

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 sector¹ 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.

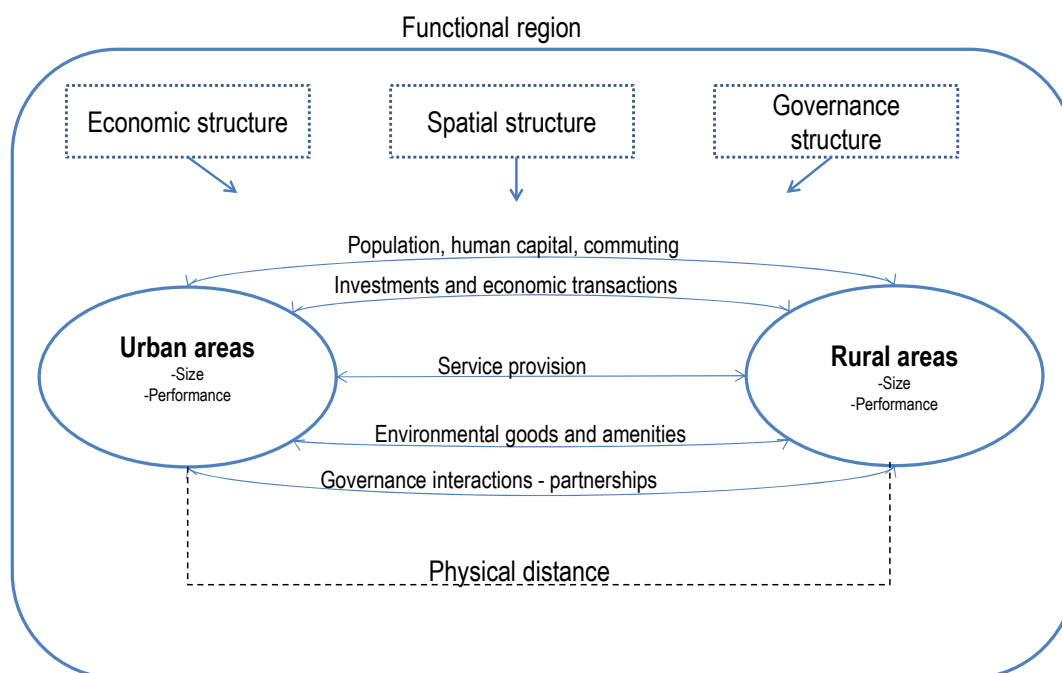
Definitions are important because they provide the basis for understanding the growth dynamics of different rural areas and organising policy responses to them

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

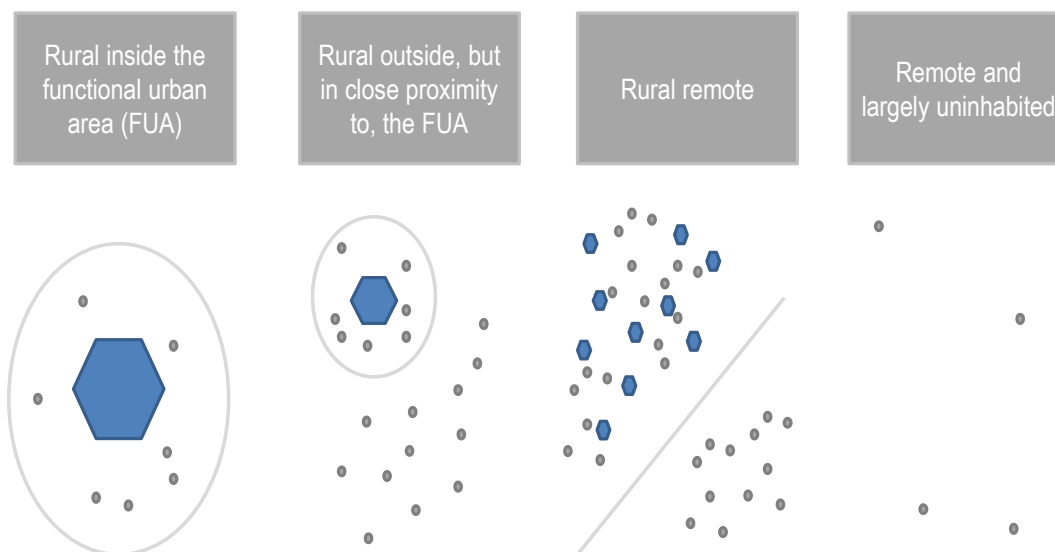
The organising concept of using differences in the degree of interaction of rural with urban as a mechanism for categorising rural leads to the following typology. There are: 1) rural areas within a functional urban area (FUA); 2) rural regions close to an FUA; 3a) remote rural regions where settlements 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 Loss of rural identity May be treated as a land reserve for future urban growth	More stable future because cities are less vulnerable to shocks Potential to capture urban benefits and avoid negatives
Rural outside, but in close proximity to, FUA	Conflicts between new residents and locals 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 Relatively easy access to advanced services and urban culture Good access to transport
Rural remote with dense settlements	Ageing and shrinking workforce Limited access to all but basic goods and services	Potential for internal collaboration among communities Flexibility in local labour markets May be attractive for firms that do not need access to an urban area on a regular basis Access to natural amenities for people who live there
Rural remote with sparse settlements	Rigid local labour markets Highly specialised economies subject to booms and busts Limited connectivity and large distances between settlements High per capita costs of services	Absolute advantage in production of a specific natural-resource-based output 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 take 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's 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	Norrboten County	IN
Blekinge County	PR		

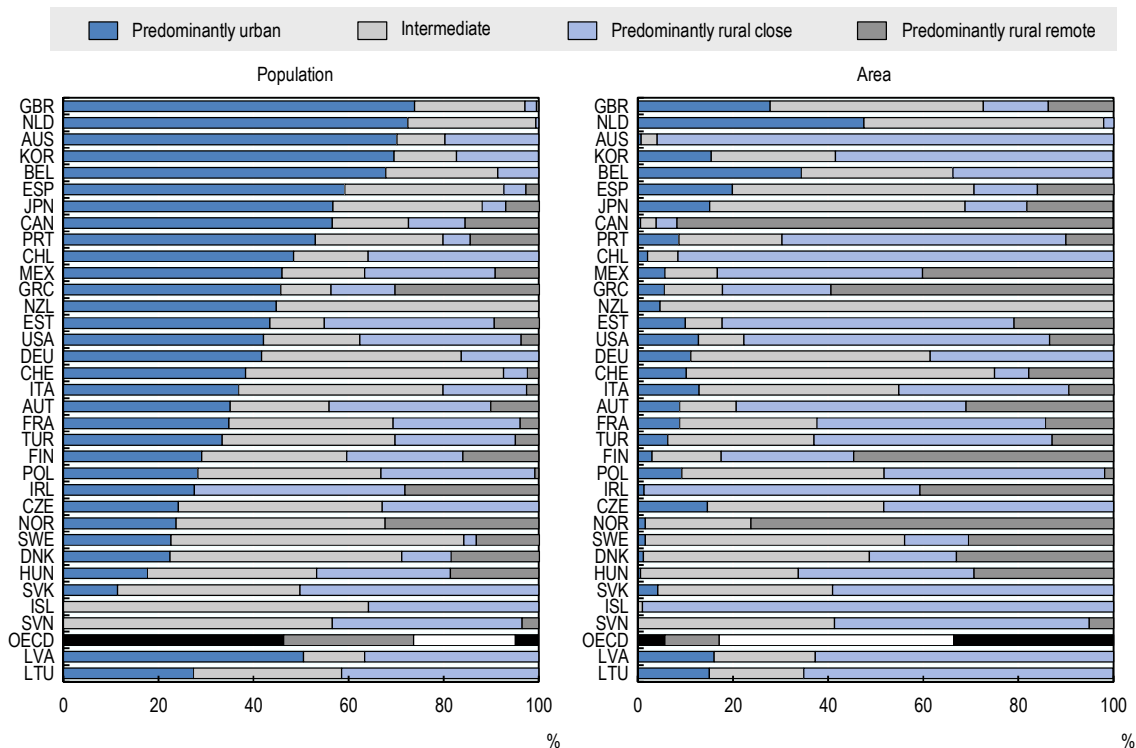
Note: PU: Predominantly urban; IN: Intermediate; PR: Predominantly rural.

Norrboten 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 km², 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

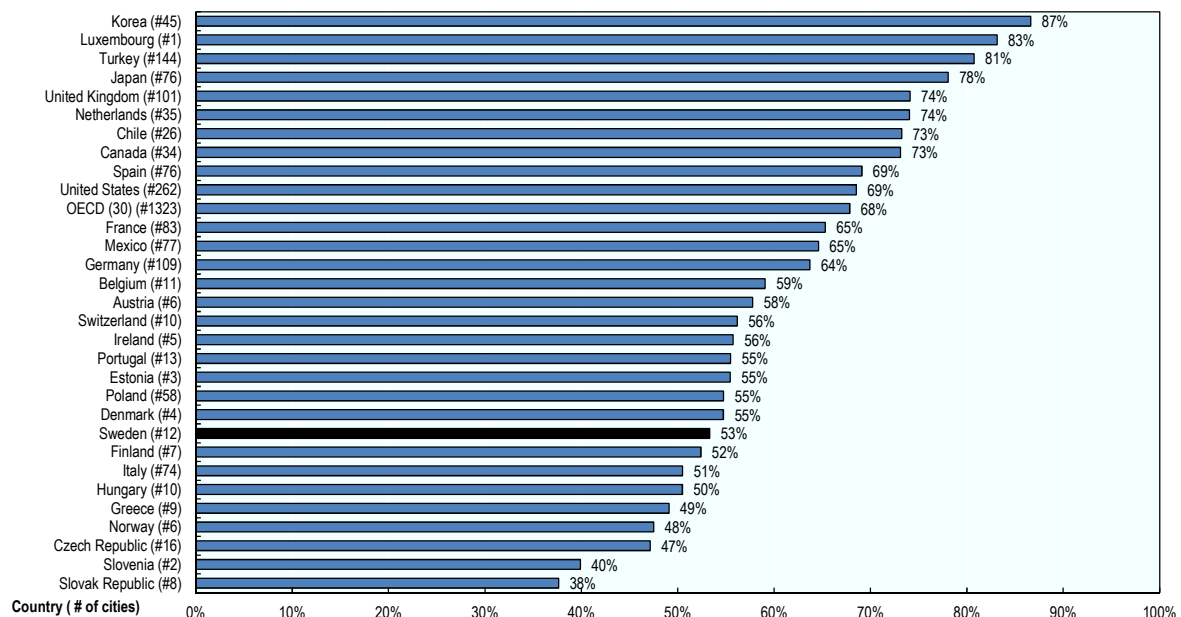
The OECD/EU identify functional urban areas beyond city boundaries, to reflect the economic geography of where people live and work. Functional urban areas as relatively self-contained economic units, characterised by high levels of labour linkages and other economic interactions. Cities are widely accepted 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



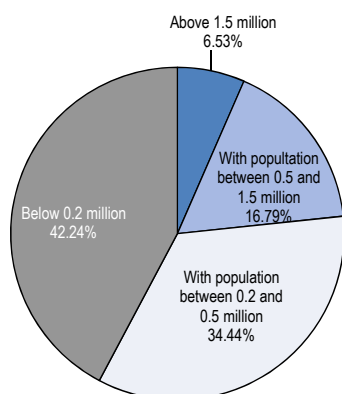
Source: OECD (2013b), *OECD Regions at a Glance 2013*, OECD Publishing, Paris, http://dx.doi.org/10.1787/reg_glance-2013-en.

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

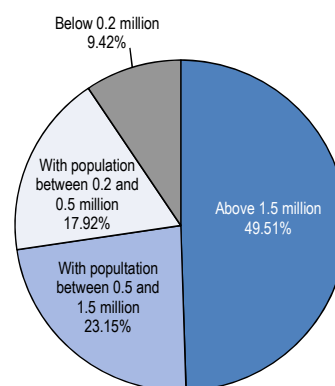
Among the 1 179 OECD functional urban areas, 77 have more than 1.5 million people, 198 between 500 000 and 1.5 million people. Both groups concentrate almost 75% of the total urban population. Additionally 406 were identified between 200 000 and 500 000 people, and 498 are small functional urban areas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



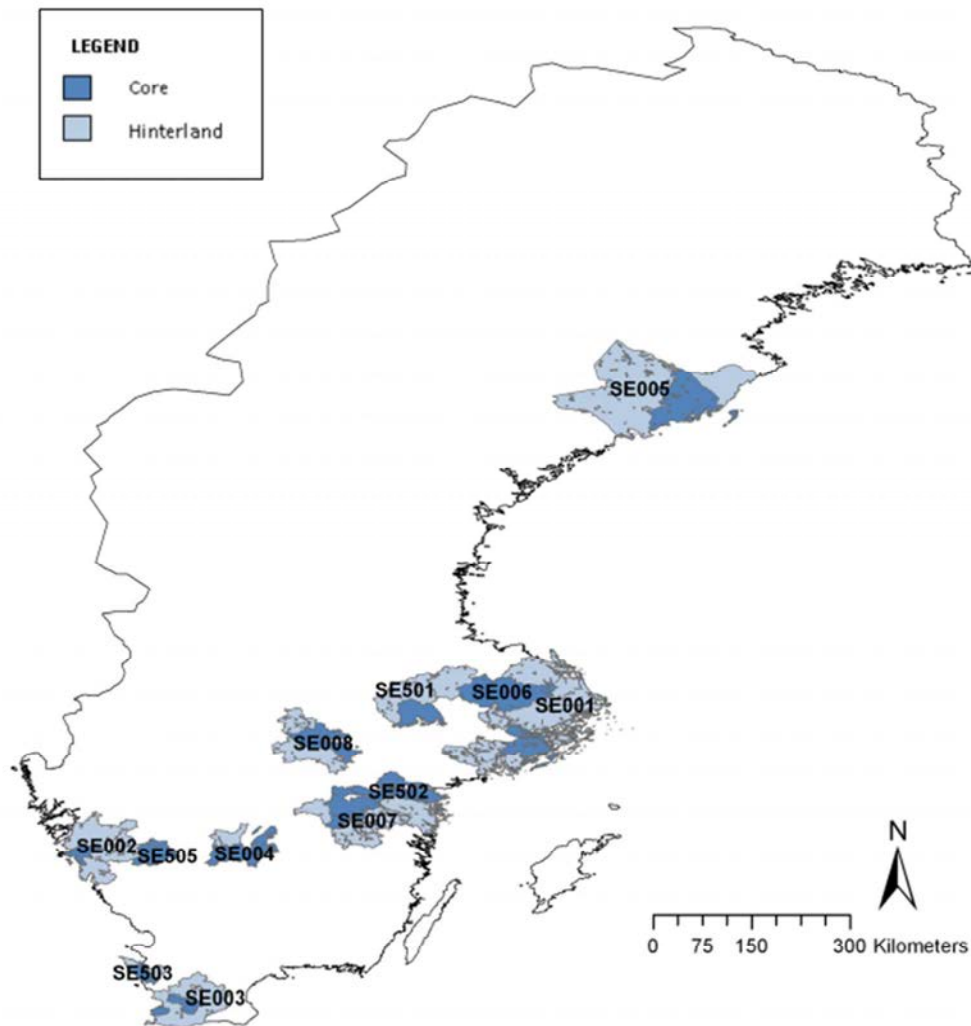
Source: OECD (2013c), *OECD Metropolitan Database*, <http://stats.oecd.org/Index.aspx?Datasetcode=CITIES>.

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
SE003	Malmö	Metropolitan area	609 424	676 852
SE006	Uppsala	Medium-sized urban area	224 955	241 198
SE007	Linköping	Small urban area	180 400	190 463
SE008	Örebro	Small urban area	176 348	185 890
SE501	Västeraås	Small urban area	173 280	183 235
SE503	Helsingborg	Small urban area	166 854	182 273
SE502	Norrköping	Small urban area	144 472	150 369
SE005	Umeå	Small urban area	136 783	145 099
SE004	Jönköping	Small urban area	133 744	144 208
SE505	Borås	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. Skellefteå 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 (<i>predominantly urban</i>)
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 (<i>intermediate close to cities</i>) 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 (<i>intermediate rural</i>)
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 (<i>predominantly rural close to cities</i>) 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 (<i>predominantly rural remote</i>) 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 (<i>predominantly rural extremely remote</i>)

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
<i>Tillväxtanalys</i>	17%	3	Municipalities
<i>Tillväxtanalys</i>	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.

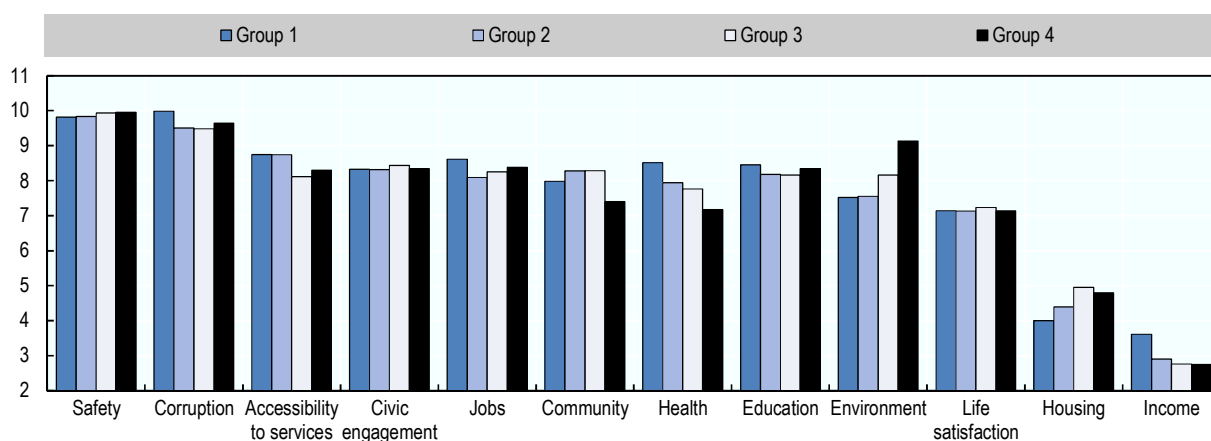
How are rural areas doing?

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



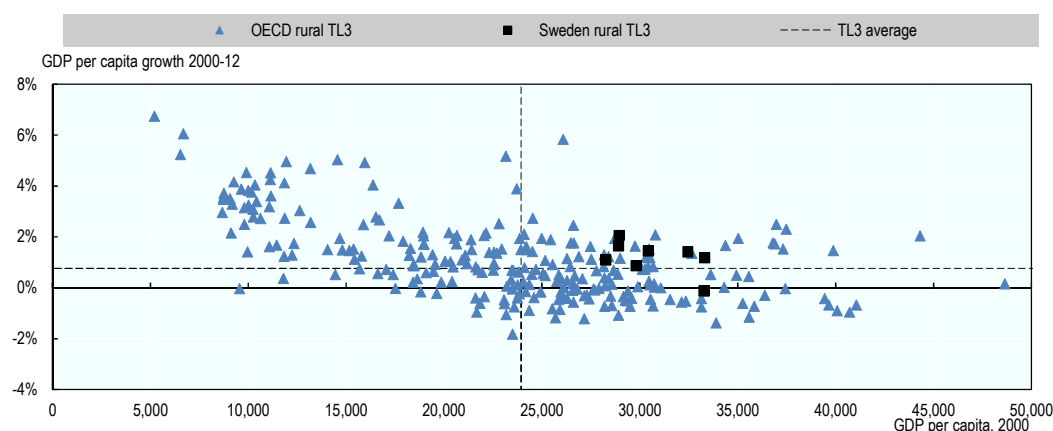
Note: These groups are defined by the share of the population living in predominantly urban (PU), intermediate (IN), predominantly rural close to cities (PRC), and predominantly rural within each TL2 region (PRR). Group 1: 100% of the population living in PU TL3 regions (Stockholm). Group 2: More than 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.

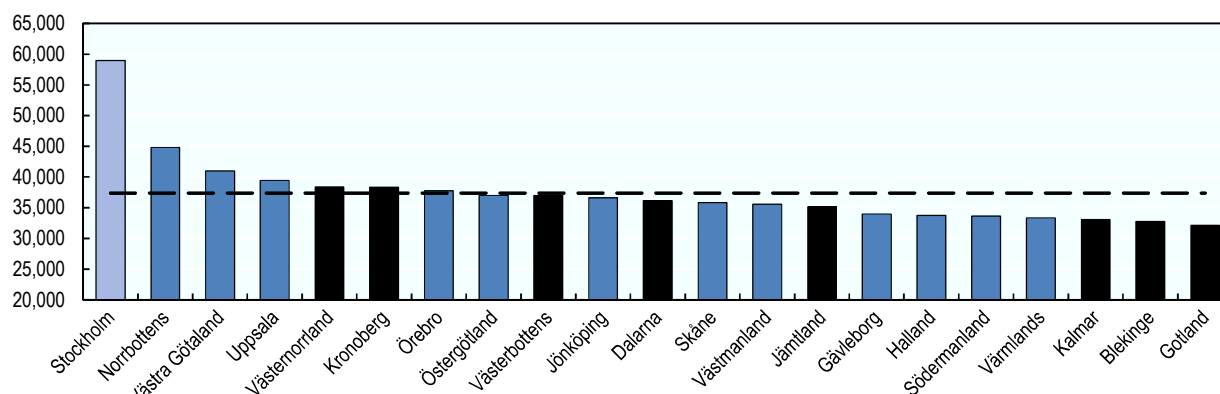
Figure 2.6. Rural regions' GDP per capita and growth (2000-12), Sweden and OECD countries



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).

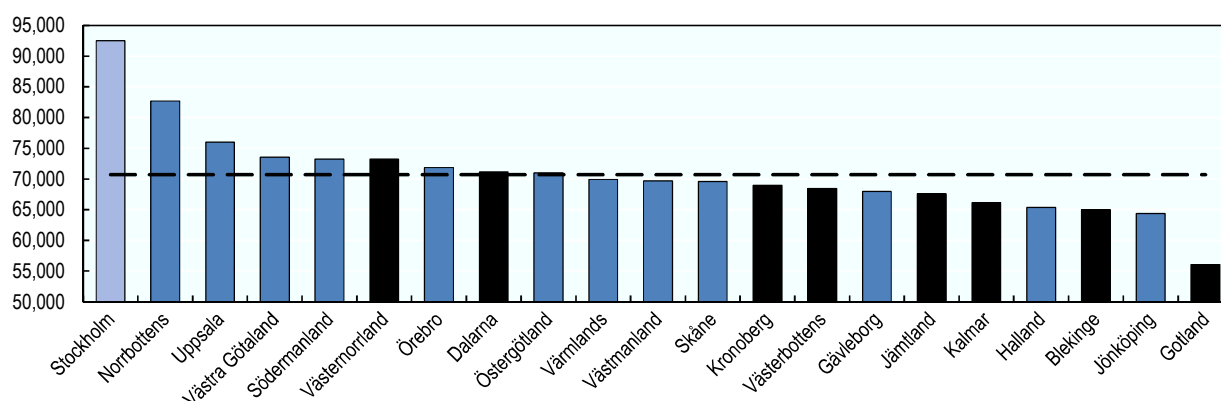
Figure 2.7. Swedish regions' GDP per capita (in USD), 2010-12



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

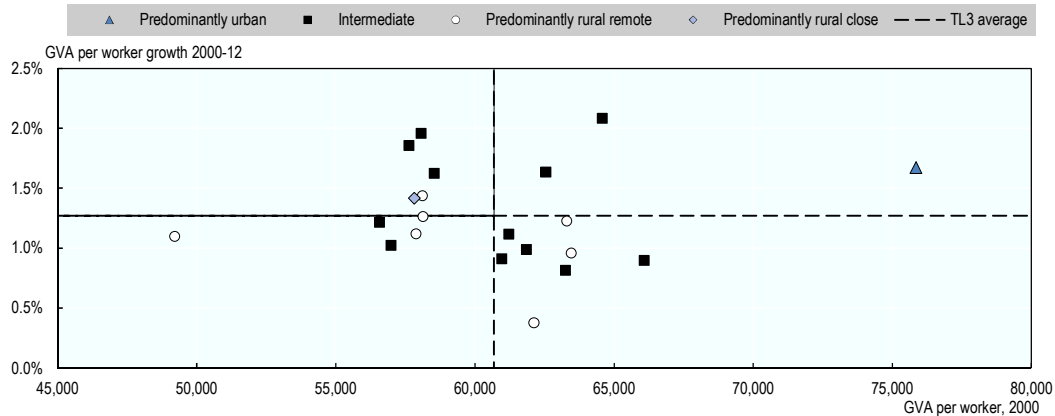


Note: Black represents rural regions as defined by the OECD. The dotted line is the unweighted average of the regions.

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

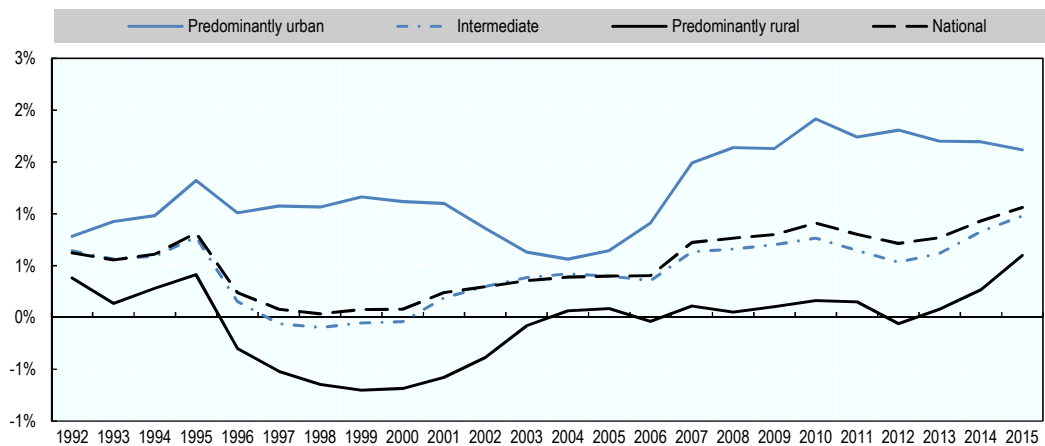


Source: OECD (2016b), “Regional economy”, *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>.

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.

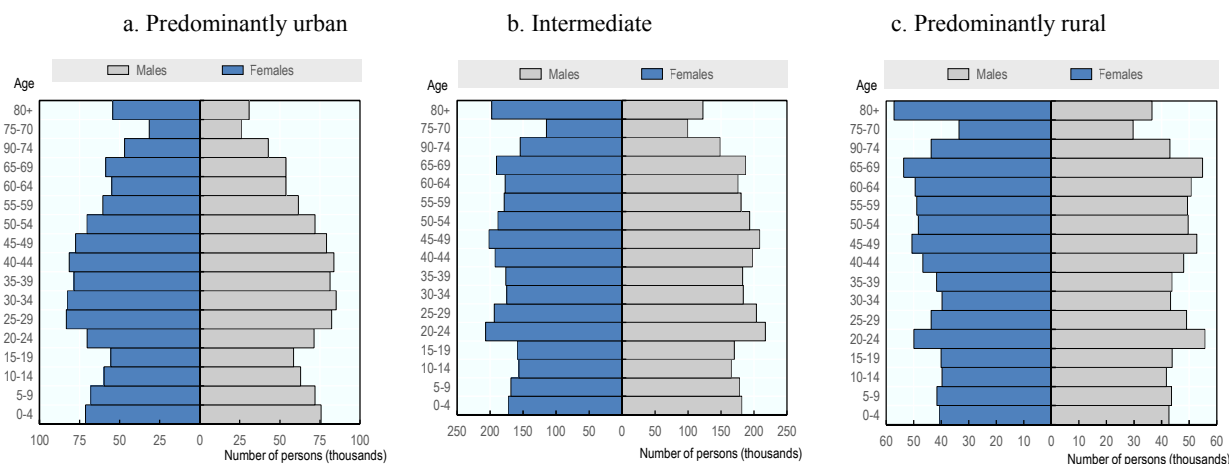
Figure 2.10. Population growth rate of Sweden’s rural regions, 1991-2015



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

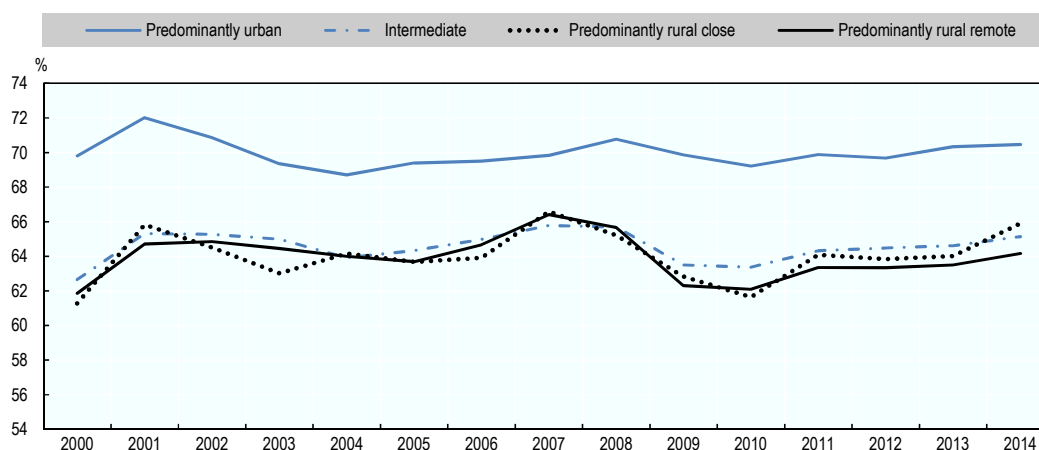


Source: OECD (2016b), “Regional demography”, *OECD Regional Statistics* (database), <http://dx.doi.org/10.1787/region-data-en>.

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

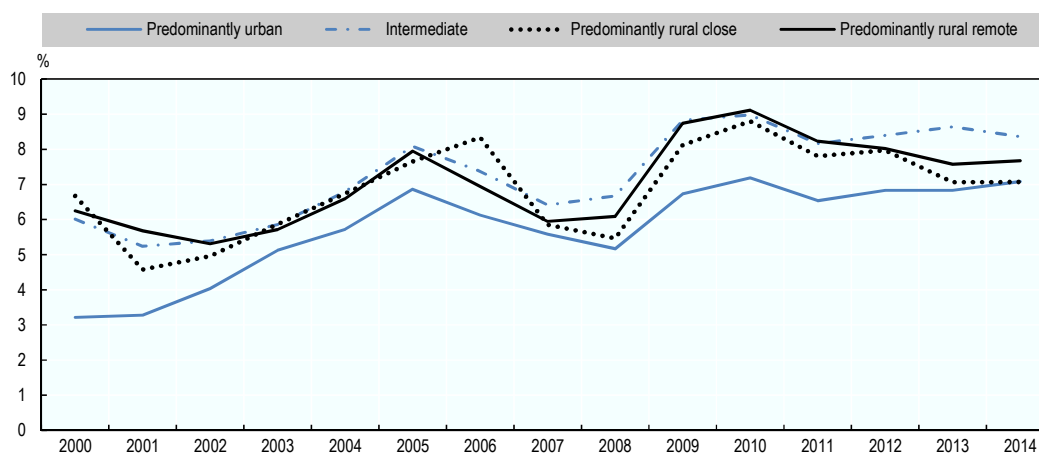


Note: Employment rate is calculated as employment 15+ over population 15+.

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 Umeå, 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	4.0
		Industry for rubber and plastic products (22) ¹	3.9
		Industry for computer, electronic and optical products, electrical equipment (26-27) ¹	2.8
Kronoberg County	PRR	Industry for machinery and equipment n.e.c (28) ¹	5.0
		Furniture industry (31) ¹	4.4
		Printers and other industry for recorded media (18) ¹	2.9
Kalmar County	PRR	Industry for wood and products of wood, cork cane etc. (16) ¹	4.7
		Electricity, gas, steam and hot water plants (35)	2.6
		Agriculture, forestry and fishing (1-3)	2.5
Gotland County	PRR	Industry for other non-metallic mineral products (23) ¹	5.4
		Agriculture, forestry and fishing (1-3)	3.9
		Hotels, holiday villages, youth hostels, holiday cottages, camping sites etc. (55)	3.2
Dalarna County	PRR	Sporting, amusement and recreation establishments (93)	3.5
		Industry for wood and products of wood, cork cane etc. (16) ¹	2.7
		Industry for basic metals and fabricated metal products, except machinery and equipment (24-25) ¹	2.6
Northern Sweden			
Västernorrland County <i>North</i>	PRR	Industry for paper and paper products (17) ¹	4.9
		Telecommunications companies (61)	3.1
		Agriculture, forestry and fishing (1-3)	2.1
Jämtland County <i>North</i>	PRR	Sporting, amusement and recreation establishments (93)	4.0
		Agriculture, forestry and fishing (1-3)	3.4
		Information service companies (63)	2.9
Västerbottens County <i>North</i>	PRC	Mines and quarries (5-9)	22.3
		Civil engineering contractors (42)	2.9
		Programming and broadcasting companies (60)	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 conversion Plan road and public transit to manage development	Maintain environmental quality and restrict activity that is not sustainable 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.)	Improve connectivity to urban regions (broadband, roads, rail)	Maintain environmental quality and restrict activity that is not sustainable	Develop innovative ways to deliver high-quality public services in health, education, business support and workforce training	Expand employment and local opportunities through entrepreneurship, support for business expansion and new market penetration
Preserve high-value land that provides natural or cultural benefits		Work to valorise rural amenities used by urban residents	Local countercyclical revenue stabilisation plan/support	

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 Low density	It is difficult to achieve scale economies of production of goods and services including public services. 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 Increasing diversity	Governments are cutting expenditures, which has an obvious impact on government services and costs. 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, “Innovationsluss 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
Norrbottn	1	11	3	14
Västerbottn	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	Competitiveness	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 policies.

Figure 2.14. OECD matrix for rural policy analysis

Territory	Policies	
	Regional	General
Rural		
Non-rural		

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 kokonaisuohjelma*) 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
<ul style="list-style-type: none"> • Gives regional political leaders greater oversight and accountability for regional and rural development policy • Increases the scale of rural development interventions and the scope for realising policy complementarities • Clarifies roles and responsibilities between County Councils/County Co-ordination Bodies and CABs, thereby reducing risk of duplication • Builds skills and competencies in relation to rural development within County Councils/County Co-ordination Bodies • Articulates regional and rural development policies based on regional needs rather than EU rules (leading to greater scope for long-term policy continuity) • Better aligns bottom-up and top-down across different sectoral ministries • Provides greater flexibility in the use EU, national and other funds 	<ul style="list-style-type: none"> • Transition and set-up costs associated with changing roles and responsibilities • Dilution of the rural development agenda within a broader regional policy • 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 • Higher transaction costs in engaging a broader range of regional and rural constituencies as part of developing strategies at a county level • 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

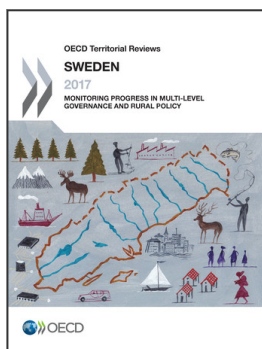
1. Tradeable goods and services are mainly produced for sale to other than local buyers. For example, most agricultural production is exported from the region in which it is produced, as are most manufactured goods. While tourism services are consumed in the region where they are produced, they are mainly 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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