In addition, greater use could be made of alternative financing methods in order to build subnational capacity in public investment. This can include greater use of public-private partnerships (PPPs); promoting a more strategic approach to public procurement at the subnational level; and further strengthening performance monitoring for investment, for example by developing a comprehensive system that allows decision makers to follow the whole spectrum of investments (Table 0.1).

Table 0.1. **OECD Recommendation on Effective Public Investment across Levels of Government: Summary assessment of Sweden**

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|---|---|
| System is in place and works in a satisfactory way | System is not in place or not functioning well |
| System is in place, but improvements are needed | Additional information needed |

| **PRINCIPLE 1:** | | |
|---|---|---|
| To engage in planning for regional development that is tailored, results-oriented, realistic, forward-looking and coherent with national objectives | COHERENT PLANNING ACROSS LEVELS OF GOVERNMENT<br>Mechanisms exist to ensure that subnational investment plans reflect national and subnational development goals.<br>TAILORED, PLACE-BASED DEVELOPMENT PLAN<br>Assessment of territorial needs and strengths corresponds with planned projects.<br>CLEAR PUBLIC INVESTMENT PRIORITIES<br>There is a clear and authoritative statement of public investment priorities at national and regional levels. | |
| To co-ordinate across sectors to achieve an integrated place-based approach | COMPLEMENTARY OF HARD AND SOFT INVESTMENTS<br>Consideration is given to complementarities between investments in hard and soft infrastructure.<br>COMPLEMENTARITIES ACROSS SECTORS<br>Attention is given to potential complementarities and conflicts among investments by different ministries/departments.<br>CROSS SECTORAL CO-ORDINATION<br>Formal or informal mechanisms exist to co-ordinate across sectors (and relevant departments/agencies) at the subnational level. | |
| To support decisions by adequate data | FORWARD-LOOKING INVESTMENT PLANS<br>Authorities assess the potential contribution of investments to current competitiveness, sustainable development and regional and national well-being.<br>DATA AVAILABILITY AND USE FOR INVESTMENT PLANNING<br>Data are available and used to support the territorial assessment and planning process. | |

Table 0.1. **OECD Recommendation on Effective Public Investment across Levels of Government: Summary assessment of Sweden *(continued)***

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| | System is in place and works in a satisfactory way | | System is not in place or not functioning well |
| | System is in place, but improvements are needed | | Additional information needed |

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| **PRINCIPLE 2:** | | |
| To co-ordinate across levels of government to reduce asymmetries of information | CO-ORDINATION BODIES ACROSS LEVELS OF GOVERNMENT<br>There are formal mechanisms/bodies for co-ordination of public investment (formal platforms and ad hoc arrangements) across levels of government.<br>CROSS-SECTORAL APPROACH<br>These co-ordination bodies/mechanisms have a multi-sector approach.<br>MOBILISATION OF CO-ORDINATION ARRANGEMENTS<br>There co-ordination mechanisms are mobilised regularly and produce clear outputs/outcomes.<br>EFFICACY OF CO-ORDINATION PLATFORMS<br>Stakeholders' perception (or empirical data) regarding the efficacy of these different platforms are available.<br>CONTRACTUAL AGREEMENTS/PARTNERSHIPS<br>Contractual agreements/partnerships across levels of government have been developed to manage joint responsibilities for subnational public investment.<br>EFFECTIVENESS OF CONTRACTUAL AGREEMENTS<br>The share of subnational public investment covered by these agreements is measured. | |
| To align priorities across the national and subnational levels | CO-FINANCING ARRANGEMENTS<br>There are co-financing arrangements for public investment. | |
| **PRINCIPLE 3:** | | |
| To co-ordinate with other jurisdictions to achieve economies of scale across boundaries | HORIZONTAL CO-ORDINATION<br>Cross-jurisdictional partnerships involving investment are possible.<br>CROSS-SECTORAL APPROACH<br>Cross-jurisdictional partnerships cover more than one sector.<br>INCENTIVES FROM HIGHER LEVELS OF GOVERNMENT<br>Higher levels of government provide incentives for cross-jurisdictional co-ordination.<br>EFFECTIVENESS OF HORIZONTAL CO-ORDINATION<br>The share of investments involving use of cross-jurisdictional co-ordination arrangements at the subnational level can be measured by mechanism and/or by sector. | |
| To plan investment at the right functional level, in particular in metropolitan areas | DEFINITION OF FUNCTIONAL REGIONS<br>Functional regions are defined and identified in investment policy.<br>USE OF FUNCTIONAL REGIONS<br>Functional regions are used in investment policy. | |
| **PRINCIPLE 4:** | | |
| To identify social, environmental and economic impacts, ensure value for money and limit risks | *EX ANTE* APPRAISALS<br>A large share of public investment is subject to *ex ante* appraisal.<br>RESULTS OF *EX ANTE* APPRAISALS<br>The results of *ex ante* appraisals are used to prioritise investments. | |
| To conduct rigorous *ex ante* appraisal | QUALITY OF APPRAISAL PROCESS<br>*Ex ante* appraisals are conducted by staff with project evaluation skills.<br>INDEPENDENT REVIEW OF *EX ANTE* APPRAISALS<br>Share of *ex ante* appraisals subject to independent review.<br>GUIDANCE FOR *EX ANTE* APPRAISALS<br>Technical guidelines for *ex ante* appraisal are available and used at all levels of government. | |

Table 0.1. **OECD Recommendation on Effective Public Investment across Levels of Government: Summary assessment of Sweden** *(continued)*

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| System is in place and works in a satisfactory way | System is not in place or not functioning well |
| System is in place, but improvements are needed | Additional information needed |

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| **PRINCIPLE 5:** | | |
| To engage public, private and civil society stakeholders throughout the investment cycle | MECHANISMS TO INVOLVE STAKEHOLDERS<br>Mechanisms exist to identify and involve stakeholders throughout the investment cycle.<br>FAIR REPRESENTATION OF STAKEHOLDERS<br>Fair representation of stakeholders in the investment cycle consultation process is guaranteed (to avoid capture situations).<br>EARLY INVOLVEMENT OF STAKEHOLDERS<br>Stakeholders are involved from the early stages of the investment cycle.<br>ACCESS TO INFORMATION<br>Stakeholders have easy access to timely and relevant information throughout the investment cycle.<br>FEEDBACK INTEGRATED IN DECISION-MAKING PROCESS<br>Stakeholders are involved at different points of the investment cycle and their feedback is integrated into investment decisions and evaluation. | |
| **PRINCIPLE 6:** | | |
| To mobilise private sector financing, without compromising long-term financial sustainability of subnational public investment projects | SNGs HAVE ACCESS TO TECHNICAL ASSISTANCE FOR PPP<br>Subnational governments have access to and use technical assistance for public-private partnerships (e.g. via PPP units, formal training, good practice guidance).<br>USE OF QUANTIFIABLE INDICATORS<br>The amount of private financing per unit (e.g. EUR, USD) of public investment is known.<br>ACCESS TO INFORMATION<br>SNGs have access to information concerning (supra) national funds for investment. | |
| To tap traditional and innovative financing mechanisms for subnational public investment | USE OF INNOVATIVE FINANCING INSTRUMENTS<br>The use of new, innovative financing instruments at subnational levels is accompanied by assessment of their benefits, risks and subnational capacities to employ them. | |
| **PRINCIPLE 7:** | | |
| To develop institutional capacity and professional skills | SPECIFIC FOCUS ON INVESTMENT REQUIRED SKILLS<br>Human resource management policies demonstrate attention to the professional skills of staff involved in public investment (e.g. hiring is targeted, needs assessments are made, appropriate training is available and used).<br>DEDICATED FINANCIAL ASSISTANCE<br>Dedicating financial assistance is made available for technical training of civil servants involved with public investment; training utilisation rates.<br>TECHNICAL GUIDANCE<br>Technical guidance documents are available for actors at all levels of government to clarify approaches to planning, implementation, and evaluation of public investment. | |
| To identify binding capacity constraints and the proper sequence of reforms | ASSESSMENT OF BINDING CAPACITY CONSTRAINTS<br>Specific assessments are conducted to assess binding constraints for effective public investment and identify the needs and the proper sequence of reforms. | |
| **PRINCIPLE 8:** | | |
| To design and use monitoring indicator systems with realistic, performance promoting targets | PERFORMANCE MONITORING IN PLACE<br>A performance monitoring system is used to monitor public investment implementation.<br>TIMELY REPORTING<br>The monitoring systems facilitate credible and timely reporting of expenditure and performance.<br>OUTPUT AND OUTCOMES<br>The indicator system incorporates output and outcome (results) indicators.<br>TARGETS<br>Part of the indicators is associated with measurable targets. | |
| To use monitoring and evaluation information to enhance decision making | PERFORMANCE MONITORING INFORMATION IS USED IN DECISION MAKING<br>Performance information contributes to inform decision making at different stages of the investment cycle. | |
| To conduct regular and rigorous *ex post* evaluation | *EX POST* EVALUATIONS<br>*Ex post* evaluations are regularly conducted.<br>Some *ex post* evaluations are conducted by independent bodies (e.g. research organisations, universities, consultancies).<br>Clear guidance documents exist that detail *ex post* evaluation standards. | |

Table 0.1. **OECD Recommendation on Effective Public Investment across Levels of Government: Summary assessment of Sweden** *(continued)*

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| | System is in place and works in a satisfactory way | | System is not in place or not functioning well |
| | System is in place, but improvements are needed | | Additional information needed |

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|---|---|---|
| **PRINCIPLE 9:** | | |
| To define appropriate intergovernmental fiscal arrangements that help align objectives across levels of government | CLEAR FISCAL FRAMEWORK<br>The intergovernmental fiscal framework is clear, with timely indications of transfers between levels of government.<br>PREDICTABLE CAPITAL TRANSFERS<br>SNGs are aware of capital transfers from the central government a few months ahead before the start of each fiscal year.<br>MINIMAL VARIANCE<br>There is minimal variance between estimated and actual transfers.<br>PUBLIC INFORMATION<br>Information is made publicly available on the fiscal situation of subnational governments and their comparison. | |
| **PRINCIPLE 10:** | | |
| To ensure budget transparency at all levels of government | BUDGET TRANSPARENCY<br>Budget transparency principles apply at all levels of government.<br>TIMELY INFORMATION<br>Budgetary information regarding public investment is publicly available to stakeholders at all levels of government in a timely and user-friendly format.<br>MAINTENENCE COSTS INTEGRATED INTO BUDGETING<br>Operations and maintenance costs of infrastructure investment are assessed and integrated into budgeting and planning decisions. | |
| To ensure subnational and national fiscal stability | BUDGET CO-ORDINATION ACROSS LEVELS OF GOVERNMENT<br>Budgetary co-ordination across government in terms of contributions to national fiscal targets.<br>SUBNATIONAL GOVERNMENT BORROWING<br>There are limits on subnational governments' borrowing. | |
| **PRINCIPLE 11:** | | |
| To engage in transparent, competitive, procurement processes | COMPETITIVE PROCUREMENT<br>The share of public tenders for public investment that are competitively awarded is known and publicly available.<br>The participation rates for tenders are known.<br>Procurement information from the full procurement cycle is publicly available at the national and subnational levels of government.<br>Procurement review and remedy mechanisms are in place at the national and subnational levels. | |
| To encourage procurement at the relevant scale | STRATEGIC PROCUREMENT<br>The share of procurement which involves more than one subnational government is known. | |
| To promote strategic use of procurement | Procurement is used strategically by SNGs to achieve green objectives.<br>Procurement is used strategically by SNGs to achieve innovation objectives. | |
| To foster subnational capacity building for procurement | SUBNATIONAL CAPACITIES FOR PROCUREMENT<br>There is recognition of procurement officials as a specific profession.<br>Formal guidance regarding procurement procedures is provided to subnational governments.<br>There is a procurement unit that can assist SNGs.<br>The percentage of total annual contracts awarded go to small and medium-sized enterprises (SMEs) in subnational procurement is known.<br>The percentage of national/subnational procurement conducted on line is known. | |

Table 0.1. **OECD Recommendation on Effective Public Investment across Levels of Government: Summary assessment of Sweden** *(continued)*

| | | | |
|---|---|---|---|
| | System is in place and works in a satisfactory way | | System is not in place or not functioning well |
| | System is in place, but improvements are needed | | Additional information needed |

| **PRINCIPLE 12:** | | |
|---|---|---|
| To engage in "better regulation" at subnational levels, with coherence across levels of government | REGULATORY CO-ORDINATION ACROSS LEVELS OF GOVERNMENT<br>Formal co-ordination mechanisms between levels of government that impose specific obligations in relation to regulatory practice.<br>REGULATORY IMPACT ASSESSMENT<br>Regulatory Impact Analysis (RIA) is used.<br>A methodology for assessing quality of RIA exists and indications of quality are available.<br>REDUCTION OF STOCK OF REGULATION<br>Efforts to reduce the stock of regulation or simplify administrative procedures in relation to public investment are made.<br>PUBLIC CONSULTATIONS<br>Public consultations are conducted in connection with the preparation of new regulations of sufficient duration, accessible and appropriately targeted.<br>USE OF E-GOVERNMENT TOOLS<br>E-government tools are used to simplify administrative procedures for public investment projects. | |

*Source*: The indicators were selected for the implementation of the Recommendation on Effective Public Investment across Levels of Government (http://www.oecd.org/effective-public-investment-toolkit/). The self-assessment table was completed by Sweden in co-ordination with the OECD.

### *Regional reform to strengthen subnational development and investment: more than just boundaries*

If it is implemented, the regional reform under discussion in Sweden could lead to a significant reduction in the number of counties – from 21 to 6. It remains strictly a reform of administrative boundaries and does not address the question of competencies. The reform should be looked at in a systemic perspective, as a window of opportunity to strengthen the capacity of counties, particularly with respect to strategic planning, development and investment. It should also be an opportunity to further clarify the co-ordination of state agencies at the territorial level, as often perimeters of action vary significantly and differ from counties.

Functional labour market areas need to be taken further into account. The northern counties are already large and have low population densities, and mergers here could result in a "mega region" which carries with it financial and practical implications. In the south, despite the fact that mergers may be more favourable based on county size and population levels, creating larger regions does not automatically address efficiency and equity objectives. In other words, mergers may be appropriate in the south, while greater co-ordination may work better in the north, and a reassignment of tasks could be beneficial for most areas.

The empirical evidence supporting merger reform outcomes is mixed, suggesting that subnational government mergers are not a "simple" solution for complicated concerns. This is especially true as mergers alone may not result in desired efficiency or equity results. Complementary measures are often necessary, including changes in financing (grant) systems, competence allocation, a revision of fiscal rules, and adjustments to subnational democratic systems (e.g. County Councils versus County Administrative Boards) may all be necessary. None of this should be taken as an argument against

regional reform. However, there are critical issues that may require greater consideration as the reform design process moves forward as well as a systemic approach to the reform. Most importantly, perhaps, is that in a country like Sweden, where the geographic, demographic and socio-economic differences between counties can be significant across the country, an asymmetrical approach may continue to be beneficial, compared to a "one-size-fits-all" approach.

### Key recommendations for reforming the Swedish hourglass

To continue pursuing and realising its aim of inclusive growth and territorial equity, the OECD recommends that Sweden continue to strengthen the middle tier of government while maintaining its asymmetrical approach to decentralisation. This includes the following.

**Further refining Sweden's multi-level governance system**

- **Continue to strengthen co-ordination among levels of government**, including by:
  - improving co-ordination and coherence among central agencies that operate at the regional level, and between these agencies and county authorities
  - ensuring that the territorial and operational logic of agencies better aligns horizontally (among each other) and vertically (notably with county boundaries).
- **Strengthen and diversify subnational revenue sources**, including by:
  - adding tax revenue options, such as a property tax, or barring this, consider introducing a pure land tax.
- **Continue adjustments to the grant system**, including by:
  - improving its transparency, and simplicity with adjustments to the income and cost equalisation models, as well as re-evaluating the effectiveness of the structural grant model
  - restricting earmarked grants to those cases with demonstrated positive externalities, otherwise favour general grants.

**Adjusting subnational investment approaches to meet growing investment needs**

- **Continue strengthening subnational investment co-ordination**, including by:
  - encouraging greater vertical co-operation in subnational investment with incentives for co-financing of central level investment by subnational governments
  - increasing direct central government financing of subnational investments where considerable externalities can be identified.
- **Increase the use of alternative forms of investment financing**, including by:
  - expanding the use of public-private partnerships and promoting a more strategic approach to public procurement at the subnational level.

### Key recommendations for reforming the Swedish hourglass *(continued)*

**Moving beyond boundaries in regional reform**

- **Implement the regional reform and further merge counties, taking a systemic approach to the reform (beyond boundaries)**, including by:
  - relying on functional labour markets to determine new county boundaries.
- **Reconsider governance structures and competence attribution at the subnational level**, including by:
  - launching discussions to better understand the future resource needs of new counties
  - providing County Councils with regional development responsibilities; and continuing an asymmetrical approach for other responsibilities (e.g. employment/labour market; land-use/spatial planning)
  - allocating responsibility for implementing regional growth and rural policy at a regional level to the political body currently responsible for regional growth policy (see Chapter 2)
  - using the reform as a window of opportunity to improve the co-ordination of central agencies dealing with infrastructure, regional development or environmental issues, and counties (County Councils and CAB).

*Chapter 1*

# Progress in implementing the recommendations of the 2010 OECD Territorial Review of Sweden

*This chapter is the "monitoring" component of this review. It features the activity surrounding Sweden's implementation or partial implementation of over 50% of the recommendations made in* OECD Territorial Reviews: Sweden 2010 *and the ongoing implementation initiatives linked to an additional 30%. It highlights socio-economic and well-being dimensions of regional development in the 2010-15 period; examines the advances Sweden has made in its regional growth policy, including how it addresses continual pressures from changing demographics; and offers insight into the evolution of Sweden's "hourglass"-shaped multi-level governance structures. The chapter sets the stage for this review's subsequent chapters, which offer a more in-depth examination of rural development and the multi-level governance architecture.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

## Introduction

Sweden's deep-rooted commitment to equity and inclusive development is well recognised. It has adhered to this commitment while consistently ranking in the top third of OECD countries in terms of gross domestic product (GDP) per capita[1] since 2000, and exhibiting generally strong GDP growth rates since 2010 (OECD, 2016a). Sweden has also maintained one of the lowest Gini indices of regional disparities in GDP per capita and the second flattest distribution of disposable income disparities among individuals in the OECD area. The strong territorial dimension of a combined equity plus growth objective was underscored in *OECD Territorial Reviews: Sweden 2010* (hereinafter, the "2010 OECD territorial review").

Among the key challenges highlighted by the OECD in the 2010 OECD territorial review was Sweden's ability to sustain its territorial equity objective in the long term, while at the same time ensuring that regional actors had sufficient space to develop growth strategies that built on local competitive advantages. Noted among the potential obstacles to achieving this objective were the global financial crisis and an ageing population: their impact – in terms of resource availability and service demand – making the need for regional growth policy and innovative approaches to public service delivery even more critical. To help Sweden continue meeting its aims at a territorial level and address these challenges, the OECD proposed a series of recommendations that ranged from increasing the regional dimension in innovation policy, better exploiting regional skills and supporting the diversification of the economy in rural areas, to strengthening regional governance, enhancing cost-effective local public services and diversifying subnational sources of financing.

Since 2010, Sweden has continued to prioritise its dual focus of territorial growth and territorial equity. Many of the recent trends are marked by a clear evolution in multi-level governance capacity and a strengthening in the role of regions, as recommended in 2010, and supported by the National Strategy for Sustainable Regional Growth and Attractiveness 2015-20. Two topics appear to be of increasing importance with respect to Sweden's regional development. The first concerns rural Sweden and whether it has been "left behind", not only in its development but also in the government's discourse. Sweden has recently set up a committee to provide recommendations for a renewed rural policy. The second debate, and one that is drawing increasing attention, centres on regional and municipal governance.

This first chapter provides an overview of the degree of implementation of the recommendations made by the OECD in 2010.[2] The chapter begins by highlighting some recent trends in regional performance and disparities in Sweden compared to OECD countries. It highlights high regional growth and low disparities in GDP per capita and regional well-being indicators, but also some of the increasing challenges, notably in southern Sweden, linked to the integration of migrants and to youth unemployment. The chapter then examines the progress made in the two main focal points of the 2010 report: 1) regional development policy, including its labour market, innovation or rural dimensions; and 2) multi-level governance and subnational finances. Chapters 2 and 3 will then explore the rural and multi-level governance dimensions in greater depth and propose a renewed set of policy recommendations in these areas.

## A low level of territorial disparities in Sweden compared to OECD countries

### *Sweden had a higher GDP per capita in 2015 than before the crisis*

Sweden has shown its resilience in the global economic turmoil of the recent decade. Despite being affected by the financial crisis in 2008-09, with a strong decline in growth as export demand and consumption fell, the Swedish economy recovered quickly and at a pace similar to that of the United States, and much faster than in the United Kingdom or the euro area (IMF, 2015). Sweden is one of the few countries where GDP per capita is higher now than it was prior to the crisis (Figure 1.1). Sweden's GDP per capita, USD 46 974, is 17% above the OECD average. Sweden ranks tenth in the OECD on this indicator. Employment has been growing steadily by about 1% per year since 2010, and labour force participation is the highest in the European Union. However, the unemployment rate is still high, in particular youth unemployment, due to increased labour supply and participation rates (IMF, 2015; OECD, forthcoming). It should be noted, however, that in the case of youth the rate of youth that are not in education, employment or training (NEET) was approximately 7% in 2013, below the OECD average of 14.3% for that year (OECD, 2014a).

In addition, Sweden is one of the few countries in which public investment has increased since 2011 – diverging from many EU and OECD countries that have experienced significant declines of public investment since the crisis. In 2014, Sweden had among the highest public investment levels in the OECD area, representing about 4.4% of the country's GDP in 2014 (just behind Korea, Estonia and Slovenia).

Sweden's knowledge-based economy and highly skilled workers make for high productivity, strong integration in the high-value parts of global value chains, and inclusive growth (OECD, forthcoming). After stagnating since 2006, productivity has picked up lately (OECD, forthcoming). Healthy output growth is set to continue, although at a slightly slower pace, reaching 3.4% in 2016, with further expansion of employment and gradually declining unemployment (OECD, forthcoming). Sweden's innovation capacity remains strong at the national level – evidenced in high research and development (R&D) intensity, a relatively high share of business R&D expenditure, and a high share of higher education R&D spending with respect to GDP. The government is considering moving from targeting a 1% of GDP surplus over the business cycle to a budget balance objective, which is appropriate given Sweden's relatively low public debt (OECD, forthcoming).

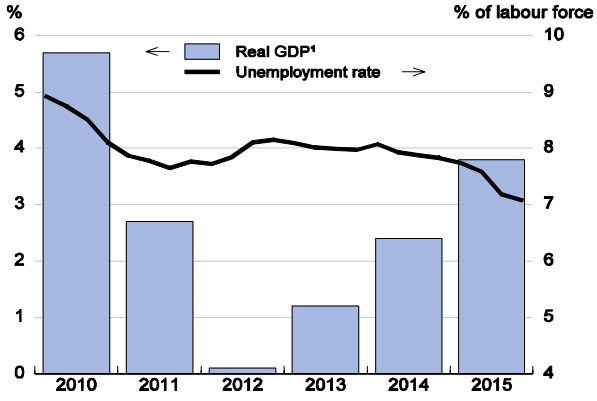
Concerns expressed in the 2010 OECD territorial review – notably a large elderly population, impacting public budgets and pensions systems; high youth unemployment rates and an uneven distribution of innovation activity geographically and in terms of expenditure (OECD, 2010) – remain high on the policy agenda. However, new concerns, linked to the integration of migrants and asylum seekers in the labour market, skills development and pressures on the housing supply have also become important challenges (OECD, 2016b).

Between 2000 and 2005, the inflow of foreign-born individuals plus asylum seekers (i.e. total number of immigrants) averaged 71 000 people per year. This changed as of 2006, when in the 2006-13[3] period, the inflow of immigrants was consistently over 100 000 people per year (OECD, 2016a). The number of asylum seekers has dropped from a record high of 163 000 asylum seekers in 2015, but the current estimate of 60 000 asylum seekers per year is still double the normal level before the Syrian crisis

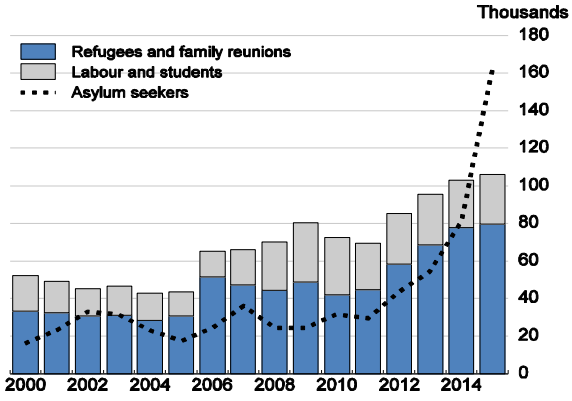
(OECD, 2016a). Current positive labour market trends will therefore likely meet some pressure as a large number of low-skilled immigrants enter the labour force (Figure 1.1). As underlined in the recently published OECD report entitled *Working Together: Skills and Labour Market Integration of Immigrants and their Children in Sweden*, improving skills is a top priority to enhance employment and contain the rise in inequality, notably by up-skilling migrants (OECD, 2016c).

Figure 1.1. **Recent trends in GDP growth and migration in Sweden**

a. Solid GDP growth plus falling unemployment




b. Rise in migration




*Note*: Working day adjusted (Figure 1.1a). Figure 1.1b data excludes migrants from European Economic Area countries.

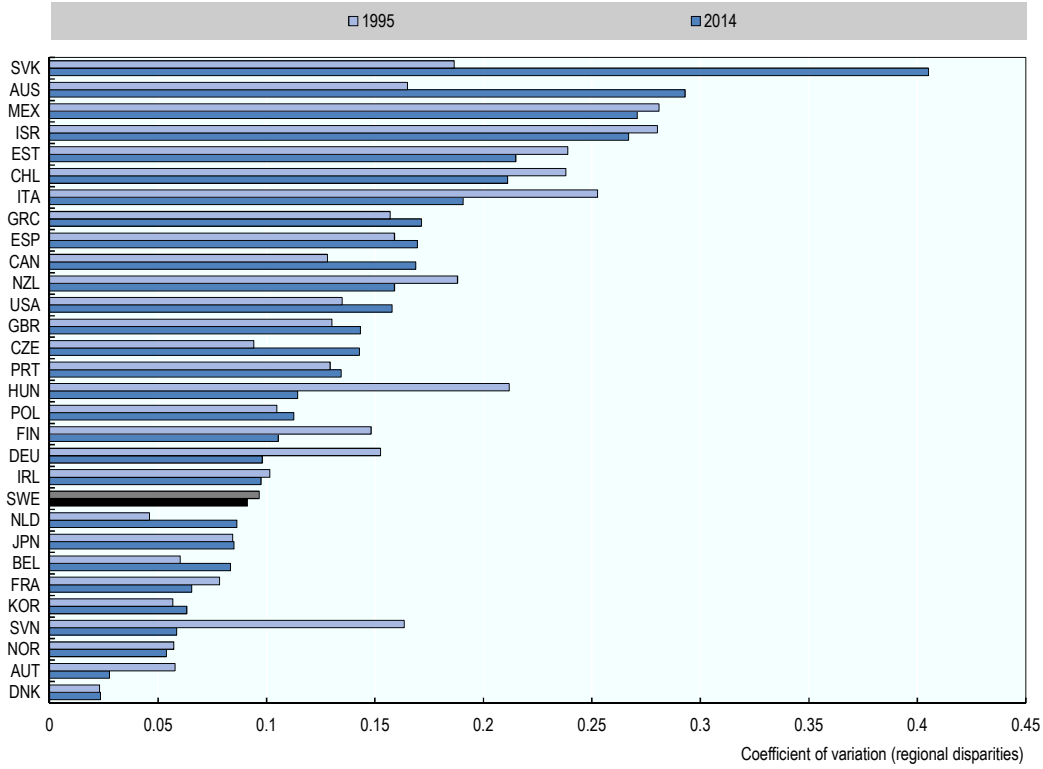
*Source*: OECD (2016b), *OECD Economic Outlook, Volume 2016 Issue 1*, OECD Publishing, Paris, http://dx.doi.org/10.1787/eco_outlook-v2016-1-en.

### *Regional disparities remain low in Sweden compared to OECD countries*

Sweden is the sixth least urbanised country in the OECD, with only 22% of its population living in predominantly urban regions. However, the three regions of Stockholm, Skåne, and Västra Götland – two of which are categorised as "intermediate regions in the OECD Regional Database – contributed 59% to the national economy in 2013 – slightly above the 57% contributed in 2005. The share of the population living in these three counties has also slightly increased, from 50% to 52% between 2007 and 2014. The increase in population mainly occurred in Stockholm. While Sweden's northern regions and Småland with the islands (TL2) have seen steady population loss since 2001, the rate of this loss has been decreasing.

Territorial disparities in Sweden are low, and were among the lowest in the OECD in 2013. In 2014, the gap in disposable income between the wealthiest 20% of TL2 regions and poorest 20% was the tenth smallest in the OECD (Figure 1.2). This gap has remained relatively stable over the past decade. While in 2005 the gap between the highest (Stockholm) and the lowest (Gotland) performing regions was USD 24 612, it increased to USD 27 915 in 2009, before showing signs of a slight decline.

Figure 1.2. **Coefficient of variation of regional disposable income, 1995 and 2014**

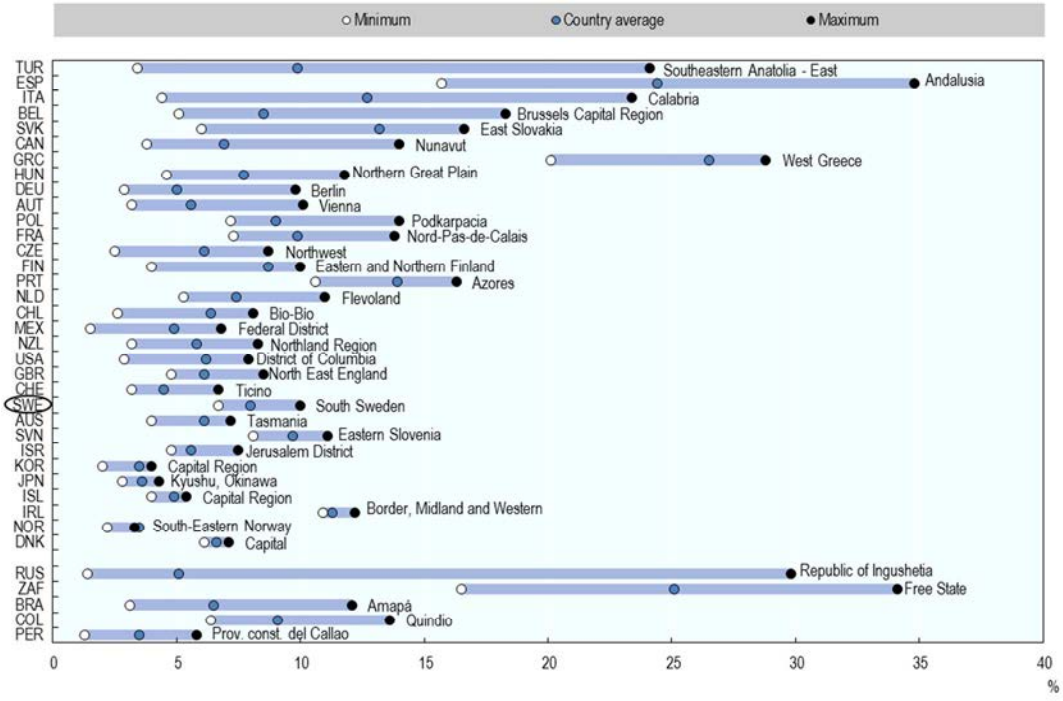



*Note*: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* OECD (2016d), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

Between 2008 and 2014, the unemployment rate increased in all regions by marginally less than 2 percentage points. Since 2008, a higher increase has been registered in the three largest urban areas compared to rural regions (Figure 1.3). The increase in unemployment is more marked in south Sweden (Figure 1.4).

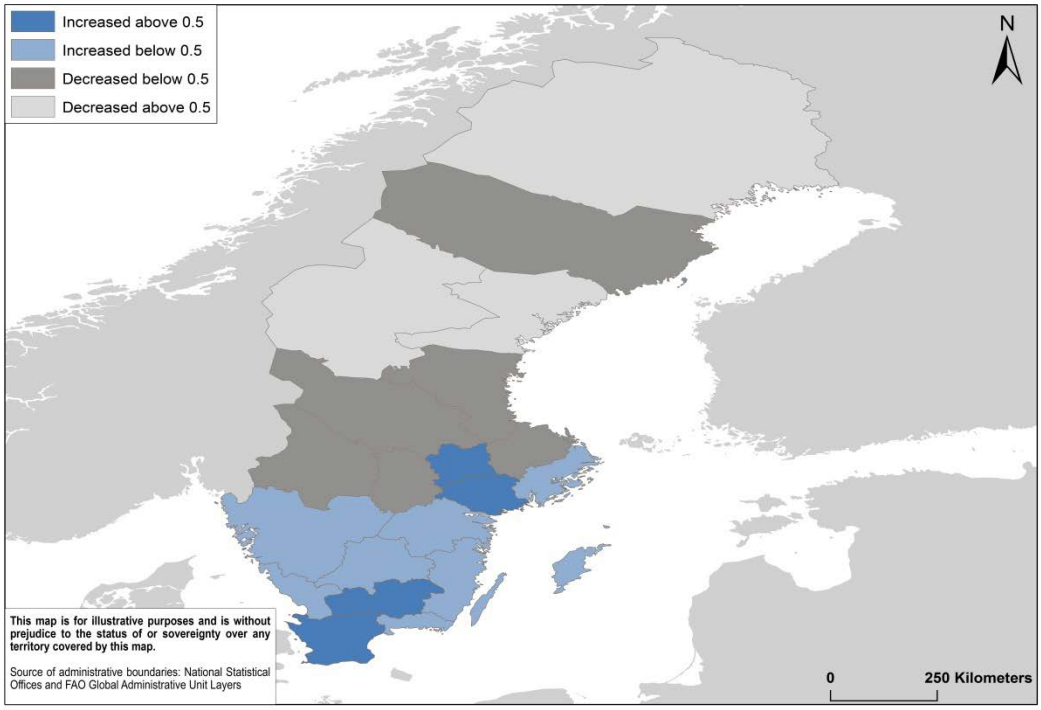
Figure 1.3. **Regional variation in the unemployment rate (TL2), 2014**




*Note*: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* OECD (2016d), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

Figure 1.4. **Change in the regional (TL3) unemployment rate (2005-14) in percentage points**

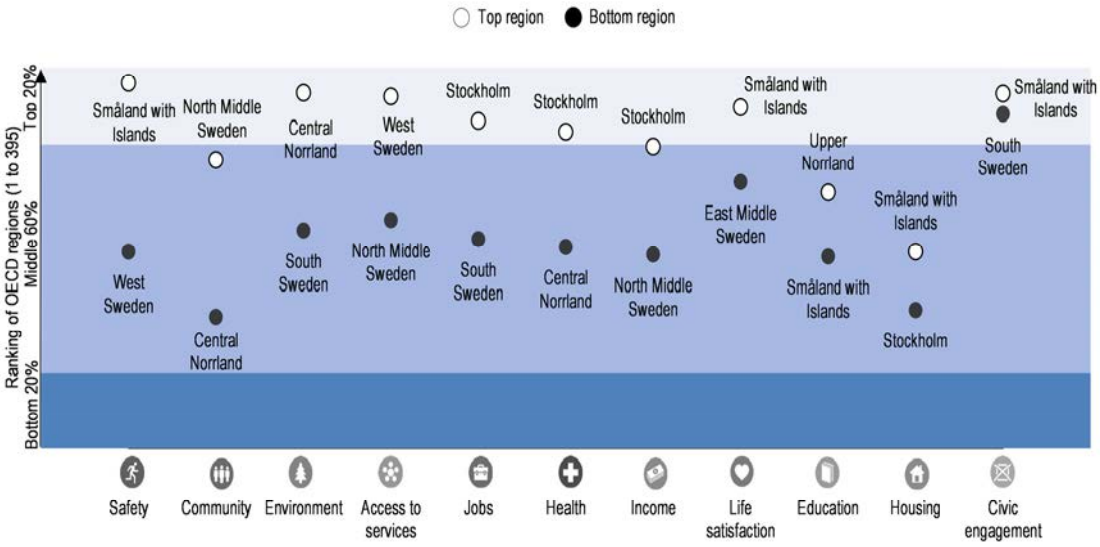



*Source:* OECD (2016e), *OECD Regional Database* (database), http://stats.oecd.org/Index.aspx?datasetcode=REG_DEMO_TL2.

### *Sweden also scores high in terms of regional well-being indicators*

Disparities in regional well-being are low in Sweden compared to other OECD regions (Figure 1.5). All of Sweden's regions rank in the top 20% of the 395 OECD regions in civic engagement and at least one region ranks in the top 20% of OECD regions in the seven other well-being dimensions.[4] While there are disparities in safety and community, Sweden's low-performing regions in these categories still perform above OECD averages. In addition, perceived life satisfaction is high in Sweden compared to other OECD countries, with little disparity among regions (Figure 1.6) (OECD, 2016d).

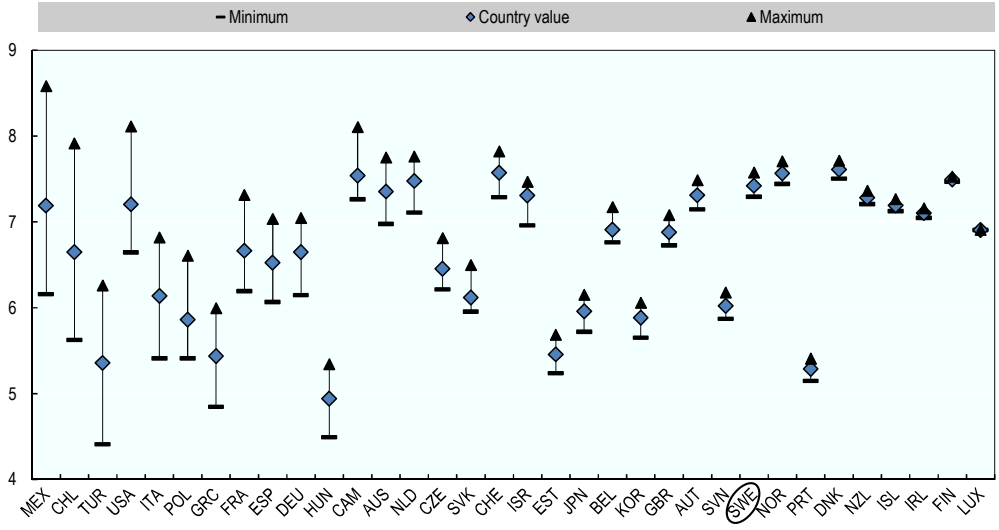
Figure 1.5. **Relative performance of Swedish regions by well-being dimensions**




*Source:* OECD (forthcoming), *Better Policies Series: Sweden,* OECD Publishing, Paris.

Figure 1.6. **Estimated regional variation in life satisfaction**

Mean satisfaction with life; 0-10 point scale, average 2006-14




*Source:* OECD (2016d), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

Trends in the eight OECD regional well-being dimensions show that regional well-being in Sweden as a whole has improved or remained the same since 2000.[5] There is clear improvement in income, health and civic engagement among all regions, some decline in the education and jobs categories, and mixed results in the other dimensions (Annex 1.A2). Worthy of highlighting is that more remote regions, such as Upper and Central Norrland, with little exception, follow the trends of the rest of the country, and

have improved in areas such as service delivery. Sweden is one of the top performers in the OECD on gender equality. The gender gap in employment rates is three times smaller than the OECD average, and the worst performing region still has half the gender gap in employment compared to the OECD average. It also has the smallest regional differences in gender life expectancy gaps in the OECD.

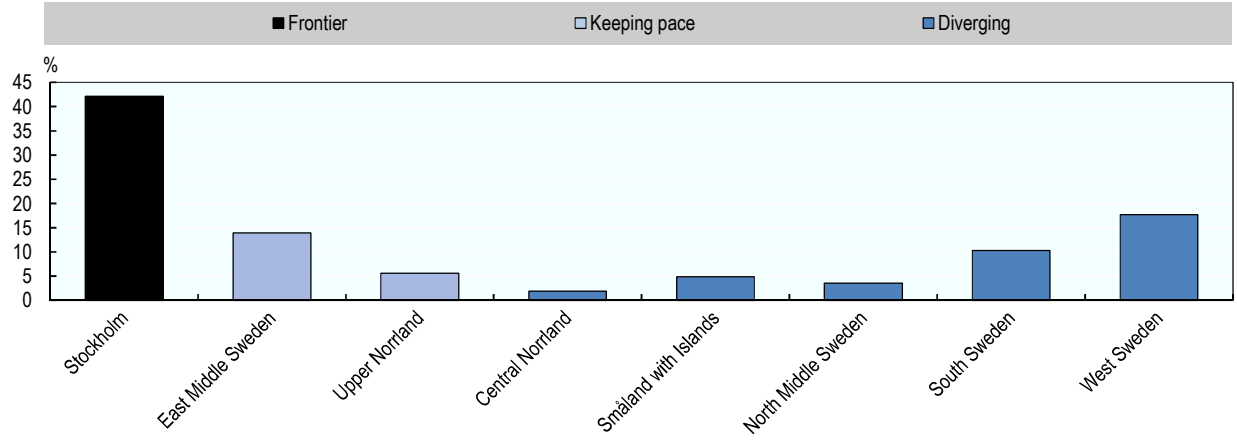
Performance tends to be lowest in unemployment and housing, where some regions perform below OECD average. South Sweden had the highest unemployment in 2014 at 10%, which is higher than the OECD average of 7.3% for the same year. The lowest unemployment at TL2 levels was in the Småland Islands at 6.7% and in Stockholm at 7.2%. These are the only two regions with unemployment levels below the OECD average.

With respect to housing, the number of rooms per person was below OECD average in Stockholm, East Middle Sweden, South Sweden and West Sweden (OECD, n.d.). Excessively tight rental regulation leads to inefficient use of the existing housing stock, with long queues to obtain a rental contract (eight years, on average, in Stockholm). Complex procedures for local land use are a barrier to housing investment (OECD, 2016 forthcoming), and the rigidity of the housing market is particularly challenging for the integration of migrants (OECD, 2016 forthcoming).

### *Stockholm outpaces the rest of the country in terms of labour productivity growth*

Stockholm was responsible for over 40% of national GDP growth between 2000 and 2013 (Figure 1.7). The Stockholm region is generally among the better performers, particularly with respect to economic variables, outpacing the rest of the country in terms of labour productivity growth (Figure 1.8). Only Upper Norrland and East Middle Sweden were able to keep pace with Stockholm between 2000 and 2013, while in other regions labour productivity growth and contributions are slower (Figure 1.8).

Figure 1.7. **Percentage contribution to national GDP growth in Sweden, 2000-13**

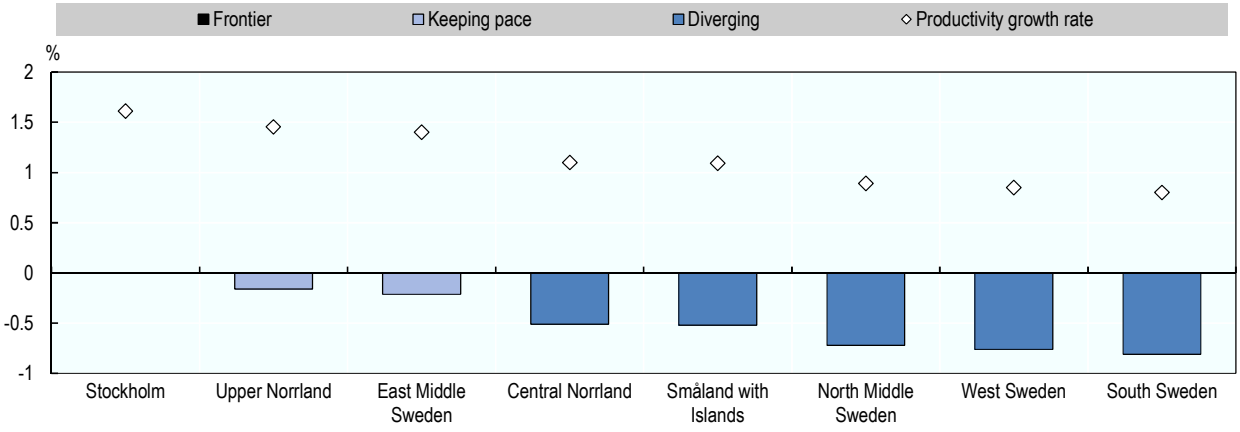



*Note*: Percentage contribution shows the share of total GDP growth due to growth in the indicated region. Total contribution sums to 100%.

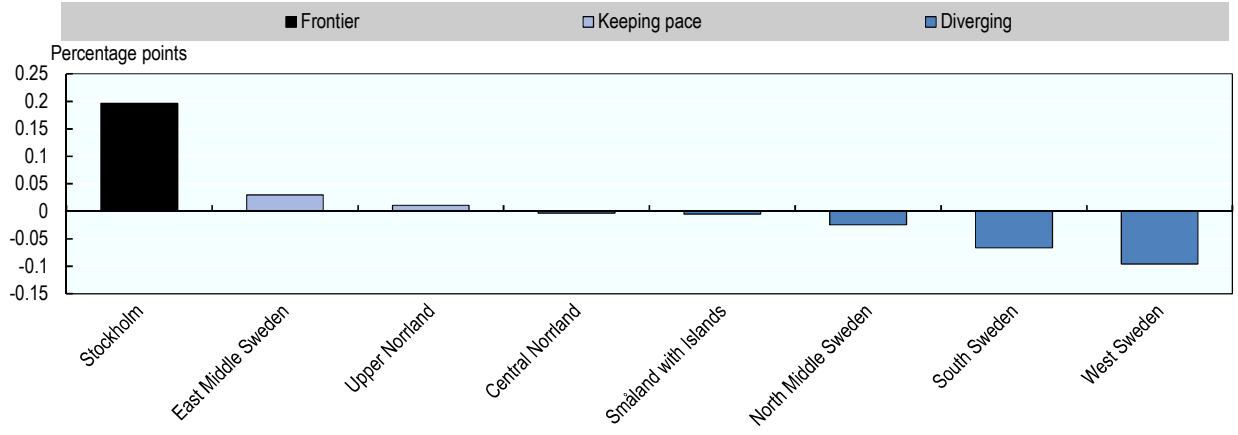
*Source:* OECD (2016f), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264260245-en.

Figure 1.8. **Productivity and catching-up trends in Swedish regions**

a. Labour productivity growth and its components, 2000-13
Average annual GDP per worker growth rate




b. Contribution to labour productivity growth, 2000-13




*Note*: The contribution of a region is defined as the difference between the national annual average labour productivity growth rate and the same rate excluding the indicated region.

*Source:* OECD (2016f), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264260245-en.

Consistent with the general trend across the OECD, GDP per capita and labour productivity in rural regions is on average lower than in Sweden's urban and intermediate regions. Six out of eight rural regions have a GDP per capita and a productivity level below the Swedish TL3 average. Västernorrland has the highest GDP per capita and labour productivity among the rural regions in Sweden. Västernorrland benefits from a diverse and high-performing tradeable sector (forestry and associated processing), and has also developed a more sophisticated services sector based around business and financial services (OECD, forthcoming). Among rural regions, Gotland, Blekinge and Kalmar in southern Sweden have the lowest level of GDP per capita and productivity. These regions lack a natural resource base, and have lower value agriculture and tourism (Gotland), and experienced the restructuring and decline of manufacturing (Blekinge and Kalmar).

Despite recent growth in population, there is a long-term trend of ageing and a shrinking workforce in rural areas. The specialisations in the tradeable sector, for example natural resources in the north and manufacturing in the south, have influenced growth performance particularly in southern Sweden, which experienced a greater negative impact from the crisis. Lifting the performance of the tradeable sector will require a more co-ordinated approach to investing in areas of comparative advantage within each region.

## Implementing the regional growth policy: Progress since 2010

The 2010 OECD territorial review made a series of recommendations to support Sweden's ambitions for sustainable regional growth. The recommendations included suggestions with respect to the regional labour force, rural development, renewable energy, transport, and cross-border collaboration. Sweden appears to have made inroads in each of these areas, to varying degrees.

### *New strategy to support regional growth (2015-20)*

Sweden's approach to regional development policy has continuously evolved since the 1950s, without losing its focus on promoting equity between regions (Table 1.1). Most recently, Sweden has taken lessons learned from implementing its previous national strategy for regional growth (2007-13) and applied them to its new strategy,[6] the National Strategy for Sustainable Regional Growth and Attractiveness 2015-20 (hereinafter the "National Strategy 2015-20"), which also aimed at supporting broader government priorities[7] (Box 1.1). The National Strategy 2015-20 promotes a more explicit results-oriented approach by developing and strengthening tools for regional growth policy, such as: 1) improving dialogue between the national and regional levels; 2) enhancing the analysis and monitoring of regional growth initiatives to better highlight their aims and results; and 3) strengthening continuous learning. The National Strategy 2015-20 stresses the involvement of state agencies in regional growth efforts, complemented by the need for regional leadership that has responsibility for the strategic management, co-ordination and development of regional growth efforts.

Compared to the previous strategy, the National Strategy 2015-20 is more focused on economic, social and environmental (ecological) sustainability, and emphasises that these dimensions should be integrated into all regional growth priorities. The strategy establishes four national-level priorities for promoting sustainable regional growth: 1) innovation and business development; 2) attractive environments and accessibility; 3) provision of skills and competence; 4) international co-operation. While the priorities themselves are similar to those of the previous programming period, there has been a shift in focus within the priority areas. Overall, the concentration is now more on business development than business creation; spatial planning and housing; more fully integrating and activating its labour force, including immigrants; and furthering cross-border collaboration. There is also added emphasis on implementation and results through dialogue processes, learning and knowledge exchange.

Table 1.1. **Key components of Swedish regional policy over time**

| Period | Economic context | Policy focus | Policy instruments |
|---|---|---|---|
| 1950s | Shortage of labour in industrial districts in southern regions vs. surplus of labour in northern regions | Localisation policy for "balanced expansion" | Information and guidance to promote migration and infrastructure in low-productivity regions |
| 1960s | Dominance of industrial migration pattern, strong geographical mobility of labour<br><br>Rapid urbanisation, construction boom | Active labour market policy to transfer labour from low-productivity to high-productivity firms<br><br>Industrial policy inspired by economic dualism theories, aiming at addressing the time lag in the development of different regions | Aid for localisation in northern regions<br>R&D investment<br><br>Large subsidies to industries (*e.g.* textile, shipyard)<br><br>Creation of the Swedish National Board for Technical Development (STU) |
| 1970s | Increase in female labour force participation<br><br>Economic recession, structural change (*e.g.* agriculture and forestry, steel, textile, shipyard) | Regional balance policy to redistribute population | Expansion of public sector<br><br>Rise of county planning<br><br>Delocalisation of public authorities from Stockholm to other parts of the country<br><br>Introduction of a new transport subsidy (1971)<br><br>Employment-creating measures (1976) |
| 1980s | Housing shortage in large cities vs. high vacancy rates in northern regions | Decentralisation and expansion of universities | Investment in human capital development (e.g. creation of technical centres)<br><br>Reduction of payroll taxes in some northern regions to stimulate labour-intensive industries and create employment<br><br>Rent controls by municipal housing companies and large subsidies for residential housing construction, mainly in municipalities outside the capital |
| 1990s | Banking crisis (early 1990s)<br><br>Tax reform (1990-91)<br><br>EU accession (1995)<br><br>Pension reform (late 1990s) to reduce pension entitlements and introduce self-balancing income pension system | EU Cohesion Policy | EU Structural Funds (Objective 2, 5b and 6)<br><br>Regional aid programmes within the framework of EU guidelines (e.g. regional investment aid, transport grant (employment grant, regional grant for business development, social security concessions)<br><br>Deregulation of housing sector, simplification of housing financing procedures<br><br>Creation of NUTEK (Swedish Agency for Economic and Regional Growth) in 1991 by merging the Agency for Industrial Development, the Energy Agency, and STU |
| 2000s | Burst of ICT bubble (2001)<br><br>Global financial and economic crisis (since 2008) | Regional Development Policy (2001 Government Bill)<br><br>Regional Growth Policy (2008 Budget Bill) | Introduction of Regional Growth Agreements (2000), later replaced by Regional Growth Programmes (RTPs) and Regional Development Programmes (RUPs)<br><br>Creation of VINNOVA (2001)<br><br>Creation of *Tillväxtverket* (Swedish Agency for Economic and Regional Growth) and *Tillväxtanalys* (Swedish Agency for Growth Policy Analysis) |
| 2010s | Sustained growth<br>New migration challenges | National Strategy for Sustainable Regional Growth and Attractiveness 2015-20 | Four national-level priorities for promoting sustainable regional growth: 1) innovation and business development; 2) attractive environments and accessibility; 3) provision of skills and competence; 4) international co-operation<br><br>Regional Development Strategies at county level<br><br>Growing number of County Councils in charge of regional development<br><br>Growing consensus on regional reforms |

*Source*: Updated and adapted from OECD (2010), *OECD Territorial Reviews: Sweden,* OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264081888-en.

### Box 1.1. National Strategy for Sustainable Regional Growth and Attractiveness 2015-20

In order to promote a cohesive approach to regional development, and to support broader government priorities, Sweden introduced the National Strategy for Sustainable Regional Growth and Attractiveness 2015-20 in July 2015.

The present strategy replaces the National Strategy for Regional Competitiveness, Entrepreneurship and Employment 2007-13. It serves as a guideline for regional authorities, state agencies, government offices, non-governmental organisations (NGOs) and other actors involved in regional growth efforts. The strategy intends to guide and help actors prioritise regional-level activities, such as sector programming at the national level and the regional-level development strategies. It is also used to support spending evaluations, specifically of national grants, and it monitors and steers the use of central government appropriations for regional growth measures. Despite being associated with concrete objectives, the strategy is non-binding to the relevant actors – following it is purely voluntary – and there are no explicit incentive mechanisms to prompt actors to incorporate these guidelines into their relevant programming. This said, regions can and do use the strategy to help them prioritise regional growth efforts, Regional Development Strategies (RUS) and programming for EU funds.

One of the primary measures of the strategy is to facilitate and maintain a continuous dialogue among a wide and diverse array of stakeholders (e.g. municipalities, counties, central government, central government agencies, third sector actors and the private sector) via the Forum on Sustainable Regional Growth and Attractiveness. Another very important policy measure has been to further clarify the roles and responsibilities among the national and regional actors. The emphasis of the present policy is to give more power to the regions to stimulate regional growth. The regions, however, need to be strengthened in order for them to assume this responsibility successfully. This is one driver behind the regional reform currently under consideration. Naturally, the functional linkages between regions and municipalities also need to be taken into account, and the government has highlighted these needs in the National Strategy. It is also supported by the Forum, which facilitates regional involvement in the early stages of different development processes. In addition, the Forum has created favourable conditions for interplay between the national initiatives and regional needs. The dialogue aims to contribute to increased knowledge and trust between the regional and national levels, and increased regional influence on national policy.

### *Municipalities and regions are increasingly aware of functional regional linkages*

The 2010 OECD territorial review insisted on the importance of further expanding the benefits of economies of agglomeration and improving urban-rural linkages. With respect to building direct urban-rural links through spatial planning, Sweden's counties (except for Stockholm) are not obligated to take an integrated approach for developing urban and rural areas, although they are encouraged to do so in their Regional Development Strategies (RUS). Spatial planning responsibility rests with municipalities, which ought to base their planning on a regional perspective. In 2013, a government committee investigated the need for regional spatial planning and increased co-ordination between types of planning at the regional level. The committee's report has been submitted and public officials acknowledge the importance of a regional development logic in spatial planning. This is a sensitive issue, particularly at the local level however, and the government has yet to make a final statement with respect to action.

To achieve a regional perspective in spatial planning, the National Strategy 2015-20 emphasises the need to better co-ordinate local comprehensive planning and regional growth initiatives. The objective is that by 2020, county actors responsible for regional development would have integrated a spatial perspective in their regional growth efforts, accomplished also through conscious planning and dialogue on inter- and intra-regional development.

Sweden's municipalities and regions are increasingly aware of functional regional linkages, expressed in part through the level of co-operation in public services between neighbouring municipalities and driven by economic and cost-savings considerations. In addition, most regional development strategies are prioritising planning based on functional regions. This is occurring not only in transport matters, but also to support a cross-sector approach that links economic development planning to physical and spatial planning. The National Strategy 2015-20, as well as the Committee on Regional Spatial Planning, highlight the need for more integrated planning in functional regions.

In addition, one of the aims of the Community Led Local Development (CLLD) programme is to facilitate urban-rural links tapping into support provided by the European Regional Fund. Work in this area is just beginning, however, and local development strategies are being approved individually, so the impact is still unclear.

The growth analysis finds that rural areas close to cities are not performing strongly (see Chapter 2). There is a need to better link urban and rural policies to facilitate growth in these areas. Rural/urban definitions are important because they provide the basis for understanding the growth dynamics of different areas and organising policy responses to them. This is particularly important for Sweden, which has a relatively large land mass with a concentrated population, and a diverse rural landscape.

### *Efforts to make the regional labour force more employable*

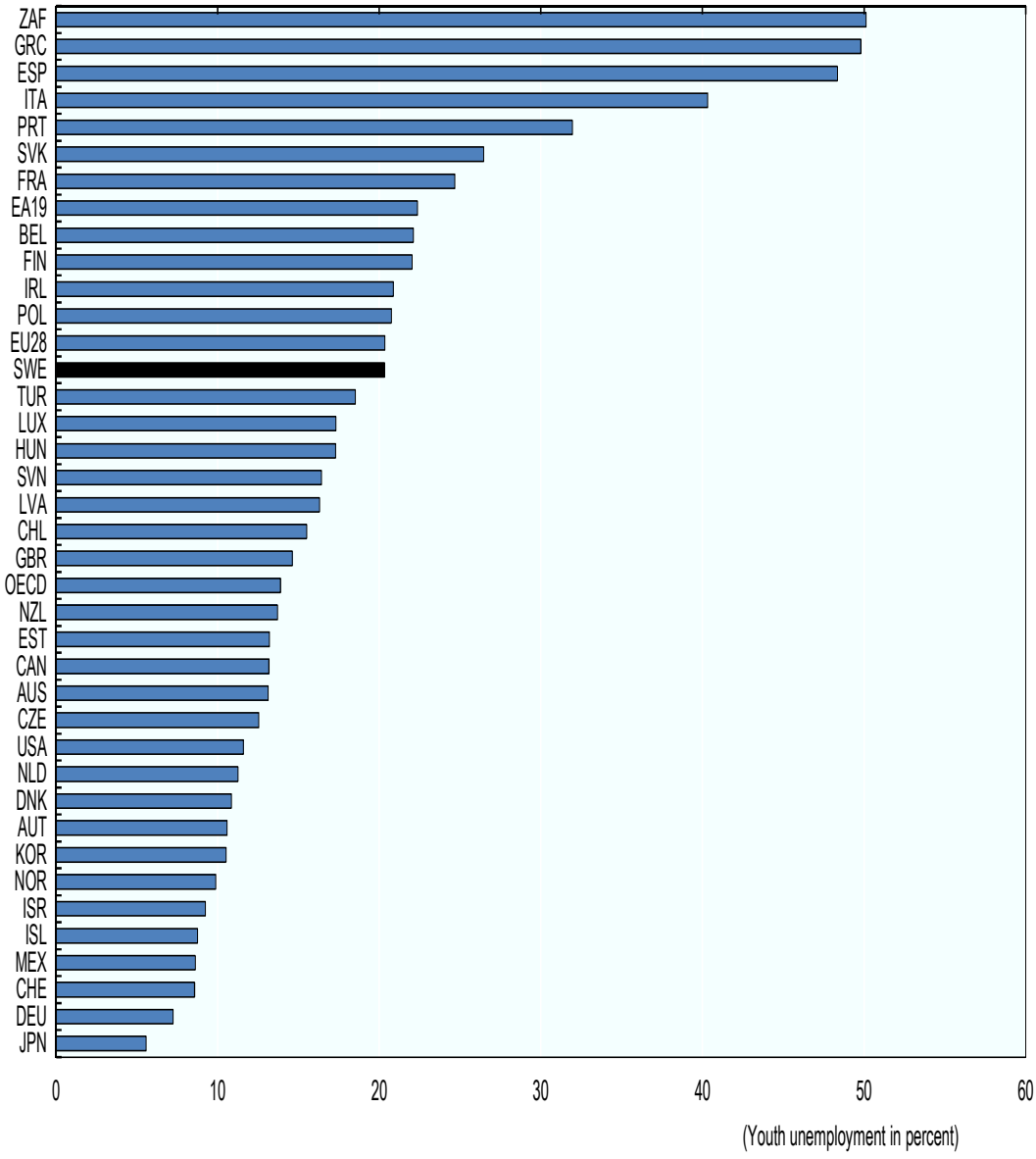
The 2010 OECD territorial review had a strong focus on the need to better exploit regional skills. Recommendations concentrated on three aspects: 1) the role of regional universities in tackling youth unemployment; 2) enhancing incentives for workers to join the labour market; 3) improving the integration of migrants into the labour market. Progress has been made in several of these areas, but the questions raised by the integration of a higher number of migrants add new challenges.

In 2010, the government gave actors with responsibility for regional development a mission to establish Regional Competence Platforms (RCP) as a fundamental tool for skills strategy at the regional level. RCPs were conceived as fora to ensure greater collaboration among regional actors, including the private sector, public and private education stakeholders, municipalities, and the relevant national authorities within the skill supply area, such as the National Employment Agency (*Arbetsförmedlingen*). The objective is to help ensure that labour market supply meets labour market demand. RCPs are also meant to increase the involvement of colleges and universities in developing an appropriately skilled workforce, thereby addressing concerns surrounding youth unemployment (Ministry of Enterprise and Innovation, 2016). Among the activities that support such an effort are: promoting dialogue surrounding the role of higher education institutions in the regional dimension of the country's strategic priority areas; building liaison functions within the universities that can link students to employers; and financing professorships and educational programmes in shortage occupations (Ministry of Enterprise and Innovation, 2016).

While RCPs have been established in all counties, the counties are at different stages in their work and their platforms may emphasise different issues, depending on regional conditions and priorities. Some counties indicate that the platforms have helped generate education opportunities that are better tailored to regional labour market demand, and a faster and more efficient response in times of poorer economic development. However, the preliminary findings of an OECD study on *Skills Strategy in Sweden*, indicate that RCPs may not be as effective as intended. There at least two reasons behind this. First, academic institutions are not obligated to consider labour market needs. This can result in academic and technical institutions building curricula aimed at attracting a student population, potentially giving less consideration to training a workforce that employers may need. A second issue concerns the ability of regional governments to affect the skills matching process, as this can require a strong partnership between the regional actors and the state agencies responsible for employment, training and education. Often these relationships take time to build, and agencies may require an extra "push" from above to engage with the regional level.

The impact of university activity or the RCPs on youth unemployment is unclear. Youth unemployment remains high in a comparative perspective – approximately 20% compared to an OECD average of just under 15% (Figure 1.9) – and despite a generally downward trend between 2009 and 2015 (Figure 1.10). It should be noted that in 2013 the NEET rate (rate of youth that are not in education, employment or training) of approximately 7% was less than the OECD average (14%) (OECD, 2014a).

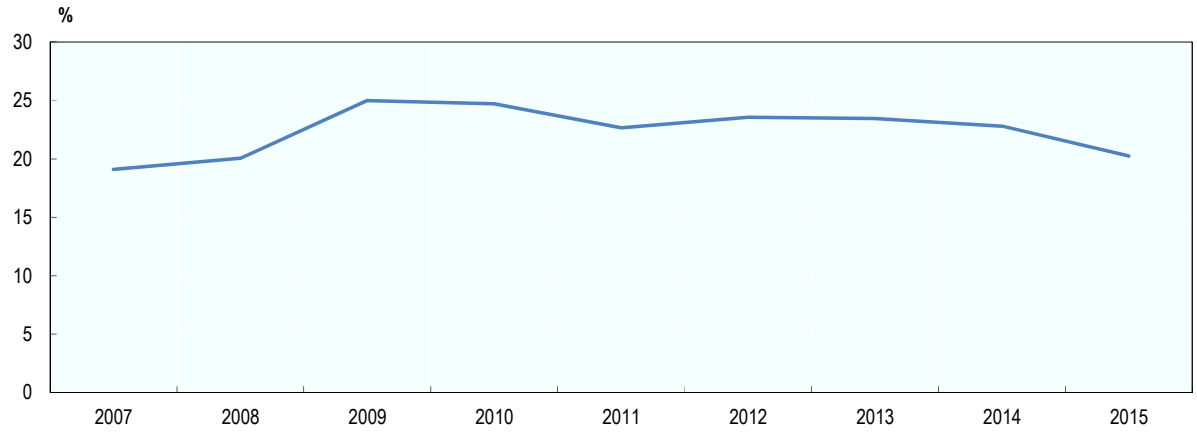
Figure 1.9. **Youth unemployment trend in Sweden compared to other OECD countries, 2015**




*Note*: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* Eurostat (2016), *Database*, Eurostat, http://ec.europa.eu/eurostat/data/database (accessed 3 March 2016).

Figure 1.10. **Youth unemployment trend in Sweden, 2007-15**




*Note*: Data reflects annual averages calculated using seasonally adjusted monthly youth unemployment rates for the corresponding months of each year.

*Source:* Eurostat (2016), *Database*, Eurostat, http://ec.europa.eu/eurostat/data/database (accessed 3 March 2016).

### *The integration of immigrants is a top priority but also a challenge for subnational governments*

Since the 2010 OECD territorial review, integrating immigrants[8] into the economy and society has been high on the political agenda. Sweden is well recognised for its immigrant integration policies, placing first out of 38 countries in the 2015 Migrant Integration Policy Index, with a score of 78 out of 100 possible points, unchanged since 2010. However, given the large influx of asylum seekers in 2015, Sweden's challenge of integrating immigrants into the country's socio-economic activity is accentuated (Box 1.2).

The National Employment Agency (*Arbetsförmedlingen)* has overall responsibility for ensuring that the 2010 "Law on the Establishment of Certain Newly Incoming Immigrants" (*Lag* [2010:197] *om etableringsinsatser för visa nyanlända invandrare*) is implemented. The law sets out provisions on responsibilities and efforts to co-ordinate, facilitate and speed up the integration of migrants into working life, and society overall. It focuses on promoting active employment, clarifying the roles of relevant agencies, and improving the use of skills offered by immigrants (Weisbrock, 2011). The National Employment Agency's efforts are complemented by those of other state agencies, including the Migration Board (*Migrationsverket)* and the Social Insurance Agency (*Försäkringskassan*), as well as the County Administrative Boards and individual municipalities.

### Box 1.2. **Immigrant integration policy and labour market integration challenges in Sweden**

The driving aim behind Sweden's approach to immigrant integration is socio-economic inclusion and independence within the context of diversity. This sets Sweden apart from some other countries. In addition, Sweden promotes integration with an eye on multiculturalism, while other countries such as Denmark and the Netherlands focus on integration with the aim of assimilation (Wiesbrock, 2011). However, despite consistently positive rankings of its integration policy approach, Sweden faces difficulties with respect to outcomes, especially in terms of integrating immigrants into the labour market. This is significant because of the important role that integration plays in maximising the benefits of immigration with respect to human capital accumulation and economic progress (Wiesbrock, 2011).

The difficulties in obtaining high outcomes for labour market integration among the immigrant population are not new, and were highlighted by the OECD in 2004. OECD studies since 2010 indicate that labour market outcomes of immigrants and their children often lag behind those of other Swedes. For example, in 2012 there was a gap of nearly 25 percentage points between employment rates among low-educated immigrants and the native-born population also with low education levels; among immigrants who are employed, many are in jobs requiring less than their formal education; and the proportion of immigrants who have attained a tertiary education is higher than native Swedes. Over 30% of them are working, however, in jobs for which they are over-qualified.

In an ongoing effort to improve labour market outcomes among the immigrant population, Sweden's Ministry of Employment and Ministry of Finance, together with the OECD, held a multi-stakeholder workshop in 2014 to discuss Sweden's integration system. Participants, including representatives of ministries, agencies, social partners, regional actors and private sector employers, came together to identify the bottlenecks and shortcomings in the design and implementation of Swedish integration policy. The discussion focused on identifying ways to address seven thematic challenges to integration, previously identified by the OECD and Swedish officials. These challenges were: 1) basic skills and Swedish language for adults; 2) validation and recognition of education, qualifications and work experience obtained before arriving in Sweden; 3) employer demand for immigrant employees; 4) discrimination; 5) weak networks to support job searches; 6) school-to-work transitions; and 7) co-ordination among relevant actors in the integration process. The workshop served to break down the challenges into concrete issues (e.g. settlement delays that arise from a reluctance by municipalities to host additional migrants), and articulate possible directions for future policy development (e.g. revise funding structure for migrant settlement).

*Source:* Migrant Integration Policy Index (2015), "Policy indicators: Key findings", *Data: International Key Findings,* Migration Policy Group, Brussels, Belgium, www.mipex.eu/key-findings (accessed 27 April 2016); Wiesbrock, A. (2011), "The integration of immigrants in Sweden: A model for the European Union?", *International Migration,* Vol. 49(4) 2011, International Organisation for Migration, Blackwell Publishing, Oxford, UK, http://dx.doi.org/10.1111/j.1468-2435.2010.00662.x (accessed 26 April 2016); OECD (2014b), "Finding the way: A discussion of the Swedish migrant integration system", Directorate for Employment, Labour and Social Affairs, OECD, Paris, www.oecd.org/migration/swedish-migrant-intergation-system.pdf (accessed 26 April 2016).

Responsibility for regional co-ordination and agreement rests with the county administrations. Work undertaken in 2014 by the OECD in co-operation with the Swedish government highlighted that the co-ordination challenges in this area included a need for greater vertical co-operation (particularly between central level agencies and

municipalities); horizontal co-ordination at the municipal level; and care to avoid service duplication or overlap, for example with respect to parallel employment services (OECD, 2014b).

While funds have been made available, the capacity of municipalities to manage integration issues can be very different. A whole-of-government approach integrating the specificities of different territories is needed to ensure that no place is left behind, especially in rural communities experiencing 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 an integrated policy approach to the integration of migrants – across policy domains such as education, employment, housing, health and culture – working hand in hand with central government through effective multi-level co-operation.

### *Initiatives to help build entrepreneurship at the local level*

The 2010 OECD territorial review highlighted possibilities to better support entrepreneurs, including the New Start Offices (*Nystartkonstor)*, and the "one-stop shops" for labour services. Since then, New Start Offices have been launched as a service within "Service Centres" and, in some municipalities they provide in-depth services. It is not clear if the "one-stop shop" concept was also implemented.

The OECD also highlighted two possibilities to render the regional labour force more entrepreneurial: 1) further integrating measures for entrepreneurship and business support into a comprehensive, cross-sector development strategy, and 2) establishing partnerships with local development organisations to increase local capacity for meeting economic potential.

With respect to further integrating measures for entrepreneurship and business support into a comprehensive, cross-sector development strategy, measures have been included in the Regional Development Strategies (RUS), permitting their integration into the wider regional perspective. In addition, initiatives for building entrepreneurship and supporting businesses are associated with programmes linked to EU Structural Funds.

Sweden is working through the European Union's Community Led Local Development (CLLD) initiative to help build entrepreneurship at the local level and also to enhance small and medium-sized enterprise (SME) employment rates. It is expected that the CLLD programme will promote partnerships with local economic development organisations in order to build the economic potential of communities by: 1) supporting local capacities and development potential through co-operation; 2) increasing the number of new enterprises; 3) promoting the development of existing companies in order to increase employment levels, particularly among SMEs. Sweden has attached measurable objectives to these priorities, specifically: 600 companies involved in local development nationwide; 200 projects in urban areas with more than 5 000 inhabitants; and 150 projects focused on enhancing the urban-rural links or links between urban and intermediate areas (European Commission, 2015). Funding for these initiatives is now available through the European Regional Development Fund (ERDF), the European Social Fund, the European Agricultural Fund for Rural Development, and the European Maritime and Fisheries Fund.

### *Strong support to regional innovation policy, with a slight increase in the role of regions*

Sweden has long been considered a leader among OECD countries in the implementation of national programmes that promote regional innovation. This was highlighted in the 2010 OECD territorial review, which drew attention to a history of initiatives supporting regional innovation, including the Visanu Programme (2002-04), the Regional Cluster Programme (2005-10) launched by the Agency for Economic and Regional Growth (*Tillväxtverket*), and the Swedish Innovation Agency (*Vinnova)* programme VINNVÄXT (OECD, 2010).

In 2010, the OECD noted that further progress in Sweden's successful innovation policy would likely be determined by the implementation of a new Bill on Research and Innovation, which was presented by the government in October 2008. This bill aimed to increase public funding for R&D by SEK 5 billion in the 2009-12 period (twice as much as in the previous period), and included such key reforms as: introducing a competitive process to allocate resources for research to universities; providing long-term funding for strategic research areas (particularly in medicine, climate, and technology); creating innovation offices; and strengthening industrial research institutes. The bill also sought to consolidate the piecemeal reforms of the previous two decades by encouraging universities to explore research areas that presented more obvious strategic benefits, and by providing more direct funding to support staff and students seeking to exploit their inventions as entrepreneurs. Finally, the bill underscored the need to further develop dialogue between national authorities and regional actors on matters concerning strategic work on research and innovation issues at the regional level (OECD, 2010).

The 2012 review of the 2008 Bill on Research and Innovation[9] provided an independent, comparative assessment of the strengths and weaknesses of Sweden's innovation system, examined the main actors and their interaction, and identified opportunities for improving overall performance. Among the weaknesses of the 2012 bill identified by a recent OECD review on Sweden's innovation policy were some aspect of the framework conditions for innovation (e.g. in financing); declining educational performance; the potentially limited impact of university centres of excellence, which are relatively small; potential overlap among the large number of medium-sized funding agencies engaged in similar funding activities; an uneven record on evaluation; and unclear governance in regional innovation policies (OECD, 2016g). The government's current review of the 2012 bill is a direct input into the 2016 bill, which will strongly feature research, innovation and higher education. It takes a ten-year perspective and aims to: 1) improve the use of research policy investments, thereby contributing to increased competitiveness, growth and innovation; 2) create new synergies with other government initiatives, for example those relating to digitalisation, life science, and environmental research; 3) fortify the interaction between research, education and innovation; 4) improve systemic conditions in order to more effectively use current resources.

The 2010 OECD territorial review promoted a greater role of regions in the regional innovation policy, mainly shaped by national agencies, municipalities, firms and universities/research centres, with a few examples of active involvement of counties in the VINNVÄXT programme for example. Since then, there have been a number of government-led initiatives to increase the involvement of regions in Swedish innovation policy. For example, the Ministry of Enterprise and Innovation conducts a network for national-regional dialogue that focuses specifically on matters of innovation and research, bringing together relevant government agencies, regional actors, universities/research

centres and others with a prominent role in developing regional innovation policy. The network meets quarterly, with two meetings a year hosted by the Ministry and two by a region. It promotes active dialogue and co-operation in questions surrounding, for example, smart specialisation, where many of the regional actors are developing and implementing smart specialisation strategies. This form of co-operation is also seen among national agencies, for example the Swedish Agency for Economic and Regional Growth and VINNOVA, as well as at the infra-national level through the European Commission's Smart Specialisation (S3) Platform[10] in Seville (European Commission, 2016).

### *Further progress in the use of renewable energy*

The 2010 OECD territorial review highlighted that the exploitation of renewable energy in Sweden could be a further stimulus to regional innovation. It stressed that in Europe, Sweden already stands out in terms of the reduction of greenhouse gas (GHG) emissions required by the Kyoto Protocol. It cut emissions by 9% between 1990 and 2006 and introduced a carbon tax as early as 1991.

Since 2010, Sweden has demonstrated significant ambition in the area of green growth to optimise the potential of renewable energy. In 2011, 35% of total energy was supplied by renewable energy sources, far above the International Energy Agency's (IEA) average of 8%. This figure, up from 28% in 2006, resulted primarily from additions in solid biofuels and onshore wind power. In gross final energy consumption, Sweden reached a share of 48% renewable energy (IEA, 2013). To continue growing in this sector, Sweden has identified four measures for the transition towards renewable energy: 1) the electricity certificate market system; 2) energy production; 3) $CO^2$ taxation; 4) the emissions trading scheme. Sweden has been active in each of these areas, solidly aligning with the OECD recommendation to promote green growth (Box 1.3).

#### Box 1.3. **Key measures in Sweden's move toward greater use of renewable energy**

Since 1 January 2012, Sweden and Norway have shared a common electricity certificate market. Through this system, actors can produce renewable electricity in either country and trade electricity certificates across Swedish/Norwegian borders. In April 2015, a Swedish Government Bill increased the level of ambition for this programme, proposing that Sweden finance 30TWh of renewable electricity production by 2020. Amendments to the initial Electricity Certificates Act supporting this new objective entered into force on 1 January 2016. In addition, Sweden is increasing financial support to sun cells[1] as a means to produce energy (specifically electricity). It allocated SEK 225 million in 2016, and expects to dedicate SEK 390 million each year from 2017 to 2019. It has also increased the production and use of biofuels since the mid-2000s. The proportion of biofuels used in road transport, for example, was 12% in 2013. In that same year, biomass, which is exempt from $CO^2$ taxation, accounted for 60% and waste heat for 8% of the input energy in district heating production. Finally, Sweden is tapping into support from its Rural Development Programme in order to invest in perennial crops (e.g. *salix*/willow), and to invest in producing renewable energy from wind, air, sun, water, soil, ground and manure.

1. Also known as solar cells or photovoltaic cells, these are used to convert light energy into electricity.

*Source*: Ministry of Enterprise and Innovation (2016), "Background report in response to OECD Questionnaire for the OECD Monitoring Review of Sweden", Ministry of Enterprise and Innovation, Stockholm, Sweden, unpublished.

GHG emissions in Sweden have been gradually declining since 1990 and were 21% below their 1990 levels in 2012. 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.

Renewable energy is increasingly being championed as a potentially significant new source of job creation in OECD countries, as well as addressing concerns of energy security and climate change. In many OECD countries, governments have invested large amounts of public money to support renewable energy development and are requiring significant quantities of it to be sold by energy providers. While renewable energy represents an opportunity for stimulating economic growth, for instance in rural communities, its development benefits are not automatic. Realising such benefits requires a complex and flexible policy framework and a long-term strategy, as well as a realistic appreciation of the potential gains from renewal energy deployment.

### *Improved co-ordination on transport issues and greater infrastructure stock*

The 2010 OECD territorial review highlighted that the traditional struggle of Swedish transport policy to compensate for long distances from international markets and a harsh climate contrasted with relatively low levels of infrastructure stock. Between 2008 and 2009 a special committee reviewed the efficiency of Sweden's existing transport agencies and concluded that significant gains could be had by instituting a new agency responsible for the long-term planning of the road, rail, maritime and air traffic transport systems. The 2010 OECD territorial review recommended a better integration of the infrastructure policy with other sector policies and supported the government's plan to create a joint traffic agency (Box 1.4) that would be charged with developing and managing infrastructure from a holistic perspective.

#### Box 1.4. **The Swedish Transport Administration (*Trafikverket*)**

On 1 April 2010, the Swedish Transport Administration (*Trafikverket*) began operation. This agency is currently responsible for long-term infrastructure planning for all forms of transport (i.e. air, rail, road, maritime). It owns, constructs, operates and maintains all state-owned roads and railways, and operates a significant number of ferry services. The Swedish Agency for Public Management (*Statskontoret*) evaluated the agency and the transition to a single entity responsible for transport infrastructure, concluding that the shift has been generally successful despite some organisational challenges arising from the new agency's extensive size.

*Source:* Ministry of Enterprise and Innovation (2016), "Background report in response to OECD Questionnaire for the OECD Monitoring Review of Sweden", Ministry of Enterprise and Innovation, Stockholm, Sweden, unpublished.

Although co-ordination has improved with this new traffic agency, some challenges remain in the overall co-ordination of infrastructure policy. For example, the government has recently assigned a National Negotiation on Housing and Infrastructure[11] to propose funding principles and a development strategy for high-speed railways from Stockholm to Gothenburg and from Stockholm to Malmö. The mandate overlaps somewhat with *Trafikverket*. In addition, there are challenges in the co-ordination between national

agencies and regions and to co-ordinate across municipalities/counties for regional impact projects (further discussed in Chapter 3).

In the 2010 OECD territorial review, the OECD identified the possibility of further exploiting cross-border collaboration through the EU Strategy for the Baltic Sea Region. Sweden's participation in this strategy is well underway and it is an integral part of the macro-region's co-operation structure. The strategy's original four pillars (environment, economic development, accessibility and security) have been replaced by three strategic objectives: 1) save the sea; 2) connect the region; and 3) increase prosperity. Its more streamlined structure is considered more effective given a reduced number of co-operation areas, and an increased focus on areas with clear value add. Overall, Sweden's experience with the strategy is reportedly positive, characterised by a more robust co-operation structure, and greater ability to address joint challenges and opportunities with its Baltic Sea neighbours (Denmark, Estonia, Finland, Germany, Latvia, Lithuania and Poland).

### *An opportunity to reform rural policy*

To support Sweden in achieving its regional development policy objectives, the OECD made a series of recommendations in 2010 that focused on strengthening the rural economy as a means to support rural and sparsely populated areas. There is significant diversity in Sweden's rural landscape, with a densely populated south and less densely populated north where the population is concentrated in coastal areas. Rural regions face challenges associated with a faster pace of ageing and competitive pressures in key industries such as forestry and processing. However, within this context there are pockets of productivity growth and the challenge is to convert this into improved economic opportunities and well-being. This will only be achieved by improving rural development policy settings with a focus on: 1) rural/urban definitions; 2) focusing investment on areas of absolute advantage; 3) ensuring rural policy is integrated with regional and sector policies; and 4) strengthening the role of the regional level to deliver on this more integrated approach. Chapter 2 provides in-depth analysis on the new challenges for rural development policy and a set of policy recommendations across these areas.

Since 2010, Sweden appears to have placed significant energy in building and promoting tourism by focusing on region-specific assets. Not only has it worked to attract people to different destinations, but also to support the overall development of the tourism sector, for example by building the quality and competitiveness of SMEs, and by investing in tourism infrastructure (e.g. the Göta Canal). Between 2012 and 2014, a commission attached to the Swedish Agency for Economic and Regional Growth selected five destinations with strong potential for developing region-specific assets that could help them become internationally competitive tourist destinations: Åre, Bohuslän, Kiruna, Stockholm Archipelago, and Vimmerby. The commission's work will be continued and expanded by a new commission, launched in 2016 and mandated to continue until 2019. Its focus is to contribute more to the development or introduction of international sustainable products from Sweden.

With respect to further devolving regional competences to regional actors, there has been limited change since the 2010 OECD territorial review. The County Administrative Boards (CABs) are still responsible for implementing the Rural Development Programme at the regional level through regional action plans. Each region's action plan is prepared and implemented by a regional partnership composed of diverse stakeholders, including the organisations responsible for the regional development strategies (RUS) and the

ERDF programmes. County Councils, especially those in charge of regional growth policy, are concerned by the dual governance of rural development, with CAB in charge of rural programmes, and County Councils in charge of overall regional development, including its rural components. This challenge was already reported in 2010 and remains today.

Historically, rural policy focused on sector support for agriculture, and state aid for businesses located in sparsely populated areas. With accession to the European Union, Sweden introduced the standard programmes from CAP and the ERDF. This has supported rural programming, but has not resulted in a coherent national rural policy. In 2015, the government established a Parliamentary Committee to develop a blueprint for the future of rural policy in Sweden. The inquiry being undertaken provides an opportunity to move towards an approach that is both broader in that it provides a framework where EU programmes and national sector and welfare programmes are better integrated, and territorially sensitive in that it recognises the major differences across rural Sweden, in particular, those between the north and the south. The committee delivered its interim report in March 2016, and the initial findings focused on the economic and demographic challenges confronting rural areas. Addressing the division of responsibilities between County Administrative Boards and County Councils in regional and rural policies, improving co-ordination with regional and sector policies and better adjusting policy settings could help manage the challenges identified by the Parliamentary Committee in its interim report.

## A changing multi-level governance system

In the 2010 OECD territorial review, the OECD called for a change in the Swedish multi-level governance "hourglass" system (McCallion, 2007). The review highlighted Sweden's asymmetrical and innovative approach to decentralisation, experimenting with "pilot regions" and permitting heterogeneity across regions in terms of governance bodies. It also underlined the limits of the system and the need to encourage greater devolution of regional development competences to County Councils, enhanced co-ordination among the different types of regional programmes, and better co-ordination of structural policies at the county level in order to improve the effectiveness of regional growth strategies (OECD, 2010). Since 2010, Sweden has further extended the transfer of regional development competencies to County Councils. New multi-level governance mechanisms, such as the Forum for Sustainable Regional Growth and Attractiveness, have been developed and a consensus seems to have emerged on the need to go further in regional reforms. Hence several of the 2010 recommendations in the field of multi-level governance have been implemented or are currently being implemented. This section highlights how various recommendations have been implemented and Chapter 3 of this report offers greater analysis on the current challenges for multi-level governance. It also proposes a renewed set of recommendations in this area.

### *Subnational governments, notably County Councils, play a more active role in regional development*

The Swedish system is characterised by heterogeneity in the attribution of regional development competences. Since 2010, the County Council governance format has been extended to other counties since its introduction in Skåne and Västra Götaland. Up until the beginning of 2010, out of 21 counties, there were 2 "pilot regions" in which County

Councils held regional development competency (in addition to health). The County Councils' responsibility for regional development became permanent in 2010 and at that time two additional regions received regional development competences. Six years later, ten more County Councils have the responsibility for regional development (including public transport and culture), on top of public healthcare. In the rest of the country, regional development falls under responsibility of either County Administrative Boards (in four counties) or Regional Co-ordination Bodies, which are indirectly elected assemblies owned by the municipalities and County Councils (in seven counties).

Overall, Swedish subnational governments – municipalities and counties – are playing an increasingly active role in economic development, rather than just providers of social services. Sweden used to combine a highly decentralised system for the provision of welfare services with a relatively centralised system for strategic planning and infrastructure investment. Indeed, 46% of public investment is conducted at the subnational level in Sweden – compared to 59% on average for OECD countries. However, this is evolving slightly, as the share of subnational investment has been constantly rising over the past 15 years – 11 percentage points since 2000. Over time, subnational governments increased their investment in health equipment, transport, general public services, housing, and community amenities. The driver behind increased demand is primarily demographic: population growth in large cities, an ageing population throughout the country and migration.

### *Strengthened multi-level governance*

Since 2010, Sweden has strengthened co-ordination across levels of government for regional development policy. This has occurred mainly through two main instruments: 1) the National Strategy for Sustainable Regional Growth and Attractiveness 2015-20 and Regional Development Strategies (RUS), which are supposed to align with it; and 2) a stronger role for the government's forum on regional growth.

The national strategy is the key instrument to foster multi-level governance and alignment of strategic priorities across levels of government. It puts a strong emphasis on greater dialogue among stakeholders at the regional scale. At the regional level, the former Regional Growth Agreements have formally been replaced by Regional Development Strategies[12] at the county level. These strategies are produced with the participation of all relevant actors in the region, including civil society organisations, municipalities and the private sector. Through these strategies, the counties establish their goals and priorities for regional growth initiatives. Guiding these regional development strategies is the National Strategy 2015-20, which serves as an anchor document for regional growth initiatives originating at the regional and national levels.

The Forum on Regional Competitiveness, created in 2007, has since been strengthened and plays an active role in fostering dialogue across levels of government. Formerly used as a co-ordination mechanism, it has been replaced with the Forum for Sustainable Regional Growth and Attractiveness (Box 1.5). This forum is used to promote co-ordination between levels of government and type of government actor (political and civil service), bringing together representatives from ministries and regional bodies. State agencies also participate depending on the topic for discussion at each meeting (see earlier discussion and Box 1.5). The forum meets in plenary sessions four times per year. It is part of the implementation of the National Strategy 2015-20.

### Box 1.5. **Sweden's Forum for Sustainable Growth and Regional Attractiveness**

In 2007, Sweden established the National Forum on Regional Competitiveness, Entrepreneurship and Employment in order to provide a formal setting for the discussions taking place in preparation of the National Strategic Reference Framework (NSRF) (a part of the EU Cohesion Policy for 2007-13). The forum served as a platform for ongoing political dialogue among national and regional representatives, for which the NSRF and the Regional Development Programmes were the starting points. This forum was renamed and renewed in 2015, becoming the Forum for Sustainable Growth and Regional Attractiveness.

The new body is divided into two groups: one that promotes dialogue between national and regional level politicians (from the majority and opposition), and as of 2015 one that fosters dialogue between national and regional level civil servants (director level). Associated with the forum are networks and working groups, such as an "analysis group" that brings together 16 state agencies. The forum is led by the state secretary responsible for regional growth policy, and participants are regional leaders and civil servants with regional development responsibilities in their portfolios; there are about 50 regular participants at the political level. Additional participants, such as ministers, state secretaries and directors within state agencies can be invited on an ad hoc basis, depending on the agenda topics. For instance, if a point on the agenda pertains to transport, the minister of transport is invited to participate.

The Ministry of Enterprise and Innovation is responsible for co-ordinating the forum, which gathers four times per year for a full day, at the political and civil service levels. The agenda is set by the ministry, with regions submitting items for discussion, such as competence allocation, transport, etc. Meetings are an opportunity to discuss thematic issues, as well as for regions to present their experiences and learn from each other, for example with respect to immigration. They also offer a chance for actors at different levels of government, and in different sectors, to influence points of view and impact or influence future plans via dialogue. There is a strong effort to incorporate different sectors in the meetings, and the ministry notes that ministerial interest in the forum has risen with the realisation that it is one way to increase their sector's policy capacity, effectiveness and influence at the regional level, as well as at the national level. The forum can serve as a "regional lens" or "prism" through which to consider diverse sector initiatives, for example in housing, innovation, transport, etc. It also supports co-operation with government agencies in regional growth activities, which is particularly important so that these entities can contribute, in turn, to the growth and development of counties.

*Source:* Ministry for Enterprise and Innovation (n.d.), "Sweden's National Strategy for Sustainable Regional Growth and Attractiveness 2015-20", presentation in English, prepared for the OECD, unpublished; OECD interviews with representatives from the Ministry of Enterprise and Innovation, Stockholm, Sweden, 7 April 2016.

Since 2007, the forum has gained in authority and legitimacy, and is now considered as an important tool for multi-level governance in Sweden. Although the forum cannot take binding or formal decisions, it is seen as a credible institution to support national and regional level policy development through dialogue and co-operation. The forum focuses on themes related to the National Strategy 2015-20's priorities, including for example regional innovation systems; supporting skills and labour market integration; public services; infrastructure; and transport.

### *Increasing consensus on the need for regional reforms*

The 2010 OECD territorial review highlighted the small size of counties in comparative perspectives, in particular in the south of Sweden, and emphasised the need for further regional reforms and clarification of counties' responsibilities. It emphasised that the widening of labour market regions calls for greater horizontal cross-sectoral co-operation by local governments and improved spatial planning taking into account functional areas. It also stressed that the various options for regional reform in Sweden are a political and societal choice, rather than a strictly economic one.

Since the 2010 OECD territorial review, no additional counties have merged, but the topic is highly debated, and in 2016 a new committee was put in place to submit proposals to the government. In Sweden, the number of counties is almost the same as it was in 1634, when they were established by the Constitution, superseding the country's historical provinces. There have been some relatively recent changes, for example in 1997 the counties of Kristianstads and Malmöhus merged to create the new county of Skåne ("Skåne" being the name of the same territory in the Middle Ages), and in 1998, three counties were amalgamated into one and renamed Västra Götaland. Since then, counties have increased co-operation with neighbours, particularly for the delivery of healthcare services, and in some cases to support greater regional development, for example in the north. Additional merger possibilities were discussed among regions after 2009, for example between Skåne and the counties of the Småland-Blekinge region (OECD, 2012).

The OECD also recommended governance reforms in the Stockholm-Mälar region in 2006 and 2010. However, metropolitan governance in the region has changed little since then. Unlike the two other metropolitan areas, Göteborg and Malmö, which were included in the two pilot regions in Sweden, no merger of counties has occurred in the Stockholm-Mälar region. Stockholm County is one of the four regions in which the County Administrative Board is still in charge of the regional development policy. The government is exploring a more ambitious regional reform, which may have a broader and stronger impact on improving regional governance for the Stockholm region (see Chapter 3).

While the topic of regional reform remains current, the government's approach to reform appears to be shifting and many stakeholders – at both central and subnational levels – seem to converge toward the need for reform. Until now, Sweden had taken a unique 'bottom-up' and asymmetric approach to regionalisation and regional reform, wherein mergers and merger partners were strictly the choice of counties that present merging proposals to be accepted (or not) by the national government. Several committees have been put in place over time, including the *Ansvarskommittén*, to investigate the possibility of merging the current 21 counties into larger regions. In 2015, the government announced an evaluation of regional mergers based on functional areas. These would be grounded in a number of criteria including the needs of citizens and businesses in the region with respect to transport, labour, health, education, culture and a good environment. A guiding principle behind the reform is the need to create appropriate subdivisions and effective organisations that account for functional labour markets and regions. The committee established to investigate this question will propose a new division of counties by 31 August 2017, with an eye to launching the regional reform possibly as early as 2019, and certainly by 2023. Unlike in the past, this reform process is driven by the national level and mergers would not be voluntary, although agreement is sought. While the issue of mergers is often a very sensitive topic, it is currently estimated

that a significant number of counties support the merger concept. Chapter 3 will discuss these regional reforms in depth.

### *Current debates on municipal reform*

The topic of municipal reform is also under debate. Driving this are several issues, but most significantly: 1) geographic and demographic disparities in municipal size, which can affect capacity; 2) demographic change, including ageing and immigration; and 3) pressure on the local civil service arising at least in part from a significant number of public servants nearing retirement age, greater demand and/or need for services as the population increases or shifts (e.g. with immigration and ageing), and a need to meet more administrative demands. For example in northern Sweden, counties estimate that one-third of the population will retire in the coming years, accentuating an already existing shortage of human capital in certain professions. This is leading to renewed and deepened dialogue with municipalities regarding the challenges they face and the opportunities they see. The focus is on identifying organisational, financial, and operational solutions, for example through more extensive inter-municipal co-operation or adjustments in competence allocation, rather than on merging municipalities.[13] The 2010 OECD territorial review indeed highlighted that "Sweden has also developed over the past decades active policies for mergers and strong inter-municipal co-operation tools, and the margin for further amalgamation is relatively limited."

It is expected that by the end of 2016 the Minister for Public Administration will have appointed a commission to further investigate the challenges and opportunities facing Sweden's municipalities in terms of size and competences, and the mechanisms available to manage these issues. Such a discussion is of interest to municipalities and regions throughout the country, particularly given the demographic and financial challenges confronting the local level; this is explored more fully in Chapter 3.

## *There has been limited progress in the co-ordination of central policies at the county level*

In 2010, the OECD territorial review underlined the high number of central agencies involved in regional development policy and the co-ordination challenges that this raises at all levels of government. It recommended improving the co-ordination of structural policies at the county level in order to enhance the effectiveness of regional growth strategies. At that time, there were approximately 400 agencies involved in the implementation and monitoring of public policies at all levels of government, and 20 central agencies directly involved in regional development policy (OECD, 2010). In particular, the need to improve co-ordination in the field of infrastructure development (e.g. transport) was highlighted. Since then, Sweden has made some progress in rationalising the organisation of central agencies (for example with the new joint traffic agency), but major challenges remain and Sweden notes that today one of its primary challenges for regional development lies in institutional co-ordination at the central and county levels.

Sweden has reflected on how to improve this co-ordination, but has not implemented any far-reaching reforms so far. A committee report was released in December 2012, to propose how the structure of central government regional administrations could be made clearer and more co-ordinated. The report stressed an urgent need to reform County Administrative Boards as their quality, effectiveness and efficiency was increasingly

questioned, undermining their ability to remain viable regional administrators. It suggested that a common geographic structure be applied for central government regional administration, and outlined the boundaries for 11 possible boards. The report identified regional development as a responsibility for County Councils, and proposed an end to the Regional Co-ordinating Boards by 2018, replacing these by County Councils that would assume responsibility for regional development via an application procedure if the municipalities in the counties so wished. Finally, the report acknowledged the uniqueness of the County Administrative Boards in their capacity to bridge different sector perspectives and ability to ensure uniform action by the central government at the regional level. To this end, the committee proposed a reorganisation of competences attributed to County Administrative Boards, placing more emphasis on community planning, civil contingencies and regional follow-up and evaluation, and eliminating tasks associated with co-ordinating the regional growth initiatives of other central government agencies (Statens Offentliga Utredningar, 2012). To date, the committee's proposals have not been implemented, but they are likely to be mobilised as part of the regional reform debate.

There are numerous government agencies and boards that operate on a county level basis, such as the National Employment Agency (*Arbetsförmedlingen)*, the Agency for Economic and Regional Growth (*Tillväxtverket),* the National Board of Housing, Building and Planning (*Boverket*), and the Transport Administration (*Trafikverket)*, as well as the police, social insurance and forestry services. While these institutions have regional (or county) level responsibilities, there is not necessarily one office per county, and each has its own territorial logic. This can result in a considerable amount of confusion at the county level. Challenges are particularly important for the policies linked to labour market, housing, rural development or overall integration of migrants. For rural development, the Country Administrative Boards are still in charge of implementing the Rural Development Programme at the regional level through regional action plans. This leads to overlaps, particularly in those cases where County Councils have the responsibility for regional growth policy. While this was already noted in 2010, the fact that an increasing number of counties have adopted these new responsibilities makes the problem even more acute (see Chapter 2).

## *Local public services and subnational finances*

Among the OECD suggestions made to meet the pending challenges were: 1) to pool administrative services in order to help improve service access and quality by allowing citizens to carry out several transactions in one visit; 2) to develop innovative services and service delivery approaches that could increase opportunities for direct and indirect employment, particularly at the local level, which seemed weaker in its capacity to provide e-services; and 3) to continue improving performance monitoring with a focus on output and outcome indicators as well as improving cross-sector co-ordination among indicator systems and extend the monitoring system to all municipalities and types of services provided.

### *Enhanced access to local public services, including through e-services*

The primary recommendations made to support Sweden in its endeavour to keep providing quality public services all around the country focused on pooling services in rural areas and taking an innovative approach to service delivery. Facilitating service accessibility through web-based services requires ubiquitous access to broadband and

Internet. While the level of broadband deployment in Sweden's rural areas is high, a 2014 survey by the Swedish Post and Telecom Authority (PTS) indicates significant differences in the technology available. The same study shows that the degree of deployment can also vary substantially depending on the geographic area served (Ministry of Enterprise and Innovation, 2016). The government is addressing these disparities by making it easier for the regional level to co-ordinate efforts to provide high-speed (high-capacity) broadband service, for example. Municipal provision of e-services remains low, but the national government and the Swedish Association of Local Authorities and Regions (SALAR) are working to support a shift to digital services by local authorities. For instance, one initiative targeting municipalities strives to increase their awareness of the links between providing high-capacity broadband service and e-service demand; in other words, if the technical capacity is there, demand will grow.

In terms of services, healthcare and care for the aged have become particularly important, especially given the increase in the cohort of people over 65. In 1960, 11.8% of the population was over 65 years old; in 2014, 19.6% of the population was over 65. In the same time period, the actual number of people over 65 more than doubled, from just under 888 000 people in 1960 to just over 1.91 million in 2014 (Statistics Sweden, 2016). This increases the demand for healthcare and for services supporting an ageing population, and affects service delivery in a variety of ways, including with respect to capacity, types of services necessary or available, accessibility, quality and financing. To address the issue of healthcare, particularly in sparsely populated areas, Sweden has emphasised new and innovative solutions, including by building e-health services and establishing the Swedish eHealth Agency (*eHälsomyndigheten)* in 2014. The agency's aim is to improve healthcare through the development of a national e-health infrastructure, focusing its activity on public involvement and supporting professionals and decision makers. For example, the agency stores and transfers electronic prescriptions issued in Sweden to ensure faster, more flexible and secure prescription management. It is responsible for the nation's drug statistics and for developing a personal healthcare account where individuals can save, view and manage their health profile (eHälsomyndigheten, n.d.).

As a result of a public investigation on services in sparsely populated areas *(Service i glesbygd, SOU 2015:35)* the government committed to, and parliament approved (via its 2016 Budget Bill), an increase in spending by SEK 36 million per year for these areas. The aim is to provide access to a basic level of commercial services, for instance grocery stores, as well as to improve the co-ordination among different forms of services, such as pharmacy agents, postal and payment services.

### *Extending the Open Comparison Indicator System beyond health and education services*

In 2010, Sweden's indicator system, "Open Comparison" (*Öppna Jämförelser*), was applied only to health and education services. Since then, the system has been further developed with comparative indicators available in five categories, each with subsections: business, healthcare, urban planning and security, school, society (SALAR, n.d.). The system permits comparisons on quality, results and costs for municipalities, counties and regions, and according to national government sources it is frequently used by subnational authorities. Complementing "Open Comparison", Sweden is also developing an indicator system to measure well-being at the region level, which will include indicators in 16 different areas ranging from civic engagement and democratic

participation to income and wealth, housing, training and skills and accessibility of services (REGLAB, 2016).

### *Limited adjustments in local finances and in the equalisation policy*

The 2010 OECD territorial review called for improved transparency of the equalisation system and for adjusting the equalisation system in order to limit its potential disincentive effect. Sweden has taken steps to enhance the transparency of the equalisation process with continuous monitoring and published reviews of the equalisation system. In 2011, a Parliamentary Commission inquiry[14] released its review of the local government equalisation system, which included proposals to enhance the system's transparency, for example by simplifying the calculations in cost equalisation. In 2014, the government adopted a Budget Bill proposing that the wealthiest municipalities receive a reduction in their contribution to the income equalisation system as a means to ease concerns that the system would depress economic growth. It should be noted, however, that the 2011 Commission report, as well as interim reports, concluded that the system as originally established (prior to the 2014 Budget Bill) did not depress economic growth. In the 2016 Budget Bill, therefore, the equalisation system was again adjusted to align with the government's position that far-reaching equalisation is necessary in order to ensure that all residents have access to quality public services.

### *Limited diversification of local revenue sources*

The OECD has consistently recommended that Sweden reinstate property tax as a subnational tax (OECD, 2010, 2015). It is generally agreed that subnational authorities should rely on taxing assets that are: 1) relatively immobile, such as property (considered the most appropriate tax for the subnational level) in order to avoid tax-base migration; and 2) relatively stable to avoid large subnational government budget fluctuations (OECD/KIPF, 2012). Currently, reinstating property tax as a subnational tax is not on the government's agenda.

Although there is not a property tax at the local level, in 2009 Sweden introduced a financing instrument called a "real estate fee". By introducing the new revenue source, the government hoped to stimulate local government efforts to attract investment and construction in their areas (SALAR, 2016). A recent report by SALAR (2016) claims that the first experiences of the revenue have been mixed: although the revenues have grown comparatively fast since introduction, the system has been criticised for being complicated and for the uneven distribution of revenues.

Sweden does use private-sector-based solutions for social services, including those to reach an ageing population. Yet, there appear to be several challenges with this approach. First, such solutions can be difficult to apply in smaller municipalities and in sparsely populated parts of the country, as often the cost of service delivery is greater under these circumstances, and they present a less attractive market for private sector providers. Second, the quality of services provided is not always sufficient. And finally, such an approach can come under significant criticism, adding a political dimension to consider as well.

Public-private partnerships (PPPs) are another market-type solution for service delivery, particularly in cases of infrastructure. The 2010 OECD territorial review argued that although PPPs should not be considered a "magic tool" and should be used with caution, they sometimes provide interesting options for long-term investments, especially

in infrastructure. Six years later, PPPs remain very infrequently used in Sweden. The large majority of Swedish investment in transport infrastructure is financed using taxpayer contributions, most directly through the budget. Charging road users exists to a small extent, for example in the rail sector and in some specific road projects.

## Conclusion

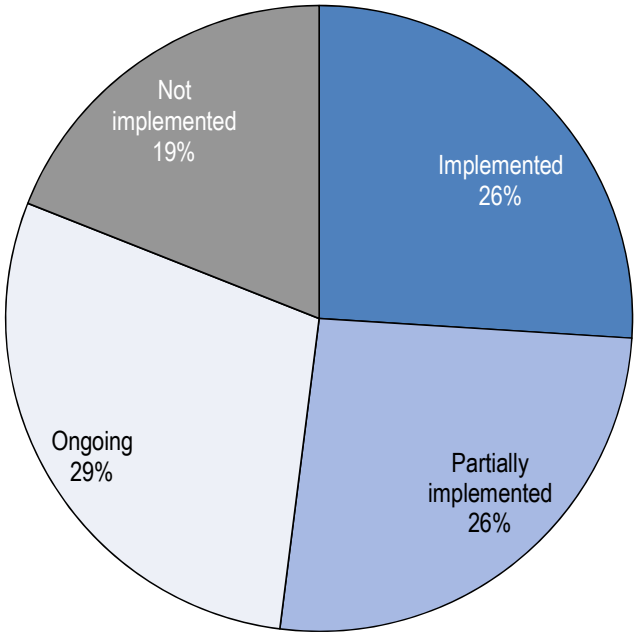
Since the 2010 OECD territorial review, Sweden has continued to pursue its twin objectives of regional growth with territorial equity. On the whole, Sweden has taken diverse steps to implement, either fully or in part, the OECD 2010 recommendations, both on policies and governance. Overall, just over one-quarter of the OECD 2010 recommendations have been implemented, with another one-quarter partially implemented, and less than 20% not implemented (see Annex 1.A1). There are a significant number, almost one-third, where implementation is ongoing. Chapters 2 and 3 will focus in depth on rural development policy and multi-level governance, and provide a renewed set of recommendations in these areas.

*Annex 1.A1*

# Status of the implementation of the OECD's 2010 recommendations

This annex summarises key recommendations made in previous OECD surveys and actions taken since the 2010 OECD territorial review published in February 2010.

Figure 1.A1.1. **Summary of implementation status of recommendations from the 2010 OECD Territorial Review**




*Source*: authors' calculations.

Table 1.A1.1. **Summary of Implementation Status of Recommendations from the *OECD Territorial Reviews: Sweden 2010***
**Chapter 2: Exploiting cross-sector synergies through regional policy in Sweden**

| Policy or action area | OECD recommendation specifics | Implementation status[1] | | | |
|---|---|---|---|---|---|
| | | Implemented | Partially implemented | Ongoing | Not implemented |
| Research and innovation policy | Implement the 2008 Bill on Research and Innovation | ● | | | |
| | Increase involvement of County Councils in regional innovation policy | | | ● | |
| Regional labour force policy: Employability | Improve the role of regional universities in tackling youth unemployment | | | ● | |
| | Enhance incentives for workers to join the labour market | | ● | | |
| | Improve integration of immigrants into the labour market | | | ● | |
| Regional labour force policy: Entrepreneurship | Further integrate measures for entrepreneurship and business support into a comprehensive, cross- sector development strategy | ● | | | |
| | Establish partnerships with local development organisations to increase local capacity for meeting economic potential | | ● | | |
| Green growth and renewable energy policy | Optimise the potential of renewable energy | ● | | | |
| Rural development policy | Develop rural tourism by valorising region-specific assets | | | ● | |
| | Search for creative solutions in public service delivery and business development | | | ● | |
| | Better integrate rural development in regional development work to enhance the co-ordination of regional and rural development policies | | | | ● |
| | Aim for greater devolution of regional development competencies to regional actors | | ● | | |
| | Further strengthen urban-rural links to improve the competitiveness of both types of areas | | | ● | |
| Transport investment | More effectively integrate infrastructure policies with other sector policies, for example via a new joint traffic agency | ● | | | |
| Cross-border policy | Build on cross border collaboration via the EU Strategy for the Baltic Sea Region | ● | | | |

*Note*: 1. As of the second quarter of 2016.

Table 1.A1.2. **Summary of Implementation Status of Recommendations from the *OECD Territorial Reviews: Sweden 2010***

**Chapter 3: Reconsidering multi-level governance arrangements for more effective regional development in Sweden**

| Policy or action area | OECD recommendation specifics | Implementation status[1] | | | |
|---|---|---|---|---|---|
| | | Implemented | Partially implemented | Ongoing | Not implemented |
| Institutional co-ordination and regional governance | Giving the responsibility for regional development to County Councils | | • | | |
| | Strengthening co-ordination across levels of government for regional development | | • | | |
| | Consider further merging certain counties (in particular in the Stockholm area) | | | | • (not implemented but discussion underway; see Chapter 3) |
| | Improve co-ordination with national administration at county/regional level | | • | | |
| | Expand the benefits of agglomeration economies and urban-rural linkages with closer co-ordination of policies and actors at the functional regional scale | | | • | |
| | Reconsider means of co-ordination across levels of government to bridge gaps in regional policy co-ordination between national and regional actors | | • | | |
| Multi-level governance arrangements | Ensure a stronger "contractual" dimension to regional development programmes | | | | • |
| | Introduce new co-ordination tools at the national level (e.g. a national group of state secretaries) | • | | | |
| Ensuring cost-effective public service delivery | Facilitate pooling services in rural areas and focus on innovative services with additional co-ordination public and commercial services | | • | | |
| | Continue taking an innovative approach to service delivery through better access to web-based services and e-services at the local level | | | • | |
| | Consider extending the system of performance monitoring to all Swedish municipalities and all public services | • | | | |
| Equalisation policy | Enhance the transparency of equalisation | • | | | |
| | Address cost equalisation and new challenges | | | | • |
| | Limit the potential fiscal disincentive effect of equalisation | | | | • |
| Local level fiscal policy | Reinstitute a property tax at the subnational level | | | | • |
| | Make more use of certain market tools to sustain the financing necessary to meet long-term challenges | | | • | |

*Note*: 1. As of the second quarter of 2016.

# *Annex 1.A2*

## Trends in OECD regional well-being indicators

Table 1.A2.1. **Changes in trends of regional well-being: Sweden 2000-13**

| OECD regional well-being dimension | OECD regional well-being indicator | Sweden Total (SWE) | | Stockholm (SE11) | | East Middle Sweden (SE12) | | Småland with Islands (SE21) | | South Sweden (SE22) | | West Sweden (SE23) | | North Middle Sweden (SE31) | | Central Norrland (SE32) | | Upper Norrland (SE 33) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 |
| Education | Labour force with at least secondary education (%) | 80.7 | 83.1 | 85.3 | 85.2 | 80.1 | 82.2 | 75.2 | 80.5 | 79.6 | 82.3 | 79.3 | 82.6 | 79.0 | 82.1 | 80.3 | 82.9 | 84.1 | 86.9 |
| Jobs | Employment rate (%) | 74.6 | 76.3 | 78.6 | 79.7 | 73.6 | 73.7 | 76.7 | 77.1 | 71.5 | 73.9 | 75.0 | 77.1 | 72.7 | 75.2 | 72.4 | 74.8 | 70.8 | 74.2 |
| | Unemploy-ment rate (%) | 5.1 | 8.0 | 3.4 | 6.8 | 5.3 | 8.6 | 4.0 | 7.2 | 6.4 | 9.5 | 4.7 | 7.7 | 6.4 | 8.7 | 6.7 | 8.1 | 7.0 | 7.6 |
| Income[1] | Household disposable income (constant USD PPP) | 14 082 | 16 989 | 16 924 | 19 783 | 13 529 | 16 270 | 12 997 | 16 030 | 13 592 | 16 186 | 13 714 | 16 797 | 12 754 | 15 522 | 12 964 | 15 833 | 12 753 | 16 989 |
| Safety[2] | Homicide rate (per 100 000 people) | 1.0 | 0.9 | 1.5 | 1.1 | 1.0 | 0.5 | 0.5 | 1.1 | 0.9 | 0.9 | 1.1 | 1.1 | 1.1 | 0.6 | 0.7 | 1.1 | 0.6 | 1.0 |

Table 1.A2.1. **Changes in trends of regional well-being: Sweden 2000-13** *(continued)*

| OECD regional well-being dimension | OECD regional well-being indicator | Sweden Total (SWE) | | Stockholm (SE11) | | East Middle Sweden (SE12) | | Småland with Islands (SE21) | | South Sweden (SE22) | | West Sweden (SE23) | | North Middle Sweden (SE31) | | Central Norrland (SE32) | | Upper Norrland (SE 33) | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 | 2000 | 2013 |
| Health[2] | Mortality rate (per 1 000 people) | 8.7 | 7.5 | 8.4 | 7.2 | 8.7 | 7.5 | 8.5 | 7.4 | 8.5 | 7.5 | 8.5 | 7.4 | 9.2 | 7.9 | 9.2 | 8.2 | 9.2 | 8.1 |
| | Life expectancy (# of years) | 79.8 | 81.7 | 80.2 | 82.2 | 79.9 | 81.8 | 80.0 | 81.9 | 80.0 | 81.8 | 80.2 | 81.9 | 79.3 | 81.2 | 79.5 | 80.9 | 79.3 | 81.1 |
| Environment[2] | Air pollution (PM 2.5 level) (µg/m³) | 8.3 | 7.2 | 7.7 | 6.5 | 7.4 | 6.3 | 9.0 | 7.5 | 13.0 | 12.0 | 9.0 | 7.9 | 6.2 | 5.0 | 3.8 | 3.9 | 3.9 | 3.5 |
| Civic engagement | Voter turnout (%) | 80.1 | 84.6 | 80.9 | 85.0 | 80.9 | 85.3 | 81.3 | 85.2 | 79.0 | 83.3 | 80.1 | 84.9 | 78.4 | 83.6 | 78.8 | 84.1 | 80.7 | 85.1 |
| Accessibility to services[3] | Broadband access (% households) | 72.3 | 86.5 | 76.7 | 90.0 | 72.3 | 85.5 | 68.3 | 85.0 | 73.3 | 87.5 | 72.3 | 85.5 | 71.3 | 81.5 | 67.0 | 83.0 | 69.3 | 86.0 |
| Housing | # of rooms per person (rooms per person) | n.a. | 1.7 | n.a. | 1.6 | n.a. | 1.7 | n.a. | 1.9 | n.a. | 1.7 | n.a. | 1.7 | n.a. | 1.8 | n.a. | 1.8 | n.a. | 1.8 |

*Notes*: 1. Data period for Income: 2000-11. 2. Data period for Safety, for Health, for Environment: 2000-12. 3. Data period for Accessibility to Services: 2007-12.

*Source:* OECD (n.d.), "OECD Regional Well-Being Indicators, Data File", *OECD Regional Well-Being Index,* www.oecdregionalwellbeing.org/index.html (accessed 3 February 2016).

# Notes

1. 2013 is the most recent year of data available; the exception is in 2005, where it ranked 12th, just behind the United Kingdom and ahead of Denmark (OECD, 2016a).
2. The chapter is based on information received in February 2016 from Sweden's Ministry for Enterprise and Innovation in response to an OECD questionnaire, from a series of interviews conducted in Stockholm with representatives of Sweden's national and subnational authorities in early April 2016, from desk research, and from a review of relevant OECD literature and thematic policy reviews.
3. 2013 is the most recent year for which OECD data is available for inflows of foreign-born population and asylum seekers.
4. There are a total of eight well-being dimensions in the *OECD Regional Well-Being* indicator set: education, jobs, income, safety, health, environment, civic engagement, accessibility to services, housing.
5. The exceptions are in the categories of safety, which has dipped very slightly; and jobs, where unemployment has increased, together with employment.
6. Since 2010, Sweden has continued to opt for national strategies on regional development rather than Regional Policy Bills, which are binding and require parliamentary approval. The last Regional Policy Bill dates from 2001.
7. Under the current government, these are: employment, environment and gender equality.
8. The term "immigrants" encompasses individuals immigrating to Sweden but not seeking asylum ("foreign-born population") plus persons arriving in Sweden seeking asylum ("asylum seekers").
9. The development of research and innovation policy in Sweden occurs primarily through a series of renewable government bills. Thus, for example, the 2008 bill was updated through a bill introduced in 2012. This 2012 bill will be renewed by one planned for autumn 2016, which will address new challenges as well as those remaining from past bills.
10. This platform offers advice to EU countries and regions in the design and implementation of research and innovation strategies for smart specialisation.
11. For more information, see http://sverigeforhandlingen.se/english.
12. The current Regional Development Strategies (RUS) are an extension of the former Regional Development Programmes/Regional Growth Agreements; the concept remains the same, but the name has changed.
13. Municipal mergers occurred extensively in the 1960s and 1970s when the number of municipalities dropped from 2 000 to 278. Today, there are 290 municipalities.

14. *Utjämningskommittén*.08 (*Likvärdiga förutsättningar – Översyn av den kommunala utjämningen*, *SOU 2011:39).*

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# *Chapter 2*

# Improving rural policy development in Sweden

*The purpose of this chapter is to provide recommendations about how to improve Sweden's rural policy framework. The chapter begins with an analysis of rural definitions in Sweden and, drawing on the OECD typology, suggests a way forward for applying a commonly agreed definition for rural policy decision making. The second part of the chapter assesses the growth of Sweden's rural regions, and in particular the role of the tradeable sector in influencing growth performance. The third part of the chapter examines the key elements of a new rural policy for Sweden and how to improve the governance of rural and regional policies. The final section of the chapter suggests some principles and directions for future rural policy development in Sweden.*

## Key findings and recommendations

### Key findings

- Rural regions in Sweden face long-term challenges associated with population ageing and increasing global competition. Compared to the rest of the OECD these regions have relatively high levels of prosperity and well-being, and disparities between regions are low. Population ageing will continue to reduce the number of workers available for local businesses. Increasing effort will have to be put into raising productivity, particularly in the tradeable sector, and ensuring businesses participate in higher value activities. Improving the attractiveness of rural places by investing in local infrastructure, amenities and services will also be important to create opportunities for people to live in rural areas. Beyond the averages there is a significant amount of variation in regional economic performance. There is an obvious north (natural resources) south (manufacturing) difference. In recent years the north has generally performed better due to its natural-resource-based industries. Within this division there are both stronger and weaker performers (for example Kalmar in the south has performed comparatively strongly while Västernorrland in the north has not). These findings emphasise the importance of rural policies that recognise and adapt to these differences, and seek to facilitate new economic opportunities by linking absolute advantages to smart specialisation strategies.

- Rural Sweden is relatively unique within the OECD because of the diversity of its rural landscape. Sweden has all types of rural areas within its national territory: from those within and in proximity to functional urban areas (FUAs), to remote rural areas. The southern part of the country is more densely populated than the north, while the north is characterised by different areas such as a sparsely populated interior with population concentrated in cities along the coast. In remote rural areas there are places that have very concentrated populations in few centres (such as Norrbotten), and others where the population is more evenly distributed (such as Jamtland-Härjedalen). The OECD typology is not well suited to describing this reality because of the large size and internal differences within these administrative regions and the fact that rural Sweden is characterised by a dispersed population with settlements of various sizes. Functional economic areas measured by labour market interactions provide a better way of capturing this diversity. These regions can be used as a basis for differentiating between different types of rural regions.

- Sweden has developed an approach that better reflects the diversity of its rural landscape but it needs to be applied consistently across government to improve rural policy decision making. The Swedish Agency for Growth Policy Analysis (*Tillväxtanalys*) has developed its own territorial classification largely adapted from the OECD taxonomy. The basic classification contains three types of municipalities, which are determined by identifying: municipalities with less than 20% of their population in rural areas and a total population of at least 500 000 in adjacent municipalities (predominantly urban); other municipalities with less than 50% of their population in rural areas (intermediate); and municipalities with at least 50% of their population in rural areas (predominantly rural). This methodology has also been applied to the analysis of functional labour markets (FLMs), which are identified through the analysis of journey-to-work data. Applying this definition consistently across state agencies would help enable the capacity to tailor and co-ordinate public policies in order to match the challenges and opportunities facing different rural places.

## Key findings and recommendations *(continued)*

Sweden is currently conducting a Parliamentary Inquiry into rural policy and has a strategic opportunity to evaluate and improve its approach to rural development. There is also a review underway in relation to the geographic boundaries of regions. This inquiry and the review provide a significant opportunity to reconsider regional and rural policies in Sweden. Historically, rural policy has focussed on sectoral support for agriculture, and state aid for businesses located in sparsely populated areas. With accession to the European Union, Sweden has also introduced the standard programmes from the Common Agricultural Policy (CAP) and the European Regional Development Fund (ERDF). This has led to Sweden having rural programmes, but not a coherent national rural policy. The Inquiry provides an opportunity to rethink this approach and move toward one that is both broader - in that it provides a framework in which EU programmes and national sectoral and welfare programmes are better integrated, and is territorially sensitive – in that it recognises the major differences across rural Sweden, in particular those between the north and the south. Strengthening the role of political bodies at a regional level in setting priorities, and improving co-ordination with regional, rural and sectoral policies will improve its effectiveness.

Policy complementarities are based on the principle that mutually reinforcing policies generate higher returns. This is important because policies — territorial and sectoral — are more effective where they are co-ordinated and aligned along similar goals and objectives, and adapted to the particular circumstances of rural places. There are two key areas where Sweden can take action to further realise the complementarities for rural development: spatial planning and service delivery. Currently, there are no rules or incentives to facilitate the development of strategic spatial plans at a regional scale. Land-use planning now occurs only at the municipal level, and interrelationships at a functional or regional scale are not properly accounted for. Mechanisms to link infrastructure and land-use planning are also weak. Sweden's model of service delivery has a number of benefits, including equity of service provision, and local accountability for the quality and efficiency of service delivery. However, nationally designed rules and funding arrangements are not always suited to sparsely populated areas, and there is a lack of incentives for social innovation and co-operation between municipalities at a functional scale.

**Recommendations**

1. Apply a commonly agreed spatially differentiated definition of rural areas that builds on the existing work undertaken by Swedish Agency for Growth Policy Analysis, and provide support for it to be used consistently across government.
2. Develop a whole-of-government rural policy framework in collaboration with sectoral ministries, regions and local communities which:
    a. articulates a clear vision and objectives for the development of rural Sweden based on a well-being framework with measureable outcomes
    b. identifies how national sectoral policies (e.g. innovation, spatial planning, transport, etc.) will be tailored and adapted to the needs and circumstances of different rural areas
    c. is complementary and integrates effectively with the existing regional growth policy.

### Key findings and recommendations *(continued)*

3. Ensure this rural policy framework has mechanisms to facilitate and monitor implementation, which includes:
   a. allocating responsibility for implementing regional growth and rural policy at a regional level to the political body (either a County Council or County Co-ordination Body) currently responsible for regional growth policy, and tasking them to prepare an integrated regional and rural development strategy (in the case where a County Administrative Board [CAB] is responsible for regional growth policy this responsibility should be transitioned to a regional policy body)
   b. ensuring these strategies are based on the identification of regional needs, priorities and assets for urban and rural areas (and not constrained by EU priorities or funding rules), and is prepared in a collaborative way with CABs, municipalities, local action groups (LAGs) and other key stakeholders tasking CABs to negotiate binding commitments from national sectoral ministries about how they will tailor and adapt policies to deliver on the regional and rural strategies prepared by each region
   c. establishing a National Rural Advisory Committee made up of representatives from subnational governments, business, communities and the third sector, which reports to the Prime Minister's Office, and provides advice and act as champions for the development and implementation of the rural policy
   d. implementing improved guidance and tools for policy makers to take better account of rural needs and issues in the design and implementation of sectoral policies at a national and subnational level
   e. creating a national rural development fund, which subnational governments and third sector actors can use to leverage CAP Pillar 2 and ERDF and other funds to deliver outcomes in line with the national rural policy priorities, and regional and rural development strategies at the county level.
4. Support regions to deliver better services and realise policy complementarities by:
   a. reducing administrative/regulatory barriers and developing stronger incentives for regions and municipalities to broker innovative service delivery solutions for rural communities (with a particular focus on supporting social entrepreneurs and the third sector)
   b. allocating a spatial planning competency to the County Councils, and ensuring these regional spatial plans are integrated with planning for regional transport and communications infrastructure (thereby helping to facilitate urban-rural linkages and complementarities in land use and infrastructure between different rural municipalities) ensuring that proposals for regional and municipal mergers properly consider the costs and benefits of these changes for families and communities in low-density areas.

## Introduction

Rural Sweden makes an important contribution to the economy of Sweden mainly through the production and export of goods and services related to its endowment of natural resources. This includes the typical production of: wood and pulp, minerals, agriculture and energy, but also a wide range of nature-based tourism activities that attract people from urban Sweden and abroad. Increasingly, many rural areas also face challenges in terms of population ageing and decline, and the ability to maintain access to public services in more remote areas. Sweden currently does not have a coherent rural policy, and existing programmes and investment are not effectively mobilised to improve well-being and promote growth in rural areas. This chapter aims to address these issues

and provide recommendations about improving Sweden's rural policy framework. The chapter finds that the current approach to rural development is not broad enough in scope, nor is it effectively integrated with regional and sectoral policies. This can be addressed by: 1) applying a commonly agreed definition of rural areas that differentiates among different types of regions and their functional relationships; 2) strengthening the role of political bodies at a county level in the governance and funding of regional and rural policies; and 3) better adapting national sectoral policies to the needs of rural communities. The chapter begins with an analysis of rural definitions in Sweden and assesses the limitations of the OECD typology in the Swedish context. The second part of the chapter assesses the growth of Sweden's rural regions, and in particular the role of the tradeable sector[1] in influencing growth performance. The third part of the chapter examines the key elements of a new rural policy for Sweden and how to improve the governance of rural and regional policies. The final section suggests some principles and directions to guide the future development of rural policies in Sweden.

## Defining rural areas

Recent definitions recognise that there are many kinds of rural regions. These definitions are important because they provide the basis for understanding different opportunities and challenges facing rural areas, and provide a common basis for organising policy responses to them. This section begins by providing an overview of the OECD work on rural definitions. While the OECD has developed a specific definition that is useful for its work, individual OECD countries continue to explore alternative definitions that can better suit their particular needs. The current definitions used in Sweden are then outlined. Sweden has multiple definitions of rural areas and some definitions that do not differentiate between different types of rural areas or the functional relationships between rural and urban settlements. The final part of this section evaluates recent work undertaken to improve rural definitions that draw these distinctions and functional relationships. This work provides the basis for a commonly agreed rural definition for Sweden.

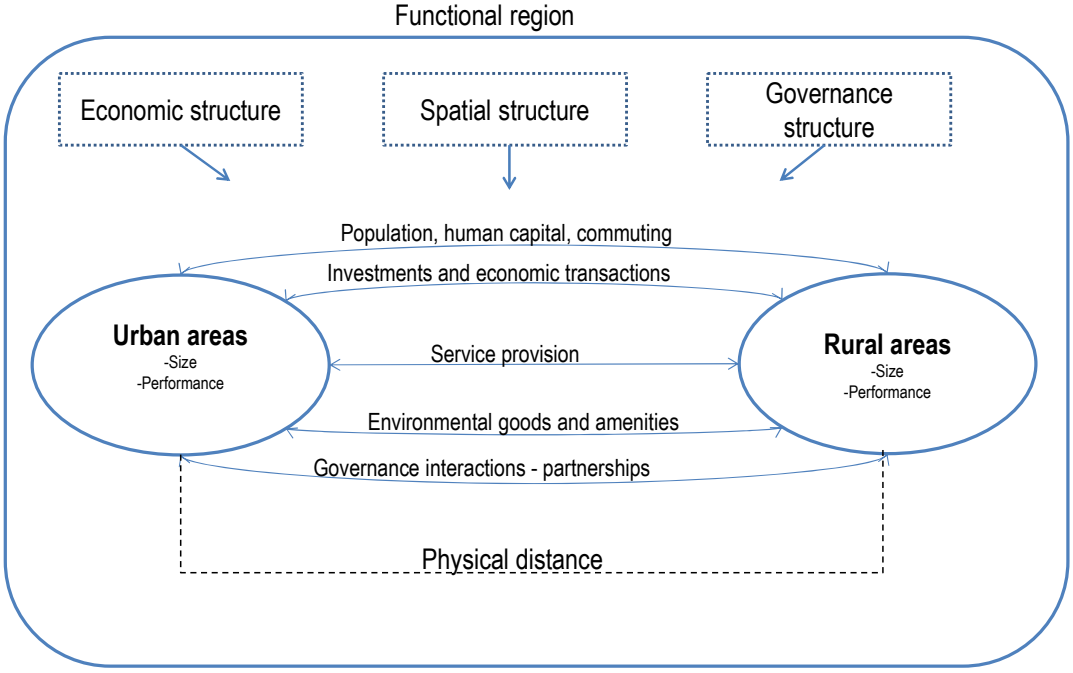
### *Definitions are important because they provide the basis for understanding the growth dynamics of different rural areas and organising policy responses to them*

There is no internationally recognised definition of a rural area and there are ongoing debates about how best to define the concept. But, it is generally recognised that "rurality" is a multidimensional concept, which can embody different meanings for different purposes. For example, as: a geographical/spatial concept, a socio-economic or socio-cultural descriptor, a functional concept related to, for instance, labour market flows, or simply as "not urban". One way to understand rural is through identifying differences in rural and urban linkages as a function of distance of a rural place from an urban agglomeration.

Urban and rural territories are interconnected through different types of linkages that often cross traditional administrative boundaries (OECD, 2013a). These interactions can involve: demographic, labour market, public and private services and environmental considerations. They are not limited to city-centred local labour market flows and can include bi-directional relationships, such as depicted in Figure 2.1 with urban-rural functional linkages. Each type of interaction encompasses a different geography forming

a "functional region". The complexity of the relationships can be represented along an urban-to-rural continuum from more to less densely populated areas and variance in between. While there are no sudden breaks in these spatial relationships, there is great diversity in the size and types of interconnections.

Figure 2.1. **Urban-rural functional linkages**




*Source*: OECD (2013a), *Rural-Urban Partnerships: An Integrated Approach to Economic Development*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264204812-en.

Figure 2.2 in the next section further illustrates the concept. It depicts a distribution of urban (large dots) and rural (small dots) scattered through space showing a variety of relationships based on location, proximity and density characteristics — moving from more to less concentrated settlements, looking left to right. Such spatial distinctions can have important considerations for public policy, because the range of opportunities and constraints facing any particular place vary with its location, and this has implications for jobs, services and infrastructure development, among other considerations.

In developing definitions of rural areas, the unit of analysis plays an important role. The choice is between a functional unit, based on observed behaviour, or an administrative unit based on political boundaries. Functional definitions better capture complex economic flows and interactions between highly linked urban and rural places. Conversely, administrative units are better suited for the design and delivery of public services and managing public administration. It is also necessary to recognise that the unit of analysis for constructing definitions of types of "rural" must also correspond to the units of analysis used for examining regions. This is required because both types of regions exist within a single government framework, as well as in an integrated economic system. Typically multiple units of analysis exist within a region with each being used for a particular purpose. While administrative boundaries are needed, however, for effective

service delivery, they can be poor choices for developing broader rural development strategies and policies.

For the purpose of international comparisons, the OECD has over time developed a typology of TL3 regions (see Box 2.1 further below). OECD countries are gradually moving toward defining rural regions by better understanding local labour markets, urban rural interactions, and distances to cities. While local labour markets reflect the relationship between where people work and reside, they also capture the territorial aspect many of the other socio-economic relationships in a region, such as where people shop, access public services, or participate in social and cultural organisations. Population density and size of settlement play a large role in both the size and scope of local labour markets and this in turn affects development opportunities. Proximity to a larger urban centre also provides opportunities that are not available to residents and firms located in more distant places. Currently the OECD rural typology has three types of rural.

### *Broadly speaking, in the OECD approach, there are three types of rural, with different degrees of linkages with metropolitan regions*

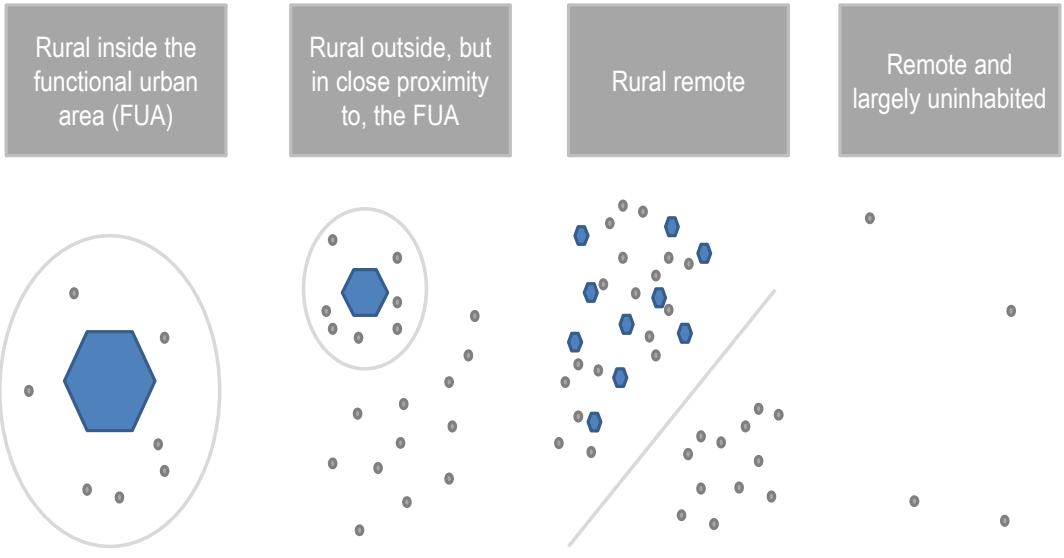
The organising concept of using differences in the degree of interaction of rural with urban as a mechanism for categorising rural leads to the following typology. There are: 1) rural areas within a functional urban area (FUA); 2) rural regions close to an FUA; 3a) remote rural regions where settlements are near each other, which allows strong interactions; and 3b) remote rural regions where settlements are few and widely dispersed, which limits interactions (see Figure 2.2). Each type has distinct characteristics, challenges and policy needs:

1. **Rural regions within a functional urban area (FUA)**: These types of rural regions are an integral part of the catchment area of the urban core and their development is fully integrated within a metropolitan area. They are the low population density, peri-urban parts of a metropolitan area that are attached to the urban core by bi-directional commuting and have full access to all the goods and services within the metropolitan region.
2. **Rural regions close to an FUA**: These regions have strong linkages to a nearby FUA, but are not part of its labour market. There are strong multi-dimensional flows of goods, environmental services and other economic transactions. Even if the urban and rural labour markets are not integrated, much of the growth in the rural region is connected to growth of the FUA (for example through supply chains and recreational opportunities for people living in the metropolitan area). The majority of the rural population in OECD countries live in this type of rural region.
3. **Remote rural regions**:
    a. **Remote rural regions with dense settlements**: These regions are distant from an FUA, but the settlement pattern is relatively dense, with either individuals distributed across the landscape on farms or living in a relatively dense pattern of small communities spread across the landscape. Connections to FUAs largely come through market exchange of goods and services, and there are only limited and infrequent personal interactions outside the rural region, but there are good connections within the region. While there are typically multiple local labour markets they tend to be adjacent to each other, allowing easy flows across boundaries when employment conditions change.

The local economy depends to a great extent on exporting the output of the primary activities of the area. Growth comes from building upon areas of absolute and comparative advantage, improving connectivity to export markets, matching skills to areas of comparative advantage and improving the provision of essential services (e.g. tourism). This is the most common type of remote rural region across OECD countries, and is common in the south of Sweden.

b. **Remote rural regions with sparse settlements:** These regions are located a long distance from an FUA with a relatively sparse settlement pattern, with individuals living in a pattern of unconnected small communities across the landscape. Connections to FUAs largely come through market exchange of goods and services, and there are less personal interactions outside the rural region, and within the region. While there are typically multiple local labour markets they tend to be autonomous or self-contained with long distances between any two markets limiting the ability for easy flows across boundaries when employment conditions change. The local economy depends almost completely on exporting the output of the primary activities of the area. Growth comes from building upon areas of absolute advantage, improving connectivity to export markets, matching skills to areas of advantage and improving the provision of essential services (e.g. tourism). This type of region is generally found in those parts of geographically large OECD countries where farming plays a minor role in land use, such as in the northern, non-coastal part of Sweden.

Figure 2.2. **Different types of rural**




*Note*: The circle delimits the functional urban areas, the blue hexagon represents the urban part of the FUA, while the small grey dots represent rural communities.

*Source*: Author's own work.

*Because they are structurally different, the three types of rural regions face different development challenges*

Understanding the common challenges and opportunities within each of the three categories leads to the possibility for shared action and/or more effectively targeted policy responses. Table 2.1 summarises these challenges and opportunities.

1. For **rural areas within the catchment area of the urban core (FUA)**, their development is intimately linked to that of the city. The main challenges facing this type of rural region are: 1) maintaining internal services, as shopping and public services concentrate in the core area; 2) matching of traditional rural skills to the requirements of the now urban labour market; and 3) managing land-use policy brought on by increasing pressures from the urban core.
2. **Rural areas that are close to FUAs** often enjoy a good industrial mix, which makes their local economies more resilient. Often, they are able to attract new residents. The economic and social diversity of rural areas that are close to FUA can pose challenges such as competition for land and landscape in the case of economic activities, and different needs and visions between old and new residents. Conflicts over development patterns can occur between these regions and the nearby FUA.
3. (3a.) For **remote rural regions with a relatively dense settlement pattern**, primary activities, particularly agriculture, play a strong role in the regional economy. Growth comes from: building upon areas of absolute and comparative advantage, improving connectivity to export markets, matching skills to areas of comparative advantage, and improving the provision of essential services. While resources play a major role in the economy, manufacturing by local small and medium-sized enterprises (SMEs) can be significant in places where the local labour market can support these firms. These regions can face challenges in retaining and attracting workers and tend to have weak service delivery mechanisms. The dense settlement pattern does provide the advantage of relatively strong worker flows across adjacent local labour markets when employment conditions change in any individual local labour market.

   (3b.) For **remote rural regions with a sparse settlement pattern**, site-specific primary activities, such as mines, or pulp mills, tend to dominate the local economy. Settlements often have a single dominant employer, whose viability also determines the viability of the community. Growth comes from building upon areas of absolute advantage, improving connectivity to export markets, matching skills to areas of advantage and improving the provision of essential services. The local resource base can result in high levels of income and productivity, but it can also result in cyclical (or boom-bust) economies. These regions can face challenges in retaining and attracting workers and tend to have weak service delivery mechanisms, especially once they begin to experience economic decline. The sparse settlement pattern results in isolated local labour markets that restrict the ability to adjust to shifts in demand for workers. When employment opportunities change, adjustment requires that workers change their place of residence, since changing commuting patterns is not an option due to the long distance between local labour markets.

Table 2.1. **Challenges and opportunities faced by type of rural region**

| Type | Challenges | Opportunities |
|---|---|---|
| Rural inside functional urban area (FUA) | Activities tend to concentrate in core<br>Loss of rural identity<br>May be treated as a land reserve for future urban growth | More stable future because cities are less vulnerable to shocks<br>Potential to capture urban benefits and avoid negatives |
| Rural outside, but in close proximity to, FUA | Conflicts between new residents and locals<br>May be too far away from an urban area for some firms, but too close for others | Potential to attract high-income households seeking a high quality of life<br>Relatively easy access to advanced services and urban culture<br>Good access to transport |
| Rural remote with dense settlements | Ageing and shrinking workforce<br>Limited access to all but basic goods and services | Potential for internal collaboration among communities<br>Flexibility in local labour markets<br>May be attractive for firms that do not need access to an urban area on a regular basis<br>Access to natural amenities for people who live there |
| Rural remote with sparse settlements | Rigid local labour markets<br>Highly specialised economies subject to booms and busts<br>Limited connectivity and large distances between settlements<br>High per capita costs of services | Absolute advantage in production of a specific natural-resource-based output<br>Can offer unique environments that can be attractive to firms and households |

*Source*: OECD (2016a), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264260245-en.

### *Commonly used territorial definitions do not account for functional relationships and different types of rural areas*

The definition delimiting urban or built up areas in Sweden constructed by Statistics Sweden (SCB) identifies a number of *tätorter*, or localities, consisting of a group of buildings not more than 200 metres apart from each other, inhabited by over 200 persons. Localities are considered as built up areas. While a city, a town or a village may represent a locality, a *tätort* is a statistical concept that does not necessarily takes into account municipal and county boundaries. All areas that are not a *tätort* used to be called *glesbygd*, or sparsely populated areas. This was subsequently changed to *icke tätort*, or non-localities, possibly to avoid misunderstandings that this was a rural definition. Localities are normally redefined by Statistics Sweden every five years, following the expansion of built-up areas. This type of approach was common in OECD countries in the past, where rural was simply considered as "not urban", but increasingly OECD countries have recognised the need for a more explicit approach to defining rural.

According to the last update (2010), 85% of Sweden's population lives in localities, which is about 8 million people (the next update is due in late 2016). But, of course some of these localities consist of a place with 200 people. The share of population living in localities has slightly increased compared to the previous classification, with the total number of localities increasing by 17 between 2005 and 2010. While most of the population lives in localities, 99% of the national land area is non-localities. Population density is of 1 491 persons per square kilometre in built-up areas, compared to 3.5 persons per square kilometre in areas that are non-localities. There are a number of noticeable characteristics that emerge from this *tätort* definition:

- The entire territory is classified dichotomously as either a locality or non-locality.

- The definition focuses primarily on urban characteristics using population density on a small geographic unit and defining rural as the residual after urban is defined.
- Mixed areas where there are strong urban-rural linkages are not recognised.

Defining urban or built-up areas is an important part in developing a rural definition that acknowledges different types of rural areas. One definition of rural has been developed by the National Board of Agriculture, which is the managing authority for the country's rural development programme. The typology developed by the National Board of Agriculture includes four categories of municipalities mostly based on population size: metropolitan areas, urban areas, rural areas and sparsely populated rural areas. According to this classification, in Sweden there are 197 rural municipalities, of which 33 are sparsely populated. Rural municipalities represent 68% of the total number of municipalities, and 34% of Sweden' population lives in rural municipalities. This typology does draw some distinction between different types of areas; however, it does not account for functional geographies or the levels of accessibility of rural areas to cities. Other definitions have been developed by the former Swedish National Rural Development Agency (now a part of Swedish Agency for Growth Policy Analysis and Swedish Agency for Economic and Regional Growth) and by the Swedish Association of Local Authorities and Regions.

### *The OECD regional typology provides a way to understand different types of rural and urban regions, but has limitations in the Swedish context*

The OECD taxonomy defines TL3 regions as predominantly urban (urban from now on), intermediate and predominantly rural (rural from now on). This taxonomy, established in 1993 is designed for analysing international rural data. With this aim, it applies the same criteria and selects comparable units among OECD countries. The OECD scheme distinguishes between two levels of geography within nations: a local community level and a regional level. Local units are defined as basic administrative units or small statistical areas. *Kommuner* (LAU2) is the local unit used for Sweden. These are classified as either rural or urban using a population density threshold, which is of 150 inhabitants per square kilometre for most OECD countries, including Sweden. In a second step, TL3 regions that correspond to larger administrative units or functional areas, and reflect the wider context in which rural development takes place, are defined as predominantly urban, intermediate or rural with a criterion measuring the share of population living in rural communities (see Box 2.1).

In Sweden, TL3 regions correspond to counties. According to the OECD taxonomy, there are 8 TL3 rural regions, 12 intermediate regions and 1 urban region in Sweden (Table 2.2).

### Box 2.1. **OECD regional typology**

The OECD regional typology is part of a territorial scheme for collecting internationally comparable "rural" data. The OECD typology classified TL3 regions as predominantly urban, predominantly rural and intermediate. This typology, based on the percentage of regional population living in rural or urban communities, allows for meaningful comparisons among regions of the same type and level. The OECD regional typology is based on three criteria. The first identifies rural communities (*Kommuner* in Sweden) according to population density. A community is defined as rural if its population density is below 150 inhabitants per square kilometre (500 inhabitants for Japan to account for the fact that its national population exceeds 300 inhabitants per square kilometre). The second criterion classifies regions according to the percentage of population living in rural communities. Thus, a TL3 region is classified as:

- predominantly rural (rural), if more than 50% of its population lives in rural communities
- predominantly urban (urban), if less than 15% of the population lives in rural communities
- intermediate, if the share of population living in rural communities is between 15% and 50%.

The third criterion is based on the size of the urban centres. Accordingly:

- A region that would be classified as rural on the basis of the general rule is classified as intermediate if it has an urban centre of more than 200 000 inhabitants (500 000 for Japan) representing no less than 25% of the regional population.
- A region that would be classified as intermediate on the basis of the general rule is classified as predominantly urban if it has a urban centre of more than 500 000 inhabitants (1 000 000 for Japan) representing no less than 25% of the regional population.

*Source*: OECD (2014a), *OECD Rural Policy Reviews: Chile 2014*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264222892-en.

Table 2.2. **Swedish counties classified by the OECD regional typology**

| Region | OECD type 2016 | Region | OECD type 2016 |
|---|---|---|---|
| Stockholm County | PU | Skåne County | IN |
| Uppsala County | IN | Halland County | IN |
| Södermanland County | IN | Västra Götaland County | IN |
| Östergötland County | IN | Värmlands County | IN |
| Örebro County | IN | Dalarna County | PR |
| Västmanland County | IN | Gävleborg County | IN |
| Jönköping County | IN | Västernorrland County | PR |
| Kronoberg County | PR | Jämtland County | PR |
| Kalmar County | PR | Västerbotten County | PR |
| Gotland County | PR | Norrbotten County | IN |
| Blekinge County | PR | | |

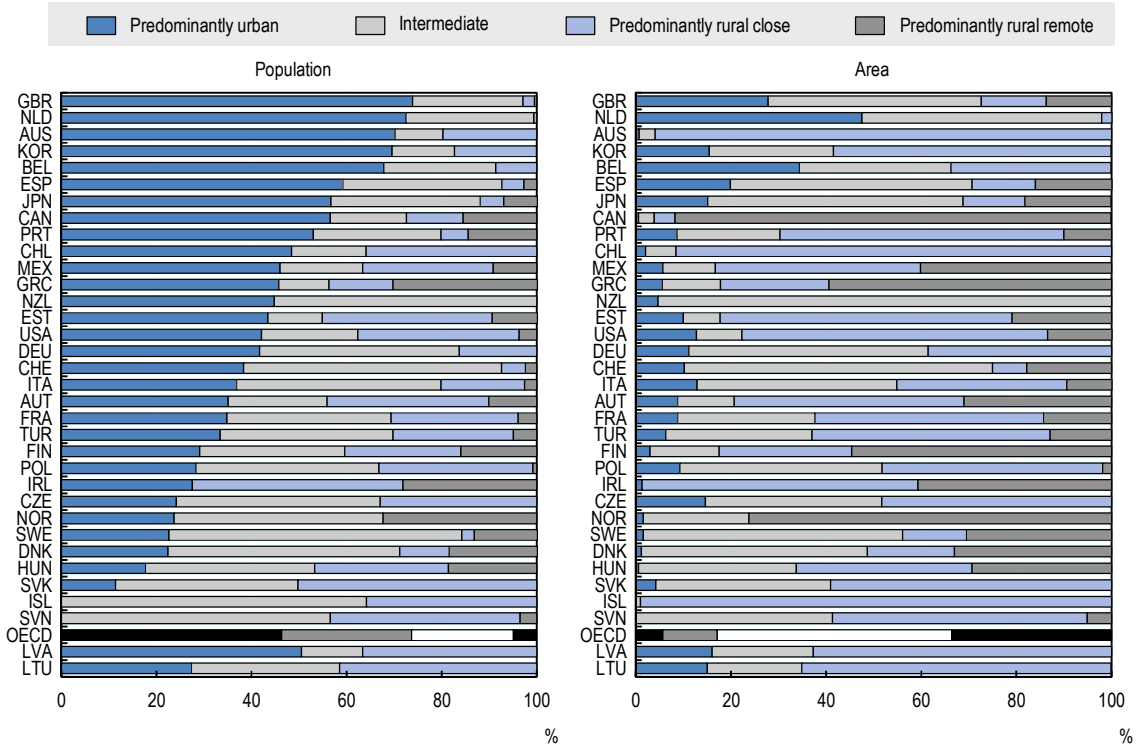
*Note*: PU: Predominantly urban; IN: Intermediate; PR: Predominantly rural.

Norrbotten is defined as intermediate when it has the characteristics of a rural economy because its population is concentrated in a small number of places, mainly in the coastal area. The population density of Norrbotten is 2.57 people per square kilometre compared to the OECD average of 343.39. The region's total land area is 97 257 $km^2$, which is about the size of Portugal. In addition, natural resources play an important role in the regional economy; for example, its resource endowments (iron ore), hydroelectricity and other renewable energy capacity, and attractive landscapes (mountains, lakes and rivers, wilderness areas).

*Source*: OECD (2016b), *OECD Regional Statistics* (database) http://dx.doi.org/10.1787/region-data-en.

In 2015, the majority of the Swedish population was living in intermediate regions (61.6%), followed by urban (22.6%) and rural (15.9%). The distribution of the working-age population follows a very similar pattern, with a minor shift from rural regions (15.4%) and intermediate regions (61.2%) towards urban regions (23.5%) (Figure 2.3). A relatively low proportion of Sweden's population lives in urban and rural regions compared to other OECD countries. In contrast, it has one of the largest shares of population living in intermediate regions. These represent more than half of the national land area (54%), followed by rural regions (44%). Given that Stockholm is the only county considered urban, it is not surprising that the share of the urban area is just 2% of the total.

Figure 2.3. **Distribution of working-age population and area by type of region, 2014**




*Source*: OECD (2016c), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

However, this approach has some clear shortcomings in the Swedish context. These largely reflect the problem of having very geographically large TL3 units with a dispersed population in settlements of widely varying size. This problem became exacerbated when in 1997 Sweden merged counties to reduce the number of regional governments. The consequence is that average population density levels fail to reflect actual conditions in the territory. As a result, the region can be identified as being intermediate when it is mainly rural (for example, Norrbotten). Similarly, the high population density along the western coast of Skane County is offset by much lower population densities of the interior municipalities, making it an intermediate region. This OECD taxonomy defining three types of regions was adopted by the European Commission in its early stages and by many OECD countries, mainly as a useful tool for analysis and international comparability due to its simplicity. However, most countries have found that for internal

policy-making purposes, a national typology of urban and rural is required to better match the specific distribution of population and economic activity across their territory (Freshwater and Trapasso, 2014).

The OECD taxonomy has been refined in recent years to an OECD extended typology defining five types of TL3 regions: predominantly urban, intermediate close to a city, intermediate remote, rural close a city and rural remote. The extended typology adds a distance criterion to urban centres and distinguishes between different types of intermediate and rural regions: those close to urban centres and remote. The main aim of the extended typology is to improve analytical results and international comparability (Box 2.2).

### Box 2.2. **OECD extended regional typology**

To account for differences among rural and urban regions, the OECD established a regional typology, classifying TL3 regions as predominantly urban (PU), intermediate (IN) or predominantly rural (PR). This typology proved to be a meaningful approach to explaining regional differences in economic and labour market performance. However, it did not take into account the presence of "agglomeration forces" or additional impacts of neighbouring regions. In addition remote rural regions typically face a different set of problems than rural regions close to a city, where a wider range of services and opportunities are commonly available.

The extended regional typology tries to discriminate between these forces and is based on a methodology proposed by the Directorate General for Regional Policy of the European Commission, which refines the current typology by including a criterion on the accessibility to urban centres. This allows distinguishing between remote rural regions and rural regions close to a city in terms of declining and ageing population, level of productivity and unemployment; and similarly it also distinguishes between intermediate regions close to cities and remote intermediate cities.

The extended typology is applied in the following steps:

- Regions are classified as predominantly urban (PU), intermediate (IN) or predominantly rural (PR) based on the share of population living in local rural areas within each region and size of the urban centres contained in the TL3 regions. A region previously classified as PR (IN), becomes IN (PU) if it contains an urban centre with at least 200 000 (500 000) inhabitants representing 25% of the regional population. These three categories are known as the OECD regional typology.
- In a second step, the OECD regional typology is extended by considering the driving time of at least 50% of the regional population to the closest centre of more than 50 000 inhabitants. This only applies to the IN and PR categories, since by definition the PU regions include highly populated localities. The result is a typology containing five categories: PU, INC, INR, PRC, and PRR.

*Source*: OECD (2014a), *OECD Rural Policy Reviews: Chile 2014*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264222892-en.

According to the extended typology, there are seven rural remote regions and one rural region close to a city in Sweden. In 2015, 13.2% of Sweden's population was living in rural remote regions and 2.7% in a rural region close to a city. As there are no intermediate remote regions in Sweden, intermediate regions close to a city are simply referred to as intermediate (IN). Almost one-third of the total land area is classified as rural remote while 13% is classified as rural close to a city (Table 2.3).

Table 2.3. **Swedish counties classified by OECD extended typology**

| Region | OECD type 2016 | Region | OECD type 2016 |
|---|---|---|---|
| Stockholm County | PU | Skåne County | IN |
| Uppsala County | IN | Halland County | IN |
| Södermanland County | IN | Västra Götaland County | IN |
| Östergötland County | IN | Värmlands County | IN |
| Örebro County | IN | Dalarna County | PRR |
| Västmanland County | IN | Gävleborg County | IN |
| Jönköping County | IN | Västernorrland County | PRR |
| Kronoberg County | PRR | Jämtland County | PRR |
| Kalmar County | PRR | Västerbottens County | PRC |
| Gotland County | PRR | Norrbottens County | IN |
| Blekinge County | PRR | | |

*Note*: PU: Predominantly urban; IN: Intermediate; PRC: Predominantly rural close to a city; PRR: Predominantly rural remote.

*Source*: OECD (2016b), *OECD Regional Statistics* (database) http://dx.doi.org/10.1787/region-data-en.

Clearly the extended taxonomy also fails to adequately address the problem of introducing an inappropriate classification, because it continues to use the same TL3 (county) units as the original typology. The use of administrative and political boundaries brings disadvantages, such as an arbitrary definition of a territory that often does not correspond to patterns of life, job markets and business flows. It is to no surprise that administrative boundaries of cities rarely contain the real extent of the built-up area around a city, nor do they capture all the important flows. The mismatch between functional and administrative boundaries can lead to difficulties in co-ordinating policies from different administrative units and miss out on potential synergies.

### *The OECD functional urban area definition*

As a response to this challenge, the OECD, in collaboration with the EU (Eurostat and EC-DG Regio), has developed a new approach for classifying functional urban areas with the aim of comparing the key functional areas among OECD countries in terms of economic activity. These metropolitan regions are made up of both urban and rural territory. By applying uniform definition and criteria, international comparability is assured and monitoring and comparing urban development within and across OECD countries is enhanced (see Box 2.3). The approach also differentiates functional urban areas of different sizes, providing new tools for better understanding urban dynamics for different size metropolitan regions. This work is developing at a time when the urban agenda is at the heart of policy debate in many OECD countries. Thus, redefining what is urban responds to governments' need for evidence to design better policies for different types of urban areas (OECD, 2012a).

## Box 2.3. OECD/EU methodology for defining functional urban areas

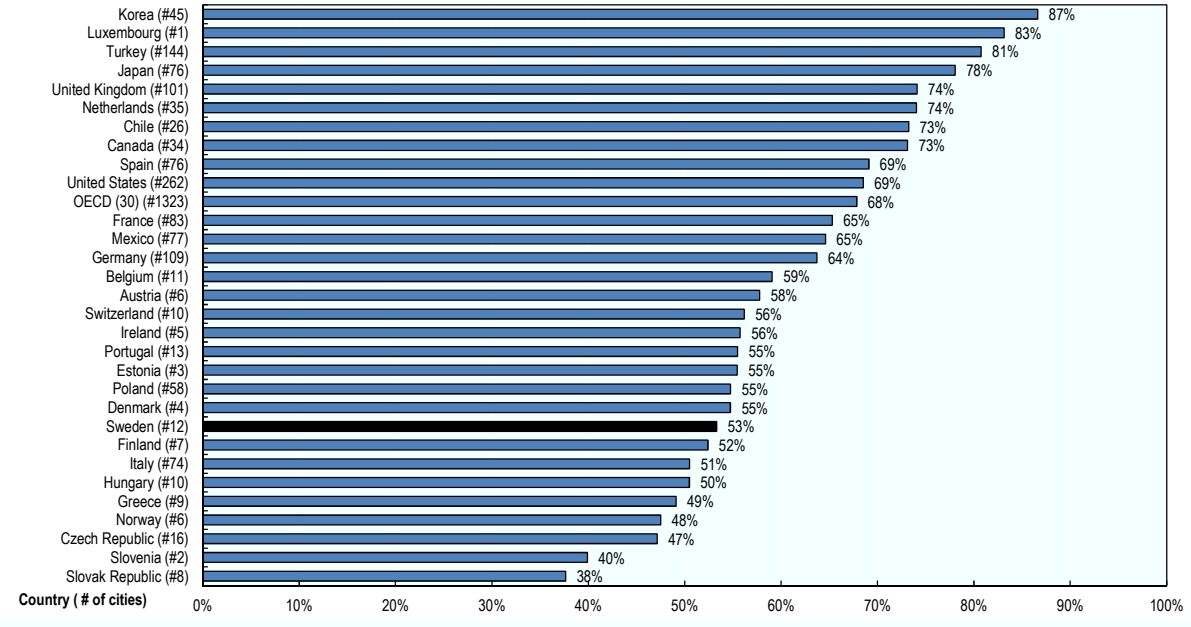
The OECD/EU identify functional urban areas beyond city boundaries, to reflect the economic geography of where people live and work. Functional urban areas as relatively self-contained economic units, characterised by high levels of labour linkages and other economic interactions. Cities are widely accepted as important generators of wealth, employment and productivity gains. Moreover, large agglomerations are key players of transnational flows and work as essential spatial nodes of the global economy. Thus, often metropolitan areas are essential interconnected units in the global economy.

Defining urban areas as functional economic units can better guide the way national and city governments plan infrastructure, transportation, housing and schools, space for culture and recreation. Improved planning will make these urban areas more competitive to support job creation, and more attractive for its residents.

The methodology identifies urban areas as functional economic units, characterised by densely inhabited "urban cores" and "hinterlands" whose labour market is highly integrated with the "cores". This methodology is a clear example of how geographic/morphologic information from geographic sources and census data can be used together to get a better understanding of how urbanisation develops. Information on the distribution of the population at a fine level of spatial disaggregation – 1 km²– are used to identify more precisely the centres or "cores" of the urban space, defined as contiguous aggregations ("urban clusters") of highly densely inhabited areas (grid cells). The hinterlands of these internationally comparable urban cores are defined using information on commuting flows from the surrounding regions.

Such a definition is applied to 30 OECD countries and identifies 1 179 functional urban areas with at least 50 000 inhabitants. Functional urban areas have been identified beyond their administrative boundaries in 30 OECD countries. They are characterised by densely populated urban cores and hinterlands with high levels of commuting towards the urban cores. The share of national population in functional urban areas ranges from 87% in Korea to less than 40% in Slovenia and the Slovak Republic.

**Percentage of national population living in functional urban areas, 2012**



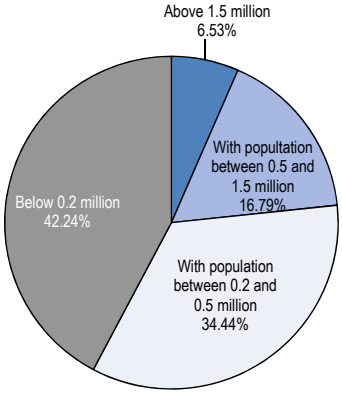

*Source*: OECD (2013b), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2013-en.

### Box 2.3. **OECD/EU methodology for defining functional urban areas** *(continued)*

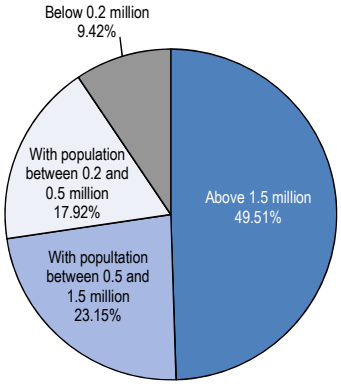
Among the 1 179 OECD functional urban areas, 77 have more than 1.5 million people, 198 between 500 000 and 1.5 million people. Both groups concentrate almost 75% of the total urban population. Additionally 406 were identified between 200 000 and 500 000 people, and 498 are small functional urban areas with a population below 200 000 and above 50 000 people.

**Number of FUAs and population share by FUA size, 2012**

a. Share of FUAs by population size




b. Urban population share by FUA size



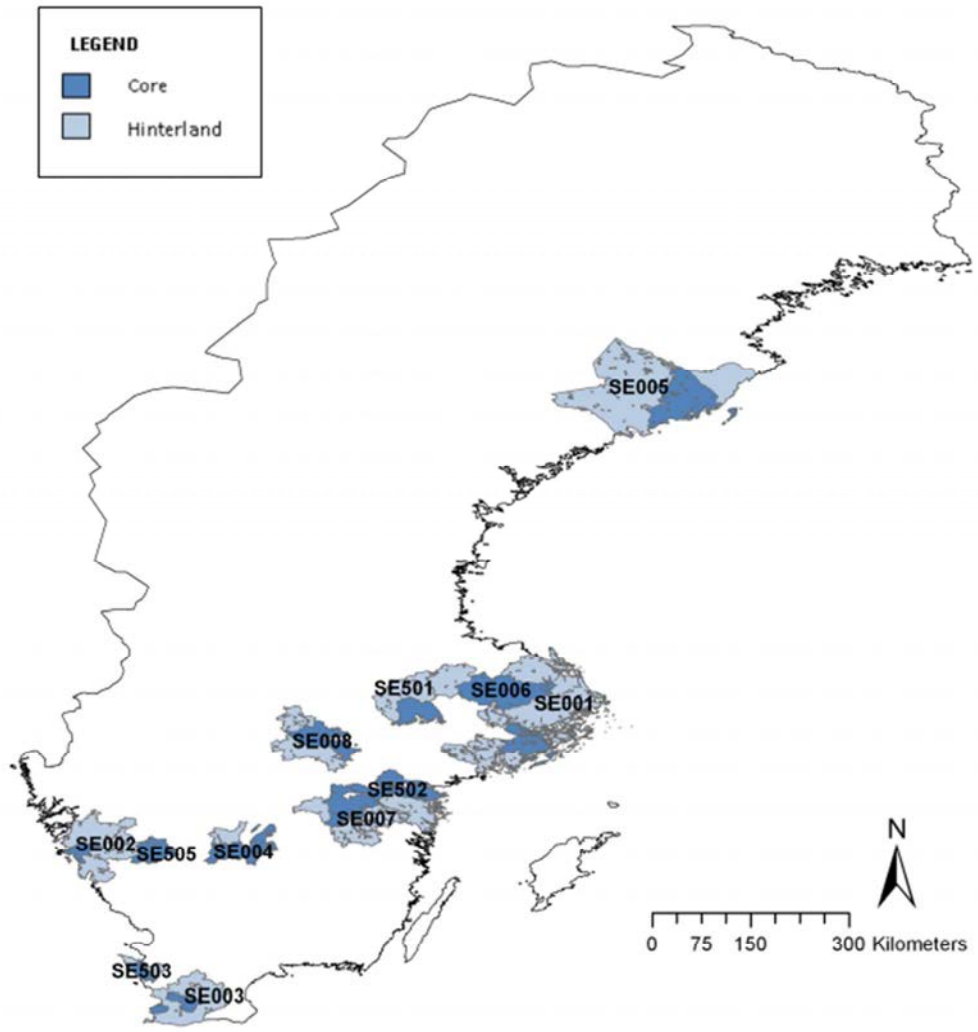

*Source*: OECD (2013c), *OECD Metropolitan Database*, http://stats.oecd.org/Index.aspx?Datasetcode=CITIES.

*Source*: OECD (2014a), *OECD Rural Policy Reviews: Chile 2014*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264222892-en.

The OECD definition of functional urban areas is an alternative to the OECD regional typology. Each functional urban area is an economic unit characterised by densely inhabited "urban cores" and "hinterlands" whose labour market is highly integrated with the cores. The geographic building blocks to define urban areas in Sweden are the municipalities (LAU2). The cores are defined using the population grid from the global dataset Landscan, referred to circa year 2000. Polycentric cores and the hinterlands of the functional areas are identified on the basis of commuting data (travel from home to work) referred to circa year 2000 (Census year) (OECD, 2016d).

FUAs are classified in four categories according to their size: large metropolitan areas, metropolitan areas, medium-sized urban areas and small urban areas. Among the 12 FUAs present in Sweden, only Stockholm is considered to be a large metropolitan area. Stockholm FUA represents 21% of the national population. Besides Goteborg and Malmo (metropolitan areas) and Uppsala (medium-sized urban area), all the other Swedish FUAs are classified as small urban areas (see Figure 2.4 and Table 2.4).

Figure 2.4. **Functional urban areas in Sweden**




*Source*: OECD (2016d) "Functional Urban Areas in Sweden", www.oecd.org/gov/regional-policy/50243557.pdf (accessed 17 June 2016).

Table 2.4. **Population and classification of functional urban areas**

| ID on map | Name of FUA | Class type | Total population (2000) | Total population (2014) |
|---|---|---|---|---|
| SE001 | Stockholm | Large metropolitan area | 1 838 377 | 2 018 208 |
| SE002 | Gothenburg | Metropolitan area | 826 126 | 898 541 |
| SE03 | Malmo | Metropolitan area | 609 424 | 676 852 |
| SE006 | Uppsala | Medium-sized urban area | 224 955 | 241 198 |
| SE007 | Linkoping | Small urban area | 180 400 | 190 463 |
| SE008 | Orebro | Small urban area | 176 348 | 185 890 |
| SE501 | Vasteras | Small urban area | 173 280 | 183 235 |
| SE503 | Helsingborg | Small urban area | 166 854 | 182 273 |
| SE502 | Norrkoping | Small urban area | 144 472 | 150 369 |
| SE005 | Umea | Small urban area | 136 783 | 145 099 |
| SE004 | Jonkoping | Small urban area | 133 744 | 144 208 |
| SE505 | Boras | Small urban area | 96 883 | 102 674 |
| Total functional urban areas | | | 4 707 746 | 5 119 010 |
| Share of national population in functional urban areas | | | 53.1% | 53.1% |

*Source*: OECD (n.d.), "Functional urban areas by country", webpage, www.oecd.org/gov/regional-policy/functionalurbanareasbycountry.htm (accessed 4 December 2016).

### *A standard rural definition for Sweden should build upon the idea of using functional rather than only administrative boundaries*

Making rural and urban typologies better correspond to the actual situation in a country is important if the typology is to be able to inform the policy process. Now that countries are moving to using the idea of metropolitan regions that include both urban and rural space, a complementary way to think about rural is needed. The current OECD approach was discussed earlier and was captured in Figure 2.2 above. Metropolitan regions contain significant amounts of rural territory and rural regions that are close to metropolitan regions contain the largest share of the rural population and the majority of rural economic activity. In these rural regions there are settlements of varying sizes, some very small and others almost reaching the threshold of 50 000 people that would trigger them becoming a small urban area. For example, in Sweden, Sundsvall is very close to this point. The larger settlements in rural regions constitute the centre of local labour markets, just as the urban cores are the centres of the local labour markets that define a metropolitan region.

Nordregio has already created local labour markets (LLMs) for the Nordic countries (Roto, 2012). Each LLM consists of two or more municipalities that are linked by a significant level of cross-border commuting by workers. This commuting flow establishes that the economies of the municipalities are linked in the same manner that the municipalities that make up a metropolitan region are linked. The advantage of an LLM approach is that it is compatible with the new way of defining urban areas. It starts with the basic statistical unit in Sweden, the municipality, and aggregates these units into functional labour markets. As a result, within a county it is possible to see which parts are more densely connected and which parts are more peripheral. For example, in the north of Sweden population density is highest along the Baltic coast and coastal settlements are larger with linkages through labour commuting. This results in larger LLMs that are made up of multiple municipalities. On the other hand, most, but not all, of the interior municipalities are not connected to each other by commuting because they have weak economies or distance makes commuting across municipal boundaries difficult. A significant advantage of the approach is that it clearly establishes the development challenge of a rural remote county with a highly dispersed settlement structure.

A limitation of the Nordregio LLM definition in Sweden is the large geographic size of municipalities compared to other Nordic countries. As a result, in some cases, larger and more complex economies are not captured by the analysis, because commuting is contained within a single municipality. An example of this is the municipality of Skellefteå in Västerbotten. The municipality has a population of 76 000 and it has a relatively diversified economy with a range of private and public sector services. Skelleftea also plays an important role in servicing the mining and forestry industries located in rural areas of the region. Härnösand, the administrative centre in Västernorrland, is another example. In these cases, it is also important to recognise the role of these places within larger regional economies, and how single municipalities can also be a LLM.

Different state agencies in Sweden have already introduced a number of rural definitions that draw distinctions between different types of rural regions, functionality, and their accessibility to urban areas. For example, a more refined classification was developed by the National Rural Development Agency in 1996. This classification built on the local units individuated by SCB, the *tätort* or localities, but included a component of accessibility to workplaces and services. Urban areas were defined as localities with

more than 3 000 inhabitants, as well as the area within a five-minute drive from them. Rural areas were divided into accessible rural areas and sparsely populated rural areas: accessible rural areas being localities that are within a 5-45 minute drive from urban areas; and sparsely populated areas being localities with more than a 45-minute drive to the nearest urban areas. According to this classification, about 76% of the national population was living in urban areas, 22% in accessible rural areas and 2% in sparsely populated areas in 2007.

Following the incorporation of the National Rural Development Agency into the Swedish Agency for Growth Policy Analysis (*Tillväxtanalys*), the agency has developed its own territorial classification, largely adapted from the OECD taxonomy. The classification is based on population in grid cells of 1 kilometre square to calculate the rural and non-rural population in a municipality and different threshold values in order to determine a municipality's classification. The basic classification contains three types of municipalities, which are determined by identifying:

- municipalities with less than 20% of their population in rural areas and a total population of at least 500 000 in adjacent municipalities (predominantly urban)
- other municipalities with less than 50% of their population in rural areas (intermediate)
- municipalities with at least 50% of their population in rural areas (predominantly rural).

This definition is then used as the basis to determine different shades or degrees of rurality (Table 2.5). These categories align with the OECD extended typology and include a category for extremely remote areas. According to their typology, the share of population living in rural municipalities is 17%.

Table 2.5. **Swedish Agency for Growth Policy Analysis's urban/rural typology**

| | |
|---|---|
| Urban | Municipalities with less than 20% of their population in rural areas and a total population of at least 500 000 in adjacent municipalities *(predominantly urban)* |
| Intermediate | Municipalities with less than 50% of their population in rural areas and at least 50% of their population having less than 45 minutes' journey to an agglomeration with at least 50 000 inhabitants *(intermediate close to cities)*<br>Municipalities with less than 50% of their population in rural areas and at least 50% of their population having less than 45 minutes' journey to an agglomeration with at least 50 000 inhabitants *(intermediate rural)* |
| Rural | Municipalities with at least 50% of their population in rural areas and at least 50% of their population having less than 45 minutes' journey to an agglomeration with at least 50 000 inhabitants *(predominantly rural close to cities)*<br>Municipalities with at least 50% of their population in rural areas and less than 50% of their population having less than 45 minutes' journey to an agglomeration with at least 50 000 inhabitants *(predominantly rural remote)*<br>Municipalities with their entire population in rural areas and with at least in average 90 minutes' journey to an agglomeration with at least 50 000 inhabitants *(predominantly rural extremely remote)* |

*Source*: Swedish Agency for Growth Policy Analysis (*Tillväxtverket*).

This methodology has also been applied to the analysis of functional labour markets (FLMs). These functional geographies are identified through the analysis of journey-to-work data. FLMs with a population density lower than 300 people per square kilometre

are identified as rural. According to this definition, 70% of the Swedish population lives in urban areas and 30% in rural areas.

A summary of the different rural typologies for Sweden is found in Table 2.6.

Table 2.6. **Summary of main rural definitions for Sweden**

| | Rural population | Number of rural categories | Territorial level |
|---|---|---|---|
| SCB (2010) | 15% | 1 | Localities |
| NBA | 34% | 2 | Municipalities |
| NRDA (2008) | 24% | 2 | Municipalities |
| *Tillväxtanalys* | 17% | 3 | Municipalities |
| *Tillväxtanalys* | 30% | 3 | Functional areas |
| SKL (2011) | 5% | 2 | Municipalities |
| OECD (2016) | 16% | 2 | Counties |

*Note*: SCB: Statistics Sweden; NBA: National Board of Agriculture; NRDA: National Rural Development Agency; SKL: Swedish Association of Local Authorities and Regions.

## *Conclusions and recommendations*

Rural Sweden is relatively unique within the OECD because of the diversity of its rural landscape. Sweden has all types of rural areas within its national territory: from those within and in proximity to FUAs, to remote rural areas. The southern part of the country is more densely populated than the north, while the north is characterised by different areas such as a sparsely populated interior with population concentrated in cities along the coast. In remote rural areas, there are places which have very concentrated populations in few centres (such as Norrbotten), and others where the population is more evenly distributed (such as Jamtland-Härjedalen). The OECD typology is not well suited to describing this reality because of the large size and internal differences within these administrative regions and the fact that rural Sweden is characterised by a dispersed population with settlements of various sizes. Functional economic areas measured by labour market interactions provide a better way to capture this diversity. These regions can be used as a basis for differentiating between different types of rural regions. The Swedish Agency for Growth Policy Analysis (*Tillväxtanalys*) has developed its own territorial classification, largely adapted from the OECD taxonomy, which better reflects the diversity of its rural landscape. However, this definition needs to be applied consistently across government to improve rural policy decision making. Applying this definition consistently across state agencies would help enable the capacity to tailor and co-ordinate public policies in order to match the challenges and opportunities facing different rural places.

### Recommendation

- Apply a commonly agreed spatially differentiated definition of rural areas that builds on the existing work undertaken by Swedish Agency for Growth Policy Analysis, and provide support for it to be used consistently across government.

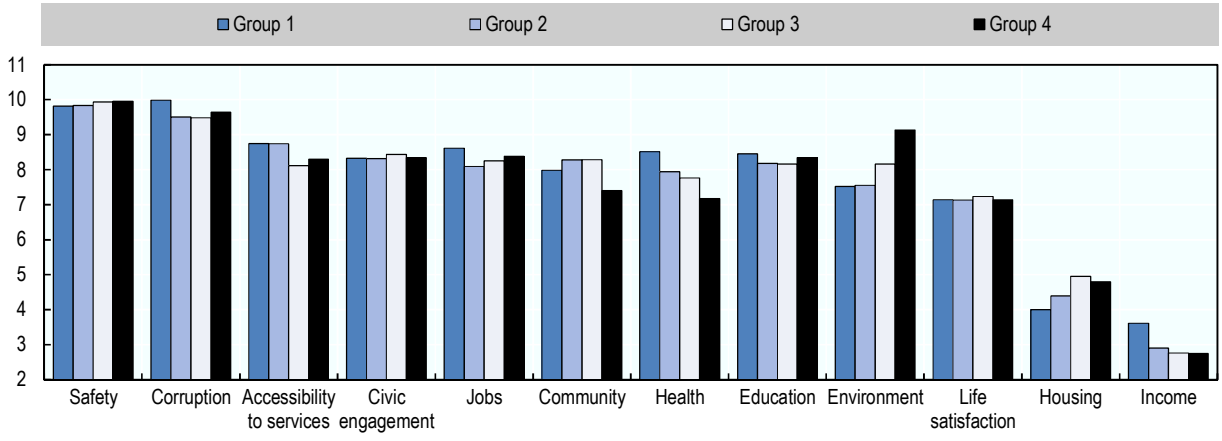
## How are rural areas doing?

The objective of this section is to provide an overview of how rural areas are performing. Rural areas are important to Sweden in terms of commodity and energy production, and providing amenities and environmental goods for tourism and recreational purposes. The capacity of rural areas to maximise their economic performance is important to the overall performance of the national economy. This section outlines the levels of prosperity and growth performance of Sweden's rural areas. Demographic and labour market trends are then discussed. Analysis is presented about the economic specialisation of different rural areas, and how this has influenced their performance since 2000. The analysis in this section shows that the performance of different rural areas are influenced by their tradeable sector, and this emphasises the importance of promoting innovation and entrepreneurship linked to these areas of comparative and absolute advantage.

### *Sweden's rural areas have comparatively high levels of prosperity but recent growth performance has generally been poor*

Sweden has relatively high levels of well-being compared to other OECD countries. Sweden also has a strong commitment to equity, which reduces regional disparities in income and well-being, compared to other OECD countries. Compared to urban and intermediate areas in Sweden, rural areas rank better in terms of housing (reflecting housing market pressures in urban areas) and the environment. Rural areas rank lower on health, income, community, corruption, and accessibility to services. In terms of the other five dimensions of well-being (jobs, education, life satisfaction, civic engagement and safety) outcomes are relatively similar across urban, intermediate and rural areas (Figure 2.5).

Figure 2.5. **Assessing well-being at regional level in Sweden, compared to OECD average**



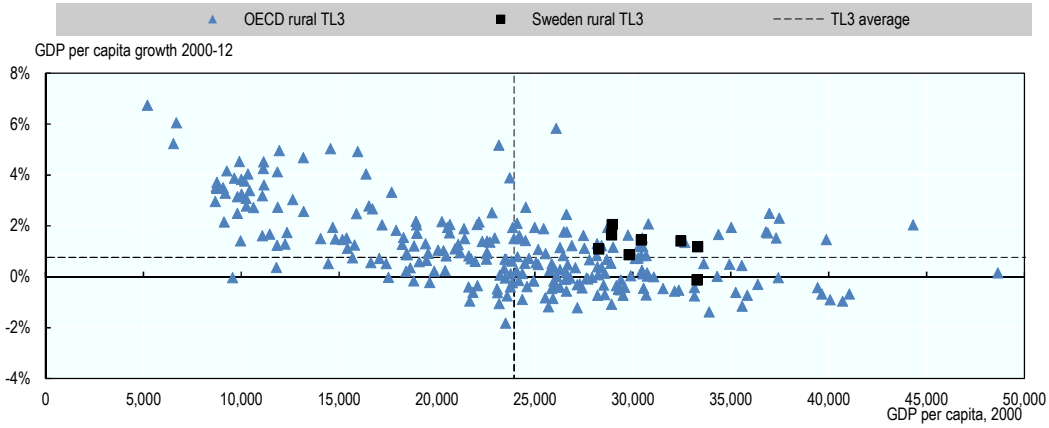

*Note*: These groups are defined by the share of the population living in predominantly urban (PU), intermediate (IN), predominantly rural close to cities (PRC), and predominantly rural within each TL2 region (PRR). Group 1: 100% of the population living in PU TL3 regions (Stockholm). Group 2: More than 85% of the population living in IN (East Middle Sweden, South Sweden and West Sweden). Group 3: Population distributed between IN and PR (Småland with Islands, North Middle Sweden and Upper Norrland). Group 4: 100% of the population living in PRR (Central Norrland).

Well-being indicators are expressed in different units, for example the household disposable income per capita is expressed in USD whereas voter turnout is the percentage of registered voters who voted at the most recent national election. In order to compare indicators on a same scale, they have been normalised using the min-max method, a statistical formula that range values from 0 to 10. Three steps are followed to transform the regional value of an indicator into a well-being score: identify the regions with the minimum and the maximum values of the indicator across OECD regions; normalise each indicator with the min-max formula; and aggregate scores, when a topic contains more than one indicator (OECD, 2016e).

*Source*: OECD (2016b), "Regional well-being", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

In terms of economic prosperity, rural regions in Sweden performed relatively well, particularly in terms of GDP per capita compared to the OECD average. GDP per capita is relatively high within the OECD. In terms of GDP per capita growth, most rural regions in Sweden had an annual growth rate above or similar to the OECD average between 2000 and 2012. All regions experienced an increase in their level of GDP per capita level in this period.

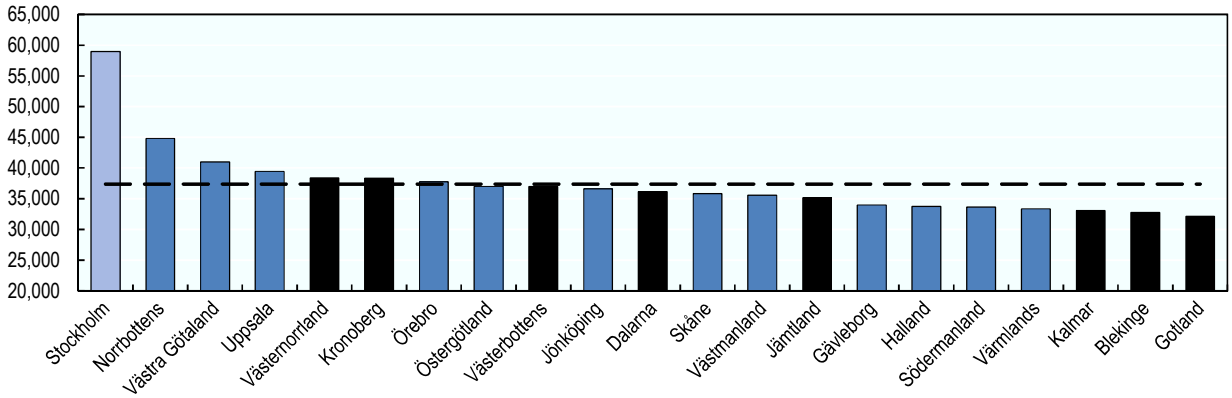
Figure 2.6. **Rural regions' GDP per capita and growth (2000-12), Sweden and OECD countries**




*Source*: OECD (2016b), "Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

Consistent with the general trend across the OECD, GDP per capita and labour productivity in rural regions is on average lower than in urban and intermediate regions in Sweden (Figure 2.7). Compared to other OECD countries, levels of regional disparities in Sweden are low (OECD, 2016c). Six rural regions out of eight have a GDP per capita and a productivity level below the Swedish TL3 average. Västernorrland has the highest levels of GDP per capita and labour productivity among the rural regions in Sweden (Figure 2.8). Västernorrland benefits from a diverse and high-performing tradeable sector (mining, forestry and associated processing), and has also developed a more sophisticated services sector based around business and financial services (OECD, 2016b). Among rural regions, Gotland, Blekinge and Kalmar in southern Sweden have the lowest level of GDP per capita and productivity. These regions lack a natural-resource base, and have relatively lower value-adding agriculture and tourism (Gotland), and have experienced the restructuring and decline of manufacturing (Blekinge and Kalmar).

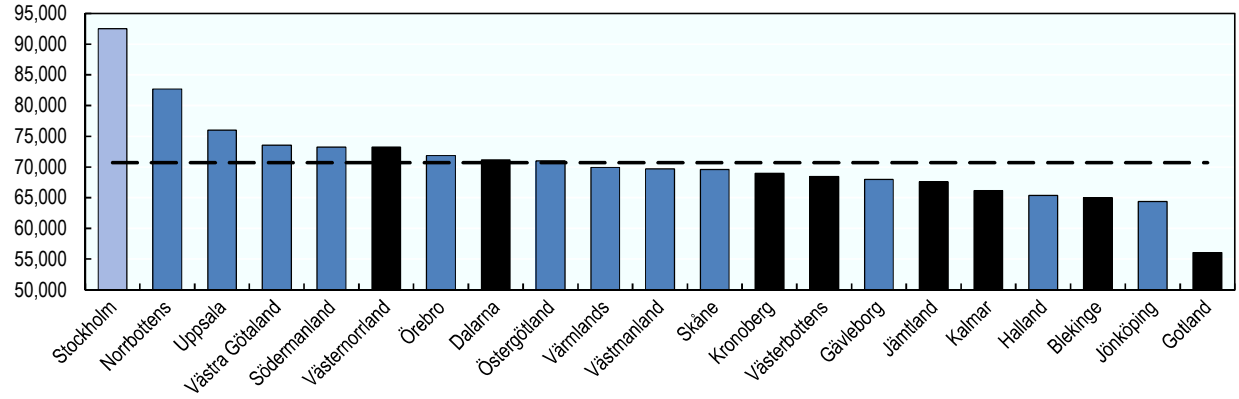
Figure 2.7. **Swedish regions' GDP per capita (in USD), 2010-12**




*Note*: Black represents rural regions as defined by the OECD. The dotted line represents the unweighted average of the regions

*Source*: OECD (2016b), "Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

Figure 2.8. **Swedish regions' gross value added (GVA) per worker (in USD), 2010-12**

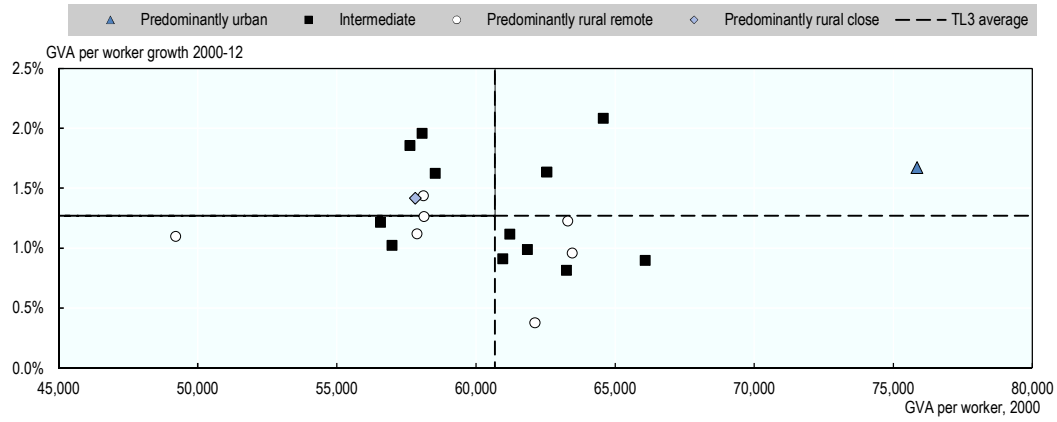



*Note*: Black represents rural regions as defined by the OECD. The dotted line is the unweighted average of the regions.

*Source*: OECD (2016b), "Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

In terms of labour productivity growth, rural regions generally underperformed compared to the rest of Sweden (Figure 2.9). Only two rural regions (Västerbotten and Kronoberg) had labour productivity growth higher than average between 2000 and 2012. Västerbotten experienced increasing productivity in its tradeable sectors (mining, forestry and manufacturing) during this period. Kronoberg experienced relatively strong productivity growth prior to the crisis and recovered quickly afterwards. The region specialises in the manufacturing of machinery and equipment, and also has a higher level of specialisation in finance, insurance and research and development (R&D) services than other rural regions in the south. The lowest performance of all regions in Sweden for productivity growth was Blekinge. Blekinge has a manufacturing base specialised in the automotive sector, and has experienced decline and restructuring of these firms with associated problems such as higher unemployment.

Figure 2.9. **Growth performance of Sweden's rural regions (in GVA per worker), 2000-12**

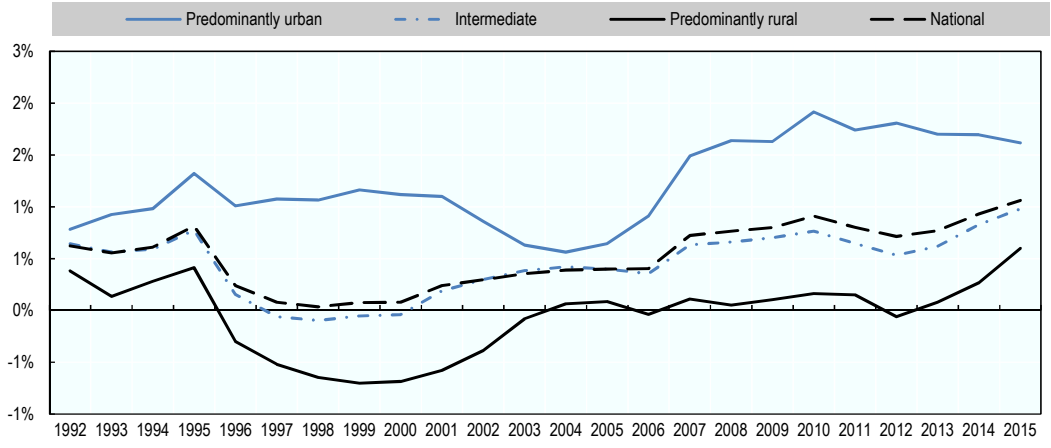



*Source*: OECD (2016b), "Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

### *Despite recent growth in population there is a long-term trend of ageing and a shrinking workforce in rural areas*

Despite pockets of population stagnation and even population loss, in recent years rural areas are on average experiencing population growth (Figure 2.10). There are significant variations in population within rural Sweden. For example, across the northern regions there is a general trend of concentration due to the faster population growth in the larger urban centres (predominantly on the coast), and population decline in small centres particularly in the interior. From the mid-1990s until the early 2000s rural areas experienced higher levels of out-migration. This coincided with Sweden's membership in the European Union and the aftermath of the crisis and resulting unemployment and fiscal consolidation of the early 1990s. Rural population growth stabilised after this period with a sharp increase from 2012. Immigration accelerated at this time due to a relatively strong domestic economy, and over recent years, the increase in refugees and asylum seekers.

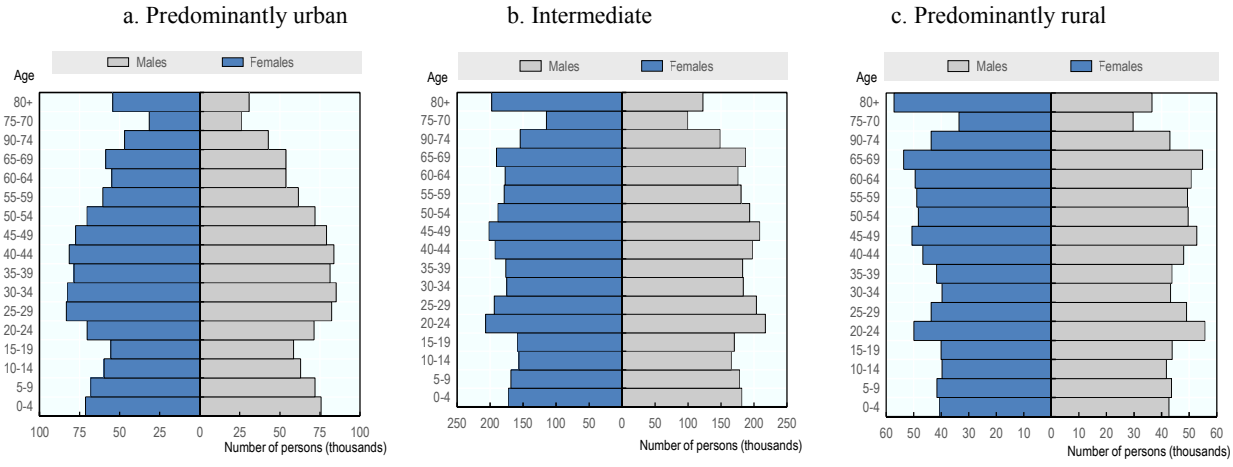
Figure 2.10. **Population growth rate of Sweden's rural regions, 1991-2015**




*Source*: OECD (2016b), "Regional economy", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

Despite recent growth, a large share of elderly population represents a challenge for most rural regions, which also face gender imbalance (Figure 2.11). Relative to urban and intermediate regions, rural areas generally have a smaller working age population compared to a growing share of the population aged over 65 and less than 15. Rural areas also have a gender imbalance, which impacts the capacity for the natural increase of the population. In rural regions men outnumber women for all age groups under 70. Only among people aged 70 and older is the share of women larger than the share of men.

Figure 2.11. **Population structure in Swedish urban, intermediate and rural regions, 2014**

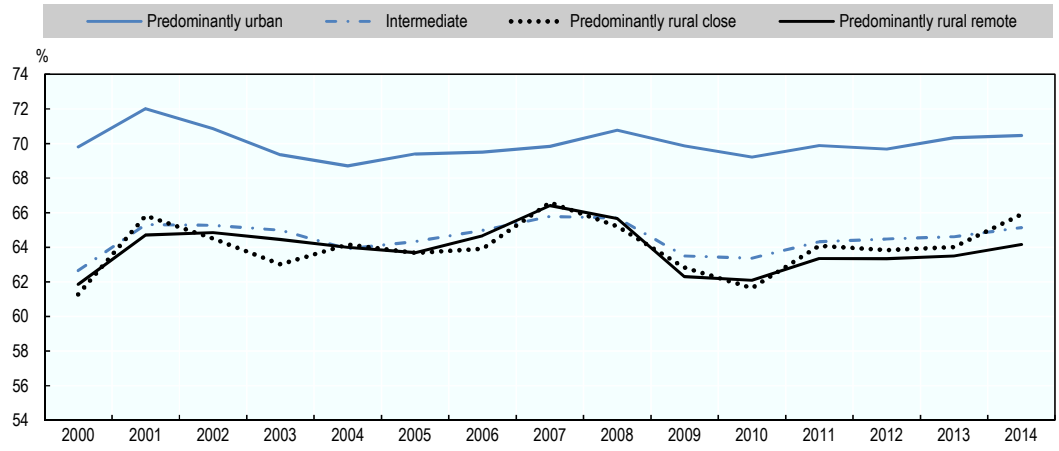



*Source*: OECD (2016b), "Regional demography", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

### *Employment outcomes in rural areas are largely in line with intermediate areas, but with larger fluctuations*

Employment outcomes in rural areas follow the same trend as in intermediate regions, but with larger fluctuations (Figure 2.12). These fluctuations are due to the smaller size and lower diversity of rural economies, which results in greater exposure to external shocks. In 2014, the employment rate in rural areas was 63.8%, which was an increase from 61.6% in 2000. This is significantly lower than the level for Stockholm (70.5%), but higher than the OECD average of 53.6%, which reflects the strength of the domestic economy. In terms of rural regions, the strongest performer in terms of the employment rate was Västerbotten (65.9%).

Figure 2.12. **Employment rate by type of region, Sweden, 2000-14**

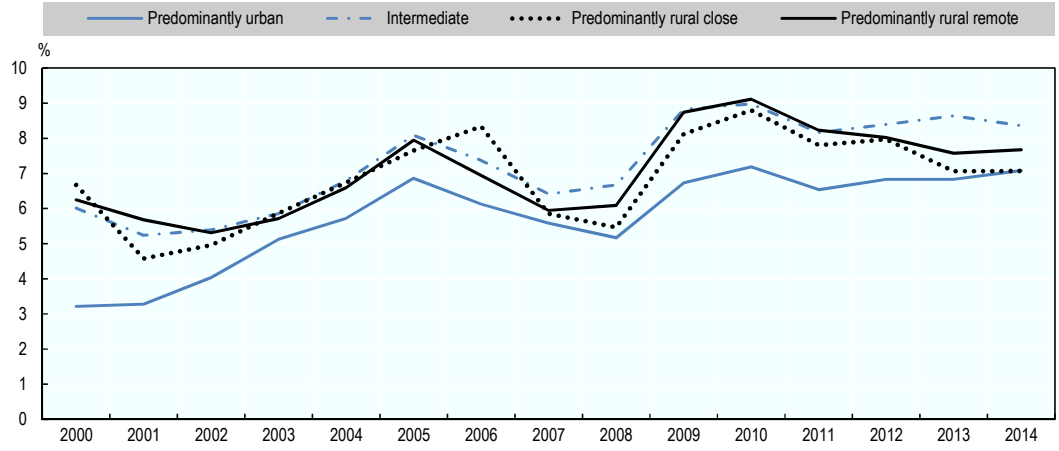



*Note*: Employment rate is calculated as employment 15+ over population 15+.

*Source*: OECD (2016b), "Regional labour markets", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

Rural areas had similar unemployment rates as intermediate areas, with a divergence after the crisis when rural areas performed better (Figure 2.13). In both rural and intermediate regions, the unemployment rate grew between 2000 and 2014, from about 6% to about 8%. The unemployment rate in Stockholm was lower with an increase from 3% in 2000 to 7% in 2014. The strongest rural performer was Västerbotten. This region had a lower unemployment rate than other rural areas and intermediate regions from 2007 onwards, converging to the same unemployment level as in Stockholm in 2014. This is probably due to the performance of Umea, which has a large and diverse labour market (it is the largest city in northern Sweden).

Figure 2.13. **Unemployment rate by type of region, Sweden, 2000-14**




*Note:* Unemployment rate is calculated as unemployment 15+ over labour force 15+.

*Source*: OECD (2016b), "Regional labour markets", *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

### *Specialisations in the tradeable sector have influenced growth performance, particularly the impact of the crisis*

Latest analysis by the OECD shows that the strength of the tradeable sector is a critical factor in the performance of rural regions (OECD, 2016a). There is a distinctive north-south difference in the tradeable sector of rural economies in Sweden. Rural areas in the south of the country are based on manufacturing with specialisations in machinery and equipment, transport, furniture and metals processing. Manufacturing in Sweden is well integrated into global value chains with high levels of R&D leading to increasing high-value activities, and offshoring of lower value activities (OECD, 2015a). Rural areas in the north of the country tend to have specialisation in natural-resource-based activities, primarily mining and forestry. Agriculture and tourism are also key sectors in parts of rural Sweden, with variations in levels of specialisation (Table 2.7).

Southern rural regions that had economies with a larger specialisation in manufacturing were hit harder by the economic crisis. Before 2008, the rural regions with the highest productivity growth were Jämtland and Västerbotten in the north and Kalmar in the south. During the crisis, the most vulnerable regions were Kalmar, Blekinge, Kronoberg, and Dalarna, which are largely based on manufacturing. The three northern regions, based on natural resource, are the only rural regions that experienced a lower than average productivity drop between 2008 and 2009. Kronoberg, Gotland and Kalmar have had a relative strong recovery after 2009, while Blekinge is struggling to reach pre-crisis levels of productivity (Table 2.8).

Table 2.7. **Specialisation index for northern and southern rural regions in Sweden**

| Region | | Sector (NACE rev2) | Index |
|---|---|---|---|
| Southern Sweden | | | |
| Blekinge County | PRR | Industry for transport equipment (29-30)[1]<br>Industry for rubber and plastic products (22)[1]<br>Industry for computer, electronic and optical products, electrical equipment (26-27)[1] | 4.0<br>3.9<br>2.8 |
| Kronoberg County | PRR | Industry for machinery and equipment n.e.c (28)[1]<br>Furniture industry (31)[1]<br>Printers and other industry for recorded media (18)[1] | 5.0<br>4.4<br>2.9 |
| Kalmar County | PRR | Industry for wood and products of wood, cork cane etc. (16)[1]<br>Electricity, gas, steam and hot water plants (35)<br>Agriculture, forestry and fishing (1-3) | 4.7<br>2.6<br>2.5 |
| Gotland County | PRR | Industry for other non-metallic mineral products (23)[1]<br>Agriculture, forestry and fishing (1-3)<br>Hotels, holiday villages, youth hostels, holiday cottages, camping sites etc. (55) | 5.4<br>3.9<br>3.2 |
| Dalarna County | PRR | Sporting, amusement and recreation establishments (93)<br>Industry for wood and products of wood, cork cane etc. (16)[1]<br>Industry for basic metals and fabricated metal products, except machinery and equipment (24-25)[1] | 3.5<br>2.7<br>2.6 |
| Northern Sweden | | | |
| Västernorrland County *North* | PRR | Industry for paper and paper products (17)[1]<br>Telecommunications companies (61)<br>Agriculture, forestry and fishing (1-3) | 4.9<br>3.1<br>2.1 |
| Jämtland County *North* | PRR | Sporting, amusement and recreation establishments (93)<br>Agriculture, forestry and fishing (1-3)<br>Information service companies (63) | 4.0<br>3.4<br>2.9 |
| Västerbottens County *North* | PRC | Mines and quarries (5-9)<br>Civil engineering contractors (42)<br>Programming and broadcasting companies (60) | 22.3<br>2.9<br>2.3 |

*Note*: PRC: Predominantly rural close to a city; PRR: Predominantly rural remote. 1. Manufacturing. Index refers to location quotient in terms of employment 2014.
*Source*: SCB Statistics, Sweden, www.statistikdatabasen.scb.se (accessed 10 July 2016) and OECD (2016b), *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

Table 2.8. **Productivity growth for Sweden's rural regions (pre- and post-crisis)**

| Region | Type | Sector | Productivity growth 2000-08 | Crisis 2007-08 | Crisis 2008-09 | Recovery 2009-12 |
|---|---|---|---|---|---|---|
| Blekinge County *South* | PRR | Manufacturing | 1.58% | 0.72% | -6.84% | -0.32% |
| Kronoberg County *South* | PRR | Manufacturing | 1.82% | -1.16% | -6.76% | 3.28% |
| Kalmar County *South* | PRR | Manufacturing, electricity plants, agriculture | 2.07% | 2.22% | -9.63% | 2.39% |
| Gotland County *South (island)* | PRR | Manufacturing, agriculture, tourism | 1.15% | -2.12% | -3.94% | 2.68% |
| Dalarna County *Centre* | PRR | Manufacturing, tourism | 1.75% | -2.54% | -6.49% | 1.43% |
| Västernorrland County *North* | PRR | Natural resource (forestry) | 1.14% | -0.50% | 0.88% | 1.58% |
| Jämtland County *North* | PRR | Natural resource, tourism | 2.10% | 7.80% | -2.52% | 0.33% |
| Västerbottens County *North* | PRC | Natural resource (mining) | 2.05% | -1.42% | -3.24% | 1.31% |
| National average | - | - | 1.83% | -1.17% | -3.39% | 1.67% |

*Note*: PRC: Predominantly rural close to a city; PRR: Predominantly rural remote.

Productivity growth refers to the regional economy, not the individual sector.

*Source*: SCB Statistics Sweden, www.statistikdatabasen.scb.se (accessed 10 July 2016) and OECD (2016b), *OECD Regional Statistics* (database), http://dx.doi.org/10.1787/region-data-en.

## *Conclusion*

Rural regions in Sweden face long-term challenges associated with population ageing and increasing global competition. Compared to the rest of the OECD these regions have relatively high levels of prosperity and well-being, and disparities between regions are low. Population ageing will continue to reduce the number of workers available for local businesses. Increasing effort will have to be put into raising productivity, particularly in the tradeable sector, and ensuring businesses participate in higher value activities. This should be based on the principle of "related variety" whereby different economic activities within a region that share related competencies, technologies and knowledge can be combined to generate new economic opportunities (Pike, Rodriguez-Pose, and Tomaney, 2016). Improving the attractiveness of rural places by investing in local infrastructure, amenities and services will also be important to create opportunities for people to live in rural areas. Beyond the averages there is a significant amount of variation in regional economic performance. There is an obvious north (natural resources) south (manufacturing) difference. In recent years the north has generally performed better due to its natural-resource-based industries. Within this division there are both stronger and weaker performers (for example, Kalmar in the south has performed comparatively strongly while Västernorrland in the north has not). These findings emphasise the importance of rural policies that recognise and adapt to these differences, and seek to facilitate new economic opportunities by linking absolute advantages to smart specialisation strategies.

## Developing a national rural policy for Sweden: State of play and current reform initiatives

Sweden now has a strategic opportunity to evaluate and improve its approach to rural development. The government has commissioned a review into rural policy, which is now being undertaken by a parliamentary committee. There is also a review underway in relation to the geographic boundaries of the county level. These reviews provide a strong platform for developing a new approach to rural policy at a national level. Historically, Sweden's approach to rural development has been based on providing state aid and support for firms located in sparsely populated areas. As part of the European Union since 1995, Sweden is also part of the CAP, which includes delivering Pillar 2 (rural development) commitments. Countries will approach rural policy in a way that suits their circumstances and institutional context. With this in mind the OECD advocates a territorial approach that is multi-sectoral, recognises the growth dynamics of different rural regions, and involves a broad range of stakeholders.

This section will evaluate the state of play in relation to rural policies in Sweden. The section begins by outlining the key features of rural Sweden and the institutional framework for rural policy. This is followed by a discussion about the CAP Pillar 2, the relationship between it and regional growth policy, and the current Parliamentary Inquiry into rural development.

### *Rural Sweden in the context of the OECD*

The previous sections of the chapter discussed how to define rural Sweden, and analysed its economic performance and well-being in recent decades. What is apparent from this discussion and analysis is some of the unique features of Sweden within the European Union, and to some extent the OECD. It is important to keep this in mind when assessing policies and seeking to apply lessons and principles to the Swedish context. Rural areas in Sweden do face similar challenges and dynamics to other OECD countries. This includes: the fast pace of ageing, smaller economies that are more sensitive to exogenous shocks, and the importance of the tradeable sector to economic performance. However, Sweden has some key differences from many other OECD countries. Sweden has all types of rural areas within its national territory: from those within and in proximity to FUAs, to remote rural areas. In remote rural areas there are places that have very concentrated populations in few centres (such as Norrbotten), and others where the population is more evenly distributed (such as Jamtland-Härjedalen). These places also have very different growth dynamics. Some are embedded within value chains related to the automotive sector, others to mining or forestry, and their specific natural assets and location shape different opportunities in the tourism sector.

There are also important institutional differences to keep in mind. Sweden has a political structure that is loosely referred to as the Nordic Welfare State, characterised by a very strong and interventionist national government that has provided a high and uniform level of social services to the entire population. While the national government determines the level of services and funds them, the actual delivery is done mainly by municipalities, but increasingly by regional governments. There is also a strong tradition of collective bargaining and compromise between organisations representing employees and employers. This approach is also reflected in public institutions where co-ordination problems are addressed through dialogue and collaboration between different national ministries and levels of government. These features shape the kinds of policy solutions

that are applicable in the Swedish context. This includes the predominant role of the public sector, the importance of local municipalities in the provision of social infrastructure and public infrastructure, and the role of "soft" co-ordinating mechanisms in public administration. The commitment to equity and the strong role of the national government in setting country-wide standards and funding may also reduce the flexibility of regions, municipalities, and local providers to adapt policies and services to the diverse conditions apparent across the national territory.

### *CAP Pillar 2 plays a key role in the delivery of economic development support for rural communities in Sweden*

A key funding mechanism for rural (economic) development is the Rural Development Programme (RDP). The programme is the common tool for the implementation of the European Agricultural Fund for Rural Development (EAFRD) under Pillar 2 of the Common Agricultural Policy (CAP). Sweden has one RDP and the priority areas for the 2014-20 programming period are:

- knowledge transfer and innovation
- agricultural competitiveness
- food chain organisation and risk management, including animal welfare
- environment and climate
- social inclusion and economic development in rural areas.

There has been an increasing focus within the RDP on improving broadband infrastructure and access to services. The total budget for the programming period is EUR 4.3 billion, which combines national government and European funding sources. The largest priority area is the preservation of environmental goods related to agriculture, which is common across the European Union. There is also a significant focus on social inclusion, poverty reduction and economic development, which takes up 20.8% of the total budget (Table 2.9). This is an increase compared to the previous programming period and reflects greater investments in broadband and in initiatives to retain services in rural communities, such as convenience stores and fuel stations. The final investment area, knowledge transfer and innovation, has no specific funding attached to it as it is considered a cross-cutting theme across the other priority areas.

Table 2.9. **Indicative public support for the Rural Development Programme in Sweden for the 2014-20 period**

| Priority area | Proportion of the total budget (%) |
|---|---|
| Restoring, preserving and enhancing ecosystems | 61.0 |
| Social inclusion, poverty reduction, economic development | 20.8 |
| Farm viability, competitiveness and sustainable forest management | 8.3 |
| Food chain organisation and risk management | 4.4 |
| Resource efficiency, low-carbon, climate-resilient economy | 1.8 |
| Other | 3.6 |

*Source*: European Commission (2013), "Factsheet on 2014-2020 Rural Development Programme for Sweden", http://ec.europa.eu/agriculture/rural-development-2014-2020/country-files/se/factsheet_en.pdf.

The rural programme still has a strong focus on agriculture and its link to the broader rural economy through improvements to environmental goods, and the development of a

low-carbon economy. The latest programming period has broadened this approach further with a focus on access to services. However, it is still predominantly a narrow sectoral focus on agricultural-related issues. This is challenging for northern counties where farming plays a far smaller role in the economy and in land use. There is not a governance arrangement at a regional level to co-ordinate the investments delivered through the RDP with regional policy, or other sectoral policies dealing with issues related to mining, manufacturing and tourism sectors, education and skills, linkages between rural and urban areas, and the provision of transport infrastructure. The policy framework also does not clearly differentiate between different types of rural regions, and how investments should be tailored or adapted to these circumstances. Each region through a CAB is required to develop a regional action plan for implementing the RDP, however; it occurs largely within the same nation-wide rules and structures. The relatively structured and narrow focus of the programme is determined by its funding and governance arrangements.

The development of priorities and implementation is organised through national-level agencies. The Ministry of Enterprise and Innovation is responsible for the overall design of the RDP; the Swedish Board of Agriculture, which is located under the Ministry for Enterprise and Innovation, is responsible for the day to date implementation and administration of the RDP. Once the priorities are agreed the implementing bodies (the Swedish Board of Agriculture, the County Administrative Boards, the Swedish Forest Agency, the Sami Parliament, the Swedish Agency for Economic and Regional Growth) develop regional or thematic strategies for the implementation of the programme on a more detailed level. An action plan for rural development is developed by the CABs, which are an administrative agency of the national government, tasked with implementing national policy priorities at a regional level. At a national level the monitoring committee for the RDP (including the Swedish Agency for Economic and Regional Growth, which is the managing authority for the European Regional Development Fund) has an advisory role to support the design and implementation of the programme.

The institutional arrangements for the RDP create the risk of disconnect with regional planning and priority setting. CABs are charged with ensuring that the regional strategies guiding the implementation of the RDP should be connected to the policies developed by the bodies responsible for regional growth policy. These bodies are mainly political and they vary by region. From 1 January 2017, they will include 13 County Councils, 1 municipality, 6 County Co-operation Bodies, and 1 CAB. Each County Administrative Board also has to establish a partnership for the regional implementation of the RDP, which should include representatives from organisations responsible for regional development and implementing other European funding streams. However, there are no specific incentives or accountability arrangements to ensure alignment and co-ordination between the implementation of regional growth policies and the RDP at a regional level. In this case the effectiveness of this integration depends upon the strength of institutional relationships within different regions.

An important tool for integration at a local level in Sweden is Community Led Local Development (CLLD); however, there is not a direct line of accountability between this programme and institutions at a regional level. CLLD focuses on local development based on local commitment and co-operation between the public, private and non-profit sectors, targeting the specific needs and conditions in each area. Depending on what funds are used in each area (up to four funds can be used), the objectives vary, but may include strengthening entrepreneurship and enhancing the employment rate in SMEs.

CLLD is delivered through local action groups (LAGs), which prepare local development strategies that deliver on these programme objectives and reflect the priorities embedded in the different funds that support it. CLLD is funded through the European Agricultural Fund for Rural Development (EAFRD), the European Maritime and Fisheries Fund (EMFF), the European Regional Development Fund (ERDF), and the European Social Fund (ESF) with the EAFRD making the largest contribution. The LAG develops a local development strategy and then selects the actions it prefers to use in the implementation of its strategy. The LAGs are accountable to the Swedish Board of Agriculture as their managing authority.

The current governance and funding arrangements for the Rural Development Programme create a risk of fragmentation, and lack of alignment with regional growth policy. Funding allocated through the Rural Development Programme is split into a number of different components that adhere to rules set by the European Commission. Off-farm projects tend to be small scale because they are allocated across a large number of regions and involve different LAGs. This indicates strength in terms of a bottom-up, community-based approach; however, there is also a risk of missing opportunities to scale up investment and helping to realise complementarities with other policy areas (including, but not limited to, regional growth policy). For example, this funding and governance approach contrasts with the regional growth policy where the regional level plays a stronger role, and investments are of a larger scale. Better co-ordinating the governance and funding arrangements of these two policy areas would help align investment and achieve better outcomes for rural communities. Some progress has been made in relation to different EU-level funding through the Partnership Agreement developed by the Swedish Government with the European Commission.

### *Rural development issues and policy objectives need to be better reflected in regional growth policy*

The national strategy for regional growth provides a framework for investing in regions and rural areas. The national policy goal for regional development is to develop the potential in all parts of the country with stronger local and regional competitiveness (Government of Sweden, 2015). Sweden's National Strategy for Sustainable Regional Growth and Attractiveness was released in 2015. The strategy provides a policy framework for the development of all regions in Sweden, and focuses on investing in enabling factors utilising a place-based approach.

The challenges and opportunities framing the strategy strongly relate to rural areas. The strategy identifies four areas of challenges and opportunities related to: demographic trends; globalisation; climate change; environment and energy; and social cohesion (Table 2.10). Population ageing and its impact on rural areas is identified as a key risk and opportunity for regions in Sweden. This includes the need to maximise the potential workforce. Increasing globalisation and climate change will also be major drivers of change. A significant proportion of Sweden's exports comes from rural areas (forestry, mining and related processing) and these industries are impacted by increasing competition and the need for firms to reposition to mitigate the impacts of climate change and develop new climate-friendly goods and services.

Table 2.10. **Areas of challenges and opportunities identified in Sweden's National Strategy for Sustainable Regional Growth and Attractiveness**

| | |
|---|---|
| Demographic development | Ageing of the population in rural areas generates challenges and opportunities. There is a risk these changes will continue to result in declining services and employment for some communities. Immigration and demand for services from older people will generate new business and employment opportunities. |
| Globalisation | Regions are more exposed to global competitive pressures and their degree of exposure is influenced by their size, business structure and dependence on exports. |
| Climate change, environment and energy | Climate change is an opportunity and a risk. Sweden is in a strong position to benefit from growing global demand for environmental technologies. |
| Social cohesion | Addressing social exclusion and maximising the competencies and creativity of the whole population. |

*Source*: Government of Sweden (2015) "Regional Growth Policy".

Priorities of the strategy are based on a well-being framework and focus effort on key enabling factors for regional competitiveness. The following four priorities areas are outlined:

1. **innovation and entrepreneurship** (including R&D, environmentally driven business development in all sectors and energy issues, access to capital, and internationalisation)
2. **attractive environments and accessibility** (including improving accessibility, access to services, spatial planning and housing, cultural assets, and tourism)
3. **provision of skills** (including labour market matching, skills and lifelong learning, integration and diversity, and reducing barriers to labour force participation)
4. **international co-operation** (regional co-operation within the European Union and globally, and export and trade promotion).

There isn't any guidance provided for regions in terms of how these priorities might differ between urban and rural areas, or across different types of rural areas. Although regions and municipalities are best placed to understand their local circumstances, drawing distinctions within the national policy is important because it sends a clear signal about the importance of these differences to regions, which can then also be reflected in the structure and rules of funding arrangements. It would also send a clear signal to other national ministries for the need to consider these differences in the design and implementation of other sectoral policies.

Compared to the previous strategy (2007-13), there has been some change in emphasis across priority areas because of emerging economic and demographic trends. In terms of innovation and entrepreneurship there is a stronger emphasis on promoting innovation among SMEs, including environmental technologies. There is a risk that this focus may benefit larger incumbent firms that have the capacity to co-invest in new environmental technologies, at the expense of small firms and start-ups. Although this will benefit rural based industries (especially forestry), it may reduce the scope for generating new business opportunities in rural areas. Entrepreneurship is a continued area of focus within the strategy. This is critically important in rural areas for generating new employment opportunities, particularly for young people. Spatial planning and tourism have emerged as more important focus areas within the theme on attractive environments and accessibility. These focus areas are important for rural areas as tourism is a key growth opportunity, and improving spatial planning can help to enhance urban-rural

linkages. Inclusion has more emphasis within the theme on skills, including the integration of newly arrived migrants into the labour market. As the population ages, maximising the potential of the workforce should be a focus area for rural communities.

Improving labour force participation rates and skills outcomes have been the greatest area of change compared to the previous strategy, and this is important for rural development. The crisis has led to increasing unemployment and lower labour force participation in many parts of the country. At the same time rural areas are experiencing problems with labour supply due to an ageing population and skills mismatches. The national government has identified the following focus areas in terms of skills and competencies:

- regional co-ordination between different actors that provide education and training services (particularly secondary and vocational education)
- collaboration between education and training providers and employers
- regional analysis and forecasting of labour market needs
- local and regional co-ordination related to youth unemployment, lay-offs, and the integration of newly arrived migrants.

Sweden's national regional policy also has a stronger focus on improving policy coherence between levels of government and the European Union, and building capacity to implement it. The policy is based on more clearly setting out policy priorities, and roles and responsibilities. The national strategy specifies the areas that counties should focus on within each priority theme. Regions are responsible for preparing regional development strategies, which set out the vision, goals and priorities for sustainable development and growth. Funding is provided for projects and activities that align with these regional plans. The government appropriates SEK 1.5 billion annually to support regional growth measures, and is mostly used alongside other funding sources from the region, municipalities, and the European Union. There is also SEK 0.4 billion for transportation aid in sparsely populated areas within the budget for regional growth. To facilitate co-ordination between levels of government, a Forum for Sustainable Growth and Attractiveness has been established. The forum provides an opportunity for regular dialogue for both politicians and civil servants.

More effective mechanisms and incentives are needed to link the rural programme with the regional growth policy, and other sectoral policies. Sweden's regional growth policy is a broad and integrated approach that combines EU and state funding to invest in key enabling factors for growth at a regional level. The incorporation of rural development issues could be improved through a clearer articulation of how these priorities might differ between urban and rural areas, or across different types of rural areas. Underlying this policy framework are different funding and governance arrangements for regional and rural policies, which are the consequence of EU funding rules. This results in quite different scales of investment, and different entities responsible for the rural programme and regional growth policy at a regional level. There is a continued need to enhance co-ordination between different European structural and investment funds, which is also a current priority of the European Commission.

### *The Parliamentary Committee Inquiry into rural development has begun to identify and discuss ways to address these issues; however, further work is required*

In 2015, the government established a parliamentary committee to provide a blueprint for the future of rural policy in Sweden. The Parliamentary Committee Inquiry into rural development provides a platform to develop a more integrated and holistic rural development policy for Sweden. The work of the committee was framed to a degree by the debate during the 2014 national elections about whether rural Sweden is being left behind in the country's growth and development. Poor broadband and mobile phone connections and reduced access to services were identified as manifestations of a growing divide between urban and rural areas. The Committee was provided a mandate to identify policies to improve the conditions for growth in rural areas and highlight the current issues and future challenges and opportunities for different type of rural areas. The Committee is addressing the following areas:

- describe development of rural areas over the past 40 years, and analyse past and current policies and the effect of rural development and growth
- develop scenarios of the future development
- design and organisation of a coherent policy for development in Sweden's rural areas
- analyse how to activate a coherent rural policy within relevant policy areas and propose effective actions.

The Committee delivered its interim report in March 2016, and the initial findings relate to the economic and demographic challenges, and how policy settings can be adjusted to better address them.

The Committee report broadens the economic framework for rural development and identifies that the key to future growth will be how rural areas generate new economic opportunities from natural resources. Rural Sweden's strengths lie in its export orientated industries related to its natural resource base (e.g. the land, forests and iron ore) and cultural assets. Developing new economic activities linked to these natural resources and assets is identified as a key challenge. This analysis is particularly important for rural areas, where the local market is small, and growth depends upon developing tradeable activities. Because rural areas lack the benefits of agglomeration economies these activities are closely aligned to the absolute advantages of each region. Labour supply, infrastructure, and housing are identified as key constraints for the development of rural areas. Infrastructure issues relate to the increasing differences in broadband provision between urban and rural areas, and weak transportation infrastructure. In addition, establishing public transport services that can better link rural areas to cities is also identified.

In the interim report, clear conclusions and recommendations in relation to entrepreneurship and innovation are missing to some extent. Efforts to promote entrepreneurship and innovation to increase the scope for value adding are important for creating new economic activity and jobs in rural areas. Sweden has a strong history in innovation in terms of leading technological development in areas such as telecommunications, automotive manufacturing, and medicine. Sweden has high levels of R&D and the national government plays a proactive role in supporting the relationships between firms and universities at the technological frontier. However, rural innovation is

different, with a stronger focus on process innovations, and different dynamics usually based around small, family-owned SMEs. Policy instruments that work in an urban context with high technology firms are not suited to the business environment in rural areas. Successful approaches to promoting rural innovation tend to be based on two factors: 1) strong engagement with local firms and education and training organisations to identify regional strengths and challenges; and 2) policy instruments that are suited to an SME environment including vouchers, small grants and loans, export promotion and clusters. Innovation policies organised in this way enable a process whereby these different actors can co-ordinate their actions to focus on areas of absolute and comparative advantage. These principles are applied in the European Union's approach to smart specialisation (Box 2.4).

### Box 2.4. **Smart specialisation: Policy messages**

A recent OECD report on smart specialisation identified the following key policy messages (OECD, 2015b):

- **Policies for entrepreneurial discovery**: The smart specialisation approach calls for an "entrepreneurial selection" of market opportunities (e.g. to minimise failures and to avoid ill-informed policy decisions). While successful companies will constitute the new specialisation of the country/region (self-discovery), the role for policy is to develop a flexible strategy focusing on measurable intermediate goals, identifying bottlenecks and market failures and ensuring feedback into policy-learning processes. The approach includes incentives to strengthen entrepreneurship and encourage agglomeration.
- **Promoting general purpose technology platforms and networks**: Given the range of applications of general purpose technologies, technology platforms involving public and private actors but also standards settings organisation can help increase productivity in existing sectors and help identify sectors in which to concentrate resources.
- **Diagnostic and indicator based tools and infrastructure**: Smart specialisation requires regions and countries to maintain an infrastructure and indicator base to monitor and evaluate performance and policies.
- **Strategic governance for smart specialisation**: Good governance and the development of local capabilities are key to identifying local strengths, aligning policy actions, building critical mass, developing a vision and implementing a sound strategy.
- **Openness to other regions**: the specialisation strategy of regions should take into account that other regions are also involved in knowledge-creating activities and that duplication might lead to lower effectiveness and finally failure. Hence, co-operation with other regions with complementary capabilities and strategies is important.

*Source*: OECD (2015b), *The Innovation Imperative: Contributing to Productivity, Growth and Well-Being*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264239814-en.

Improving public employment and services is seen as a solution to addressing problems of population decline and social exclusion in rural areas. However, as noted above, there is less attention within the report on strategies to increase the

competitiveness of the private sector in the context of the structural economic shifts that have contributed to population decline and social exclusion. These structural changes are largely due to technological innovation in forestry, agriculture and other natural-resource-based industries (including mining and electricity generation). In these communities young people (particularly those with skills) tend to leave and go to cities where employment in services is increasing, while workers who were previously employed in primary industries tend to stay. These people experience health and other social problems related to long-term disengagement from the workforce. The role of government in providing universal services and employment is identified as a way to address these problems. However, population decline in rural areas, combined with fiscal pressures have limited Sweden's social and welfare provision within some communities.

The interim report argues that the state should have a presence across the whole territory and maintain the level of public employment across county districts. To further boost public sector employment, the report identifies that this outcome could be achieved by the national government further decentralising functions and relocating agencies to county districts. However, this is not a sustainable solution to the long-term growth and competitiveness of rural Sweden, especially in smaller places. Indeed, increasing public employment in rural areas leaves these communities vulnerable to future changes in fiscal policy. Population ageing and decline, and social exclusion are major issues confronting many rural regions across the OECD. There are a variety of different ways of responding to these complex issues. Rather than looking to the public sector for welfare and employment support the focus will need to shift toward providing a liveable environment, promoting private sector employment, and improving access to services through innovation.

A key issue for the future is how to better co-ordinate and give coherence to rural policies at a regional level. The interim report addresses this issue and argues that the current policy and institutional framework is not adequately meeting the needs of rural communities. The national government needs to change how it works with rural communities and set clear long-term policy goals. There is a proposal to better clarify rural policy objectives and guidance, and develop a clear political and administrative arrangement for the development of Sweden's rural areas to implement it. However, a standalone rural ministry is unlikely to address the problem of integration at a national or regional level. Indeed, the current ministerial and administrative arrangements where rural, regional, and innovation policies are integrated is a better platform to achieve this outcome. But funding a mechanism to ensure that rural areas are not under-considered will be important.

The integration of sectoral policies (health, education, etc.) with rural development objectives is also identified as a key issue. This includes having greater flexibility within mainstream service systems so they can be adapted to the needs and circumstances of rural areas. These are important issues and can be addressed through strengthening the role of County Councils in regional and rural policies, also clearly articulating rural policy at a national level. The Committee identifies broadband access, and enhancing skills and competencies as two priority areas. Innovation and entrepreneurship, and spatial planning are also key areas that should be included at the forefront of a new rural policy. These policy areas will help generate new economic activity and jobs in rural areas, better link rural areas with cities, and provide a clear land-use framework for the development of new industries, particularly tourism.

### *Conclusion*

Sweden is currently conducting a Parliamentary Inquiry into rural policy and has a strategic opportunity to evaluate and improve its approach to rural development. Historically, rural policy has focussed on sectoral support for agriculture, and state aid for businesses located in sparsely populated areas. With accession to the European Union, Sweden has also introduced the standard programmes from the CAP and the ERDF. This has led to Sweden having rural programmes, but not a coherent national rural policy. The lack of a national rural policy means that there is not a clear framework or mechanism to adapt policies delivered through sectoral ministries to the needs and circumstances of rural places. The governance and funding arrangements for the Rural Development Programme (RDP) are also different to regional growth policy in many regions as the CABs take a lead role at the county level in the former. This separation reduces opportunities to co-ordinate investments delivered through the regional growth policy, and the RDP at a regional scale. The Inquiry provides an opportunity to rethink this approach and move toward one that is both broader - in that it provides a framework in which EU programmes and national sectoral and welfare programmes are better integrated, and is territorially sensitive – in that it recognises the major differences across rural Sweden, in particular, those between the north and the south.

## Improving the co-ordination of rural, regional and sectoral policies

A more effective approach to rural development policy in Sweden depends on improving co-ordination with regional and sectoral policies. Rural policy in Sweden is defined in a narrow sense at the moment, to a large extent around the parameters of the CAP Pillar 2 funding. Although recent advances have been made to broaden the focus of the Rural Development Programme, it is still insufficient for enhancing the long-term prosperity and well-being of rural communities. This section begins by discussing the importance of realising complementarities between different policy areas to the growth of rural places. It identifies two specific examples of policy complementarities that are important to the future development of rural Sweden: spatial planning and service delivery innovation. In turn, these depend upon improving the co-ordination of rural development policies. The section concludes with a discussion of the key issues in the Swedish context.

### *Policy complementarities and integrated investments: mutually reinforcing policies generate higher returns*

There has been a notable transition in rural policy approaches across OECD countries in the 1980s and 1990s. Rural policies in many OECD countries have focussed in the past on providing subsidies that aim to bring income in a sector up to the national average, without any real concern for how well the subsidies worked or whether there were any undesirable consequences (Pezzini, 2001). Firms, communities and individuals were deemed entitled to specific subsidies by virtue of their rurality. By contrast, the New Rural Paradigm advocated shifting the orientation of rural policy from subsidising sectors towards investments in rural regions, by recognising that development is inevitably unequal across space and that the focus should be on investing in the opportunities that are present in specific rural areas.

While local actors are increasingly responsible for defining a place-based development strategy, national governments can best support these bottom-up initiatives

by ensuring that the various policies they provide to support rural development are coherent and co-ordinated. Policies — territorial and sectoral — are more effective where they are co-ordinated and aligned along similar goals and objectives. In effect, governments should frame interventions in infrastructure, human capital and innovation capacity within common policy packages that are complementary to sectoral approaches as well. In a rural context, the OECD has explored the coherence between agricultural policy, a sectoral approach, and rural development policy, a territorial approach (Diakosavvas, 2006). The two policy domains have experienced considerable conflicts with each other in most countries, with proponents of each claiming primacy. But there is an increasing recognition that linking the two policy frameworks has advantages, even though it can be difficult to accomplish. Support for specific sectors, whether agriculture, forestry or tourism, provides resources that are tailored to that industry. But sectoral approaches should be placed within a larger context, such as rural development policy, if they are to avoid the common problem support for one sector leading to problems for other sectors.

This requires that policies be integrated horizontally, through management arrangements and development plans among different sectors, services and agencies within a given level of government. Policies should also be vertically integrated, from the national to the local level of government. Interventions should be territorially integrated and consider the interrelationships and interdependencies between different territories. This cross-border collaboration assists regions in sharing expertise and resources and can be applied across a number of policy areas, including infrastructure, health services and tourism (OECD, 2011).

Integrated public sector investments have the potential to reap additional benefits for rural communities. This approach is informed by the OECD's principles for public investment (OECD, 2014b). The concept of policy complementarity refers to the mutually reinforcing impact of different actions on a given policy outcome. Policies can be complementary because they support the achievement of a given target from different angles. For example, increased broadband in rural areas should proceed along with policies that focus on the accessibility and diffusion of these services to the population. Spatial planning is another key area that should be co-ordinated closely with public investment to ensure there is the infrastructure capacity to accommodate new residential and commercial developments.

For example, within this framework public services should be delivered in ways that are adapted to, and meet the needs of, different rural areas. There is strong pressure to make better use of public and private investments and more efficiently deliver public services in rural areas, which inevitably face higher per unit costs than do urban areas due to their lower economies of scale and higher transportation costs. OECD countries provide specific and additional support, which reflects these permanent disadvantages (OECD, 2010a). However, there is also a need to make the most of scarce resources, particularly in the context of ageing populations, and there is increasing emphasis put on service delivery innovation (for example through the use of e-technologies).

### *Policy complementarities are supported by mechanisms to facilitate co-ordination between levels of government*

Strengthening policy complementarities also depends upon mechanisms to facilitate vertical and horizontal co-ordination. Three quarters of OECD countries report that rural policies are co-ordinated across levels of government (OECD, 2016a). However,

challenges to co-ordination remain. OECD countries have reported that some of the greatest challenges in this regard are: a lack of private sector participation in public investments; regulatory and administrative obstacles to vertical integration; and a lack of subnational government understanding of central government priorities, and vice versa (OECD, 2012a).

OECD countries have recently endorsed the importance of policy complementarities through the 2014 Recommendation of the Council on Effective Public Investment across Levels of Government. The recommendations comment at length about the importance of co-ordinated strategies for public investment (both physical infrastructure like roads and soft infrastructure like human capital development) in order to make the most of funding. Recommendations are that OECD countries should seek complementarities and reduce conflicts among sectoral strategies. At higher levels of government, such complementarities can be facilitated by: 1) using strategic frameworks for public investment to align objectives across ministries and levels of government; and 2) minimising administrative barriers through co-ordination mechanisms such as, but not limited to, inter-ministerial committees and programmes, and harmonisation of programme rules. Governments can also establish joint investment funds that pool funding across public agencies/ministries to encourage consideration of a broader set of priorities (see Box 2.5).

### Box 2.5. **Finland's approach to rural policy**

Finland is also a member of the European Union and rural development is a part of the European Union's common agricultural policy. Successive Finnish governments have recognised that successful rural policy requires that the actors across different ministries and other sectors are involved commit themselves to common goals and co-operate with each other. A key feature of Finland's approach to rural policy is the integration of sectoral policies into the rural development agenda.

Rural policy is supported by a vision that rural areas for an inseparable part of national prosperity. Rural policy in Finland is characterised by a network-like approach to deliver on this vision, where rural areas are developed at different levels in co-operation among public, private and the third sector. At the national level, the central actor preparing and implementing rural policy is the Rural Policy Committee, which is the horizontal co-operation body appointed by the government.

The government sets the tasks, members, and term of office to the committee. Its membership includes representatives of different ministries, regional government, R&D organisations, as well as organisations and associations. Emphasis is placed on the governance perspective. A large number of actors are involved in the different forms of work of the Rural Policy Committee.

Rural Policy Programme is the operational programme of the committee. It sets out the objectives and measures for rural development. The time span of the overall programme is longer than the government term and is consistent with the EU programming period. Overall programme measures flesh out government rural policies, and these are implemented by a wide group of actors.

The overall programme is implemented in the context of resources in accordance with state budgetary framework decisions and government finances. It is not a financing programme; rather, it seeks to affect the operations of different sectors so that the countryside would be better taken into account. The strategic approach of the Rural Policy Programme is characterised by a place-based approach.

The overall programme has five main themes, for which 63 concrete measures have been drawn up. The key actors responsible for the implementation of the measures are defined for each of the measures. The themes are cross-sectoral, and the implementation of the measures requires the co-operation of the actors at different levels. The current programme themes are: participation and local democracy; housing and services; infrastructure and land use; livelihoods and expertise; and ecosystem services.

*Source*: Rural Policy Committee (n.d.), "Finnish Rural Policy in a Nutshell", http://tem.fi/documents/1410877/2937056/Finnish+Rural+Policy+in+a+Nutshell (accessed 4 December 2016).

Ideally, rural proofing mechanisms should be backed up with legislation requiring the different ministries and institutions to collaborate in implementing these measures. The implementation of these arrangements in Sweden could clearly help to give higher salience to rural development among the different ministries and public agencies, and promote coherence between the different policies implemented in rural areas. Rural proofing arrangements will probably need to be carried out not only among ministries based in Stockholm, but also in the regions among deconcentrated public agencies such as County Administrative Boards. However, implementing rural proofing can also be a costly process with low returns. Experience across the OECD suggests that unless the agency enforcing compliance has the authority of the Prime Minister's office it will have little impact on decision making. And, negotiations over how to ensure fair treatment of rural areas are not simple, easily resolved or costless. Canada implemented a similar concept, The Rural Lens, in 1998 but it was ended in 2013 when the unit charged with administering the programme was closed (Box 2.6).

### Box 2.6. **Rural proofing in Canada: The rural lens system**

Established at the end of the 1990s, the rural lens includes a checklist for determining if policy initiatives or programmes address rural priorities. The checklist of considerations is as follows:

- How is this initiative relevant to rural and remote Canada?
- Is the impact specific to a selected rural or remote environment or region?
- Have the most likely positive and negative effects on rural Canadians been identified and, where relevant, addressed?
- Have rural Canadians been consulted during the development or modification of the initiative?
- How is the benefit to rural Canadians maximised (e.g. co-operation with other partners, development of local solutions for local challenges, flexibility for decision making)?

Within Canada's Rural Secretariat, a group of public servants administer the Canadian Rural Lens with colleagues in other departments in applying the rural lens to new policy initiatives. The officials responsible for the rural lens can advise their minister in the Agriculture and Agri-Food Department (AAFC) on whether or not to support a new initiative in the Cabinet. Of course, they only get involved with policies that have a rural angle. The rural lens has been somewhat successful as it has led to changes in several federal departments that have improved their services to rural regions. If the Rural Lens staff think that the rural perspective has not been properly presented, they try to influence the policy proposal accordingly. The objective is not to advocate for putting rural considerations first, but to ensure that decisions are fully informed (i.e. of the implications for rural communities). Experience with the rural lens shows that it is crucial to carry out a cross-ministerial examination early in the policy process.

*Source*: OECD (2010b), *OECD Rural Policy Reviews: Quebec, Canada 2010*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264082151-en.

Improving co-ordinating mechanisms is an important issue for the future evolution of rural policy in Sweden. Rural policies are designed centrally by the Ministry of Enterprise and Innovation to ensure compliance with EU funding rural programming rules. The main

mechanisms for delivering these regionally are the County Administrative Boards and LAGs. Although this is an efficient way of delivering the programming funds, and ensuring compliance with the programming rules, it does generate problems of co-ordination with other policy areas. For example, there isn't a national-level strategic framework for rural policy that can prioritise and align investments from across sectoral ministries or counties and municipalities in rural areas. Regional growth policy is based on different EU and national funding rules, as well as regional strategies, and this has resulted in different governance and funding arrangements. Political bodies at a regional level (mainly County Councils or County Co-ordinating Bodies) play a much stronger role in setting priorities and contributing funding, which is different to the arrangements for the RDP, and as a result opportunities for co-investment are missed.

### *Spatial planning is an example of how integrated investments and policy complementarities differ by type of place*

The specificities of place are a critical consideration within such an approach. For a rural area close to a city, a critical goal is to limit sprawl while increasing the connectivity between locales. This requires a delicate balance. On the one hand, it is beneficial to increase the connections between rural and urban areas so that urban dwellers can have access to natural and cultural amenities in rural areas, and so that rural dwellers are able to engage in urban labour markets. On the other hand, if the population of rural areas in proximity to cities increase without investment in appropriate infrastructure and effective land-use planning, it can impose costs related to traffic congestion and sprawl. Policies should pursue a balance growth with policies that enable rural areas to protect distinctive natural, economic and cultural assets. Key policy issues in this regard are transportation, land-use and resource use. However, policies to reduce sprawl should not be used to impede economic development in rural areas.

Table 2.11 illustrates these dynamics for rural areas close to cities. The columns identify five specific policy domains that are important in rural regions. These are typically managed at different levels of government and almost always each is the responsibility of a specific agency that has little responsibility for the other four policy areas. In peri-urban areas, a central issue is land conversion from rural to urban uses and this is generally managed through formal land-use plans that regulate conversion. However pressure for land-use changes are influenced by decisions to improve transport connections or extend sewer and water capacity, or by encouraging greater connections between rural and urban residents through integrating labour markets or providing access for rural citizens to urban services. Consequently, land-use policy is most successful when these other policy domains reinforce its actions.

Table 2.11. **Policy complementarities for rural regions close to cities**

| Land use | Infrastructure / accessibility | Resource use | Public services | Employment |
|---|---|---|---|---|
| Manage land conversion to limit urban sprawl and preserve high-value land for productive and recreational purposes | Control expansion of sewer and water systems to slow land conversation<br><br>Plan road and public transit to manage development | Maintain environmental quality and restrict activity that is not sustainable<br><br>Work to valorise rural amenities used by urban residents | Provide local high-quality services that are integrated into adjacent urban capacity | Integrate rural labour markets into urban markets by facilitating economic activities related to absolute advantages, and stronger supply chains |

*Source*: OECD (2016a), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264260245-en.

Considerations for rural remote regions are slightly different. Much depends on local conditions. For example, while remoteness may be a problem for many rural industries, it can be a competitive advantage in tourism. Remoteness, combined with attractive landscapes, as in the Scottish Highlands and Islands, can become a major attraction (Mahroum et al., 2007: 30). As an economic strategy for such regions, spatial planning becomes important to maintain environmental quality in such areas. Spatial, however, is just one part of the conditions that enable tourism businesses to grow. Other preconditions include transport infrastructure and services, access to Internet and broadband technologies, supply of skills and competencies, and support for business development and entrepreneurs.

The columns of Table 2.12 identify five policy domains in more remote rural areas, where land-use conversion to urban uses is not an issue, but the loss of important environmental, natural and cultural capacities on some parcels of land is an important policy concern. Here direct land-use regulation may play a smaller role than the other four domains that can lead to land-use changes by altering private property owners' incentives to manage land in different ways. Once again, it is crucial that the five policy domains send a consistent and coherent set of signals to property owners to ensure that economic development takes place in a way that maintains other goals, including sustainability and preservation.

Table 2.12. **Policy complementarities for remote rural regions**

| Land use | Infrastructure / accessibility | Resource use | Public services | Employment |
|---|---|---|---|---|
| Restrict land-use practices that create environmental externalities (pollution, soil erosion, etc.)<br><br>Preserve high-value land that provides natural or cultural benefits | Improve connectivity to urban regions (broadband, roads, rail) | Maintain environmental quality and restrict activity that is not sustainable<br><br>Work to valorise rural amenities used by urban residents | Develop innovative ways to deliver high-quality public services in health, education, business support and workforce training<br><br>Local countercyclical revenue stabilisation plan/support | Expand employment and local opportunities through entrepreneurship, support for business expansion and new market penetration |

*Source*: OECD (2016a), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264260245-en.

Spatial planning is a good example of how policy complementarities matter for rural development. This is important in the Swedish context for a number of reasons. As outlined earlier in this chapter, rural development outcomes in Sweden are influenced by the interactions with urban areas. Spatial planning provides a framework to plan land uses and infrastructure connections to enhance these linkages. Spatial planning is important in more remote areas, too. Economic change generates new land-use and infrastructure requirements. Fostering the growth of the tourism industry may require new transport and communications linkages, and the protection of environmental assets and amenities. Conflicts can emerge through competing interests for land use. For example, the needs of traditional industries such as forestry and emerging ones like renewable energy differ from recreational uses associated with tourism. Large-scale infrastructure and mining projects can also conflict with the traditional uses of land by indigenous people. Spatial planning undertaken in a collaborative way at the right scale can provide an effective way of managing these issues.

Sweden does not have an effective policy framework to realise the benefits of spatial planning for rural areas. Rural policies are not well integrated with regional (urban) growth policies. There are no rules or incentives to facilitate the development of strategic spatial plans at a regional scale. Land-use planning now occurs only at the municipal level, and interrelationships at a functional or regional scale are not properly accounted for. Mechanisms to link infrastructure and land-use planning are also lacking. As a result, planning for land use and infrastructure are not integrated with regional growth or rural policies. In August 2013 the government directed a committee to further investigate the need for a regional spatial planning, as well as increased co-ordination between various types of planning at the regional level. For the moment the committee final report, which was presented in June 2015, is being prepared in the government offices (the government has not made a statement about the suggestions of the committee report).

### *Service delivery is also an important area for policy complementarity*

The service or tertiary sector in OECD economies now accounts for the largest share of income and employment. Employment in healthcare and public administration is important to the economic base of rural Sweden. Access to an appropriate set of public and private services is crucial for the quality of life of citizens and the competitiveness of firms. This makes service availability a central feature in rural development policy and strategy. However, rural regions face a particular challenge in the form of relatively high costs of service delivery due to a number of factors (Table 2.13). In the current context of tight fiscal budgets, discussions around how to deliver services in more cost-effective ways in rural areas has come to the forefront of the discussion in many OECD countries (OECD, 2010a).

Table 2.13. **Factors impacting the cost of rural services**

| Factor | How it impacts service delivery costs |
|---|---|
| Distance | All forms of connectivity are scarcer and accessibility to rural areas more expensive. Transportation costs and overall costs to provide goods and services are higher in rural areas on a per capita basis. |
| Low population | It is difficult to achieve scale economies of production of goods and services including public services. |
| Low density | In rural regions people tend to be dispersed or even scattered across much of the territory, making connectivity harder to achieve. |
| Ageing population | As the population ages the mix of services demanded changes; this may require new investments or outlays especially concerning healthcare. |
| Diminishing subsidies | Governments are cutting expenditures, which has an obvious impact on government services and costs. |
| Increasing diversity | Rural populations are becoming more diverse, representing a mix of residents historically rooted in the region (including indigenous people), newly retired people, second-home residents or newcomers who commute to a city for work. The result is a fragmenting of demand and a population where significant numbers of people choose to obtain goods and services away from the place where they live. |
| Few service providers | Choice is valuable. Too often rural service providers seek to exploit a local monopoly situation while paying little attention to actively marketing their own businesses or improving the quality of services that they provide. |

*Source*: OECD (2016a), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264260245-en.

Like many other OECD countries, Sweden has a fiscal transfer system that accounts for differences related to demographic and geographic factors. This system enables a certain level of services to be guaranteed across the national territory (Table 2.14). The most significant factor contributing to service delivery costs in Sweden is related to the structure of the population. Public service delivery costs per capita are highest for people aged over 85. This age group makes up a higher proportion of the population in rural

areas. Costs for public services are also high for children and youth due to the costs of childcare and schooling (but not at all as high as for elderly people). Cost equalisation is also provided for geographic factors. Because some regions are more sparsely populated it costs more to provide a similar level of service provision to the people who live there. Cost equalisation for these demographic, socio-economic factors costs about SEK 8 billion in total per year. The cost for geographic factors is about a quarter of this, or SEK 2.1 billion annually, or about 0.2% of Sweden's GDP (Table 2.15).

Table 2.14. **Public service delivery in Sweden: Structural costs that are taken into account in the cost equalisation system for subnational governments**

| Service | Age | Ethnicity | Socio-economic conditions | Geography |
|---|---|---|---|---|
| **Municipalities** | | | | |
| Preschool services and out-of-school care | X | X | X | X |
| Compulsory school and preschool classes | X | | | X |
| Upper secondary college | X | X | X | X |
| Care of the elderly | X | | X | X |
| Individual and family care | | | X | X |
| **County Councils** | | | | |
| Health and medical care | X | | X | X |
| **Joint service** | | | | |
| Public transport | | | | X |

*Source*: Swedish Agency for Growth Policy Analysis (*Tillväxtverket*).

Table 2.15. **Estimations of costs due to unfavourable settlement structure in Sweden, 2011**

| Service type | SEK millions |
|---|---|
| Primary school | 929 |
| Elderly care | 239 |
| Secondary school | 296 |
| Small hospitals | 386 |
| Small health centres | 134 |
| Ambulance | 111 |
| Total | 2 095 |

*Source*: Swedish Agency for Growth Policy Analysis (*Tillväxtverket*).

Across rural Sweden there is also an overall trend of the population concentrating in fewer places. For example, in the north of the country the populations of the larger urban settlements in the coastal areas are generally growing at a fast rate (in some cases above the national average). This trend provides a number of advantages. It enables these regions to provide an urban environment that can be attractive to families and younger people, and it allows these places to develop a more diverse and sophisticated services sector. This trend is also an advantage because higher population densities reduce the costs of delivering public services. Governments can also realise policy complementarities by concentrating service delivery, including administrative services, healthcare, shopping and so on, in specific places with transport networks organised so as to make them as accessible as possible to the rural population of the surrounding areas (OECD, 2016e).

### *Service delivery innovation is important for the future rural communities in Sweden*

Within the overall context of tightening public budgets and increasing costs due to an ageing population it is imperative for rural communities to facilitate service delivery innovation. Rural areas face additional challenges because their populations are ageing faster, and they need to overcome problems associated with less skills/capacities, and distance. Rural areas tend to be at the forefront of service delivery innovation through the use of technologies, new forms of community involvements and ownership, and integrating different service delivery platforms. These practices often emphasise "innovation" (alternative methods to achieve the result) and "inclusiveness" (co-design and co-delivery), which are important for a holistic approach (Bryden and Munro, 2000; Markeson and Deller, 2012; OECD, 2010a). More specifically, these practices across OECD countries include the following:

- **Consolidation, co-location and the merger of similar services**. Consolidation involves concentrating customers on a smaller number of service locations. It increases effective demand by increasing the size of the service territory for each remaining location. One example would be the merging of several weak local newspapers to create a single regional paper that has more viability. Co-location is another approach that seeks to build demand. Basic overhead costs – energy, security and administrative expenses – can be pooled, generating economies of scope. If post office services are consolidated with a shop, people can obtain their mail and purchase food in one trip. Finally, service merger takes similar or substitute services and combines them into a single entity.
- **Alternative delivery mechanisms**. Where the demand for services is widely dispersed, it may be more efficient to bring the service to the user. For example, adopting mobile service delivery approaches – bookmobiles that bring library services to communities that are too small to have a physical library or mobile dental clinics. The Internet offers the possibility to provide services in rural areas and for providers in rural areas to offer services outside their immediate territory. Telemedicine allows x-rays and other diagnostic services conducted in rural areas to be processed and analysed elsewhere.
- **Community-based solutions for different types of providers**. Some rural communities have volunteer fire departments. Others have fire departments that are operated by full-time firefighters that are employed by local governments. In some communities there are for-profit village shops, in some villages there are community-owned shops that provide equivalent access to services, but which operate as social enterprises.
- **Improved quality and marketing**. Technology can help rural residents provide and access information about service quality and about alternative providers. Geolocation facilitates matching between the supply of and demand for services.
- **Innovation — creating a new service to achieve better outcomes**. In rural areas there is often insufficient business to support a full range of services provided through independent firms. A region may not be able to support a full-fledged home-repair business, but could make use of the services of a travelling handyman that operates out of a fully-equipped vehicle. Mobile entrepreneurs are important in these types of areas.

Governments are also realising policy complementarities by concentrating service delivery, including administrative services, healthcare, shopping and so on, in specific places with transport networks organised so as to make them as accessible as possible to the rural population of the surrounding areas (see Box 2.7 for an example). These tend to vary with scale: some are quite basic and limited to essential functions, while others, where population and resources permit, come to act as local centres of innovation, playing a role in supporting efforts to bridge primary, secondary and tertiary activities in rural areas and in promoting renewable energy generation. In some communities, the proximity of these services can help them be more integrated with one another, as practitioners have more opportunities to interact and learn about each other's work — including across levels of government.

### Box 2.7. **France's "one-stop shop" for citizens**

After an initial experimental period, the French government decided in July 2013 to develop one-stop shops for citizens, called *maisons de services au public* ("public services houses") (MSPs), offering access to such public services as post offices, public transport ticketing, energy utilities, unemployment insurance and welfare services (pensions, family allowances, health insurance, etc.). The purpose of the *maisons* initiative is to guarantee public service delivery in low-density or isolated territories by sharing costs and employees as far as possible. For technical and statutory reasons, the sharing of employees has proved more complex than the sharing of costs or premises.

The *maisons* are usually financed by local authorities (50%), public operators (25%) and the national government (25%). Beyond subsidising them, the French government plays an important role in promoting this policy, harmonising the services provided and giving them a common label. It has also set up a partnership with the French postal service, *La Poste*, to transform some post offices with low activity (mainly in rural or mountainous territories) into *maisons de services au public* in order to make them more profitable and to avoid financing specific buildings.

In March 2015, the government's Inter-ministerial Committee for Rural Development set a goal of increasing the number of MSPs threefold, up to 1 000, by 2017, in accordance with the departmental schemes for the accessibility of public services that are enshrined in legislation for a new territorial organisation of the French Republic adopted in the summer of 2015.

This initiative is similar to those observed in places like Australia (the Rural Transaction Centres) and Finland (Citizen Service Offices), to name but two others. These and other one-stop shops (OSS) can cut provider costs and increase access by rural dwellers to necessary services. The range of services offered by OSS in OECD countries can include anything from education, childcare, government information, referrals and advice, health/elder care, social support services (rehabilitation, housing support), to cultural and recreational activities. Driven largely by community need and involvement these "all purpose" service centres are expected to continue to grow in rural areas because they allow governments to provide rural services on the basis of cost-efficiency (OECD, 2010a).

For further information see CGET (2016), "Maisons de services au public", webpage, www.cget.gouv.fr/dossiers/maisons-de-services-public (accessed 1 June 2016).

In Sweden, sectoral policies and services tend to be designed in a top-down way for the whole national territory. However, many social services are delivered at the municipal level. The public sector also takes a lead role in the provision of services, with a limited

role for the private and not-for-profit sector in the delivery of public infrastructure and services. There are benefits to this model, particularly in terms of equity of service provision, and local accountability for the quality and efficiency of service delivery. This model also has disadvantages, particularly nationally designed rules that may not be suited to sparsely populated areas, and a lack of incentives for co-operation between municipalities at a functional scale. In spite of these barriers there are examples of regions and municipalities co-operating to deliver innovative service delivery solutions in rural areas. For example, in Jämtland-Härjedalen four municipalities have joined together to create a common secondary school organisation for the County and the CLLD is creating opportunities to develop single service points that combine public and commercial services.

### *Rural Sweden has comparatively good access to broadband and this is a key enabler for service delivery innovation*

The proliferation of information and communication technology (ICT) connectivity in rural regions has created opportunities to deliver a broader array of services to both citizens and businesses through such mechanisms. For instance, the use of telemedicine to deliver healthcare services, particularly to remote populations, has proliferated. This can include videoconferencing technologies to improve access to health services for patients, families and healthcare professionals. Reducing the need to travel reduces costs and means that healthcare professionals can spend more time treating patients as opposed to travelling. Extending broadband to rural communities is important for reducing the rate of cost increases for delivering services in these areas.

However, limited ICT accessibility can be a barrier to the use of such services. Sweden is performing comparatively well in this area. Over the past decade there has been a high level of investment in communications infrastructure. Much of this investment is driven by the private sector and has predominantly benefited urban areas. The state has also provided funding to extend broadband provision in rural areas where there is a lack of commercial investments in broadband infrastructure. Applicants for state aid can be, for example, small local actors or municipalities. This has enabled an increase in broadband provision in rural areas in recent years. Some 67% of the population in Sweden now have access to broadband at over 100 mega-bits per second. There is a goal to increase this level of provision to 90% by 2020. This level of access would provide a household or small business with the capacity they need for high usage such as videoconferencing, which is becoming a central element of rural telemedicine. Outside small villages 21 % of the population have access to 100 mega-bits per second. Some 99.95 % of the population in rural areas have access to mobile broadband via LTE (4G).

Better broadband connections can facilitate innovations in the area of e-health and telemedicine. At a national level the government has an e-health strategy that aims to incentivise innovation and provide regions with flexibility in delivering services. One example is the region of Västerbotten, which has taken a lead role in improving broadband provision and linking it to service delivery innovation. The county and municipalities have provided a long-term commitment to co-invest to improve broadband capacity. The municipalities and the county are promoting e-government through a shared project, e-Västerbotten. It includes an inventory to identify areas of potential collaboration, promoting new technologies and good practice, and creating common technological platforms for the delivery of e-services.

There has also been a strong focus in Västerbotten on telemedicine to improve accessibility for rural communities to healthcare. Physical services are concentrated in a small number of places (e.g. two medical centres for sparsely populated areas in Storuman and Vilhelmina), and telemedicine is utilised to deliver services to more remote communities, which also enables connection with experts in Umea. Since the mid-1990s, close to 40 different health applications and 230 videoconferencing facilities have been rolled out across the county. Within the health services system this has resulted in increased efficiency, improved competencies among staff and reduced travel times. Umea University has also developed a research and teaching specialisation in this area, and established a centre, "Innovationssluss Västerbotten", which provides a mechanism for health professionals to develop new e-health products and services.

### *There is a need for greater consistency and integration in the governance of rural policy in Sweden*

Recent institutional changes at a national level have increased the scope for an integrated approach to regional and rural development. The Ministry for Enterprise and Innovation has responsibility for key areas of urban, regional and rural development, which includes responsibility for matters relating to housing and spatial planning, information technology, enterprise and industrial policy, rural affairs, regional growth, and infrastructure. Administrative responsibility for rural affairs was integrated into the ministry after the 2014 national elections, although there continues to be a separate Minister for Rural Affairs. Previously, rural affairs had been a standalone ministry.

Realising the potential of this integrated approach will require co-ordination at a political and administrative level. In itself, bringing together these portfolios into a single ministry will not necessarily lead to synergies and proactive leadership is required. At a political level it will be important that ministers responsible for industry, regional and rural affairs and infrastructure effectively co-operate in the preparation of policy proposals. Collaboration can create an environment to support a more co-ordinated approach at an administrative level. In turn, proactive leadership will also be required to enhance collaboration at an administrative level, which includes the use of co-ordinating tools such as joint committees and project teams, and short-term secondments of staff between different areas.

Sweden has two levels of subnational government: county and local municipal. There is a heavy reliance on delivering public investment and services at a subnational level (OECD, 2010a). Municipalities have responsibility for areas such as basic and secondary education, kindergarten, elderly care, water and sewerage, and physical infrastructure. The political level at the county (regional) level is (with some exceptions) responsible mainly for healthcare (about 80% of their budgets), planning of transportation infrastructure, public transport, culture, and may engage in other areas such as tourism and culture. In terms of responsibility for regional development policy, there are three different types of arrangements in existence across Sweden's regions.

At a county level, there are three different models for implementing regional policy in Sweden, and there is a risk of inconsistencies in how regional and rural policies are delivered. They are:

- County Administrative Board taking the lead in regional development (this is the traditional model and now exists in 4 out of 21 regions – from 1 January 2017 it will be only 1).

- County Councils taking the lead in regional development (this is becoming the more prevalent model with 10 out of 21 counties now adopting it – from 1 January 2017 it will be 14).
- Regional Co-ordination Bodies taking the lead in regional development (which are indirectly elected and made up of municipalities and County Council members – 7 of the 21 counties have adopted this model – from 1 January 2017 it will be 6).

The future evolution of this county government model should aim for consistency, and enhancing democratic accountability. Consistency in administrative structure is important in terms of the national government establishing clear governance, monitoring and accountability arrangements to deliver national priorities. However, specific regional development policies should reflect the preferences and aspirations of the region. County Councils as directly elected bodies provide the best opportunity to achieve this outcome. For regions that have decided to form a Regional Co-ordination Body this entity can fulfil a similar function.

There are also proposals in development to further reform the structure of subnational governments in Sweden. In March 2015, the government announced the establishment of a committee to investigate the possible mergers of regions and the alignment of the regional subdivisions of national ministries to better reflect changes in functional geographies. A committee will submit its proposals by 31 August 2017 with some merges occurring by 2019. A clear majority of the counties advocate for territorial reform. A similar exercise is proposed for the municipal level due to increasing fiscal pressures and demographic changes. The Minister for Public Administration has also announced the ambition to appoint a committee by the end of 2016 to further investigate challenges and opportunities related to service delivery at a municipal level. Given the initial scope it is likely this will lead to proposals for more co-operation and the merger of municipalities.

These changes to subnational governance arrangements present both risks and opportunities for rural areas. In terms of delivering regional and rural development it is important that policies reflect functional boundaries, and in particular labour market catchments. The regions of northern region tend to have one or two local labour markets centred on the largest city and administrative centre. There are then a range of rural municipalities with small populations, which are geographically large and not well connected. These functional geographies are important because they reflect how people access employment and services. As outlined earlier in this chapter, there are numerous functional labour markets in some of the rural and intermediate regions in Sweden. For example, Västerbotten in the north has two local labour markets that jointly include seven municipalities, but there are eight single municipalities (Table 2.16)

Table 2.16. **Sweden's northern counties: Local labour markets and municipalities**

| | Number of local labour markets (LLMs) | Municipalities in multi-municipality LLMs | Single municipalities | Total number of municipalities |
|---|---|---|---|---|
| Norrbotten | 1 | 11 | 3 | 14 |
| Västerbotten | 2 | 7 | 8 | 15 |
| Jämtland | 1 | 4 | 4 | 8 |
| Västernorrland | 1 | 5 | 2 | 7 |
| Total | 5 | 27 | 17 | 44 |

*Note*: Local labour markets are built up from municipalities within each region and contain at least two contiguous municipalities: where there is a significant degree of commuting across municipal borders; and where daily commuting is restricted to less than 45 minutes in one-way travel time.

*Source*: Roto (2012), Demographic Trends in the Nordic Local Labour Markets, Nordregio Working Paper.

The benefits of addressing administrative fragmentation in large metropolitan areas can be high. For example, Ahrend et al. (2014) find a strong negative impact of administrative fragmentation on productivity. However, the potential benefits realised from merging these geographically larger counties and municipalities with low population densities are likely to be low. Reducing administrative fragmentation in rural areas tends to produce no or detrimental results in terms of economic growth (Bartolini, forthcoming). This is due to the increased distances required to administer and deliver public infrastructure and services in low-density areas. In addition, consolidation of public services imposes higher travel costs on citizens and can reduce social cohesion. There are many functional labour markets that constitute these northern regions in Sweden, which are comparatively large. For example, Norrbotten in the north has a total land area of 97 257 square kilometres, which is larger than Hungary or Portugal. These boundary changes will have to be carefully considered, including how they relate to the roles and responsibilities and revenue arrangements at a subnational level.

## *Conclusions and recommendations*

Policy complementarities are based on the principle that mutually reinforcing policies generate higher returns because policies — territorial and sectoral — are more effective where they are co-ordinated and aligned along similar goals and objectives, and adapted to the particular circumstances of rural places. There are two key areas where Sweden can take action to further realise the complementarities for rural development: spatial planning and service delivery. Currently, there are no rules or incentives to facilitate the development of strategic spatial plans at a regional scale. Land-use planning now occurs only at the municipal level, and interrelationships at a functional or regional scale are not properly accounted for. Mechanisms to link infrastructure and land-use planning are also weak. Sweden's model of service delivery has a number of benefits including equity of service provision, and local accountability for the quality and efficiency of service delivery. However, nationally designed rules and funding arrangements are not always suited to sparsely populated areas, and there is a lack of incentives for social innovation and co-operation between municipalities at a functional scale. Questions of geographic scale are central to current reforms to subnational governments in Sweden. As discussed in this chapter, these decisions should be considered alongside other factors, such as changes in grant systems, a revision of fiscal rules, and/or the reassignment of subnational government tasks. The regions of northern Sweden are already comparatively

geographically large and any reform proposals should properly consider the costs and benefits of these changes for families and communities in low-density areas.

**Recommendations**

- Support regions to deliver better services and realise policy complementarities by:
  - reducing administrative/regulatory barriers and developing stronger incentives for regions and municipalities to broker innovative service delivery solutions for rural communities (with a particular focus on supporting social entrepreneurs and the third sector)
  - allocating a spatial planning competency to the County Councils, and ensuring these regional spatial plans are integrated with planning for regional development, transport and communications infrastructure (thereby helping to facilitate urban-rural linkages and complementarities in land use and infrastructure between different rural municipalities)
  - ensuring that proposals for regional and municipal mergers properly consider the costs and benefits of these changes for families and communities in low-density areas.

## Developing a national rural policy for Sweden: Future directions

As outlined earlier in the chapter, Sweden has a distinct geographical, economic, social, and institutional context that will shape how policies are designed and implemented. The analysis in this chapter has identified a number of key issues to consider in respect to designing and implementing new directions for rural policy. The first is the diversity of rural Sweden and some of the relatively unique attributes of its rural landscapes in an OECD context. Rural policies are currently conceived in a rather narrow way without a clear national vision that reflects this diversity and which shapes the decisions of sectoral ministries. Governance and funding arrangements for rural and regional development are different and these issues generate a number of co-ordination problems. Because realising policy complementarities are important to supporting growth in rural places a number of different mechanisms to improve co-ordination, including rural proofing, were outlined. The objective of this final section is to outline some of the principles and directions that should be considered in the future development of rural policies in Sweden. It includes a discussion about the scope of rural policies, and the OECD's Rural Policy 3.0. The chapter finishes by setting out the proposed elements of a new approach to rural policy in Sweden.

### *The contemporary OECD framework for rural policy can provide guidance for policy makers in Sweden in developing a national rural policy*

The OECD has long advocated for a place-based approach to rural development, which takes into consideration the prosperity and well-being of rural areas. This section outlines the current framework for rural development and some of the key considerations for applying it in a Swedish context. While this approach bears higher transaction costs, due to the large number of stakeholders involved, and also requires more information

about available investment opportunities at the subnational level, it has proven potential to foster more resilient rural development that is strongly linked to the strengths and aspirations of different communities.

### *Rural Policy 3.0 refines and extends the New Rural Paradigm*

The New Rural Paradigm, endorsed in 2006 by OECD member countries, proposed a conceptual framework that positioned rural policy as an investment strategy to promote growth in rural territories. Rural Policy 3.0 is an extension and a refinement of this paradigm, which has been instrumental in starting a process of rethinking rural development practices across OECD countries (see Box 2.8 for further discussion). Where the New Rural Paradigm provided a conceptual framework, Rural Policy 3.0 focuses on identifying more specific mechanisms for the implementation of effective rural policies and practices.

#### Box 2.8. **The evolution towards the Rural Policy 3.0**

In 2015, the Rural Policy 3.0 was endorsed by delegates of the Tenth OECD Rural Conference, "National Prosperity through Modern Rural Policy", in Memphis, Tennessee (19-21 May 2015). Almost a decade on from the adoption of the New Rural Paradigm, the time was ripe to revisit the framework.

Its elaboration has been informed in part by the OECD Rural Policy programme and 12 National Rural Policy Reviews which cover a wide spectrum of national conditions and rural regions. Given that each review was conducted with the New Rural Paradigm as a metric, they contain valuable information on the degree of adoption of this paradigm by OECD countries.

In addition, a number of rural thematic reviews have also provided a fresh perspective on the changing nature of rural economies and the opportunities and constraints facing rural development. Thematic reviews are also tools that can facilitate international policy dialogue and mutual learning. The most recent thematic rural reviews focus on:

- interactions between urban and rural regions (*Rural-Urban Partnerships* [OECD, 2013a])
- identify key factors and bottlenecks for economic growth (*How Regions Grow* [OECD, 2009]; *Promoting Growth in all Regions* [OECD, 2012b])
- delivery of services in rural areas (*Strategies to Improve Rural Service Delivery* [OECD, 2010c])
- links between renewable energy deployment rural development (*Linking Renewable Energy to Rural Development* [OECD, 2012c]).

*Source*: OECD (2015c), "Tenth OECD Rural Development Conference, 'National Prosperity through Modern Rural Policy'", 19-21 May, Memphis, United States, www.oecd.org/rural/rural-development-conference/ (accessed 1 June 2016).

### *The OECD's Rural Policy 3.0 is a mechanism to help national governments support rural economic development*

Rural Policy 3.0 reflects several important changes. First and foremost is that rural regions have evolved into far more diverse and complex socio-economic systems. Second, in general, all government policies are now less isolated and are held to more rigorous accountability standards. Third, with better data and analysis, it is possible to have a better understanding of rural regions and move away from the presumption that all rural places are alike. Rural Policy 3.0 can provide a broad framework and set of principles to guide the Swedish government in designing a new rural policy. Many of these principles are already well developed in the Swedish context. Table 2.17 summarises Rural Policy 3.0's approach.

Table 2.17. **Rural Policy 3.0**

| | Old Paradigm | New Rural Paradigm (2006) | Rural Policy 3.0: Implementing the New Rural Paradigm |
|---|---|---|---|
| Objectives | Equalisation | Competiveness | Well-being considering multiple dimensions of: 1) the economy; 2) society; and 3) the environment |
| Policy focus | Support for a single dominant resource sector | Support for multiple sectors based on their competitiveness | Low-density economies differentiated by type of rural |
| Tools | Subsidies for firms | Investments in qualified firms and communities | Integrated rural development approach - spectrum of support to public sector, firms and third sector |
| Key actors and stakeholders | Farm organisations and national governments | All levels of government and all relevant departments plus local stakeholders | Involvement of: 1) public sector - multi-level governance; 2) private sector - for-profit firms and social enterprise; and 3) third sector – non-governmental organisations and civil society |
| Policy approach | Uniformly applied top-down policy | Bottom-up policy, local strategies | Integrated approach with multiple policy domains |
| Rural definition | Not urban | Rural as a variety of distinct types of place | Three types of rural: 1) embedded in metropolitan region; 2) adjacent to metropolitan region; and 3) far from metropolitan regions |

Source: OECD (2016a), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264260245-en.

### *Objectives for rural policy have become multi-dimensional and focus on well-being broadly defined*

The initial objective for rural policy was to bring the income levels of rural dwellers closer to those of urban ones. Now the objective focuses on delivering well-being to rural dwellers comparable to that which is attainable in urban areas, even though different aspects may be emphasised. In general, quality of life is seen as having: 1) economic dimensions, where household income hinges on employment in firms that are productive and competitive; 2) social dimensions, where households with access to a broad set of services that may be delivered in different ways than in urban places and promoting a local society that is cohesive and supportive, and a 3) local environment that provides a pleasant place to live. This well-being framework is already embedded in the Swedish government's regional growth policy. As with the regional growth policy, a rural policy

framework will also need to provide the flexibility for regions to adapt this framework to their needs and circumstances.

### *The policy focus is evolving away from sectorial support towards helping to build conditions favourable for a low-density economy*

The initial rural policy approach was to support incomes in a single natural resource sector — mainly farming, but in some regions fishing, forestry or mining. Now rural policy is moving toward operating in the context of a low-density economy, where the fundamental economic structure and its growth opportunities follow a considerably different logic than is the case in urbanised regions. An important feature is the key role of the tradeable sector with considerable differences evident across different parts of rural Sweden. Recognition that the underlying nature of a rural economy is fundamentally different leads to the need for a new set of policy prescriptions that reflect differences in opportunities for growth and differences in the factors that constrain growth.

### *This new way of understanding rural policy demands implementation through a new set of policy tools*

Subsidies for farmers, and then other kinds of firms, were the mainstay of rural policy across the OECD in past years. Now, a more comprehensive approach is being introduced. Investments that offer a positive return to society should be the main instrument for rural development. But, in situations where markets fail, due to incomplete information, insufficient competition or in the case of public goods, governments may have to be more directly involved in order to ensure that well-being in rural areas is improved. In particular, support for social enterprise or other aspects of the voluntary sector is increasingly recognised as a useful way to enhance rural communities. Some of the actions that can stimulate third sector activity include small development grants for social enterprises, social procurement practices, promoting the work of social entrepreneurs, and brokering linkages between social entrepreneurs and financing opportunities. These “third sector” approaches are under-utilised in the Swedish context; there should be more scope for third-sector, community-based organisations to manage and operate public services, where appropriate.

### *The number and kind of participants involved in the rural policy process have increased over time*

The main policy actors of rural policy in the past tended to be national government ministries of agriculture that delivered support to farmers and farm organisations that lobbied national government in support of farmers. Now the number and range of participants is much larger. National governments are still involved, but now multiple levels of government play a role, as do a broad range of ministries through a multi-level governance structure. Individuals and firms, including farmers, are still engaged, but it is now all the people and enterprises in the region who are stakeholders in the development process. Finally, the important role of the voluntary sector is recognised, including large issue-oriented non-governmental organisations (NGOs) and local service organisations that provide services where firms and government fail to act. Broadening participation is a key feature of the Swedish approach where there is a tradition of dialogue and compromise between different sectors of society, and these processes are already reflected in rural and regional policy settings.

### *Policy approaches have broadened from a uniformly applied top-down approach, towards an integrated rural development focus*

The general historical trend across OECD countries was rural policies that were designed and implemented by a national ministry with little input from rural recipients. Policy was also structured to provide essentially the same level and type of support to all recipients. Over time rural policy has evolved to include multiple domains, such as providing: support for people in the form of better services and skill development; support for local governments through fiscal equalisation and grants for infrastructure; and protection of the environment. These shifts are apparent in the Swedish context. The challenge is now further developing this approach to engage different sectoral policies and ensure better alignment in regional and rural policies, funding and governance at a county level.

### *The definition now recognises that proximity to urban is a key factor in characterising rural*

While "rural" was initially conceived as being "not urban" in many OECD countries, there is now broad recognition that rural is a complex phenomenon. A useful way to identify types of rural is to look at the degree of physical distance between rural and urban places and the degree of linkages. Using this approach, the OECD has developed a typology that sorts rural territories into those that are embedded in a metropolitan region, those that are outside of a metropolitan region but near one, and those that are remote from a metropolitan region (discussed earlier in this chapter). This latter category can be further sub-divided into uniformly settled and sparsely settled regions. Sweden has a broad spectrum of rural areas across its national territory and differs in this respect from many countries in the OECD. It is important to develop an agreed definition of rural areas and ensure it is reflected in national and regional policy settings.

## *Designing a new approach to rural policy for Sweden*

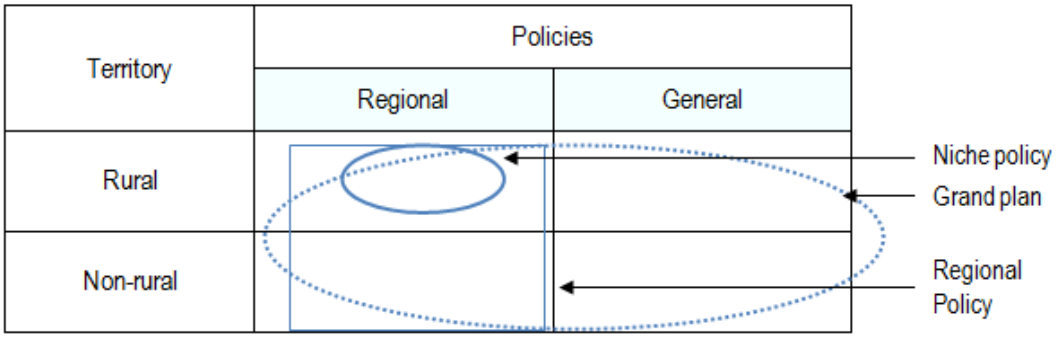
Shifting to a broader concept of rural development that involves a wide number of ministries, and reflects the diversity of rural Sweden will require a different approach to rural policy. The policy framework should, on the one hand, bring coherence to rural issues across government and, on the other hand, adaptability and flexibility to address the specific needs of different rural areas. These challenges are common to OECD countries and governments have followed one of two approaches to address them (often in combination):

1. **Broad rural policy** refers to the efforts to adapt policies that are applied across the entire national territory by different ministries and levels of government in ways that support rural development (for example ensuring that the rural population is adequately served by the healthcare system).
2. **Narrow rural policy** includes the policy measures and instruments targeted specifically at rural development (for example by applying low rates of taxation on firms that are located in rural areas).

Broad and narrow rural policy can address the needs of rural policy in different ways. Broad rural development policies are those that adopt a grand overarching design and attempt to integrate all policies. Included in this frame are those policies and programmes that were designed with other objectives in mind (perhaps without a rural focus or

considerations) but which have intended or unintended impacts on rural areas. In contrast, the more "niche" or "narrow policy" approach is policy designed specifically to address the needs of rural communities (see Figure 2.14). There are difficulties in operationalising the broad approach and there can be implementation risks associated with it. The narrow rural policy delivers results, but also presents the risk being too disconnected from other regional, sector or national polices.

Figure 2.14. **OECD matrix for rural policy analysis**




*Source*: OECD (2006), *The New Rural Paradigm: Policies and Governance*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264023918-en.

A broad rural policy tends to see rural regions as being quite similar to urban regions in terms of their opportunities and constraints, and more importantly in terms of the types of policy instruments that are provided to them. It largely assumes that there is little need for a territorially specific policy because a single national policy operated by each ministry can adequately meet the needs of people wherever they are located. By contrast narrow rural policy is inherently territorial in nature. It supposes that there are such fundamental differences between urban and rural regions that a single policy will be ineffective in at least one type of territory. Instead of a single uniform policy ministries may need specifically targeted policies that are designed to be effective under rural conditions.

### *Sweden should implement an approach that combines broad and narrow approaches to rural policy*

In the Swedish context it makes sense to combine broad and narrow approaches to rural policy. The broad approach will enable different sectoral ministries to better tailor and adapt policy to the needs and circumstances of rural places across the national territory. Rural Sweden is diverse and more specific policies and investments will also be required to help different rural places build on their absolute advantages and promote service delivery innovation. There is already an existing funding mechanism through the RDP, and a constituency organised around rural development through the LAGs that implement this narrow approach. The challenge is how to link this broad and narrow approach, and address issues related to the lack of coherent vision for rural areas, differences in funding and governance between regional and rural development policy,

and the capacity to better engage sectoral ministries and help realise policy complementarities.

There is already a strong platform for Sweden to build upon. At present Sweden has implemented a narrow rural policy that is largely defined through the rural development programme supported by the European Union. The 2007-13 programming period had a strong focus on building the overall competitiveness of agriculture, and linking it to a broader rural development agenda. Environmental sustainability was seen as a key way of achieving this outcome through initiatives such as renewable energy. The current EU programming period (2014-20) builds on this focus and integrates it with a priority to improve accessibility to services and employment through improved broadband provision. These policies are important because they respond to the specific needs of rural communities in terms of enhancing their export base and improving accessibility. Local communities and municipalities are heavily engaged and committed to this approach through their participation in LAGs.

As outlined earlier in the chapter, Finland is one nation that Sweden can look to and learn from in terms of combining broad and narrow approaches to rural policy. Finland has also adopted a mixed approach. The National Rural Policy Programme (*Maaseutupoliittinen kokonaisohjelma*) is drawn up by the Rural Policy Committee and is one of the four special programmes derived from the Regional Development Act (602/2002). It is the main instrument of broad rural policy and as such aims at providing coherence to the different sectoral policies oriented towards rural areas. Revised every four years, the programme contains both a strategic perspective and concrete proposals carried forward by the Rural Policy Committee. The narrow rural policy refers not only to EU programmes but also to other activities of the national rural policy and the main instrument of the narrow rural policy is the Rural Development Programme for the Mainland Finland 2007–13. Thus, Finland has successfully integrated EU programmes at the core of its "narrow rural policy" and is considered a "model" in many respects for other EU countries, especially its LEADER method and its approach to mainstreaming national funds and other EU funds in order to cover the entire countryside.

Sweden now has an opportunity to build upon the RDP and the regional growth policy to develop a standalone national rural policy. Sweden currently lacks a coherent vision for rural areas that has been developed in collaboration with sectoral ministries, county and municipal councils, and other key stakeholders (e.g. business, LAGs, and the not-for-profit sector). As a result, sectoral policies such as education and health services, spatial planning, and transport do not have a clear and coherent "rural articulation". To address this issue, a national rural policy for Sweden should be developed that articulates a clear vision for the future growth and development of rural Sweden, identifies strategic challenges and opportunities, outlines a set of clear priorities and measurable outcomes to address them, and makes distinctions between different types of rural areas. This should be complementary to the existing regional growth policy that has a focus on all types of regions, from urban to rural areas. Realising this complementarity will require changes to administrative and funding arrangements at a national and regional level.

### *Regional and rural development policies should be integrated at a regional level, and County Councils based on the bottom-up approach given the responsibility to design and implement them*

Funding and governance arrangements organised around different EU funding streams makes it challenging to better integrate regional and rural development policies.

Regional growth policy and the RDP is each orientated to different EU funding mechanisms and has developed separate governance and implementation arrangements. The funding provided is at a different scale (regional through the ERDF invests in larger scale projects than rural through the RDP), but both funds invest in complementary activities (SMEs and innovation, digital and transport infrastructure, and social inclusion). Different bodies are responsible for implementing regional growth at a county level while CABs prepare a regional action plan for the implementation of the RDP and implementation occurs at the local level through LAGs. The European Social Fund (ESF) also provides funding for complementary activities (skills, employment and social inclusion) but is also organised separately through the ESF Council, which has eight regional offices.

The development of rural and regional policies at a county level should be a bottom-up process that engages with, and mobilises, a broad range of public, private and third sector agencies and the wider community. Political representative bodies (Council Councils or County Co-ordination Bodies) that are overseen by democratically elected officials within the region provides the best way of achieving this outcome, and these bodies should be given responsibility for implementing rural policy at a regional level. At the moment, there is lack of clarity about the roles and responsibilities between these representative bodies and CABs in relation to regional growth policy, and as a result there is a degree of competition between them. It is important not to replicate this problem in relation to rural policy. Maintaining the current arrangements would further increase the risk that each entity will develop different regional and rural policy agendas at the regional level, and it would also further strengthen the incentive for representatives from County Councils and County Co-ordination Bodies to bypass CABs and directly approach ministries and ministers in Stockholm on a case-by-case basis. CABs, as administrative agencies of the national government, are much more suited to playing a role of co-ordinating national policies top-down, and adapting these policies to regional and rural policies at a county level.

Integration would be further enhanced by better aligning top-down objectives with bottom-up initiatives set by the County Councils and County Co-ordination Bodies. At the moment, regional and rural are, to a degree, treated separately. Sweden's regional growth policy encompasses both urban and rural areas, and the relevant body responsible then develops a regional development strategy at the county level. In parallel to this, each CAB develops a regional action plan for implementing the RDP. Regional, urban and rural development issues should be treated in an integrated way by the County Councils or County Co-ordination Bodies. Each County Council/County Co-ordination Body should be required to develop a regional and rural development strategy through a bottom-up process in collaboration with municipalities, LAGs, and private and third sector actors. This would replace the existing regional development strategies and regional action plans for the RDP at a county level. CABs should then be given responsibility to play the complementary role of negotiating "top down" with the County Councils/County Co-ordination Bodies to align and adapt national policies to the region's development priorities.

### *Regional and rural development strategies should not be constrained by different EU frameworks and funding mechanisms*

Within the context of a broad approach it is important that rural areas are not necessarily constrained by EU frameworks and funding rules. The starting point for

regional and rural development strategies in Sweden should be the absolute advantages of the area, identifying growth enablers and constraints, and then the policy instruments and opportunities that can help realise growth opportunities. These policies and opportunities may come from EU, national, regional, municipal, third sector or private sector sources. Likewise, addressing social challenges in terms of service delivery and social inclusion should be approached in the same way. The challenge for the national government is then to design a policy, funding and governance framework which enables this innovative approach to rural development. The Italian government has taken steps in this direction through its Inner Areas Strategy (Box 2.9). It is based on a collaborative approach to rural development that includes commitment and buy-in from regional and national government across different sectoral policy areas.

### Box 2.9. **Inner Areas Strategy, Italy**

The Inner Areas Strategy was launched in 2014 to cope with service delivery challenges and development issues in rural areas of the country. In Italy, "Inner Areas" are groups of municipalities characterised by "inadequate access to essential services." This classification is driven by policy purposes: by measuring access to healthcare, education, and transportation, policies can be specifically designed to meet local needs. Inner Areas are those further than 75 minutes' driving time away from "service centres", which are municipalities that have an exhaustive range of secondary schools, at least one highly specialised hospital, and a railway station. All Italian municipalities have been classified according to the distance (travel time) from these service centres.

Each area selected in the strategy constitutes on average 15 municipalities and close to 30 000 residents. The municipalities lead a development process with local stakeholders to identify local needs, priorities and available assets. Once the local development strategy is in place, commitments are negotiated and agreed to with regional and the national government in the form of a Programme Framework Agreement. This includes setting targets and supporting indicators to evaluate progress. The action areas contained in these framework agreements are broad and not limited to EU-funded programmes. They include initiatives to reorganise education and training provision to align it better with local needs, innovation in health service delivery, and redesigning transport routes. The strategy is underpinned by a formal agreement between multiple ministries, and is embedded in the partnership agreement between the Italian government and the European Union.

National Strategy for Inner Areas was designed and implemented in a way to foster participation and an integrated approach to improve access to basic services, and business and employment opportunities. The key features of the approach are:

- Collaboration and multi-level governance (state, regions, municipalities and inter-municipal partnerships) to foster a participatory approach to local development.
- Operationalised through two interrelated classes of actions (access improvements to basic service and local development actions).
- It is a step-by-step process (just one prototype per region is first selected to evaluate the potential success of the strategy and trigger feedback and learning among participants).
- Multiple funding sources (EAFRD, ERDF, and national funds) to support integrated actions.

*Source*: Capece Galeota, T. (2015), "A Strategy for Italian 'Inner Areas'", presentation at the Tenth OECD Rural Development Conference, 19-21 May 2015, Memphis, United States, www.oecd.org/rural/rural-development-conference/presentations/Strategy-for-Italian-inner-areasTeresa-Capece.pdf.

### *Stronger mechanisms are needed to ensure buy-in from sectoral ministries and "champion" the rural agenda at a national level*

Another challenge in designing a more integrated approach to rural development is how to organise centrally to enhance co-ordination across different ministries, and between different levels of government. CABs will play an important role in co-ordinating and aligning national policies at a regional level. However, this will also require buy-in and ownership in the national capital. As discussed, sectoral policies and services in Sweden tend to be designed in a top-down way for the whole national territory, and this limits the capacity for municipalities and regions to tailor and adapt how services are delivered. This is a common challenge across OECD countries as national ministries responsible for portfolios such as education, health and employment take a national perspective and tend to design and implement services for individuals and families without necessarily taking territorial considerations into account. To address this challenge some governments have appointed high-level, cross-sectoral committees to provide leadership and direction to rural policy (e.g. the case of Finland), and others have established Committees of Cabinet tasked with providing a regional and rural lens to policies across government (e.g. Australia and Norway). The United States under the current administration of President Obama has appointed the White House Rural Council to ensure the co-ordination of policies and investments for rural areas across the federal government (Box 2.10).

#### Box 2.10. **White House Rural Council**

The White House Rural Council was established in 2011 by President Obama to enhance the Federal Government's efforts to address the needs of rural America. The council's key role is to better co-ordinate federal programmes and maximise the impact of federal investment to promote economic prosperity and quality of life in rural areas. The council is chaired by the Secretary of Agriculture and includes 25 federal departments and agencies, including the Department of Treasury, Department of Commerce, Department of Health and Human Services, and the Small Business Administration. The role of the White House Rural Council includes:

- making recommendations to the president on streamlining and leveraging federal investments in rural areas, and where appropriate, to increase the impact of federal dollars and create economic opportunities to improve the quality of life in rural America
- co-ordinating and increasing the effectiveness of federal engagement with rural stakeholders, including agricultural organisations, small businesses, education and training institutions, healthcare providers, telecommunications services providers, research and land grant institutions, law enforcement, state, local, and tribal governments, and non-governmental organisations regarding the needs of rural America
- co-ordinating federal efforts directed toward the growth and development of geographic regions that encompass both urban and rural areas
- identifying and facilitate rural economic opportunities associated with energy development, outdoor recreation, and other conservation related activities.

The White House Rural Council works across executive departments, agencies, and offices to co-ordinate development of policy recommendations and implementation of federal initiatives for rural development. It is an example of both a broad and narrow approach to rural policy in the sense that it co-ordinates policies across the federal government for rural areas, and also provides oversight to targeted rural programmes for poverty reduction and economic development. The leadership and authorisation of the president is crucial in ensuring policies can be adapted and co-ordinated to better meet the needs of rural communities.

*Source*: White House (n.d.), "The White House Rural Council", webpage, www.whitehouse.gov/administration/eop/rural-council (accessed 4 December 2016).

Though Sweden is encouraged to consider these lessons from other OECD countries, the government will need to design solutions that suit a tradition of dialogue and informal co-ordination between levels of government. In this sense, the existing political and administrative dialogues for the regional growth policy should be continued, but also expanded to ensure a specific focus on rural development issues. These dialogues should focus on strategic themes agreed to by the national government and counties and not into the detail of implementation (as these should be dealt with by the CABs and their engagement with each County Council/County Co-ordination Body). Over time this would reduce the risk of representatives from County Councils and County Co-ordination Bodies engaging with national ministries on a bilateral basis in relation to the delivery of regional and rural development priorities. The national focus on rural policy could be further strengthened by establishing a national rural advisory committee made up of representatives from subnational governments, business, communities and the third sector, which reports to the Prime Minister's Office and provides advice and act as champions for the development and implementation of the rural policy.

The implementation of the regional and rural development strategies will need to be supported by clear links to national planning and budgeting. CABs should also be tasked with negotiating binding policy and funding commitments from national ministries on an annual basis to enable the implementation of priorities contained within regional and rural development strategies at a county level. This negotiation could occur on an annual basis (within a rolling multi-year programme). Box 2.5 provides one example of how commitments are negotiated with sectoral ministries in Finland through the Rural Policy Programme (the operational programme of their National Rural Committee). Some incentives will also be needed to adapt and integrate policies, and deliver innovative solutions that do not fit within existing programmes. For this to occur, a rural development fund should also be created by the national government. This could provide funding to incentivise co-investment opportunities between other national, EU, regional, municipal and private/third sector funds to deliver on priorities in regional and rural development strategies.

### *Benefits and risks of implementing this new approach to regional and rural policy in Sweden*

This section of the chapter has outlined a new approach to rural development in Sweden based on developing a broader vision and priorities for rural policy, which complements and adds to the existing RDP and regional growth policy, and assigning clear roles and responsibilities for County Councils/County Co-ordination Bodies and CABs in implementing it. This would involve a significant change in policy development, governance and funding, and the distribution of responsibilities and competencies between different agencies. These types of changes always generate risks, for example, in terms of the transition costs and managing relationships with stakeholders. However, as acknowledged by the Parliamentary Committee the status quo is not delivering optimal results for rural Sweden and there is a consensus that policies should change. The benefits and risks of implementing the recommended approach to rural development policy described in this final section of the chapter are outlined in Table 2.18.

Table 2.18. **Benefits and risks of implementing this new approach to rural policy for Sweden**

| Benefits | Risks |
|---|---|
| • Gives regional political leaders greater oversight and accountability for regional and rural development policy<br>• Increases the scale of rural development interventions and the scope for realising policy complementarities<br>• Clarifies roles and responsibilities between County Councils/County Co-ordination Bodies and CABs, thereby reducing risk of duplication<br>• Builds skills and competencies in relation to rural development within County Councils/County Co-ordination Bodies<br>• Articulates regional and rural development policies based on regional needs rather than EU rules (leading to greater scope for long-term policy continuity)<br>• Better aligns bottom-up and top-down across different sectoral ministries<br>• Provides greater flexibility in the use EU, national and other funds | • Transition and set-up costs associated with changing roles and responsibilities<br>• Dilution of the rural development agenda within a broader regional policy<br>• County Councils/County Co-ordination Bodies lacking skills and competencies in certain policy areas (e.g. transport and digital communications, education and skills, and land-use and environmental regulations) important for designing regional and rural development strategies<br>• Higher transaction costs in engaging a broader range of regional and rural constituencies as part of developing strategies at a county level<br>• Increases complexity for national ministries and expectations about greater flexibility in national policy settings (services, budgets and regulatory frameworks) |

*Source:* author's own elaboration.

## *Conclusion and recommendations*

This section of the chapter has mapped out some of the elements of a new approach to rural policy in Sweden. In summary these elements are:

- **Develop a national rural policy.** Ensure the new rural policy articulates a clear vision for the future growth and development of rural Sweden, identifies strategic challenges and opportunities, and outlines a set of clear priorities and measurable outcomes to address them. The policy should also set out the mechanisms for implementation (outlined below).
- **Develop a more co-ordinated approach to regional and rural development** by allocating responsibility for implementing regional growth and rural development policies to County Councils/County Co-ordination Bodies. Within each respective region task these entities to prepare a regional and rural development strategy that applies these national policies to the circumstances and needs of their region. Ensure this is based on the identification of regional needs, priorities and assets for urban and rural areas within each region (and not constrained by EU priorities or funding rules), and is prepared in a collaborative way with municipalities, LAGs and other key stakeholders.
- **Strengthen mechanisms to adapt and integrate national sectoral policies with this agenda.** CABs should be given responsibility for negotiating a binding agreement with the County Council/County Co-ordination Body for how national ministries will contribute to the delivery of each regional and rural development strategy, which should be done on an annual basis as part of a multi-year programming framework. The existing political and administrative dialogue on

regional growth policy should also be expanded to include a specific focus on rural development issues.

- **Develop a stronger voice for rural policy at a national level.** Establish a national rural advisory committee made up of representatives from subnational governments, business, communities and the third sector, which reports to the Prime Minister's Office and provides advice and act as champions for the development and implementation of the rural policy.
- **Create better incentives to join up funding and develop innovative solutions by creating a dedicated rural development fund.** This should take the form of a competitive fund that would be held at a national level and be linked to the delivery of regional priorities that cannot be realised through existing funding mechanisms.

### Recommendations

- Develop a whole-of-government rural policy framework in collaboration with sectoral ministries, regions and local communities that:
  - articulates a clear vision and objectives for the development of rural Sweden based on a well-being framework with measureable outcomes
  - identifies how national sectoral policies (e.g. innovation, spatial planning, transport, etc.) will be tailored and adapted to the needs and circumstances of different rural areas
  - is complementary and integrates effectively with the existing regional growth policy.
- Ensure this rural policy framework has mechanisms to facilitate and monitor implementation, which includes:
  - Allocating responsibility for implementing regional growth and rural policy at a regional level to the political body (either a County Council or County Co-ordination Body) currently responsible for regional growth policy, and tasking them to prepare an integrated regional and rural development strategy (in the case where a County Administrative Board is responsible for regional growth policy this responsibility should be transitioned to a regional policy body).
  - Ensuring these strategies are based on the identification of regional needs, priorities and assets for urban and rural areas (and not constrained by EU priorities or funding rules), and is prepared in a collaborative way with municipalities, LAGs and other key stakeholders.
  - Tasking CABs to negotiate binding commitments from national sectoral ministries about how they will tailor and adapt policies to deliver on the regional and rural strategies prepared by each region.
  - Establishing a National Rural Advisory Committee made up of representatives from subnational governments, business, communities and the third sector, which reports to the Prime Minister's Office and provides advice and act as champions for the development and implementation of the rural policy.
  - Implementing improved guidance and tools for policy makers to take better account of rural needs and issues in the design and implementation of sectoral policies at a national and subnational level.
  - Creating a national rural development fund, which subnational governments and third sector actors can use to leverage CAP Pillar 2 and ERDF and other funds to deliver outcomes in line with the national rural policy priorities, and regional and rural development strategies at the county level.

## Notes

1. Tradeable goods and services are mainly produced for sale to other than local buyers. For example, most agricultural production is exported from the region in which it is produced, as are most manufactured goods. While tourism services are consumed in the region where they are produced, they are mainly consumed by visitors so they are also considered tradeable. Conversely, most services, such as, primary schools, laundries and car repairs, are not tradeable because most users are local residents.

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# *Chapter 3*

# Reforming the Swedish hourglass: More than just boundaries

*This chapter offers a diagnosis of Sweden's multi-level governance challenges in 2016, focusing on subnational organisation, tasks, and financing. It examines how regional governance objectives and public investment can be better supported through even greater co-ordination, and it identifies some of the benefits as well as the challenges presented by the regional reform currently under discussion. The chapter concludes with a detailed summary of findings and recommendations for action. The aim is to provide policy support and recommendations for Sweden as it fine tunes its regional governance practices.*

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

## Key findings and recommendations

The Swedish model of subnational governance and government works very well. The services provided by Sweden's municipalities and counties are of high quality; the democratic system is transparent and trusted by citizens; the subnational financing system provides a sound base of funding for all subnational governments and also enables autonomy in subnational decision making. Addressing the challenges that exist – primarily with respect to competence allocation, specific aspects of subnational finance, and the ability to meet needs in subnational investment – will mainly require fine tuning existing practices.

Sweden's "hourglass" structure and asymmetrical approach to regional structure and governance is undergoing gradual and subtle adjustments as the number of County Councils responsible for regional development increase and more county governments request and receive expanded responsibilities. This trend will likely continue. However, it will need to be supported by improved coherence among regional representatives at the central level (i.e. County Administrative Boards and state agencies).

While the revenue-raising capacity of subnational government supports the ability to deliver the wide variety of tasks expected of the subnational level, additional support could be given to strengthen the municipal revenue base. Greater reliance on earmarked grants can draw subnational government attention away from local needs and preferences, distorting decision making and impacting allocative efficiency.

Public investment levels are high in Sweden. It spent roughly 4.4% of gross domestic product (GDP) on public investment projects in 2014, and investment levels between 2000 and 2014 were consistently 2 percentage points above the OECD average. Much of this growth has been generated by an expansion of subnational investment activity. And yet, the share of Swedish subnational investment is lower than OECD average – 49% compared to 59% in 2014 – due in part to the fact that, traditionally, most of the investment is carried out by the central level, and subnational government investment occurs in a few large cities and counties. Subnational investment levels are expected to grow due to the pressures arising from an increasing demand for welfare or social services generated by population growth, demographic ageing and migration. As subnational investment needs increase, so will the need for measures that support co-ordinated investment. While the current, dialogue-based approach works well, it could be strengthened by incentive mechanisms for undertaking joint investment projects. In addition, investment activity could be supported though greater use of alternative forms of investment, and to meet costly infrastructure requirements there may be a need for greater revenue-raising capacity on the part of subnational governments.

The regional reform currently under discussion is unusual in its focus on redrawing administrative boundaries, while leaving the question of competence allocation for a second round of reform. There are good reasons behind this. However, postponing all discussion of competence allocation could result in less than optimal decision making with respect to new county administrative boundaries. Moving forward in its regional reform, Sweden may need to reconsider what appears to be a move toward greater homogeneity in regional governance with a "one-size-fits-all" approach to regional mergers (i.e. all counties undergo a merger), and continue its current practice of asymmetry. The traits and needs of the north, for example, do not match those of the south. For regional reform to successfully meet growth and equity objectives it should go hand in hand with a re-evaluation of competence attribution, and advantage should be taken of the opportunity to adjust grant systems, fiscal rules, and county governance structures. This may be particularly true in the case of Stockholm, which despite its political and economic weight does not have a County Council responsible for regional development.

### Key recommendations for reforming the Swedish hourglass

To continue pursuing and realising its aim of inclusive growth and territorial equity, the OECD recommends that Sweden continue to strengthen the middle tier of government while maintaining its asymmetrical approach to decentralisation. This includes the following.

**Further refining Sweden's multi-level governance system**

- **Continue to strengthen co-ordination among levels of government**, including by:
  - improving co-ordination and coherence among central agencies that operate at the regional level, and between these agencies and county authorities
  - ensuring that the territorial and operational logic of agencies better aligns horizontally (among each other) and vertically (notably with county boundaries).
- **Strengthen and diversify subnational revenue sources**, including by:
  - adding tax revenue options, such as a property tax, or barring this, consider introducing a pure land tax.
- **Continue adjustments to the grant system**, including by:
  - improving its transparency, and simplicity with adjustments to the income and cost equalisation models, as well as re-evaluating the effectiveness of the structural grant model
  - restricting earmarked grants to those cases with demonstrated positive externalities, otherwise favour general grants.

**Adjusting subnational investment approaches to meet growing investment needs**

- **Continue strengthening subnational investment co-ordination**, including by:
  - encouraging greater vertical co-operation in subnational investment with incentives for co-financing of central level investment by subnational governments
  - increasing direct central government financing of subnational investments where considerable externalities can be identified.
- **Increase the use of alternative forms of investment financing**, including by:
  - expanding the use of public-private partnerships and promoting a more strategic approach to public procurement at the subnational level.

**Moving beyond boundaries in regional reform**

- **Implement the regional reform and further merge counties, taking a systemic approach to the reform (beyond boundaries)**, including by:
  - relying on functional labour markets to determine new county boundaries.
- **Reconsider governance structures and competence attribution at the subnational level**, including by:

**Key recommendations for reforming the Swedish hourglass** *(continued)*

- launching discussions to better understand the future resource needs of new counties
- providing County Councils with regional development responsibilities; and continuing an asymmetrical approach for other responsibilities (e.g. employment/labour market; land-use/spatial planning)
- allocating responsibility for implementing regional growth and rural policy at a regional level to the political body currently responsible for regional growth policy (see Chapter 2)
- using the reform as a window of opportunity to improve the co-ordination of central agencies dealing with infrastructure, regional development or environmental issues, and counties (County Councils and CAB).

## Introduction

The Swedish multi-level governance system has been described as an "hourglass" (McCallion, 2007; OECD, 2010), meaning that the middle tier of government, i.e. the regional/county level, is less influential and of less importance compared to the highest tier (the central government) and the lowest tier (the municipalities). As highlighted in Chapter 1, this situation may soon change, however. The Swedish government is currently investigating a major regional reform that will reduce the number of counties from the present 21 to 6 regions. In essence, this initiative formalises and expands upon a trend of past decades to reinforce the role of regions, notably by transferring more decision-making power to them from the centre, especially in regional development issues. If the planned reform succeeds, the Swedish "hourglass" will change, to the benefit of all layers of Swedish government, and particularly at the subnational level, as a stronger county level could be a better partner for municipalities in regional development issues.

The *OECD Territorial Reviews: Sweden 2010* (hereinafter, the "2010 OECD territorial review") studied the Swedish multi-level governance system and highlighted several areas of strength as well as challenges. The specific strengths of Sweden's approach include transparency and consensus building, and the remarkable capacity to make adjustments when needed, at all levels of government. Citizen trust in government is extremely high in international comparisons. In 2014, citizen confidence in the national government reached 56% in Sweden,[1] not registering any percentage point change since 2007. This is compared to an OECD average of 42% confidence and reflects a 3 percentage point decline in the same period (OECD, 2015a). The quality of public institutions both at the central and subnational levels is very high, demonstrated for example in the OECD's *Health at a Glance* and *Education at a Glance* reports. All of this is supported by the impressive ability of the Swedish economy to achieve economic growth. Sweden has been one of the strongest fiscal performers since the start of the global crisis in 2008 (OECD, 2015a); and the responsible fiscal policy making of Swedish subnational governments has been a key factor behind this.

The main challenge for the Swedish multi-level governance system has been policy co-ordination at the county level and among levels of government (OECD, 2010). To address the situation, in 2010 the OECD recommended greater devolution of regional development competences to County Councils. The OECD also drew attention to the large number of government agencies involved in policy implementation, and suggested better linking the various policies together. Enhanced co-ordination among the different regional programmes (including rural programmes), and measures that would lead to better co-ordination of structural policies at the county level were also recommended by the OECD. In particular, the OECD suggested relying on the positive experiences from the then pilot regions of Skåne and Västra Götaland. As for the municipal level, the OECD had several recommendations. These included: enhancing co-operation among municipalities; adjusting the grant system to be more transparent and neutral with respect to mergers and co-operation; reforming the grant system in order to take account of new challenges such as the costs of immigration; better utilising e-services at the municipal level; building a system for monitoring the performance of subnational service delivery; and diversifying subnational revenue sources by reinstituting property tax as a subnational tax.

Since 2010, a great deal has been accomplished by the Swedish administration (see Chapter 1). The start of the regional reform, which is still being discussed, was already mentioned. To better co-ordinate policies, the new National Strategy for Sustainable Regional Growth and Attractiveness 2015-20 pays special attention to enhanced dialogue among various agencies and levels of government (see Box 1.1 in Chapter 1). The performance monitoring and indicator system for subnational government is now in place and operating. The grant system was reformed in 2014. The main policy challenges that lie ahead include the reassignment of tasks between the levels of government, diversifying subnational revenues sources, adjusting the grant system further and solving the problems caused by specific grants, and better utilising the potential of the private sector in financing public projects and as a partner in their implementation. Of course, making regional reform happen in practice is a priority. However, the main target needs several other steps to support it, so that the full potential of the reform can be realised.

The aim of this chapter is to provide a diagnosis of Sweden's multi-level governance challenges in 2016, and to provide a renewed set of policy recommendations. It builds on the policy recommendations in the 2010 OECD territorial review, and focuses on evaluating the progress made by Swedish administrations in the implementation of the recommendations.[2] The chapter concentrates on: 1) the organisation, tasks and financing of subnational governments and how the Swedish multi-level governance works in practice; 2) how to work effectively across levels of government for regional development and public investment, discussing the Swedish policies to co-ordinate regional development and public investments; and 3) an analysis of the regional reform currently under discussion, comparing it to reforms implemented in other countries. Each section concludes with key findings and summarises the policy recommendations.

## The Swedish multi-level governance framework

### *Sweden is among the most decentralised countries in the world for subnational public services*

Sweden ranks among the most decentralised countries in the world, especially in terms of public service delivery and from an expenditure point of view. This is demonstrated by statistics showing that Swedish subnational government expenditure accounts for approximately 25% of the country's GDP. Every fourth employed person works for the subnational government in Sweden. The subnational government accounts for about half of total general government expenditure, and Swedish subnational government enjoys extensive spending and taxing autonomy (OECD Fiscal Federalism Network, 2016; SALAR, 2013). The picture is somewhat different, however, when looked at from the public investment angle, as will be explained later. Also, there are limitations with indicators linked to expenditures to measure the real degree of decentralisation. These hide the fact that many public policies – such as health or education – are strictly regulated at the national level, thus strongly diminishing the margin of manoeuvre of subnational governments, despite the fact that expenditures take place at that level. However, even with these caveats in mind, it is clear that Sweden's subnational governments enjoy a high degree of autonomy from a comparative perspective.

Self-government at the subnational level is guaranteed by the Swedish Constitution, which stipulates that subnational authorities manage their own affairs. Municipalities and counties are free to borrow from credit markets. Whenever there are plans to assign new tasks from the centre to municipalities or counties, their right to self-government must be taken into account (Dahlberg, 2010; Folke and Rickne, 2016). By law, subnational governments have the primary executive responsibility for most social spending, such as education and elderly care that are provided by municipalities, and healthcare, which is managed at the county level. The subnational governments also have the power to set local income tax rates without limits. The strong ability of the Swedish decentralised system and the subnational government to provide high-level public services and welfare to their citizens has been verified in many international comparisons (OECD, 2014a).

Swedish municipalities and counties vary significantly in land area, population size, tax base and age structure. For example, in terms of land area, the smallest municipality is only 9 $km^2$, whereas the largest municipality has an area of 19 155 $km^2$. Municipal populations vary between 2 453 inhabitants and 923 516 inhabitants. The counties differ a great deal in their characteristics as well: the land area varies from 2 947 $km^2$ to 98 249 $km^2$, and population from 57 391 to 2.2 million inhabitants. The mean population size of Swedish municipalities, which was 33 000 inhabitants in 2015, is well above the OECD average (9 400 inhabitants, in the same year) (OECD, 2015b). The large differences in area/distances and demographics of Swedish subnational governments, coupled with an extensive service menu and the national policy objective of equal treatment of citizens in all parts of the country, form a challenging operational environment for Swedish policy makers.

In Sweden, the subnational government handles not just the "pure local public services" but also many of the redistribution functions of a welfare state, such as education and healthcare. Own source revenues, especially income taxation, are a major source of subnational-level income. Since subnational governments differ in size, density

and ability to raise revenues, the grant system plays an important role in funding municipalities and counties. To this end, Sweden uses an advanced system of grants to equalise income bases and costs across subnational governments. Keeping the grant system up to date and making sure there is a balance between own source revenues and transfers is a key policy task. Another task, related to the previous one, is to maintain the right incentives for municipalities and counties to develop their own tax bases. A third major challenge is policy co-ordination. The subnational governments may need guidance because of the overall policy desire to ensure equitable welfare in all parts of the country. In addition, the regional growth and development policies call for co-ordinating measures to make sure that central, regional and municipal governments pull together towards a joint goal.

### *Organising subnational government: The Swedish way*

The subnational government level in Sweden consists of two tiers, the counties and the municipalities, and the model of subnational self-government dates back to the 19th century[3] (Box 3.1). There are currently 290 municipalities and 20 counties plus 1 municipality (Gotland)[4] with County Council responsibilities in Sweden (Figure 3.1). The two types of subnational governments are not organised hierarchically, but rather operate as self-governing entities under the central government (Dahlberg, 2010). The "hourglass" shape that has characterised Swedish subnational government (OECD, 2010; McCallion, 2007) highlights the weight of the national and municipal levels – top and bottom tiers – when compared to the county level, or middle tier. This description is still valid, although a planned regional reform is expected to strengthen the status of counties. Municipalities and counties are also increasingly joining forces, especially to address regional development issues.

#### Box 3.1. **A short historical perspective on Swedish subnational governments**

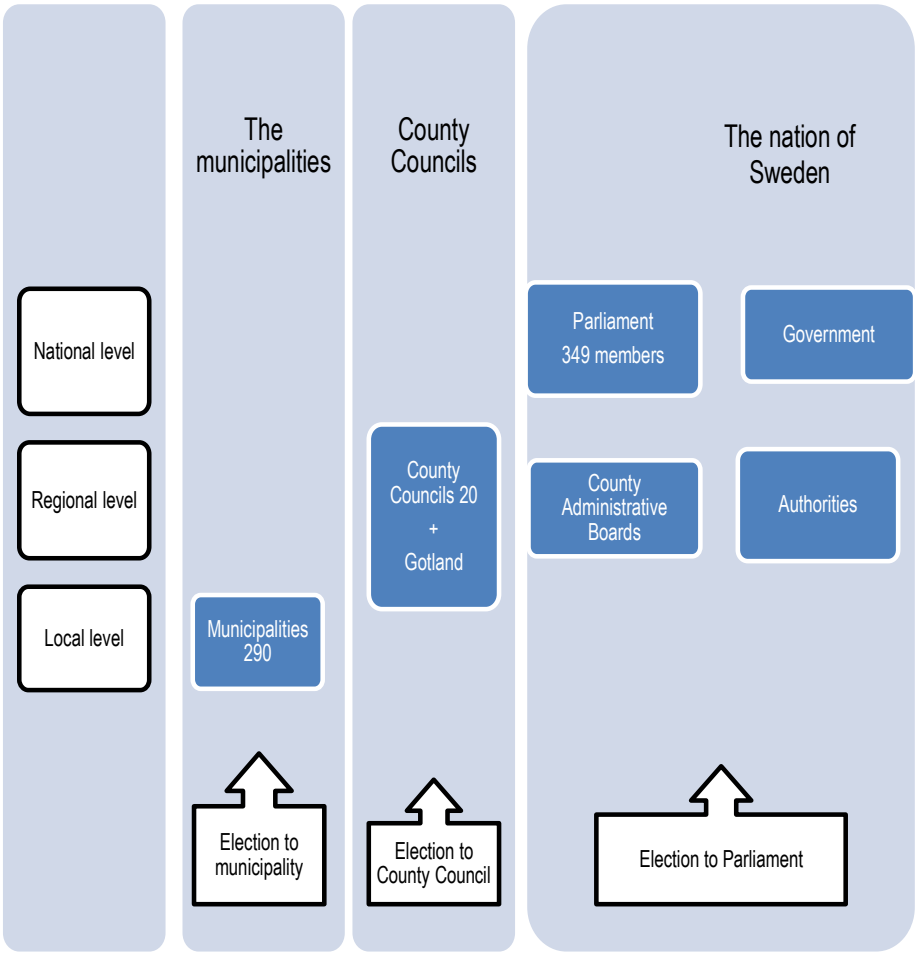
A major landmark in Swedish subnational government history was the year 1862, when the rural parishes were formed as rural municipalities and towns were classified in a new way (before there were several types of towns). The County Councils were formed during the same year. The new law, called the "Local Government Ordinances", also confirmed the boundaries of rural municipalities, towns and counties (Nilsson and Forssell, 2013). At that time there were 2 498 municipalities and 25 County Councils (Regeringskansliet, 2005).

By the 1940s and 1950s many tasks had been devolved to Swedish subnational governments, and the size of the municipalities had become a major political issue. Larger municipal units (in both geographic and population terms) were needed to enable the municipalities to perform their tasks. In 1952, a major boundary reform reduced the number of municipalities by more than half.

The reform was soon deemed insufficient, however, as the Swedish subnational government level grew rapidly especially in the 1960s. More and more tasks were assigned to municipalities and counties, and once established, many of these services were expanded over the years. The need to further strengthen municipalities was eminent, and a second boundary reform was carried out between 1962 and 1974. These reforms reduced the number of municipalities from 1 037 to 278. Since then, there have been some municipal secessions, resulting in the present 290 municipalities. At the regional level, in late 1990s the Skåne County Council and Västra Götaland County Council were formed by amalgamating several County Councils (Regeringskansliet, 2005).

*Source*: Nilsson, L. and H. Forssell, (2013), *150 år av självstyrelse: kommuner och landsting i förändring, Sveriges Kommuner och Landsting* (SALAR), http://webbutik.skl.se/bilder/artiklar/pdf/7164-966-9.pdf?issuusl=ignore; Regeringskansliet (2005), "Local government in Sweden: Organisation, activities and finance", www.vannas.se/default.aspx?di=2056 (accessed 20 August).

Figure 3.1. **Multi-level governance in Sweden**




*Note:* There are 20 County Councils plus Gotland, which is a municipality with County Council responsibilities.

*Source:* Adapted from SALAR (n.d. a), "Sweden's democratic system", webpage, http://skl.se/tjanster/englishpages/municipalitiescountycouncilsandregions/swedensdemocraticsystem.1301.html (accessed 4 December 2016).

## *Sweden has a strong tradition in subnational co-operation that could be expanded*

Voluntary inter-municipal co-operation provides a flexible alternative to municipal mergers, which in most cases is a permanent solution.[5] Municipal mergers have not been on Sweden's policy agenda since the major boundary reforms of 1960s and 1970s; instead there is a long tradition of inter-municipal co-operation in Sweden, for example by forming voluntary federations of local authorities to work together on particular services. The Swedish municipal federations are legal entities, whose tasks and obligations are formally agreed upon by their members. These inter-municipal co-operative organisations are usually run by boards, whose members are not directly elected but instead nominated by the member municipalities. Over the years, inter-municipal collaboration among Swedish municipalities has increased steadily: in 2005 there were

80 municipal federations and by 2011 the number of federations had increased to 110 (Regeringskansliet, 2005; SALAR, 2013). While recent figures for the number of federations are unavailable, the total spending by municipal federations in 2015 was SEK 16.5 billion (Statistics Sweden, 2016), representing about 3% of total municipal operational spending. Inter-municipal co-operation is practiced in several service areas, the most common being rescue services, education, public transport and energy services. While inter-municipal co-operation is more common among the smallest municipalities or municipalities that are in fiscal stress (Sundell, Giljam and Lapuente, 2009), municipalities with populations above average engage in municipal federations also, especially for information technology (IT) services (SALAR, 2013). Perhaps the biggest and most distinguished example of a voluntary municipal federation is the Kommuninvest, which is currently the main financing institution for subnational governments and the businesses they own (Box 3.2.).

### Box 3.2. **Kommuninvest, the lender of the last resort**

Kommuninvest is a credit company jointly owned by Swedish municipalities and County Councils. Kommuninvest was founded in 1992 because many municipalities had difficulty obtaining financing for their investments and had to pay high interest rates for their loans. The initiative to start the joint company came from nine municipalities and the County Council of Örebro. With Kommuninvest municipal borrowing – loans – could be obtained less expensively and access was gained to a secure source of capital during periods of financial market stress. Today, approximately 90% of Sweden's municipalities and County Councils/regions are members of Kommuninvest, which is now the largest lender to the subnational government sector. Kommuninvest's borrowing is jointly guaranteed by member organisations. With such a strong guarantee of its borrowing, Kommuninvest has consistently enjoyed the best credit ratings in financial markets. Similar municipal credit companies exist in Denmark, Finland and Norway.

*Source*: Kommuninvest (n.d.), "About us", webpage, http://kommuninvest.se/en/about-us-3/our-history/ (accessed 4 December 2016).

Another form of inter-municipal collaboration in Sweden is the common committee (*gemensamma nämd*) (SALAR, n.d. b). Here, one municipality agrees to take responsibility to produce a certain service or set of services for the inhabitants of a group of municipalities. Unlike the municipal federations, the common committee is not a legal entity and therefore it is a less formal co-operation mechanism. The number of common committees has increased rapidly: in 2008 there were about 70 committees and in 2011 the number had more than doubled to 148 committees.

Swedish local governments are also part or majority owners of about 1 800 limited companies (Statistics Sweden, 2016). These companies are usually established in order to provide housing services, transport, property management, energy, and communication services. From a legal standpoint, these companies are treated as any other private company, with the difference being that the shares are owned by local governments.

The experience with inter-municipal co-operation in Sweden seems to be mainly positive (Sundell, Giljam and Lapuente, 2009; Wiberg and Limani, 2015). Based on this, Sweden should consider carefully extending inter-municipal co-operation to new service areas such as social services (e.g. elderly care, support for addicts, services to people with disabilities), and/or services for refugees, in order to better internalise externalities and

utilise economies of scale. Municipalities could also benefit from joining forces in procurement (discussed in more detail below). The experience from pre-merger co-operation is often found to be useful when planning municipal mergers (Saarimaa and Tukiainen, 2014). Inter-municipal co-operation may then be helpful if, at a later stage, municipal mergers come on agenda. Thanks to the merger reforms of the 1960s, in most cases the Swedish municipalities seem to be strong enough to provide their present services. Moreover, in remote parts of the country, mergers may not be the optimal solution as the distances are already considerable. Inter-municipal co-operation then provides a flexible way to reorganise service provision, since co-operation can be ceased or altered very easily if needed. Any possible reorganisation should, however, be voluntary and done carefully so that the transparency and accountability of subnational decision making is not deteriorated.

Sweden's regional governance structure is asymmetric (Box 3.3). There are two types of regional bodies with decentralised responsibilities, specifically Regional Co-operation Bodies and County Councils. In addition, the central government has its own organisation at the regional level: the County Administrative Boards (CABs). The CABs are responsible for co-ordinating central government activities in the counties. This is a challenging task, not least because there are 240 central government agencies (Statistics Sweden, 2010) that operate more or less independently (within the limits of their mandate).[6] There seems to be a clear need for improved management (and possibly task reorganisation) here, discussed later in this chapter. In addition to a co-ordinating function, the CABs have service responsibilities, which include tasks such as managing EU funding. The CABs also monitor the subnational governments in order to make sure that the municipalities and County Councils comply with laws and regulations in specific sectors, such as environment. The CABs co-operate with county and municipal councils to promote important public investments and economic growth in the region. In four counties, the CABs are in charge of regional development (Box 3.3). The functions of the CABs resemble those of state regional administration in Norway and somewhat in Denmark (Box 3.4).

### Box 3.3. **Asymmetric regionalisation in Sweden**

The main task of Swedish counties is healthcare, and in each county the County Councils make decisions on healthcare provision in their regions. The responsibility for regional development (including transport and infrastructure planning) and regional growth policy, however, varies from one county to another: in ten counties the County Councils are in charge; in seven counties the responsibility of these tasks is with the Regional Co-operation Bodies; and in four counties the County Administrative Boards take care of these functions. Since the beginning of 2017, four more counties will assume responsibility for regional development, increasing the number of counties responsible for regional development to 14. The ongoing and planned regional reform may lead to a situation where the number of County Councils will be reduced from the present 21 to 6 by county mergers. The reform may result in all County Councils taking responsibility for regional development.

*Source*: Regeringskansliet (2016), "Ändrat regionalt utvecklingsansvar i vissa län", http://www.regeringen.se/rattsdokument/lagradsremiss/2016/04/andrat-regionalt-utvecklingsansvar-i-vissa-lan/ (accessed 4 December 2016).

### Box 3.4. Regional state administration in Denmark, Finland and Norway

The 2007 subnational government reform in **Denmark** meant a change not just to the municipal and regional structure, but also to the regional representation of the central government. From 2007 until 2012 the Danish regional state administration (*statsforvaltning*) was organised into five regional offices, which were under the Ministry of the Interior and Health. In July 2013, the regional state administration was altered, increasing the number of offices to nine and organised under the Ministry for Economic Affairs and the Interior. Today, the regional state administration mainly focuses on its own services, which include child adoption, child custody, guardianship, Danish citizenship, EU residence, marital separation and spousal support. Since the reform in 2013, the regional state administration has been less involved in municipal and county supervision, although it still manages complaints regarding municipal building permits. Yet, the regional state administration maintains a monitoring function, which means that the offices ensure that municipalities comply with the relevant legislation. The competence of state administration in this respect is limited, however, since there are other national level bodies that deal with appeals (Statsförvaltningen, 2016).

In 1997, **Finland** undertook a major reform in regional state administration, when the number of provinces was reduced from 12 to 6. Another important reform was in 2010, when the provinces were abolished altogether and the tasks of the provinces were transferred to the 6 newly established regional state Administrative Agencies (AVI) and 15 Centres for Economic Development, Transport and the Environment (ELY). The AVIs, organised under the Ministry of Finance, follow citizen access to basic public services, environmental sustainability and protection issues, as well as public safety and the working environment in the regions. The ELYs (organised under the Ministry of Economic Affairs and Employment) aim to promote entrepreneurship, labour market functioning, competence and cultural activities, ensure safe and smooth transport operations, a healthy environment and sustainable use of natural resources in the regions. They are also in charge of functions relating to immigration. In addition to AVIs and ELYs, the local state administration consists of police and prosecuting authorities, registry offices and tax offices (Government of Finland, 2016). As the Finnish municipalities have a strong autonomous status defined in Constitution, the regional central government agencies usually do not interfere with municipal affairs. The present government is planning a major regional reform that will transfer health and social services from municipalities to the new 18 counties. Some functions that are presently operated by AVIs or ELYs may be transferred to the new counties, but the details of this are still unclear.

In **Norway**, regional representation of the central government is organised by 17 County Governors. The County Governors co-ordinate the activities of other central government bodies at the county level. In addition, they review the decisions made by municipalities and other local government organisations from a legal perspective. The County Governors also approve some of the major economic decisions taken by the municipal councils, such as raising loans and making guarantees, and handle appeals by citizens over decisions taken by the municipalities. The County Governor may look into local decisions regarding the rights of any individual in the fields of health and social care, education, building and planning, and may change the decision to the benefit of the individual (based on appeals). The County Governors' offices maintain the ROBEK register, which lists the municipalities in the region that have failed to follow the budget balance requirement. These offices also supervise and advise in local activities within the limits of their mandate (Fylkesmannen, 2016).

*Source*: Statsförvaltningen (2016), "The State Administration", webpage, www.statsforvaltningen.dk/site.aspx?p=5466 (accessed 4 December 2016); Government of Finland (n.d.), "State local administration", webpage, www.suomi.fi/suomifi/english/state_and_municipalities/state_local_administration/index.html (accessed 4 December 2016); Fylkesmannen (n.d.), County Governor - Fylkesmannen.no website, www.fylkesmannen.no/en/ (accessed 4 December 2016).

### *Sweden's active subnational democracy can support municipal and regional outcomes*

The quality of institutions at the subnational level is closely related to the functioning of municipal services and to regional development outcomes (OECD, 2013a). In this sense, Sweden benefits from considerable comparative advantage in an OECD perspective. This is illustrated in the working of subnational democratic governance and active citizen participation (measured through voter turnout) in the municipalities and counties, as well as in gender equality among elected officials at the national and subnational levels. For example, in Sweden's most recent subnational elections (held in 2014), the voter participation rate was above 80% – one of the highest rates in the OECD area, where the average is 68% (OECD, 2016a). The political authorities of municipalities and counties are similar in composition to that of the national parliament, with the seven largest national political parties represented on almost all municipal councils. Seats on municipal and County Councils are allocated across parties in proportion to their share of votes, and leading positions in large municipalities are generally considered more influential than the average seat in the national parliament (Folke and Rickne, 2016). A significant amount of political power is concentrated in the Council Board (Box 3.5).

#### Box 3.5. **Sweden's Council Boards**

At the municipal and county levels much of the political power is concentrated in the executive committee, known as the Council Board. The County Councils and municipal councils elect the Council Boards. The chairperson of each board is selected by the largest party in the governing coalition, and the remaining board seats are distributed among all parties to reflect the seat allocation of the full assembly. Each county and municipal council also has several subcommittees that focus on specific policy areas.

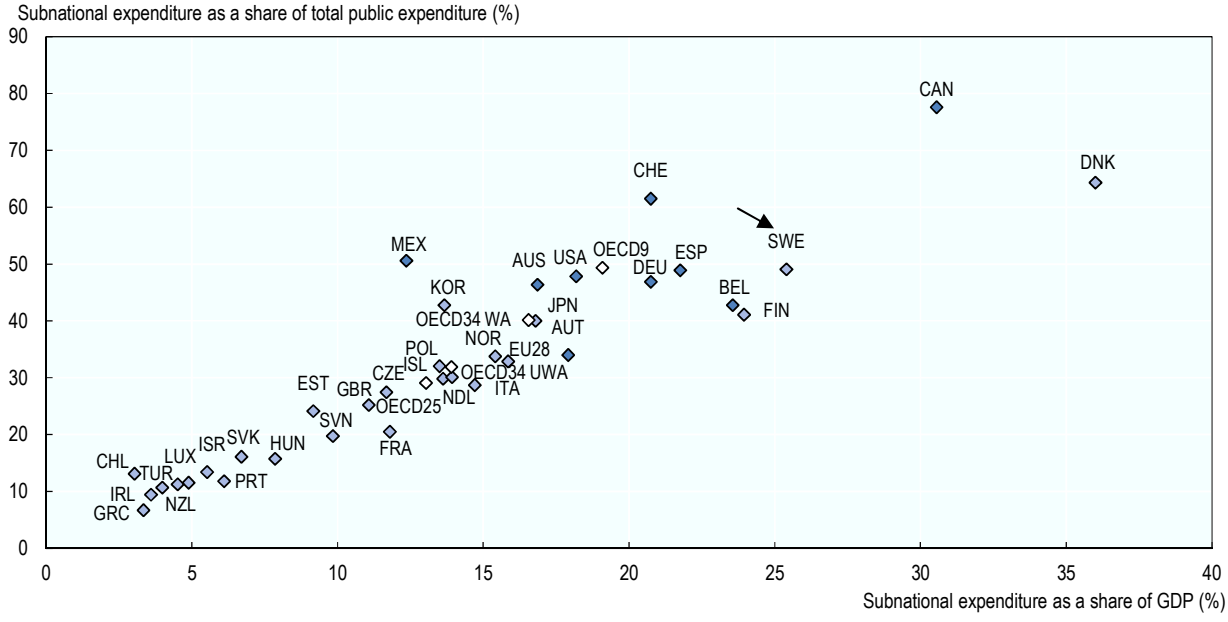
*Source*: Folke, O. and J. Rickne (2016), "Electoral competition and gender differences in political careers", *Quarterly Journal of Political Science*, 2016, 11: 59–102.

In terms of gender equality, international comparative figures for local elections are unfortunately unavailable, but in Sweden about half of the elected municipal councillors are women (Folke and Rickne, 2016). Sweden also has a higher than average share of women in parliament – 44% in 2015, compared to a 28% OECD average overall – making Sweden the OECD country with the highest proportion of female parliamentarians. The country also has the second highest proportion of female ministers (52%), behind Finland (63%) and significantly above the OECD average of 29% (OECD, 2015a). These levels of women in elected government are significant, because generally, greater gender balance among politicians can improve the quality and responsiveness of public policy by focusing attention on issues such as equal pay, work-life balance and gender violence (OECD, 2015a). In addition, there is evidence of lower inequalities in countries that have a greater share of women in key decision-making positions within their national legislators, and that confidence in national government rises with an increase in the number of female cabinet ministers (OECD, 2014b). It is not unreasonable to think that such impact at the national level holds true at the subnational level, as well.

### *Sweden's subnational level is responsible for a high number of tasks and expenditure*

Sweden stands out as a unitary country where a particularly high proportion of public expenditure is generated by subnational (especially municipal) government (Figure 3.2). Unlike in many other countries, in Sweden the vast majority of subnational government spending goes to redistributive services such as education, social services and healthcare (Figure 3.3). The high degree of decentralisation of these services does not mean that they vary freely between subnational governments, however. The central government often regulates service provision through laws and norms (not just by service standards, but also by fiscal rules), mainly to ensure equal access and a uniform quality of services throughout the country. This combination of decentralised provision and central control is typical, especially for the Nordic countries. Still, despite the central government's desire to steer or regulate the subnational levels, in international comparison, Swedish municipalities and counties seem relatively autonomous in their spending and taxing decisions (Sutherland, Price and Joumard, 2005; Fredriksen, 2011).

Figure 3.2. **Subnational government expenditure in OECD countries measured as the share of total public spending and as percent of GDP, 2014**

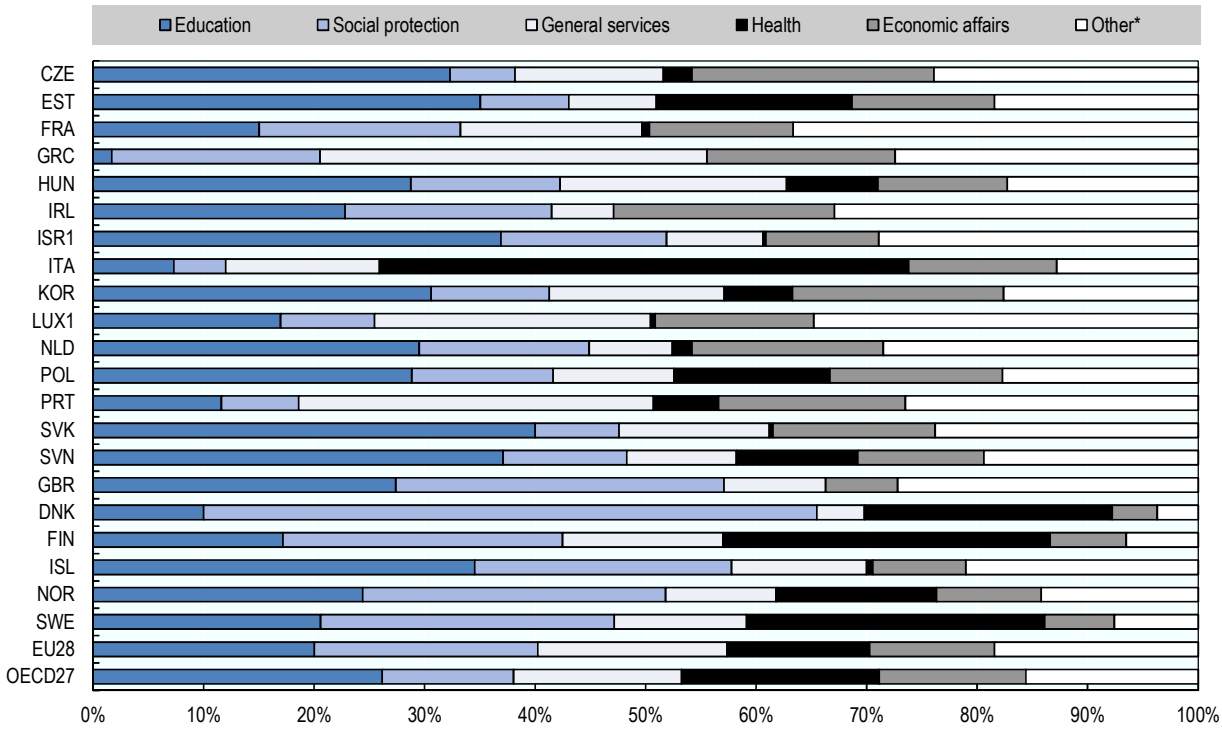



*Note*: Latest data available used: 2013 Mexico, Chile and New Zealand; 2012 Australia; 2011 Turkey. Dark blue markers represent federal countries.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source*: OECD (2016a), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en; OECD (2015b), "Subnational governments in OECD countries: Key data", (brochure), OECD, Paris, www.oecd.org/gov/regional-policy/Subnational-governments-in-OECD-Countries-Key-Data-2015.pdf.

Figure 3.3. **Subnational government expenditure in selected OECD countries, by economic function (COFOG), 2012**



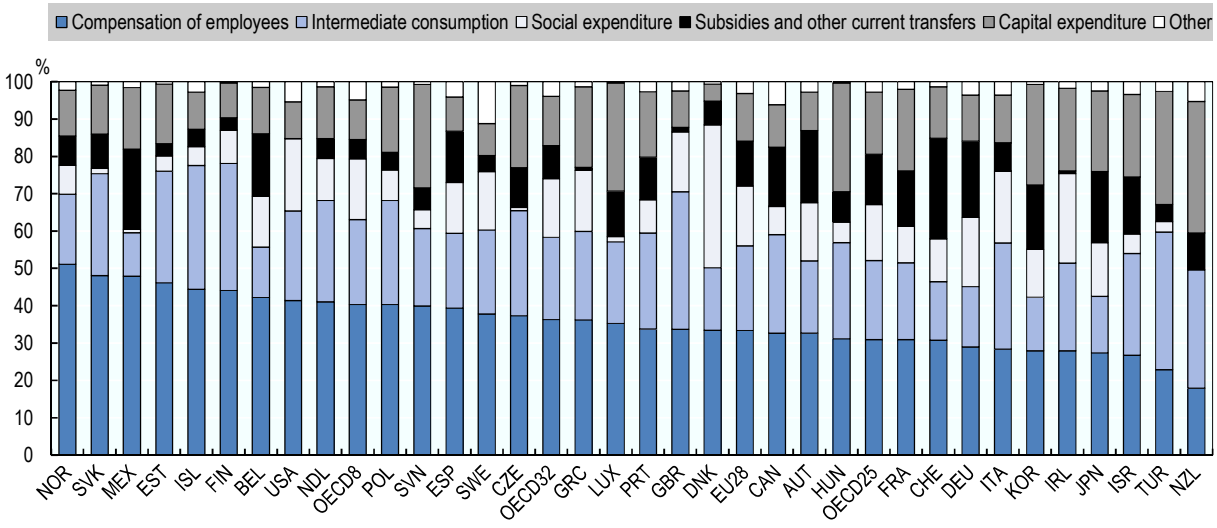

*Note:* "Other" is comprised of defence; public order and safety; housing and community amenities; recreation, culture and religion; environment.

1. The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source*: OECD (2015b), "Subnational governments in OECD countries: Key data", (brochure), OECD, Paris, www.oecd.org/gov/regional-policy/Subnational-governments-in-OECD-Countries-Key-Data-2015.pdf.

In 2014, staff spending represented, on average, 36% of subnational government expenditure in the OECD area, with Sweden just above the OECD average (Figure 3.4). This is as expected, since many of the services delegated to subnational governments are labour intensive. Much less clear is the cause for the variance between countries in subnational government capital spending, which will be discussed in more detail further in this chapter.

Figure 3.4. **Breakdown of subnational government expenditure by type in OECD countries, 2014**




*Note:* "Other" is comprised of paid taxes, financial charges (including interest), adjustment for the change in net equity of households in pension funds. Latest data available used: 2013 Mexico, Chile and New Zealand; 2012 Australia; 2011 Turkey. No data for Australia and Chile.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* OECD (2016a), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

### *Operating expenditures and task allocation are more significant at the local than county level*

In Sweden, the counties are mainly responsible for health and medical care, while the municipalities are responsible for services related to social welfare, day care, schooling, elderly care, land use and planning as well as local infrastructure. Since the municipalities are responsible for a wider selection of tasks, they manage roughly twice the budget of counties. In 2014, municipal level spending totalled SEK 568 billion, whereas the county spending totalled SEK 294 billion (Statistics Sweden, 2016).

Subnational government tasks can be divided into compulsory services that subnational governments must provide by law, and voluntary services that they themselves decide to provide. The provision of compulsory services is often quite tightly regulated by law, whereas the subnational authorities are relatively free to decide upon the voluntary services provided. In most cases, the subnational governments are also free to decide how services are provided – either through own production or by outsourcing (inter-municipal co-operation or purchasing the service from a private company). Regardless of the method of provision, however, the subnational government providing the service is ultimately responsible for ensuring that the services meet the standards and requirements set in the law (Annex 3.A1).

The past decades have not seen many changes in task assignment between levels of government in Sweden, and the regional reform currently being explored offers a window

of opportunity to address the question. While an adjustment in competence allocation is not part of the reform considerations, some discussion should occur or be kept firmly in mind in order to ensure that new regional boundaries meet service delivery objectives and to more easily address the issue in a second stage, as is currently planned. It should also be noted that bundling several reforms together can be a useful strategy to advance reform processes (Blöchliger and Vammalle, 2012).

### *Sweden's subnational revenue supports the wide variety of tasks at the subnational level*

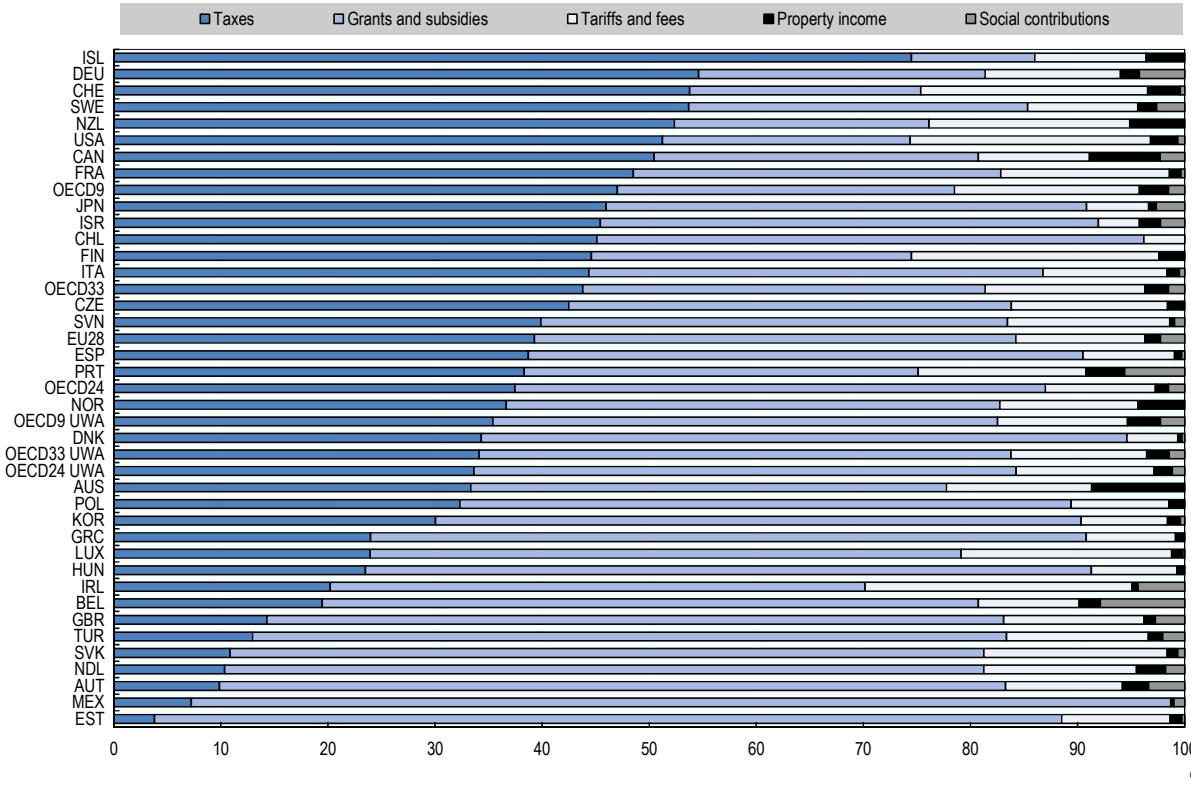
Income tax revenue, intergovernmental grants, and fees are the main revenue sources for Swedish municipalities and counties (Table 3.1). Tax revenue makes up more than 50% of subnational revenue, which is a much higher share than in most EU or OECD countries – the OECD average share is 44%. In countries like Estonia, the Netherlands, the Slovak Republic, Turkey and the United Kingdom taxes amount to less than 15% of subnational revenue. In these countries, as well as in Austria and Mexico, subnational governments depend largely on central government transfers (Figure 3.5) (OECD, 2016a).

Table 3.1. **Breakdown of Swedish municipal and county revenue, 2014**

| Revenue source | Municipalities | Counties |
|---|---|---|
| Tax revenue | 67% | 71% |
| General grants | 14% | 9% |
| Specific grants | 4% | 4% |
| Grants for pharmaceutical benefits | - | 8% |
| Fees and charges | 6% | 4% |
| Sale revenue | 1% | - |
| Rents and leases | 3% | - |
| Other | 6% | 5% |

*Source*: SALAR (2016f), "Öppna jämförelser", http://skl.se/tjanster/merfranskl/oppnajamforelser.275.html (accessed 4 December 2016).

Figure 3.5. **Structure of subnational government revenue in OECD countries, 2014**




*Note*: Latest data available used: 2013 Mexico, Chile and New Zealand; 2012 Australia; 2011 Turkey. OECD averages do not include Chile. No breakdown available for Chile, except for tax and transfer revenues.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

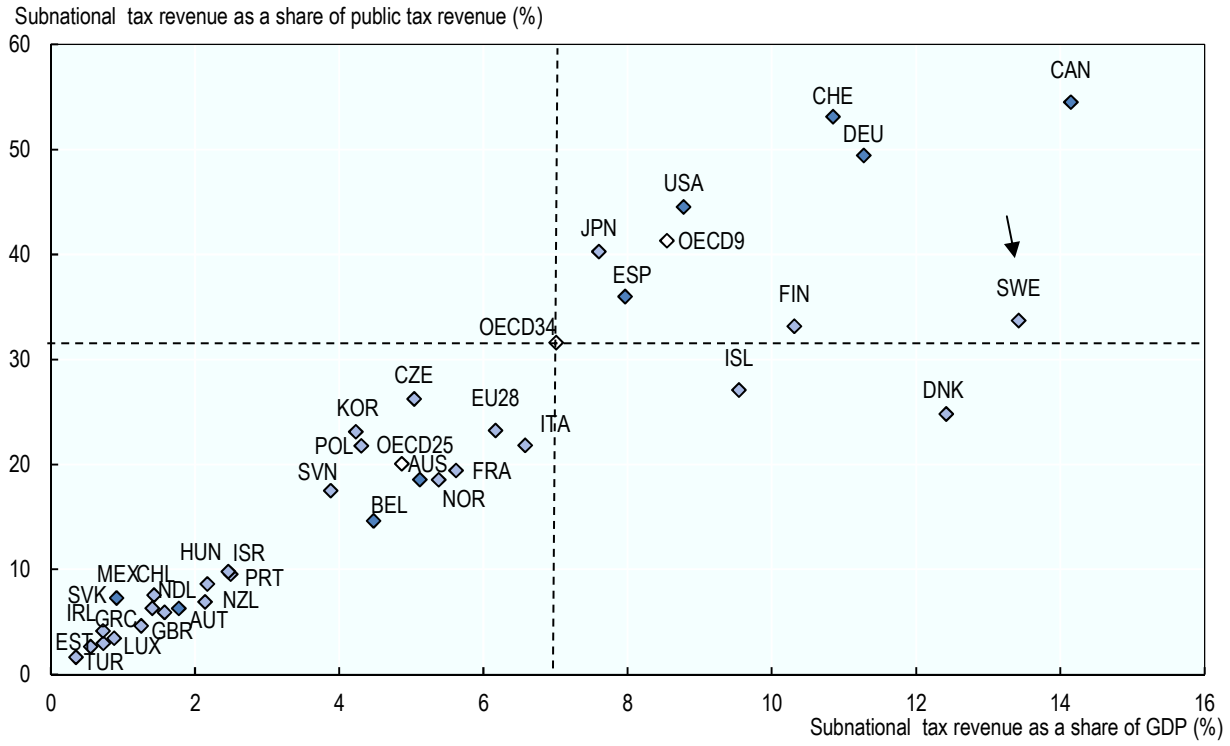
*Source*: OECD (2016a), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

### *Even better use of tax revenue may be possible with some adjustments*

In 2014 the tax-to-GDP ratio at the Swedish subnational government level exceeded 13% and tax revenue was 33% of total revenue, both of which are higher than the OECD average (Figure 3.6). In 2014, the tax-to-GDP ratio was less than 1% in Estonia, Greece, Ireland, Mexico, the Slovak Republic, and Turkey, but exceeded 10% in the three Nordic countries and in three federal countries (Canada, Germany and Switzerland), deriving largely from the personal income tax. Although property tax is considered as the best tax for the subnational level, especially for municipalities, its importance in subnational government tax revenue varies considerably, representing between 90% and 100% of subnational tax revenue in Australia, Ireland, Israel, New Zealand and the United Kingdom. At the other end of the spectrum, it is a minor subnational tax revenue source in the Nordic countries, Luxembourg and Switzerland (Figure 3.5, above). The large variations from one country to another are mostly a reflection of the varying degrees of decentralisation, but also of other institutional influences. For example, in countries where education and especially healthcare are delegated to the subnational level, the property tax base alone is usually insufficient as a source of own subnational revenue.

Thus, there is a need for local income tax revenue to help support the competence allocation.

Figure 3.6. **Subnational government tax revenue in OECD countries as a percentage of public tax revenue and as a percentage of GDP, 2014**



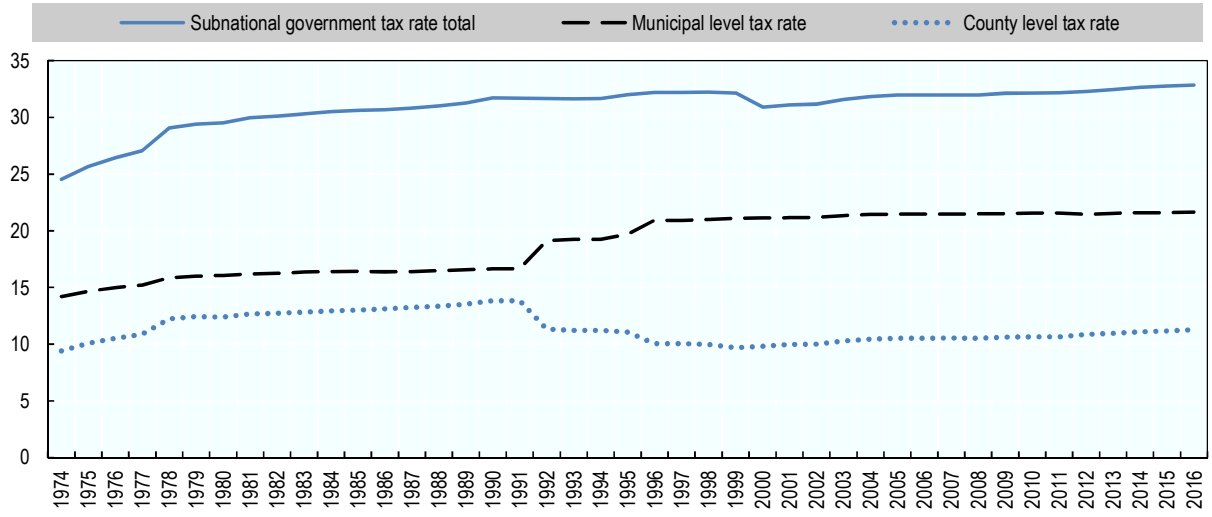

*Note:* Latest data available used: 2013 Mexico, Chile and New Zealand; 2012 Australia; 2011 Turkey. Dark blue markers represent federal countries.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* OECD (2016a), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

In Sweden, income tax is the only subnational tax. In 2016, the Swedish subnational income tax rates varied between 17.12% and 23.95% at the municipal level and between 10.69% and 12.08% at the county level (Statistics Sweden, 2016). The average income tax rates both at municipal and county levels have been quite stable during recent years (Figure 3.7). The evolution of subnational tax rates largely reflects the assignment of new tasks and the expansion of existing tasks at the subnational government level.

Figure 3.7. **Municipality and county income tax rates in Sweden, 1974-2016**




*Source:* SALAR (2016i), "Ekonomi, Juridik, Statistik", https://skl.se/ekonomijuridikstatistik.63.html (accessed 28 October).

The income tax is a necessary revenue source for the Swedish subnational government level, not least because of the extensive service menu provided by municipalities and counties. The tax, however, does not come without problems. In 2010, the OECD recommended policy steps to diversify subnational government revenue sources, stabilise subnational revenue sources and help set proper incentives for improved land-use planning at the subnational level, including the reintroduction of a subnational property tax (OECD, 2010). The OECD emphasised that the potential changes should be based on careful analysis. Today, there is not yet a subnational property tax in Sweden, and it seems that this status quo will be maintained, at least in the near future. Since 2009, when the government property tax on dwellings was abolished, Sweden's local governments have been entitled to revenue generated from a local real estate fee, which replaced the property tax. The central government sets the rate and defines the base for the real estate fee (Box 3.6). This revenue was introduced as a neutral change between the central government and the local governments, so that state subsidies were reduced by the same amount (SALAR, 2016b). A 2016 report by SALAR claims that the initial experiences of this revenue have been mixed: although the associated revenues have grown comparatively fast since the fee's introduction, the system has been criticised for being complicated. Another critique has been that it results in an uneven distribution of revenue. The latter observation should be expected, because while the rate used is the same in all municipalities, property prices and construction activity vary between municipalities.

### Box 3.6. **Real estate fees in Sweden**

The Swedish real estate fee charge for single-family houses in 2012 was SEK 7 112 but not more than 0.75% of the tax assessment value; the charge for an apartment in an apartment building was SEK 1 210 although not more than 0.3% of the tax assessment value. In 2012, the total yield from real estate taxes and real estate fees was SEK 29 billion, of which private homes accounted for SEK 16.3 billion. Newly built dwellings have a reduced fee for ten years and the fee for pensioners is limited to 4% of their income (Swedish Tax Agency, 2015). By introducing the new tax revenue, the government hoped to stimulate local government efforts to attract investment and construction in their areas (SALAR, 2016b).

*Source:* Swedish Tax Agency (2015), "Taxes in Sweden: Tax Statistical Yearbook of Sweden 2015", www.skatteverket.se/download/18.3810a01c150939e893f29d0f/1455280476021/taxes-in-sweden-skv104-utgava16.pdf; SALAR, 2016b), "Ekonomirapporten", April 2016, http://webbutik.skl.se/bilder/artiklar/pdf/7585-082-5.pdf?issuusl=ignore (accessed 28 October 2016).

The question of whether or not the real estate fee has reached the government goal of setting an incentive for new construction and better land-use planning by municipalities remains largely unanswered. Further analysis on the effects of the real estate fee is clearly needed. In order to reap full benefits of property taxation, Sweden might consider replacing this property fee with a true property tax that gives municipalities the power to decide the rates locally. Sweden might also study possibilities to separate the value of buildings and land, and if it is found possible, then introduce a pure land tax. This would bring stability to subnational revenue bases, reduce the vertical fiscal gap, ease pressures to tax labour, and make municipalities even more responsive to local preferences.

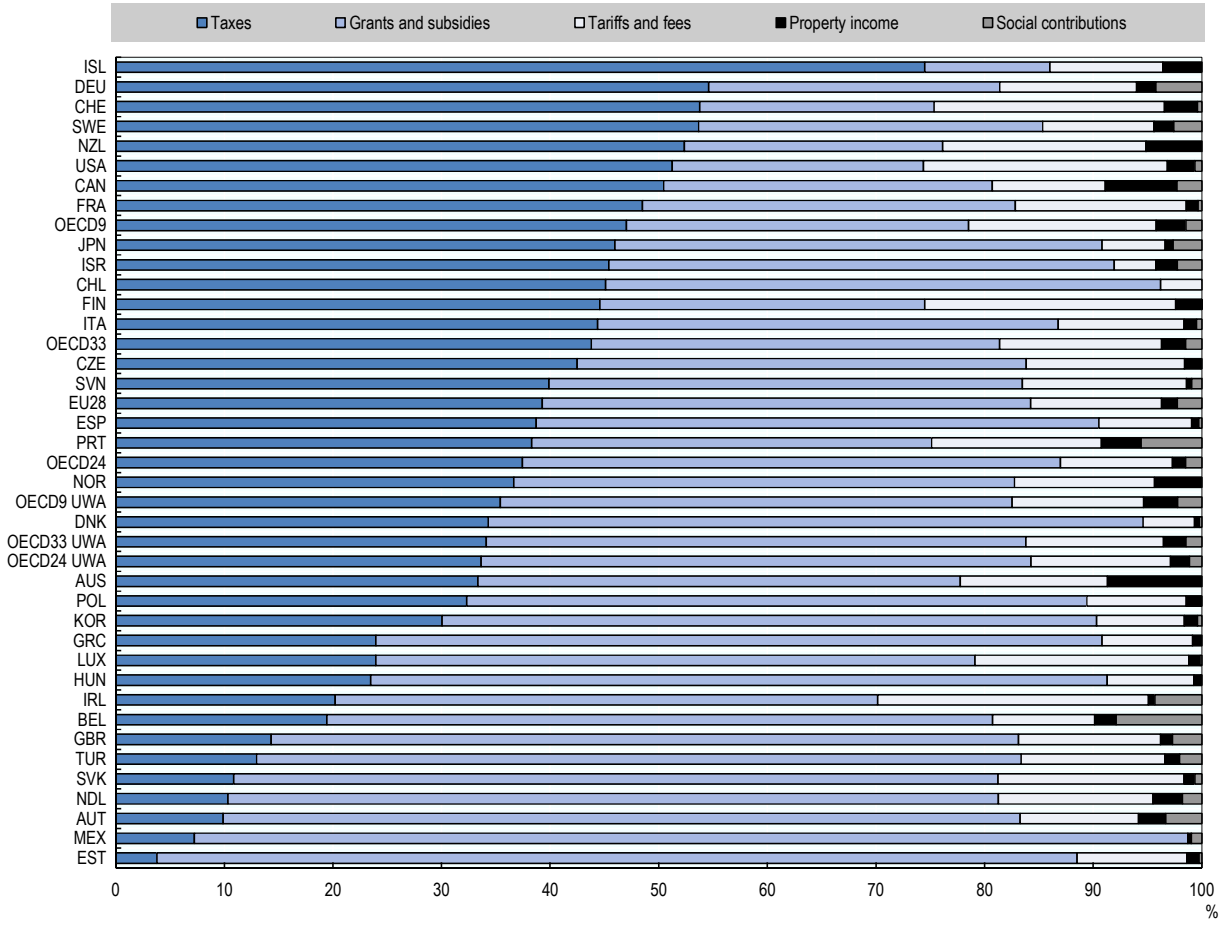
Spending discipline at the subnational level is likely to improve and be maintained when a significant proportion of total revenues comes from own tax revenues. The flip side is that the business cycle swinging together with a balanced budget requirement may result in pro-cyclical behaviour in subnational government finances, possibly affecting municipal services. It is possible that the short-term fluctuations in subnational government incomes have a negative effect on welfare services such as education, childcare and elderly care. This is clearly suboptimal because the main welfare services should be supplied on a long-term and stable basis. The possible policy options to solve the potential volatility problem include centralising some services, giving municipalities a right for property taxation, tying general grants to the macroeconomy so that they adjust with swings in the business cycle, relaxing the municipalities' balanced budget requirement especially in times of extraordinary crises, or merging subnational government units in order to create stronger municipalities or counties that would be less prone to macroeconomic shocks.

### *Grants are an important revenue source for medium and smaller municipalities and counties*

At first glance, Swedish central government grants do not seem to play a significant role in subnational government financing. According to OECD statistics, in 2014 grants as a share of subnational government revenue reached about 30% – one of the lowest levels among OECD countries (Figure 3.8) (OECD Fiscal Federalism Network, 2016).

This is despite the fact that the grant share grew some 9.5% points between 1995 and 2014, while the trend in many other countries over the same period has been the opposite.

Figure 3.8. **Subnational sources of revenues in OECD countries, 2014**




*Note:* Latest data available used: 2013 Mexico, Chile and New Zealand; 2012 Australia; 2011 Turkey. No breakdown available for Chile, except for tax and transfer revenues.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* OECD (2016a), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

This relatively low share of grant revenue as part of total subnational revenue implies that the vertical fiscal imbalance (i.e. asymmetry between subnational revenues and spending responsibilities) in Sweden is low.[7] Also, the fact that the ratio of highest to lowest tax raising capacity among Swedish subnational governments (1.5) is quite low when compared internationally (the OECD average is 5.1) points to the same conclusion (Table 3.2). In addition, the figures in Table 3.2 show that the Swedish equalisation system removes almost all disparities: after equalisation the ratio dropped to just 1.1 (the OECD average after equalisation is 1.8).

Table 3.2. **Fiscal equalisation in comparison**

Equalising grants and their fiscal disparity-reducing effect, 2012

| | Gini coefficient of differences in tax raising-capacity | | | | Ratio of highest to lowest tax-raising capacity | | | |
|---|---|---|---|---|---|---|---|---|
| | Before equalisation | | After equalisation | | Before equalisation | | After equalisation | |
| | 2005 | 2012 | 2005 | 2012 | 2005 | 2012 | 2005 | 2012 |
| **Federal/regional countries** | | | | | | | | |
| Australia | 0.05 | 0.07 | 0.00 | 0.00 | 4.8 | 7.5 | 1.0 | 1 |
| Austria | | | 0.02 | 0.05 | | | 1.1 | 1.5 |
| Canada | 0.10 | 0.11 | 0.07 | 0.08 | 2.4 | 2.4 | 1.7 | 1.8 |
| China | 0.33 | 0.31 | 0.25 | 0.18 | 14.4 | 10.3 | 9.5 | 5.3 |
| Germany | 0.06 | 0.06 | 0.02 | 0.02 | 1.7 | 1.7 | 1.2 | 1.1 |
| Italy | 0.21 | 0.19 | 0.10 | 0.04 | 6.1 | 4.5 | 1.3 | 1.3 |
| Spain | 0.15 | 0.13 | 0.04 | 0.05 | 2.1 | 3.0 | 1.4 | 1.4 |
| Switzerland | 0.15 | 0.17 | 0.11 | 0.11 | 3.8 | 4.3 | 2.5 | 2.6 |
| **Unitary countries** | | | | | | | | |
| Chile (2010) | | 0.49 | | 0.14 | | 20.6 | | 2.3 |
| Denmark | 0.08 | 0.06 | 0.04 | 0.03 | 2.2 | 1.4 | 2.0 | 1.2 |
| Finland | 0.11 | 0.12 | 0.03 | 0.05 | 1.8 | 1.8 | 1.1 | 1.4 |
| Japan | 0.20 | | | | 3.2 | | | |
| Norway | 0.13 | 0.13 | 0.05 | 0.04 | 2.2 | 2.1 | 1.3 | 1.2 |
| Portugal | 0.34 | | 0.14 | | 12.7 | | 2.1 | |
| Sweden | 0.06 | 0.07 | 0.01 | 0.01 | 1.4 | 1.5 | 1.1 | 1.1 |
| Turkey | 0.22 | | 0.06 | | 65.0 | | 1.7 | |
| Average | 0.16 | 0.16 | 0.07 | 0.06 | 8.8 | 5.1 | 2.1 | 1.8 |

*Source*: OECD/KIPF (2016), *Fiscal Federalism 2016: Making Decentralisation Work*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264254053-en.

There is an important caveat here, however: the above-described average figures are dominated by the considerable weight of the City of Stockholm and other major cities, and Stockholm County at the county level. In the largest municipalities, revenues come mainly from own revenue sources, and this situation is in stark contrast with the state of affairs in many rural and small Swedish municipalities. Therefore, the role of grants is quite different when considering the smaller and medium-sized municipalities or counties. The fact that there are considerable differences between subnational government units both in revenue-raising abilities and in the cost factors means that grants form a significant source of funding for a considerable group of Swedish municipalities. The statistics show, for example, that the dependency on intergovernmental grants varies among municipalities between -20% (the municipality of Danderyd, which has a negative grant, i.e. it must pay the central government) and 32% (municipality of Vilhelmina).[8] Still, even the horizontal fiscal gap in the Swedish case seems tolerable: in 2015 only three municipalities had a general grant share that was larger than 30% of all municipal revenues (Statistics Sweden, 2016; Income statement for municipalities; author's own calculations).[9] This can be compared to the case of Finland, for example, where in every fourth municipality the grants make up at least 50% of the total revenues.

There was an important grant reform in Sweden in the early 1990s, which replaced the matching grant system with general grants.[10] The general grant, which now forms the main part of the grant system, is mostly based on income (tax) equalisation and cost equalisation. In addition to the general grant system, the central government also uses earmarked grants for specific purposes.[11] In 2014, the total amount of grants to municipalities and counties was SEK 144 billion, of which SEK 90 billion were general grants and SEK 54 billion were earmarked grants (Ministry of Finance, 2015). The

general grants to municipalities were SEK 64.2 billion and general grants to counties were SEK 25.9 billion. In per capita terms the general grants were SEK 6 667 for municipalities and SEK 2 688 for counties.

In 2010, the OECD made three main observations concerning the equalisation system: 1) the system's complexity; 2) the ability of the system to take costs arising from integration of immigrants in the Swedish labour market into account; and 3) the potential fiscal disincentive effect of equalisation (OECD, 2010). To deal with these challenges, the OECD proposed first, to separate cost equalisation from the rest of general grants. The OECD also recommended that the cost equalisation formula be simplified, for example by using fewer variables in the formulas. A third OECD recommendation was to study the cost effects of immigration more thoroughly and to possibly increase the weighting of foreign-born immigrants in the cost formula. Fourth, the OECD suggested that financing for the income equalisation system be altered using phase-ins and lags in order to make the system less equalising and giving the wealthiest municipalities and counties more incentive to develop their tax bases.

### *General grants are intended to generate equalising effects*

The general grant system for municipalities and counties in Sweden consists of three main parts: income equalisation grants (85% of the general grant), cost equalisation grants (9%), and structural grants (3%) (Ministry of Finance, 2014; Statistics Sweden, 2016; author's own calculations). In addition, there is a "transition grant" to ensure that the impact of the 2014 grant reform takes effect only over several years. There is also a grant to even out the residual between estimated municipal and county costs and the general and specific grants they receive.

Swedish income equalisation (Box 3.7) is an application of the "Robin Hood" model (Bird, 2006), where positive transfers bring those subnational governments that are below the average up to (or above) the average, and where the system is financed by negative transfers from those subnational governments that are above the average. In the Swedish application of the model, the central government is responsible for most of the finance, however. It is well known that income equalisation may have undesirable incentive effects, which can influence tax bases in municipalities and counties (Boadway, 2015; Bergvall et al., 2006). These effects are, however, mitigated by the fact that a potential tax base is used in the calculations instead of the actual tax base. Still, the existing system may weaken the incentive of Swedish subnational governments to develop their own tax bases, both in the poorest and in the wealthiest municipalities and counties.[12] This is because the poor municipalities or counties may rely too much on the grant system to provide them an adequate revenue base; and the wealthy municipalities may be reluctant to develop their tax base if they feel that they will not be able to sufficiently benefit from the revenue generated.

### Box 3.7. **Income equalisation in Sweden**

The income equalisation grant equalises calculatory tax revenues[1] between municipalities and between counties. The local governments with a per capita tax revenue below 115% of the average tax receive a grant, and local governments with a tax above 115% of the average tax paying a fee according to a special formula. The formula can be written as follows (for receiving municipality/county):

$$Grant_i = tax\ rate_j\ x\ (1{,}15\ x\ tax\ base_j - tax\ base_i)\ x\ C_k$$

where $Grant_i$ is the tax equalising grant for municipality/county i, $tax\ rate_j$ is the country average municipal/county tax rate,[2] $tax\ base_j$ is the average municipal/county tax base, and $tax\ base_i$ is the tax base of municipality/county i. The result is multiplied with compensation rate $C_k$, which is 0.95 for municipalities and 0.9 for counties.

The main purpose of the income equalisation grants is to equalise differences in the local tax base. In 2015, there were large differences in the municipal tax bases: from a minimum of SEK 191 500 per capita to a maximum of SEK 504 400 per capita. The majority of the municipal tax bases, however, are grouped near the mean tax base (which is SEK 239 934 per capita).

The municipalities/counties where the tax base is above 115% of the country average have to pay a contribution to the equalisation system. If the tax base is between 115% and 125% of the country average, the compensation is 0.60 times the exceeding amount of tax base. For the part of the tax base that exceeds 125% of country average, the municipality pays 0.85 times the exceeding amount.

In 2015, there were 38 of the 290 municipalities that had a tax base higher than 115% of the average tax base in the country, and that hence had to pay a fee to the system. Altogether 20 of these municipalities are located in the Stockholm County area.

1. The calculatory tax revenue is defined using actual tax base per capita times the average tax rate.

2. The average tax rate is corrected for county-wise tax exchanges between the counties and the municipalities that followed from switching of responsibilities from the counties to the municipalities in the 1990s (Dahlberg, 2010).

*Source:* Ministry of Finance (2014a), "Det kommunala utjämningssystemet – en beskrivning av systemet från 2014", www.statskontoret.se/globalassets/publikationer/2014/201402.pdf.

The cost-equalising grants aim to equalise costs that the municipalities themselves cannot affect (differences in the so-called standard costs). Contrary to income equalisation, which is mostly centrally funded, the Swedish cost equalisation is strictly between municipalities/counties. The cost equalisation compensates differences in service areas that are compulsory to municipalities/counties. The cost-equalising grants to the municipalities were estimated to be SEK 6.5 billion in 2015 (Statistics Sweden, 2016; author's own calculations).[13] The variation in the cost-equalising grants is lower than the variation in the income grants, but in 2015 it still varied from a municipality that contributes SEK 4 987 per capita to a municipality that receives a grant of SEK 11 370 per capita. Cost equalising grants are defined using the "standard costs method", which consists of ten separate sub-models.[14] The cost equalisation model takes into account a considerable number of variables (dealing with different aspects of a municipality's demographic structure, ethnicity, socio-economic situation and geography). While similar grant systems exist in many other countries, exact comparisons are hard without detailed

information on each model.[15] Nevertheless, the Swedish cost equalisation model does seem complex in rough comparisons.

The potential problem with cost equalisation is that municipalities may be able to affect the size of cost equalising grants they receive by trying to affect the variables that determine the distribution of these grants (Dahlberg and Rattsö, 2010). While some factors cannot be easily affected (e.g. geographic location), there are examples of other factors that may be (e.g. share of the population receiving economic assistance). The main weakness of the Swedish application of cost equalisation is lack of transparency, which is mainly due to a large number of models and variables used in the calculation. Sweden might consider reforming the cost equalisation system to be more neutral for municipal decision making, and also make sure that there are no incentives for pure grant maximisation. At the same time, the number of variables and formulas could be diminished, which would make the system more transparent. While these are the usual recommendations, and even though such reforms have been recently undertaken in several OECD countries (OECD, 2013b),[16] the results have been mixed. This is mainly because in a reform situation the decision makers must balance between demands for an equitable funding system, and transparency and efficiency considerations. This often leads to a compromise and slow change from previous models.

Structural grants are related to regional policy and their aim is to strengthen municipalities with a small population, with decreased population and/or with a problematic labour market. In 2015, the structural grants were SEK 1.9 billion. A bit surprising is that most municipalities – 280 out of the 290 – received these grants in 2015. For the municipalities that received the structural grants, the amounts varied from SEK 68 per capita to SEK 5 046 per capita, and averaged SEK 391 per capita. Structural grants mainly benefit the more remote municipalities, for example in Norrland County (Ministry of Finance, 2014b).

In sum, grants from the central government are very important to many Swedish municipalities and counties, especially the ones that have either a poor tax base or higher than average costs, or both.[17] The equalisation system in Sweden plays an important role in equalising incomes over the municipalities, with a variation that ranges from one municipality paying SEK 13 635 per capita to the system, to the municipality that receives SEK 30 403 per capita from the system. As recommended by the OECD in 2010, Sweden has taken steps to enhance the transparency of the equalisation process by continuously monitoring and publishing reviews of the equalisation system. But from a transparency standpoint, the 2014 grant system reform did not take a considerable step forward, as the complexity of equalisation remains. This is no easy problem to solve, as policy makers must constantly balance between the transparency and equity aspects of the equalisation system. The OECD suggestions on cost equalisation have not been followed, either: the cost equalisation has not been separated from the general grants, and the formulas have not been altered to take immigration more into account. Instead, the extra costs to municipalities and counties from immigration and refugees have been addressed by increasing the amount and number of specific grants. This is understandable especially in crisis situations, because the cost equalisation compensates cost differentials with lag. However, the increased use of earmarking may cause new problems, discussed in the next section.

### *The debate between specific grants and earmarked grants*

Despite the past reforms to reduce earmarking and to increase the share of general grants, there have been constant political pressures to continue using earmarked grants to fund specific policies at the local level. Moreover, Sweden has a long tradition of using discretionary grants to finance the subnational government (Box 3.8), which affects the desire to use earmarking today. One of the latest examples of an earmarked grant is the specific grant for elderly care, which amounted to nearly SEK 1 billion in 2015 (SALAR, 2016h). The amount of earmarked grants to municipalities and counties is still expected to grow, not least because of the need to finance the additional costs associated with refugees. Most of the earmarked grants are targeted at education. Yet, a recent study by the Swedish National Audit Office found that earmarking has not been very effective way to fund local education services (Swedish National Audit Office, 2014).

#### Box 3.8. **A brief history of discretionary grants in Sweden**

Between 1974 and 1992 there was a discretionary grant programme for municipalities in financial distress. Similar programmes were also set up in the late 1990s, as several Swedish local governments showed deficit budgets and the municipalities claimed that the problems were due to external factors. To manage the situation, the central government set up two temporary committees, the Housing Delegation (in 1998) and the Local Authority Delegation (in 1999). The Housing Delegation focused primarily on cases where the municipalities' financial problems were connected to a municipal housing company. The Local Authority Delegation was established after the central government realised that many municipalities would not meet the balanced budget requirement by the year 2000. Responding to such claims, the central government decided to establish a transfer programme for those municipalities where this was found to be true. The Local Authority Delegation prepared the cases and proposed the municipalities that were to be supported by the discretionary grants. The central government then made the final grant decision. As a result of these developments, the amount of specific grants started to grow again.

*Source*: Dahlberg, M. (2010), "Local government in Sweden", in Moisio, A. (ed.) (2010), *Local Public Sector in Transition: A Nordic Perspective*, VATT-Publications 56, www.vatt.fi/file/vatt_publicationpdf/j56.pdf.

According to SALAR (2015), the increased share of earmarked grants in subnational revenues makes the financing system less transparent and threatens subnational government autonomy. The estimates of the number and size of targeted subsidies vary, as there is no clear definition or comprehensive information about the earmarked grants. Recent available estimates show, however, that in 2016 the earmarked grants may rise as high as SEK 80 billion, of which SEK 44.5 billion goes to municipalities and SEK 33.5 billion to County Councils (SALAR, 2016c). Compared with the approximately SEK 90 billion that general grants represent, this is a considerable share. The number of separate earmarked grants totalled 129, of which 93 are directed to municipalities and 36 to counties (SALAR, 2016c).

In certain cases of positive externalities, earmarked grants – such as matching grants – can be defended as an alternative to normative regulation. This may be the case, for example, if there is a need for a quick adjustment in subnational government services, and if the matching grant is eventually consolidated into the general grants. For example, subnational measures that are able to integrate immigrants into the labour market may be

socially optimal, but a single municipality or council may not take this into account if they expect that the immigrants will eventually move to other parts of the country. Using a matching grant may then be an efficient tool, but one must also remember that voluntary participation in this kind of financing programme is affected by the matching rate (or the share that the beneficiary needs to fund from their own sources).

An extensive use of earmarked grants cannot be recommended however, because earmarking may draw the subnational government attention too far away from local needs and preferences. This may distort local decision making and eventually weaken the allocative efficiency. For example in Norway, the use of earmarked grants aiming to boost elderly care services was successful in increasing the elderly care service, but the side effects included reduced spending on education, reduced childcare coverage and an increased budget deficit (Borge, 2016). Earmarking may also weaken the transparency and accountability of local decision making compared to a situation where the local governments are steered with legal obligations and funded by general grants.

### *Conclusion and recommendations*

The Swedish model is driven by political desire to ensure equitable welfare in all parts of the country. This is not easy to accomplish in a country where revenue bases, service needs and operating environments vary a great deal between municipalities and between counties. In Sweden, where nearly all redistributive tasks have been devolved from the central government to counties and municipalities, fiscal equalisation, right incentives for subnational decision makers, and overall co-ordination form the major policy challenges. Sweden is clearly among the most decentralised OECD countries, and by most available indicators, the Swedish model of subnational government works very well. The services provided by the municipalities and the counties are of high quality. The local democratic system is transparent and trusted by the citizens. The subnational financing system provides a sound base of funding for all subnational governments, while also enabling autonomy in subnational decision making. Apart from co-ordination among the different levels of government, the issues connected to the Swedish model of subnational governance consist mainly of fine tuning of existing practices. The key policy areas where improvements could be considered are the following.

- First, while inter-municipal co-operation is already an important way to internalise externalities and utilise economies of scale in some municipalities, the practice could be expanded to new service areas and municipalities. The experiences of inter-municipal co-operation in Sweden are mainly positive. However, expenditures linked with co-operative arrangements form only 3% of total municipal operating expenditures, which signals that inter-municipal co-operation may be underutilised. Using good practice examples, inter-municipal co-operation could be extended into other service areas. Inter-municipal co-operation may be beneficial also if, at a later stage, municipal mergers come on agenda. The experience from pre-merger co-operation is often found to be useful when planning municipal mergers.
- Second, a comprehensive analysis and evaluation of municipal, county, and central government tasks should be considered. Some services could be centralised, some decentralised and some tasks could be switched between municipalities/counties. The results of such evaluation could be used to make plans to reassign tasks between levels of government particularly in light of the regional reform under discussion. For example, the tasks concerning regional

development could be concentrated to counties; another possibility would be to transfer tasks like social services or elderly care from the municipal level to the county level.

- Third, the benefits and costs of the real estate fee should be evaluated, and the results ought to be used to find alternative ways to foster municipal investment and land-use planning. In order to reap full benefits of property taxation, Sweden might consider replacing the property fee with a property tax that gives municipalities the power to decide the rates locally. Sweden might also study possibilities to separate out the values of buildings and land, and if it is found possible, then introduce a pure land tax. This would bring stability to subnational revenue bases, ease pressures to tax labour, and make municipalities even more responsive to subnational preferences.
- Fourth, Sweden might consider reforming the cost equalisation to be more neutral for municipal decision making in order to avoid incentives for pure grant maximisation. While Sweden has already taken steps to enhance the transparency of the equalisation system with continuous monitoring and published reviews of the equalisation system, there are still areas for improvement. The complexity of the equalisation system is still a problem, and as the statistics show that both vertical and horizontal fiscal gaps in Sweden are small in international comparisons, the need for such an extensive equalisation can be questioned. The degree of equalisation is, of course, always a political choice. In any case, the number of variables and formulas in the cost equalisation methodology could be diminished, which would make the system more transparent.
- Finally, the increased use of earmarked grants to fund subnational governments is worrying, and a solution should be found to replace earmarking with general grants. An extensive use of earmarked grants cannot be recommended, because earmarking may draw the subnational government attention too much away from local needs and preferences. Earmarking may also weaken transparency and accountability of local decision making compared to a situation where the subnational governments are steered with legal obligations and funded by general grants.

### Recommendations

**Further refine Sweden's multi-level governance framework to better support efficiency and equity aims**

- **Bring greater coherence to the county governance framework by re-evaluating task allocation** among all levels of government, paying specific attention to County Administrative Boards and streamlining state agency areas of operation to match those of territorial boundaries.
- **Expand inter-municipal co-operation into new service areas**, including those for refugees and social services more generally (e.g. elderly care, substance abuse, for those with disabilities, etc.) as a way to continue delivering high quality service throughout the territory.

**Recommendations** *(continued)*

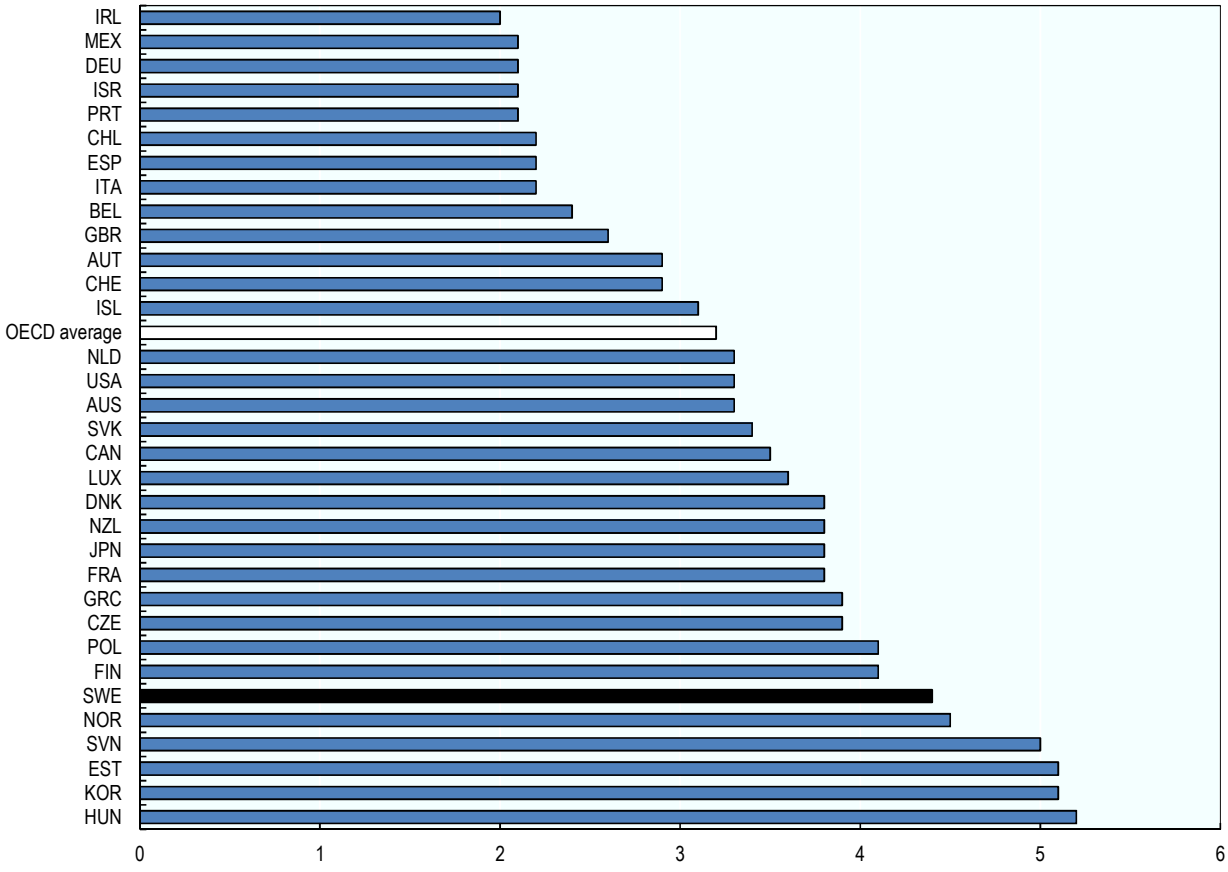
- **Strengthen the subnational revenue base** by evaluating the costs and benefits of a real estate fee; consider replacing the property fee with a property tax, or at a minimum study the possibility of separating out building and land value – if this is possible introduce a pure land tax in order to continue supporting subnational capacity to meet task responsibilities, including service delivery.
- **Continue adjustments to the grant system**: Make cost equalisation more neutral in order to avoid incentives for pure grant maximisation; make the income equalisation system more transparent, for example by reducing the number of variables and formulas; increase the overall transparency of the system by separating out cost and income equalisation; restrict earmarked grants to cases where considerable positive externalities can be shown to exist, for those where this is not the case, apply general grants rather than earmarked grants.

## Using public investment to support regional development goals

### *Swedish public investment levels are high in the OECD area*

The level of public investment in Sweden is high, measured both in terms of spending per capita and as a share of GDP (Figure 3.9). In 2014, Sweden spent nearly USD 2 000 per capita and roughly 4.4% of GDP on public investment projects, which places Sweden near the top of the country comparison. Swedish public investments are 1 percentage point higher than OECD country average, and generally the Nordic countries, Central European countries as well as North American countries can be found closer to the top of the list.

Figure 3.9. **Public investment as a share of GDP in OECD countries, 2014**

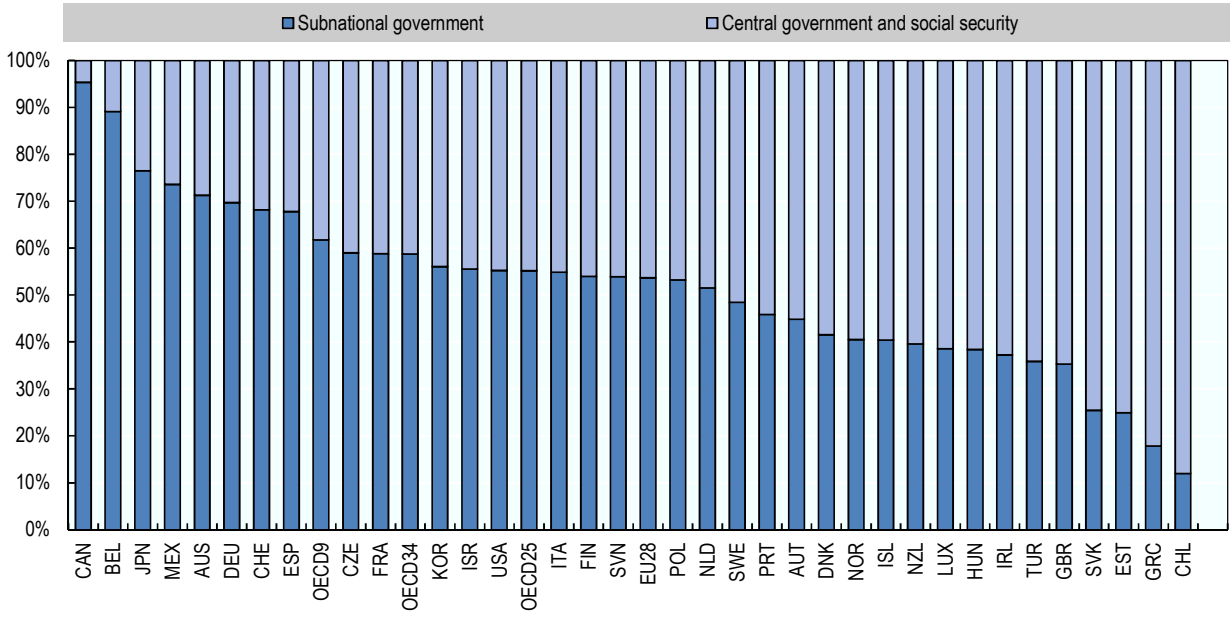



*Note:* The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* OECD (2016a), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

In terms of public investment, between 2000-14 Sweden's investments were constantly 2 percentage points above the OECD average. Since 2000, there has been a slight increase in the share of public investment: in Sweden, it increased from 13.9% to 15.6%; for the OECD average, it rose from 11.5% to 14.1%. The central government is responsible for almost half of public investments (Figure 3.10).

Figure 3.10. **Subnational share of direct public investment in OECD countries, 2014**



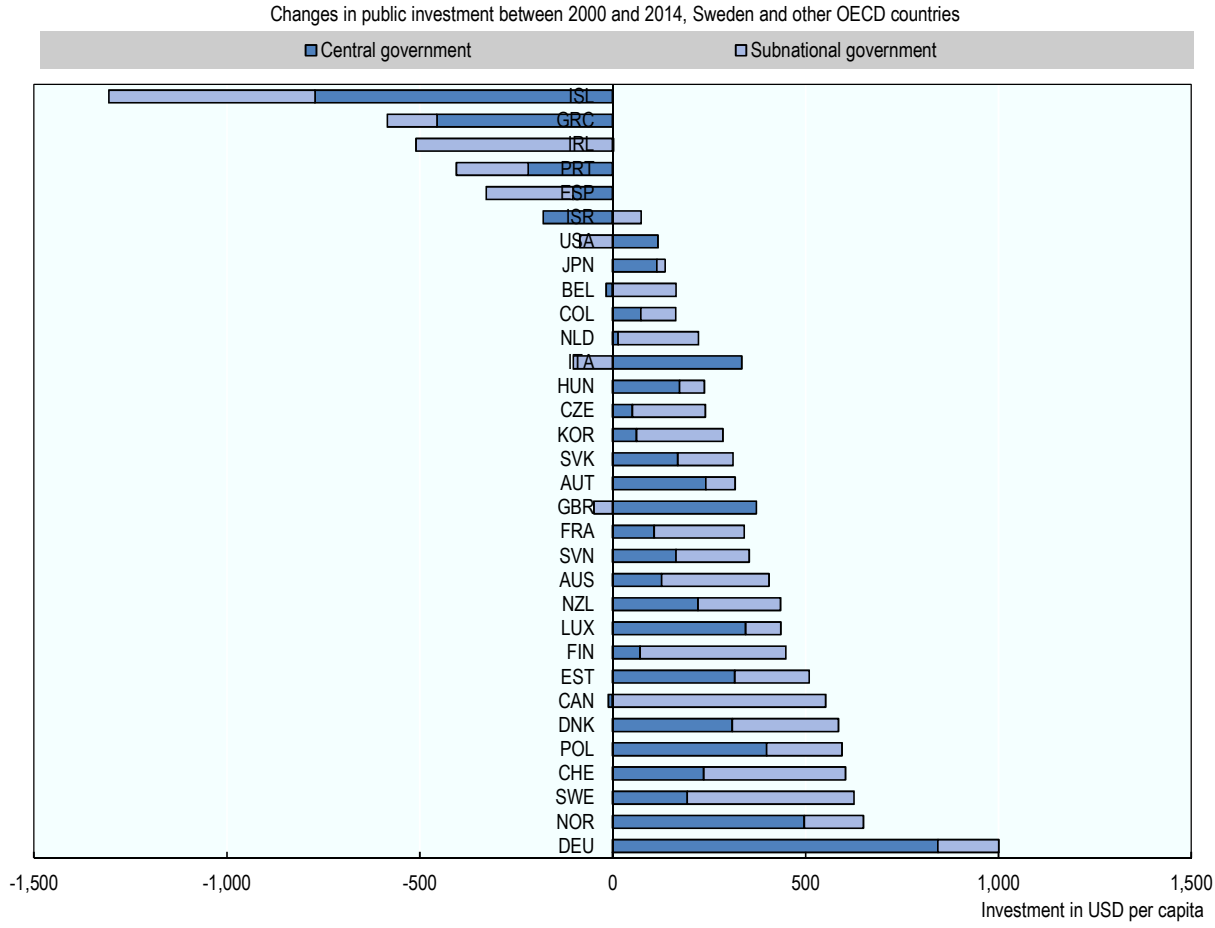

*Note:* Latest data available used: 2013 Mexico, Chile and New Zealand; 2012 Australia; 2011 Turkey.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* OECD (2016b), *OECD Subnational Government Structure and Finance* (database), https://stats.oecd.org/Index.aspx?DataSetCode=SNGF.

Sweden's overall investment spending increased by USD 598 per capita in the 2000-14 period (Figure 3.11), due mostly to an expansion of subnational investment activity. However, central government investment has also increased, albeit by a much smaller amount. Sweden belongs to the set of countries (i.e. Denmark, Germany, Norway and Poland) with large increases in public investment, rather than small increases or constant or declining investment levels. Interestingly, in the upper half of the distribution where countries increased overall investment spending, Sweden is one of the few countries (together with Finland, Slovenia and Switzerland) where the expansion of public investment was predominantly carried out by the subnational level.

Figure 3.11. **Changes in public investment between 2000 and 2014 in OECD countries**




The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* OECD (2016b), *OECD Subnational Government Structure and Finance* (database), https://stats.oecd.org/Index.aspx?DataSetCode=SNGF.

Where most countries in the OECD seem to have responded to economic downturn and lower tax revenues by investing less, Sweden has kept up – or even slightly increased – its public investment activity. Since 2009, public investment as a share of GDP increased by 2.3% in Sweden, compared to a decrease of 14.6% among OECD countries as a whole in the same period.

### *Increasing municipal and county government investments*

Sweden's need for public investment at the subnational government level is presently driven by four main factors: population growth, population ageing, migration, and need to renovate and/or replace aged residential and public properties that were mostly built 40-50 years ago (Kommuninvest, 2015). All of this indicates that Sweden's subnational investment needs are not just in healthcare and social services, but also in education, transport and infrastructure. Over 70% of municipal investment activity – including by

municipality-owned companies – focuses on three large investment categories: public housing representing 26%; real estate destined to facilitate municipal services, such as school buildings (25%); and infrastructure, such as roads, streets, parks and harbours (21%). The balance is spread across investments in water, sewage and energy equipment, vehicles, etc. (Kommuninvest, 2015). In 2013, almost 50% of county-level investment focused on service facilities/property (especially hospitals), as county authorities are renovating or replacing outdated hospital facilities. Another quarter of county level investments support infrastructure (Annex 3.A2) (Kommuninvest, 2015).

In 2013, municipal investment levels reached nearly SEK 50 billion, representing about 80% of subnational investment and dominating subnational investment levels in Sweden (Table 3.3). However, the yearly variance in investment spending growth has also been high (see Figure 3.A2.3in Annex 3.A2), while central government investment growth figures have been stable. This indicates that subnational government investment plans are not well co-ordinated, or smoothed out over time. Instead, they appear pro-cyclical. This is perhaps not very surprising, since subnational governments decide investments based on their own needs rather than following a national investment plan. It is interesting to note that municipal and county level investment spending changes follow a similar pattern, although the yearly variance has been even higher in the county investments (Figure 3.A2.3 Annex 3.A2). This latter observation can, however, be explained by decisions in Stockholm County where annual investments in 2013 accounted for almost half of the total investment volume by County Councils. Similarly, at the municipal level, Sweden's largest cities and urban municipalities with surrounding municipalities were responsible for nearly 75% of all municipal investments (Kommuninvest, 2015). Overall, differences between the economic situation, population growth and the size of companies owned by municipalities explain much of the differences in per capita investments among municipalities.

Table 3.3. **Investment levels by subnational government bodies in Sweden**

| Subnational government entity | Percentage of investment level |
|---|---|
| Municipal councils | 37% |
| Municipally owned companies | 43% |
| Counties | 16% |
| County-owned companies | 4% |

*Source:* Kommuninvest (2015), "Kommunsektorns investeringar 2015", http://kommuninvest.se/wp-content/uploads/2015/06/Kommunsektorns-investeringar-2015.pdf.

Municipal and county investments are to continue growing at a rate between 4% and 6% annually during the next five years or so.[18] However, there is currently no reliable source of data that would help anticipate subnational government investments (Kommuninvest, 2015). The growth in subnational government investment means that the demand on external financing in the municipal sector will continue, as it is unlikely that all subnational-level investments can be financed with own savings. For individual municipalities or municipally owned companies with already high debt per capita, it can mean a need to prioritise between different types of investments. This may result, for example, in deferring all investments or undertaking only the investments supporting core services (i.e. education, social services). In the latter case, it is likely that investments in other sectors, such as recreation or sports facilities, will be postponed.

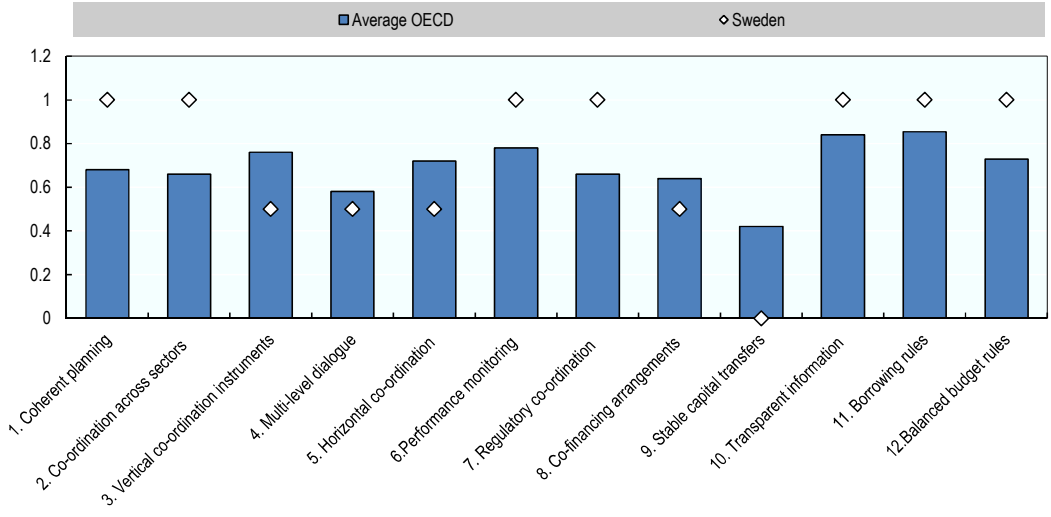
Greater investment volumes in recent years have increased the fiscal liabilities in the municipal sector; however, municipalities and County Councils have typically funded a

large part of their investments from their own savings, regardless of their ability to borrow freely. Debt levels grew primarily for the municipally owned companies (Kommuninvest, 2015). In general, therefore, the need for external financing has been quite low and there are municipalities and counties that still have very low levels of debt. In 2013 the total amount of municipal debt was about SEK 440 billion. Of this about SEK 50 billion was attributed to municipalities, and the bulk – SEK 390 billion – was the responsibility of municipal companies (e.g. housing companies, energy companies, etc.). Despite current low municipal debt levels, there are reasons to believe that municipal loan volume will increase in the future, especially in the largest municipalities where there are pressures to undertake significant welfare investments (Kommuninvest, 2015).

### *Enhancing co-ordination in public investment across levels of government*

Co-ordination of public investment can pose difficulties for all countries, including Sweden. To address this challenge, the OECD is developing a set of composite indicators to assess the multi-level governance dimensions associated with public investment for regional development. These indicators take into account vertical and horizontal institutional relations, as well as fiscal, regulatory and planning matters. Preliminary results show that Sweden ranks high and above OECD average on most of the indicators (notably planning, performance monitoring, regulatory co-ordination and transparency) (Figure 3.12). It ranks slightly lower than OECD average on vertical and horizontal co-ordination, and has a particularly low score on the stability of capital transfers.

Figure 3.12. **Multi-level governance indicators for public investment: Sweden and OECD averages**




*Note:* The possible scores for each indicator are 0, 0.5, and 1; thus the OECD average by indicator is between 0 and 1.

*Source:* OECD (2016c), "Overview and Preliminary Proposal on Indicators of Co-ordination of Public Investment for Regional Development", OECD Regional Policy Development Committee, OECD – unpublished room document; original sources: OECD (2015c), "Regional Outlook Survey", unpublished OECD document; Network on Fiscal Relations Across Levels of Government; and OECD National Accounts.

### *Vertical co-ordination mechanisms could be further strengthened through evidence bases*

The vertical co-ordination of public investment and regional growth policies in Sweden is mainly handled through dialogue, networking and information exchange between various stakeholders. This is very much in keeping with Sweden's consensus-building approach. It also reflects the autonomous status of the government levels, where the central government must consult subnational governments prior to issuing new regulations that concern them. Thus, direct hierarchical involvement in investment projects (e.g. via regulation, financing, etc.) is not how vertical co-ordination issues are typically dealt with in Sweden. Instead, the different levels of government together with central government agencies and all other relevant actors engage in continuous dialogue. This is generally accomplished through various entities and fora created to co-ordinate activity and spread information between levels of government and government agencies. For example, the government has recently established a National Negotiation on Housing and Infrastructure[19] to propose funding principles and a development strategy for high-speed railways from Stockholm to Gothenburg and from Stockholm to Malmö. This is in addition to the Swedish Transport Administration (*Trafikverket),* which is responsible for long-term infrastructural planning for all forms of transport: road, rail, maritime and aviation. Other key sector policy areas have their case-specific fora, for instance, in urban development there is the National Platform for Sustainable Urban Development. This forum facilitates the urban policy dialogue between central and subnational levels (OECD, 2015b).

Taking into account the strong autonomous position of Swedish subnational governments, and the large number of central government agencies involved in regional development and growth issues, it seems clear that this dialogue approach functions successfully. It is also in keeping with how other OECD countries approach co-ordination for investment in infrastructure, transport and other sectors (Box 3.10).

#### Box 3.10. **Co-ordination platforms for regional development and subnational investment**

In order to ensure that various levels of government take a more co-ordinated approach to regional development and public investment, many OECD countries use vertical and horizontal co-ordination platforms. These can include institutional mechanisms, co-financing arrangements, formalised consultation of subnational governments, and platforms for regular inter-governmental dialogue. Practices in Australia, the Netherlands, New Zealand, Portugal and the United Kingdom provide relevant examples.

Infrastructure Australia (IA) was established in 2008 by **Australia's** federal government to co-ordinate investments of national importance with Australian states and territories. IA advises the national government on investment priorities in the transport, communication, energy and water sectors, and helps states identify infrastructure projects that align with national priorities. Infrastructure Australia assesses individual state or territory applications for funding under the Building Australia Fund, which is the country's main mechanism for financing critical infrastructure projects.

In the **Netherlands**, the various levels of government establish their own vision documents: the SVIR at the national level, the Provincial Structural Vision (provincial level), and zoning plans (municipal level). These documents serve as input to Area Agendas, which help all levels of government discuss and align their questions and projects in the physical domain

### Box 3.10. Co-ordination platforms for regional development and subnational investment *(continued)*

(i.e. housing, industry, infrastructure, public transport, environment and water). Within the multi-year investment programme (MIRT) each region has its own, collective Area Agenda, containing the co-ordinated vision, goals, questions and projects of the various government levels in the specific MIRT region. Aligning the visions, goals and projects of each level of government in an MIRT area leads to better solutions, greater efficiency, and ultimately greater effectiveness. While formal discussions take place multiples times per year, decision making on the content of Area Agendas occurs at an annual meeting at the political level (BO MIRT), with the outcome discussed in Parliament.

**New Zealand's** Government Policy Statement establishes high-level priorities for transport investment, which are then implemented through the New Zealand Transport Agency (NZTA) in collaboration with subnational governments. NZTA officials work with each local authority to determine co-funding arrangements for the maintenance and renewal of the country's regional and local roads (approximately 90% of all roads). Vertical co-ordination is largely confined to investment in Auckland. Auckland Council's special plan sets out long-term priorities for public investment, and is designed to guide the investment decisions of central and local government, particularly in transport, and also in social infrastructure (e.g. schools and hospitals).

**Portugal's** Comissão de Coordenação e Desenvolvimiento Regional (CCDR) was created in 1979 for planning. Currently, the CCDR activities cover: spatial planning; promoting strategic and integrated regional development planning; monitoring the design and implementation of deconcentrated policies; providing an opinion on the national government's public investment expenditure programme (PIDDAC) at the regional level. Under the EU Cohesion Policy, each region was requested to draft its own Regional Strategy 2020 under the direction of the CCDR in order to improve collaboration among the CCDR, municipalities and the regional directorates of various ministries operating in the regions.

To improve local level horizontal co-ordination, the **UK** government is encouraging the development of Combined Authorities, wherein cities and surrounding districts combine to create a representative entity with a legal status. The entity may share transport and economic development functions, as well as any other functions that their constituent authorities agree to share. To establish a combined authority, local authorities must develop a governance review that includes a recommendation for establishing such a legal structure for their area. The Greater Manchester Combined Authority, for example was established in 2011. Other Combined Authorities were established in the Northeast, West Yorkshire, Sheffield and Liverpool in April 2014. The Authorities in Greater Manchester, Sheffield and West Yorkshire were offered additional powers via "devolution deals" in late 2014 and early 2015.

*Source*: Adapted from OECD (2016d), *OECD Regional Outlook 2016: Productive Regions for Inclusive Societies*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264260245-en.

The co-financing of central government investment by subnational (primarily municipal) governments has been available as a policy tool since 2009. There is no explicit discussion of increasing the subnational government share, generally or particularly with respect to the national investment plan, and participation by subnational governments in co-funding schemes is voluntary. However there is some concern - expressed by the Swedish Association of Local Authorities and Regions (SALAR) - that if the contribution levels are increased, the responsibility of national level investments may shift over time from central to subnational government. SALAR argues that the

central government policy could reduce the role of regional planning in favour of national plans, and reduce the ability of subnational governments to meet local demands for local investments (SALAR 2016d).

Another possibility to further support vertical co-ordination would be to increase direct central government financing of subnational investments in cases where considerable externalities can be identified. While the regional plans for transport infrastructure are the responsibility of counties, the current government national transport plan includes an appropriation of SEK 35 billion to investments in the regional plans (between 2014-25) (Box 3.11). Here, matching the subnational benefits with a financing contribution as proposed to the subnational governments plays a key role. Moving forward, it could be fruitful to better link dialogue with the evidence obtained from the indicator system and case-specific impact evaluations, as a means to make a stronger case for co-financing arrangements. This evidence could consist of results from *ex ante* and *ex post* evaluations of the main projects. The subnational level needs to be convinced that the funds they are expected to contribute will result in measurable benefits for them. In addition, a carefully implemented cost-benefit analysis to study the main policy measures would be recommended.

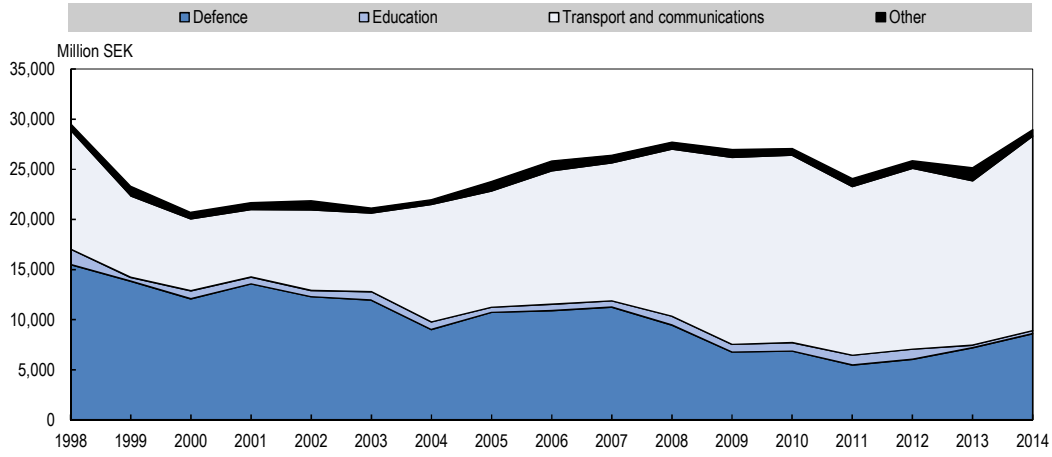
### Box 3.11. **Central level investments trends and the National Transport Plan for 2014-25**

While the central government's investment activity has, in general, slowed markedly since 2011, transport has been a notable exception. Recent statistics show that the Swedish central government's investment focus is on transport and communications, and defence (Figure 3.13). According to the central government budget for 2015, the national investment plan calls for investment levels of SEK 522 billion in transport and communications during 2014-25. The major share, SEK 281 billion, will go to further developing the transport system (mainly state roads, rail network and investments in state sea fairways). The rest is destined to operations and maintaining existing infrastructure: SEK 155 billion to state roads, and SEK 86 billion to the state rail network. During the national planning period, the central government agreed to allocate SEK 35 billion (7% of the total budget) to investments in the regional plans.

The Swedish National Transport Plan for 2014-25 aims to upgrade the transport system to promote jobs and growth. Resources are to be increased by 20% relative to the previous plan period. The plan will improve road and rail maintenance and further develop transport infrastructure. More than 150 investment projects are identified, including road upgrades, new high-speed railways, an expansion of the Stockholm underground railway system and mining-related infrastructure.

*Source*: Statistics Sweden (2016), statistical databases, www.scb.se/sv_/; Government of Sweden (2015), *Draft State Budget for 2016*: PROP. 2015/16:1 UTGIFTSOMRÅDE 22, Government of Sweden, Stockholm, Sweden, http://www.regeringen.se/contentassets/49618bcb4fd94b6081d9696f55bc7f8d/utgiftsomrade-22-kommunikationer.pdf.

Figure 3.13. **Investments in Swedish central government budgets in SEK millions, 1998-2014**




*Note*: "Other" is comprised of Law and Order (34%), Environment (28%), Migration (5%), Health and Social Services (4%), Culture (4%); the rest is divided among several spending groups.

*Source*: Statistics Sweden (2016), statistical databases, www.scb.se/sv_/ (accessed 28 October 2016).

### *Horizontal co-ordination in subnational investment could also be used to help steer investment*

Horizontal co-ordination within a level of government can be roughly divided into two approaches: 1) synchronisation among the central government players; and 2) co-ordination between subnational governments. At the central level, the Division for Regional Growth and Cohesion Policy at the Ministry of Enterprise and Innovation has the primary responsibility for co-ordinating central government measures and policies that promote regional growth. For example, this division is responsible for reviewing all relevant central government proposals (including from agencies) from a regional perspective. In addition, the Swedish Agency for Economic and Regional Growth (*Tillväxtverket*) facilitates various important programmes such as the "collective actions at large investments" and the "spatial planning for business development" that aim to help co-ordinate the central government measures. The results and outcomes of these policies are actively monitored and evaluated by the Ministry for Enterprise and Innovation. Specific "regional result and development dialogues" have been set up to promote regular exchange on regional priorities, performance and resource use. In addition, a set of indicators is used to monitor the development of the policies. The indicators are divided into three main themes connected to the National Strategy for Sustainable Regional Growth and Attractiveness: "innovation and entrepreneurship", "regional attractiveness and accessibility" and "skills provision".

It should be noted, however, that horizontal co-ordination of subnational activity includes co-ordinating with 240 central government agencies that work independently. While only a part of them have a regional or local focus, there is room for improvement in the co-ordination and implementation of their activities. This is due in part to the sheer number of agencies that intervene to some degree at a territorial level, but it is also due to the fact that often the "territorial logic" – i.e. territorial boundaries over which these agencies intervene – does not match the current administrative boundaries of the counties,

either individually or in larger groups. Greater co-ordination of their policies and territorial approach could facilitate subnational relations with these agencies and improve overall coherence.

By law, all county governments must produce a long-term regional development strategy, which can also act as a policy tool for horizontal co-ordination. Given the current government aim to give the regional level more responsibility for local and regional development, the role of regional development strategies may increase in the near future. Another form of horizontal co-ordination at the subnational level takes place through the various inter-municipal co-operative organisations and the local federations that were described earlier. All areas of municipal competence can be transferred to a local federation. Local federations have a joint decision-making body whose members are elected by the assemblies of the federation members. Since 1996, co-operation by municipalities and by County Councils has also been handled through a common committee. Also worth mentioning are the municipal enterprises, over 70% of which operate in the housing, real estate, energy or other infrastructure sectors (in 2010 there were about 1 800 enterprises owned in part or in full by municipalities). At the county level, the primary government responsibility is healthcare, although in nine counties the County Councils are also responsible for co-ordinating and implementing the national government's regional growth policy.

Should Sweden move forward with the regional reform it is currently investigating, it may need to give consideration to the possibility of a "common pool" problem arising. With a reduction in the number of counties from 21 to 6, it is likely that poor and less populated counties will be merged with rich and populous counties. Given that counties are responsible for healthcare – a significant public spending area – there may be a risk that counties will "spend before closing time", the effects of which would need to be managed at the local level after the reform takes place. This could affect the functioning of future counties - as it means there may be excess investment at the local level prior to reform. To mitigate this possibility, the central government could consider limiting major investments in counties prior to the regional reform in order to limit the excess investing caused by the "spend before closing time" effect. Recent research results from Sweden (Hinnerich, 2009; Jordahl and Liang, 2010), Denmark (Blom-Hansen, 2010; Hansen, 2012) and Finland (Saarimaa and Tukiainen, 2015) have verified these effects from the past municipal mergers. Another option would be to require extended regional decision making on the investments (e.g. making decisions on regional investments using the new regional boundaries) before the reform takes effect.

Sweden may need to consider more strongly promoting inter-municipal co-operation in investments with considerable externalities. This is particularly important for two reasons: 1) presently, the bulk of subnational level investments[20] are decided upon without much central government steering or interference, and thus may not be well linked to regional development policy; 2) the benefits and costs of a particular investment may be spread across jurisdictions and over time, which may not be fully taken into account by individual county or municipal governments. Therefore, at the heart of public policy making to support regional development should be measures that co-ordinate major investments, especially those in infrastructure and other significant initiatives such as hospitals. If the aim is to increase co-ordination in public investments, then it is essential to look at the investment levels of subnational governments alone. In a multi-level governance framework, the usual solutions to internalise externalities include joint planning and co-ordinating arrangements, compensatory subsidies, inter-municipal/interregional co-operation, and mergers of municipalities or counties. In

Sweden, the subnational governments finance most of their investments with their own savings and by borrowing, as described earlier. Thus, instead of using grant policies to steer municipal and county investments, the central government emphasises dialogue and joint planning among various stakeholders in order to foster vertical and horizontal co-ordination. While this is successful, the Swedish government should consider additional measures to strengthen horizontal co-ordination, including financial incentives. For example, in cases where there are significant positive externalities, the central government could use matching grants to partially finance subnational investments that are jointly decided upon by municipalities or counties.

### *Strengthening subnational capacities for public investment*

#### *Greater use could be made of Public Private Partnerships*

The Swedish budget law requires that national infrastructure investment be financed by appropriations on the state budget unless the Swedish parliament decides otherwise. There are only a few cases where alternative financing methods have been used. For example, in road investments, there are four road bridges that have been financed by bridge tolls, and congestion taxes are used by the cities of Stockholm and Gothenburg. To date, the main project where financing from a public-private partnership (PPP) has been used is the "Arlanda Express", a high-speed train line connecting Stockholm City to the Stockholm Arlanda airport. For building infrastructure, perhaps the best known example of PPP use is the new hospital built by Karolinska.

While the central government has made several inquiries into the use of PPPs over the years, they are not yet popular in Sweden. The conclusion thus far has been that, while some efficiency gains could be achieved by PPPs, other approaches such as own financing and procurement are preferable for implementing large public investment projects. The government's main concern is to ensure that the projects selected for implementation are those with the highest total social benefit. It is also widely accepted that the traditional financing methods can better ensure sound public finances and compliance with the Swedish budget policy rules.

The reasons behind the low popularity of PPPs appear mostly practical: the Swedish central government, as well as the counties and the municipalities, have no difficulty financing their investments through own savings, by borrowing from the National Debt Office (by the central government), from Kommuninvest (by counties and municipalities), or by borrowing directly from the domestic or international financial markets (by counties and municipalities). Swedish subnational governments clearly benefit from the situation because the system guarantees them access to loans and offers low interest rates. The credit ratings for Sweden's central government and its subnational government levels are among the highest in the world, so it is difficult for the private sector to offer competitive (PPP) financing deals. Moreover, the Swedish central and subnational governments emphasise transparency in all of their decision making, and PPPs may be perceived as an insufficiently transparent way to fund public projects. For these reasons, and despite fairly recent examples of PPP funding for large projects, it seems unlikely that PPPs will become widely used for financing public investments in Sweden.

All in all, there is definitely scope for greater use of PPPs. There may be need, however, for more information and greater learning about the opportunities that PPP

financing can offer. While there are questions that can be raised about the real efficiency gains associated with PPPs, there is also evidence that in advanced countries they can lead to lower costs and faster construction. Moreover, as countries become more experienced in developing PPPs, the risk transfer problems tend to be reduced as knowledge and capacity in government PPP units becomes better matched to the skills private companies bring to the table.

### *Public procurement plays an important role in Swedish subnational investment*

Public procurement is integral to public investment as it covers the public purchase of goods and services for intermediate consumption (e.g. equipment and supplies, maintenance and repairs, energy, communication and information technology, consulting, etc.) and the commissioning of public works, often to local small and medium-sized enterprises (OECD, 2016d). The Swedish public sector purchases goods and services for more than SEK 600 billion per year (SALAR, 2016e). According to the Swedish Competition Authority, in 2013 there were almost 20 000 contracts under the procurement rules (SALAR, 2016e).

Swedish subnational governments play an exceptionally significant role in total public sector procurement when compared to other countries. In 2014, Sweden's subnational government share of all public procurement reached 70%. This is compared to a figure of 50% in all OECD countries in the same year, with 61% overall in federal countries and 38% in unitary countries (OECD, 2016a). For Swedish municipalities and counties, the purchases of external goods and services form a considerable share of their total spending. Public procurement is an area where municipalities join forces and form municipal federations, although the attempts to co-operate may sometimes clash with EU regulations. While public procurement is well guided in Sweden (according to the OECD Monitoring Review Questionnaire responses), there is currently no legal authority to tailor certain procurement rules at the subnational level (OECD, 2015a). Presently, the strategic use of procurement to achieve innovation objectives is less common among subnational governments, but the government indicates that this may be changing (in its 2016 responses to the OECD Monitoring Review Questionnaire).

In 2014, the central government decided to increase its support to public procurement by founding the National Agency for Public Procurement (*Upphandlingsmyndigheten*).[21] The agency is an expert institute that provides practical guidance in all aspects of the procurement process. The new agency supports public sector decision makers, and maintains dialogue among all stakeholders, with the aim of improving the quality of public procurement. In addition, SALAR has announced a joint project with *Teknikföretagen*, a major employer's union, to support subnational governments in procurement issues and to enhance co-operation between the subnational level and the business world in general.

### *Performance monitoring for investment and development practices have expanded*

One of the OECD suggestions in 2010 was to continue improving the performance monitoring of investment implementation by subnational governments, placing particular attention on output and outcome indicators (OECD, 2010). Key among the OECD Council's Recommendations on Effective Public Investment across Levels of Government is that member countries should pay special attention to the results of their investment strategies. In order to learn from the policies, it is important to use effective

monitoring systems, including *ex post* evaluations, and apply this information to promote active learning among stakeholders. The OECD also suggested that Sweden improve cross-sector co-ordination among indicator systems and extend the monitoring system to all municipalities and types of services provided (OECD, 2010). Since 2010, the performance monitoring of Sweden's subnational governments has been further developed – not only by expanding on existing tools, but also by promoting additional learning in measurement and developing a system to measure well-being (Box 3.12). For example, the *Öppna jämförelser* (Open Comparisons) (SALAR, 2016f) project has provided comparisons on healthcare since 2006, and its work has been extended considerably with comparative indicators now available in five categories, each with subsections: business, healthcare, urban planning and security, education, society. Over 3 000 key figures in a municipal and county database, called Kolada,[22] now enables analysis and comparisons on the quality, results and costs for subnational governments. The Kolada database combines information from national statistics and other sources, and municipalities can voluntarily add their information using the system's "input function".

### Box 3.12. **Reglab network and the BRP+ indicator system**

Reglab is a network composed primarily of regional actors, but includes some central agencies and independent researchers as well. It focuses on promoting and measuring regional development and growth, and its activities include facilitating seminars, promoting joint projects and networking. The members of Reglab include all 21 Swedish regions, the Swedish Agency for Economic and Regional Growth, the Swedish Governmental Agency for Innovation Systems and the Swedish Association of Local Authorities and Regions (SALAR). The ongoing projects within the area of regional development include:

- support for cluster development and process leadership
- competence provision – prognostication and foresight
- evaluation of regional growth
- regions and innovation – how to support increased innovation
- braingain – how to create a critical mass of competence in sparsely populated areas.

Reglab network has also developed an indicator system called BRP+ for measuring well-being, along the lines of the OECD's Better Life Index.

*Source*: Reglab (2010), "BRP+", www.reglab.se/BRP+/?page_id=154 (accessed 28 October 2016).

While the indicators are well developed in some sectors, there is not yet one comprehensive system that would enable decision makers to follow the whole spectrum of investments. This would be important, as investments planned and performed in separate sectors can have substantial "cross-border effects". Moreover, the information value that indicators alone provide to decision making is limited. Indicators often give a useful overall picture of development on measured subjects, but indicators are not, in general, able to provide results about causal relationships. Sweden's subnational governments and other key stakeholders receive guidance for performing *ex post* evaluation by *Statskontoret*, and this can help strengthen results analysis. If more reliable results on policy, programme or investment impact are needed, one should rely on sophisticated *ex ante* and *ex post* evaluations, which typically use a control group selected

with statistical methods. Sweden's Agency for Growth Policy Analysis is responsible for evaluating and analysing regional policy measures, and the government. Overall, activity in evaluation could be strengthened or expanded by further utilising the country's research institutes and universities with expertise in this area.

### *Conclusion and recommendations*

The level of public investment in Sweden is high by international comparison, measured both in terms of spending per capita and as a share of GDP. Although the central government's investment activity has slowed markedly since 2011, subnational government investments have continued growing and presently exceed the amount invested by the central government. Currently there are major investment pressures on the subnational level, stemming from an increased demand for welfare services generated by population growth, an ageing population and migration. In addition, a considerable share of buildings owned by municipalities and counties (e.g. hospitals, schools, etc.) need replacement and/or repair, as much of the present building stock was built several decades ago. As a result, it is expected that subnational government investment levels will continue to grow, emphasising the need for co-ordination measures.

At the same time, the Swedish central government counts on subnational governments to co-finance national level infrastructure investments. However, this participation is voluntary, and the central government should be able to clearly demonstrate the benefits of specific investment projects in order to encourage subnational contributions. Carefully implemented cost-benefit analyses of the main investment projects, carried out by independent research institutes, would be recommended.

Co-ordinating public investments is not an easy task in Sweden. Due to the autonomous position of subnational governments, the central government does not directly intervene in subnational investment activity. The vertical co-ordination of public investment and regional growth policies is mainly handled through open dialogue and networking between various stakeholders. This approach works well in the Swedish context. However, the process could be developed further by linking the dialogue more closely with evidence obtained from the indicator systems and case-specific impact evaluations, and greater use could be made of *ex ante* and *ex post* evaluations of the main priority projects.

The present horizontal co-ordination of public investing at the regional level both synchronises the central government players and co-ordinates between subnational governments. Sweden's approach appears to work well here, too – encouraging multi-level dialogue, reviewing central level proposals, and supporting co-ordinated investment through long-term regional development strategies, actions that are often challenging for OECD countries. However it could be further strengthened, especially through more intensive co-ordination of central government agencies in regional investment initiatives.

In addition, as a means to enhance both vertical and horizontal co-ordination of subnational government investment, the government could consider additional financing measures. Direct central government financing of subnational investments may be an option in cases where considerable positive externalities can be identified prior to investment. In particular, the central government could encourage inter-municipal co-operation in investment activity by financing joint investments (agreed upon by several municipalities or counties together) with matching grants.

Given plans for regional reform, the Swedish government should be prepared for a possible "common pool problem" in subnational investment. A "spend before closing time" situation such as this emphasises the need to co-ordinate subnational investment decisions. For example, some countries have used temporary investment controls for subnational investments to tackle the common pool problem. If investments are adequately controlled prior to reform, future decision makers may not be excessively bound by decisions made in the present.

Thus far, alternative forms of investment financing, such as PPPs, have not been extensively used in Sweden, with a most notable exception being the Arlanda Express, and the new Karolinska hospital in Stockholm County. Sweden has managed well with its current model, nonetheless the costs and benefits of PPPs should be carefully examined using the existing examples. Experience from other countries provides evidence that PPPs can lead to lower costs and faster construction. In addition, the risk transfer problems tend to decline as knowledge and capacity in the public sector's PPP units becomes better matched to the skills that the private companies bring to the table.

The subnational tax revenues may not fully support the development of regional infrastructure, as there is neither a subnational business tax nor a subnational property or real estate tax in Sweden. This may weaken the incentive of regions and municipalities to attract businesses and to invest in infrastructure. In addition, as was discussed earlier, the fiscal equalisation system may have disincentive effects that can lead to underdeveloped subnational income tax bases. Finally, municipalities have a "monopoly" on land use, which makes cross-jurisdictional co-operation and regional planning difficult. Sweden should consider reforms that offer financial incentives at the subnational level to promote joint investment projects with greater regional impact.

### Recommendations

- **Link the dialogue process in subnational investment more closely with evidence** obtained from case-specific impact evaluations, evidence gathered from the expanding indicator systems, and by increasing the use of *ex ante* and *ex post* evaluations of main projects.
- **Use financial incentives to complement dialogue mechanisms that encourage vertical and horizontal co-operation in subnational investment**. For example, use direct central government investment where there are considerable positive externalities identified prior to investment; use matching or other targeted grants to help finance joint investment by subnational governments (i.e. agreed upon by several counties or municipalities, or both county[-ies] and municipalities); ensure that matching or targeted grants reward joint initiatives for investments with considerable positive externalities. This can help support subnational governments that tend to invest little, improve investment outcomes and territorial equity objectives.
- **Build greater support for subnational co-financing of large infrastructure projects** with carefully implemented cost-benefit analysis carried out by independent research institutes. Base co-financing on matching subnational government benefits with financing shares.
- **Support subnational investment activity with greater use of alternative forms of investment financing,** for example by expanding the use of public-private partnerships (PPPs), and taking a more strategic approach to subnational public procurement by fostering public procurement co-operation among subnational governments, tailoring certain procurement rules at the subnational level, and using procurement to achieve innovation objectives.
- **Minimise a potential "common pool problem"** that could arise with regional reform by using temporary investment controls, and/or by applying a decision rule that requires extended regional decision making on subnational public investments (potentially using reformed regional boundaries).

## Regional reform for effective territorial development and investment: More than just boundaries

In Sweden, the central government has decentralised and delegated redistributive spending and merit goods, such as education and healthcare, to municipalities and counties, keeping the power over tax bases under central control. As in the other Nordic countries, this policy seems to have been largely motivated by efficiency considerations. Meanwhile, Sweden's equity objectives have led to using norms, regulations and fiscal controls to guarantee equal access and sound financial bases for service provision throughout the country. The "financing principle" (SALAR, 2016g) used in Swedish decision making supports subnational governments' ability to meet service delivery obligations (Box 3.13), and fundamentally means that there are no unfunded mandates in the Swedish system.

### Box 3.13. **Sweden's "financing principle" for subnational service delivery**

Sweden's "financing principle" is grounded in the premise that the central government must ensure that subnational governments have actual financial capacity to provide the services that have been delegated to them.

The principle itself is very simple: if the central government decides, for example, to delegate a new task to subnational government, the central government should increase grants or provide other revenues to the subnational governments in question in order to finance the new service. If, however, an existing subnational task is centralised or abandoned, the subnational grants may be reduced. The financing principle is applied only to those central government decisions that affect subnational service costs directly. Indirect effects, such as an increase in input prices (e.g. wages, rents), that may be decided or affected by the central government, are not automatically compensated.

The financing principle is an important factor for the functioning of Swedish subnational government, and has been in use since 1993. While the principle is not legally binding, it is agreed upon by all political parties and routinely used by the government. It is important to understand, however, that the financing principle applies only to newly ascribed tasks, since grants presently cover only about 30% of subnational revenues. In practice, it is not always clear that the central and subnational governments agree with each other about the expenditure level generated by a new mandate, but this does not seem to be a source of major disagreement in the Swedish context.

*Source*: SALAR (2016g), "Finansieringsprincipen", http://skl.se/ekonomijuridikstatistik/ekonomi/finansieringsprincipen.1709.html (accessed 10 November 2016).

In addition to setting a sound financial framework for the subnational government, the Swedish central government has actively ensured that municipalities are strong enough to handle their demanding tasks. This is evidenced by policies resulting in major municipal merger reforms in the 1950s, 1960s and 1970s. Given the importance of municipal services, it is understandable that most subnational government reforms have focused on municipalities. Sweden's counties have not yet undergone such structural reforms, despite the fact that they, too, vary in size and financial capacity, and that they are also responsible for important tasks, such as healthcare provision.

### *Sweden's unusual approach to regional reform*

Regional reform among OECD countries spans centuries (Annex 3.A3) and can arise for a variety of reasons. In many cases, reforms address regional boundaries with historical foundations that no longer reflect territorial realities (e.g. in Austria, Japan, Norway and Sweden). When this is the case, reforms are often undertaken to better account for modern regional requirements; and socio-economic and demographic changes (e.g. migration, ageing and urban concentration) are frequently used to justify regional remodelling (OECD, 2016e).

Regional reform is also used as a means to simplify inter-governmental relations by reducing the number of actors involved and/or by making public administration easier to understand. Additionally, it can support "regional upscaling" in order to generate costs savings through economies of scale and scope, the pooling of resources, and a reduction in regional bureaucracy. Other objectives behind regional reform include boosting resource capacity (financial and human), strengthening capacity for action through greater bargaining power, and reducing inequalities in service provision. Box 3.14 provides some examples of recent regional reform in OECD countries.

#### Box 3.14. **Trends and regional reform in Finland, France, the Netherlands and New Zealand**

In many OECD countries debate has been growing as to the relevance of an intermediate level of government. This is due in part to the financial crisis and subsequent pressures on public finance. While some governments have placed eliminating a regional level on their agendas, this is often met with strong resistance – for example in France and Italy. Thus, the trend is increasingly toward transforming the intermediary level, redefining its role rather than eliminating it completely. Such reforms can result in a redrawing of administrative boundaries; a reallocation of responsibilities and tasks; a reduction of administrative complexity; regional up-scaling; and an effort to reduce inequalities in service provision across the country.

A recently approved regional reform in **Finland** will result in 18 new autonomous regions. These are based on the current map of statutory joint municipal boards that operate as regional development and planning authorities. These 18 self-governing regions, whose councillors will be elected by direct universal suffrage, become effective on 1 January 2019. Generating greater efficiency for public services by building scale and reducing costs is a key objective for this reform.

**France's** 2015 regional reform reduced the number of mainland regions from 27 to 13. A need to simplify the administrative organisation was one driver behind this reform, which aims to support regions and inter-municipal groupings over individual department and municipal groupings. Another driver was the need to clarify subnational responsibilities and eliminate competence overlap in an effort to generate greater efficiency. A series of reports in 2014 found that EUR 5.7 billion were wasted each year due to overlap and the cross-flow of funds between subnational governments, and that each region had on average 75 different bodies dedicated to economic development. The reform refocused regional competences on land-use planning, economic development, training and learning, and provided regions with greater regulatory power when relevant.

Recent regional reform in the **Netherlands** has encompassed revitalising and strengthening the role of provinces. This has included a proposal to reduce their number and reinforce their position in the institutional setting through a shift in competence attribution, mostly to counterbalance stronger and larger municipalities. While in 2016 the number of provinces remains the same, since 2009 there has been a gradual strengthening of ascribed tasks.

### Box 3.14. **Trends and regional reform in Finland, France, the Netherlands and New Zealand** *(continued)*

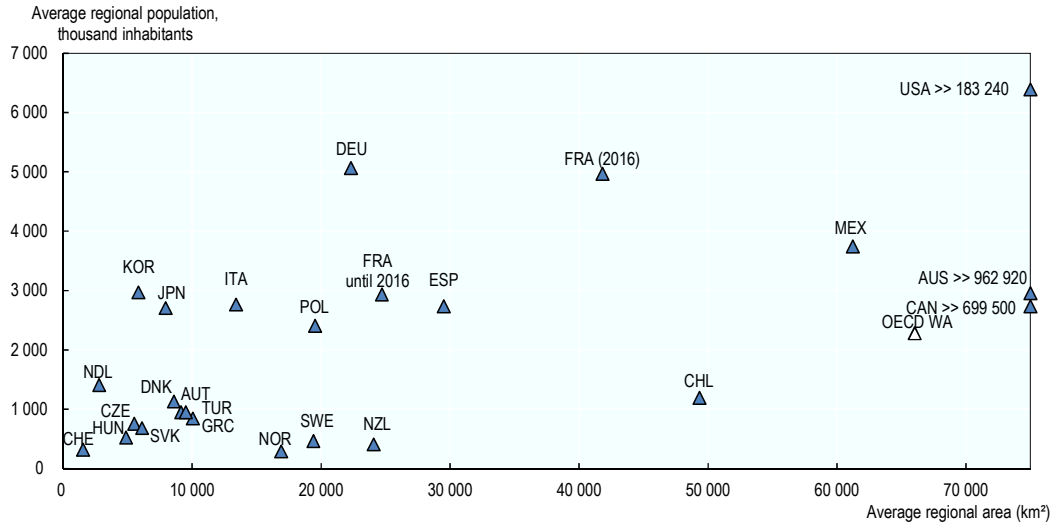
For example, provinces had responsibilities reinforced in cultural and archaeological heritage (2009); the management of resources associated with the "Investment Budget Urban Renewal (ISV3) (2011); spatial planning and regional economy (including an enhanced role in order to ensure more consistency and an integrated approach to housing, water, transportation, climate, energy environment and cultural heritage at the regional level); provincial archives (2013); nature policy and the protection of endangered species (2014). In 2012, provinces gained responsibility for the inter-administrative supervision of municipalities and regional water authorities, putting in their hands environmental, construction, safety, regional planning, housing and monument monitoring. In addition, the provinces took over responsibility for healthcare from the counties, and they assumed more tasks in regional development. At the same time, some former provincial responsibilities were transferred to other levels of government, including social welfare tasks that were transferred to municipalities (e.g. youth care).

**New Zealand** has restructured local government organisations, replacing the existing 200 local authorities with 12 regional councils and 75 city and district councils (now 11 regions and 67 city and district councils), and abolishing a large number of special-purpose bodies (initially there were 800 general and special-purpose authorities). Restructuring was very heterogeneous. Some local authorities remained unchanged, while others were formed by amalgamating several small authorities or by adding portions from larger authorities. Regions were established primarily by following the boundaries of drainage basins. It has been observed that the choice to disregard old communities in the restructuring may have been costly. Previous political structures often did not disappear, but were transformed into boards or committees, generating animosities and impacting the reform's effectiveness. It has been argued that a more bottom-up approach would have yielded greater public support, in particular from the historical political structures. Moreover, such a process would have helped to maintain greater identification with local communities.

*Source*: OECD (2016e), "Multilevel Governance Reforms: Overview of OECD Country Experiences", unpublished OECD document, GOV/RDPC(2016)5; OECD (2014c), *OECD Territorial Reviews: Netherlands 2014*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264209527-en.

In Sweden, the regional reform under discussion focuses strictly on redrawing administrative boundaries in order to increase the size of individual territories. Examples of pure boundary reforms at regional and intermediate levels are quite rare in OECD countries – France is the most recent example of a country that has carried out such boundary reforms (Box 3.14). More often, administrative boundary reforms are linked with institutional reforms aiming to reassign tasks among levels of government (OECD, 2016e).[23] The question of an optimal size for subnational jurisdictions is an important one, and hard to resolve. Sweden's counties are heterogeneous in size, and their population levels seem relatively small by OECD standards[24] (Figure 3.14). At the same time, they are responsible for important tasks, such as healthcare as well as regional development. Increasing their size could help utilise scale economies in these service areas, as well as support further devolution of competences, including regional development. Competence allocation, however, is not under discussion at this stage of the reform process, but might be discussed in a second step.

Figure 3.14. **Regional population and land area in selected OECD countries, 2014**




*Note*: France: without overseas regions and before 2015 reform. Regional data for Australia, Belgium, Canada, United Kingdom and the United States and are not represented on this figure.

*Source*: OECD (2016a), *OECD Regions at a Glance 2016,* OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2016-en.

The challenges facing Sweden's counties vary among the counties themselves, adding a layer of complexity to any reform process. The ageing population is much more pronounced in remote regions than in the fastest growing regions, which instead struggle with spending pressures caused by population growth due to internal migration from rural areas to cities, and from a growing number of immigrants. The different problems need tailored solutions and strategies, and yet reaching an adequate size to be able to react effectively seems an important policy measure across the board. There are various ways to utilise economies of scale and scope, and economic theory or empirical research does not give a simple recommendation. Whether adequate size is achieved through enhanced co-operation, a merger of counties, a reassignment of tasks between levels of government, or all of these, needs to be decided upon. Ultimately, the choice of an appropriate subnational governance structure depends upon how one weighs efficiency, responsiveness, and accountability versus economies of scale, externalities, and the capacity to deliver and co-ordinate services.

The present Swedish municipal size seems, for the most part, "fit for purpose". In terms of land area, Swedish municipalities are the largest among EU countries (except in Ireland, where there are only 31 local governments) (Annex 3.A4). Nor are Swedish municipalities particularly small in terms of population, although without information about spending responsibilities and tax bases, comparisons are difficult to make.[25] There have not been reports of Swedish municipalities with severe economic problems or major defaults in following fiscal rules or service tasks. Also the fact that municipal mergers are not currently on the political agenda in Sweden, although the possibility of municipal reform has been discussed as a future policy measure, indicates that municipal population size has not been a main problem in subnational governance.

### *Reforming the Swedish "hourglass": Rounding out the middle*

The 2010 OECD territorial review discussed Sweden's unique "bottom-up" approach to regionalisation and regional reform. The present Swedish government has started a major reform process in order to enable better implementation of regional policies and to strengthen the counties. A committee established by the Swedish government to investigate the question of regional reform introduced a first draft (including a map) of possible mergers in March 2016, and will propose a new division of counties and County Councils by 31 August 2017. The government's aim is to launch a new regional reform beginning in 2023, though some mergers may occur as early as 2019 (Box 3.15).

#### Box 3.15. **The Committee for Regional Structure (*Indelningskommittén*)**

In March 2015, the Swedish government started investigating the possibility of merging counties in order to form larger regions. The investigation is organised through a dedicated committee (*Indelningskommittén*), and is to take into consideration the needs of citizens in key subnational service areas, as well as the constantly evolving functional labour market areas. It should be noted that the committee has no formal authority to include or propose any change of responsibilities or competences between the national and regional/local levels. The committee is to propose a new division of the counties and County Councils by 31 August 2017.

*Source*: Regeringen (Government of Sweden) (2015), "Kommittédirektiv: Ny indelning av län och landsting", www.regeringen.se/contentassets/1f1494d4035d4be6ac6450f5010e0b96/ny-indelning-av-lan-och-landsting-dir.-201577 (accessed 10 November 2016).

Meanwhile, the process of extending the responsibilities of County Councils continues. In January 2015, six additional County Councils (Gävleborg, Jämtland, Jönköping, Kronoberg, Örebro, and Östergötland) were given the responsibility for regional development, raising the total number of counties with such responsibility from four to ten (Table 3.4). At present, regional development falls under responsibility of either County Administrative Boards (in four counties), Regional Co-ordination Bodies, which are indirectly elected assemblies formed by the municipalities and County Councils (in seven counties), or the County Councils (nine counties and Gotland, a municipality with county responsibilities). In 2015, the County Councils in Norrbotten, Västernorrland, Västmanland and Uppsala counties also applied for regional development responsibility. These applications are presently under consideration in the Government Offices, and if the decision is positive then the new arrangements could start from 1 January 2017.

Table 3.4. **County-level actors with responsibility for regional development, 2016**

| County Councils | Regional Co-ordination Bodies | County Administrative Boards |
|---|---|---|
| Västra Götaland | Blekinge | Norrbotten[2] |
| Skåne | Dalarna | Västernorrland[2] |
| Halland | Kalmar | Västmanland[2] |
| Gotland (municipality) | Uppsala[2] | Stockholm |
| Jönköping[1] | Södermanland | |
| Örebro[1] | Värmland | |
| Gävleborg[1] | Västerbotten | |
| Östergötland[1] | | |
| Jämtland[1] | | |
| Kronoberg[1] | | |

1. The County Council gained the responsibility for regional development in January 2015.

2. The County Councils have applied for the responsibility for regional development and the decision is pending.

Asymmetric decentralisation – where subnational government units at the same level have different tasks and powers (Congleton, 2015) – is in fact quite common and visible in many countries, but it has not been extensively analysed in the normative literature of inter-governmental relations. It is often based on bargaining between central government and the subnational governments. Therefore, the bargaining power of an individual subnational government in relation to the centre largely defines the outcomes.[26] Asymmetric decentralisation may be efficiency enhancing, provided that subnational governments have appropriate incentives to improve the well-being of citizens in their jurisdictions. It is also important to make sure that during the bargaining process, and as a result of it, the costs and benefits of asymmetric arrangements are balanced in order to avoid a situation where a few subnational governments benefit at the expense of others. Such a situation can arise, for example, if the favoured subnational governments take advantage of their additional authority to attract residents and a tax base to their regions (Congleton, 2015). In the present Swedish context, the risk for this kind of behaviour is not large since the planned reforms are not expected to result in a major switching of revenue bases or spending powers between government tiers.

Sweden provides an interesting case of asymmetric decentralisation. The Swedish subnational governments differ significantly from each other in population size, economic sustainability and in conditions that affect the costs of public services (e.g. land area, distances and population density). As a result, the subnational governments have very different economic and political power. Some municipalities and counties are clearly more influential in national politics and can alone form a strong lobby to affect central government policy.[27] On the other hand, equity aspects are highly valued in Sweden and any deliberate measures that would lead to drastic inequities in service levels received by citizens in different parts of the country would likely face strong opposition. Moreover, and perhaps precisely because territorial equity is a key component of the Swedish social contract, Sweden's municipalities have formed a joint organisation, the Swedish Association of Local Authorities and Regions (SALAR), to represent them in policy negotiations with the central government. It is no coincidence that similar organisations play an important role in all Nordic countries, where the bulk of redistributive tasks have been delegated to subnational governments.

Elements of asymmetric arrangements can be seen both at the municipal and the county levels in Sweden. At the municipal level, the authorities are free to decide how they arrange the services they are obligated by law to provide. Some municipalities rely on own production, others enter in inter-governmental co-operative arrangements, and some municipalities outsource the service to private companies. Municipalities are also free to provide services that they are not required to provide by law.

At the county level, the room for manoeuvre has been smaller, since the main responsibility of counties is healthcare, which is tightly regulated by the central government. In regional development, the second most important compulsory county level task, the situation is different, and here is where Sweden's asymmetrical approach is most clearly visible. While regional reform may lead to a sequencing of competence allocation during a transition period (2019-23), especially in regional development, one of the main aims of the reform is to create counties that would be strong enough to take on the full responsibility of regional policy in their area. If the reform does not lead to mergers as the government has planned, then it is likely that asymmetric arrangements will become more common. In general, asymmetric decentralisation is likely to be efficiency-enhancing, although it can also generate co-ordination challenges.

There is currently a hot political discussion surrounding subnational government mergers in a number of countries, including Finland and Norway. In other countries, such as France in 2015, Denmark in 2007 and in Sweden in 1960s and 1970s, a merger reform of subnational governments has already been completed. The proponents of mergers usually argue that a larger municipal or county size will lead to economies of scale in service production as well as lower administrative expenditures. Other arguments for mergers include that they internalise public service spillovers, improve the quality of the public services and create a more attractive environment for business as well as for inhabitants (Slack and Bird, 2012). The opposing side argues that merging subnational government units is not necessary for generating economies of scale because the same results can be accomplished by purchasing the services from specialised providers, or by co-operating with other subnational governments. It has also been argued that smaller subnational government are more flexible, have less bureaucracy and practice better local democracy (Oates, 1972; Slack and Bird, 2012; Lago-Peñas and Martinez-Vazquez, 2013).

While much of the empirical evidence of subnational government mergers rests on data from municipal reforms, the results are widely applicable to the county level as well (Box 3.16). More importantly, the lessons that can be learned from previous reforms in various countries and institutional setups seem to apply to municipal and county levels. Of course, whether a merger reform is evaluated as successful or not depends on the objectives that are set for the consolidation. A general conclusion of merger reforms is, however, that mergers as such may not automatically lead to efficiency gains. Other measures, such as changes in grant systems, fiscal rules, task assignments and local democratic systems may be needed in order to reach desired effects. Much also depends on the political support for the mergers.

### Box 3.16. **Empirical findings of merger reforms**

The empirical evidence for mergers appears mixed. For example, Nelson (1992) found that in Sweden the reduction in the number of small rural municipalities after the 1952 reform constrained expenditure growth, whereas the reduction in the number of larger non-rural municipalities following the 1962 reform had a contrary effect. Nelson concluded that more units of government serving a given population can constrain public sector budgets, but only as long as these units exceed some threshold size. Hanes (2015) found that the 1952 reform had a negative impact on expenditures as long as the municipalities did not exceed a critical size.

Hinnerich (2009) and Jordahl and Liang (2010) have focused on municipal behaviour prior to mergers. They found that municipalities accumulate debt before mergers because the taxpayers in the new municipality will share the costs. A study by Blom-Hansen (2010) analysed Danish amalgamation reform, finding support for similar pre-merger behaviour. In addition, a study by Andrews and Boyne (2012) on the performance of English County Councils before voluntary restructuring found some adverse effects on expenditure, service performance and value for money in local service provision.

### Box 3.16. **Empirical findings of merger reforms** *(continued)*

Reingewertz (2012) analysed the effects of local government reform in Israel in 2003, finding that amalgamations resulted in a decrease of about 9% in municipal expenditures. Moreover, as no evidence of a decrease in the level of services provided to the residents of the amalgamated municipalities was found, the author concluded that municipal amalgamations can internalise economies of scale. Moisio and Uusitalo (2013) analysed the Finnish municipal mergers of the 1970s, finding cost savings resulting from mergers only in case of general administration. In education and healthcare, the spending in merged municipalities grew faster that in otherwise similar municipalities that did not merge.

*Note*: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

*Source:* Nelson, M. A. (1992), "Municipal amalgamation and the growth of the local public sector", *Journal of Regional Science* 32:39-53; Hanes, N. (2015), "Amalgamation impacts on local public expenditures in Sweden", *Local Government Studies,* 41(1): 63-77, http://umu.diva-portal.org/smash/record.jsf?pid=diva2%3A646303&dswid=9668*;* Hinnerich, B. T. (2009), "Do merging local governments free ride on their counterparts when facing boundary reform?", *Journal of Public Economics* 93, 721–728; Jordahl, H. and C.-Y. Liang (2010), "Merged municipalities, higher debt: On free-riding and the common pool problem in politics," *Public Choice* 143, 157–172; Blom-Hansen, J. (2010), "Municipal amalgamations and common pool problems: The Danish local government reform in 2007", *Scandinavian Political Studies* 33(1), 51–73; Andrews, R. and G.A. Boyne (2012), "Structural change and public service performance: The impact of the reorganization process in English local government", *Public Administration*, 90(2): 297–312; Reingewertz, Y. (2012), "Do municipal amalgamations work? Evidence from municipalities in Israel", *Journal of Urban Economics* 72: 240–251; Moisio, A. and R. Uusitalo (2013), "The impact of municipal mergers on local public expenditures in Finland," *Public Finance and Management*, Volume 13, Number 3.

Voluntary merger reforms may often take longer to accomplish, but a strong support of the local electorate is often crucial in practical implementation. It is also important to understand that the positive effects of merger reforms usually do not materialise immediately after the merger. How the reform has been prepared and how different actors behave prior to (and after) the reform will play a significant role. For example, prior to reform there may be a temporary need for tighter fiscal rules in order to prevent "spend before closing time" effects. Voluntary mergers may be encouraged by merger grants, which need to be designed well in advance of the merger reform in order to avoid excess spending effects. The usual "finance follows function" principle is also applicable to merger reforms, especially if the tasks are reassigned in connection with the merger. If the merger reform results in considerably larger and economically stronger subnational government units, one should make sure that the models and formulas used in the grants system still apply. Also, there may be need for a grant system revision prior to a voluntary merger reform, particularly if the grant system contains elements that can form an obstacle to mergers. As for task assignment considerations, since the merger reform usually results in stronger subnational government units, the balance between subnational levels is changed, and therefore it may be appropriate to reconsider the task allocation between levels of governments. The assignment of competences can also act as an important incentive for voluntary mergers.

Overall, the question of subnational government size is a delicate issue and one where the "one-size-fits-all" principle does not apply. This is particularly true in Sweden. In the northern part of the country, municipalities and counties already cover large areas and have low population densities. Here, mergers may not be the best way to achieve territorial and equity aims: larger regions do not necessarily lead to better quality public services, lower healthcare expenditure, or higher regional growth. In the south, the situation is different in term of land area and population: counties are smaller and density is higher than in the north. Yet, even here, reforms should be planned carefully, bearing in mind that a pure boundary reform is generally not enough to accomplish the desired effects. Competence allocation needs to be considered when setting boundaries in order to ensure capacity and coherence, even if it is not part of the reform in the first stage. Functional labour market areas usually form a reasonable starting point for considering regional or municipal consolidations. One should, however, not focus too much on existing county boundaries. Modern tools such as geographic information system (GIS) data and spatial analysis can be useful when planning regional boundaries, understanding, of course, that the final decision is always political.

The regional reform currently being considered provides a window of opportunity for Sweden to plan further reform on subnational competences, and, at this point especially, to strengthen the counties' role in regional growth and investment policy, both in terms of strategy and in implementation. This may also be the time to reconsider the role of County Administrative Boards as well as the central government agencies in regional development. More co-operation on regional issues among government agencies would be beneficial, and a merger of agencies or sections of government agencies should be considered in order to enhance the co-ordination of activities. The possibility of delegating tasks associated with regional development to the counties ought to be considered, particularly in Stockholm where responsibility for regional development rests with the County Administrative Board rather than the County Council. Finally, the role of the counties as implementers of rural policies should be carefully examined, particularly in connection with the overall regional policy. The responsibility for implementing rural policy at a regional level should be allocated to the political body currently responsible for regional growth policy (see Chapter 2).

### *Conclusion and recommendations*

Sweden is currently investigating an important regional reform, which includes merging counties into larger regions, as one means to mitigate territorial fragmentation. Such a reform provides a window of opportunity to strengthen the capacity of counties in the strategic planning of regional policy and in infrastructure investment. At the same time, additional consideration may need to be given to functional labour market areas as a natural basis for new regions. These areas have developed very rapidly in recent decades, and currently there is a considerable contrast between the labour market areas and the regional boundaries.

While the regional reform is likely to be beneficial from regional policy implementation and public investment co-ordination aspects, there are numerous other questions that remain. One of the trickiest questions is the appropriate size of subnational governments. In northern Sweden, the municipalities and counties are already large in area and have low population densities, which may not be ideal for mergers. In southern Sweden, the situation seems more favourable for mergers, but even here larger regions may not automatically solve all problems. Sweden may need to decide if it wishes to

accomplish its efficiency goal with enhanced co-operation, mergers of counties, a reassignment of tasks between levels of government, or a combination of these mechanisms – applied according to each region's needs. The potential advantages of a merger reform include economies of scale in service production, lower administrative expenditures, internalised public service spillovers, improved public service quality and a more attractive environment for business as well as for inhabitants. Simplifying the county financing (grant) system would probably be easier if the merger reform succeeds, as the grant system would not need to take so many factors into account. The potential disadvantages include the reform costs at the beginning of the reform (arising, for example, from harmonising service levels and input prices), deteriorated access to subnational government services, poorer accountability, and less transparent subnational government decision making. The empirical evidence of merger reform outcomes is mixed, suggesting that merging subnational governments does not offer easy solutions.

It should also be emphasised that mergers alone may not successfully yield desired efficiency or equity results. Other measures should complement structural reform, for example changes in grant systems, a revision of fiscal rules, and/or the reassignment of subnational government tasks and adjustments to local democratic systems may also be needed as well. A careful cost-benefit analysis should be performed to evaluate the pros and cons of regional reform before the final decision is made. In a country like Sweden, where the differences between counties are significant in different parts of the country, a policy of "one-size-fits-all" does not seem reasonable, and an asymmetrical approach may continue to be beneficial.

The role of central government agencies as well as County Administrative Boards should be revised. At the minimum, government agencies should increase their co-operation on regional issues, but consideration could be given to merging government agencies with regional development responsibilities or sections of agencies in order to enhance co-ordination of activities. As for the County Administrative Boards, the possibility of delegating all tasks concerning regional development to County Councils should be seriously considered. If the planned regional boundary reform succeeds, the region's autonomy in regional development should be considerably extended.

Lastly, if, for some reason the regional reform under discussion does not advance as planned, it would still be necessary to clarify the roles of central government authorities (especially the County Administrative Boards and central government agencies), counties and municipalities in order to improve co-ordination in regional growth policy. The economies of scale could then, for example, be accomplished through extended co-operation between counties, between municipalities, and among counties and municipalities. Also, if the regional reform fails, it is likely that the role of asymmetric decentralisation will increase. This emphasises the need to rethink the division of competencies between the central government, counties and municipalities, even before the reform takes place.

## Recommendations

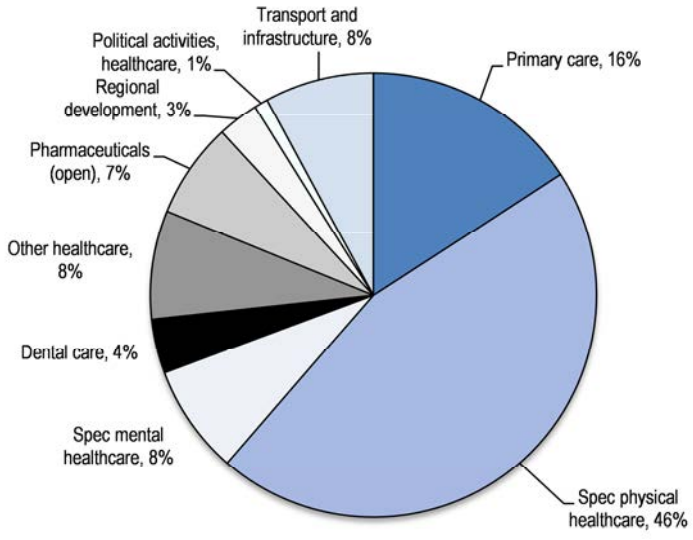
- **Continue applying an asymmetrical approach when defining new regions** – taking into consideration county and/or regional characteristics (e.g. current size, population density, agglomeration placement, etc.), resources, and the tasks the resources will have to cover. If moving forward with the reform as currently proposed, careful consideration should be given to financial and practical implications of creating a "mega-region" in the north, and the balance between this region, Stockholm, and southern counties.
- **In addition to regional reform, ensure other mechanisms are used to support territorial equity and efficiency objectives,** including a cost-benefit analysis for the advantages and disadvantages of reform in each county and/or proposed counties, and the use of functional labour markets to determine new county boundaries.
- **Provide County Councils with regional development responsibilities**; and continue the asymmetrical approach for other responsibilities (e.g. employment/labour market; land-use/spatial planning).
- **Reconsider competence attribution at the subnational level,** including through informal discussions to better understand the future resource needs of new counties; to provide regions with greater autonomy in regional development, including with competences in the strategic planning of regional policy and in infrastructure investment.
- **Allocate responsibility for implementing regional growth and rural policy at a regional level to the political body currently responsible for regional growth policy** (see Chapter 2).
- **Use the reform as a window of opportunity to improve the co-ordination of central agencies** dealing with infrastructure, regional development or environmental issues, and counties (County Councils and CAB).

# *Annex 3.A1*

## Compulsory service allocation and expenditure among Sweden's counties and municipalities

The main compulsory tasks of counties consist of health and medical care – about 90% of all spending in 2014 – and regional development (Figure 3.A1.1). Examples of voluntary services include support to cultural activities and public transport. As these services are also very labour intensive, wage costs comprised 45% of the total county spending (SALAR, 2016). The purchase of services formed about 15% of spending.

Figure 3.A1.1. **Sweden's county expenditures by main tasks**

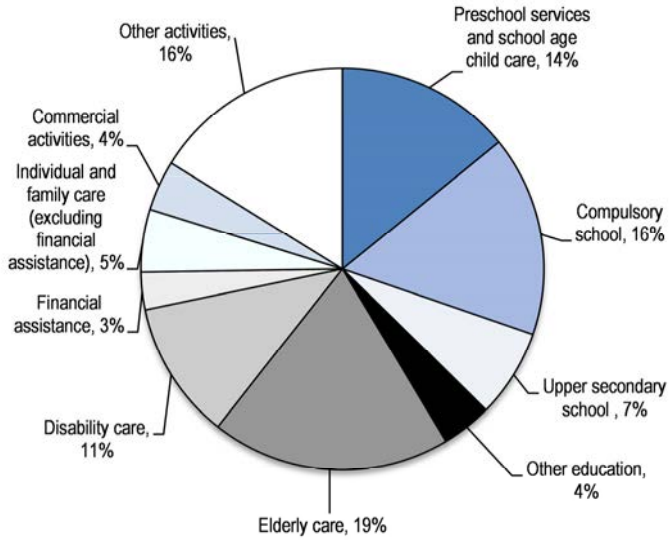



*Source*: SALAR (2016f), "Öppna jämförelser", http://skl.se/tjanster/merfranskl/oppnajamforelser.275.html (accessed 11 November 2016).

Compulsory services for local authorities include education, childcare, social care (including care for the elderly and income assistance), local planning, health and environmental protection, waste management, public transport, rescue, water and sewage. The voluntary services often comprise recreation activities, culture, housing, energy, industrial facilities and employment (SALAR, 2016a). From a public spending point of view, the most important municipal service areas are schooling (preschool, compulsory school, upper secondary school and other education forms together nearly 40% of total municipal expenditure), elderly care, care for disabled, childcare and social care

(Figure 3.A1.2). As most municipal services are labour intensive, in 2014 about 54% of total municipal spending went to wages and other employer contributions (payroll taxes). Purchase of services represented about 17% of total spending.

Figure 3.A1.2. **Sweden's municipal expenditures by main tasks**



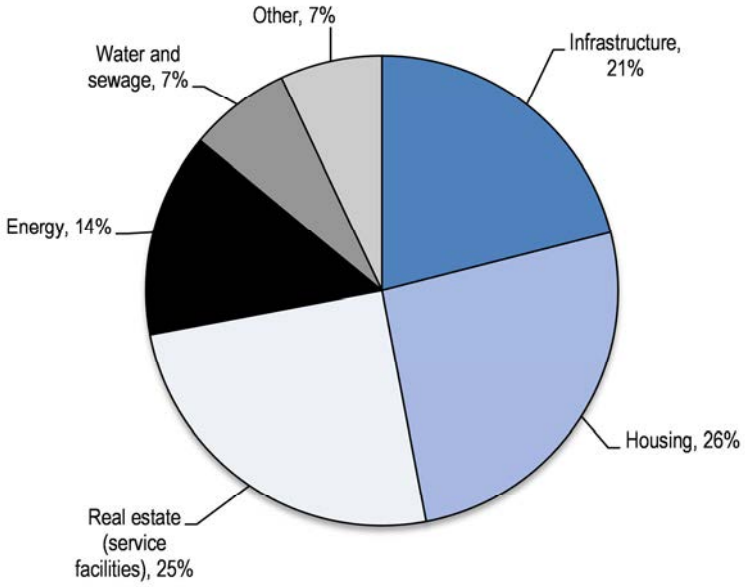

*Source*: SALAR (2016f), "Öppna jämförelser", http://skl.se/tjanster/merfranskl/oppnajamforelser.275.html (accessed 11 November 2016).

# *Annex 3.A2*

## Subnational investment in Sweden by sector and by government level

Over 70% of municipal investment activity – including by municipality-owned companies – focuses on three large investment categories: public housing representing 26%; real estate destined to facilitate municipal services, such as school buildings (25%); and infrastructure, such as roads, streets, parks and harbours (21%). The balance is spread across investments in water, sewage and energy equipment, vehicles, etc. (Kommuninvest, 2015).

Figure 3.A2.1. **Sweden's municipal sector investments by main sector, 2013**



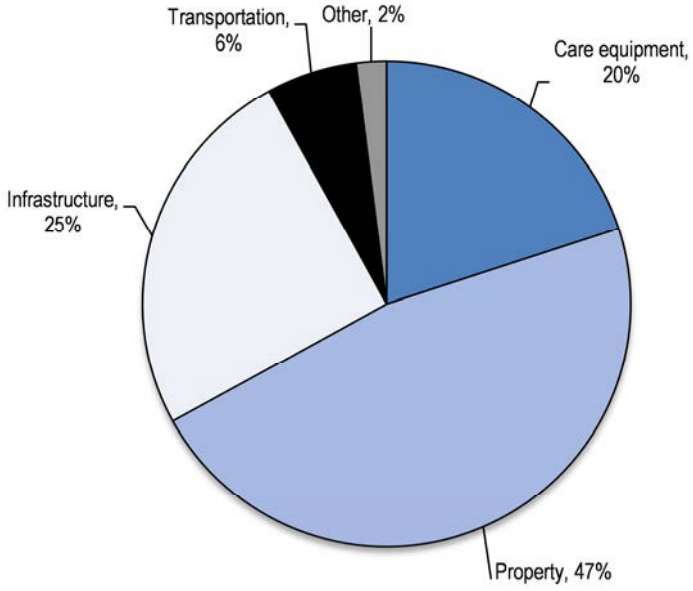

*Note:* The data include investments by municipally-owned companies.

*Source:* Kommuninvest (2015), "Kommunsektorns investeringar 2015", http://kommuninvest.se/wp-content/uploads/2015/06/Kommunsektorns-investeringar-2015.pdf.

Investments in county-level service facilities, constituted almost half of the investments made by County Councils in 2013, as county authorities began to renovate or replace the hospital buildings that were built decades ago and are either outdated or need

repair. Infrastructure investments accounted for a quarter of the total investments, which can largely be attributed to Stockholm County Council's investments for improved public transport. Investments in healthcare equipment accounted for one-fifth of the investments. Remaining investments concentrated on public transport (primarily of new trains, buses) and IT systems (Kommuninvest, 2015).

Figure 3.A2.2. **Sweden's county investments, 2013**

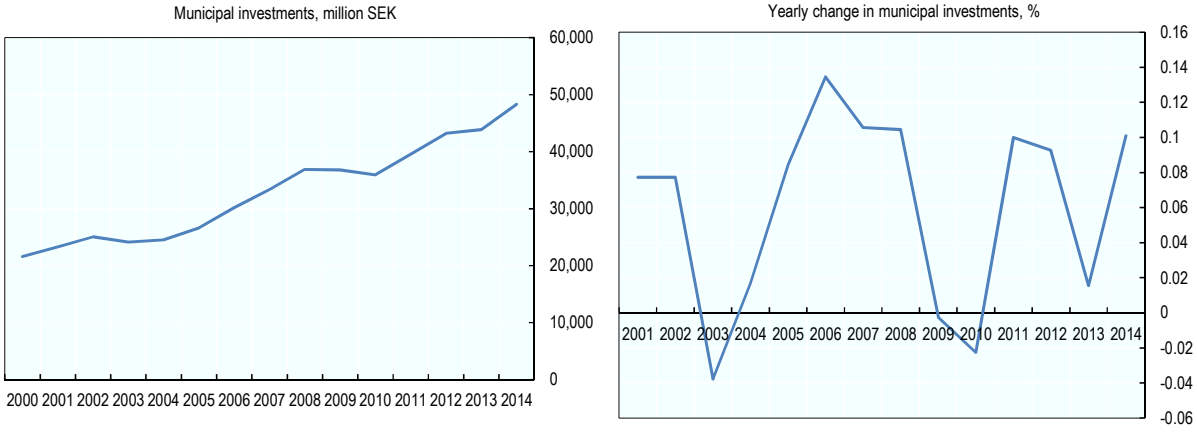



*Note:* The data include investments by county-owned companies.

*Source*: Kommuninvest (2015), "Kommunsektorns investeringar 2015", http://kommuninvest.se/wp-content/uploads/2015/06/Kommunsektorns-investeringar-2015.pdf.

Municipal investment spending levels were high between 2000-14 but also exhibit high yearly variance in growth (Figure 3.A2.3). It is also interesting to note that municipal and county level investment spending changes follow a similar pattern, although the yearly variance has been even higher in the county investments (Figure 3.A2.3). This latter observation can, however, be explained by the investments decided by the Stockholm County Council (SCC). In Stockholm County, the annual investments more than doubled so that in 2013 the SCC accounted for almost half of the total investment volume by County Councils.

Figure 3.A2.3. **Sweden's municipal investments, 2000-14**




*Note:* The data do not include investments by municipally-owned companies.

*Source*: Author's calculations with data from Statistics Sweden, Annual Accounts of Municipal Finances, www.scb.se.

# *Annex 3.A3*

## Recent regional reform activities in OECD countries

Table 3.A3.1. **Intermediary and regional governments in the OECD area**

| 2015-16 | Intermediate and regional levels | Year of creation | Recent reforms - Notes |
|---|---|---|---|
| **Federal countries** | | | |
| Australia | 6 states and 2 territories | 1901 | A White Paper on the Reform of the Federation is currently drafted. |
| Austria | 9 *Bundesländer* | Middle Ages - 16th century | |
| Belgium | 10 provinces<br>3 regions and 3 language communities | 1830<br>1970 | Provinces' role being transformed by their respective region.<br>Six state reforms from 1970 to 2011 transforming Belgium into a federal county. |
| Canada | 10 provinces and 3 territories | 1867-1999 | |
| Germany | Intermediary: 402 districts (295 rural districts and 107 district-free cities) | Since 16th century | |
| | Regional: 16 *Länder* | 1949 and 1990 | 2006 and 2009 federal reforms |
| Mexico | 31 states and the federal district (Mexico City) | 1824 | Fiscal and regulatory decentralisation since late 1980s |
| Spain | Intermediary: 50 provinces | 1833 | Since 2013, some municipal responsibilities (under 20 000 inhabitants) transferred to provinces |
| | Regional: 17 autonomous communities | 1978 | Each region has its own autonomous status. Specific "foral" status for Basque Country, Catalonia, Galicia. |
| Switzerland | 26 cantons | Middle Ages | |
| United States | Intermediary: 3 031 counties<br>Regional: 50 states | Since 1630s<br>1776/1781 (original 13) | |
| **Unitary countries** | | | |
| Chile | 15 regions | 2009 | Regional councils directly elected since 2013; regional executives to be elected directly in 2017 |
| Czech Republic | 14 regions (including City of Prague) | 2000 | |
| Denmark | 5 regions | 2007 | 2007 regional reform merged 13 counties to form 5 regions without taxing powers |
| Finland | 1 autonomous region (island region of Åland) | | A reform is underway to set up 18 self-governing regions |
| France | Intermediary: 101 *départements*<br>Regional: 18 regions | 1791<br>1982 | Discussions on the future of the departments postponed to 2020<br>13 regions instead of 22 in mainland France since the 2015 reform. They received additional competences. |
| Greece | 13 regions | 2011 | Created by the Kallikratis reform as self-governing regions from previous 54 prefectures |
| Hungary | 19 counties | Restored in 1990 | Counties lost several competences since the 2012 Constitutional reform and 2011 Law on Local Governments |
| Italy | Intermediary: 107 provinces and metropolitan cities | 1802–1861 | Provinces being transformed into inter-municipal bodies and creation of metropolitan cities (2014 Act). Constitutional reform underway to abolish the provinces |
| | Regional: 22 regions | 1948 and 1970 | 5 with special status, 5 with ordinary status, 2 autonomous provinces. Constitutional reform is underway. |
| Japan | 47 prefectures | 1871 | 1 metropolitan district (Tokyo), 2 urban prefectures (Kyoto and Osaka), 1 "district" or "circuit" (Hokkaidō), and rural prefectures. Regional reform discussed for many years (mergers - *doshusei*). |

Table 3.A3.1. **Intermediary and regional governments in the OECD area** *(continued)*

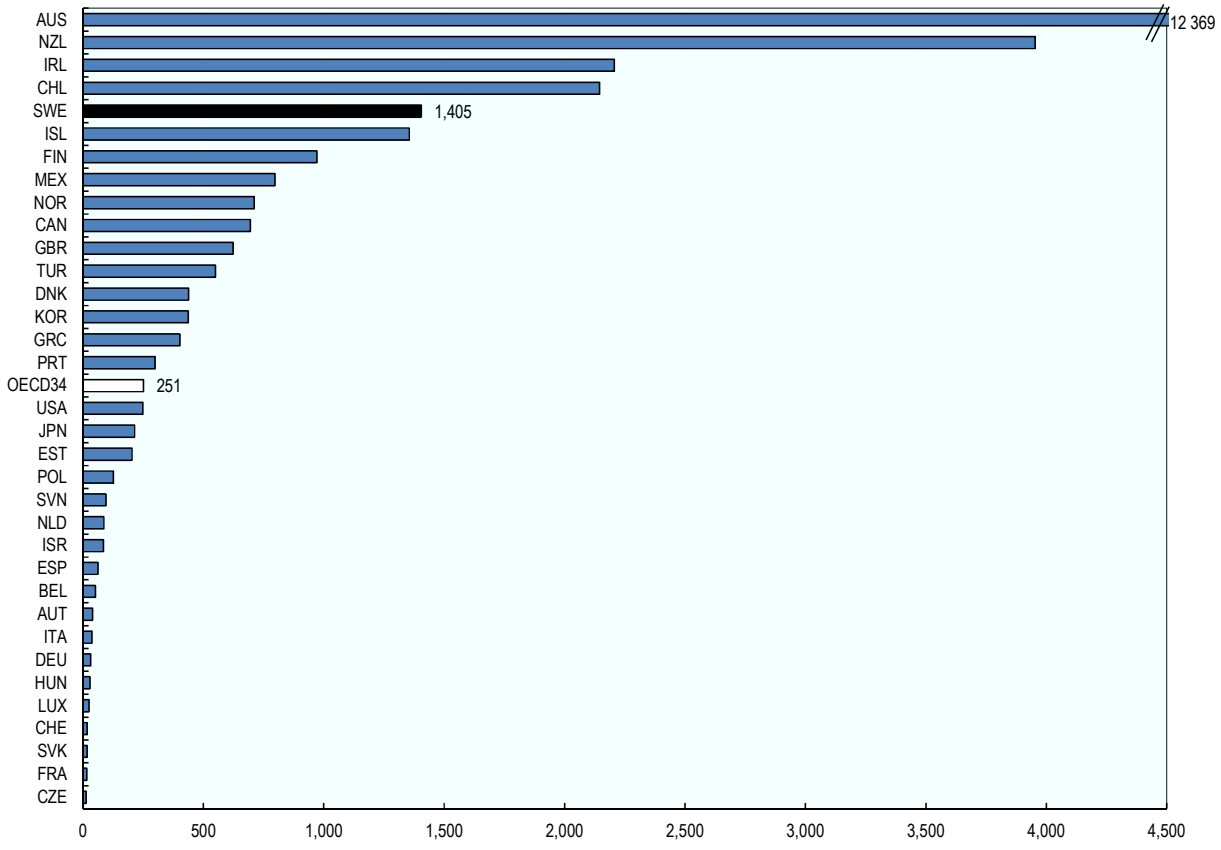
| 2015-16 | Intermediate and regional levels | Year of creation | Recent reforms - Notes |
|---|---|---|---|
| Korea | 17 regional-level entities | 1991 | 9 provinces, 6 metropolitan cities, Sejong self-governing city and Seoul capital city. |
| Netherlands | 12 provinces | Before 1848 | Regional reform envisaged for many years (mergers). Last attempt in 2014 failed in the Parliament. |
| New Zealand | 11 regional councils | 1989 | |
| Norway | 18 counties | 1660s | A regional reform is underway (mergers) |
| Poland | Intermediary: 380 counties | Re-instated in 1999 | Counties include 314 counties and 66 cities having the status of county |
| | Regional: 16 regions | 1999 | A law passed in 2009 reinforced regional competences |
| Portugal | 2 autonomous regions of Azores and Madeira | 1976 | Creation of 8 self-governing regions in continental Portugal rejected by a referendum held in 1998 |
| Slovak Republic | 8 higher territorial units | 2001 | |
| Sweden | 21 County Councils | 1634 | County Councils having different status and responsibilities. Regional mergers now investigated. |
| Turkey | 81 entities | 2005 | Since 2012 reform, 51 self-governing special provincial administrations and 30 metropolitan municipalities |
| United Kingdom | Intermediary: 27 County Councils (England) | 1889 | |
| | Northern Ireland, Scotland and Wales | 1998 | Project of regionalisation in England suspended indefinitely following negative referendum of 2004 |

*Source:* OECD (2016e), "Multilevel Governance Reforms: Overview of OECD Country Experiences", unpublished OECD document, GOV/RDPC(2016)5.

# *Annex 3.A4*

## Relative size of Sweden's municipalities

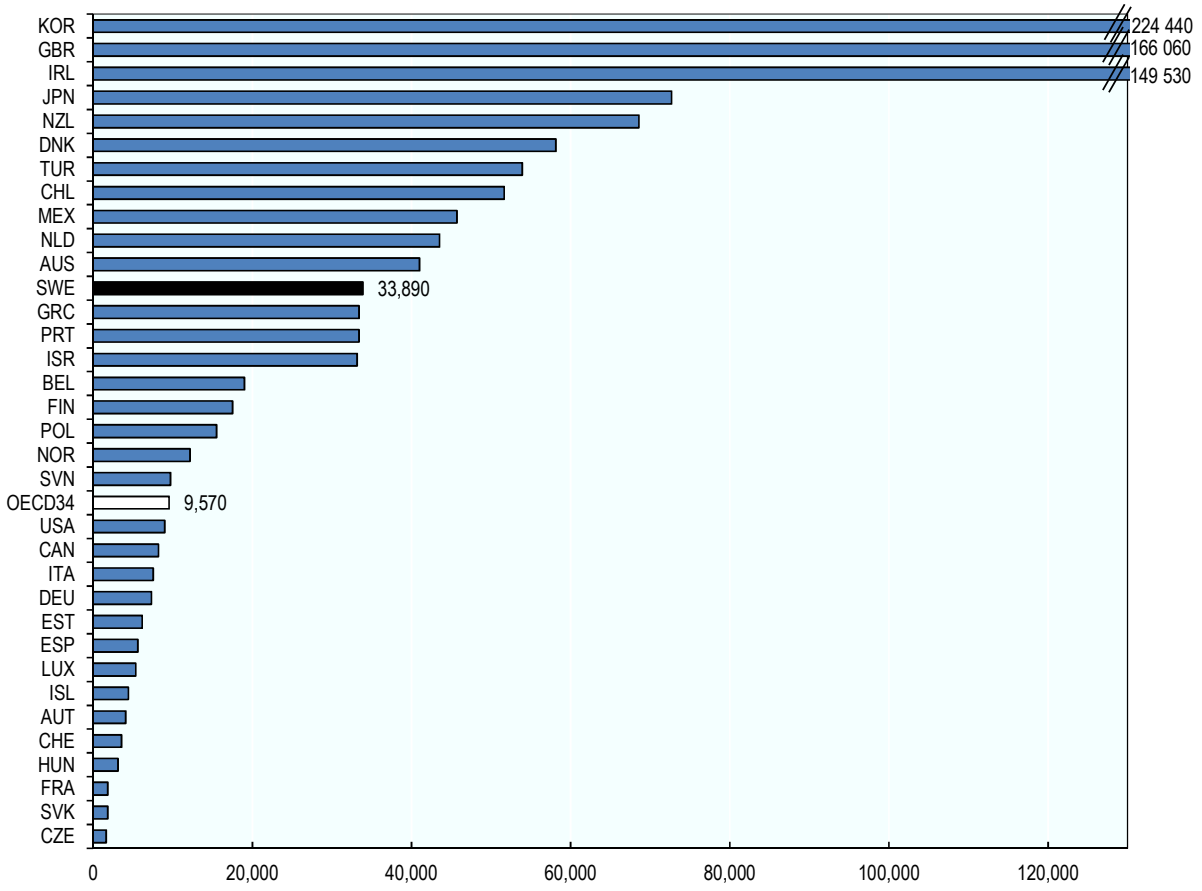
Figure 3.A4.1. **Municipal area in OECD countries, 2014-15 (in km$^2$)**




*Note:* Average calculations are based on population data as of 2015 or 2016 (estimations) for most countries. Previous years may have been used for the calculation of the median in some countries (based on last available census). All averages and medians have been rounded; Calculations do not comprise unincorporated areas for Australia, Indian Reserves and unorganised territories for Canada, Indian reservations areas for United States and French Guyana for France; Turkey: Average and median municipal sizes exclude metropolitan municipalities in order to avoid double counting.

*Source*: OECD (2016b), *OECD Subnational Government Structure and Finance* (database), https://stats.oecd.org/Index.aspx?DataSetCode=SNGF; OECD (2015b), "Subnational governments in OECD countries: Key data", (brochure), OECD, Paris, www.oecd.org/gov/regional-policy/Subnational-governments-in-OECD-Countries-Key-Data-2015.pdf.

Figure 3.A4.2. **Average municipal population size in various OECD countries**




*Note:* Average calculations are based on population data as of 2015 or 2016 (estimations) for most countries. Previous years may have been used for the calculation of the median in some countries (based on last available census). All averages and medians have been rounded; Calculations do not comprise unincorporated areas for Australia, Indian Reserves and unorganised territories for Canada, Indian reservations areas for United States and French Guyana for France; Turkey: Average and median municipal sizes exclude metropolitan municipalities in order to avoid double counting.

*Source*: OECD (2016b), *OECD Subnational Government Structure and Finance* (database), https://stats.oecd.org/Index.aspx?DataSetCode=SNGF; OECD (2015b), "Subnational governments in OECD countries: Key data", (brochure), OECD, Paris, www.oecd.org/gov/regional-policy/Subnational-governments-in-OECD-Countries-Key-Data-2015.pdf.

# Notes

1. In 2014, the countries where citizens expressed higher levels of confidence in their national governments were: Switzerland (75%), Norway (70%), Luxembourg (66%), New Zealand (63%) and Germany (60%).
2. Primary reference sources for this chapter include the material collected by the OECD and Swedish officials; recent research papers and policy documentation as well as official statistics by Statistics Sweden and others are used as supplementary references.
3. The provincial foundation was created as early as the 1600s. At that time there were 11 provinces, which were tightly controlled by the Crown. Each province was run by a governor, who was Crown's representative. In the 1840s, local self-government became a political issue, and this led to reforms in the 1860s.
4. The county of Gotland is a special case because it has both a municipality and a county status.
5. This is spite of the fact that there have been some municipal secessions in Sweden.
6. In Sweden, a "Ministerial Rule" is applied, meaning that the government, and especially ministers, are not allowed to instruct agencies on individual matters.
7. There seems to be no consensus regarding the accurate measurement of vertical fiscal imbalance. In general it is equated with transfer dependency, i.e. transfers received by subnational governments as a share of their total revenue or expenditure. However, this measure neglects subnational borrowing as a form of financial expenditure (OECD, 2016a).
8. The mean rate is 17%.
9. The difference between these figures and those presented in Figure 3.10 arise from different grant and revenue definitions in different databases.
10. General grants are based on formulas and paid to municipalities without earmarking.
11. One result of the grant reforms in the 1990s was that the specific purpose grants gave way to general grants. This is demonstrated by the fact that in 1992 the share of specific purpose grants was 19% of all grants, but in 1993 the share had fallen to 7% (Hermansson, 2010). During later years, the share of specific grants has been rising again, and there is presently a hot debate in Sweden about the role of earmarked grants.
12. This was also discussed in the 2010 OECD territorial review.
13. This is the amount deducted from one group of municipalities and credited to the receiving municipalities.
14. The ten separate sub-models are one each for preschool, compulsory school, high school, elderly care, individual- and family care, children with a foreign background,

population changes, housing structure, wage structure and public transport (joint between the municipalities and the counties).

15. OECD (2013b, p. 114) notes that Denmark and Norway used around 15 socio-economic indicators to assess expenditure needs, and the Netherlands used 24 indicators.

16. See in particular OECD (2013b), Chapters 5 and 6.

17. The revenue base of Swedish subnational government is tightly regulated by the central government, which limits the subnational government's room for manoeuvre.

18. Exact estimates are difficult to produce because of recent changes in the bookkeeping system.

19. Alternative financing methods are currently being examined by the negotiators, including, for example, participatory financing by the municipalities that will benefit from the project. Another task of the negotiators is to present a legislative proposal that clarifies how increased land value can serve as a basis for cost sharing in development contracts. The negotiators have produced two interim reports and a third will be published in June 2016. The final report with all proposals will be published by the end of December 2017 (Sverigeforhandlingen, n.d.).

20. The total subnational investments are between SEK 90 billion and SEK 100 billion. In 2014, the municipal investments totalled SEK 70 billion, and county level investing was SEK 20 billion.

21. It is active since 2015. For more information, see www.upphandlingsmyndigheten.se/en.

22. Kolada is provided by RKA (Rådet för främjande av kommunala analyser), a non-profit company owned by SALAR and the central government. For more information, see www.rka.nu/tjanster/omrka.1863.html.

23. It should be noted that while boundary reforms are generally accompanied by institutional reforms, the inverse is not necessarily the case – institutional reforms at regional and intermediate levels do not necessarily have a territorial reform component (OECD, 2016e).

24. All Swedish counties have been able to show at least some population growth.

25. In Sweden, the service responsibilities of municipalities and counties are extensive, but the revenue bases are also well developed and the grant system equalises income bases and costs quite efficiently.

26. A separate but related aspect to this is the contractual relationship between central government and subnational governments.

27. It has been argued that in Sweden council members and especially council chairs of major cities can be more influential than MPs (see discussion on democracy in Sweden and the references therein).

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