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PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
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Working Party on Territorial Policy in Rural Areas

Territorial Review of Småland-Blekinge

13th Session of the Working Party on Territorial Policy in Rural Areas

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This document is submitted to delegates for DISCUSSION and APPROVAL.

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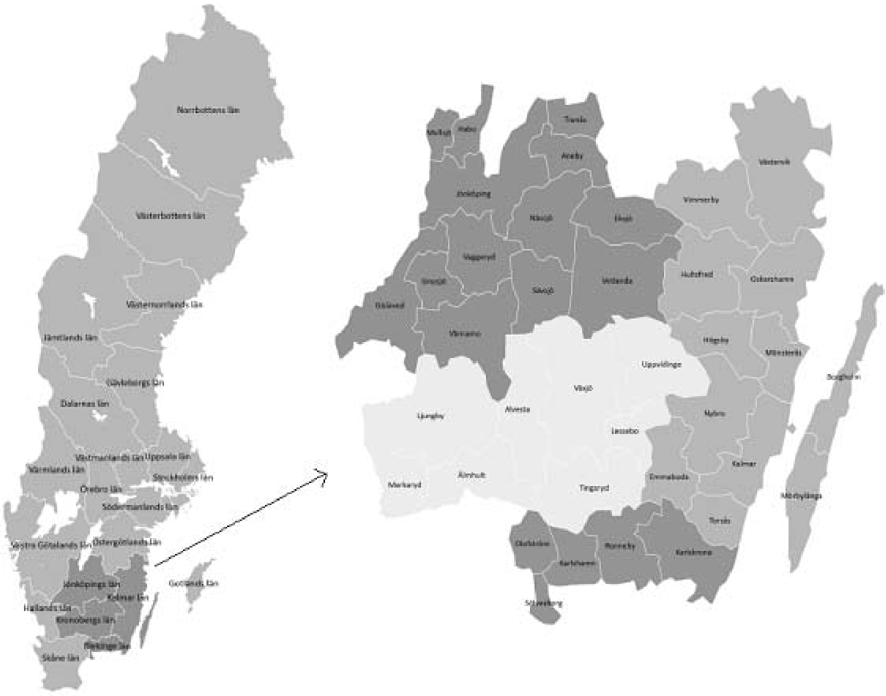
CHAPTER 1. TRENDS AND CHALLENGES

This chapter presents an overview of recent demographic, social and economic trends in the four counties of Småland-Blekinge, setting them in both Swedish and international contexts. It identifies a series of policy challenges for the region that are addressed in the chapters to follow. These include the need to facilitate a shift from the region's historic specialisation in medium-low and low technology manufacturing towards more knowledge-intensive activities. This will require addressing the supply of human capital, improving connectivity and enhancing the attractiveness of the region. In addition, demographic trends raise increasing challenges for public service delivery, particularly in sparsely populated municipalities that are experiencing both population decline and accelerated population ageing. This reinforces the need to expand and deepen the range of instruments and institutions for inter-municipal co-operation.

Introduction

1. This review focuses on the Swedish region of Småland, comprising the counties of Jönköping, Kronoberg and mainland Kalmar; the island of Öland, which, though a part of Kalmar county, has its own distinct identity; and the county of Blekinge. The review refers to the region as "Småland-Blekinge", but this is for convenience: this designation should not be taken as implying a view as to whether or not the four counties constitute, or should constitute, a single functional or administrative region. The counties themselves correspond to OECD Territorial Level 3 (TL3) regions (Annex 1.A1). The review examines these administrative entities in conjunction with the functional boundaries of their economic areas (particularly functional labour markets). It also covers the municipal level. The four counties have 38 municipalities: 13 in Jönköping, eight in Kronoberg 12 in Kalmar and five in Blekinge (Figure 1.1). Despite the presence of significant urban areas in each county, all four are characterised by low overall density of population and are classified as "predominantly rural" under the OECD taxonomy of regions (Annex 1.A1). This chapter compares the performance of the four counties to that of other predominantly rural OECD regions.

Figure 1.1. Småland-Blekinge



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Source: OECD.

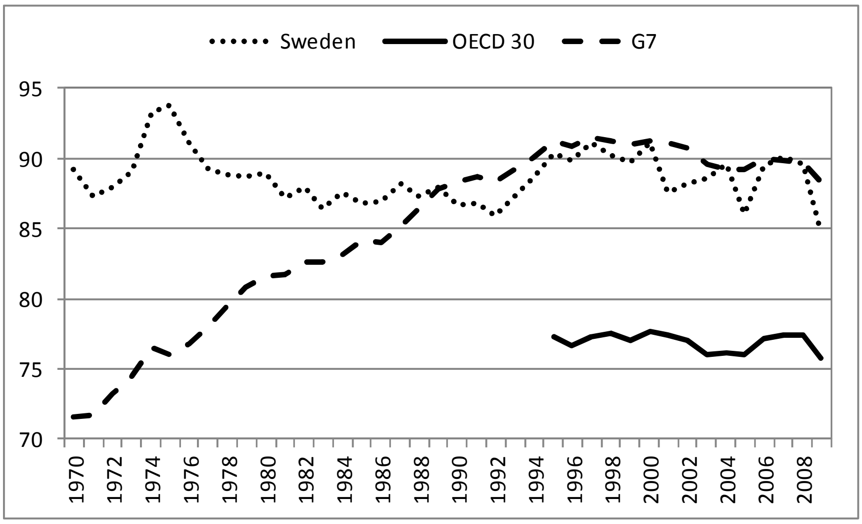
1.1. The national context

Sweden has enjoyed a long period of solid economic performance

2. Sweden has enjoyed generally strong macroeconomic performance since recovering from the financial crisis of the early 1990s, with solid output and productivity growth, low and stable inflation, a strong fiscal position and a current-account surplus. A small open economy that exports high-technology products, Sweden has outpaced the euro area in terms of real GDP growth every year since 1998 and growth in the United States since 2004. Although the income gap *vis-à-vis* leading OECD economies shrank markedly over 1993-2006, Sweden has lost some ground in recent years, mainly due to a slowdown in the rise in hourly productivity (Figure 1.2), which began in 2004 and accelerated during the 2008-09 crisis. Sweden's exposure to the global financial crisis was primarily related to its export-oriented economy and the involvement of its banks in some hard-hit regions; there were, however, no asset bubbles or fiscal crises at home. The drop in international trade and overall demand resulting from the global downturn of 2008 and 2009 hit Sweden hard (Figure 1.3). In 2009, it suffered the eighth largest drop in real GDP in the OECD (-5.5%). Nevertheless, it has since rebounded strongly, with real GDP exceeding its pre-recession peak by the end of 2010. The recovery is broad-based, with private consumption and investment both contributing significantly. Business investment is benefiting from higher bank lending and capacity utilisation is increasing.

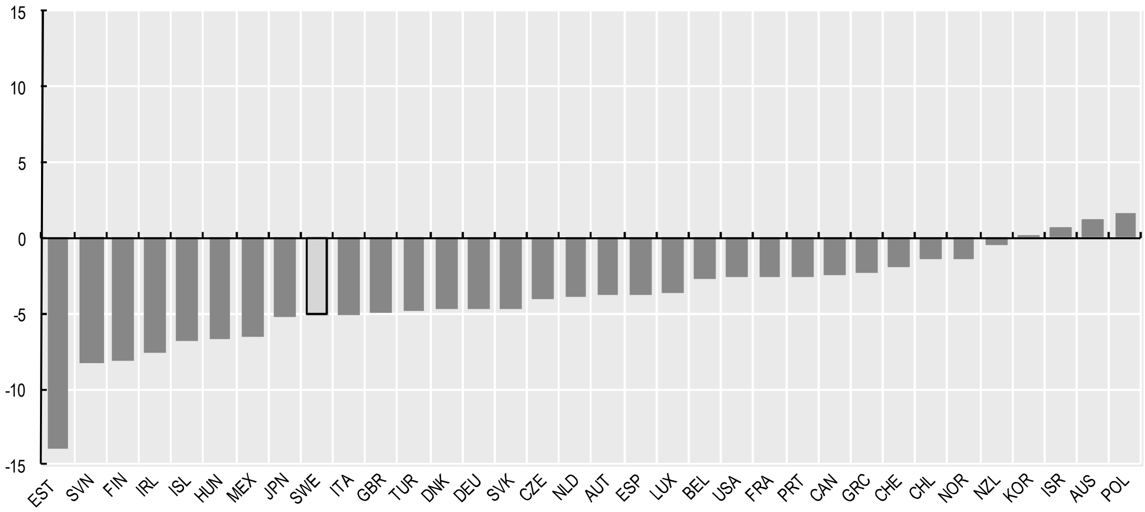
Figure 1.2. Productivity per hour worked in Sweden and OECD countries, 1970-2008 according to the figure

100=US productivity per hour worked



Source: OECD Economic Outlook Database.

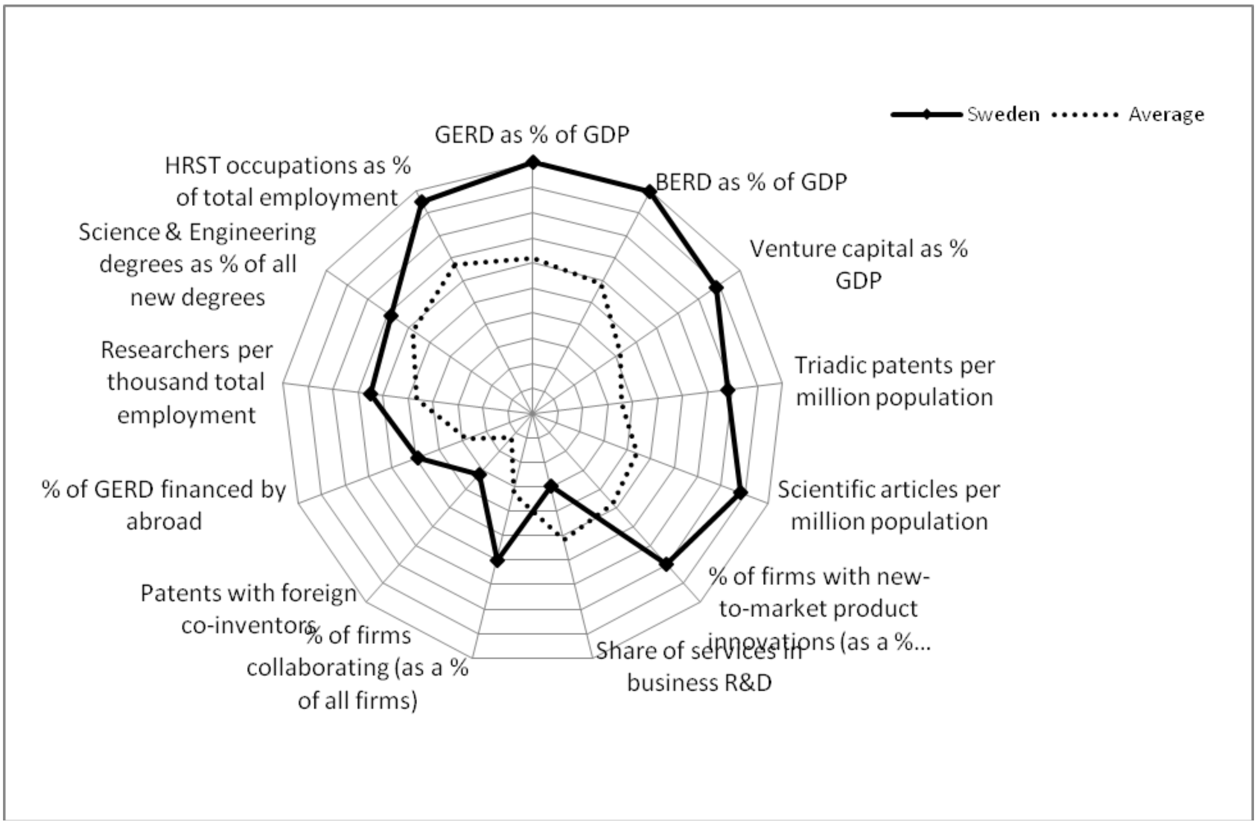
Figure 1.3. GDP growth in OECD countries, 2008-09



Source: OECD Economic Outlook Database.

3. Sweden is one of the most innovative OECD economies. It has the highest ratio of R&D spending to GDP in the OECD area (3.73%), relatively high levels of business R&D expenditure (2.79% of GDP compared to the OECD average of 1.56%) and higher education R&D spending (0.76%), and it has the second-highest share of researchers per thousand people employed. In addition, the country boasts one of the highest graduation rates from advanced research programmes (PhD or equivalent) and ranks fourth in terms of scientific articles published per capita (Figure 1.4).

Figure 1.4. Science and innovation profile of Sweden



Note: GERD=Gross expenditure on R&D. BERD=Business expenditure on R&D.

Source: *OECD Science, Technology and Industry Outlook* (2010).

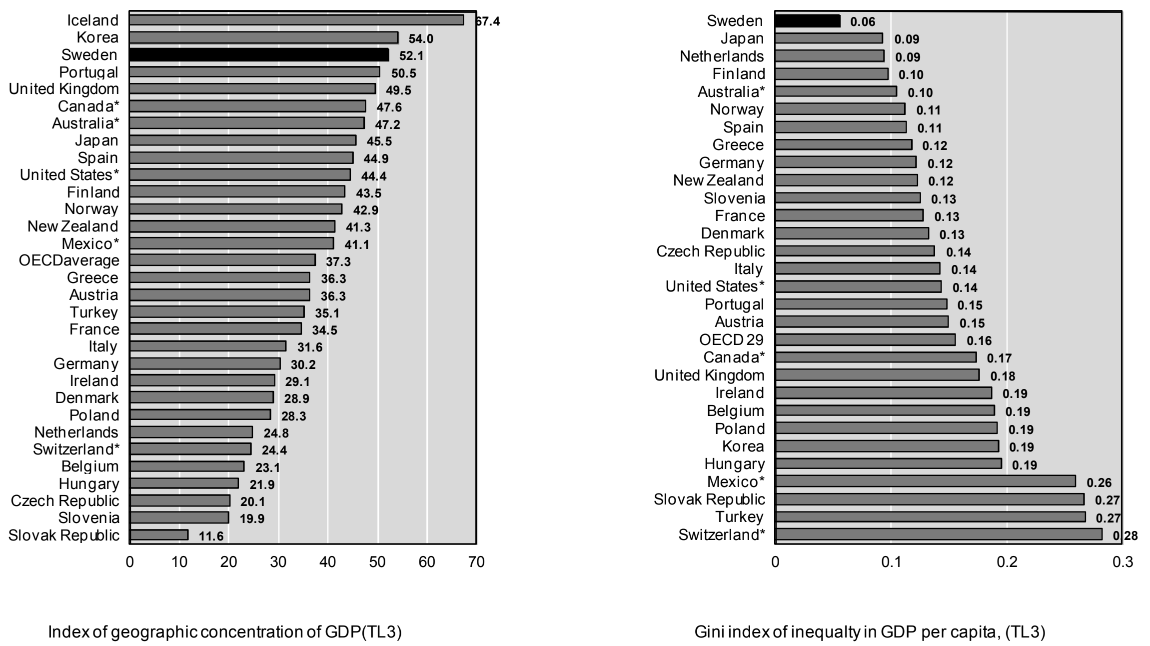
4. Despite solid macroeconomic indicators and recent positive developments in labour markets for core workers, Sweden still faces challenges in key areas, such as high youth unemployment rates, a large and growing elderly population and, of course, the recent challenges raised by the financial crisis. In addition, a few large firms in Sweden are key drivers of innovation, especially the science and technology investments that drive R&D expenditures. These firms are mainly located in the main metropolitan regions. It is no surprise, therefore, that Sweden records the highest concentration of R&D expenditures and one of the highest levels of concentration in patent applications in the OECD area. Stimulating entrepreneurship and improving the commercialisation of innovation can help spread innovation to more sectors and geographic areas.

Sweden combines high regional concentration of economic activity with low inter-regional disparities

5. At the sub-national level, Sweden's cold climate and particular geography create a very uneven distribution of cities and population. The three main metro regions – Stockholm with 1.8 million inhabitants, Skåne with 1.1 million and Västra Götaland with 1.5 million – produce 57% of national GDP and are home to 51% of the population. These three regions accounted for 70% of aggregate growth during 1995-2007. More densely populated regions also enjoy lower rates of unemployment and higher standards of living. The concentration of economic activity is thus among the highest in the OECD. Yet Sweden also enjoys the lowest level of (spatial) inequality among OECD countries (Figure 1.5).

Figure 1.5. Geographic concentration index and Gini index of regional disparities in GDP per capita in OECD countries (TL3), 2007

Concentration *Inequality*



Note: The concentration index ranges from 0 (no concentration) to 100 (maximum concentration). It is calculated as follows:

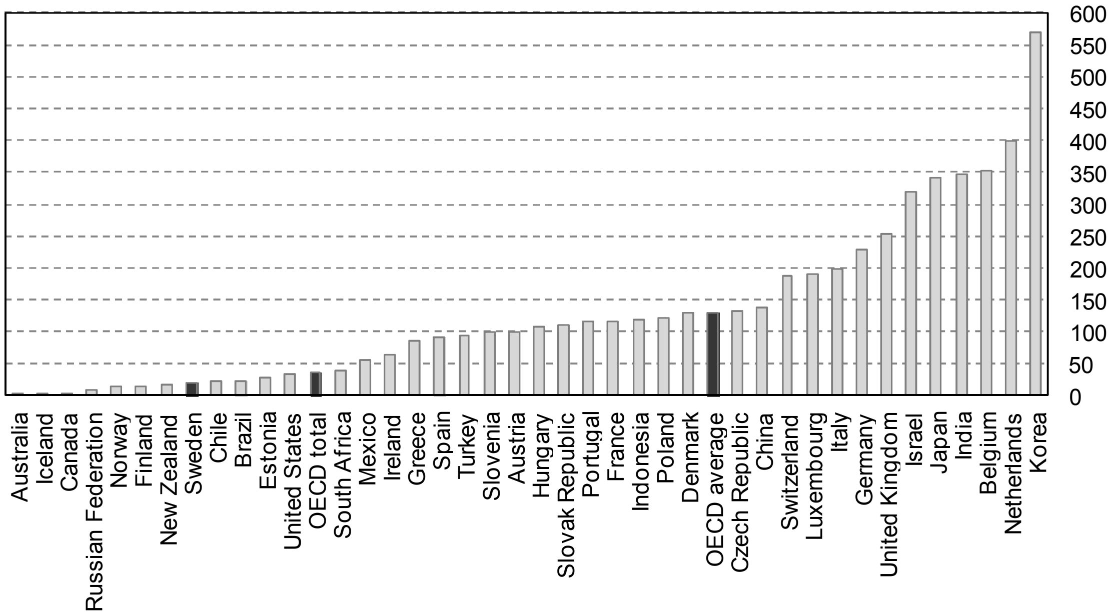
$$\left(\sum_{i=1}^{N}|p_i - a_i| \Big/ 2\right)*100$$

where p_i is the GDP share of region i, a_i is the area of region i as a percentage of the country area, and *N* is the number of regions. The result is therefore not entirely scale-free, since it is not independent of the number of regions in a country. However, it has been devised in part to reflect the limitations on the data available for comparisons across all OECD members.

Source: OECD Regional Database (2011).

6. Greater concentration appears to have ensured the benefits of agglomeration in terms of growth and productivity: the three metro regions have performed above international and national averages for GDP per capita growth rates over the period 1995-2007. Signs of deceleration or the emergence of diseconomies of scale (congestion costs, etc.) are not yet visible. To some extent, this concentration may reflect the extremely low density of population overall in Sweden – the country has among the lowest population densities in the OECD area (Figure 1.6). Nevertheless, the fact that other low-density countries, such as Ireland or Slovenia, display significantly lower levels of concentration suggests that this is a characteristic peculiar to Sweden. Since it is also relatively small in terms of population, a certain concentration of population and activity in a small number of places is likely to be a necessity if Sweden is to achieve critical mass in key sectors and to reap the benefits of agglomeration economies (Box 1.1).

Figure 1.6. Population density in OECD countries, 2010



Note: Data for Belgium, Japan, Luxembourg, Netherlands, Portugal, Switzerland and Turkey are provided for 2009; and for Greece, Brazil, China, India, South Africa, Indonesia, Russian Federation, Slovenia, Estonia, Israel, Chile for 2008.

Source: Source: OECD (2010), OECD National Accounts Statistics and OECD Economic Outlook: Statistics and Projections (databases), December.

Box 1.1. Agglomeration economies

Economic activity is not naturally dispersed; rather it tends to concentrate in certain geographic spaces rather than others, mainly owing to the benefits associated with economies of agglomeration. People want to live where firms – and therefore job opportunities – are concentrated, and firms want to locate where demand – and therefore population – is large. Agglomeration economies occur when firms enjoy increasing returns to scale (IRS) in a particular place. This could be because of the presence of natural advantages (*i.e.* natural resources, location, etc.), monopolistic protection, political reasons, (*e.g.* the decision to create a capital city) or some other reason. The presence of IRS also induces other firms to locate there, as people come in search of higher wages, job opportunities and cultural values. Three main mechanisms work to produce agglomeration economies (Duranton and Puga, 2004):

1. **Mechanisms that deal with sharing** of:

- Indivisible facilities such as local public goods or facilities that serve several individuals or firms. Some examples, other than public goods, are facilities such as laboratories, universities and other large goods that do not belong to a particular agent but where some exclusion is implicit in providing them.

- The gains from the wider variety of input suppliers that can be sustained by a larger final goods industry. In other words, the presence of increasing returns to scale along with forward and backward linkages allow firms to purchase intermediate inputs at lower costs.

- The gains from the narrower specialisation that can be sustained with higher production levels. Several firms specialise in producing complementary products, reducing overall production costs.

- Risks. This refers to the idea that an industry gains from having a constant market for skills. If there are market shocks, firms can adjust to changes in demand if they have access to a deep and broad labour market that allows them to expand or contract their demand for labour.

2. **Matching mechanisms** by which:

- Agglomeration improves the expected quality of matches between firms and workers, so both are better able to find a good match for their needs.

- An increase in the number of agents trying to match in the labour market also improves the probability of matching.

- Delays are alleviated. There is a possibility that contractual problems arising from renegotiation among buyers and suppliers will result in one of the parties losing out to the other party in a renegotiation. However, if the agglomeration is extensive enough, agents can find an alternative partner.

3. **Learning mechanisms** based on the generation, diffusion and accumulation of knowledge. This refers not only to the learning of technologies, but also the acquisition of skills.

OECD metropolitan regions benefit from agglomeration effects and thus tend to display higher levels of productivity, higher rates of employment and higher levels of GDP per capita than other regions. These benefits, however, are limited by congestion costs, diseconomies of scale and oversupply of labour, among other potential negative elements, and many metro regions have in recent decades tended to underperform national economies.

Source: Durnaton and Puga (2004), OECD, 2009a.

1.2. The regional context: Uneven patterns in the Småland-Blekinge region

Changes in settlement patterns and population dynamics largely mirror national trends

7. The population of the Småland-Blekinge region totals 900 000, equal to 9.6% of Sweden's population in 2010, with the largest number of inhabitants living in Jönköping (336 866), followed by Kalmar (233 536), Kronoberg (183 940) and Blekinge (153 227). Population density in Kalmar and Kronoberg is close to the average for all of Sweden, while Jönköping is somewhat denser. Blekinge, however, is far more densely populated, despite its small population (Table 1.1 and Figure 1.7). Taken together, the entire region has a population density slightly above the national average but below that of most of central and southern Sweden; the national average is hugely influenced by the large, sparsely populated north. The three counties of Småland, though not Blekinge, are also fairly sparsely populated by OECD standards, even compared to rural regions in the OECD area. While agglomeration economies are neither necessary nor sufficient to ensure strong growth (OECD, 2009a), this raises the challenge of achieving critical mass in key sectors in the absence of dense agglomerations. Viewed at municipal level, the range of variation between the municipalities of the three Småland regions is similar; municipalities in Blekinge are significantly more densely populated. That said, the differences among the four counties look small in an international context (Figure 1.7, panel B): even the most densely populated municipality in Kronoberg has a lower density of population than the sparsest TL3 regions in five OECD countries.

Table 1.1. Population, surface area and population density in OECD TL3 regions, 2008

	Population	Surface	Density
Jönköping	333 610	10 495	32
Kronoberg	180 787	8 467	21
Kalmar	233 834	11 219	21
Blekinge	151 900	2 947	52
Predominantly urban	1 559 025	5 681	1 226
Intermediate	721 649	9 961	145
Predominantly rural	331 027	29 859	38
OECD TL3	678 913	19 575	313

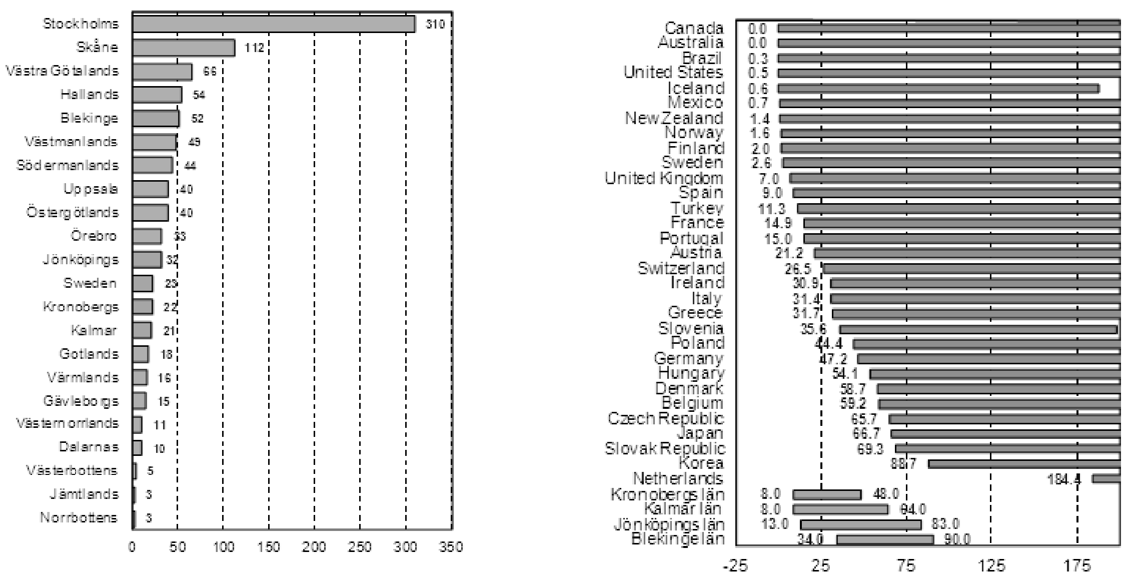
Note: Regional surface is expressed in square kilometres.

Source: OECD Regional Database (2011).

Figure 1.7. Population density

A. Population density of Swedish counties (TL3), 2009

B. Range of variation in population density of OECD TL3 regions and municipalities in Småland-Blekinge, 2007



Source: OECD Regional Database.

8. Like many rural regions across the OECD, the four counties face the challenge of roughly stagnant or falling population; many of their municipalities are suffering sustained population declines. The region's relative weight in the Swedish population has fallen somewhat, from about 10.3% in 1995 to 9.7% in 2009. This reflects a broader process of increasing concentration of population within Sweden which has implications for labour supply, social services and the attractiveness of the region as a whole. This issue will be explored in more detail in Chapter 2. Population dynamics inside the four counties have mirrored on a smaller scale the trends observed nation-wide: concentration of population *within* each county has been increasing. During 1991-2010, population growth only occurred in municipalities above 50 000 inhabitants; in the rest, population decreased, particularly in Kronoberg and Kalmar, with declines exceeding 10% in municipalities of fewer than 10 000 inhabitants in Kalmar and in municipalities in the 10 000-15 000 range in Kronoberg (Table 1.2). Only four of the region's 38 municipalities (Växjö, Jönköping, Habo and Kalmar) experienced population growth in excess of the Swedish average (0.43%).

Moreover, 28 municipalities (73%) recorded population declines over the period. The municipalities experiencing population growth were, not surprisingly, the largest and most densely populated in the region (Figure 1.8) and home to almost half its population. The increase in concentration has been most pronounced in Kronoberg and least evident in Blekinge, which is in any case the least concentrated of the four counties (Figure 1.9).

Table 1.2. Population growth by size of municipalities ,

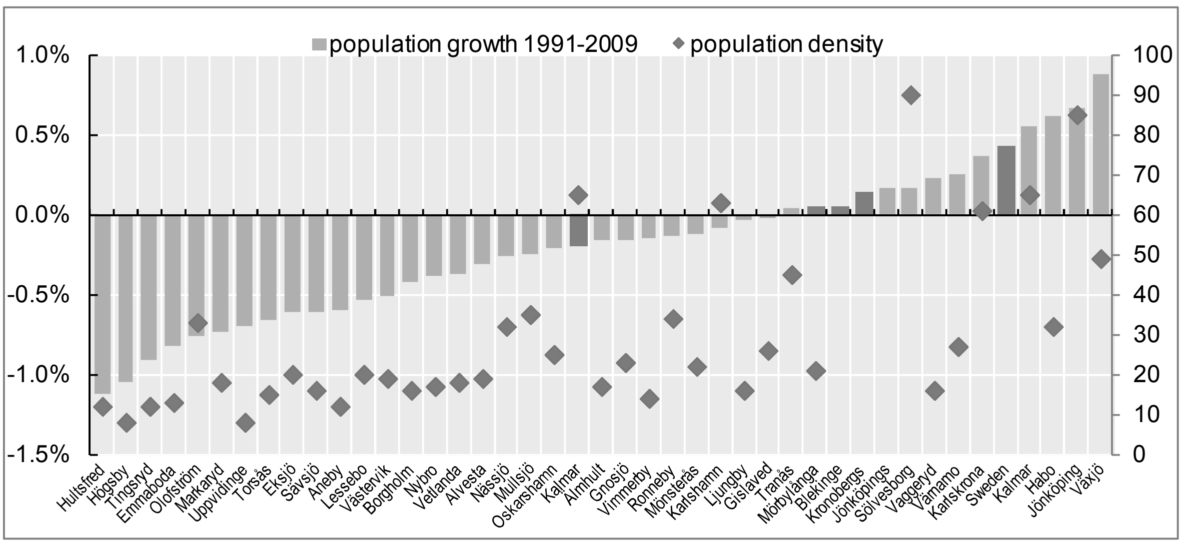
	Jönköpings			Kronobergs			Kalmar			Blekinge		
	inhabitants		%	inhabitants		%	inhabitants		%	inhabitants		%
Municipalities	1991	2010		1991	2010		1991	2010		1991	2010	
over 50,000	112,277	127,382	13%	70,067	83,005	18%	56,498	62,815	11%	59,279	64,032	8%
20,000 - 50,000	119,698	117,587	-2%	27,602	27,297	-1%	88,023	82,020	-7%	60,529	59,397	-2%
15,000 - 20,000	36,183	34,363	-5%	35,888	34,405	-4%	32,955	29,169	-11%	31,360	29,798	-5%
10,000 - 15,000	24,571	23,821	-3%	36,051	31,094	-14%	49,369	46,793	-5%	0	0	0%
below 10,000	33,924	33,713	-1%	9,004	8,139	-10%	15,038	12,739	-15%	0	0	0%
total	326,653	336,866		178,612	183,940		241,883	233,536		151,168	153,227	

Source: OECD using data from Statistics Sweden.

9. This increase in concentration brings new challenges. For a small minority of municipalities, these concern the capacity to absorb population inflows and increase their competitiveness. Local authorities that are losing population, by contrast, face a loss of human capital and an increase in demand for age-related services, against the backdrop of a diminishing local tax base, since municipalities rely heavily on income taxes and those departing are often the higher-skilled and younger inhabitants. Declining density also raises the unit cost of provision of services such as education and can make it difficult to keep up with larger, wealthier municipalities in terms of service quality. These challenges are particularly pronounced in Kronoberg and Kalmar which experienced population declines above 10% in the smallest municipalities from 1993 to 2007. Since there is no reason to expect these demographic trends to abate, let alone reverse themselves, in the foreseeable future, it will be important to help smaller, less dense municipalities cope with the transition, both by enhancing their attractiveness for firms and households, and by deepening municipal co-operation in order to ease the burden of service provision.

Figure 1.8. Population growth (LHS) and density (RHS) at municipal level, 1991-2009

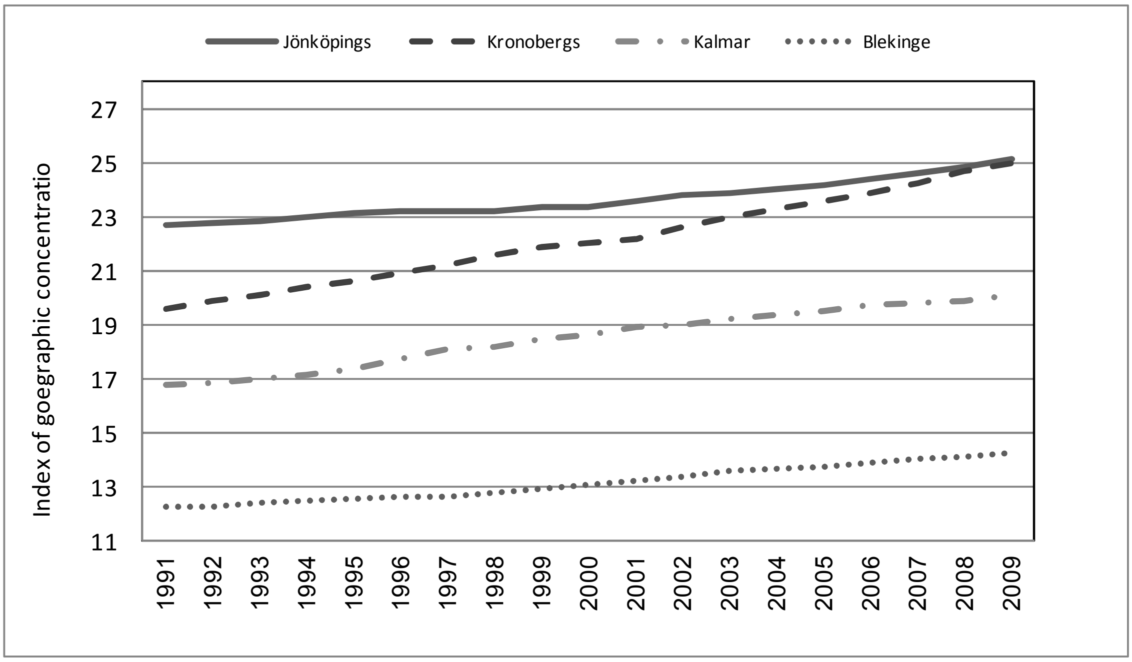
Municipalities of Småland-Blekinge



Source: OECD Regional Database.

Figure 1.9. Evolution of population concentration indexes, 1991-2009

Municipalities in Småland-Blekinge

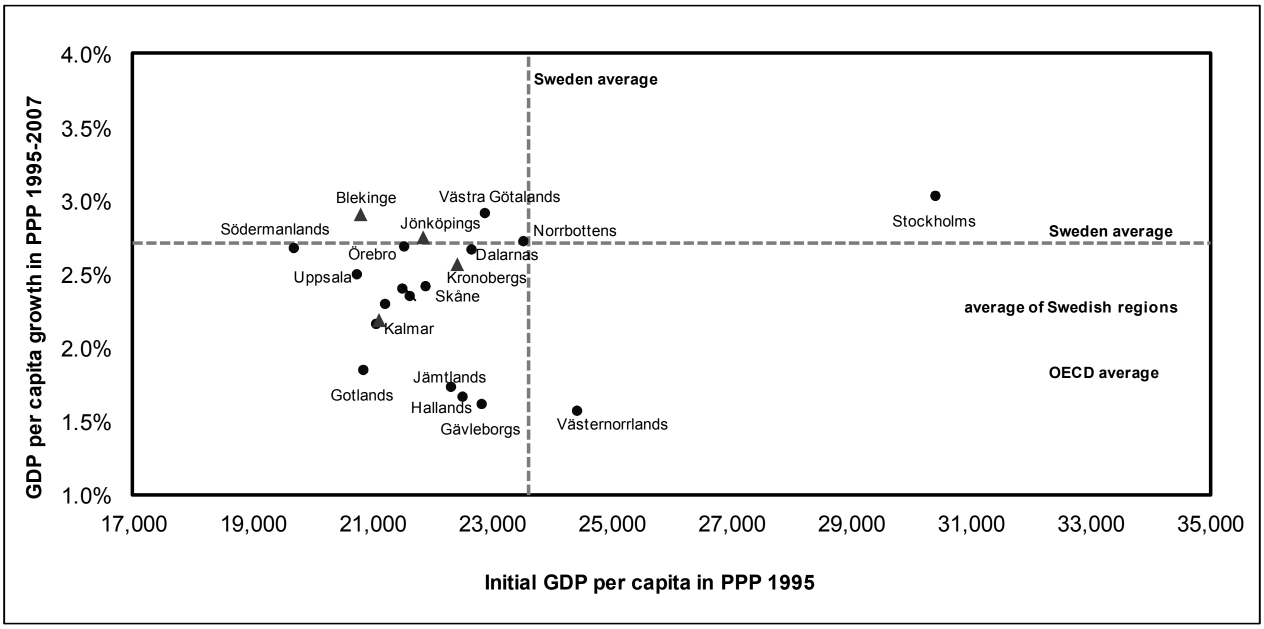


Source: OECD Regional Database.

Growth performance has been unspectacular in a Swedish context but still solid by OECD standards

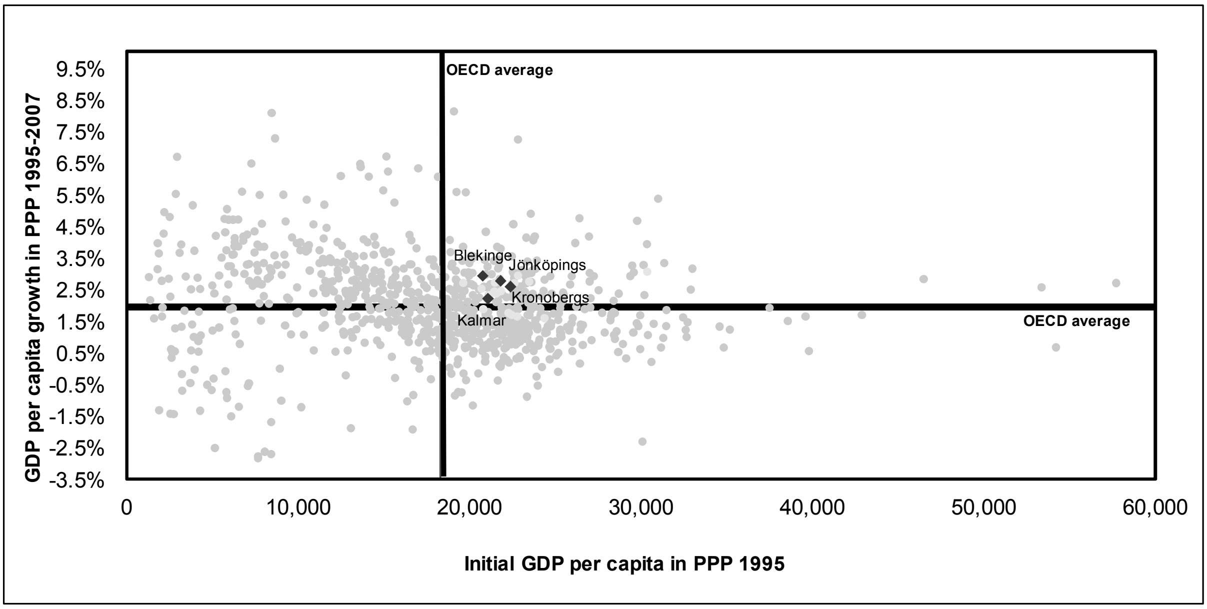
10. In the years before the crisis, Blekinge, which had the lowest level of GDP per capita in the region in 1995, was the only one of the four counties to record rates of growth in GDP per capita well above the average for Sweden as a whole (Figure 1.10). Jönköping's performance was very slightly above the average and Kronoberg's slightly below it. Kalmar, with the second lowest initial GDP per capita of the four counties, recorded the lowest growth rate, reflecting the impact of an industrial restructuring process that saw a number of significant manufacturers close down their operations in the region. Thus, Blekinge and Jönköping reduced their distance from average levels of GDP per capita, albeit by just one or two percentage points, while Kalmar fell further behind, dropping from 89% to 84% of the national average. Nevertheless, it is important to remember that that average was rising strongly: viewed in an OECD-wide context, all four regions performed quite well, with growth rates above the OECD average for TL3 regions (Figure 1.11). Moreover, GDP per capita in all four regions was already above the OECD average at the beginning of the period, suggesting that the four counties are both relatively wealthy and dynamic by OECD standards. Their performance in a Swedish context suggests however that there is scope for further boosting growth rates.

Figure 1.10. Initial levels and average growth rates of GDP per capita, Swedish TL3 regions, 1995-2007



Source: OECD Regional Database.

Figure 1.11. Initial levels and growth rates of GDP per capita, OECD TL3 regions, 1995-2007



Source: OECD Regional Database.

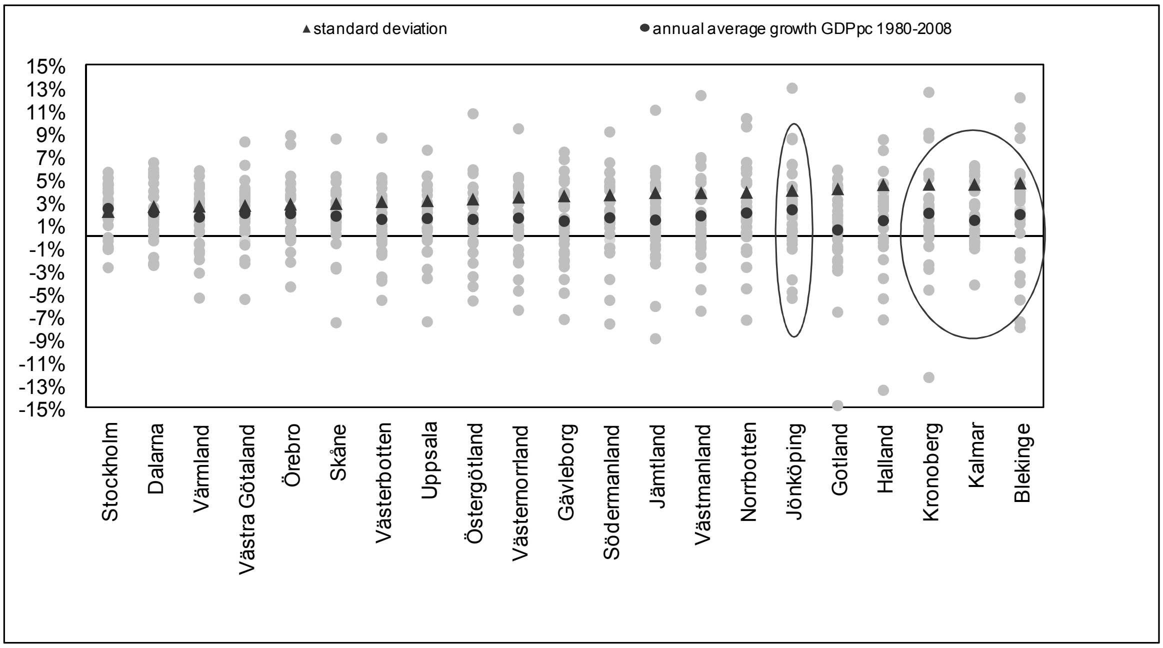
Volatility of growth has been well above the Swedish average

11. Figure 1.12 illustrates one of the challenges facing the counties: unusually high volatility of performance. Although average growth was close to, or even a bit above, the national average during 1980-2007, the four counties are all among the top six in terms of the volatility of growth, with Blekinge,

Kalmar and Kronoberg representing the three most extreme cases in Sweden. To some extent, this is likely to reflect their particular sectoral profiles: a specialisation in manufacturing, particularly intermediate manufactures, implies a greater degree of exposure to the business cycle. As the recent crisis demonstrated, it was sectors like these that were most affected by the trade contraction at the end of 2008 (Cheung and Guichard, 2009; OECD, 2009a).

Figure 1.12. Volatility of growth across Swedish TL3 regions

1981-2008

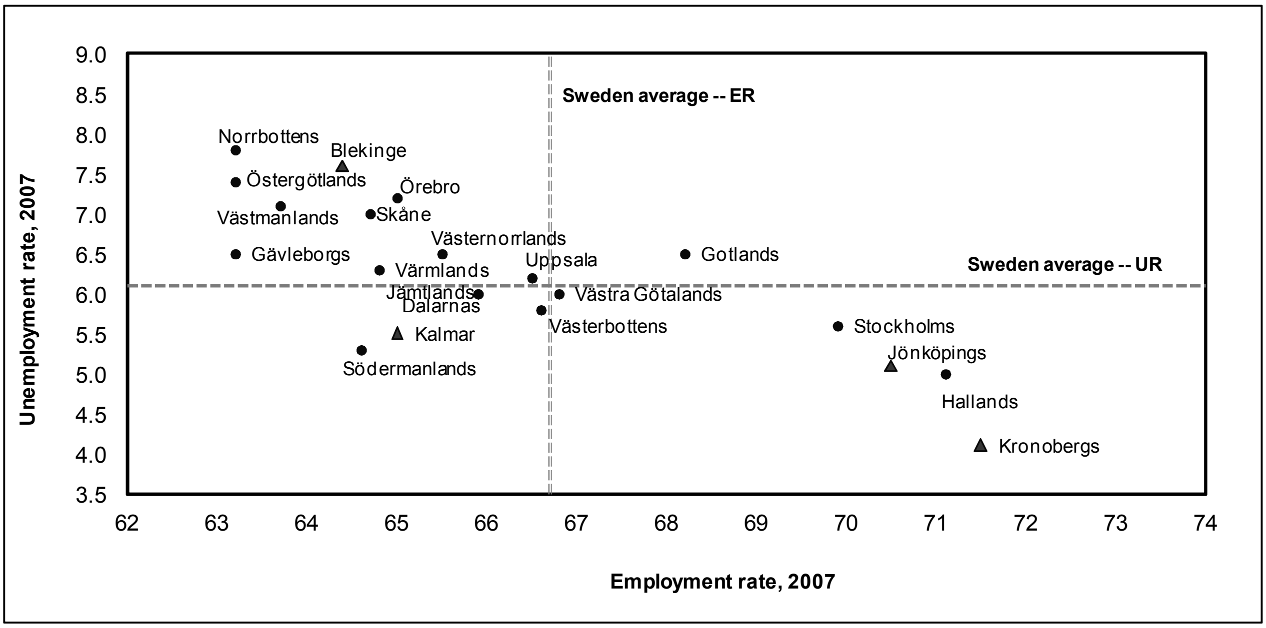


Source: OECD based on data from the Regional Database and Cambridge Econometrics.

The four counties have been particularly exposed to the effects of the crisis

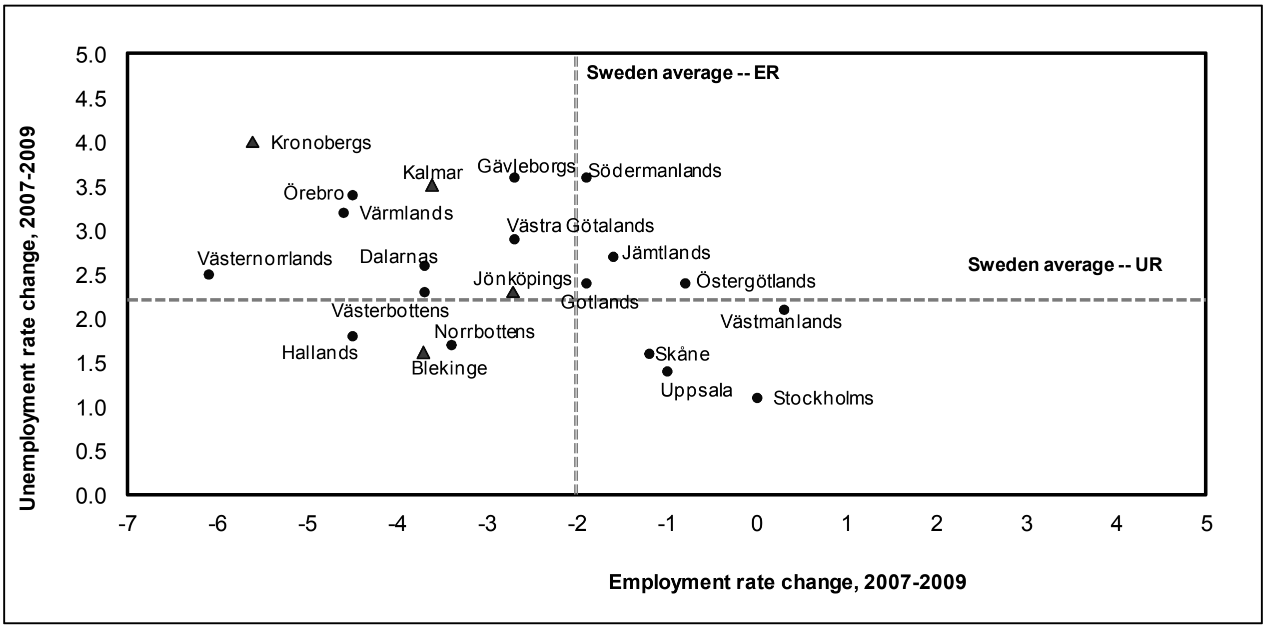
12. Sweden's GDP contracted by 5.5% in real terms during 2008-09, compared to an average decline of 4.1% for all OECD countries. While data on real GDP at regional level are not yet available for the last few years, labour-market indicators suggest that the proportional impact of the shock was larger in the more vulnerable regions adjacent to the metro regions and in sparsely populated regions in the south with thinner markets. Labour-market performance in Småland-Blekinge prior to the crisis was mixed, with two counties experiencing greater difficulties. Blekinge had the largest gaps in unemployment and employment rates with respect to the Swedish averages, and Kalmar experienced consistently lower employment rates (Figure 1.13). Blekinge nevertheless weathered the crisis better than its neighbours, with a smaller rise in the unemployment rate over 2008-09. The nation-wide rate rose by 1.8 percentage points and the corresponding increases in Småland amounted to 4 percentage points in Kronoberg, 3.5 in Kalmar and 2.3 in Jököping (Figure 1.14). Declines in employment relative to the working age population were more severe in all four counties than for Sweden as a whole, and were particularly severe in Kronoberg, where the employment rate dropped by 5.6 percentage points, the second-largest decline of any county in Sweden.

Figure 1.13. Unemployment and employment rates in Swedish TL3 regions, 2007



Source: OECD based on data from Statistics Sweden.

Figure 1.14. Unemployment and employment rates in Swedish TL3 regions, 2009



Source: OECD based on data from Statistics Sweden.

13. These labour-market outcomes are in part a product of the region's specialisation in manufactured intermediate goods, which were particularly hard-hit by the trade contraction of 2008-09. In terms of production, the four counties are more specialised in manufacturing than the rest of the country (Table 1.3 and Figure 1.15), and the three counties of Småland are particularly specialised in

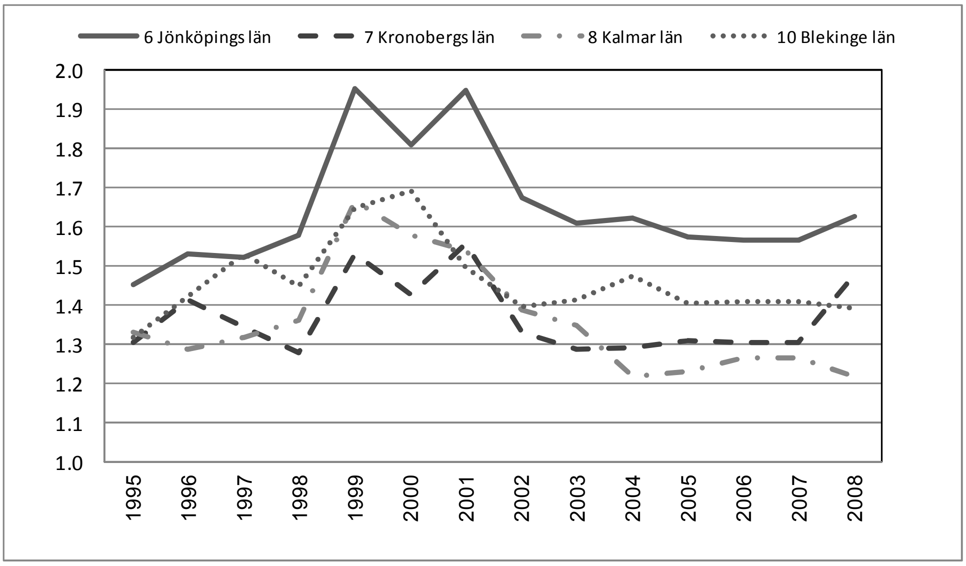
manufacturing in medium-low and low-technology industries, and there has been little evidence of a trend towards greater specialisation in higher-tech sectors (Figures 1.16 and 1.17). The employment picture reflects this: the four counties have the highest shares of employment in manufacturing in Sweden (ranging from 35.2% to 42.8% of total employment in the non-financial business sector *vis-à-vis* a Swedish average of just 23.5%) and they occupy the lowest four places in terms of the share of employment in services (47.2% to 50.1%, *vis-à-vis* a Swedish average of 63.3%).

Table 1.3. Structure of GDP by economic sector, Småland-Blekinge and Sweden

	Agriculture, forestry, hunting and fishing	Manufacturing, mining and quarrying	Wholesale and retail trade; transport and warehousing; post	Fin.insti., real estate and business activities, R&D
Jönköpings	2.6%	26.3%	17.9%	13.6%
Kronobergs	2.7%	23.9%	16.8%	17.4%
Kalmar	3.5%	19.7%	13.6%	13.7%
Blekinge	3.0%	22.5%	13.2%	14.9%
Sweden	1.6%	16.2%	16.6%	22.6%

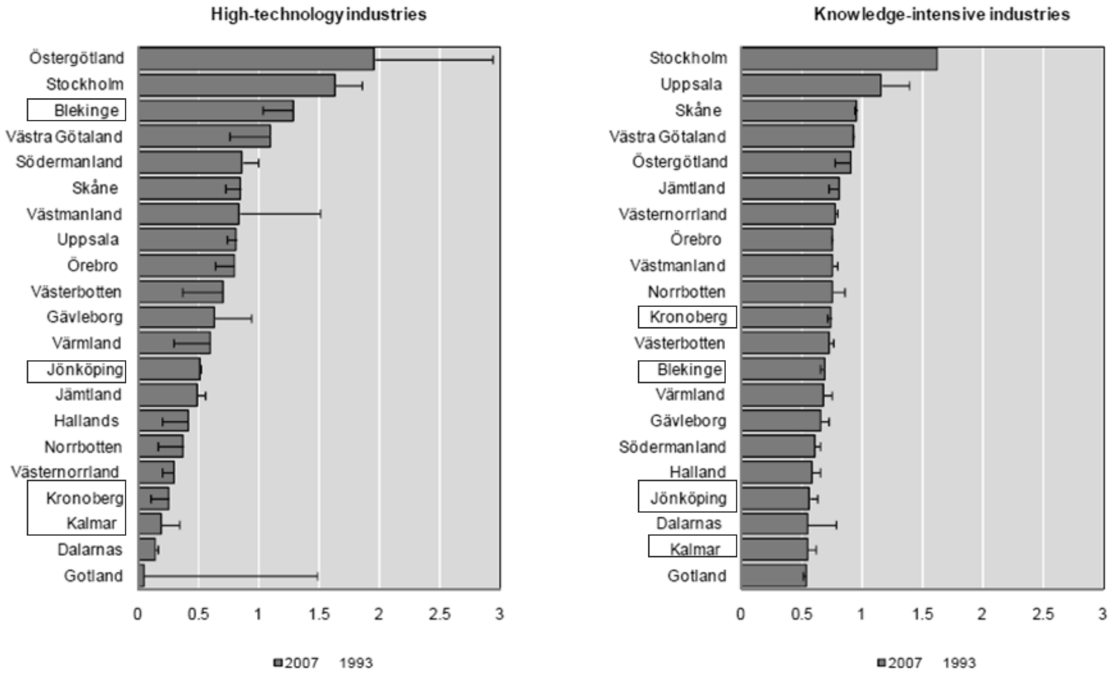
Source: OECD Regional Database.

Figure 1.15. Specialisation index in mining, quarrying and manufacturing, 1995-2008



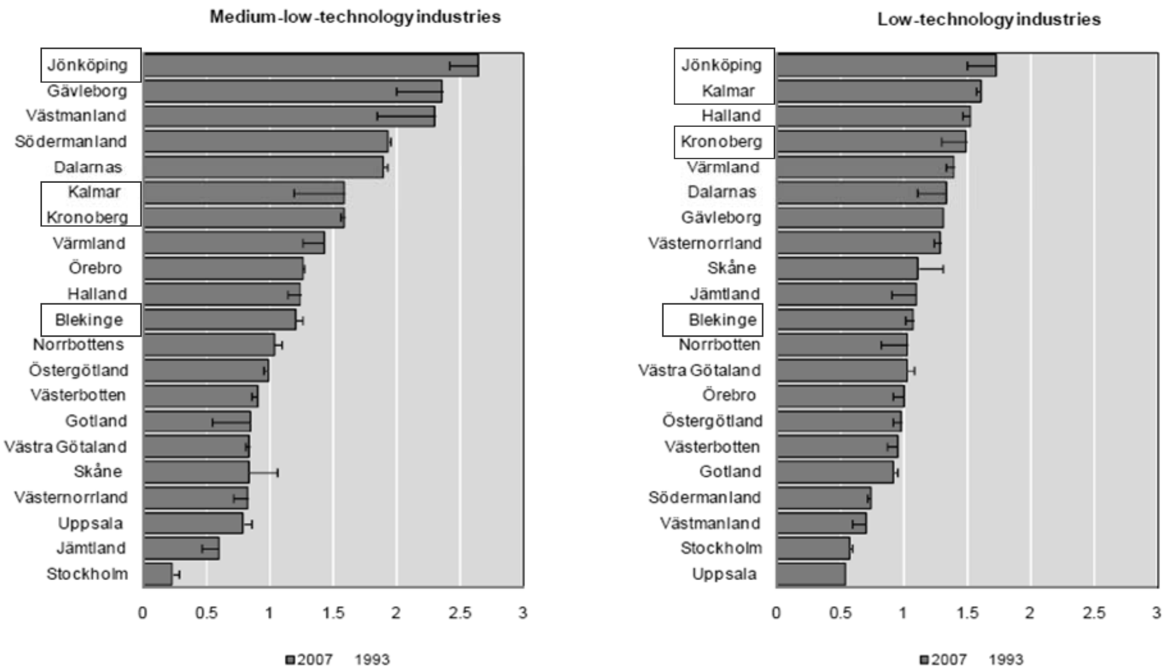
Source: OECD based on data from Statistics Sweden.

Figure 1.16. Specialisation in high-technology and knowledge-intensive industries in Swedish TL3 regions, 1993 and 2007



Source: OECD Regional Database.

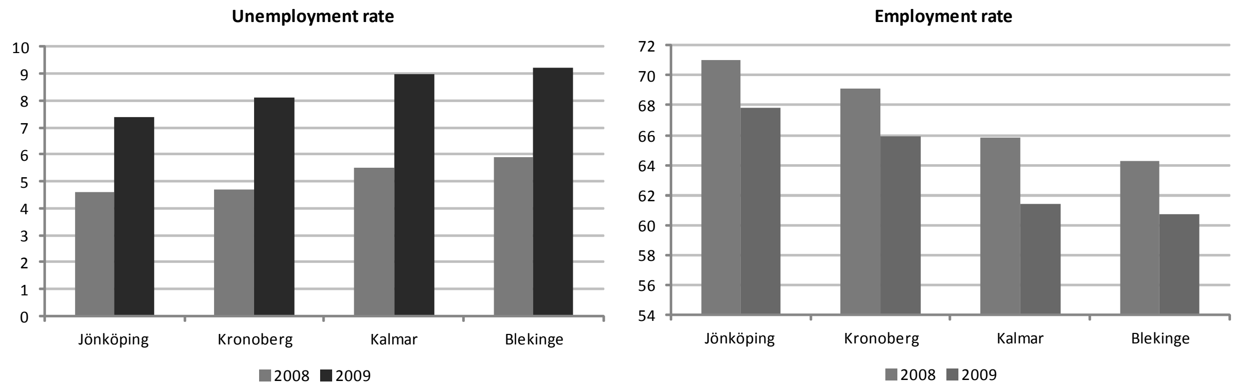
Figure 1.17. Specialisation in medium-low- and low-technology industries in Swedish TL3 regions, 1993 and 2007



Source: OECD Regional Database.

14. An additional factor amplifying the employment shock was the low population density. Recent OECD analysis suggests that labour markets were more resilient to the crisis in places with more structural diversity, greater density and higher-than-average increases in human capital in the years leading up to the crisis. In Kalmar and Jönköping, the employment rate fell only slightly more than unemployment increased, suggesting that labour-force withdrawal played only a limited part in the response to the shock, but in Kronoberg and Blekinge the employment rate fell by 5.6 and 3.7 percentage points, respectively, against increases in the unemployment rate of 4.0 and 1.6 percentage points. The crisis also had an asymmetric impact on men and women, with the former suffering greater job losses, owing to their greater share of employment in the private sector in general and in manufacturing in particular. As a rule, employment losses were far smaller in the public sector and in services, where women constitute a larger share of the labour force.

Figure 1.18. Employment and unemployment rates in the four counties



Source: OECD based on data from Statistics Sweden.

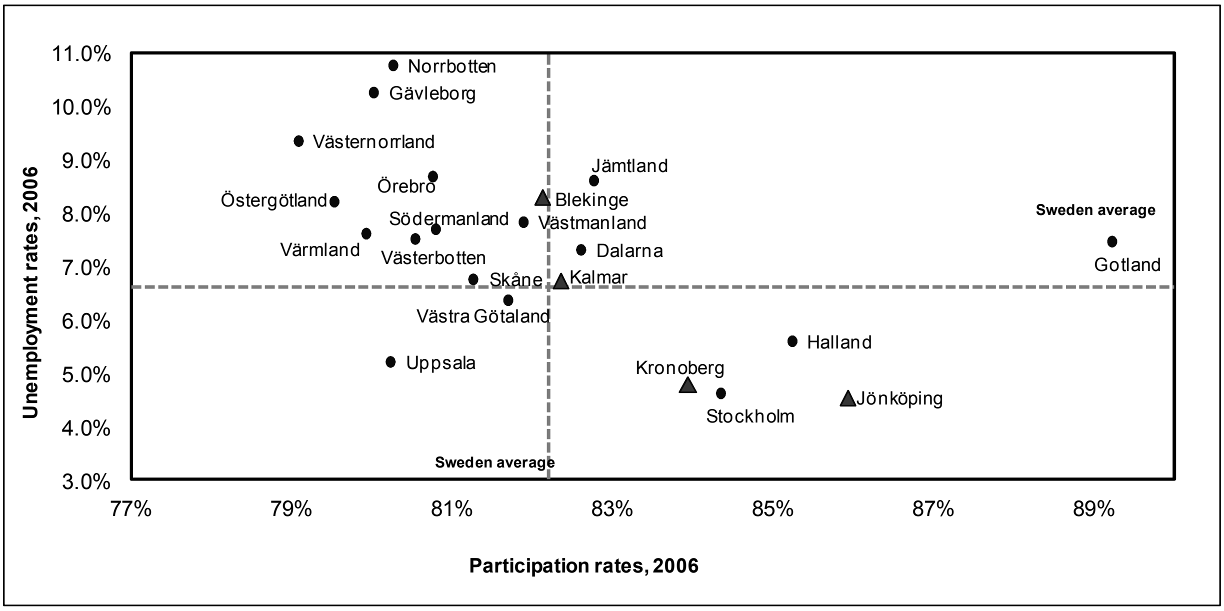
15. The recent crisis has forced the pace of structural change in OECD economies. The implications of this shift are particularly great for the counties of Småland and Blekinge. It is becoming increasingly difficult to sustain competitive medium-to-low technology manufacturing in developed countries. An important question is whether combining efforts among the four counties can help them better diversify their economic base and thicken their labour markets in order to better endure future economic shocks. A more general question concerns whether there are areas in which synergies and complementarities can be exploited in order to improve performance and competitiveness. The next section examines linkages among the four counties in commuting patterns, synchronisation in business cycles and changing productions structures.

Commuting flows across county lines are significant but limited

16. Table 1.4 illustrates spatial interaction in terms of commuting flows as a percentage of all employees. It shows the two-way flows among the four counties, as well as flows between each of the four counties and the three metropolitan regions and all other regions in Sweden, for 2000 and 2009. It also shows the day-active and night-active populations. In essence, it indicates the extent to which counties' labour markets are integrated, with each other or with outside markets, and thus the level of employment "self-sufficiency" (Table 1.5). The data suggest, among other things, that no two of the counties form a functional labour market as conventionally defined (net commuting flows of 10% or more from one region to another) and that even their dependence on commuting to the metropolitan areas or to other places outside the region is limited. Overall, the share of outward commuters in the counties' labour forces is close to the average for Swedish counties of around 9%. Very low outflows are typical of the most remote regions, where long distances limit daily commuting, and the three major metropolitan areas. By contrast,

outflows are greatest on the immediate fringes of the three metro regions (*e.g.* Uppsala, which has large daily commuting flows into Stockholm). There is no reason to regard high or low commuting flows as being, in themselves, good news; nevertheless, this situation may reflect the economic strength of the region. Given high levels of labour-force participation and generally low levels of unemployment prior to the crisis (Figure 1.19), such high levels of employment "self-sufficiency" are remarkable in a low-density region.

Figure 1.19. Participation rates and unemployment rates, 2006



Source: OECD calculations based on data from Statistics Sweden.

Table 1.4. Share of employees from county of residence (vertical) to county of work (horizontal)

2009	Blekinge	Jönköpings	Kalmar	Kronobergs	sum counties	Metropolitan	Other	Night active pop
Blekinge	89.9%	0.0%	1.1%	1.6%	2.7%	5.2%	2.2%	62475
Jönköpings	0.0%	93.8%	0.3%	0.7%	1.0%	2.1%	3.1%	150247
Kalmar	0.6%	0.6%	92.7%	1.2%	2.4%	1.3%	3.6%	97967
Kronobergs	0.6%	1.3%	0.9%	91.8%	2.8%	2.4%	3.0%	80660
Dayactive pop	60195	147981	93760	81694	383630	9533	11918	391349

Note: The "metropolitan" and "other" shares are the proportion of labour from each county working outside the Småland-Blekinge region. The "metropolitan" regions are Skåne, Västra Götaland and Stockholm.

Source: OECD based on data from Statistics Sweden.

Table 1.5. "Self-sufficiency" levels for Swedish counties in terms of employment and wages

2009

County	Employees	Total wage sum
Stockholms län	96.7	96.6
Norrbottens län	95.6	95.4
Västra Götalands län	95.1	94.6
Västernorrlands län	94.7	94.3
Skåne län	94.7	93.8
Västerbottens län	94.7	94.5
Jönköpings län	*93.8*	*92.9*
Jämtlands län	93.5	92.8
Östergötlands län	93.2	92.6
Dalarnas län	93.1	92.4
Gotlands län	92.8	92.4
Värmlands län	92.8	92.0
Kalmar län	92.7	92.0
Gävleborgs län	92.6	91.8
Örebro län	92.6	91.6
Kronobergs län	91.8	91.0
Blekinge län	89.9	88.8
Västmanlands län	87.8	85.6
Södermanlands län	80.7	76.6
Hallands län	77.8	71.8
Uppsala län	75.0	70.4

Source: OECD based on data from Statistics Sweden.

17. Data on inflows of commuters from outside the region show significant influxes from Skåne into Blekinge and Kronoberg and from Västra Götaland into Kronoberg (Table 1.6). Otherwise, there is relatively little commuting into the region. A comparison of inflows and outflows reveals, not surprisingly, that all four counties are "net senders", with net outward commuting equivalent to anywhere from 2.7% of the employed residents of Blekinge and Jönköping to 5.6% in Kalmar. Kronoberg is in the middle, with 3.6%. Kalmar's comparatively large net outflows appear to reflect its generally weaker labour-market performance (see below). Gross outflows are not, in fact, especially high, which may in fact reflect the distances involved, but commuter inflows are by far the lowest in the region. Given the region's location, Kalmar and Kronoberg are more integrated with the other counties in Småland-Blekinge than with Sweden's three metropolitan regions, and Kronoberg, which sits in the middle of the region, has the largest gross (inward+outward) commuting flows. By contrast, Blekinge and Jönköping are relatively more reliant on commuting to the metropolitan regions – Blekinge primarily to Skåne and Jönköping to Västra Götaland and Stockholm.

Table 1.6. Inward commuting to the four counties as a share of local employment, 2009

County of residence		County of work: Blekinge	Jönköping	Kalmar	Kronoberg	Total
Metro regions	**Skåne**	3.67%	0.15%	0.13%	3.63%	1.44%
	Stockholm	0.53%	0.25%	0.25%	0.25%	0.29%
	Västra Götaland	0.28%	1.36%	0.09%	0.25%	0.64%
Other	**Gotland**	0.00%	0.00%	0.02%	0.01%	0.01%
	Halland	0.02%	0.54%	0.01%	0.74%	0.37%
	Södermanland	0.00%	0.01%	0.00%	0.00%	0.00%
	Uppsala	0.00%	0.03%	0.02%	0.03%	0.02%
	Västerbotten	0.00%	0.01%	0.00%	0.00%	0.00%
	Västernorrland	0.00%	0.01%	0.00%	0.00%	0.00%
	Västmanland	0.00%	0.01%	0.02%	0.03%	0.02%
	Östergötland	0.02%	1.02%	0.57%	0.08%	0.55%

Source: OECD, based on data from Statistics Sweden.

18. That said, it is noteworthy that only Blekinge, which borders Skåne, has far more commuters travelling to the metropolitan regions than to other counties outside Småland-Blekinge. It also has the second-largest gross flows after Kronoberg, reflecting above all the significant daily inflow of workers from Skåne, which accounts for the majority of both inward and outward commuters to and from Blekinge. Nevertheless, it would be an exaggeration to see Blekinge as part of a functional labour market with Skåne, which is usually defined as a situation in which *net* commuting from one region to another exceeds 10% of employment in the sending region. In the case of Blekinge, *gross* outward commuting only a little above 10% (just over half of it to Skåne), and *net* outward commuting, as noted above, is just 2.7%. In short, on the conventional definition, the counties do not form a single functional labour market, nor can any of them readily be considered a part of any functional labour market beyond the borders of the Småland-Blekinge region. Figure 1.20 shows the overall pattern of commuting flows graphically.

19. Table 1.7 presents data similar to those in Table 1.4, except that these are for wage flows rather than worker headcounts. The share of wages generated by outbound commuters exceeds their share of headcount in all four counties. This merely confirms the fact that commuters tend to earn more than those employed closer to home. In Blekinge, Kronoberg and Kalmar, the average wage for outbound commuters from the counties is typically about 10-11% above the average wage of those working there, while the "commuting premium" for inhabitants of Jönköping is about 14.5%. The premium for commuting to the major metropolitan areas is, not surprisingly, rather larger – of the order of 22-26% for the Småland counties. For Blekinge, it is somewhat smaller, around 13.5%, reflecting in large part Blekinge's proximity to Skåne. Overall, there is a fairly strong positive relationship between the commuting premium for Swedish counties and the share of outward commuters in a county's labour force, with Blekinge, Kronoberg and Kalmar close to the national figure. In Jönköping, by contrast, a somewhat higher wage premium coincides with lower levels of outward commuting. This would seem to suggest that the region's labour market is quite strong relative to those of other places within commuting range and/or that commuting costs to more attractive labour markets are higher. The fact that Jönköping attracts larger *inward* commuting flows than the other counties would tend to suggest that labour-market conditions probably account for more of the explanation than connectivity.

Table 1.7. Share of total wage sum from county of work to county of residence in SEK

2009	Blekinge län	Jönköpings län	Kalmar län	Kronobergs län	Metropolitan	Other	Night active wage
Blekinge län	88.8	0.0	1.3	1.6	5.8	2.4	17 453 059 983
Jönköpings län	0.0	92.9	0.3	0.8	2.6	3.4	40 949 583 135
Kalmar län	0.7	0.6	92.0	1.3	1.5	4.0	26 380 469 804
Kronobergs län	0.6	1.4	1.0	91.0	2.8	3.2	22 269 976 109
Dayactive wage	16 739 066 674	40 143 771 514	25 111 471 385	22 611 123 343	3 092 444 409	3 591 174 147	107 053 089 031
			Sum of dayactive pop	104 605 432 916			

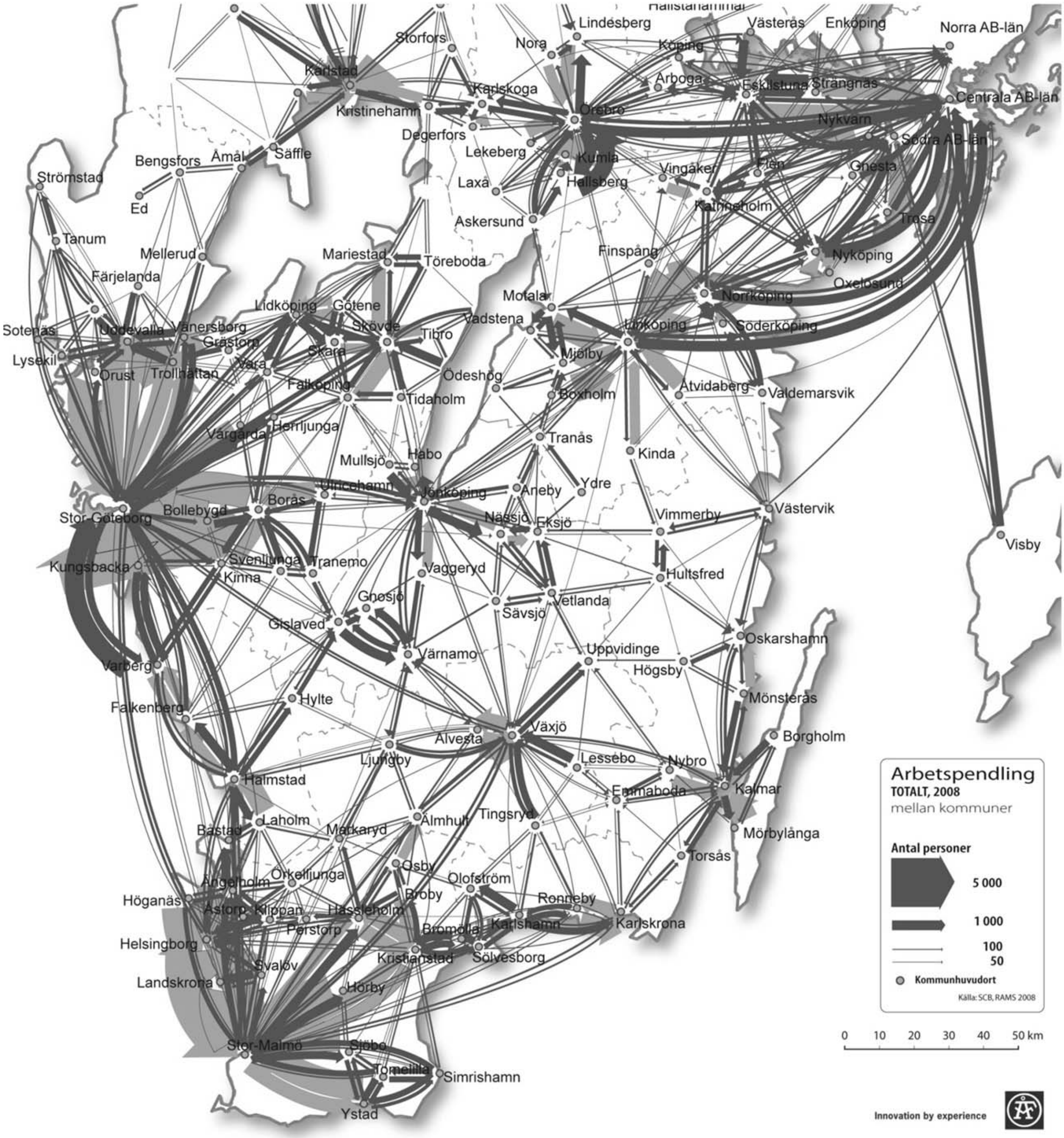
Source: OECD calculations based on data from Statistics Sweden.

Commuting has increased modestly in recent years

20. Inter-county commuting patterns have undergone modest changes over the last two decades. While the strength of the relationships reported above for 2009 are not dramatically different from those for 1993 or 2000, there has been a perceptible shift towards increased commuting. In terms of headcount, the share of residents commuting outward from all four counties has increased since 1993 – in Blekinge by 3.8 percentage points, in Jönköping by 1.6, in Kalmar by 2.4 and in Kronoberg by 1.9. Yet a couple of patterns are worth noting. First, these very modest increases are in most cases smaller than the increases calculated on the basis of wage shares; in other words, the "commuting premium" has declined somewhat in respect of most of the two-way commuting relationships, suggesting that commuting costs may have fallen relative to wages. Second, in all cases, the great bulk of the increase in commuting is to destinations outside the region: in all of the counties except Kalmar, increased commuting to the main metropolitan areas accounted for about half the change in commuter numbers. It also accounted for somewhat more than half of the increase in commuter wage shares in Blekinge, Kalmar and Kronoberg, which suggests that the "commuting premium" increased somewhat for the three main metro regions, while shrinking for most commutes among the counties.

21. Entrepreneurs are far less likely to commute than most other workers: throughout the four counties, roughly 96.6% of all entrepreneurs had their firms in their counties of residence in 2009. This is an important finding in a region so reliant on small and medium-sized firms. According to the official data, there were over 23 500 entrepreneurs in the region that year.

Figure 1.20. Commuting flows in and around Smaland-Blekinge, 2008



Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Source: Statistics Sweden.

Analysis at the municipal level points to a slow consolidation of functional local labour markets

22. Figures 1.21 and 1.22 extend the labour-market analysis to municipal level, giving a clearer indication of spatial dynamics *within* the region and, indeed, within the counties. Figure 1.21 shows the municipalities' share of the local employed population employed outside their municipality of residence. Figure 1.22 takes this a step further, showing the functional local labour market areas (LLMAs) in the region in 1980 and 2009, based on the two criteria employed by Statistics Sweden: a municipality is considered to constitute a local labour market if no more than 20% of the employees that reside in a municipality commute to work in other municipalities and the single largest outflow of employees is below 7.5% of resident employees. Where these conditions do not hold, the municipality is considered to form part of a larger local labour market area. It is interesting to compare the changing nature of local labour markets over time. In 1980 there were 22 local labour markets, none of which crossed county boundaries. Over time, the number fell to 15, as LLMAs increased in size. Three local market areas (Älmhult, Tranås and Kristianstad-Hassleholm) now cross county boundaries.

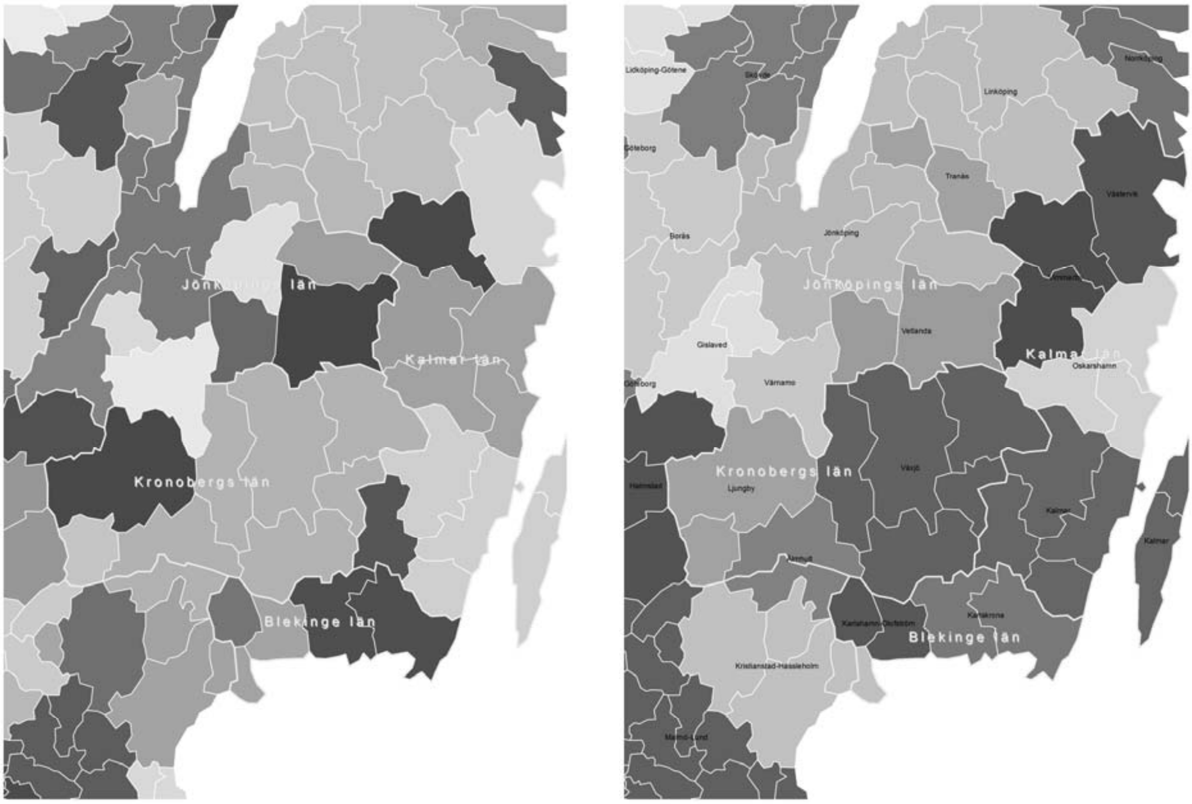
Figure 1.21. Labour-market dependency by municipality

Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Source: OECD based on data from Statistics Sweden.

Figure 1.22. Local labour-markets in Småland-Blekinge, 1980 and 2009

1980 2009



1. Shaded areas represent local labour market areas as defined in the text. It should be noted that the Swedish Agency for Economic and Regional Growth defines a somewhat different functional area, the so-called FA region. However, the older definition of local labour-market areas is used here, so as to allow the depiction of change over a long period of time.

2. These maps are for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Source: OECD based on data from Statistics Sweden.

23. The trend observed in Småland-Blekinge is typical of the rest of Sweden: there has been a steady decline in the number of local labour markets across the country in recent decades (Table 1.8). The largest change took place before the 1980s, as the post-war period saw a dramatic increase in mobility, not least as the transition towards two-income households as the norm meant that one partner often had to travel further to work; it was not always easy to find suitable jobs for both in the same place. Nevertheless, the change between 1980 and 1990 was also significant. The pace of change appears to have slowed after 2000. When analysing these estimates, it is important to keep in mind that the labour market and economic life in Sweden have undergone big changes. For example, a significant shift from secondary to tertiary production took place in the 1990s and has matured over the 2000s. To be sure, this does not account for all of the increase in commuting. Infrastructure improvements have facilitated greater commuting.

Table 1.8. Local labour market areas

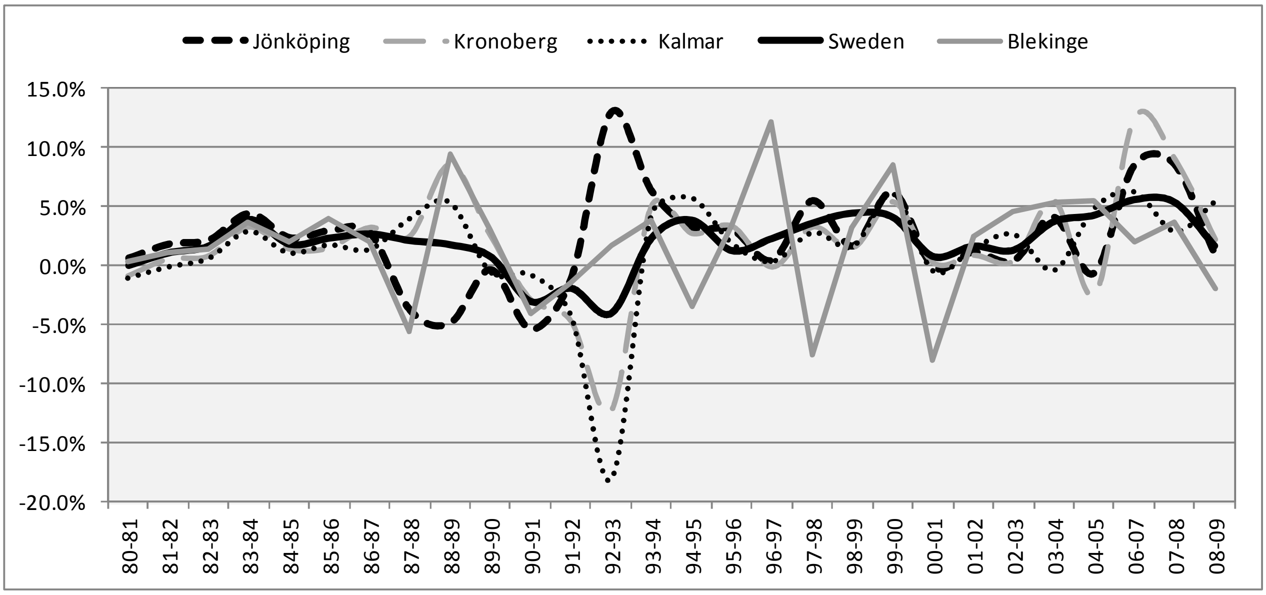
	Sweden	Småland-Blekinge
1970	187	34
1980	139	22
1990	112	23
2000	90	18
2009	75	15

Source: OECD on the basis of data from Statistics Sweden.

The counties exhibit different business cycle movements despite similar industrial profiles…

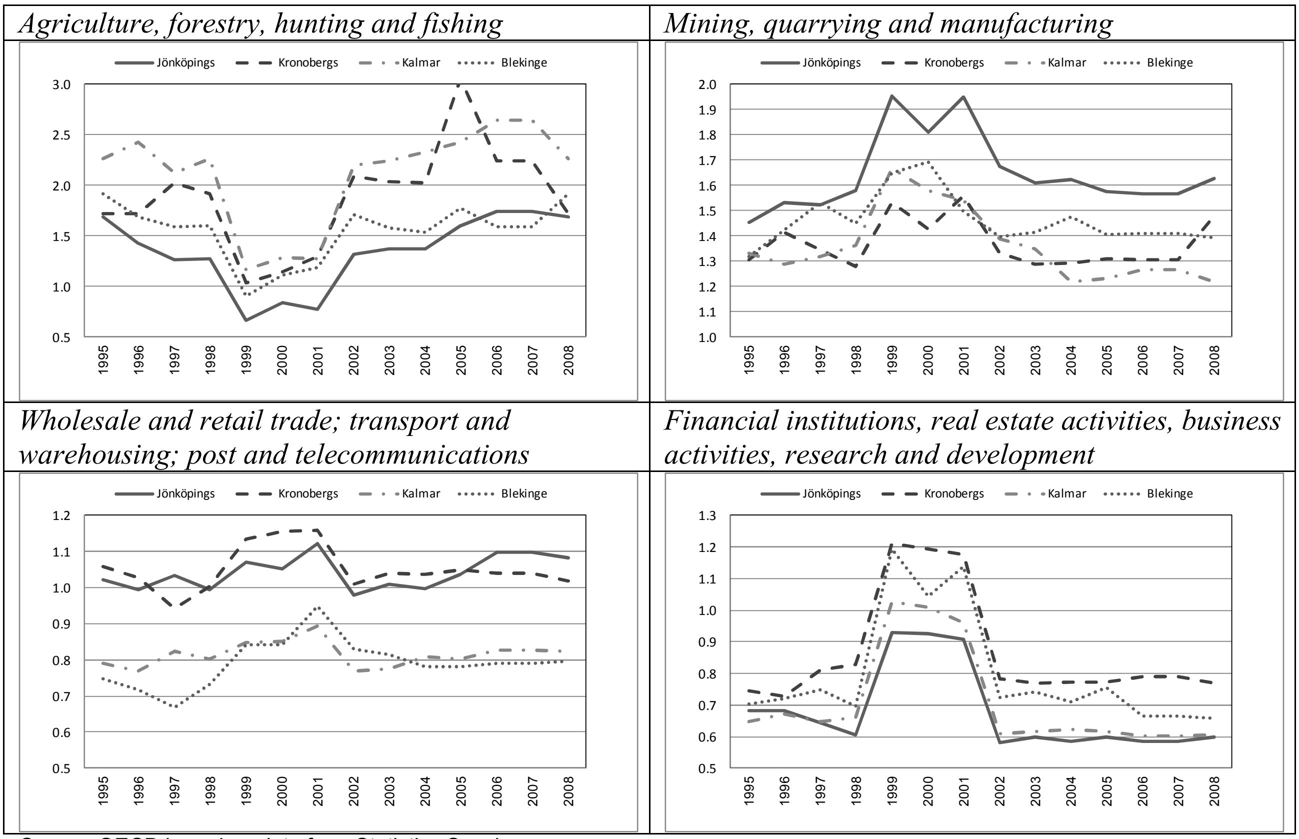
24. The economic structures of the four counties are quite similar, though Jönköping and Kronoberg are more specialised in some services sectors, such as wholesale/retail trade and transport and communications, and Jönköping also has a greater specialisation than the others in mining and quarrying. Nevertheless, business cycles in the four counties since 1980 have frequently diverged, particularly in the case of Blekinge (Figure 1.23). This probably reflects two factors. First, the four economies are relatively small, so developments involving one or two large employers can make a big difference. Second, it suggests that, within the broad sectors in which they are specialised, the four counties occupy somewhat different niches and are thus dependent on developments in different product markets. That suggests a degree of diversification that in most circumstances represents a regional strength. Interestingly, despite the differences in the *levels* of specialisation in various sectors, *changes* in specialisation in the four counties are highly synchronised (Figure 1.24).

Figure 1.23. Growth of GDP per capita in the four TL3 regions of Småland-Blekinge, 1980-2009



Source: OECD based on data from the Regional Database and Cambridge Econometrics.

Figure 1.24. Production specialisation in four sectors in the counties of Småland-Blekinge, 1995 -2009



Source: OECD based on data from Statistics Sweden.

25. One way to identify the evolving competitive strengths of a country or region is to compare its sectoral productivity performance over time to other countries/regions and the OECD average. Since data giving detailed breakdowns by sector are not available at regional level, a two-stage process has been used here, involving, first, the identification of the sectors in which Sweden is most strongly positioned and, secondly, the degree to which the four counties are specialised in these sectors. Sectoral specialisation is measured in terms of employment (a so-called Balassa-Hoover index), rather than gross value added. This is an admittedly imperfect method, but regional-level employment data are available even for sectors (3-digit) within subsectors, whereas such fine breakdowns of data on output and value added do not exist for TL3 regions. Despite these limitations, this approach should give a rough approximation of things. Tables with the detailed data underlying this exercise, including the Balassa-Hoover indices are presented in Annex 1.A3 below.

26. Comparing Sweden's productivity by sectors to other OECD countries and to the OECD average (Tables 1.A3.1 and 1.A3.2) reveals the country has:

- overall productivity roughly 6% above the OECD average;
- manufacturing productivity around 25% above the OECD average;
- above-average productivity in agriculture; and
- services productivity only slightly above the OECD average.

27. The data show that Sweden has improved its relative productivity performance mainly in manufacturing but also in services. Indeed, in 1995, Sweden recorded productivity levels *below* the OECD average -- both for the economy as a whole and for the three major sectors – manufacturing, services and agriculture. Sweden is very competitive in four manufacturing sub-sectors: chemical, rubber, plastics and fuel products; machinery and equipment; pulp, paper, paper products, printing and publishing; and food products, beverages and tobacco. Swedish productivity in all these sectors is at least 15% above the OECD average. In services, Sweden's productivity performance has been particularly strong in two sub-sectors: wholesale and retail trade, restaurants and hotels; and real estate, renting and business activity. These sectors consist largely of non-tradable activities, but they are relevant nonetheless, since the competitiveness of a country's tradable sectors is dependent in part on the efficiency of the non-tradable sectors whose services they consume.

28. An examination of the degree of specialisation of the four counties in these competitive sub-sectors over the 1993-2007 period suggests that:

- all four counties are specialised to a significant degree in various branches of the three manufacturing sub-sectors, with Jönköping and Blekinge showing the strongest concentration of activity in these fields, but

- none of them appear to be specialised in competitive service sub-sectors.

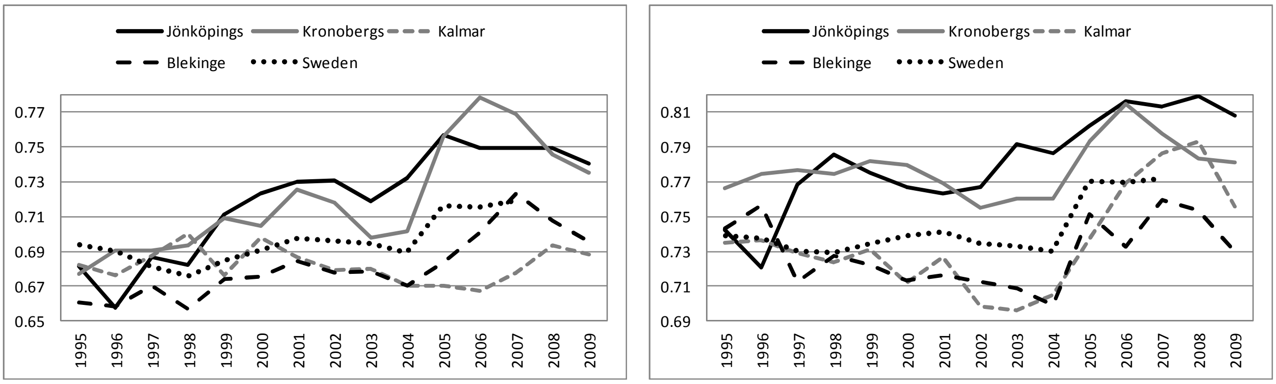
29. All four counties are relatively specialised in the manufacture of rubber and plastic products (Table 1.A3.1), especially Jönköping and Blekinge, with the latter becoming more specialised over time. All four counties are also relatively specialised in machinery and equipment (Table 1.A3.4), especially Kronoberg. Jönköping is specialised in all four branches of machinery and equipment, especially in the manufacture of office machinery and computers, which have recorded important gains in recent years. Blekinge is specialised in manufacturing electrical machinery and apparatus, radio, television and communication equipment and apparatus, and machinery and equipment. It is interesting to note that none of the four countries are specialised in the wholesale and retail service sub-sector (Table 1.A3.7). Jönköping in the only county with a bit of specialisation in one branch. Nor is any of the four counties specialised in wholesale and retail trade, restaurants and hotels, except Blekinge in real estate activities.

Male-female wage and activity gaps have been declining

30. Female activity rates were significantly lower in Jönköping and Kalmar in 1995, but both counties had converged towards the activity rates in the other two counties, at around 68%, by 2009. The difference in activity rates between males and females is around 3 percentage points, which is rather low by OECD standards. Female participation rates were lower in all four counties than for Sweden as a whole in 1995. In Jönköping and Kronoberg these rates have since risen above the national average; in Blekinge and Kalmar, they below it (Figure 1.25). Overall, the *difference* between male and female participation rates has tended to be greater than average in Kalmar and Jönköping and smaller than average (compared to Sweden as a whole) in Blekinge and especially in Kronoberg.

Figure 1.25. Participation rates in the four counties, 1995-2009

Women *Men*



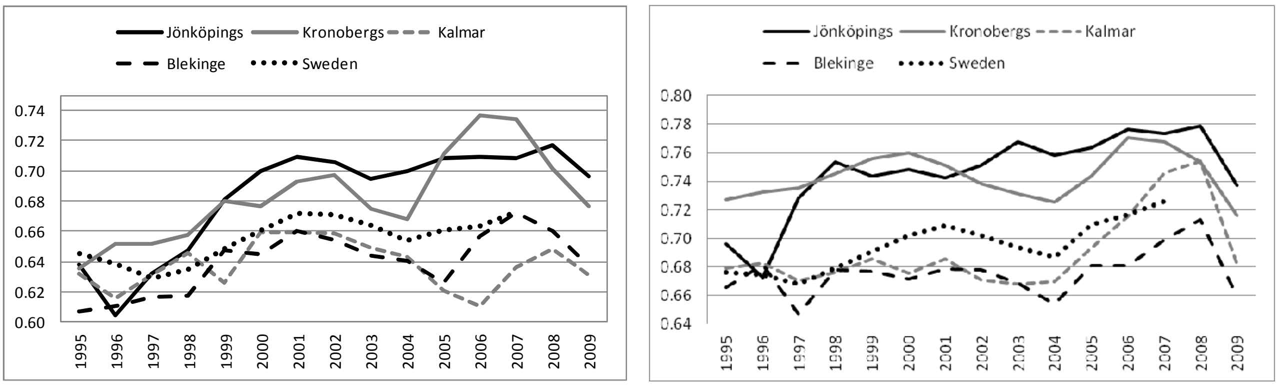
Note: Participation rates are defined by the ratio of the labour force to the working age population. In 2005 a new labour force survey was introduced defining the labour force over the 15-64 population age group.

Source: OECD based on data from Statistics Sweden.

31. Data on employment and unemployment rates (Figures 1.26 and 1.27) tell a similar story, with above-average increases in both female and male employment rates in Kronoberg and Jönköping in the decade prior to the crisis, and below-average rises in Blekinge and Kalmar.

Figure 1.26. Employment rates for men and women, 1995-2009

Female employment rates *Male employment rates*

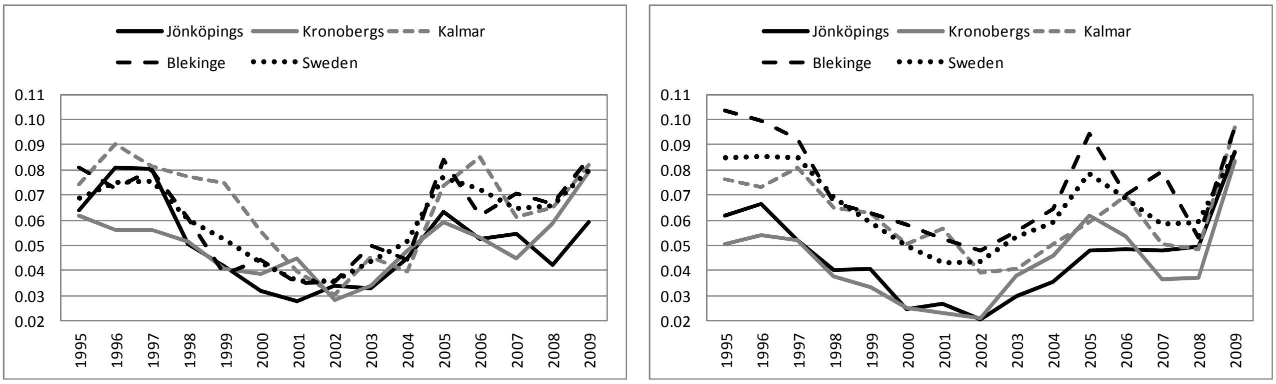


Note: Employment rates are defined as the ratio of employees to the working age population. In 2005 a new labour force survey was introduced defining the labour force over the 15-64 population age group.

Source: OECD based on data from Statistics Sweden.

Figure 1.27. Unemployment rates for men and women, 1995-2009

Female unemployment7 rates *Male unemployment rates*



Note: Unemployment rates are defined as the ratio of unemployment to the labour force. In 2005 a new labour force survey was introduced defining the labour force over the 15-64 population age group.

Source: OECD based on data from Statistics Sweden.

32. Average wages for women in the four counties are about 75-78% of average wages for men, but the gap has been shrinking steadily in all the counties over the last 15 years (Table 1.9). Moreover, the gender wage gap has been closing faster in all four counties than in the three big metropolitan areas. The wage gap largely reflects differences in hours worked and the sectoral structure of employment. In all four regions, a majority of employed women work in the public sector, which accounts for only about 12-14% of male employment in Småland and roughly 20% in Blekinge. This is one reason why the rise in the unemployment rate following the crisis was roughly three times higher for men than for women: job losses were concentrated in the private sector. Yet greater job security comes at a price, as average wages are lower in the public sector, and, in any case, they are lower for women than men in all sectors.

Table 1.9. Average wages for women as share of men's average wage, by county

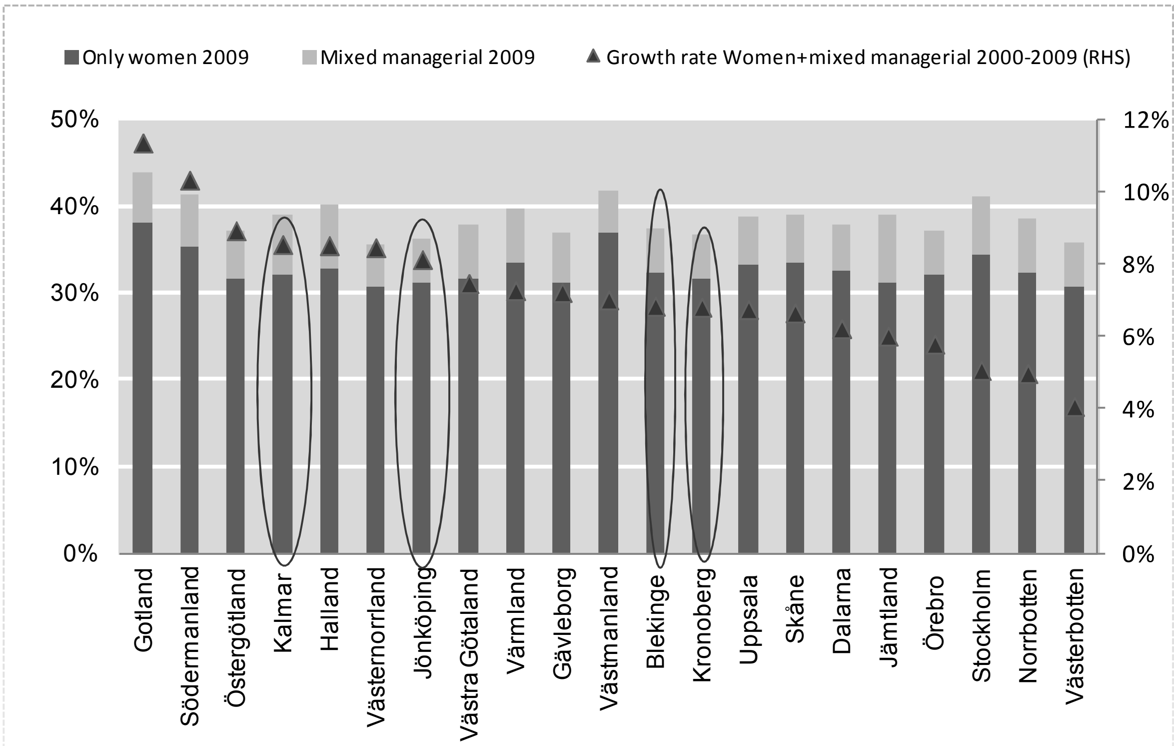
	1995	2000	2005	2009
Jönköping	68.6	69.3	71.1	75.1
Kronoberg	67.8	68.4	71.4	74.9
Kalmar	71.8	73.0	74.7	76.9
Blekinge	70.3	71.1	73.8	78.1
Skåne	71.2	70.8	72.9	75.3
Västra Götaland	71.5	71.5	73.4	76.4

Source: OECD, based on data from Statistics Sweden.

33. Women also appear to operate within smaller LLMAs. They are roughly half as likely as men to commute across county lines: 94.5% of women work in their county of residence, versus 90.7% of men. Those women who do commute to other counties are somewhat more likely than male commuters to go to the major metropolitan areas (35.2% *vs.* 30.7%). Interestingly, "commuting premiums" for women are basically flat or even slightly negative, suggesting that they are motivated to commute by a lack of suitable opportunities nearer to home rather than by higher wages elsewhere. This doubtless reflects in part the concentration of women in public employment, where wages are relatively flat and job attractiveness may depend more on other facets of the employment situation, such as working hours or non-wage benefits.

34. One striking trend in recent years has been the marked increase of women in entrepreneurial and managerial roles in the region (Figure 1.27). While there is clearly still a significant degree of gender segregation in the labour market, it is striking that the shares of female- or mixed-managed start-ups in all four counties now approaches 40%, and the growth of female or mixed male-female entrepreneurial start-ups has been exceptionally fast in Kalmar and Jönköping since 2000. To some extent, this may represent a degree of catching up with the metropolitan areas, as the corresponding growth rates have been slower in Stockholm and Skåne, where the relative weight of such firms in the total population of start-ups is nevertheless larger. Whatever the case, this trend points to the potential for female entrepreneurship to contribute to change in the labour market; as will be seen in Chapter 2, moreover, this activity, to the extent that it contributes to the development of proximity services, may also contribute to the region's attractiveness.

Figure 1.28. Participation of women in managerial activities in Swedish TL3 regions, 2000-09



Source: OECD calculations on the basis of data from Statistics Sweden.

1.3. Factors of growth

35. Regional development is influenced by a myriad of interconnected factors, such as amenities, location, size, demographics, industrial specialisation, agglomeration effects and national factors, to name but a few. Recent OECD analysis aimed at investigating the main factors driving regional growth in the medium and long term identifies several critical areas that drive growth in OECD regions. These factors are largely endogenous to the region (Box 1.2). This section addresses human capital, innovation, entrepreneurship, connectivity and scale effects, all of which are extremely important for the counties' growth.

Box 1.2. Endogenous drivers of regional growth

Recent OECD analyses of the determinants of growth at the regional level identify a number of critical drivers, including infrastructure, human capital, innovation and agglomeration. Perhaps the most important findings are, first, that the key factors are largely endogenous, *i.e.* they are things policy can address (as opposed to natural endowments or physical geography); and, second that that these endogenous factors complement each other, suggesting the need for an integrated approach.

- Improvements in infrastructure at the regional level do not automatically lead to higher growth. Such investments need to be combined with improvements in education and innovation. This suggests that it could be useful to co-ordinate policies for building human capital, enhancing innovation and providing physical infrastructure. The effects of infrastructure investment appear to last around three to five years.

- Human capital – both the presence of high-skilled workers in the regional workforce and the absence of low skilled workers – appears to be the most robust support of growth in all types of regions. The effects of improvements in human capital also appear to last around five years.

- The third critical element is innovation, insofar as it can be measured by focusing mainly on the science and technology components of innovation for which data are available. Innovation appears to produce positive effects over a longer time span, approximately ten years.

- Economies of agglomeration also have a positive impact on growth, although they are neither necessary nor sufficient to ensure sustained growth rates. Both the fact that only 45% of metro regions grew faster than the national average during 1995-2005 and the trend towards divergence among urban regions imply that agglomerations as complex systems work more efficiently in some cases and less efficiently in others.

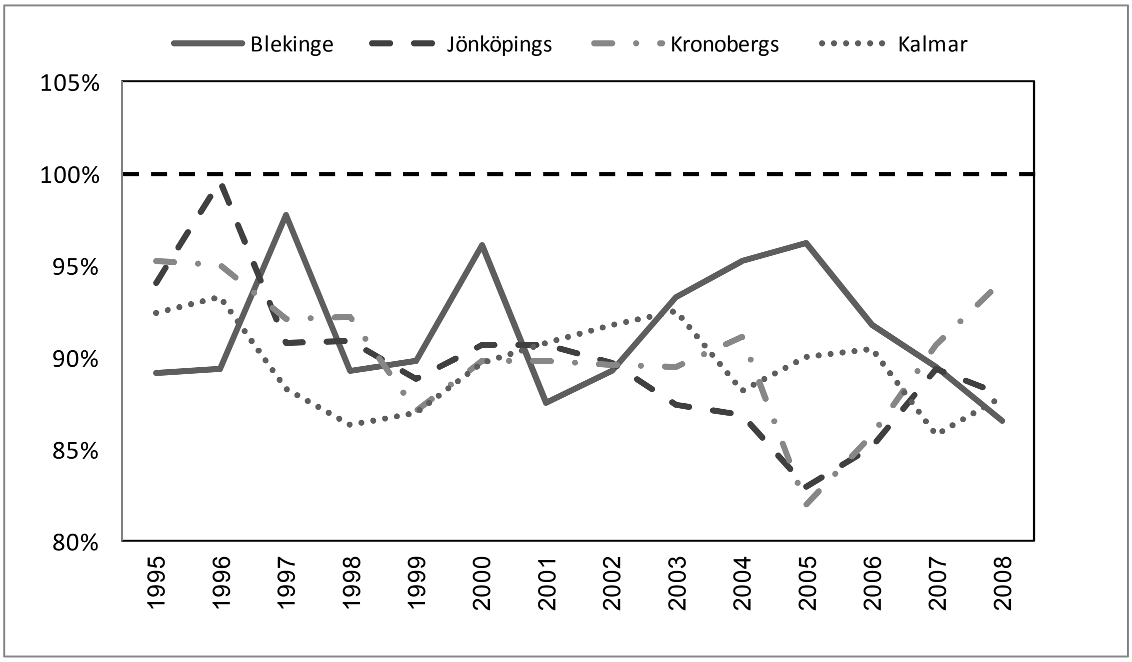
What is clear in these studies is the importance of endogenous elements for growth at regional level, of the benefits arising from complementarities and of an integrated approach.

Source: OECD (2008 and 2008b).

Growth has been strong compared to most similar OECD regions

36. As already noted, the four counties' growth performance over the last 15 years or so has been quite respectable by OECD standards but has lagged behind the pace set by Sweden as a whole: Småland-Blekinge is characterised by levels of income and GDP per capita below the national average and has not really been closing that gap in recent years. Closer analysis points to a productivity challenge in all four counties: employment rates in the counties are quite high by Swedish standards, but productivity per worker continues to lag. A breakdown of the growth of GDP per capita (Annex 1.A2) shows that all four counties have lower levels of productivity than the national average and that the productivity gap increased with respect to the national average during 1995-2008 (Figure 1.29). The four counties display similar movements in productivity levels, albeit with larger fluctuations in Blekinge. (Blekinge is the smallest of the counties, so one would expect somewhat larger fluctuations in performance, other things being equal.) The widening of the gap towards the end of the period in all the counties except Kronoberg is particularly striking, since it predates the worst of the crisis. By 2007, only Blekinge was (slightly) closer to the Swedish average than it had been in 1995. That said, it is important to bear in mind that the period in question is one in which Sweden's aggregate productivity performance was exceptionally strong – the four counties' productivity growth may have been unimpressive by Swedish standards but it was rather good in comparison with that of most OECD regions.

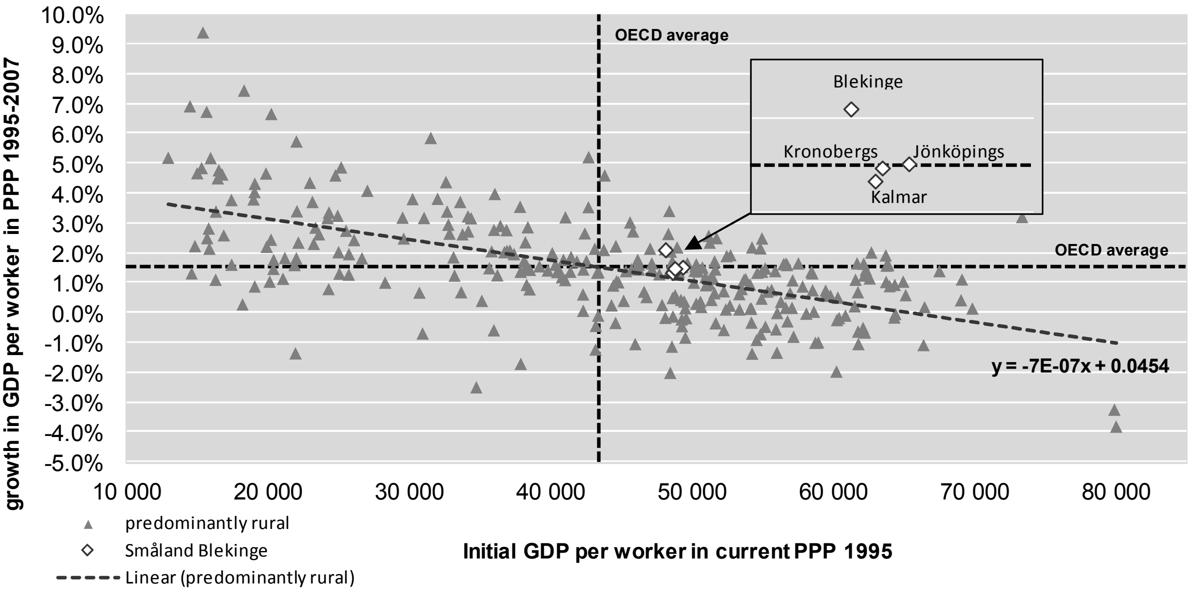
Figure 1.29. GDP per worker in the four counties relative to the national average, 1995-2008



Source: OECD based on data from Statistics Sweden.

37. The picture is a bit more complicated if one compares the counties not to all OECD regions but only to predominantly rural ones. Across the OECD, rural regions are converging. In other words, regions with lower initial levels of productivity display, on average, higher productivity growth rates than regions with higher productivity levels (Figure 1.30). This implies a general tendency for less productive regions to be "catching up". All four Småland-Blekinge regions have long been characterised by above-average productivity levels and so are in no position to benefit from "catch-up" growth. When compared to all OECD rural regions, their performance is not spectacular: productivity growth rates were around the average, except in Blekinge, where they were slightly higher. However, when compared to other high-productivity rural regions (where productivity growth rates tend to be lower), the picture looks better: the Småland-Blekinge counties exceeded the average rate of productivity growth by almost one full percentage point (0.85 pp) over 1995-2007. While such a difference matters little in any given year, it amounts to a productivity premium of almost 11% over the period. Only 30% of high-productivity rural regions in the OECD area recorded higher rates of productivity growth. The next section explores the sources of this productivity performance and the potential for sustaining it. It focuses on elements that are crucial for productivity and productivity growth, including human capital, firm specialisation, innovation and connectivity.

Figure 1.30. GDP per worker and growth in GDP per worker in OECD rural regions, 1995-2007



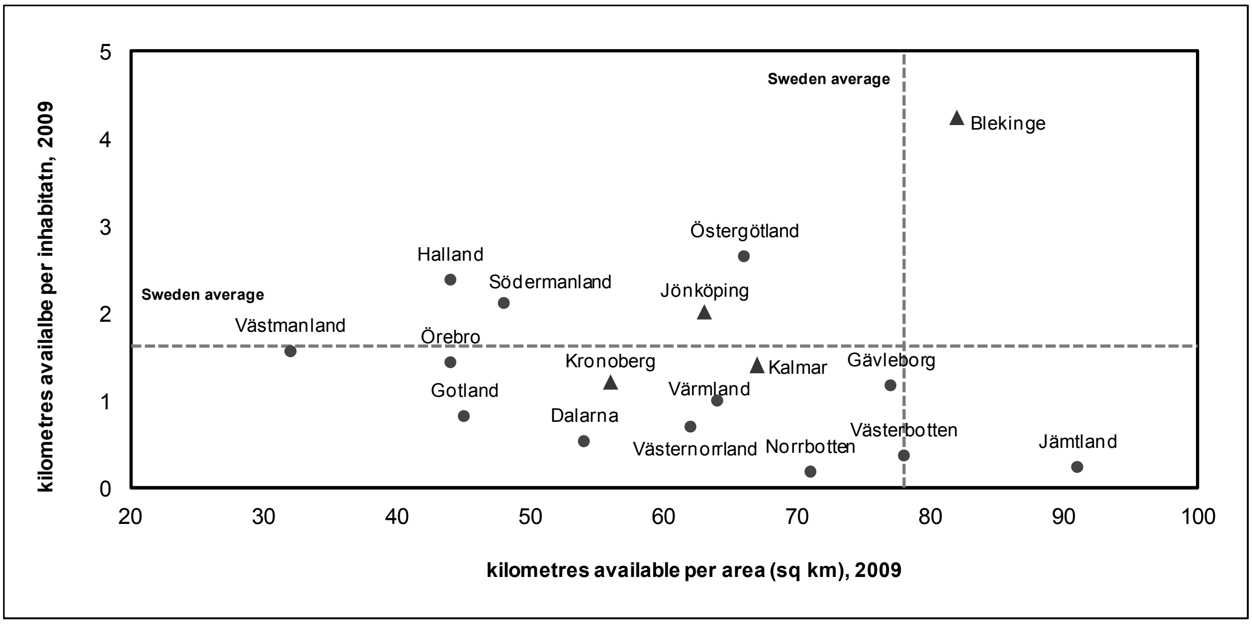
Source: OECD based on data from Statistics Sweden.

The counties could benefit from better infrastructure connectivity and accessibility

38. This section examines infrastructure and accessibility in the four counties. Recent OECD analysis reveals that infrastructure investments alone, unless accompanied by adequate investment in such things as human capital and innovative activities, will probably not generate growth and development. In fact, if undertaken in isolation, they can produce unintended negative consequences, such as "leaking by linking" effects (OECD, 2009). These effects occur when infrastructure investments are undertaken in underdeveloped regions without adequate attention to other critical areas and can induce firms to take advantage of better infrastructure to leave the region and supply goods and services to it from elsewhere at lower transport costs.

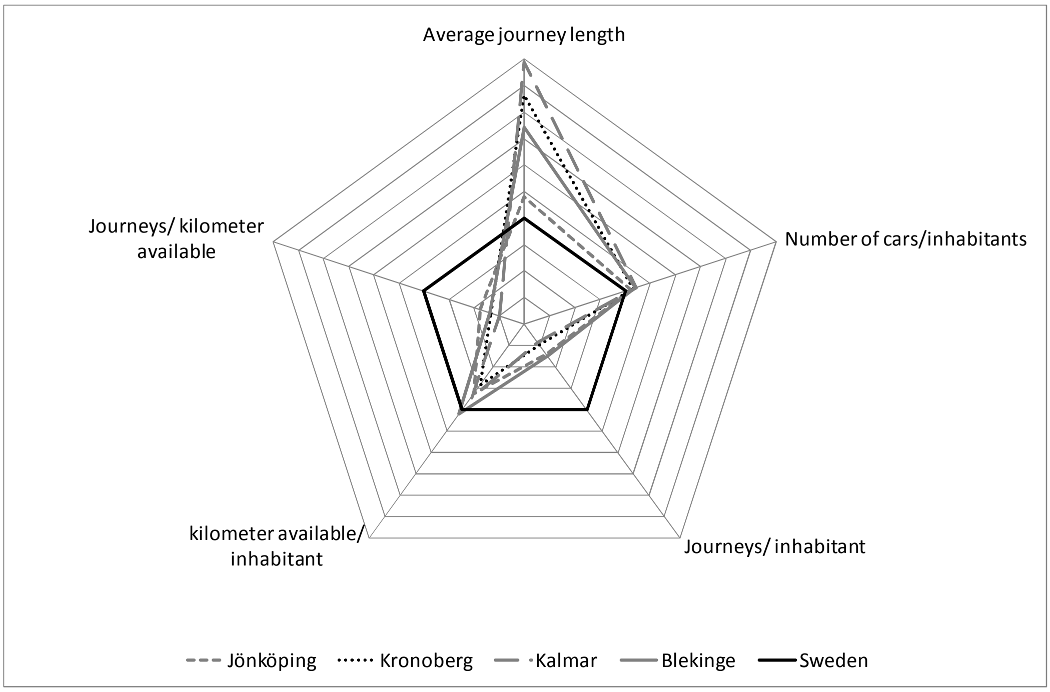
39. This is a particularly interesting issue for Småland-Blekinge. The location of the four counties is – or at any rate should be – an asset. They are closer to major European markets than their peer northern regions. Yet infrastructure constraints mean that they are in some respects less well positioned to access those markets than regions located further away. The four counties suffer from important infrastructure gaps with respect to national standards, even when controlling for population and surface area (Figure 1.31). All four regions have more cars per inhabitant than the national average. On average, inhabitants tend to make fewer but longer journeys than most in Sweden, suggesting that commuting over shorter distances is significantly lower than elsewhere. In addition, the number of journeys per kilometre available, a measure of road infrastructure utilisation, is also below average (Figure 1.32). This suggests that the quality of infrastructure in the four counties is likely to be below national standards, which increases the cost of commuting.

Figure 1.31. Kilometres of road per inhabitant and per square kilometre of Swedish TL3 regions, 2009



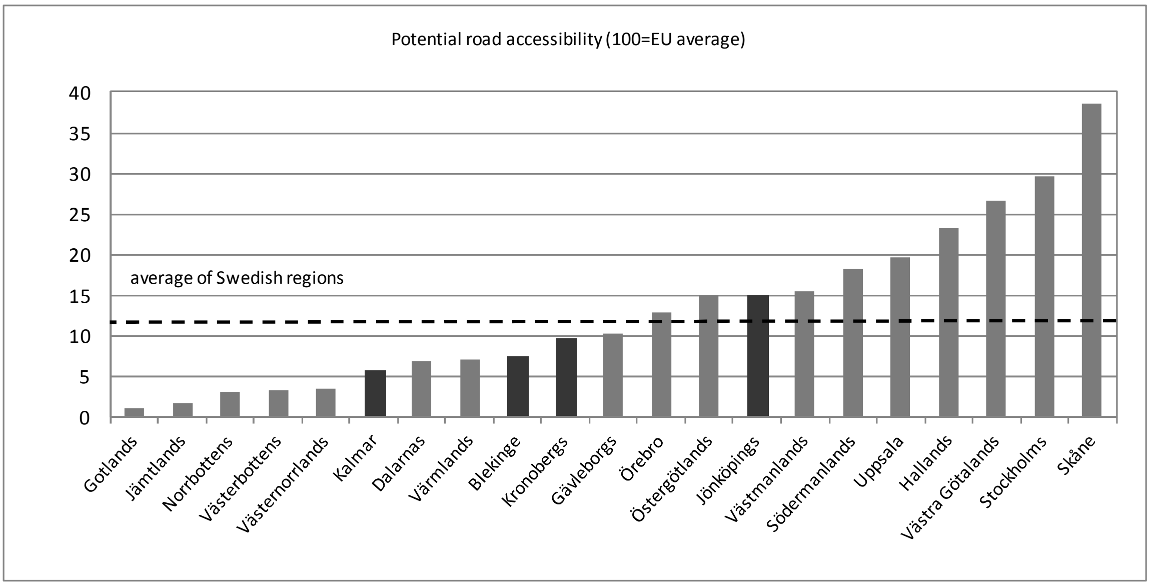
Source: Calculations based on data provided by the Swedish Institute for Transport and Communications Analysis (SIKA).

Figure 1.32. Transport indicators in four Swedish TL3 regions, 2009



Source: Calculations based on data provided by the Swedish Institute for Transport and Communications Analysis (SIKA).

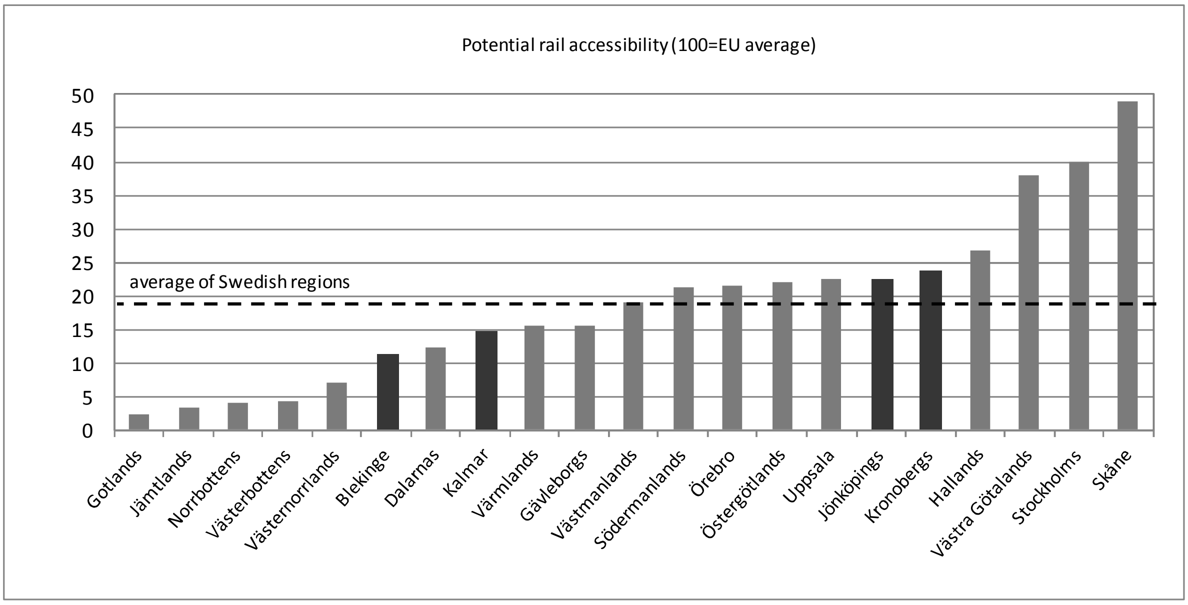
Figure 1.33. Road accessibility in Swedish TL3 regions to EU markets, 2006



Note: The indicator measures accessibility to potential markets in travel time by road using an inverse weighted GDP matrix to all EU regions. The weighting rule applies the inverse distance for travel time. Potential road access thus measures all the people that can be reached from a given region to all other regions in the EU.

Source: European Commission.

Figure 1.34. Rail accessibility in Swedish TL3 regions to EU markets, 2006



Note: The indicator measures accessibility to potential markets in travel time by rail using an inverse weighted GDP matrix to all EU regions. The weighting rule applies the inverse distance for travel time. Potential rail access thus measures all the people that can be reached from a given region to all other regions in the EU.

Source: European Commission.

40. Given these infrastructure constraints, the region is less accessible to major European markets than its location might suggest. Rather than above-average accessibility, Blekinge, Kronoberg and Kalmar are less accessible by road than non-metro regions such as Halland, Södermanland, Västmanland, Östergötland, Örebro or Gävleborg (Figure 1.33). With respect to rail accessibility, Kronoberg and Jönköping are better situated, at least in purely quantitative terms – they are only surpassed by Sweden's three metro regions and Halland – but the gap in rail accessibility in Kalmar and Blekinge is quite worrisome (Figure 1.34). This reflects not only the thinness of some of the infrastructure in quantitative terms, as described above, but also problems with the quality of much of it, as well as the extent to which much of Sweden’s basic infrastructure reflects the politics and economics of the post-1945 era, which contributed to a westward bias in transport networks and a relative neglect of more easterly routes.

41. While no data on foreign trade are available at sub-national level, an examination of changing patterns in Sweden’s trade at national level provides some clues about the opportunities and challenges facing the region. Not surprisingly, eight of Sweden’s top ten export destinations (including the top five) are West European countries, as are its top eight sources of imports. However, a look at trade *growth* rather than levels suggests that Swedish trade has been gradually shifting towards eastern European countries since the early 1990s. During the last decade, the share of new EU members in both imports and exports rose. Poland, Bulgaria and Romania accounted for the largest growth in exports to other EU destinations, while the fastest growth of exports (albeit in some cases from low bases) was recorded in respect of such countries as India, Vietnam, Russia, the Slovak Republic and South Africa. This suggests that further development of connective infrastructure linking Sweden to eastern markets could help facilitate national trade growth and bring particular opportunities to the four counties. These issues are explored in greater detail in Chapter 2.

42. The gaps in infrastructure, connectivity and accessibility do more than limit the counties’ ability to take full advantage of their location *vis-à-vis* major European and Swedish markets; they also affect internal dynamics within the region. Improved internal connectivity could help reduce commuting costs, contributing to thicker local labour markets and better matching of labour supply and demand. At the same time, better access to Sweden's main metropolitan regions and external markets could make incumbent firms within the four counties more competitive and attract human capital as well as new firms to the area. For this to occur, however, improvements in infrastructure would need to go hand in hand with changes in other regional policies, particularly with respect to human capital, which is addressed in the next section.

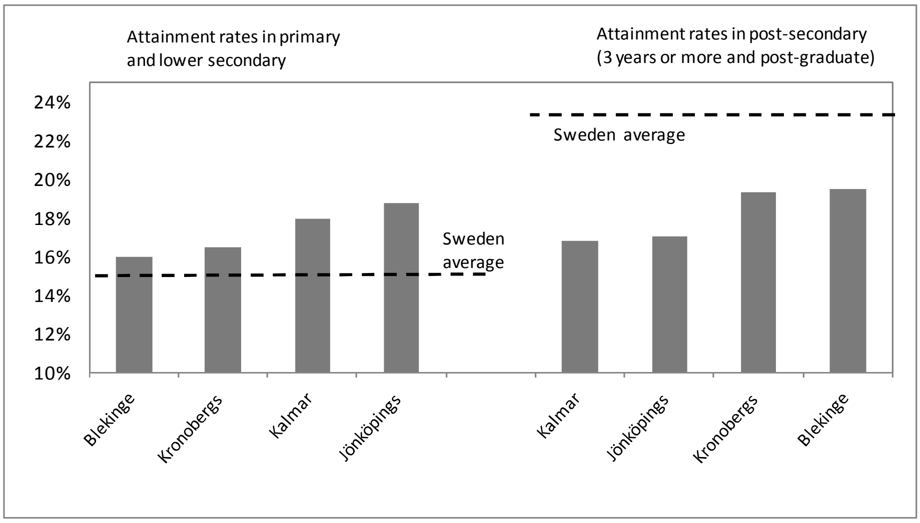
Investment in human capital needs to be set in the context of a broader development strategy

43. At regional level, developing human capital is perhaps the most important factor in the relative growth performance of OECD regions, because it has both a direct effect on regional growth and an indirect effect when it interacts with factors such as infrastructure investment and innovation-related activities (OECD, 2009). Direct gains from human capital accumulation occur when regions reduce their share of low-skilled workers in their workforce and increase that of high-skilled workers. Equally important is ensuring that improvements in this area are capitalised and co-ordinated with other sectoral policies in order to avoid possible unintended consequences, such as brain drain, which frequently occur when efforts to increase human capital are undertaken without corresponding steps to ensure that individuals will find opportunities to use their newly acquired skills locally (OECD, 2009). Investments in the supply of human capital should ideally be linked to measures addressing issues such as business development or infrastructure and accessibility.

44. Human capital is an area of concern in all four counties. They all display higher proportions of low-skilled workers in their workforces and lower proportions of high-skilled workers than the national average (Figure 1.35). Jönköping and Kalmar represent the most extreme cases. It is, of course, important

to put the counties into a larger context as well: Sweden is a country with an exceptionally highly skilled workforce overall.

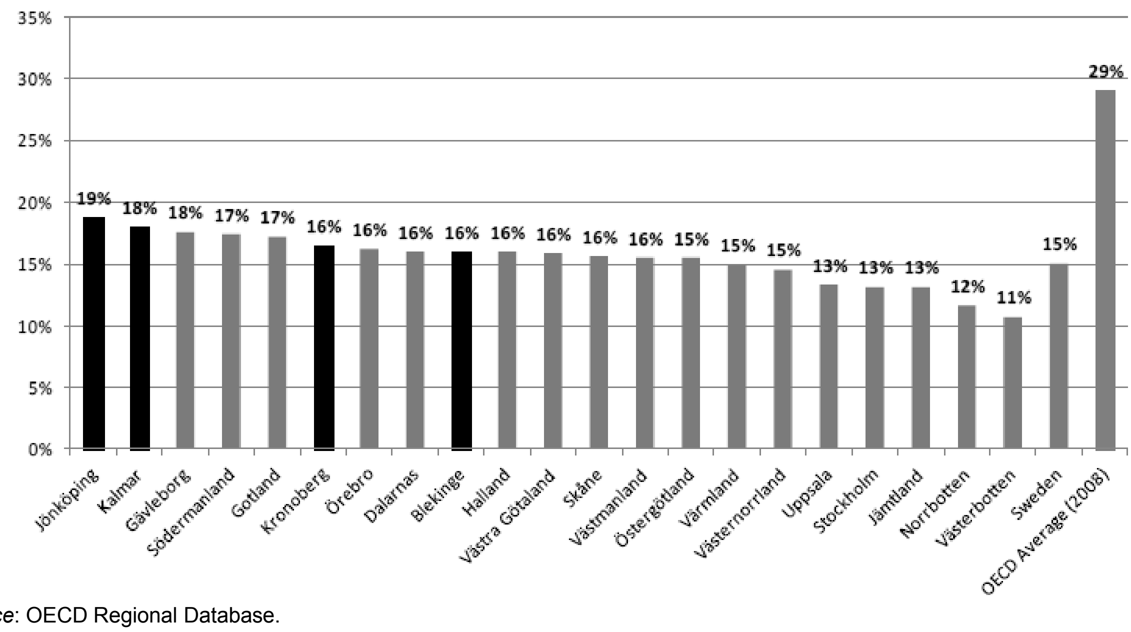
Figure 1.35. Share of population 25-64 years old with primary and secondary education and post-secondary as the highest level of education in four Swedish TL3 regions, 2009



Source: Computations based on data provided by Statistics Sweden

45. Underlying this gap in the composition of the labour force are below-average levels of human capital overall, as least as measured by formal education. As can be seen in Figure 1.36, the counties of Småland-Blekinge do not rank particularly high by Swedish standards, although comparison with the OECD average serves as a reminder that, in a global context, they still have considerable human capital assets. In short, this area represents a challenge for regions aiming to shift their production profiles towards higher technology and higher value added, but it is by no means an insurmountable constraint.

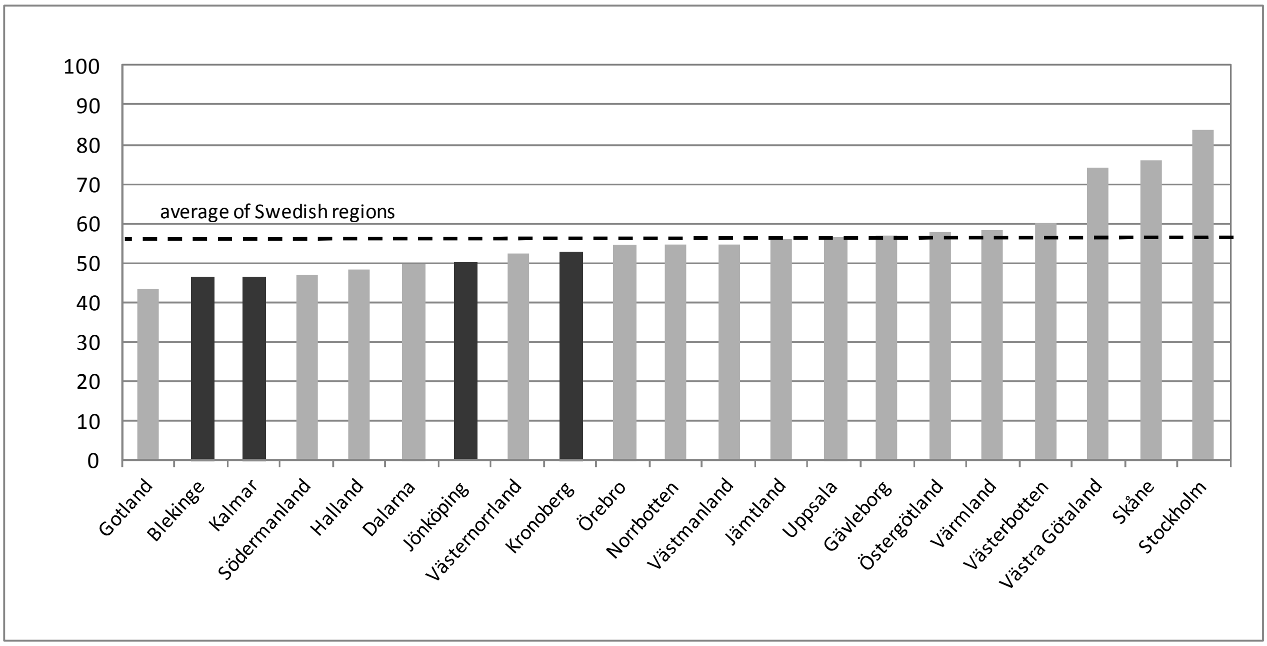
Figure 1.36. Share of population with primary and secondary education as highest level attained, 2009



Source: OECD Regional Database.

46. The region has in recent years made major efforts to invest in the region's supply of human capital. These have undoubtedly borne fruit, but retaining individuals with a high level of human capital has been a continuing problem. All four regions suffer from a higher level of brain drain than most Swedish regions (Figure 1.37), and Blekinge and Kalmar in particular. These two regions have the second and third lowest retention rates for post-secondary graduates among Swedish regions: only 46.4% and 46.6% of post-secondary graduates remain in the region. This should not be taken to imply that recent efforts to expand and upgrade higher education in the four counties have been in vain: the individuals benefitting from these efforts have benefited greatly, whether they remain in the region or not, and so has the Swedish economy as a whole. To that extent, these initiatives may be counted a success. But if they are to form part of a coherent strategy for the development of the region, then they need to be linked to other policies designed to enhance both the available job opportunities and the attractiveness of the region as a place to live. These challenges are addressed at length in Chapter 2.

Figure 1.37. Percent of post-secondary graduates from a county residing in the same county, 2007

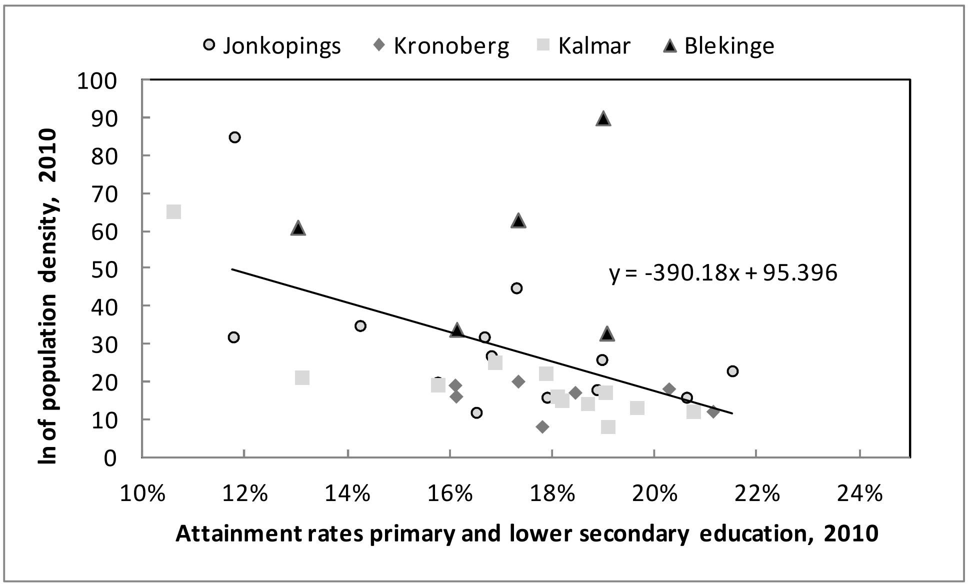


Source: Computations based on data from Statistics Sweden

47. Like settlement patterns, shifts in human capital flows within the region have tended to mirror on a smaller scale those typical of Sweden as a whole. Thus, while there is a nation-wide tendency for individuals with greater human capital endowments to gravitate to the major cities, there is also a trend within the four counties for more densely populated municipalities to enjoy significantly better human capital outcomes in terms of a lower proportion of low-skilled workers and a higher proportion of high-skilled individuals (Figures 1.38 and 1.39).

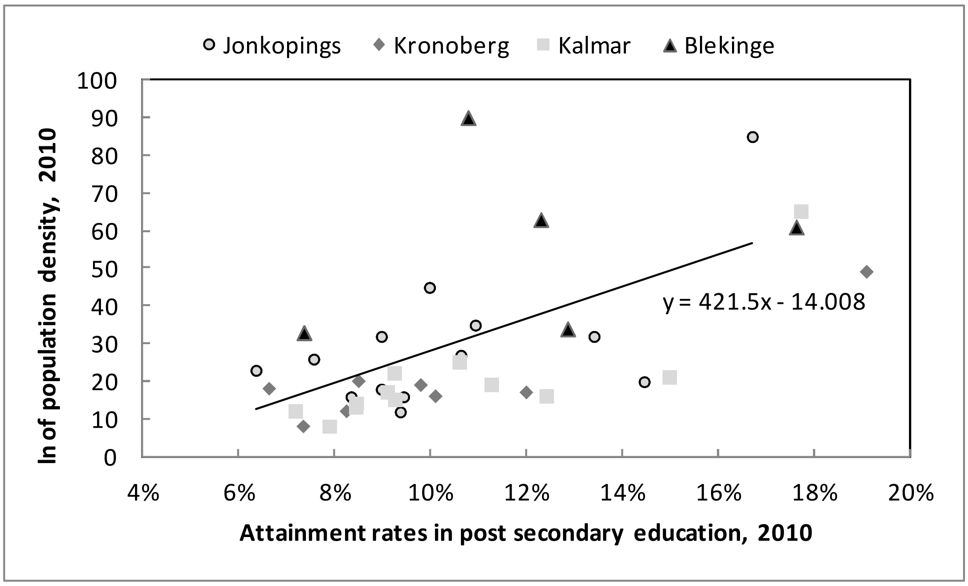
48. In sum there is a need to reduce the share of low-skilled workers in the region's workforce and to increase the share of high-skilled workers. Since the problem seems to concern retention and attraction of highly skilled individuals, it is likely that policies aimed at thickening local labour markets, reducing the cost of commuting and enhancing the attractiveness of the region should go hand in hand with efforts to improve the supply of human capital in the region.

Figure 1.38. Share of population 25-64 years with primary and secondary education in municipalities in four Swedish TL3 regions, 2010



Source: Computations based on data from the Swedish Register of Education, 2010.

Figure 1.39. Share of population 25-64 years with post-secondary education in municipalities in four Swedish TL3 regions, 2010



Source: Computations based on data from the Swedish Register of Education, 2010.

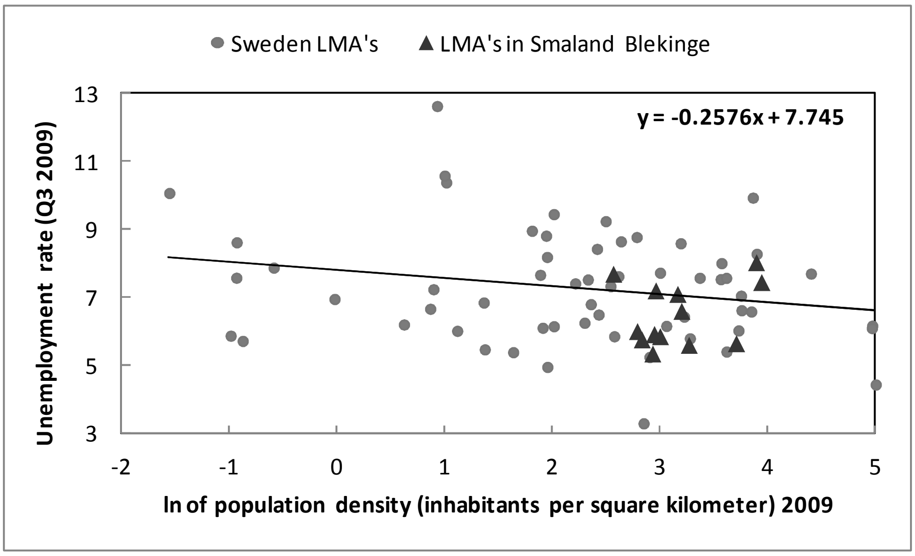
Better internal connectivity could contribute to thicker labour markets in the region

49. Recent OECD work finds that a significant number of large urban regions with high population density are underperforming with respect to national standards. This serves as a useful reminder that the economic benefits of agglomeration, though important, are neither linear nor infinite. It is also a reminder

that density and agglomeration are separate concepts. Agglomeration is not just about concentrating people in a given place but also about increasing the range of agents with whom they can transact and reducing the cost of doing so. Thus, better transport and communications networks can enhance agglomeration without any increase in density (agents continue to live where they are living).The key is internal and external connectivity. While there is little or no evidence to suggest that Sweden's metro areas have yet exhausted their potential to benefit from further agglomeration (OECD, 2010), this distinction points to the fact that there are things policy makers can do to generate greater agglomeration even in low-density regions such as the counties of Småland-Blekinge.

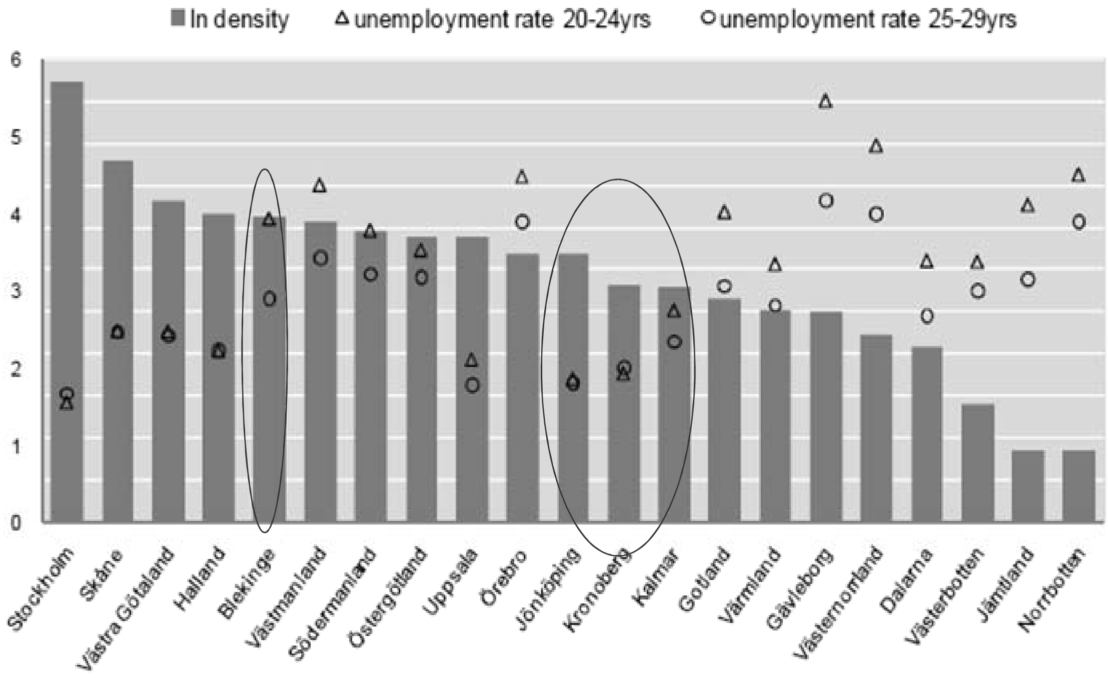
50. It is no surprise that thicker local labour markets are more efficient that thinner ones in Sweden. Thicker functional labour markets support lower levels of unemployment (Figure 1.40) and more densely populated regions provide greater opportunities for career development, particularly for youth (Figure 1.41) by better matching supply with demand. More densely populated regions also support a higher proportion of start-ups (Figure 1.41) and appear to be, *ceteris paribus*, more resilient to external economic shocks.

Figure 1.40. Density and unemployment rates in Swedish functional local labour markets, 2009



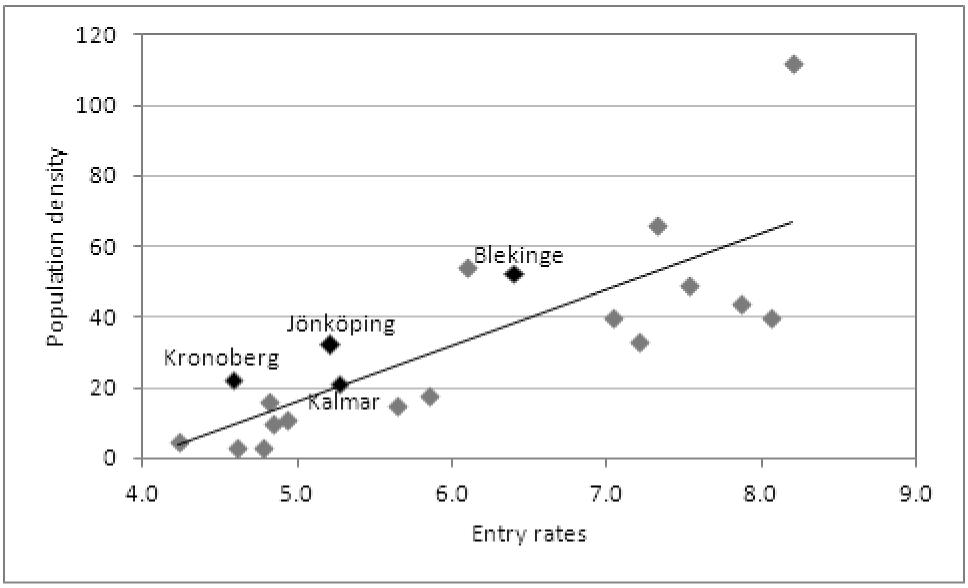
Source: OECD computations based on data from Statistics Sweden.

Figure 1.41. Density, unemployment rates and youth unemployment rates in Swedish TL3 regions, 2007



Source: OECD calculations based on data from Statistics Sweden.

Figure 1.42. Entry rates and population density Swedish TL3 regions, 2008



Source: OECD calculations based on data from Statistics Sweden.

Conclusion

51. The foregoing analysis points to a number of related policy and governance challenges that the region confronts. Its strong specialisation in medium-low and low technology manufactures clearly represents a challenge for the future, as competitive pressures from regions and countries with far lower labour costs are unlikely to abate. Sustaining the region's competitiveness will require moving up the value chain into more knowledge-intensive activities. This, in turn, points to the need to reduce the share of low-skilled workers in the region's workforce and to increase the share of high-skilled ones. Since the problem seems to concern retention and attraction of highly skilled individuals, it is likely that policies aimed at thickening local labour markets, not least by reducing the cost of commuting and enhancing the attractiveness of the region, should go hand in hand with efforts to improve the supply of human capital. Thicker labour markets will support better labour market outcomes; better connectivity will also attract more firms and people to the region and make existing firms more competitive by reducing their transport cost and the place more attractive and more dynamic in general. These efforts should go hand on hand with policies improving the participation of women in the workforce. These issues are explored in Chapter 2. At the same time, demographic trends raise increasing challenges for public service delivery, particularly in sparsely populated municipalities that are experiencing both population decline and accelerated population ageing. This reinforces the need to expand and deepen the range of instruments and institutions for inter-municipal co-operation. These issues are explored in greater depth in chapter 3, which also points to the broader need to address governance gaps in the region that make it difficult to address policy issues that transcend the scale of the counties themselves.

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ANNEX 1.A1. OECD REGIONAL CLASSIFICATION AND REGIONAL TYPOLOGY

Regional grids

52. In any analytical study conducted at sub-national level, defining the territorial unit is of prime importance, as the word *region* can mean very different things both within and among countries. In order to have a measure that is comparable, the OECD has developed a regional typology for classifying regions within each member country.

53. The classification is based on two territorial levels. The higher level (Territorial Level 2 – TL2) consists of 335 large regions, while the lower level (Territorial Level 3 – TL3) is composed of 1 679 small regions. All the regions are defined within national borders and in most cases correspond to administrative regions. Each TL3 region is contained within a TL2 region.

54. This classification – which, for European countries, is largely consistent with the Eurostat classification – helps to compare regions at the same territorial level. Indeed these two levels, which are officially established and relatively stable in all member countries, are used as a framework for implementing regional policies in most countries. In Sweden TL3 regions corresponds to 21 counties (*län*).

OECD regional typology

55. The OECD typology classifies 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 (*kommun* 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%.

56. 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.

ANNEX 1.A2. METHODOLOGY FOR THE DECOMPOSITION OF FACTORS OF GROWTH

57. Using a growth-accounting framework, GDP per capita can be broken down into the following three components: productivity, employment rate and activity rate according to the following equation:

$$\frac{GDP_i}{P_i} = \frac{GDP_i}{E_i} * \frac{E_i}{WA_i} * \frac{WA_i}{P_i}$$

where P, *E*, and *WA* stand, respectively, for population, employment and working age (15-64) population. Therefore, GDP per capita of region *i* is a function of its GDP per worker (*GDPi/Ei*), its employment rate (*Ei/WAi* – the share of the working-age population in employment) and its age-activity rate (*WAi/Pi* – the ratio of working-age to total population). The regional decomposed values (in log terms), when compared to national values, allow to measure gaps and their evolution over time. We plot these for each of the four counties in the Småland/Blekinge region.

Table 1.A2.1. Decomposing GDP per capita in the four counties, 1995-2006

Blekinge				
year	GDP pc	prod	ER	Demogr.
1995	86%	89%	97%	99%
1996	88%	89%	99%	99%
1997	95%	98%	98%	99%
1998	88%	89%	100%	99%
1999	89%	90%	100%	99%
2000	93%	96%	97%	99%
2001	85%	88%	97%	99%
2002	86%	89%	97%	99%
2003	89%	93%	97%	98%
2004	91%	95%	98%	98%
2005	91%	96%	97%	98%
2006	88%	92%	98%	97%
2007	86%	89%	99%	98%
2008	83%	87%	99%	97%
var (95-06) ln	-0.027	-0.030	0.015	-0.012

Jönköpings				
year	GDP pc	prod	ER	Demogr.
1995	92%	94%	101%	97%
1996	94%	100%	98%	97%
1997	92%	91%	105%	97%
1998	94%	91%	107%	97%
1999	92%	89%	107%	97%
2000	94%	91%	107%	97%
2001	93%	91%	105%	97%
2002	93%	90%	106%	97%
2003	92%	87%	108%	97%
2004	92%	87%	109%	97%
2005	87%	83%	108%	97%
2006	90%	85%	108%	97%
2007	93%	89%	106%	98%
2008	92%	88%	107%	98%
var (95-06) ln	-0.003	-0.067	0.051	0.012

Kronobergs				
year	GDP pc	prod	ER	Demogr.
1995	97%	95%	104%	98%
1996	99%	95%	106%	98%
1997	98%	92%	108%	98%
1998	98%	92%	107%	98%
1999	92%	87%	108%	98%
2000	94%	90%	105%	99%
2001	93%	90%	105%	99%
2002	92%	90%	105%	98%
2003	92%	89%	104%	98%
2004	94%	91%	104%	98%
2005	86%	82%	106%	99%
2006	92%	86%	110%	98%
2007	96%	91%	108%	98%
2008	96%	94%	104%	98%
var (95-06) ln	-0.008	-0.011	0.005	-0.002

Kalmar				
year	GDP pc	prod	ER	Demogr.
1995	89%	92%	100%	96%
1996	90%	93%	100%	96%
1997	86%	88%	101%	96%
1998	85%	86%	102%	96%
1999	83%	87%	99%	96%
2000	86%	90%	98%	97%
2001	86%	91%	98%	97%
2002	87%	92%	98%	97%
2003	88%	93%	98%	97%
2004	85%	88%	99%	97%
2005	85%	90%	97%	97%
2006	85%	90%	97%	98%
2007	83%	86%	100%	98%
2008	87%	88%	101%	98%
var (95-06) ln	-0.028	-0.051	0.007	0.016

Source: OECD Regional Database.

ANNEX 1.A3. INDICATORS OF SPECIALISATION

58. This annex presents two tables highlighting the sectoral productivity performance of Sweden as benchmarked against other OECD economies, followed by a series of tables assessing the degree of, and changes in, specialisation of the Småland-Blekinge counties in a number of sectors where Sweden appears to be especially competitive. Owing to limitations on the available data, specialisation is measured in terms of employment. In tables 1.A3.3 to 1.A3.8, specialisation is measured in terms of a so-called Balassa-Hoover index, which essentially compares the share of employment in a given sector in a given county to that sector's share in Sweden's overall employment structure. In technical terms the Balassa-Hoover index, is defined as:

$$BH_i = \frac{Y_{ij}/Y_j}{Y_i/Y}$$

where Y_{ij} is total employment of industry i in region j, Y_j is total employment in region j of all industries, Y_i is the national employment in industry i, and Y is the total national employment of all industries. A value of the index above 1 shows specialisation in an industry above the national average, and a value below 1 shows a level of specialisation below the national average. In other words, it is a measure of *relative* specialisation.

Table 1.A3.1. Value added per worker in Sweden and comparator countries, 1995 and 2008

	Sweden		Norway		Finland		Canada		United States		OECD 19	
Sectors	2008	1995	2008	1995	2008	1995	2008	1995	2008	1995	2008	1995
Total	58,269	43,877	62,545	56,532	57,258	44,264	55,962	48,763	76,471	60,106	55,027	45,627
Agriculture, Hunting, Forestry and Fishing	61,384	30,404	50,760	28,629	39,792	25,361	51,711	30,076	56,535	28,157	36,877	23,416
Mining and Quarrying	52,393	59,921	723,251	1,052,310	71,503	52,564	231,859	304,887	133,117	227,082	252,357	239,189
Total manufacturing	87,570	42,221	63,740	47,641	105,867	48,652	75,579	60,597	121,083	63,164	70,147	45,364
Food products, beverages and tobacco	64,936	50,498	44,432	43,340	68,194	37,226	73,838	63,067	98,273	101,565	56,255	49,853
Textiles, textile products, leather and footwear	49,198	35,825	34,720	27,524	36,963	26,263	28,872	35,748	63,328	33,993	45,334	34,646
Wood and products of wood and cork	47,118	31,506	39,887	30,267	51,620	33,214	75,926	53,868	59,227	46,074	43,053	32,229
Pulp, paper, paper products, printing and publishing	89,213	63,063	70,865	52,793	125,537	80,927	68,864	54,044	117,236	70,291	71,302	51,252
Chemical, rubber, plastics and fuel products	165,466	73,799	97,546	69,944	94,319	64,297	81,884	78,586	160,695	111,729	105,466	74,758
Other non-metallic mineral products	73,492	44,639	67,804	59,398	70,150	49,828	73,821	53,737	71,948	69,491	67,157	49,672
Basic metals and fabricated metal products	56,085	51,013	77,021	55,242	68,011	50,922	81,604	60,753	72,708	64,654	57,729	44,919
Machinery and equipment	126,892	27,630	72,741	45,364	189,111	43,643	74,555	55,755	226,485	38,712	86,394	40,204
Transport equipment	76,464	45,011	53,553	46,351	37,036	33,017	114,489	90,437	132,582	78,914	80,156	47,660
Manufacturing n.e.c. and recycling	36,762	19,251	63,978	34,442	37,386	31,051	46,804	36,055	85,098	48,874	46,486	30,784
Electricity gas and water supply	148,980	170,808	258,065	127,829	138,937	88,397	176,913	182,402	316,767	248,712	181,198	132,284
Construction	36,322	41,997	31,743	50,475	44,241	48,664	45,784	41,637	40,862	54,581	39,015	39,820
Total services	53,287	44,046	50,690	41,241	47,945	44,297	49,765	42,978	72,371	58,629	52,479	46,178
Wholesale&Retail trade,Restaurants and Hotels	51,781	32,867	51,174	27,552	41,433	32,745	32,494	24,520	53,288	37,434	41,836	33,073
Transport, Storage and Communications	72,369	50,238	67,081	49,416	73,497	51,023	66,262	51,896	117,044	73,900	75,329	50,711
Finance, Insurance, Real Estate and Business Services	123,774	85,426	142,685	72,417	137,840	100,923	77,195	64,509	147,415	101,100	112,454	83,214
Real estate, renting and business activities	90,797	105,733	77,007	100,570	80,303	96,748	88,032	98,417	131,454	111,768	81,244	99,841
Community, Social and Personal Services	33,370	31,266	34,337	33,105	29,965	32,190	39,549	37,502	46,122	46,045	36,577	35,744

Note: OECD 19 includes Austria, Belgium, Canada, Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Italy, Japan, Luxembourg, Netherlands, Norway, Slovak Republic , Spain, Sweden, United Kingdom, and United States

Source: OECD STAN Database.

Table 1.A3.2. Value added per worker ratios, 1995 and 2008

	Swedish productivity relative to					
	Average of Norway, Finland and Canada		United States		OECD 22	
Sectors	**2008**	**1995**	**2008**	**1995**	**2008**	**1995**
Total	99%	88%	76%	96%	106%	96%
Agriculture, Hunting, Forestry and Fishing	129%	109%	109%	130%	166%	130%
Mining and Quarrying	15%	13%	39%	25%	21%	25%
Total manufacturing	107%	81%	72%	93%	125%	93%
Food products, beverages and tobacco	104%	105%	66%	101%	115%	101%
Textiles, textile products, leather and footwear	147%	120%	78%	103%	109%	103%
Wood and products of wood and cork	84%	81%	80%	98%	109%	98%
Pulp, paper, paper products, printing and publishing	101%	101%	76%	123%	125%	123%
Chemical, rubber, plastics and fuel products	181%	104%	103%	99%	157%	99%
Other non-metallic mineral products	104%	82%	102%	90%	109%	90%
Basic metals and fabricated metal products	74%	92%	77%	114%	97%	114%
Machinery and equipment	113%	57%	56%	69%	147%	69%
Transport equipment	112%	80%	58%	94%	95%	94%
Manufacturing n.e.c. and recycling	74%	57%	43%	63%	79%	63%
Electricity gas and water supply	78%	129%	47%	129%	82%	129%
Construction	89%	89%	89%	105%	93%	105%
Total services	108%	103%	74%	95%	102%	95%
Wholesale&Retail trade,Restaurants and Hotels	124%	116%	97%	99%	124%	99%
Transport, Storage and Communications	105%	99%	62%	99%	96%	99%
Finance, Insurance, Real Estate & Business Services	104%	108%	84%	103%	110%	103%
Real estate, renting and business activities	111%	107%	69%	106%	112%	106%
Community, Social and Personal Services	96%	91%	72%	87%	91%	87%

Note: OECD 19 includes Austria, Belgium, Canada, Czech Republic, Denmark, Finland, Germany, Greece, Hungary, Italy, Japan, Luxembourg, Netherlands, Norway, Slovak Republic , Spain, Sweden, United Kingdom, and United States

Source: OECD STAN Database.

Table 1.A3.3. Specialisation in chemical, rubber, plastics and fuel products, 1993-2007

	13	14	15	16
Jönköping	0.12	0.50	0.09	4.92
Kronoberg	0.02	0.12	0.02	1.46
Kalmar	0.01	0.80	0.01	1.27
Blekinge	0.37	0.36	0.01	3.07
	Change in specialisation			
Jönköping	0.02	-0.26	0.04	0.14
Kronoberg	0.00	0.05	-0.02	0.04
Kalmar	-0.04	0.45	-0.03	0.37
Blekinge	0.37	-0.23	0.01	1.30

Note: Sector 13 is manufacture of coke, refined petroleum products and nuclear fuel; 14 manufacture of chemicals and chemical products, excl. 24.4-5; 15 manufacture of pharmaceuticals, medicinal chemicals and botanical products, soap and detergents, cleaning and polishing preparations, perfumes and toilet preparations and 16 is manufacture of rubber and plastic products.

Source: OECD Regional Database.

Table 1.A3.4. Specialisation in machinery and equipment, 1993-2007

Machinery and equipment

	20	21	22	23
Jönköping	1.77	3.05	1.16	1.01
Kronoberg	3.03	0.31	0.63	0.78
Kalmar	1.19	0.21	1.09	0.35
Blekinge	1.15	0.04	2.80	0.44
Change in specialisation				
Jönköping	0.13	1.83	0.20	-0.12
Kronoberg	0.38	-0.03	0.03	0.38
Kalmar	-0.09	0.06	-0.61	0.20
Blekinge	0.34	-2.62	0.90	0.16

Note: Sector 20 is manufacture of machinery and equipment n.e.c., 21 manufacture of office machinery and computers; manufacture of office machinery and computers; 22 manufacture of electrical machinery and apparatus, radio, television and communication equipment and apparatus and 23 is manufacture of medical, precision and optical instruments, watches and clocks.

Source: OECD Regional Database.

Table 1.A3.5. Specialisation in pulp, paper, printing and publishing, 1993-2007

Pulp paper printing and publishing

	10	11	12
Jönköping	1.28	0.66	0.94
Kronoberg	0.61	0.14	1.85
Kalmar	1.11	4.87	0.69
Blekinge	0.32	6.58	0.80
Change in specialisation			
Jönköping	0.16	0.42	0.14
Kronoberg	-0.61	-0.08	0.58
Kalmar	-0.39	2.15	-0.17
Blekinge	-0.31	1.73	0.15

Note: Sector 10 is manufacture of pulp, paper and paper products, excl. pulp, 11 manufacture of pulp and 12 is publishing, printing and reproduction of recorded media.

Source: OECD Regional Database.

Table 1.A3.6. Specialisation in food products, beverages and tobacco, 1993-2007

Food process beverage and tobacco

	5	6
Jönköping	0.56	0.78
Kronoberg	0.63	0.04
Kalmar	1.20	0.00
Blekinge	1.47	0.00
Change in specialisation		
Jönköping	0.05	0.78
Kronoberg	-0.10	0.04
Kalmar	-0.05	0.00
Blekinge	-0.08	0.00

Note: Sector 5 is manufacture of food products and beverages and 6 is manufacture of tobacco products.

Source: OECD Regional Database.

Table 1.A3.7. Specialisation in wholesale and retail trade, restaurants and hotels, 1993-2007

	30	31	32	33	34
Jönköping	0.86	1.13	1.04	0.88	0.71
Kronoberg	0.92	0.90	0.86	1.04	0.69
Kalmar	0.95	0.74	0.52	0.99	0.95
Blekinge	0.88	0.81	0.42	0.82	0.70
Change in specialisation					
Jönköping	-0.21	0.16	0.13	-0.07	-0.14
Kronoberg	-0.17	-0.15	-0.39	0.02	-0.05
Kalmar	-0.23	0.00	0.08	-0.09	0.09
Blekinge	0.13	0.02	0.04	-0.16	0.08

Note: Sector 30 is maintenance and repair of motor vehicles, 31 sale of motor vehicle, motorcycles and related parts and accessories, retail sale of automotive fuel, 32 wholesale trade and commission trade, except of motor vehicles and motorcycles, 33 retail trade, except of motor vehicles and motorcycles; repair of personal and household goods and 34 is hotels and restaurants.

Source: OECD Regional Database.

Table 1.A3.8. Specialisation in real estate and business services, 1993-2007

	44	45	46	47	48
Jönköping	0.72	0.54	0.35	0.22	0.63
Kronoberg	0.72	0.55	0.91	0.13	0.78
Kalmar	0.85	0.57	0.27	0.21	0.63
Blekinge	1.42	0.40	0.53	0.83	0.67
Change in specialisation					
Jönköping	-0.14	-0.11	-0.10	0.14	0.01
Kronoberg	-0.09	0.02	0.04	-0.02	0.00
Kalmar	0.02	-0.12	0.12	0.18	-0.01
Blekinge	0.64	0.03	-0.28	0.75	-0.07

Note: Sector 44 is real estate activities, 45 renting of machinery and equipment without operator and of personal and household goods, 46 computer and related activities, 47 research and development, 48 other business activities.

Source: OECD Regional Database.

CHAPTER 2. ECONOMIC COMPETITIVENESS IN THE SMÅLAND-BLEKINGE REGION

The lack of technology-intensive industries and knowledge-based enterprises and the lack of skilled labour are two interrelated factors constraining the competitiveness and growth opportunities of Småland-Blekinge. The region's traditional sectors need to evolve towards a knowledge-based economy to ensure the maintenance and growth of the region's prosperity. Yet the adjustment of its industrial fabric will require a highly qualified and dynamic labour supply. The regional competitiveness of Småland-Blekinge relies greatly on its ability to attract and retain youth, migrants, women and their families, so that they can work, live and set up businesses in the area. This is directly related to the perceived attractiveness of the region in terms of quality of life and the availability of attractive jobs and business opportunities. This chapter first looks at how to ensure a highly qualified and dynamic labour supply by better integrating youth and women in the local economy and by attracting talent from outside. It then focuses on factors that can help make Småland-Blekinge an attractive place to live and work and to improve the framework for business competitiveness

Introduction

59. The success of the four counties of Småland-Blekinge in recent decades is clearly something of a paradox. As the rural periphery of an urbanised country, the region has in many ways defied most of the predictions associated with theories of economic agglomeration as well as much conventional wisdom about manufacturing competitiveness. It has maintained industrial growth and development despite relative geographical isolation, relatively high wages and a comprehensive welfare state. This, in turn, has provided the foundation for high levels of welfare and quality of life. The counties' prosperity has mostly been sustained by low- to medium-technology small and medium-sized enterprises (SMEs) that supply major Swedish corporations located outside the Småland-Blekinge territory. This is an impressive achievement but also a fragile one – impressive, because the region has continued to compete successfully in sectors which have largely lost out to developing country competition in other OECD countries, and fragile, because those competitive pressures continue to intensify. As the region's entrepreneurs and policy makers well know, past success is no basis for complacency about the future. It has simply become increasingly difficult to maintain competitive low- to medium-technology manufacturing in the developed countries.

60. Development of knowledge-intensive businesses is a promising route for ensuring the maintenance and growth of the region's prosperity. For this, the region's economic and industrial base must move to a higher value-added and knowledge-intensive base where human capital plays a key role and where entrepreneurship is essential to translate human capital into economic value. The low value-added industrial structure that characterises most of Småland-Blekinge's economy is largely incompatible with what is understood as the drivers of a knowledge-based economy. However, its strong SME structure is well suited to the establishment of a modern knowledge-based economy. In this sense, the four counties appear to have entered the new century with a promising firm structure but an urgent need to acquire the new skills to make the most of that structure.

61. The adjustment of the four counties' industrial fabric will require a prior shift in the characteristics and availability of the local labour supply, but this will not occur unless skilled workers find Småland-Blekinge an attractive place to live and work. The structural and demographic shift in local industry and in the local labour markets must change together if the region is to move successfully towards a more strategic and competitively sustainable future.

62. This chapter has two major sections. It begins by addressing the demographic and labour market challenges that are closely linked to the future competitiveness of Småland-Blekinge. It looks at how the counties might optimise the potential contribution of youth and women to the local economy and presents ways to promote national and foreign immigration for the benefit of the area's economic development. Ensuring a highly qualified and dynamic labour supply will depend in no small measure on perceptions of the region's attractiveness, in terms both of quality of life and of job development opportunities. The next section considers three things that can help make Småland-Blekinge an attractive place: first, its natural assets and amenities and their potential to contribute to regional development; second, the scope for strengthening and diversifying the framework for business competitiveness; and third, ways of improving regional connectivity to better promote regional development.

63. The analysis that follows suggests that some of the answers to Småland-Blekinge's socio-economic challenges are likely to come from better communicating and exploiting of the area's natural endowments so as to improve the territory's overall attractiveness. This will help to retain and/or attract people, ideas and investment to the region, not least by increasing the incentives and opportunities for skilled young people from the region to remain or return. However, relying on local youth will not be enough. It will also be necessary to attract qualified labour, including migrants and foreign students, from outside the region. In addition, the local industrial fabric needs to be modernised. This is why there must be a more strategic approach to promoting entrepreneurship, while paying greater attention to the retention and expansion of existing businesses and helping them adapt to the new knowledge-based competitive environment.

2.1. Adjusting to the demographic challenge

64. As is clear from Chapter 1, a lack of skilled labour is one of the factors constraining the competitiveness and growth opportunities of local industry. The region's traditional sectors need to open up and evolve progressively towards a knowledge-based economy, but this will require a highly qualified and dynamic labour supply. Three main targets for closing labour-market mismatches in Småland-Blekinge in the transition towards a knowledge-driven economy are: *i)* better integrate young people in the regional economy; *ii)* attract talent from outside; and *iii)* better integrate women in the private sector.

Young people may well be a leading indicator of a region's future trajectory…

65. For a community, an adequate share of young people in its population is not only a means of maintaining a demographic balance and avoiding population ageing, it is also the way to maintain a healthy and dynamic labour market supply. More than ever firms in Småland-Blekinge need an injection of young new talent in the labour market. Young people bring new ideas and skills and they help maintain the critical mass that rural communities need to retain certain key proximity services, such as schools and recreational/sports facilities. They also represent a local market for leisure activities that might otherwise be unavailable. Cinemas, bars, restaurants and other proximity services can enhance of the quality of life of the entire local population, making a given place more attractive for residents of all ages. In essence, the evidence suggests that young people can serve as an "indicator" of the future prospects of a community, both demographically and functionally (Muilu and Rusanen, 2003). It is up to communities to design and enact plans that convert this social and intellectual capital into a more promising future.

…but youth in Småland-Blekinge tend to leave the region

66. As observed in Chapter 1, many young people in Småland-Blekinge migrate from smaller to larger towns, and from there out of the region. Outmigration is especially high among highly qualified youth and women. A survey of 2007/08 graduates of post-secondary education in Sweden showed that a significant share of those who had graduated from the universities of Småland-Blekinge moved away after

completing their studies, many to metropolitan areas. For example, only 46% of the students who graduated from the universities of Kalmar and Blekinge in 2007/08, remained in these counties in 2010; of those who left, most moved to Stockholm, Skåne or Västra Götaland counties. By contrast, most of the graduates of universities in metropolitan areas tended to remain there after graduation (Table 2.1).

Table 2.1. Brain drain in Småland-Blekinge

County of residence in 2010 of students graduated from post-secondary education in the universities of Småland-Blekinge in 2007/08

County of education	County of Residence				
	Same county	Stockholms county	Skåne county	Västra Götalands county	Other
Jönköpings county	50.1	11.5	7.1	13.8	17.5
Kronobergs county	52.8	10.7	13.5	8	15
Kalmar county	46.6	14.6	8.5	8.8	21.5
Blekinge county	46.4	10.1	19.3	6.7	17.5
Stockholm	83.8				
Skane	75.9				
Vastra Gotland	74.3				

Note: Figures are expressed as a share of total graduates of post-secondary education in 2007/08 in each of the counties.

Source: Statistics Sweden.

67. Migration data for 2000-10 show net in-migration for all four counties of Småland-Blekinge during the period. However, these small but steady inflows are differentiated by both gender and age. Taking all ages into account, the four counties recorded net inward migration of both men and women across the period, but the net inflows of men and boys were larger – in some cases significantly larger – relative to population than the net inflows of women and girls. Moreover, if the analysis is confined to youth and young adults (aged 15-34), then only Jönköping shows significant net inward migration. Blekinge shows net outflows of men and women alike, while Kalmar and Kronoberg are close the break-even point, with Kalmar recording a small net outward movement of women. Again, in all cases, the net inflows (outflows) of men were larger (smaller) than those recorded for women. Given the evidence of the survey cited above, which brings education into the picture, these data suggest that the impact of outward migration on the human capital of the region may be greater than the aggregate figures suggest.

68. Nevertheless, rural areas continue to be perceived as attractive places to live. Studies conducted across non-metropolitan areas of OECD countries have often found that most young people rate their communities as above-average or excellent places to live (OECD, 2006; LeBlanc *et al*., 2007). However, most respondents also feel that the best chances for economic and professional success lie beyond their rural regions. Many express the desire to stay in, or return to, their communities if career opportunities are available in or near their hometowns. In Sweden, a recent survey conducted by SIFO for the Ministry of Rural Affairs found that Swedish youth is increasingly open to residing in the countryside (Sydsvenskan, 2011). Thus, as a growing number of young people from predominantly rural counties leave for the city, an increasing number of young adults from larger metropolitan areas are contemplating moving their place of residence and families away from the city, attracted by lifestyle of rural areas. The main obstacle is the (perceived or actual) lack of opportunities.

69. The concentration of job and education opportunities in the bigger towns in the region and in the metropolitan areas acts as a magnet for youth to move from rural to urban regions. Larger towns, and especially metropolitan areas, offer economies of scale, thicker labour markets, better infrastructure and connections, larger populations of firms and more investment opportunities. As studies of agglomeration dynamics have shown, these advantages tend to be self-reinforcing, at least up to the point at which

congestion, living costs and other countervailing forces begin to raise the cost of further agglomeration. In smaller localities, the limited availability of jobs outside traditional activities, as well as more limited services, infrastructure and leisure activities, create the conditions for outmigration to larger towns.

70. The transition towards a knowledge-driven economy has generated labour-market mismatches in many places and can limit job opportunities for lower-skilled youth. In Småland-Blekinge, low-skilled young people are finding it increasingly difficult to find jobs in local industry. Until recently they commonly worked in industry straight after secondary school. There were job opportunities and the region's low- and medium-technology industry did not generally require further formal schooling. By contrast, those who continued to higher education rarely found adequate job opportunities in the region and therefore moved to the city to find employment that better matched their skills. However, the shift towards a knowledge-driven economic structure, which some local industries have recently embarked on, has changed the profile of the workers they seek to hire. Low-skilled workers are no longer as attractive to these firms.

71. Although the local labour market is starting to change most skilled young people in the region continue to look towards Stockholm, Göteborg or Malmö when opportunities are not found immediately in their hometowns. This means that the region's manufacturing firms that seek to evolve towards a higher value-added, knowledge-based competitive business model often have difficulty finding the skilled recruits they require within the local labour market. Moreover, youth often have a negative perception of local industrial work, especially those with higher education. For some young people, brought up to aim for higher education and highly skilled white-collar employment, work in local industry is almost a sign of professional failure.

72. The growing local supply of quality higher education opportunities and challenging modern job openings in Småland-Blekinge needs to be better known. Young people should be made aware of opportunities close to home, in neighbouring counties or municipalities within the region. Higher education and career opportunities within the region should have the same social recognition and economic value as those in metropolitan areas. Regional and local authorities can take steps to encourage skilled youth to engage in the local economy and to remain in the region (see Box 2.1) by:

1. strengthening the links between the regional education system and regional businesses, so as to generate smooth transitions between the education system and the labour market;

2. creating a good business framework, strengthening and upgrading job opportunities, including entrepreneurship and the development of SMEs; and

3. engaging youth in the development of the region, to develop a sense of ownership and vested interest in their community.

Box 2.1. Steps to cultivate the potential of a community's youth population

According to the Rural Policy Research Institute (RUPRI)'s Energizing Young Entrepreneurs (EYE) initiative, communities can take the following steps to cultivate the full potential of their youth:

- Combine vision with action. Invest time and resources in youth priorities and making communities more attractive for young people to live, contribute and work.

- Improve the school-to-job transition by strengthening interactions between regional universities and businesses.

- Map the community's assets, with an eye to matching educational and training assets with educational and career plans.
- Encourage the development of SMEs that can offer small business ownership or quality jobs to young people. Create and ensure access to technical assistance and business coaching in the development of businesses owned by young people.
- Introduce entrepreneurship education within the school system or as an extra-curricular opportunity. Create a mentorship programme in which students can shadow community entrepreneurs and gain hands-on knowledge.
- Consult and involve local youth and young adults in every phase of community economic development activities, creating a community plan for improvement that actively engages youth as integral, vital partners in planning efforts.

Source: Adapted from RUPRI Centre for Rural Entrepreneurship, *www.energizingentrepreneurs.org*.

A good match between universities and businesses will be crucial

73. The quantity and quality of higher education opportunities available within the Småland-Blekinge area has increased significantly over the last decade. Each county capital has its own higher education institution (HEI). Jönköping has the private not-for-profit Jönköping University, which is composed of four schools including Jönköping International Business School (JIBS), founded in 1994; Blekinge has the Blekinge Institute of Technology (BTH) with campuses in Karlskrona (1989) and Karlshamn (2000); Växjö University was granted university status in 1999 and was renamed Linnaeus University in 2010 when it merged with Kalmar University. These universities have a high degree of complementarity. While BTH emphasises applied information technology, IT in industry and society, Jönköping University has a strong business and international perspective. Within the Linnaeus University system, Växjö has a strong social science orientation and Kalmar is more focused on the (natural) sciences. BTH participated in negotiations with Växjö University and Kalmar University that would have led all three universities to merge, but BTH ultimately decided not to participate. Because it is private, Jönköping University cannot enter into such a merger, but it collaborates closely with Linnaeus University.

74. The fear of being tagged as a (secondary) regional institution instead of a university with international stature might limit regional initiatives. This was one reason why BTH chose not to merge with Linnaeus University. All the universities in Småland-Blekinge wish to connect with their communities and develop local linkages to some extent, but universities have incentives to look internationally more than locally and to target research areas that may not fit local needs. However, regionally based education is critical both to develop knowledge-intensive jobs and to promote labour stability in the region by allowing graduates to find local employment and remain in their home region.

75. Strengthening the interaction between universities and businesses can improve the school-to-job transition. The increase in higher education opportunities and quality in Småland-Blekinge makes it less necessary for young people to leave the region for higher education. Yet education in universities in the region may just delay the outmigration of young people if they cannot find local job opportunities requiring the skills obtained in the area's universities. Regional universities can help stimulate regional competitiveness by moving towards more needs-driven research and by supporting innovation in knowledge-intensive SMEs. This would help to ensure that graduates are employable and would respond to local employers' needs for new skills. The example of NURI University in Korea illustrates what might be done (Box 2.2). In the OECD area, human capital policies have increasingly shifted towards a concept of education that is linked to the labour market and lifelong learning. The framework for lifelong learning

encompasses the demand for and the supply of learning opportunities as part of a connected system of all types of formal and informal learning. The prospects for smooth transitions between the education system and the labour market are better when programmes of learning are connected to post-school destinations.

Box 2.2. Korea's New University for Regional Innovation (NURI)

The National New University for Regional Innovation (NURI) was founded by the central government to enhance regional innovation and to ensure balanced national development outside the Seoul metropolitan area. The NURI project aims to develop curricula in terms of specialised areas that are closely aligned to characteristics of the regional economy. Learning programmes reflect regional issues and seek creative solutions over the medium to long term rather than seeking simply to meet the short-term need to train students to fill known skills gaps. The objective of the NURI project is to help local higher education institutions to: attract and retain talent in the regions; improve educational conditions and develop workforce education and development programmes to help students acquire occupational skills; build productive partnerships with local authorities, research institutions, business and industry; provide skilled workers and advanced technologies to the industrial clusters in the regions; play a leadership role in developing and maintaining effective regional innovation systems.

Source: OECD (2007a), *Higher Education and Regions: Globally Competitive, Locally Engaged.*

76. In Småland-Blekinge, changes in this direction are already under way. Universities are increasingly reacting to local social and business needs through measures to strengthen their links with the business community. Linnaeus University has not only established local links but has made local collaboration one of the university's main strategic objectives.[1] Jönköping University and Blekinge Institute of Technology have done the same. Under its mentorship programmes, each student of the business school and the school of engineering is linked to a local company which serves as the student's mentor throughout his/her university career. This programme, if successfully managed and implemented, not only puts students in touch with local businesses, it also helps transfer university-based knowledge to the economy. Students get practical experience to complement their classroom and laboratory-based studies and engage with local industry. With better knowledge of local industry, students are more likely to improve their perception of local businesses and be more attracted to a local professional career.

77. The authorities in Småland-Blekinge could do more to link the universities with the business community. Attempts to reproduce Jönköping University's mentorship programme in the other universities in the region have so far had limited success. It is obviously resource-intensive and time-consuming to set up and maintain such a programme, but the benefits of bringing the university closer to its local business community should ultimately outweigh these costs. Greater networking opportunities should also be provided between businesses throughout Småland-Blekinge and beyond. Knowledge House in England´s northeast is an interesting example of how several regional universities can join forces and help local firms access university skills, expertise and specialised resources (Box 2.3).

Box 2.3. Knowledge House

Established in 1995, Knowledge House is a joint effort of the five universities in north-eastern England (Durham, Newcastle, Northumbria, Sunderland and Teesside) and the Open University in the North. The universities' regional association, Unis4NE, helps companies access university skills, expertise and specialist resources. It offers expert solutions for developing ideas and solving problems through collaboration, consultancy, training and research. It has established an outstanding track record for helping with all aspects of advancing a business, including initial development of ideas, research and development, manufacture, quality assurance, and staff development. Originally planned to provide a service to local SMEs, the service now includes large companies and multinationals. Knowledge House has a central headquarters and staff at partner sites. The network and its operations are supported by a web-based enquiry handling/project management and client relationship management system. Knowledge House has received over 1 300 enquiries from client companies since 1996. The cumulative economic impact of Knowledge House activity has been estimated at in excess of GBP 35 million (a six-fold return on investment). In contrast to networks providing only signposting services, Knowledge House offers a cradle-to-grave service, stretching from the receipt and circulation of enquiries through project management and delivery to post-completion evaluation. It is also playing its part in the integration and consolidation of business support services in the northeast through formal agreements and joint appointments with other, non-university business support agencies such as the Business Links service and the Regional Development Agency.

Source: OECD (2007a), *Higher Education and Regions: Globally Competitive, Locally Engaged*.

78. Linking local youth with local businesses could start even before university. The young need to learn about modern local manufacturing if they are to change their perceptions and become interested in participating in the local workforce. Although national legislation sets the minimum age to work in industry at 18, schools and business associations can collaborate to cultivate interest in local business and involve youngsters in industry at an early age. They can also build on programmes designed to give children and young people a better understanding of entrepreneurship. *Ung Företagsamhet* for example is a non-profit association which collaborates with schools to promote entrepreneurship among children and young people aged 9 to 19. During the school year students can run their own businesses, known as UF enterprises. *Ung Företagsamhet* has regional offices in each of the four counties.

79. Finally, international exchange programmes can also help stabilise youth migration. While local internships and mentoring programmes help to bring young people into contact with local business and make them aware of local labour opportunities, international exchange programmes can address their desire for travel and foreign experiences. By satisfying this desire during their student life, such programmes can weaken the "call of the city" after graduation, provided, of course, that attractive local job opportunities are available. Jönköping University is a good benchmark in terms of student exchange: in 2010, 31% of its students took part in an exchange programme and studied abroad, well above the Swedish average of 17%. Up to 90% of students at Jönköping International Business School spend at least one semester abroad, the highest rate of student exchange in the Nordic countries (Jönköping University, 2011). Students' international experience and an international outlook can constitute a "brain gain". Not only do young people who return to their communities have new ideas and more human and social capital, they often turn to entrepreneurship in order to optimise their new skills.

Entrepreneurship appears a good path to youth prosperity

80. The lack of employment prospects for young people in many OECD countries[2] has led many to consider business creation as a way to satisfy their need for work and professional development and remain in their home region (Blanchflower and Meyer, 1994). A growing number of young people across OECD countries view entrepreneurship as a desirable career path. The diminishing importance of scale and tangible resources as foundations for competitiveness, and ready access to information and communication technologies (ICTs) are creating new opportunities for SMEs to create wealth. Young people in non-metropolitan areas are realising that markets are now easier to reach from the most remote communities. It is often believed that an entrepreneurial culture exists in south-eastern Sweden, especially in Småland, but entrepreneurship does not generally appeal to local youth. Most start-ups are launched by people over 31 years of age, especially in Kronoberg, Kalmar and Blekinge (Table 2.2). This seems to be the case even in the historically entrepreneurial western communities. In Gnosjö and neighbouring municipalities, famous for their entrepreneurial spirit, young people are increasingly reported to be leaving the region for higher education and following independent careers instead of remaining with their family businesses.[3] This is generating concern for family firms in which the young generation may not choose to take over ventures set up by their parents or grandparents (Section 2.2).

Table 2.2. Share of start-ups by age group

Småland-Blekinge counties, 2009

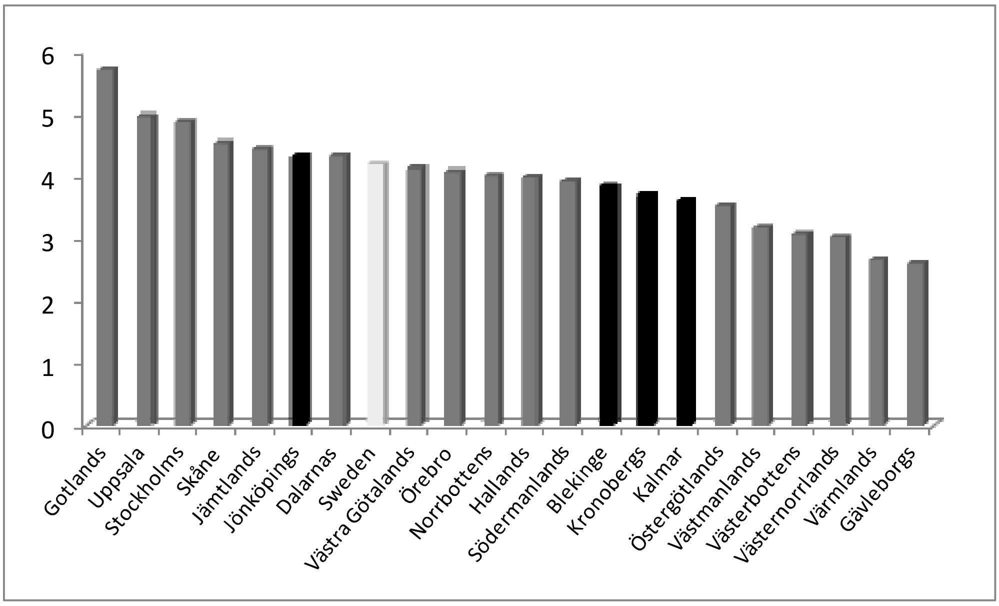
	< 31 Years	31-50 Years	> 50 Years	Total
Jönköpings	33.3	42.1	24.7	100.0
Kronobergs	24.3	57.1	18.6	100.0
Kalmar	25.4	52.0	22.5	100.0
Blekinge	26.9	45.9	27.0	100.0

Source: The Swedish Agency for Growth Policy Analysis (Tillväxtanalys).

81. In the Swedish context, only Jönköping and Blekinge show above-average entrepreneurial activity by young people but in different ways. Jönköping ranks near the top in terms of the proportion of young people starting a business (*i.e.* the share of young entrepreneurs in the total youth population) (Figure 2.1). Jönköping's position is arguably more impressive than the figure indicates, since the top slots are occupied by metropolitan regions such as Uppsala, Stockholm and Skåne, where conditions for youth start-ups are particularly favourable. However, this picture is partly affected by demographic factors and reveals little about the relative weight of youth start-ups in the entire firm population; here, both Jönköping and Blekinge rank higher than the Swedish average (Figure 2.2).

Figure 2.1. Start-up rates among population under 30 years of age, by county

Swedish counties, 2009

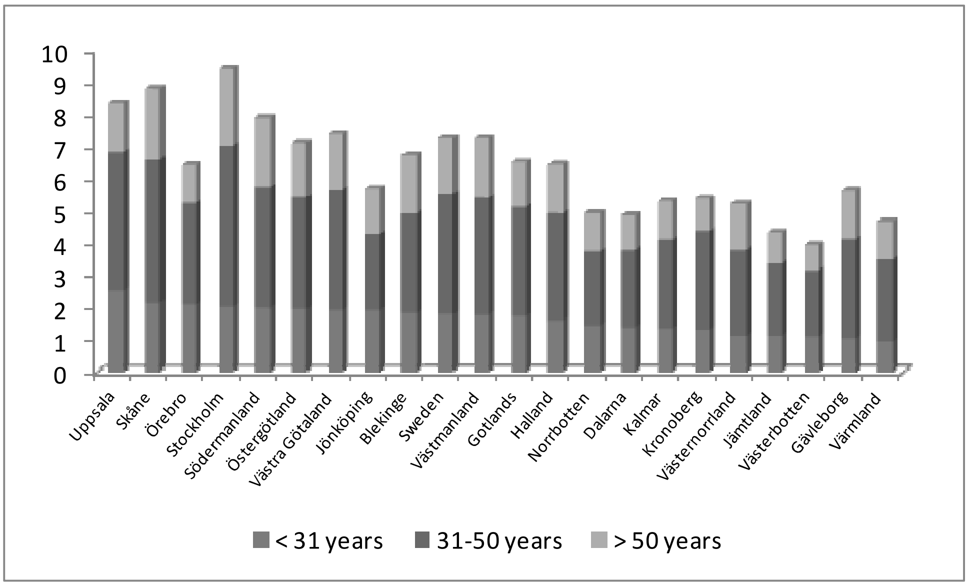


Note: Number of start-ups among population under 30 years, per 1 000 inhabitants in this age group.

Source: OECD based on data from Statistics Sweden.

Figure 2.2. Start-ups as a share of the total firm population, broken down by age of entrepreneurs

Swedish counties, 2009



Note: The length of the bar indicates the percentage of start-ups in 2009 as a share of the total firm population in 2008 by county. Each of the segments shows the relative weight of each age segment (start-ups by age of entrepreneurs, as a share of firm population).

Source: OECD based on data from Statistics Sweden.

82. Young people today have more human capital and more formal training than past generations. This gives them a wider spectrum of alternatives and a greater capacity for identifying and exploiting opportunities for creating their own businesses. In a rapidly changing technological world, business ventures of young people often take better advantage of vanguard technologies and social-cultural shifts in consumption habits. A growing number of empirical studies claim that young people are more likely to be entrepreneurial (Honjo, 2004; Levesque and Minniti, 2006; Global Entrepreneurship Monitor GEM Catalunya, 2010; Lafuente and Vaillant, 2011). According to sociologists, young people have a greater internal locus of control than older people (Bonnett and Furnham, 1991) and a greater tendency to think that their success or failure depends on themselves. This can encourage them to develop entrepreneurial attitudes. Similarly, as they age, individuals have less desire to open new businesses, because their risk aversion tends to increase (Levesque and Minniti, 2006). Likewise, potential young entrepreneurs often exhibit a drive which, when channelled and combined with entrepreneurial education and real-world experience, can create businesses with significant wealth- and job-creation potential (Schroeder *et al*., 2011).

83. Young people are also the social group with the lowest opportunity costs for setting up new businesses: they tend to have far fewer family or personal responsibilities than people over 30 (Amit *et al*., 1995). If they fail, they are still young enough to find salaried employment or reconsider their careers; older people do not find it as easy to find a job after a certain age (Rojas and Siga, 2009). As a consequence, younger people tend to have less fear of failure (Lafuente and Vaillant, 2011). It is therefore no coincidence that national governments and international organisations (such as the European Commission and the World Bank) are interested in this issue and in the design of action plans to provide incentives for entrepreneurship among the young. In Småland-Blekinge a series of initiatives, policies and programmes from the European Union, the Swedish national administration, and regional, county and

municipal administrations have been targeting entrepreneurial activity of younger people to a greater or lesser degree.

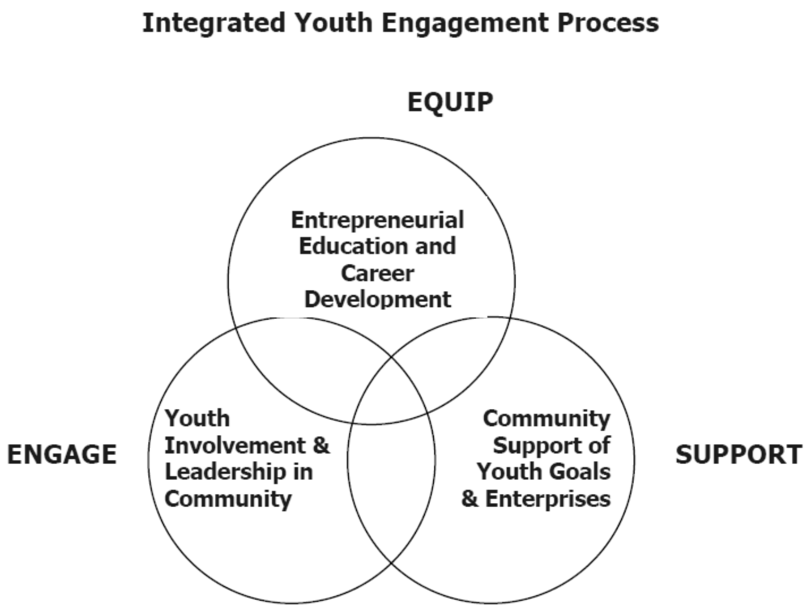
84. Social and institutional rewards and support for youthful entrepreneurs should increase. Becoming an entrepreneur can be influenced by individuals who serve as reference models. The importance of reference models in the entrepreneurial process has been recognised in recent years by important economic and political world bodies. In its project to construct a more entrepreneurial society, the European Commission deals with the need to stimulate an entrepreneurial spirit in the human capital of the future. It recognises that successful reference models can encourage an entrepreneurial spirit among young people (European Commission, 2003). Government policy should use reference models to promote a local entrepreneurial culture in Småland-Blekinge. Young entrepreneurs must feel socially supported and appreciated. They must be offered social rewards, such as status and recognition, as well as pecuniary ones. Local and regional administrations therefore need to educate their communities about the importance of young entrepreneurs and to stimulate local social support for their initiatives. They must also transmit tolerance of entrepreneurial failure to avoid social barriers to business creation and increase fear of failure among young potential entrepreneurs.

The narrow social definition of what is entrepreneurship can make it harder for young entrepreneurs

85. Social and institutional support for entrepreneurship is high in Småland-Blekinge, however, what is defined as entrepreneurship is fairly limited. Because of the historical importance of manufacturing industry SMEs in the area and the consequent reference model which has been established, business initiatives in the service sector are not always perceived as equally entrepreneurial. This is especially true of most new businesses in the region that are created as micro-businesses in areas such as commerce and consumer services. This can limit the access to social and institutional recognition and rewards for potential young entrepreneurs (see Box 2.4 below). Yet there are often lower barriers to entry to creating a business in the service industry, at least from a tangible resource perspective. This makes it easier for young entrepreneurs to initiate their entrepreneurial careers dealing in services before moving on to more ambitious projects later on. When it comes to youth entrepreneurship, the focus should be on the entrepreneur and not on the nature of the business. Although certain types of entrepreneurship clearly have a greater socio-economic impact on the region, entrepreneurial initiatives by local youths in all sectors merit recognition.

Box 2.4. The Hometown Competitiveness Integrated Youth Entrepreneurial Engagement Process

According to Hometown Competitiveness, a US-based community development policy analysis institute, effective youth entrepreneurship promotion efforts must not be limited to entrepreneurship and business training but must also be accompanied by strong social support and community engagement. The goal of this interconnected approach is to bring balance to and integration of the youth entrepreneurial engagement process. Each of the three elements is very important but requires the other two as well. The idea behind the Youth Entrepreneurial Engagement Process is that without a strong foundation for youth entrepreneurship, community leaders may create confusion and frustration rather than a fertile seedbed for local entrepreneurial activities.



Source: Schroeder *et al*. (2011).

It is essential to involve young people in regional development efforts

86. Involving youth helps nurture a sense of ownership and vested interest in the community's future. Yet young people are rarely included when defining strategies that aim at engaging the young. In the Småland-Blekinge counties, young people are said to be uninterested in local issues and see local governance bodies as unattractive and of little use to them.[4] There has, however, been increasing social awareness and prioritisation of youth-related issues in recent years, especially in the public administration. The Kronoberg county administration, for example, collaborates actively with civil society, including younger members of the community. Also, the area's local action groups (LAGs), set up under the EU's LEADER initiative (discussed below), involve local youth, and many LEADER-promoted activities in Småland-Blekinge are specifically aimed at them. Most of these have an environmental and land-stewardship aspect, but in some cases they involve the formulation of community development strategies. However, local and regional institutions could further engage youth in strategy formulation and planning around local development issues, particularly those that concern them. Through engagement in their community, young people will be more likely want to study, establish careers, form families and reside in their region. And if they leave the region, they will be more likely to return.

It will also be crucial to encourage the return of those who leave

87. Better educational and career opportunities for youth who remain in the region should be complemented with measures to encourage the return of those who leave. The authorities in Småland-Blekinge need to attract young people who have expanded their human and social capital outside the region. It is unrealistic to ignore the attraction of the larger Swedish cities for local youth. Rather than simply attempting to dissuade young people from leaving, local leaders should try to bring back those who have left. This will require locally available work and educational opportunities. A programme that has successfully reduced rural outmigration of young people and brought them back is Québec's *Place aux Jeunes* (Box 2.5). The demographic, labour and economic impact of the return of migrants can be considerable. Most young people leave as inexperienced and often low-skilled individuals but normally return with new ideas, experience and skills. They may also have newly formed families as well which create a positive demographic outcome. The important implications for policy are:

- Those who previously lived in the region are those most likely to be attracted to it.
- It is not necessary to encourage all emigrants to return. The focus can be on those with children who are looking for a better quality of life and environment in which to raise them or on recent graduates with degrees close to the needs and potentialities of Småland-Blekinge. Young people often have strong emotional ties to their hometown, especially when they have moved away for work or study. They see their hometown as a good place to raise a family and are drawn by family ties to their communities. There is evidence that young people tend to appreciate their hometowns more once they have left (LeBlanc *et al*., 2007).
- There should be visible economic opportunities for potential returning emigrants and families.
- The existence of economic opportunities should be widely disseminated in expatriate communities (for example in metropolitan areas like Stockholm and Malmö) and facilities should be created for immigrants wishing to return. The programme Welcome to Work for branding Jönköping in Stockholm and other metropolitan areas in Sweden is a good example which could be replicated in other counties (Box 2.6).

Box 2.5. Québec's *Place aux Jeunes*

The mission of (PAJQ) is to encourage youth to migrate to rural areas, to take up residency in these communities and to maintain young migrants in rural areas. To do this, PAJQ pools and co-ordinates the resources and capabilities of its many partners along with those of the municipal, regional and provincial administrations. The main objective is to slow rural outmigration of youth towards urban centres. It also aims to favour the social engagement of rural youth; to facilitate their professional integration in rural areas; to raise public awareness of the on-going out-migration's local impact; and to stimulate youth-driven entrepreneurship and business creation.

The activities promoted by PAJQ come in different forms: exploratory journeys are organised to bring youth from cities to rural areas where they will be given networking opportunities with local socio-economic agents, entrepreneurs and potential employers. PAJQ also acts as a link between rural employers with job openings and youth wishing to migrate to the region through its job bank website (*Accro des régions*). A CyberBulletin aims at rural youth who have left their communities for the city. The objective is to make sure that these youth do not lose contact with their places of origin. The CyberBulletin reports current events but also communicates services and potential job and business opportunities in readers' region of origin. Another PAJQ activity is to work with adolescents in rural areas in order to orient their educational career choices to make them compatible with a professional life in the region. Finally, PAJQ holds information sessions in schools, universities, youth organisations and job placement offices in mostly urban centres to promote rural regions as an alternative career destination.

According to PAJQ's latest annual report (2010-11), 1 173 youth participated in the exploratory journeys over the last year, some 25% of whom were potential entrepreneurs. PAJQ's job bank held over 13 000 offers and it was estimated that over 22 500 adolescents' awareness of rural careers had been achieved through PAJQ's activities. That year, 896 youth decided to migrate to rural areas to initiate their careers and/or business ventures through PAJQ's assistance. Of the total number of migrants to rural areas under PAJQ, a little over two-thirds (616) did not originate from the region to which they migrated.

The PAJQ, in collaboration with the Canadian federal government, has successfully replicated the experience in other parts of Canada. The initiative is now inspiring the development of similar projects in France and Catalonia (Spain). The PAJQ has an active advisory role in the establishment of these new projects.

Source: OECD (2010) *OECD Rural Policy Reviews: Québec, Canada 2010*.

Box 2.6. "Destination Jönköping", "Whom do you miss?", "Welcome to Work"

Destination Jönköping develops and markets the image of Jönköping to industry, visitors and inhabitants. It is run jointly by the municipality and industry; more than 40 companies participate and co-finance this initiative (www.destinationjonkoping.se/en/about-us.html). One of its programmes, Whom do you miss?, has developed a strong branding campaign to encourage people to move back to Jönköping. The target group is young academics with some connection to Jönköping, former students or people that have left the municipality to study elsewhere.The programme Welcome to Work for branding Jönköping in metropolitan areas is another interesting initiative, with events and campaigns in Stockholm and Gottemborg. It also organises events in Jönköping and invites people from Stockholm or other metropolitan areas to learn about opportunities for living in Jönköping.

Destination Jönköping promotes, among other things, the advantages in life quality the municipality can offer in comparison with metropolitan regions, such as lower living costs, less time spent on commuting, closeness to nature. Jönköping can offer all of this, along with cultural and social activities that some may think can only be found in metropolitan areas.

Foreign students should be encouraged to remain

88. The recent legislative change which gives foreign students the right to stay and work in Sweden following their studies represents an opportunity for universities and the local business community. Jönköping University hosts more than 1 000 international students each year as exchange students or independently. Linnaeus University and BTH also have very active exchange programmes. Because of BTH's specialisation in specific niches such as systems and software engineering,[5] it attracts many students from outside Småland-Blekinge. These programmes are very important for the region, as they help showcase the region to skilled outsiders. However, students who are not native to the region generally tend to leave once they finish their studies, taking with them the human capital they have acquired. Skilled and locally trained foreign students could be encouraged to fill local industry's demand for skilled labour. Although foreign students in Sweden have recently been hit by a significant rise in university fees, fees in Sweden remain very competitive relative to other European countries, so the impact on enrolments may not be very great. Since most foreign students from European countries take advantage of the Erasmus Programme and pay fees to their home universities instead of the destination university, the higher fees should not affect their choice of destination. The universities in Småland-Blekinge have had a growing number of incoming Erasmus students over the last years. In fact, Linnaeus University had to turn away some students from European universities with which it has bilateral exchange agreements for the 2011/12 academic year.

89. It is much easier to convince a qualified foreign student to stay and start his/her career locally, than it is to attract candidates from outside the region to relocate. The authorities in Småland-Blekinge can help local industry open up to foreign students as potential recruits. At the same time, universities can work to publicise local career opportunities to foreign students, including them within their internship and

mentoring programmes. There is currently a great opportunity for Småland-Blekinge to benefit from the tight labour markets that many skilled young European students face in their home countries by offering them career opportunities in the region and making them an active part of the Småland-Blekinge community. Some universities in OECD countries have carried out active campaigns to recruit foreign students (Box 2.7).

Box 2.7. Recruitment of Spanish youth for Germany's workforce

Germany announced in early 2011 that it will promote the migration of qualified and unemployed Spanish young people to move to Germany for work. This decision is intended to partially address national deficit of specialised professionals and at the same time to help alleviate high youth unemployment in Spain.

The German government has reiterated on several occasions in recent months that it lacks thousands of skilled workers, especially in engineering and telecommunications, in order to maintain economic growth. Spain and Portugal are Germany's preferred sources of new skilled recruits as they have many inactive qualified young professionals and because the bureaucratic process for migration within the European Union is minimal. The German ministry of the economy noted that the desire to capture the best talents on the international scene to work for the benefit of German growth and competitiveness.

Source: Proceedings of the 23rd Spain-Germany Summit, 3/02/2011.

Immigrant labour may also play an essential role in filling the existing skilled labour gap

90. In Småland-Blekinge immigrants can facilitate a rapid but smooth transition of the local economy to a more knowledge-based competitive structure. Regional manufacturing firms that wish to evolve towards a more knowledge-intensive industry often find it difficult to recruit skilled workers locally. Immigrants can help balance local supply and demand for labour not only in business and industry, but also in other fields with a deficit in local labour markets, such as health care.[6] The challenge will be twofold:

- to attract people with an adequate skill set to meet current labour demand and to inject new ideas and work models into the local environment; and
- to encourage the training and upskilling of immigrants already in the region.

91. Experience in OECD countries shows that foreign workers contribute greatly to local economic development when they are well integrated in the labour market. Domestic and international immigrants bring new values and practices to territorial and functional rationales (Johannisson, 2010).

92. Attempts must be made to better match the human capital profile of immigrants with the local economy's current and future needs. As observed in Chapter 1, immigration to the area has been crucial to counterbalance demographic decline: the slight increase in population in recent years experienced in three of the four counties (Kalmar County is the exception) has been largely due to in-migration. However, until now, foreign immigrants were not attracted to the area for labour market reasons. Refugees have represented a considerable share of immigrants in Småland-Blekinge. In many municipalities, integration has been viewed as a challenge, owing to the mix of languages and cultures in the immigrant population.

93. However, rather than a problem, the integration of refugees should be considered a potentially positive challenge in a predominantly rural territory like Småland-Blekinge. According to Jentsch (2007), the evidence suggests that an increasing number of migrants in Europe are finding employment in rural areas rather than in the traditional migration centres: "Migration to rural and remote areas can counter

depopulation trends that have afflicted those areas for decades, and can contribute to the sustainability of public and private services in rural communities. This can result in a virtuous cycle where well-serviced rural areas may be attractive to both groups, those who once left them as well as migrants. However, despite the fact that the new migrants can contribute to reversing population decline through closing skills and labour shortages, as well as reversing dependency ratios (the ratio between the tax-bearing working population and retirees), political attitudes, media coverage and public opinion are often negative". In Scandinavian countries, extensive state-sponsored integration programmes of a magnitude unique in Europe have been developed. However, in spite of a strong welfare state that provides extensive resettlement and integration assistance to refugees, integration policies in Sweden have not succeeded in overcoming the initial inequalities between refugees and the rest of the population (Valenta and Bunar, 2010).

94. The Gnosjö industrial district in Jönköping County constitutes something of an exception to this rule. It has a long history of meeting human capital needs with foreign recruits (Box 2.8). In 2010 up to 19% of the population in the municipality of Gnosjö, close to 17% in Gislaved, 16% in Värnamo and 13% in Vaggeryd were foreign-born[7] (in contrast to an average of 11.7% for Småland-Blekinge as a whole). Foreign immigrants are said to be integrating well in Gnosjö communities. Some municipalities in the district have even been recognised as models of integration in Sweden. However, many foreign recruits were hired to fill low-skilled manufacturing and factory jobs. Without losing sight of the humanitarian aspects of immigration policy, the authorities in the Småland-Blekinge area need to think more strategically about immigration and include foreigners in their development plans. Capturing a greater proportion of highly skilled newcomers, especially students, would alleviate integration issues to a certain extent while contributing to local economic development.

Box 2.8. The Gnosjö Industrial District

The Gnosjö district consists of four municipalities, Gnosjö, Gislaved, Vaggeryd and Värnamo, and has a total population of about 80 000 and some 1 500 manufacturing firms. Despite this high industrial concentration the district has a unique social, cultural and institutional fabric (Johannisson, 2010). These industrial SMEs are mostly involved in low value-added manufacturing, often subcontracted by major Swedish corporations. The level of inter-firm co-operation and co-ordination in Gnosjö is high, with many examples of competing firms joining together to handle orders too large for a single firm. As a result of this co-operation, Gnosjö has been very resilient and has on several occasions overcome predictions of its imminent demise.

Source: Gnosjö Industrial Association.

95. Strengthening labour market integration of immigrants can be good for smaller municipalities in Småland-Blekinge faced with population ageing as a consequence of geographical concentration in larger localities (Chapter 1). As the population ages, the share of those in the workforce declines and the burden of supporting old-age pensions and public services falls upon a steadily decreasing number of workers. In this context, policies to promote social integration, training and upskilling of immigrants should be seen as an investment in the future prosperity of these localities. In many respects, Sweden already does this rather well, but given the limited capacities of smaller municipalities and the different actors that intervene in areas related to immigrant integration (the labour market, training, social assistance and housing, among others), more effective collaboration and co-ordination by national, regional and municipal actors will be crucial. Public-private co-ordination will also be essential. Finally, given the context-dependent characteristics of regional labour markets, the role of county authorities may need to be strengthened (OECD, 2010a) as was done when the handling of asylum applications was transferred to county administrative boards in 2007.

96. There is an opportunity to promote more Dutch, Danish and German immigration. Immigrants from these countries are usually attracted by the natural amenities of Småland and tend to integrate the local communities relatively easily. Other than cultural affinities, similarities in language make it easier for immigrants from these countries to learn Swedish. Yet few come looking for career opportunities. Rather, they are often older individuals looking for the lifestyle and quality of life they feel can be found in south-eastern Sweden. Although they may not suit the labour market needs of the region, they may become lifestyle entrepreneurs, self-employed and/or creators of small-scale knowledge-intensive service activity firms (KISAs, see below) in order to support themselves in the region.

Opportunities for immigrant entrepreneurship should be also promoted

97. Although immigrants' contribution to the economy is commonly perceived as filling gaps in the labour supply, evidence suggests that foreigners also tend to be much more entrepreneurial than the domestic population. Yet only after a time as part of the labour force do they typically decide to set up new businesses. Potential foreign entrepreneurs are influenced by the factors that characterise the entrepreneurial climate in the host society, such as social status and integration or the geographic concentration of foreign individuals (Box 2.9).

Box 2.9. Immigrants and entrepreneurship

There is evidence indicating that foreign immigrants make a disproportionately large contribution to the creation of new businesses. Hayter (1997) indicates that foreigners are an important resource and catalyst for greater entrepreneurship. Levie (2007) found that immigrants (both internal and external) have a greater propensity to establish new businesses than long-term residents of the United Kingdom. Miller (2007) and Wadhwa (2008) find similar results for the United States and Coduras (2008) and Mancilla *et al*. (2011) for Spain. Other studies highlight the increasing tendency for immigrants to be self-employed (Bruder and Räthke-Döppener, 2008; Hammarstedt, 2006). The reason most studies address immigration from a labour market perspective is probably the fact that immigrants tend initially to be wage-earning employees. Only after a time as part of the labour force, and once they have accumulated a certain amount of (tangible and intangible) capital in their new location do they decide to set up their own business. Reynolds and White (1997) indicate that immigrants need at least six years to establish their businesses. Similarly, Harrison *et al*. (2004) find that, in the United States, 68% of the immigrants that set up high-technology businesses had previously worked in the country for more than ten years. This fully agrees with the results of the GEM Spain report (*Global Entrepreneurship Monitor*, 2008a) according to which the average years of residence in the country before establishing a business in 2007 was 7.73 years.

Potential foreign entrepreneurs are especially influenced by certain external factors that ultimately affect their decision to become entrepreneurs (Volery, 2007). The possible discrimination experienced by foreigners in the labour market may determine them (act as a "push factor") to create their own businesses (Bates, 1997; Clark and Drinkwater, 2000; Constant and Zimmermann, 2006). Shinnar and Young (2008) provide evidence suggesting that many immigrants are also affected by even stronger "pull factors" such as the opportunity for greater social status and integration (Shinnar and Young, 2008). The geographic concentration of foreign individuals in a certain area will also encourage them to create businesses (Aldrich and Waldinger, 1990; Arjona and Checa, 2006; Solé and Parella, 2005; Solé *et al*., 2007; Volery 2007). In other words, the greater the concentration of immigrants in a region, the greater the probability of a foreigner being an entrepreneur or self-employed (Borjas, 1986; Bruder and Räthke-Döppner, 2008). This would be, according to Solé *et al*. (2007), because in areas with a concentration of foreign individuals, immigrants' social networks are exploited for the benefit of their enterprise (Solé *et al*., 2007). Thus, the concentration of foreigners, especially if they belong to the same national group, is perceived by immigrants as a comparative advantage because assets, knowledge and proximity services are in greater supply (Borjas, 1986). Mancilla *et al*. (2011) found that the lack of concentration of foreigners, especially in a rural context, negatively influences the entrepreneurial activity of immigrants.

98. Regional and local authorities in Småland-Blekinge should strengthen the opportunities and incentives for immigrant entrepreneurship. Sweden has been a pioneer in offering support to immigrant entrepreneurs. The IFS (International Entrepreneur Association) was founded in 1996 to support people with migrant backgrounds who want to start and operate businesses in Sweden. Its purpose is to stimulate

and increase entrepreneurship among migrant groups, raise the competence of individual migrant entrepreneurs, and work to improve the climate for migrant entrepreneurship. Foreign entrepreneurship has recently been relatively weak in Småland-Blekinge, although it has historically played an important role in some parts of the region. Today, some foreigners are entrepreneurs in services. This is positive sign, as there is a relative lack of service enterprises in many parts of the region. By providing proximity services, these firms can contribute to the attractiveness and quality of life of the host localities (Section 3.2).[8] However, efforts are needed to promote immigrant entrepreneurship in other sectors. Promoting the creation of social networks that could reduce the sense of isolation of potential immigrant entrepreneurs in areas with lower migrant concentration would help. The authorities could also promote the social acceptance and integration of immigrant entrepreneurs by the local population. This would help encourage more immigrants to engage in an entrepreneurial career.

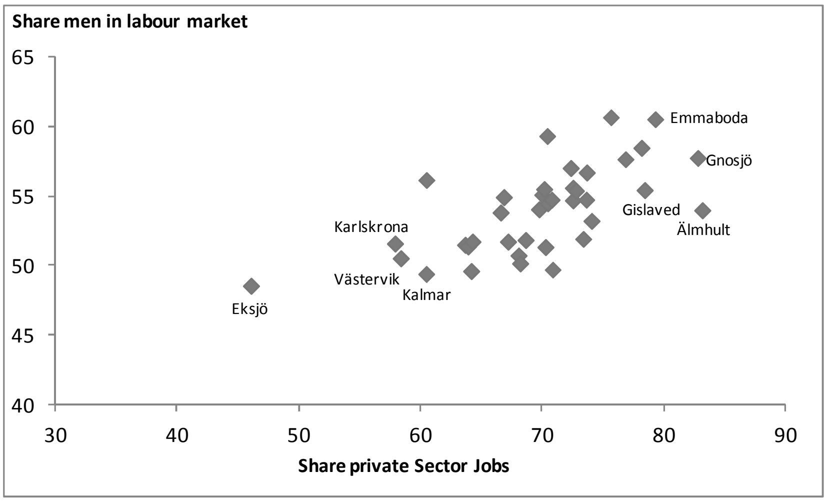
Better integration of women in the private sector should also be favoured

99. The integration of women in the labour market has improved. The employment-to-population ratio of women in Småland-Blekinge counties rose from 40.3% in 1996 to 45.2% in 2009 (46.6% in 2007 before the crisis).[9] Unemployment rates are now similar among men and women (see Chapter 1). Moreover, women are making their way into high-level management positions in some of the area's key institutions. The presidents of both Jönköping University and BTH are women. Several of the area's science parks and business incubators also have women CEOs. Women are also very prominent within the higher echelons of municipal, county and regional politics and civil service. However, women's positions with high social status and influence are mostly in the public sector.

100. There is a high degree of gender segregation on the Småland-Blekinge labour market. Over 55% of employed women work in the public sector, against about 14% of men. Men account for around two-thirds of private-sector employment, and more than 75% of public-sector employees are women (see Chapter 1). Although new businesses managed by women have increased, they lack private-sector job opportunities in many parts of Småland-Blekinge. The private sector in many parts of Småland-Blekinge is composed of traditionally male-dominated industries and the geographic distribution of male- and female-dominated work opportunities is unbalanced (Figure 2.3). Work in the public sector tends to be concentrated in larger towns (*e.g.* Karlskrona and Kalmar), while smaller municipalities have tend to have a greater relative share of private-sector jobs. This can affect the integration of foreign immigrant women, who may have difficulty finding work opportunities in the same localities as their husbands/partners and often find it harder to qualify for public-sector jobs. This situation also affects internal migration. The geographically segregated labour markets for men and women could complicate the in-migration of young couples and families that need to find work in the region for both partners.

Figure 2.3. Share of men in the labour-market and share of private-sector jobs by municipality

Småland-Blekinge, 2009



Source: OECD calculations, based on data from Statistics Sweden.

101. The transition towards a knowledge-based economy will probably help to change the labour market gender bias. The human capital needs of industries as they move towards more modern competitive structures are changing. The new knowledge-based job profiles required for a competitive 21st century industry call more for IT and technological skills rather than the "sweat and strength" requirements of the past. There are growing numbers of technically trained women in the Swedish labour market to fill such labour needs in local industry.

102. Fuller integration of women in the regional private labour market is important, since women tend to be more attracted to life in rural areas. A survey by SIFO on behalf of the Swedish Rural Department finds that up to 70% of urban-based young women would be willing to move to the countryside if they had the opportunity (Sydsvenskan, 2011). Women are also motivated to move or return to the high quality of life that Småland-Blekinge can offer, not least for child-rearing. However, the challenge is finding attractive local jobs for both members of the family within an acceptable commuting radius.

103. Universities in the region could also further promote the presence of women. Higher education degrees offered in universities such as BTH are mostly in technical programmes, and most graduates at present are men.[10] Among 15-24 year olds, women tend to migrate out of the Småland-Blekinge counties far more than men (Table 2.3), many of them to study. As noted above, net migration figures show that outflows of young females (15-34) tend to be higher than inflows, although the numbers are relatively small. Much more important are the attributes, particularly in terms of human capital, of those who leave and those come to the region. Some evidence suggests that the net loss may be greater in terms of human capital than the population numbers suggest. Many women who remain to study in one of Småland-Blekinge's higher education institutions tend to study for two or three years and then move to a metropolitan area.[11] Nevertheless, the proportion of women at BTH is growing. At the Jönköping International Business School, up to 50% of students are women, and in many programmes at Linnaeus University women are in the majority.

Table 2.3. Net Migration by gender

Among 15-34 years old, 2000, 2005 and 2010

		2000	2005	2010
Jönköping county	men	-82	97	101
	women	-187	-52	-149
Kronoberg county	men	-251	-109	84
	women	-145	-30	15
Kalmar county	men	-117	143	297
	women	-393	-238	-184
10 Blekinge county	men	-117	143	297
	women	-144	-97	61

Note: Difference between the number of immigrants and emigrants. Negative values express more out-migration than in-migration.

Source: Statistics Sweden.

104. Local businesses, especially in industry, need a change of mentality regarding the composition of the workforce. This will not only help introduce labour opportunities for women but will also act as a stimulus to modernise. Local businesses must take advantage of the stock of available local human capital and work to curb the exodus of qualified women from the region. Better promotion and marketing of local industry and business jobs for women will be important.

105. Economic diversification will probably open more work opportunities to women. More service businesses in the local economy would not only improve the availability of the private proximity services that improve the quality of life for local residents, they would also improve women's employment opportunities. Women, especially those with lower skills, have traditionally had better work opportunities in services than in the type of industry that predominates in Småland-Blekinge.

Through entrepreneurship the human capital potential of women can be more effectively utilised

106. One way to stimulate greater diversification towards service industry firms is to promote women's entrepreneurial activity. Evidence garnered in many OECD countries by the Global Entrepreneurship Monitor (GEM) indicates that women entrepreneurs are comparatively more likely than men to establish their businesses in services (Global Entrepreneurship Monitor, 2008b). Making entrepreneurship a more acceptable and valued local career option for women can not only provide some women with a professional alternative but also generate employment opportunities for other women.

107. Yet women in Småland-Blekinge, as in most other OECD economies, are less likely to adopt an entrepreneurial career (Global Entrepreneurship Monitor, 2008b). Entrepreneurship tends to be seen as a predominantly male activity (Ahl, 2006), and the features of entrepreneurial figures are intrinsically connected with masculinity (Bruni *et al*., 2004). The shared social perception in many parts of Småland-Blekinge is based on the area's traditional entrepreneurial history. Both citizens and their institutions express the view that the most valuable entrepreneurs and SMEs are in manufacturing, which leaves out many of the initiatives traditionally promoted by women. Indeed, social perceptions can be major obstacles to female entrepreneurship (Box 2.10) and indirectly raise the opportunity costs of women's entrepreneurial activity.

Box 2.10. Women's entrepreneurship and social institutions

Entrepreneurship is believed to be an important instrument for economic growth regardless of the sex of the entrepreneur. There is a broad agreement among policy makers that entrepreneurship is beneficial to economic growth mostly because new firms generate employment, bring innovation to the market and increase overall industrial productivity through increased competition (Van Stel *et al*., 2005). However, the Global Entrepreneurship Monitor (GEM) has found consistent differences in the levels of entrepreneurial activities of men and women. Women can therefore be considered "an untapped source of economic growth" (Delmar and Holmquist, 2004). If new businesses started by men are likely to produce positive outcomes for a region's economic and social well-being, the same is true of businesses set up by women.

The challenge for academics and policy makers is to identify the normative components of a territory's social institutions that may affect the levels of entrepreneurial activity of women and men. As suggested in Baughn *et al*. (2006) one explanation for the gender gap in entrepreneurship may be the different allocation of social roles between men and women. Most societies operate with a moral certainty about a world of two sexes (Kessler and McKenna, 1978) associated with specific social roles or stereotypes. In many societies, women continue to be associated primarily with reproductive and domestic activities, with men as providers. While women are generally seen as communal, nurturing and passive, men are seen as powerful and achievement-oriented (Jost and Kay, 2005). Research on gender stereotypes has consistently shown that stereotypically male traits are associated with success in the business world while stereotypically female traits are not (Borgida *et al*., 2005).

Consequently, to promote women's entrepreneurial activity successfully, policy makers must address social gender biases. Policy must make entrepreneurship gender-neutral by celebrating successful women entrepreneurial role models and educating youth of both sexes from a young age about the equal opportunity potential of an entrepreneurial career.

108. As Chapter 1 noted, this is changing, and women entrepreneurs in Småland-Blekinge have been increasing rapidly in recent years. Nevertheless, there is more to be done. Communities must give greater social recognition to women entrepreneurs and to the types of business ventures they create. Women will need to develop more entrepreneurial self-confidence and drive. Entrepreneurial role models can play an important role in this respect (Krueger, 1993), although the impact of role models on adopting an entrepreneurial career appears to be weaker for women than for men, other things being equal (Delmar and Gunnarsson, 2000). This is probably because entrepreneurial examples for women are often gender-biased. In this regard, it is important to have female entrepreneurial role models in order to influence the entrepreneurial propensity of other women (Driga *et al*., 2009).

109. In this connection, the authorities in the four counties could do more to facilitate networking opportunities for potential women entrepreneurs. Sweden has a networking organisation for women starting businesses. Many programmes addressed specifically at potential women entrepreneurs are also being promoted by central government agencies, municipalities and county administrations, as well as different civic organisations (Box 2.11). Yet, the accomplishments of local women entrepreneurs must be emphasised, not only to potential women entrepreneurs but to the community as a whole. This would be a first step in enabling the success of women leaders in Småland-Blekinge to spread from the public sector to the private sector. Scotland's Women into Business initiative provides a range of services that could serve as a benchmark (Box 2.12).

Box 2.11. National measures for entrepreneurship and business support in Sweden

ALMI Företagspartner AB (51% owned by the state and 49% by county councils/regions), with 19 regional subsidiaries, provides finance, gives advice, arranges contacts and works with consultants to support entrepreneurship. To increase the number of female entrepreneurs, ALMI is running or collaborating on a number of targeted programmes including networking, management skills and coaching. Tillväxtverket (Swedish Agency for Economic and Regional Growth) runs three programmes for women entrepreneurship: since 2008, more than 800 government ambassadors for women entrepreneurship (with a yearly budget of about SEK 3.5 million) serve as role models and share their experiences in schools and various networks or associations; the national programme promoting women entrepreneurship has been running since 2007 with a budget of SEK 100 million a year; the national programme for developing resource centres for women (running since 2005) distributes half of its budget in the form of operating aid to 16 regional and 90 local resource centres and uses the other half to finance projects to improve opportunities for women to take part in activities leading to regional growth.

Source: OECD (2010), *OECD Territorial Reviews, Sweden*

Box 2.12. Women into Business Scotland

In Scotland, research commissioned by Scottish Enterprise and Highlands and Islands Enterprise in 2003 indicated that 67 000 women run businesses, of which 26% are self-employment, up from 20% in 1984. However, women account for only 10% of high-growth businesses in Scotland. Despite women's entrepreneurial interest relatively few women-owned businesses pursue growth strategies. In terms of new starts, women are now thought to constitute around one-third of the total. Over the last few years Scottish Enterprise (SE) has increased its effort to encourage more new business creation and development by women. The programme Business Gateway has targeted services and initiatives to encourage and enable more women to start a business:

- Women into Business Networking: a sustained programme of business seminars and networking opportunities for pre-start customers that provides links to advisers, business people and informal mentors offering information, advice and first-hand experience in setting up a business.

- Mentoring Support for Female Entrepreneurs: the business mentoring service is a partnership between Scottish Enterprise and the Scottish Chambers of Commerce. Businesses are carefully matched with experienced business mentors, all of whom have a track record of success in business.

- scottishbusinesswomen.com: this website was created to communicate and promote the targeted initiatives available from Business Gateway to encourage more women in Scotland to start a business. It is a key communication channel to reach and inform women and to promote the range of available activities and services. The website provides customers with access to information, advice and online registration in targeted programmes, training and services. It highlights other partners' events and services and provides a wide range of case studies on women in business.

- Women into Business Conference: these events, organised by Business Gateway, aim to inspire, encourage and enable more women to start a business. The events provide a series of workshops on personal and business development subjects. The speakers are women with an excellent track record in business who share their formula for success, demonstrate how they have developed their business and also highlight how they have found their way through adversity in business.

Source: Scottish Enterprise.

2.2. Improving the attractiveness and opportunities of Småland-Blekinge

110. The previous section has argued that the socio-economic well-being and future competitiveness of Småland-Blekinge relies greatly on its ability to attract and retain youth, migrants, women and their

families, so that they can work, live and set up businesses in the area. This is directly related to the perceived attractiveness of the region in terms of quality of life and the availability of attractive jobs and business opportunities. This section focuses on three main factors that could make Småland-Blekinge a more attractive place. First, more could be done to use its natural assets and amenities, already a well-known regional strength, as a basis for regional development. Second, the framework for business competitiveness could be enhanced. Third, regional connectivity needs to be improved to promote regional development and ensure good access to local amenities. A theme common to all three factors is the need for better co-ordination of the actors and policies dealing with regional development in Småland-Blekinge, in order to make more efficient and effective use of resources.

1. Promoting amenity-based territorial development

111. The dominant agenda driving development policy in Småland-Blekinge is common to many sparsely populated regions across the OECD: the desire to attract and retain immigrants and young people, especially families, to enhance the climate for small business success, to stimulate and attract investment, and to address infrastructure and service delivery. To address these issues many administrations are turning to a place-based rather than a sector-based policy approach. A place-based policy approach takes a more holistic view of the relations among the policy challenges affecting a particular territory: the aspects of a particular territory that affect its development are considered in a comprehensive way as part of an overall strategic vision for its future. A place-based territorial policy is in line with the OECD's new rural paradigm (OECD, 2006). The OECD New Rural Paradigm has as its objective territorial competitiveness and calls for investments instead of subsidies, multi-sector development, and multi-level governance and co-ordination involving all levels of government and non-governmental stakeholders (Table 2.4).

Table 2.4. The new rural paradigm

	Old approach	New approach
Objectives	Equalisation, farm income, farm competitiveness	Competitiveness of rural areas, valorisation of local assets, exploitation of unused resources
Key target sector	Sectoral approach targeting agriculture	Integrated approach targeting various sectors of the rural economy
Main tools	Subsidies	Investments
Key actors	Central government	All levels of government, non-governmental stakeholders (public, private, NGOs)

OCDE (2006), *OECD Rural Policy Reviews The New Rural Paradigm: Policies and Governance.*

112. Amenity-based territorial development (also called amenity-based rural development) is becoming recognised as a promising approach to place-based development and one which appears to be compatible with the natural and cultural endowments of most of the Småland-Blekinge area. Amenity-based territorial development (ABTD) follows the principles of the new rural paradigm, focusing on the use of local attractiveness as a basis for development. ABTD adds the notion that rural areas have moved from production and extraction based on natural or low-cost human resources to a model in which rural areas are attractive places with amenities to be consumed (Table 2.5). A territory's market and non-market

goods can attract people, ideas and investment and lead to development, if properly managed. There is evidence that growth and prosperity in rural areas are highly correlated with the presence of strong local amenities (McGranahan *et al*. 2011). Although ABTD was originally developed with rural areas in mind, the transition towards a knowledge-based economy in which place is more important to people makes the principles of ABTD applicable to any territory.

Table 2.5 The shift to amenity-based territorial development

From		To
Sectoral approach	→	Territorial approach
Subsidies	→	Investments
Place of production and extraction (resources)	→	Place of consumption (amenities)
Export goods	→	Import people, ideas and investments

Source: Vaugeois *et al.* (2011).

113. Amenities refer to the pleasurable features that make localities attractive places for visits, leisure or life. ABTD is the use of these attractive aspects of the territory and the corresponding values derived from them as "resources" for the development of the area (Vaugeois *et al*., 2011). Different types of amenities may affect the development potential of a region:

- *Natural amenities* are based on the natural attributes of a territory, such as climate, air quality, land and water. These provide the setting and materials for residents' work and leisure pursuits.

- *Cultural amenities* are based in the cultural context of a rural territory including heritage, recreation and sports, art, work and community, which serve to enhance the quality of life in rural regions. (Relational amenities can be added to this category, where the territory and its community provide opportunities to access important social networks).

- *System amenities* enable the access to and development of natural and cultural amenities and business, including services, infrastructure and connectivity. These enable and support the areas to realise and manage impacts from in-migration, business development or tourism activities. This issue will be addressed below.

114. The use of amenities to retain or attract people, ideas and investment requires foresight and appropriate planning. Amenities, if properly and sustainably promoted and managed, can be the basis for attracting people to the region and for promoting economic development.

Natural and cultural amenities are a clear regional asset in Småland-Blekinge

115. Most of Småland-Blekinge is blessed with strong natural and cultural endowments that can be the basis for regional development in the area. Its wilderness, lakes, forests, coastline, fauna and flora, clean air and fresh water make it one of Europe's healthiest living environments. There are plenty of facilities related to the environment, including footpaths, cycle tracks, fishing lakes and ski facilities. At the same time, Småland-Blekinge's deep-rooted culture and history can be experienced in various attractions, historical sites and museums. The environmental assets, the quality of life of its medium-sized regional

cities, and the presence of large university centres are amenities attractive enough to influence people's choice of where to live.

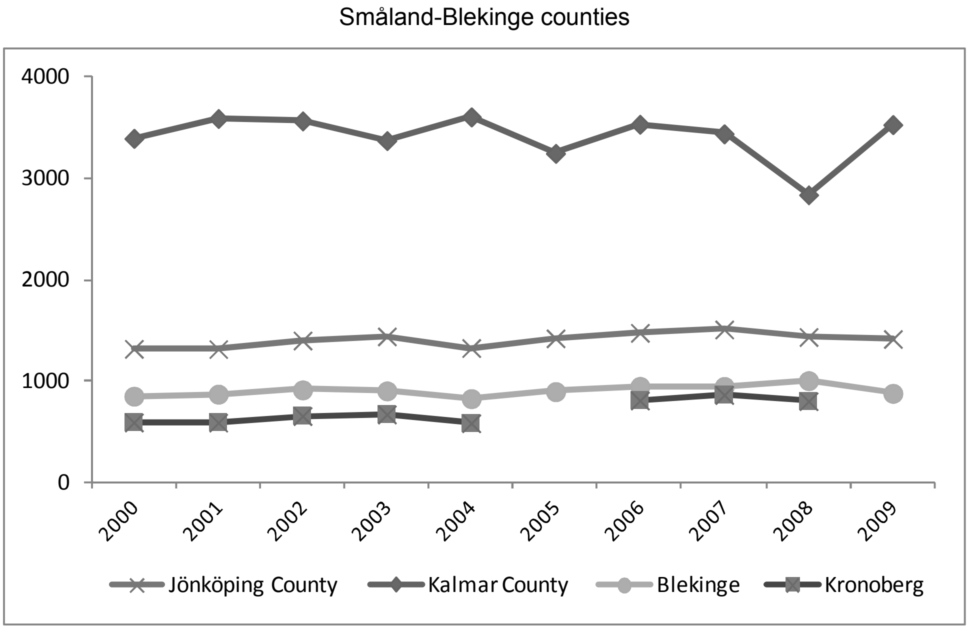
116. ABTD must be pursued strategically. The authorities need to focus on projecting and communicating the amenities that constitute the territory's competitive advantage to target that value these characteristics. It is therefore important for communities to see what differentiates them from other potential destinations and then use this to define their target group or groups. As mentioned in Section 2.1, families and former residents of the area, along with citizens of nearby countries looking for natural amenities (*e.g.* Dutch, German and Danish), are among the groups that might feel more attracted to live in the region. At the same time, ecological tourism, adventure tourism and prestige events, both for businesses and individual tourists, are interesting niches that could be further developed. Beyond attracting people to live in, or to visit, the area, making it more attractive for local residents and making amenities more accessible is also a good way to improve local living conditions. This can help deepen the population's roots in the community and thus help stabilise local demographics.

Natural and cultural amenities can generate business opportunities and economic benefits

117. Natural and cultural amenities, if sustainably managed, can form a basis for economic diversification. The diminishing share of agricultural activities in rural areas in OECD countries has led to the development of increasingly diversified non-farm activities that take advantage of the attractiveness of rural and environmental endowments. Natural and cultural amenities also provide the "raw material" for various activities ranging from tourism and entertainment to the production of renewable energy or speciality foods (OECD, 2006).

118. Given the natural amenities of Småland-Blekinge, tourism could be further developed. In addition to generating new business and employment opportunities in rural areas, tourism is often a first step towards broader development opportunities: people visit a place, form an impression and may then consider relocating or investing. Most of the four counties' regional development programmes view the promotion of local tourism as one of their priorities. Given the similar tourism offerings of the four counties and the potential benefits in terms of economies of scale, three Småland counties have a common webpage to promote tourism in the region. However, tourism has not yet been at the forefront of economic development efforts. Of the four counties, only Kalmar ranks above the Swedish average as a main destination for business and leisure trips. Moreover, the number of overnight stays in the tourism facilities of Småland-Blekinge has barely increased over the last ten years (Figure 2.4).

Figure 2.4. Overnight stays in tourism facilities (thousands)



Source: Resurs AB / Sweden.

119. Local and regional authorities in Småland-Blekinge could do more to promote tourism to their localities and encourage greater entrepreneurial initiative in the tourism sector. Rural tourism development in other OECD countries has been encouraged through active collaboration between the public and private sectors to promote amenity markets (*e.g.* the *Bregenzerwald* "cheese route" in Austria, rural museum networks in Siena, Italy), and through specialised brokering, networking and business support services (*e.g*. the "Fusion" programme in Scotland), and credit guarantee or micro-credit mechanisms (e.g. *Cajas de Ahorro* in Spain) to promote SME formation and development in tourism-related activities (Box 2.13).

Box 2.13. Rural tourism in OECD countries

Many successful rural regions have been able to draw on public or quasi-public goods such as a clean environment, attractive landscapes and a rich cultural heritage. These assets can be harnessed for economic development. Their increasing value is related to good transport links that make recreation in rural regions increasingly feasible and to more affordable residential locations. But most of all it has to do with a growing demand for rural experience on the part of urban dwellers and with local capacity to co-ordinate economic actors to supply and promote local collective goods.

Relying largely on its rural amenities, the Italian province of Siena has been able to improve its position relative to other Italian provinces in terms of per capita income through a policy to promote local products (nearly 70% of Siena's farms produce at least one certified product). This has also induced impressive employment creation (*OECD Territorial Review of Siena*, 2002). Siena is far from an isolated case: Tiroler Oberland (Austria), Mugla (Turkey) and Tasman (New Zealand) are regions that thrive on the tourism industry. Regions such as Engadina Bassa (Switzerland), Alpes de Haute Provence (France) or Dare County (United States) also attract workers, enterprises and retirees.

Rural tourism in Spain is growing faster than tourism overall; it accounts for almost 6% of all national guests and 1% of foreign guests. Typical houses in small rural villages are offered to urban tourists through the Internet, tourist guides or travel agencies as an attractive alternative to traditional hotels and constitute an interesting opportunity for additional income for rural inhabitants. This emerging phenomenon has enabled the development of associated tourism services in and around rural villages. The system has been supported by a steady process of public and private investment in improving the quality, services and infrastructure of rural locations and rural houses.

The Cheese Route Bregenzerwald, Vorlarberg, Austria was a strategic project for the LEADER II programme in Austria's westernmost province. The aim was to build on a well-established local product – cheese – in ways that ensured the livelihood of the rural population, reduced commuting and helped to create new jobs in tourism and trade. The concept involved a strong public-private partnership and co-operation by different sectors, including agriculture, dairies, accommodation providers, alpine pasture managers, trade and commerce. It has led to innovative products (such as Käsezwickel, Käseträger and Käse&Design) and the establishment of a new high-quality regional "brand". It has helped to maintain traditional alpine farming and the quality of the cultural landscape.

Source: OECD (2006) *The New Rural Paradigm*.

120. Another area of interest could be further promotion of environmental sectors, such as renewable energy (biomass, wind, solar), improved waste disposal and reverse logistics. Renewable energy (RE) sectors can create new income opportunities for rural communities by drawing on their natural and human resources (OECD, 2011a). Developers pay taxes to municipalities, which can then increase the quality and the quantity of public services. Agriculture and forestry residuals become inputs for RE producers, allowing farmers and forest owners to diversify and enhance their income. RE can create long-term jobs in operation and maintenance activities, and potentially in manufacturing activities related to the production of technologies and components for installations. Much depends on the nature of the renewables projects (Box 2.14). In some rural OECD regions, RE sectors pay higher salaries than most other rural industries. This has encouraged the improvement of local skills and increased the capacity of rural regions to attract and retain skilled workers. There also seems to be a link between RE and increased self-employment and entrepreneurship (more SMEs).

Box 2.14. Renewable energy and job creation in rural areas

To assess the impact of green power on rural economies, both the macro and local levels must be taken into account. At the macro level the issue is *net* new jobs, as evidenced by a rise in the participation rate or a fall in the structural unemployment rate. To what extent will green power simply displace jobs in traditional power supply or offset employment losses in other sectors that are negatively affected by climate-change mitigation efforts? If green power is more expensive, how many jobs will be lost due to lower GDP growth? At the local level, the key question is how many jobs are associated with each specific project and, crucially, how durable they are likely to be. Certain jobs will be in operation and maintenance (O&M), while others will be in the construction of the needed facilities. As a consequence, both temporary and long-term jobs will be created.

A thorough assessment of employment effects should also focus on job multipliers, the backward and forward linkages green power can generate at the regional level, and income effects. Power generation (O&M) typically creates relatively few local jobs and has small local job multipliers.[1] It is a capital-intensive activity and has few links to the local economy. This is especially true for the forms of renewable generation that rely on free energy inputs, such as wind and sun. In terms of *direct* rural job creation, biomass and biofuels may well offer the best opportunities. *Indirect* job creation, at the provincial/state or national level, by contrast, can be significant for all forms of RE, if the country specialises successfully in the production of components for renewables. Due to lock-in dynamics that may occur at the national level, some regions will be home to core high-value activities in the renewable energy supply chain, while others will host the low-value added parts, with less impact on employment creation and regional development.

The number and the unit cost of new jobs created varies according to the activity in which the regional economy specialises. Although energy generation is a capital-intensive activity with little impact on the labour market, the jobs created are usually valuable and stable. The situation is completely different for construction, which typically has a far higher job multiplier and can generate up to 30 jobs for each million US dollars invested. However, it is a short-term activity and does not affect the long-term economic trajectory of rural communities in the same way. Manufacturing also has high multipliers, and is a long-term activity (see table below). Regions that are able to increase their specialisation in manufacturing activities related to renewable energy are thus likely to benefit from a large and lasting increase in their workforce.

RIMS/REMI and IMPLAN

Province/State	Local
Generation (O&M): 7-8 jobs per million USD in output Construction of generation: 19-30 jobs per million USD of construction costs Manufacturing of electrical equipment: 16-24 jobs per million USD of output	Generation (O&M): 0.7-1 jobs per million USD in output Construction of generation: 12-15 jobs per million USD of construction costs Manufacturing of electrical equipment: 10-14 jobs per million USD of output

Source: Freshwater (2010).

The time scale over which national and local specialisation takes place is crucial. The long-term goal of many governments is to use renewable to displace existing power generation from conventional sources, but the faster the displacement takes place, the greater the industry's annual installations and economic impact in terms of jobs and output and thus the shorter the window of displacement becomes. Once displacement has taken place, there is only replacement, so the industry shrinks unless it can export.

1. The employment multiplier associated with a particular regional economic stimulus is designed to yield an estimate of the total employment attributable to the stimulus per job or man-year of employment directly created.

Source: OECD (2011b), *OECD Regional Policy Outlook*.

121. In general, bio-energy use and production has grown significantly during the past 30 years in the four counties. This includes a transfer from fossil to biofuels, the use of biomass for municipal heating networks, and the manufacture of pellets and briquettes from raw timber materials (Box 2.15). As an example, Kalmar and Kronoberg counties aim to become fossil-fuel free by 2030 and 2050, respectively. Local universities are increasingly engaged in bio-energy related research and education. At Linnaeus University, there is a department for bio-energy technology with a Bachelor of Science in Engineering. BTH recently launched a Master's in Sustainable Management. However, in discussions with the OECD local business development officials expressed their belief that businesses that want to explore this industry are having difficulties finding and/or developing the resources and capabilities required to exploit the identified opportunities. There is still a need for specialised human capital to meet the growing needs of the renewable energy industry. There is also a need for further job training possibilities in the region for entrepreneurs looking to re-train their workforce with the skills needed in the environmental industry.

122. Different localities of the region have a set of good practices in renewable energy management that can support the transfer of capabilities. The municipality of Växjö is known for its environmental management and bio-energy facilities. The region hosts many international visits to showcase its expertise. With greater regional collaboration, this expertise could be transferred to municipalities in neighbouring counties so as to develop a more co-ordinated environmental strategy and an action plan to benefit from potential regional synergies in terms of the productive use of the area's natural amenities.

Box 2.15. Renewable energy in Småland-Blekinge

Renewable energy sources account today for 47% of the energy supply in Blekinge, 60% in Kalmar and approximately 45% in Kronoberg and Jönköping. Wooden biomass energy accounts for 4.7 TWh in Blekinge, 2.3 TWh in Jönköping, 1.5 TWh in Kronoberg and 6.5 TWh in Kalmar, where 90% is used by industry. Industrial and domestic waste, peat, etc., account for 290 GWh in Kalmar and Kronoberg. Solar energy is increasing, but solar heating only accounts for a few GWh in the region (*e.g.* 50 kW at IKEA in Älmhult).

Electricity in the region is almost 60% generated from renewables inside and outside the region. In Jönköping County, approximately 20% of the electricity consumed is generated locally in wind-power stations (62 GWh 2010), hydropower stations (117 GWh 2008) and CHP plants (400 GWh 2010). In both Kalmar and Kronoberg counties more than 20% of electricity consumed is generated locally in wind power stations, hydro power stations, CHP plants and industrial back-pressure power plants. This represents a major change since 1995, when only 7% of electric power was generated locally in Kalmar and only 12% in Kronoberg. It is a result of the development of wind power and the doubling of industrial back-pressure power (based on biofuels) in Kalmar and of increased biomass-fuelled generation in CHP plants (280 GWh) in Kronoberg. Industrial back-pressure in Kalmar and Kronoberg generates almost 1 TWh, while local wind power generates 200 GWh and local hydro power 300 GWh. Biofuels supply more than 90% of district heating, mainly wooden biomass (more than 70%). The region has approximately 60 district heating systems and 12 CHP plants. To this should be added approximately 40 industrial biofuelled energy plants (1 MW).

Source: Energy Agency for Southeast Sweden, www.energikontorsydost.se; The County Administrative Board of Jönköping.

123. Forests are one of Småland's most important natural amenities. They are obviously valued by the lumber industry, but the value of Småland's forests is increasingly multifunctional. Local forests have a growing role in the bio-energy industry, and larger foresters are predicting that they may soon be classified as energy companies instead of agro-foresters. At the same time, forests increasingly contribute to local attractiveness and the high value of the natural amenities offered in the area. Forestry planning must consider both the economic value and the social function of this important natural amenity.

An agreement should be reached on how to promote, protect and make productive use of natural amenities

124. Communities must agree on how amenities are to be best promoted, protected and used. Their positive and negative externalities reach beyond most local, municipal and even county administrative borders. These externalities must be managed to obtain the most effective socio-economic results, as they can affect the local environment, its economy and existing socio-cultural institutions. Unmanaged, amenity-based development can actually result in the deterioration and loss of the very amenities that the development strategy was built upon. There is therefore a need for balance in the promotion, development, protection and economic use of natural amenities.

125. A wider territorial perspective is often required. There is a need for greater complementarity among the different municipal strategies and clearer links with the strategic guidelines at county and CAB levels. Currently, each municipality and county develops its own strategy regarding issues that most often stretch beyond its administrative borders. Only through a better co-ordinated strategic vision for the future of the territory are all stakeholders (both public and private) likely to agree on the values to be prioritised (see Chapter 3).

Good public and private services can complement the attractive power of natural assets

126. The availability of public and private proximity services is also important. Local authorities usually have control over services such as education, health care, public transport, sewage and waste collection. Natural amenities or cultural heritage, instead, are part of the territory's endowments. Policy can protect and highlight the value of these endowments but cannot create them. However, quality local proximity services can be used to complement, highlight and amplify the value of existing natural and cultural amenities. Moreover, public services are important because they contribute to social welfare and economic development in at least four ways: they provide a platform for economic development, enhance human capital, bolster social cohesion and strengthen network economies. The relative importance of these functions may vary among the different territories. However, the emerging interest in place-based development, supported by sound investments in firms, people and institutions, described in OECD (2006), emphasises the growing importance of addressing public services as a platform for economic development (OECD, 2009).

127. It is a challenge for small municipalities to deliver the same quality of services as larger municipalities and cities. Most public services are municipal responsibilities, many of which are defined by law and obligatory in all communities. The current equalisation system aims to give all county councils and municipalities similar financial capacity to deliver equal levels of services to their inhabitants. However, beyond financial resources, the trend towards geographic concentration leaves smaller municipalities with several capacity-related challenges for offering services to an ageing population (see Chapter 1). Moreover, the current levels of fiscal equalisation may be hard to maintain in the long term (OECD 2010a). All these factors place smaller municipalities in a more difficult position for providing high-quality public services. One way to meet these challenges is to reduce costs and increase economies of scale through inter-municipal co-operation (see Chapter 3).

128. Private proximity services are currently much less evenly distributed. Whereas public services have remained more or less standardised, private services – shops, banks, restaurants, and leisure services – tend to concentrate in capitals and the main growth centres to take advantage of the benefits of agglomeration and economies of scale. This makes larger municipalities more attractive places to live, other things being equal. They therefore stand a better chance of gaining residents, and this facilitates the growth of a diverse range of high-quality private services and increases the fiscal revenues of the municipality, allowing it to offer better quality public services as well. This self-reinforcing loop tends to worsen the situation of smaller municipalities. Yet even the larger municipalities in Småland-Blekinge find it hard to compete in terms of services with the larger urban centres beyond the region. If municipalities collaborate rather than compete, however, they can link the various amenities of the territory and make it more attractive. The synergies to be obtained from a holistic view of its amenities and services can make the region as a whole more attractive than the sum of its parts.

Improving the framework for business competitiveness

129. In addition to its natural assets and attractiveness, a second key asset of the region is its entrepreneurial spirit. The area is known to be one of the most business-friendly parts of Sweden. It has a broad spectrum of sectors based on trade, commerce and manufacturing in areas such as automotive components, biotechnology, wood for housing and furniture, and environmental energy techniques. There are also several well-known industrial clusters for crystal, furniture and aluminium. The world's largest furniture retailer, IKEA, originated in Småland, and one of the most active industrial districts in Scandinavia, the Gnosjö district, is located over four small municipalities in Jönköping. Although the industrial fabric and business community of Småland-Blekinge vary across its territory, SMEs predominate throughout Småland, while Blekinge has a greater share of larger-scale enterprises, whether measured in terms of firm numbers or employment. In fact, Blekinge has, by a considerable margin, the largest share of employment in large workplaces (250+ employees) of any county in Sweden. Kalmar, by contrast, ranks second from last on this indicator and Jönköping is also well below the average. Nevertheless, Blekinge has a strong SME culture and a strong entrepreneurial tradition, and its firm entry rates (the ratio of start-ups to the total firm population) have in recent years been the highest of the four counties.

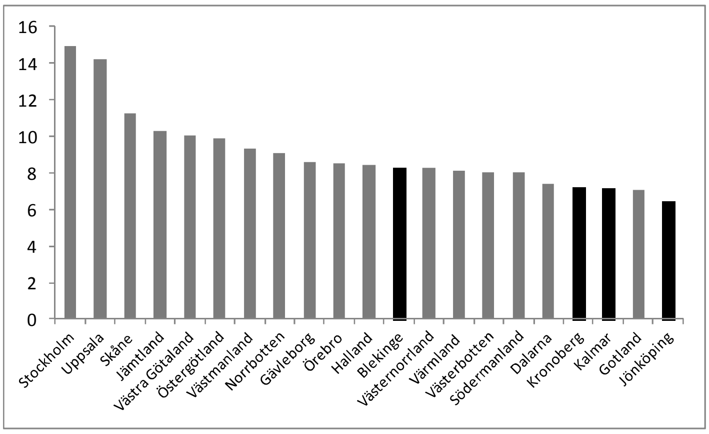
130. Yet, the four counties display a higher proportion of low-skilled workers in their work force than the national average (Chapter 1). Many firms are subcontractors, especially for the automotive industries, with a growing number of second-level subcontracted firms. Subcontracting is most prominent in the western and south-western parts of Småland-Blekinge. Local industries often use old production processes and have generally more low-skilled employment than most Swedish manufacturing.

131. Technology-intensive industries and knowledge-based enterprises are underrepresented in the four counties. The three counties of Småland rank towards the bottom among Sweden's counties in terms of share of workers in professional and scientific activities (Figure 2.5). During the last ten years, there has been some expansion into more service- and technology-driven companies in biotechnology, design,

environmental engineering, offshore and wind power. However these initiatives have not been sufficient to raise Småland and Blekinge out of the least specialised counties in terms of knowledge-intensive industries in Sweden (see Chapter 1). In fact, a recent analysis of Småland-Blekinge's innovation system identified the relatively low share of private R&D investment, the low share of knowledge-intensive firms, and the relatively low educational level of the area's population as three of the weaknesses that limit the development of the area (Box 2.16).

Figure 2.5. Share of workers in professional and scientific activities[1]

Swedish counties, 2009



1. This includes categories "M" (Professional scientific and technical activities) and "N" (Administrative and support service activities) of NACE Rev. 2. Only "M" is properly considered as requiring a high degree of training. Values should be thus interpreted with caution.

Source: OECD calculations, based on data from Statistics Sweden.

Box 2.16. Main recommendations from the analysis of Småland-Blekinge's innovation system

1. Strong leadership to drive the innovation process: Clear leadership to indicate the direction and maintain the momentum of the innovation process is essential. It is important to work out common goals and agree on which areas the innovation system should prioritise. The current multiplicity of actors and activities in the four counties' innovation support system creates a co-ordination challenge. Overlaps and duplications must be minimised to ensure that the use of the system's resources is optimal. A way to reach a desired level of orchestration is to jointly work out a basic strategy with clear priorities and milestones to be achieved.

2. Clustering sectoral innovation systems around the region's areas of industrial strength: Functional co-operation y the four counties would be strengthened if a number of frontier areas or sectors around which to form collaborations are selected. By focusing efforts on a few sectors in which the region has areas of strength from a functional rather than an administrative perspective could pave the way for greater intra-regional division of labour.

3. Strengthened collaboration between the four counties in order to upgrade the competency level in trade and industry: The region's overall skills supply is comparatively low, with a lower share of academics and knowledge-intensive business services than neighbouring regions. A key challenge for the four counties is to further strengthen the structures for knowledge transfer between the region's universities and research actors and local trade and industry. Work must be done to ensure that the university systems complement each other rather than compete for research funds. This will require close collaboration between them.

4. Acting together towards national and international actors to attract resources to the region: There is value in acting to a greater degree as a joint innovation system at the national and EU level in order to display the region's characteristics and national significance. This would give the overall region a relatively large weight. In a competitive situation for national funds, and to highlight the area's specific issues of interest on the national agenda, it is essential for the four counties to work together and move in the same direction. There is a need to create a regional "brand" or

common external image.

5. Involve businesses, entrepreneurs and innovators in the development process: It is essential that any further work to develop the innovation system in Smaland-Blekinge be based on the actual needs and problems of local businesses, entrepreneurs and innovators. To get a complete picture of the functionality of the innovation system, greater focus on the views of the target groups of the system must be considered. Linked to the need to formulate goals for the innovation system, this type of input is important for measuring achievement of goals.

Source: The innovation system in Småland-Blekinge: a comprehensive operations analysis, January 2011, The Småland-Blekinge Steering Committee.

Local businesses need to modernise and diversify

132. Businesses in Småland-Blekinge need to diversify their industrial and client bases. Swedish industrial culture has been largely geared to a few large multinational corporations. This model has more or less dominated the country's development strategy since the first decades of the last century, but it has come under pressure in an age of globalisation. Swedish corporations that once drove development and had linkages all the way down to local SMEs in Småland-Blekinge are not as "Swedish" anymore. There is an increasing risk that first-level subcontracting by these firms will be internationalised, with potentially serious consequences for local firms in Småland-Blekinge. Breaking away from the subcontracting business model means that local companies have to innovate, with new products aimed at new markets. This will give them greater independence, control and flexibility, important attributes in the current and future economic framework.

133. However, the region's strong SME structure is well suited to the establishment of a modern knowledge-based economy. Whereas the old industrial paradigm tended to favour large-scale businesses, future competitive strength will likely come from smaller and more flexible production units (Table 2.6). The traditional industrial model was based on cost-leadership strategies that pursued efficiency gains from economies of scale and process innovation; competitiveness came from tangible resources, rigid organisational structures and the establishment of market power. These all gave advantages to larger corporations and production units. However, in a knowledge-based economy, strategic innovation and product differentiation are increasingly the basis of competitive advantage, along with human and intangible resources. In short, the relative advantages of smaller, more flexible and organic business structures, such as those of most SMEs, are likely to increase.

134. The development of knowledge-intensive businesses may be the most promising way to maintain the region's prosperity and ensure its growth. What was in the past considered almost the weakness of Småland-Blekinge's industrial model, its dependence on SMEs, should now be valued and prioritised. The point is not to discriminate against successful firms that grow into large corporations, but to pay more attention to local SMEs and to their needs. In brief, the four counties appear to have entered the new century with a promising firm structure but an urgent need to acquire the new skills required to make the most of that structure.

Table 2.6. Old and new industrial paradigms

	Old approach	New approach
Strategic focus	Efficiency-driven	Knowledge-driven
Competitive strategy	Cost leadership	Innovation-based differentiation
Source of competitive advantage	Tangible resources, market power	Human and intangible resources
Keys for competitiveness	Scale efficiencies Process innovation	Flexibility Strategic innovation
Productive objectives	Quantity	Quality
Capital focus	Financial capital	Social and human capital
Organisational structure	Rigid organisational structure	Flexible organic structure
Preferred leadership style	Managerial	Entrepreneurial
Dominant firm size	Large corporations	SMEs

Source: OECD, based on various sources.

A generational shift would be required

135. A structural change in local SMEs is much more likely to occur if there is a generational shift in the region's business ownership structure. Many manufacturing firms in Småland-Blekinge continue to resist change in their business models and to react to the new economic environment by attempting to maintain their existing low value-added business models through efficiency gains. Yet, it is largely believed that entrepreneurs would take up the challenge to adapt to a knowledge-based competitive structure if they were conscious of its importance for their company's future and if they were able to "see the profits". The administration therefore has a role to play in communicating with small businesses and showing them the possible consequences of the *status quo*. To change, business owners will probably need assistance with training and finding the adequate personnel since adaptation to the new business model also depends on the ability to produce or recruit the needed skills (see Section 2.1).

136. In many OECD regions, low birth rates combined with high numbers of business owners approaching retirement age means that, over the next decade or two, there may be unparalleled shortfalls of business owners and employees, with potential negative effects on local economies (Camire, 2011). Succession issues have become one of the main concerns of business development officials in many OECD countries. In North American rural communities, for example, the baby-boom generation of entrepreneurs and business owners is retiring but there is a lack of rural youth available and willing to take up those businesses. Although the situation in Småland-Blekinge seems less acute than in parts of rural North America, certain segments of the region's economy are on their way to a similar fate. Many family businesses are run by the older generation, while the younger generation increasingly tends to migrate to bigger cities (Section 2.1) and often has little interest in continuing the family business. Many businesses stand to close, not because of financial problems but because there is no one to take over once the owner retires.

137. Successions must be planned well in advance. There are steps that can be taken to facilitate business succession in Småland-Blekinge. The Canadian community development programme, Canada Futures, found that the family ensures only a small minority of successions in non-metropolitan areas. For businesses that did not have a family member willing to take over the business, two-thirds had not developed a succession plan and over 80% planned to sell their businesses but were unable to find buyers.

As a result some 30.6% of retiring business owners decided to close their business (Camire, 2011). To avoid the consequences that this can have for a local community, local business facilitators can help older entrepreneurs to develop succession plans. Experience elsewhere suggests that most businesses are far from being "sale-ready" when the time comes for the current owner to retire. When a family member does not take over, great care must be taken to make the business as attractive as possible to a prospective buyer. Business owners need to prepare and value their businesses. They have to review and upgrade their firms' processes to optimise their attractiveness, and they often need assistance with this process.

138. Business development officers can also help connect buyers and sellers. It is important to provide information about businesses that are for sale to potential young entrepreneurs in the community looking to start their business career as well as to inbound investors and migrants that may be looking for an opportunity to establish a career and reside in the area. In fact, an inventory of potential business succession opportunities (possibly web-based) could be used to bring to the community people who might be attracted by the lifestyle and amenities but had not yet found suitable professional opportunities. It could also be a way to offer opportunities for women entrepreneurs or alternative business strategies for local self-employed entrepreneurs. The important thing is to help connect buyers and sellers (Clark, 2011).

139. Finally, local financial institutions need to be receptive to financing business transition opportunities within the community. Support in the form of leverage loans is often needed to ensure a smooth transition to the new owners. One valuable benefit to the buyer is the potential for local mentorship from the previous owner, often within the same community. Business facilitators should help ensure that, where possible, this option remains a part of any succession plan.

Promoting new start-ups is also crucial…

140. Entrepreneurship has been recognised as one of the main engines of economic and social development. According to a US National Commission on Entrepreneurship report (NCOE, 2001), innovation is the most important contribution of entrepreneurship at the local level. Entrepreneurship and innovation, combined, can improve the economic competitiveness of the area; they create economic growth and new wealth for the locality; and ultimately they improve quality of life for local residents (NCOE, 2001). Innovative entrepreneurship can have many local spillover benefits (Acs and Audretsch, 1988; Acs and Varga, 2004; Drucker, 1984, 1985; Pavitt *et al.*, 1987). Since World War II, small entrepreneurs in the United States have been responsible for 67% of inventions and 95% of radical innovations (Timmons, 1998) and have fuelled job creation and economic growth. Entrepreneurs can also play a key role in carrying Småland-Blekinge's economy to a new stage of economic competitiveness, by commercially exploiting endogenous knowledge and innovation. Promoting entrepreneurship and knowledge-based firms can help lead Småland-Blekinge towards economic prosperity. Yet, to be coherent with the evolving needs of a knowledge-intensive economy and to form a modern and sustainable economy, the authorities must avoid promoting entrepreneurship purely in terms of quantitative measures of employment possibilities and growth potential.

141. Quality entrepreneurship seems to be a promising objective for Småland-Blekinge. However, there is little consensus about what constitutes "quality" entrepreneurship. This is mostly because, from a development perspective, it is context-dependent, based on the specific needs and resources of a specific territory. In the best of situations, quality entrepreneurship allows a territory to commercialise its endogenous resources and capabilities efficiently and sustainably. This includes making optimal use of the region's human capital, whether as entrepreneur or as employee. In Småland-Blekinge, quality entrepreneurship has a clear knowledge and innovation character. This is because the region's economic and industrial base must move to a higher value-added and knowledge-intensive competitive base where human capital plays a key role and entrepreneurship is essential to translate human capital into economic value.

142. The promotion of new entrepreneurial activity must be conducted in parallel to the attraction and retention of talents discussed above. Because of the current lack of adequately skilled labour for these enterprises in many parts of Småland-Blekinge, encouraging the overly rapid increase in new knowledge-based industrial start-ups, with its consequent requirements in terms of qualified labour, may simply lead these ventures to move out of the region. New firms must be able to inject new ideas and innovations into the local industrial fabric so as to create a positive contagion effect and lead existing business owners to also adopt more modern business methods, albeit at a pace that the region's labour market can sustain. Here, as mentioned in Section 2.1, this presents an interesting opportunity for youth (local, foreign students or returning), highly skilled immigrants and women.

143. Many parts of the region also need a greater diversity of consumer services to increase their attractiveness. New service industry business ventures should therefore be considered as quality entrepreneurship, both because they serve the valuable function of providing much needed private proximity services and amenities, and because they help to integrate and optimise the economic contribution of segments of the population that do not find their place in Småland-Blekinge's current economic structure.

…and knowledge-intensive service activity firms (KISA firms) may be especially needed

144. Knowledge-intensive service activity firms (KISA) would also offer benefits for Småland-Blekinge. A relatively new trend in entrepreneurship mixes knowledge-based competitiveness and services and has been growing rapidly in amenity-rich rural areas of many parts of OECD countries over the last decade. OECD (2007b) has published a list of KISA industries based on their ISIC classifications. According to recent research (OECD, 2006; Martinez-Fernandez, 2010; Lafuente *et al*., 2010; Vaillant *et al*., 2011), KISA firms are both sources and carriers of knowledge that influences and improves the performance of industry clusters across all sectors of the economy. KISA firms cover management and business consulting, ICT, professional, health and legal services, together with insurance and financial services. The promotion of this type of enterprise in Småland-Blekinge could be a way to provoke a flow of new ideas and knowledge through the business community.

145. Although KISA firms have been common in large metropolitan areas for some time, there has been a boom in their territorial expansion over the last decade, largely associated with "amenity migration" (Vaillant *et al*., 2011). KISA firms are mostly spreading to amenity-rich rural areas that are easily accessible and within the parameter of influence of populated urban areas. It is worth highlighting that, in contrast to technology-based manufacturing, KISA firms have tended to spread much more widely across rural territory. This type of entrepreneurship is especially appropriate for Småland-Blekinge owing to the combination of an amenity-rich and largely rural character. In Spain the autonomous region of Catalonia led the way in the growth of rural KISA firms, with up to 10% of new KISA firms created between 2003 and 2006 established in rural areas (Lafuente *et al*., 2010). And while rural areas usually lag far behind their urban counterparts in knowledge-based firm creation (Roper and Love, 2006), the proportion of rural KISA firms in this amenity-rich region of Spain is increasing faster than in urban areas (OECD, 2009). The increased entrepreneurial activity of rural Catalonia has been accompanied by rising economic prosperity, with most parts of rural Catalonia benefiting from above-average economic growth (Lafuente *et al*., 2007).

146. Although KISA firms are not intensive creators of employment, they generate economic benefits for the (often low-density) communities in which they are located. Many KISA firms are one-person firms constituted by self-employed professionals. But, like consumer service enterprises, they are very important for the future economic development of Småland-Blekinge and well adapted to the specific characteristics and needs of the region's local communities. Apart from fiscal benefits due to the revenues generated by KISA firms, they help retain wealth locally, as local firms and individuals use their services; and they create new wealth by generating revenues that complement existing services. Moreover, not only are KISA

firms attracted to amenity-rich areas, they add to these amenities through the local supply of their services, as in the case of the Sunshine Coast (Box 2.17). It will be important for entrepreneurship support in Småland-Blekinge not to be limited to a narrow definition of desirable business creation based on quantitative measures and to ensure support for these firms as an interesting entrepreneurial activity for the region.

Box 2.17. Sunshine Coast KISA firm development

KISA firms have multiplied around an amenity-rich rural region in the Sunshine Coast of British Columbia, Canada. In this area endowed with exceptional natural amenities, several hundred businesses exporting services around the world have been created. These include engineering, architecture, marketing, publishing, design, information technology, wellness and counselling, financial management and more. Through networking and the establishment of a virtual cluster tying all these KISA firms together (Sunshine Coast Intelligence Services Cluster Network, www.coastisc.net/) the authorities have not only ended many rural KISA entrepreneurs' sense of isolation but have also helped establish social and professional connections. This has given rise to a virtual local market with many KISAs using each other's services. There are several examples of different KISA firms in the region that have combined their services to increase business reach and competitiveness. The availability of system amenities further increases the attractiveness of the area for new KISA firms. The Sunshine Coast is quickly gaining recognition not only for the exceptional amenities it offers residents but also for those it offers its growing community of KISA firms and entrepreneurs.

Source: Sunshine Coast Intelligence Services Cluster Network website: http://www.coastisc.net/.

Business retention and expansion are as important as business creation

147. Creating new enterprises should not be the only focus of Småland-Blekinge's business development strategy. Equally important for generating a dynamic and modern economic structure to build the foundation for the region's future prosperity is a strong business retention and expansion policy. While working to strengthen the quality of entrepreneurial activity, the authorities must attend to the needs and challenges of their existing business community. They must seek to identify and assist firms that wish to expand their operations and take action to ensure that they can do so locally rather than move their operations outside the region. Attention to factors that can impede local expansion is critical. When a business leaves, the cost to both the company and the community is often very high. While the authorities should resist pressure for special treatment in order to avert exit (as when major employers threaten to leave to obtain better tax or regulatory treatment), it is often relatively inexpensive to remove obstacles to local expansion. This can also benefit other firms in the area.

148. Investments in business retention and expansion have been found to have a greater local economic impact than resources dedicated to attracting firms from outside a region. In fact, studies have shown that up to 80% of an area's job growth can be generated by existing companies (Wheeldon, 2011). Studies of rural communities have found that only 2% of new job creation comes from industries relocating to an area (RUPRI, 2006) and that start-ups and growth of incumbent firms matter more. However, business retention and expansion can also help attract new businesses, since efforts to make local businesses feel supported and happy in their communities add to the region's attractiveness to outside firms. In essence, happy customers attract more happy customers. This way of attracting business activity is much more cost-effective than traditional fiscal incentives, which may also create intense inter-municipal competition, rarely a positive thing for any of the municipalities involved. A business retention and expansion policy is therefore much more compatible with a wider regional development strategy. It usually implies local implementation but it requires strong co-ordination and synergies within a wider regional development strategy.

149. Retaining and expanding businesses requires building relationships to strengthen linkages between the private and public sectors. This will probably be the greatest challenge for local administrations in Småland-Blekinge, as attempts at public-private strategic planning in parts of the region have generated little interest. However, because the focus of business retention and expansion policies directly affects the welfare of local businesses, private entrepreneurs are much more likely to see the benefits of involvement. At first, as a result of old habits, local businesses are likely to view the relationship as one of client-provider rather than as a partnership. Local facilitators can help to establish a true sense of partnership among public and private agents.

150. The private sector needs to be further integrated into a common business development strategy. Its role in the regional planning process in Småland-Blekinge is still limited. One reason is the dominance of SMEs in the region. This means that consensus must be reached among a large number of actors. It is said to be very difficult to bring them together to reach a common strategy. Moreover, smaller firms have fewer resources to devote to participation in such exercises than larger ones. However, the business structure and average firm size in Småland-Blekinge's economy is similar to that of many other rural areas in Europe. The difference is probably the novelty of business outreach in the region, as well as the conservative character of many existing business networks. However strengthening the process of public-private consultation and dialogue around the current challenges and future vision for the region and its economy would potentially be very beneficial. A strong regional development strategy together with good communication of its implications and benefits for the business community would probably generate interest and involvement (Chapter 3). The Rural Leadership Programme of Scottish Enterprise illustrates ways to establish and strengthen a cross-sectoral and cross-geographic community of interest in regional development (Box 2.18).

Box 2.18. Scottish Enterprise's Rural Leadership Programme

Since 2006 Scottish Enterprise has run an annual rural leadership programme. The aim is to help Scottish rural business leaders to create additional wealth by leading, team working, networking, influencing and being ambitious. The programme meets the needs of existing and potential leaders in Scotland's rural communities by focusing on issues that affect rural businesses and organisations and delivering development activity through peer groups that are accessible, relevant and have mutual interests in developing the rural economy. Targeted at business leaders and key influencers from rural areas in Scotland the programme seeks to build leadership capacity and establish a cross-sectoral and cross-geographic community interested in developing rural economies and the sectors and communities they sustain.

Participants have come from a diverse mix of rural occupations including farmers, those involved in tourism and the food and drink sector as well as veterinarians, auctioneers, estate managers, the processing sector, the supply trade and other rural businesses. The most important criterion is a desire to improve and grow their business and/or the performance of the rural sector.

A review of the Rural Leadership Programme was undertaken in March 2011. The review noted that "research conducted amongst the participants on the SE Rural Leadership Programme has demonstrated high levels of satisfaction with its content and delivery. Of greater significance is the profound effect the Programme has had on the participants' ambitions, confidence, awareness of rural issues and desire to apply this learning." In addition it recognised the strong evidence that:

- participants continue to use and develop the regional and national networks established through their time on the programme, and to apply their learning in both their workplace and the wider economy and community;
- the experience of the Programme is leading to changes in the way businesses and organisations are being led and managed, with a clear demonstration of a focus on strategy, staff motivation, and collaborative working towards clear and shared objectives; and
- some participants can already attribute changes in business performance to the application of learning and

skills attained through the Programme.

Key suggestions for improving the programme include continued use on an annual basis of the rural leadership performance framework, using past participants to recruit business leaders from a cross-section of rural Scotland and continuing to build on group networking opportunities.

For each participant the Rural Leadership Programme involves a six-month programme with six residential modules and covers topics such as leadership, communication, role of key institutions, economic and social issues, personal development issues, networking and political decision making. The final module includes meetings with the Scottish, British and European Parliaments. Participants are required to make an advance payment of GBP 750 to demonstrate and maintain commitment and contribute towards the costs of delivery.

Source: Scottish Enterprise.

151. Support for retaining and expanding businesses must be adapted to the specific needs of the community. The authorities must have clear and unbiased knowledge of the local business fabric. This can be achieved by developing a database of local businesses, updated on a close-to-real-time basis, to track local trends and find solutions but also to identify businesses that may be contemplating expansion or may be vulnerable or likely to leave. Another effective tool for relationship-building is "business walks" that bring together local economic development officials and local politicians to conduct informal visits to local businesses (Wheeldon, 2011). Through these meetings, local politicians and development officials get a better sense of local businesspeople, their frustrations, their future expectations and the challenges they face. With this intelligence, the local authorities can more easily identify firms that are contemplating a move to another region or that are not optimising their local growth potential. In these cases, public assistance and/or facilitation may be required to avoid losing a business or to stimulate a firm's growth.

152. Local and regional governments therefore need to be involved at the political level and within the administration. The credibility and trust necessary to build public-private relationships for effective business retention and expansion are gained by responding to needs and producing results in a timely manner. That is why the agents working and partnering with local businesses must have enough power and influence to be able to advance real solutions to the challenges of retaining and expanding businesses. This requires a consensus on all sides of the importance of this issue and agreement around the region's business development strategy. Some OECD regions have established special development councils to promote public-private partnerships in this area (Box 2.19).

Box 2.19. Vernon's business retention and expansion programme

The City of Vernon, Canada, took over the economic development function for its territory in 2009. It established an Economic Development Council whose first priority was to establish an economic development strategy that would be the basis and guideline for all policies and activities carried out by the council. Initially, ten focus group sessions with different industry sectors in the area led to the establishment of priorities focused on support for business retention and expansion. This consensus was reached not only because most new employment opportunities in similar territories came from the growth of existing businesses but also because of the realisation that local business owners considered regional and municipal administrations as unsupportive of local enterprises.

The city's Economic Development Council therefore partnered with regional authorities and the local Community Futures (Canadian community development project) to set out a series of field visits and surveys with over a hundred local manufacturing and technology companies. These visits served not only to establish new links with the local business community and to promote the services of the local Economic Development Council, but also to gain better knowledge and understanding of the regional economy. Many obstacles to local business growth were identified and as a result measures were taken to eliminate them.

Through these visits, it was discovered that contrary to common perceptions, businesses in Vernon faced a labour challenge in spite of high unemployment. A grave need for local labour training and educational opportunities was identified. At the same time the Economic Development Council found that sales in over half of local firms were growing and that many of these firms were planning to expand their businesses.

The Council consequently gave its attention not only to the needs of firms that were contemplating moving their operations out of Vernon, but also to planning and implementation in firms with expansion projects. By facilitating growth, the Economic Development Council made sure that intended expansion plans were effectively followed through, and more importantly that these took place within the Vernon City's territorial boundaries.

Source: Kevin Poole, Economic Development Officer, City of Vernon, 2011.

Better co-ordination will be needed for effective business development

153. As in most other parts of Sweden, there is perhaps an excess of diversity (and, as a result, chronic overlap) in the publicly funded business and entrepreneurship promotion programmes in Småland-Blekinge, with insufficient co-ordination among them (see Chapter 3). A mapping of existing support initiatives in Småland-Blekinge would need to include all the programmes of the municipality, the regional development council and the CAB, along with those of the central government's public agencies (such as Vinnova and the Swedish Agency for Economic and Regional Growth) and initiatives such as the local action groups developed under LEADER and other EU programmes. Finally, there are the business promotion initiatives from various public and private institutions such as science parks, business incubators, regional universities and research centres. This extensive, and positive, supply of entrepreneurship and business support suffers from a lack of co-ordination at both the planning and the delivery stages.

154. A comprehensive vision of regional development is lacking at both the county and regional levels. A total of 14 public bodies intervene in some way or another in regional development in Småland-Blekinge.[12] This affects business promotion efforts. Regional development councils are in charge of preparing each of the four counties' regional development programmes (RDPs). Different stakeholders were involved in building these programmes. However, actors operating in the territory are not obliged to follow the RDP guidelines (see Chapter 3). Sectoral co-operation in the four counties is evolving, resulting in the articulation of some common positions or strategies in fields such as innovation, transport infrastructure (see above), or industrial promotion (*e.g.* Småland's wood manufacturing strategy). Nonetheless, regional co-operation is still largely *ad hoc*, more the sum of individual county priorities than of a systematic analysis of potential complementarities. It is telling that shared strategies rarely include a pooling of common resources to implement joint initiatives.

155. The separation of rural development from regional development creates artificial boundaries and makes it difficult to develop comprehensive strategies. The county administrative boards elaborate the county's rural development programme, which may overlap the regional development programme prepared by the regional development council. They often cover very similar and complementary topics but there is no obligation to reach a consensus on the development path to be adopted in the region (see Chapter 3). Rural and regional development policy have been kept apart on the understanding that regional development is concerned with mostly urban matters, such as innovation systems, industrial development, and connectivity, while rural strategies deal with "rural issues". However, the reality of most of Småland-Blekinge's socio-economic geography is strong interdependence of rural-urban linkages. In fact, most of Småland's industrial activity has come out of the region's rural areas. IKEA, the Kingdom of Crystal and the Gnosjö industrial district, to name a few, are all located outside of the main growth poles in areas with an essentially rural character. In addition, economic activity in node cities is often dependent on the wealth and demand of rural residents. More important in a knowledge-based economy is the fact that a node city's surrounding rural areas will often be the providers of natural amenities and thus a source of the city's

attractiveness and therefore its competitiveness. All this suggests the need for better integrated rural and regional development strategies.

156. Better integration of rural and regional economic development strategies would enable the design of more comprehensive policies that integrate the diverse productive aspects and processes that affect the development of rural communities. This will require better co-ordination of the various sectoral policies affecting rural areas as well as co-operation and co-ordination of local actors – farmers, private firms, investors, education and research institution and different levels of government. Such co-operation results in positive externalities both for agriculture and non-agriculture sectors of the rural economy and has been a basis of successful programmes such as the EU's LEADER. Blekinge country has one LEADER group which covers its entire territory, while Småland has a total of ten groups that cut through and across existing municipal and county lines (Box 2.20). Further interaction between these groups and regional development councils should be promoted.

Box 2.20. The LEADER programme

The OECD has noted the qualities of the LEADER approach as a tool for generating an endogenous development process with the active participation of rural communities (OECD 2006b). Despite being relatively marginal with respect to total EAFRD funds (Pillar II) and minimal with respect to Pillar I funds, LEADER funds can make a difference if well oriented to the intended objectives under the intended principles. Therefore, instead of analysing the allocation of funds for LEADER and the main measures, it is better to evaluate whether the different principles of LEADER are followed in Sweden and in Småland-Blekinge. The basic principles driving LEADER are: *i)* territorial approach: local development; *ii)* participatory approach; *iii)* ascending, bottom-up approach; *iv)* multi-sector approach; and *v)* integration through networks and co-operation. After 17 years of experience, many of the intended social aims of the initiative are finally beginning to be instilled in Sweden's rural society. However, most LEADER groups in Småland are relatively new, having been created with the last Common Agricultural Policy (CAP) (2007-13).

2. The territorial approach of LEADER in Småland-Blekinge has mostly come as a contrast to the sector-based focus that had characterised, and still characterises, many policies affecting Swedish rural areas and their inhabitants. LEADER has introduced a new way of formulating rural development strategies through a process that is the result of a concerted effort with local agents. It has also led policy makers to give greater consideration to the resources, capacities and aspirations of the territory and its population when defining development policy.

3. The participatory approach of LEADER in Småland-Blekinge mostly takes the form of the local action groups (LAGs) established in every LEADER territory to manage its local development policy. In fact, many LAGs do much more than manage the territory's development policy; they mobilise the local population around local development issues, they often disseminate information and help knowledge flow throughout their territory, they help bring the community together around specific development goals and strategies, and they promote initiatives and prioritise local beneficiaries.

4. LEADER's ascending approach means that decisions on the elaboration and implementation of a development strategy are bottom-up. The local population plays the main role and participates actively throughout the entire process of analysis, formulation and implementation of their chosen rural development strategy.

5. The multi-sector approach refers to the diversity of issues (economic growth, knowledge management, infrastructure, quality of life, productive activities, public and private services, training) addressed within the scope of the programme's activities. The horizontal and cross-sector character of LEADER contrasts with the sector-specific interventions of traditional policy and development programmes.

6. Encouraging integration through networking and co-operation among LEADER LAGs aims to overcome the isolation that characterises many rural areas. In Sweden, the most common types of co-operation among different LAGs are based on the interchange and transfer of experience, shared training activities, joint marketing activities, and the creation of thematic networks.

With its integration into the EU rural development policy during the current planning period (2007-13), LEADER has passed from being a project to being a methodology to be applied to all of the policy's other rural development measures. Although most LEADER groups in Småland-Blekinge are relatively new, the level of community participation and involvement has been substantial. And although collaboration among the different LAGs across the region is quite broad (in areas such as tourism development), most development strategies match throughout Småland-Blekinge. Moreover, there is a fair amount of networking and co-ordination with other LAGs throughout Sweden, often as a result of the creation of thematic networks.

157. More co-ordination, consensus and strategic coherence are needed. Pooling the resources of different institutions would help to produce synergies, reach critical mass or ensure more efficient and effective investment. Taking into consideration the large amount of resources, time and human capital invested in promoting business activity, better co-ordination of the different actors and strengthened regional development strategies and initiatives will be critical for public sector efficiency and effectiveness and for creating synergies among the territory's policies and initiatives.

Improving regional connectivity

158. Good connectivity plays an essential role as an engine for regional development in Småland-Blekinge and is directly related to developing the regional potentialities examined above. It is essential for exploiting, accessing and developing local natural amenities effectively; at the same time, an adequate transport infrastructure is crucial for business competitiveness. Among the factors determining regional development potential, transport infrastructure can be used as a policy instrument to improve accessibility to a region and to stimulate economic development.

159. Despite the strategic value of infrastructure for the development of Småland-Blekinge, its current connectivity and transport infrastructure can easily be considered a problem, rather than a catalyst, for local growth and attractiveness. Sweden's main trade corridors have historically been based on a north-south axis, and because of the economic importance of western continental Europe when much of the current infrastructure was planned, less attention was paid to promoting connections in southeast Sweden. As Chapter 1 showed, the region's accessibility to many key markets is poorer than that of some Swedish regions that are geographically further from those markets. Yet global economic and trade axes have shifted and more links to and through Småland-Blekinge are now warranted. A rethinking of transport infrastructure priorities in Sweden to open up the southeast would benefit both the region and Sweden as a whole, as would more east-west connections.

160. The growing internationalisation of Småland-Blekinge's industry over the last decade has not been accompanied by equivalent infrastructure development. The industrial ventures that have best adapted to globalisation, and that have benefitted from relatively high levels of prosperity over the last decade, are mostly located in the western part of the Småland-Blekinge area, which is served by the main north-south Swedish transport infrastructure. Elsewhere in the region, some companies have moved their headquarters to better connected areas outside the southeast region.

Regional connections are in need of improvement

161. The counties' road infrastructure is comprised of parts of a number of national routes with high volumes of traffic, especially the E4 and E22 motorways. These routes have a relatively high standard compared to the rest of the road network, but even along the national routes, significant bottlenecks require attention. This is especially the case of the E22 southeast coastal motorway/highway which includes many segments of two-lane highway that lower traffic speed. In addition to the national routes, inter-regional two-lane roads slow east-west traffic and connections between the different counties. Finally, some roads

connecting larger towns/nodes with the surrounding smaller municipalities are of very low standard and hinder regional development.

162. At the same time, maintenance of the rail network in southeast Sweden is falling behind. The development of the railroad within the counties and with bordering counties is a strategic issue for the region, particularly owing to the unexpected, and therefore not planned for, increase in rail demand. A large part of the railroad network has capacity problems, is out of date or lacks important links. The network has one main route, Södra Stambanan, which has dual tracks and a relatively high speed standard, but its lack of capacity is an important and growing problem. The railroad network also includes a number of regional routes, such as the coast-to-coast route, the Blekinge coastal route, Jönköpingsbanan and Stångådalsbanan. These routes have varying speed standards and problems related to capacity on almost all sections; some routes even lack electrification. New construction, reconstruction, renovation and improvements are needed on all these routes. Demand for passenger and freight rail transport is growing rapidly, but while freight requires interregional links, the increase in passenger commuting is due to intra-regional travel.

163. Adequate air transport from each of the four county capitals to Scandinavia's main international air hubs is also a connectivity issue. In order to make the area attractive to professionals and businesses in an era of increasing internationalisation, good connections to the national capital and to the rest of the world are needed. The volume and capacity of the existing county airports may not warrant intercontinental flights, but international connectivity could be improved by rethinking flight schedules to the main international air hubs to allow same-day travel to and from some of Europe's main cities. At the moment, other than occasional charters, Stockholm airports are the main daily destinations available at the region's four county airports. More regular links to Copenhagen and/or other European hubs would facilitate the air connectivity with the rest of the world and improve the region's attractiveness to professionals and knowledge-based firms. Table 2.7 offers information about the number of passengers and volume of freight that passed through Småland-Blekinge's different county airports in 2010.

Table 2.7. Passenger and freight traffic at Småland-Blekinge's different county airports

2010

County Airport	Jönköping Jönköping	Kronoberg Småland	Kalmar Kalmar	Kalmar Oskarshamn	Blekinge Ronneby
Travellers (domestic flights)	44 302	88 277	139 068	11 571	205 847
Travellers (Internat´l flights)*	28 698	74 598	27 393	171	2 943
Goods (tons)	1 346	1	5	11	11

Source: National Transport Agency.

164. Finally, it is important to note that the transport infrastructure has not yet had time to adapt to the expanding new markets to the east. New trade opportunities with Baltic States, Russia and China are opening up for Swedish industry, and firms in Småland-Blekinge may be particularly well situated geographically to take advantage and expand on these incipient opportunities. The growing importance of the Baltic area as a new dynamic trade region for Småland-Blekinge falls in line with its industry's need for a new client base that is diversified from the historical reliance on subcontracting to national and multinational firms. In addition to this, these new trade opportunities are strategic for Sweden's future. With appropriate infrastructural developments, Småland-Blekinge could stand to become a much more significant player as one of Sweden's primary points of connection with the growing eastern economies,

stretching all the way to China. There are several large established and planned ports and terminals with the ambition to become logistics centres. There are also plans to strengthen the connection eastward to the Baltic, Russia and China (Box 2.21). However, the country's freight transport infrastructure will require improvements to take advantage of the increasing new trade routes to the east. In a new eastern-oriented trade context, Sweden's south-eastern counties will play a more strategic role.

Box 2.21. Strengthening the connections eastward

Blekinge is strategically located near the Baltic Sea and has very good possibilities for global transport with the ports of Karlshamn and Karlskrona. From a Baltic Sea perspective Blekinge fits into two major transport corridors: the north-south corridor that connects Sweden and Poland (Karlskrona-Gdynia) and the east-west corridor (Karlshamn-Klaipeda in Lithuania) that connects Sweden and Lithuania. To develop east-west transport Blekinge is running the East West Transport Corridor II project; for north-south transport it is participating in the Baltic Link Association project. Blekinge is also a participant in the comprehensive TransBaltic project to create a more cohesive transport system around the Baltic Sea. The ports of Karlshamn and Karlskrona are also classified by the EU as Motorways of the Sea. This concept aims at introducing new intermodal maritime-based logistics chains in Europe. These will be more sustainable and should be commercially more efficient than road-only transport. For this purpose, it is proposed to make fuller use not only of Europe's maritime transport resources, but also of its potential in rail and inland waterways, as part of an integrated transport chain.

The CARGOTO project is an interesting initiative involving cross-county and multi-actor collaboration in Småland to take advantage of the opportunities of further trade to the east. CARGOTO plans to establish a regular goods transport corridor from Nässjö (Jönköping county), through the port of Oskarshamn (Kalmar county) and to the Port of Ventspils in Latvia, with a further connection eastward to Russia and China. The project is meant to help SMEs in southeast Sweden to connect to the new strategic trade routes that are opening up in the east. The project is still at the discussion stage, but already includes the collaborative participation and backing of Småland municipalities, regions and private companies. However, significant infrastructure investments and improvements will be needed for the project to take form. The current state of road and rail connections to the port of Oskarshamn is too poor for the needs of the project but good connections are essential for the success of the CARGOTO project. Without the necessary infrastructure investment, the proposed new trade corridor project will likely not take place. This would be an important lost opportunity not only for Småland, but for Sweden as a whole. The corridor would serve the needs of businesses beyond Småland's borders, providing for example the Göteborg industrial region easy access and connection to Russia and the Baltic states. CARGOTO would also allow Swedish enterprises to better tap into the Motorways of the Seas, and the Motorways of the Baltic Sea trade corridors being promoted by the European Union.

Good broadband connectivity is also crucial

165. Broadband connectivity is also an infrastructural priority. It is of special importance in rural regions. With adequate and reliable broadband connections, many of the comparative disadvantages of rural living can be eliminated. Public and private services become more accessible and the effect of physical distance is reduced. Good telecommunication infrastructure may be becoming as important as transport infrastructure for improving local attractiveness. ICTs can improve the efficiency of public service delivery in sparsely populated and remote areas (*e.g.* through e-health and distance learning). The availability of extensive and efficient ICT connections, accompanied by well-developed ICT utilisation skills among the general and business population, can also offer new business opportunities and help rural firms in small and remote places to penetrate distant markets. Internet technologies are a relatively cheap way to market a firm and a way for firms in remote locations to acquire information about new techniques and new suppliers. Prior to the general availability of the Internet, firms in remote areas were largely restricted to local markets which may have been too small to allow them to grow or even to be viable in the longer run. Now a firm in a remote location can potentially produce a specialised product that can be sold around the world. In an age of knowledge-based competitiveness, professionals will increasingly be attracted to areas that can give them optimal living and business development standards.

166. Broadband connections in the Småland-Blekinge area are exceptional when compared to territories of similar population density in other OECD countries (see Chapter 1). There has been good vertical co-operation on the development of broadband networks and the region's objective is 100% coverage. This figure has almost been reached, but the infrastructure must also keep up with the network's capacity upgrades.

167. In fact, the existing network connection may soon be obsolete if it is not upgraded. This could start affecting businesses and the region could lose the advantage it provides. Local efforts must be made to maintain awareness among politicians and the population of the need for continued broadband infrastructure investment. According to the officials responsible for the IT network at the local CABs, Småland-Blekinge will soon need to initiate an upgrade of its broadband network if it is to have a 100 Mbit system by 2020. The national government appears keen on maintaining the competitiveness of Sweden's broadband. It has recently presented a Digital Agenda for Sweden to co-ordinate IT measures in areas such as security, infrastructure, skills provision, trust, accessibility, functionality, standards, entrepreneurship and innovation. It also plans to launch a new national innovation strategy in 2012. Upgrades to the existing broadband network and a continued drive towards the maximum possible coverage of the Swedish territory are said to be at the core of this strategy. Because the cost of this infrastructure investment is relatively low (compared to road or rail infrastructure) and the potential benefits for local businesses and population are high, regional and municipal authorities have been willing collaborators in the elaboration of this strategy.

Increasing regional interactions require better connectivity

168. Currently, transport times between capital cities in Småland-Blekinge are lengthy. As an example, it takes close to 3.3 hours to go from Jönköping to Kalmar (216 km) by car, and close to 3 hours by train. From Karlskrona to Växjö (90 km) take close to 1.5 hours both by train and by car. Moreover some of the region's capitals have infrequent or no direct train connections.

169. Better and geographically more diversified transport infrastructure and connectivity are crucial to improve southern Sweden's regional interactions and competitiveness. An efficient transport network is essential for business development, as it reduces transport time and costs and improves market accessibility. This in turn affects property prices and economic rents, influences decisions of households (residential location, patterns of consumption) and firms (production location, access to markets and investment decisions) (OECD, 2009). Transport infrastructure can enhance labour mobility, affect firm relocation and improve access to public and businesses services. Efficient connections between the Småland-Blekinge territories will be therefore crucial to enhancing their human, social, educational and economic interactions. Enlarging commuting areas and integrating municipalities into well-functioning common local labour market areas is especially important for the future development of the counties' more peripheral areas.

170. Better connectivity of the most dynamic areas should be combined with better rural-urban linkages. Better connectivity with the three main metropolitan areas is of course also important. It will be essential to remove the main bottlenecks by improving road and railway connections from the four capital cities to Malmö and Göteborg. However, these priorities should not occult the importance of improving internal connectivity within and across southern Sweden. Given the geographical sparseness of the population of Småland-Blekinge it is important to improve the connectivity between larger towns/nodes and the surrounding rural areas.

Improvements in infrastructure are necessary, but not enough

171. Infrastructure policies need to be integrated with sectoral policies in comprehensive regional development strategies. Evidence from OECD regions suggests that infrastructure alone has little impact on regional growth (OECD, 2009). Regional economic performance is the result of a combination of factors including geography, demographics, specialisation, productivity, physical and human capital, infrastructure and the capacity to innovate, to mention a few. Although a region with good accessibility to markets has an added advantage in terms of its growth prospects, these also depend on other factors. The effectiveness of infrastructure policies will be related to the co-ordination of such policies with parallel measures (promoting human capital, innovation or business development, among others) to improve the conditions, performance and attractiveness of a region.

Better connectivity requires better territorial co-ordination

172. Better transport infrastructure and connectivity requires a vision that transcends the single county. Agreeing on the main regional priorities and presenting a common position will ensure more targeted and efficient advocacy of regional transport infrastructure with the national government. Moreover, a lack of agreement on the main regional priorities can complicate the design, co-ordination and implementation of major regional development projects that require a broader focus. In Sweden, transport infrastructure networks are a national responsibility and most capital investment on infrastructure is decided in Stockholm. The government, through the Swedish Transport Administration, is responsible for the public infrastructure, roads and railroads (with the exception of municipal road networks and private roads). At the regional level, each regional development council is responsible for defining a county infrastructure plan. National and regional priorities do not always match and the government's priorities for the use of scarce resources may differ from those of Swedish counties. It is said that areas with a louder voice in Stockholm or with the organisational resources to argue strongly for the viability of their infrastructure investments, are usually those that compete most successfully for a share of the national resources.

173. Important improvements have been made in territorial co-ordination. The government has reformed the planning process to design more integrated regional infrastructure plans and to give regional actors a stronger say in identifying their priorities. Consultations were carried out to promote open dialogue among traffic agencies, counties and municipalities. In this context, the regional development councils of Småland-Blekinge and the regional development council of Östsam (Östergötland) were invited by the national government to prepare a joint regional transport strategy that would be taken as an input for the national long-term infrastructure plan for 2010-21. It was prepared in September 2008 and contained an overview of the region's functional infrastructure challenges and priorities. A joint transport strategy can help to ensure that national transport policies are based on regional priorities and that there is more consideration given to inter-regional flows. Moreover, promoting closer collaboration among relevant authorities at all levels could help to identify and take into account potential interactions between complementary policies such as transport, housing and spatial planning policy (OECD, 2010a). The government's overall assessment is that the national plan, along with county plans for regional transport infrastructure, will make a balanced contribution to the national transport system. However, some regional actors in Småland-Blekinge lacked a clear idea of the extent to which the joint exercise was taken into account.[13] This probably indicates a need for further inter-county co-operation and interaction to give follow-up to the joint regional development strategy.

174. The counties' priorities for infrastructure do not always match. The broad objectives are mostly the same: labour market expansion, response to the challenges of globalisation and demographic change, environmental sustainability (through reduced carbon monoxide emissions and better rail infrastructure), as well as better commuting opportunities. However, while all county administrators agree on the grave need for transport infrastructure investments at regional level, each county in Småland-Blekinge has a somewhat different set of priorities (Box 2.22).

Box 2.22. Main bottlenecks: examples of priorities for the four counties

Infrastructure needs include road and rail transport and sometime also air transport frequency and capacity building, and while there are stronger calls in certain counties for passenger transport, the region also requires important freight and cargo transport infrastructural improvements.

Kalmar

External connection: Baltic Sea perspective.

Internal connectivity: access to Växjö and Jönköping; access between Kalmar and Oskarsham. Access between Västervik and Linköping via Tjustbanan, and access between Kalmar and Linköping via Stångådalsbanan. Need to improve connectivity in Kalmar between rural areas and bigger cities; mostly for people, but if the port is promoted in Oskasham then cargo transport is also necessary.

Blekinge

External connection: Improve the transport system with the Baltic Sea and with the rest of Europe. Double the number of trains and make them faster.

Internal connectivity: Connection to the north/south motorway; Improve rail traffic with Malmö/Copenhagen. Bad road to Malmö is considered one of Blekinge's main obstacles to growth.

Kronoberg

External connection: Better freight connections with the Baltic Sea by rail and road through the Ports in Blekinge and Kalmar County.

Internal connectivity: Increase capacity with an east-west, coast-to-coast line. Better connection with Karlskrona.

Jönköping

External connection: Making Jönköping City the main hub that connects the main Stockholm-Gothenburg and Stockholm-Malmö rail lines.

Internal connectivity: Need to improve connectivity between rural areas and bigger cities.

175. Further regional co-operation on infrastructure planning and development will be crucial. Cross-county collaboration on transport and connectivity issues by civil servants is relatively frequent in Småland-Blekinge. But these initiatives usually face obstacles at the budgetary stage when politicians become involved. As an example, regional development councils receive national grants for prioritising and implementing transport infrastructure projects. The grants are relatively small (as the national government makes most transport infrastructure investment) but could have a bigger effect if different counties implemented common initiatives. So far, this has not been the case. Co-operation with private actors should also be favoured and some already exists. Public and private actors are working together to raise awareness and lobby for the expansion of the E22 southeast coastal motorway. Moreover, in Blekinge, local private companies have manifested the will to finance the necessary infrastructure investments mostly because of their frustrations with the current situation. They expect enough benefits to their businesses from better transport links to be willing to finance the investments to speed the projects along. Further use of public-private partnerships (PPP) should be considered.

176. Further interaction, collaboration and agreement on regional priorities will be crucial to have a greater voice with the national government, to promote regional transport priorities and to raise the necessary resources. This will require intense co-operation between the counties and also with private

actors. Multi-level governance arrangements could be a favourable framework for reinforcing regional planning and defining the characteristics and funding modalities of big infrastructure initiatives (see Chapter 3).

Conclusion

177. A new generational shift is needed in Småland-Blekinge's labour force to encourage the transition towards a greater value-added and knowledge-intensive business model. Communities in Småland-Blekinge must therefore design and enact plans to convert their young population's social and intellectual capital into drivers of development. In particular there is a need to acquaint the young with the new modern local manufacturing sector. Schools and business associations in the area should collaborate to cultivate interest in local businesses and involve youngsters in industry at a young age. At the same time, there is a clear opportunity for authorities to help create a bridge between universities and the business community. Engaging, equipping and supporting young entrepreneurs to stay and work in the region are keys to the long-term vitality and sustainability of Småland-Blekinge. There are also clear opportunities for encouraging high-skilled migration to the region. Skilled and locally trained foreign students should be encouraged to fill local industry's unmet demand for skilled labour. Local authorities should create opportunities for (potential) immigrant entrepreneurs. It will also be important to open and promote local business, especially industry, to women.

178. At the same time, there is a need to better promote the area's strong endowments and improve accessibility to the region. Natural amenities are a clear regional asset which, promoted strategically, could be the basis for attracting people to the region and for further developing economic activities such as tourism. There is a need for balance in the promotion, protection and productive use of local amenities.

179. Businesses in Småland-Blekinge should also diversify their industrial and client base. They need to innovate, with new products aimed at new markets, and break away from the current subcontracting business model. The region's strong SME structure is a good basis for establishing a modern knowledge-based economy. Knowledge-intensive business development may be the best way to ensure the maintenance of the region's prosperity and future growth. The administration has a role to play in communicating with small businesses and showing them the potential future benefits of moving towards a knowledge-based business model. Many parts of Småland-Blekinge also need a greater diversity of consumer services in order to increase local attractiveness. The promotion of knowledge-intensive service firms could provoke a flow of new ideas and knowledge throughout the existing business community. Finally, there is the issue of succession. When owner-entrepreneurs retire many in the younger generation have migrated to bigger cities and have little interest in carrying on the family business. Many businesses stand to close, not so much because of financial problems, but because there is no one to take over once the owner retires. In this regard community business facilitators should encourage the development of succession plans well in advance.

180. Better connectivity is crucial, as it can enhance the value of local assets, improve accessibility and amplify a region's attractiveness. It is essential for business competitiveness. Transport infrastructure must be adapted to new demands. Better connectivity with the most dynamic areas should be combined with the development of better internal connectivity within and across all four counties. It will be essential to remove the main bottlenecks to connections with metropolitan areas. However, this should not occult the importance of improving internal connectivity within and across southern Sweden both to enhance social and economic interactions and to integrate labour market areas more effectively.

181. Finally, co-ordination and strategic coherence are necessary to develop business and entrepreneurship in Småland-Blekinge. As in most parts of Sweden, many actors at different government levels play a role in local economic development and business promotion but there is a lack of co-

ordination and collaboration. The pooling of resources and more coherence among strategies would lead to synergies and more efficient and effective investments. More cross-border interaction and co-operation would avoid the territorial fragmentation that can complicate the design, co-ordination and implementation of major regional development strategies in areas such as innovation or transport infrastructure. At present, regionalisation reform is under discussion in Sweden, with potential implications for Småland-Blekinge. Chapter 3 focuses on the governance and institutional implications of this debate. It also considers the multi-level governance and co-ordination arrangements that can help improve the coherence and effectiveness of public policies in the region.

Summary of key recommendations for Chapter 2

- Encourage skilled people to engage in the local economy and to remain in the region by: i) strengthening the links between the regional education system and regional businesses; ii) enhancing support for entrepreneurship among youth and women; and, iii) encouraging skilled and locally trained foreign students to remain in the region, filling the local industry's demand for skilled labour.
- Encourage the return of those who leave, particularly families looking for a better quality of life and recent graduates with needed skills. The existence of local economic opportunities should be widely disseminated in expatriate communities outside the region and facilities should be created to help them to move back to the region.
- Step up efforts to attract skilled immigrants to meet current labour demand and to further train of immigrants already in the region.
- Better promote and exploit the area's natural endowments so as to improve the territory's overall attractiveness and business opportunities.
- Encourage greater entrepreneurial initiative in the tourism sector. Ecological tourism, adventure tourism and prestige events, both for businesses and individual tourists, are interesting niches that could be further developed. Further efforts to promote the region's "brand" outside Sweden are also needed.
- Take steps to facilitate smooth business succession among SMEs. An inventory of potential business succession opportunities could be used to bring to the community people who might be attracted by the lifestyle and amenities. It could also be a way to offer opportunities for women entrepreneurs or alternative business strategies for local self-employed entrepreneurs.
- Design and implement explicit strategies for business retention. Efforts to attract new firms or encourage start-ups should not lead to a neglect of the needs of incumbent firms. Retaining and expanding businesses requires strengthening the linkages between the private and public sectors.
- Promote knowledge-intensive service activity firms (*e.g.* management and business consulting, ICT, financial services, engineering, marketing, design). Such firms are attracted to amenity-rich rural areas that are easily accessible. Improving the accessibility, transport and ICT connections of the region will be crucial to enable the presence of these firms.
- Strengthen internal connectivity. Currently there are significant infrastructure bottlenecks in internal road and rail connectivity. The development of better connectivity with the rest of the world should be combined with the development of better internal connectivity within and across all four counties.
- Strengthen external connectivity to the east (Baltic Sea, Russia, China). Småland-Blekinge could stand to become a much more significant player as one of Sweden's primary points of connection with the growing eastern economies, stretching all the way to China
- Promote further co-ordination among regional development actors and strategies (see chapter 3). Better co-ordination of the different actors and of the different regional development initiatives (Infrastructure, human capital, innovation or business development) will be critical for public sector efficiency and effectiveness as well as for creating regional synergies.

NOTES

1. As an example of this Linnaeus University is running an ambitious internal project called ”Linneaus university – the entrepreneurial university”. The goal is to give all students a touch of and foster “the entrepreneurial spirit”.

2. The unemployment rate among young people has historically been more than double that of older (Scarpetta *et al*., 2010).

3. Information obtained during interviews with entrepreneurship promotion officers working at the county, municipal or university levels during OECD fact-finding missions in 2011.

4. Information obtained during interviews with local leaders during OECD fact-finding missions in 2011.

5. According to the ranking published annually by the *Journal of Systems and Software* BTH ranks sixth in the world in systems and software engineering, second in Europe and first in Sweden. The rankings of the top 15 universities published annually by the *Journal of Systems and Software* are based on publications in seven journals in the field during two five-year periods (2003-07 and 2004-08).

6. Efforts have been made in Blekinge county to attract trained nurses from Poland.

7. Persons who were born outside of Sweden (whether or not they already have Swedish citizenship). These figures are thus higher than those for foreigners.

8. The lack of service-sector firms means that there are relatively few private proximity services in many Småland communities. Private proximity services are important for establishing local quality living standards and help make a community an attractive place to live, both for local residents and for potential migrants. Service firms could also inject greater heterogeneity into the local labour market and provide an employment opportunity which is often essential for spouses and for attracting migrant families.

9. For comparative purposes, the employment-to-population ratio is used instead of the employment rate as Statistics Sweden introduced a new definition of the labour force in 2005.

10. However, it is interesting to see that among international students at the master’s level, especially among students from India, women are a much larger share of students compared to students from Europe

11. Information from interviews conducted in the region.

12. Counting the four county councils, regional development councils and county administrative boards.

13. Information from interviews conducted in the region.

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CHAPTER 3. GOVERNANCE AND CO-OPERATION IN SMÅLAND/ BLEKINGE

This chapter considers the multi-level governance arrangements that can support more efficient regional development policies in Småland-Blekinge. The promotion of economic development is currently characterised by excessive fragmentation, duplication and overlap. The lack of co-ordination among actors and programmes, the increasing mobility of people and businesses across administrative borders, and the relatively small size of the four counties may affect the capacity to articulate comprehensive development agendas. The regionalisation reform under discussion has potentially significant implications for Småland-Blekinge, but it needs to be considered within the broader framework of problems of multi-level governance. Whatever the future administrative structure of Småland-Blekinge, it will require the involvement and co-operation of different kinds of actors at different levels of government. The chapter first describes the governance structure of Småland-Blekinge and then analyses arguments to be considered when assessing the need for, and characteristics of, reform. Finally, it analyses a number of institutional and multi-level governance arrangements that besides the potential re-arrangement of the administrative borders in the region, could help to promote a coherent governance framework for regional development policies in the region.

Introduction

182. As Chapter 2 has noted, Småland-Blekinge needs to move towards a more knowledge-intensive economic model focused on higher value-added products. Enhancing the productivity and competitiveness of the region will require agile, responsive policies and institutional arrangements that can facilitate this change through targeted efforts to improve the quality of public investments and services. However, co-ordination and strategic coherence offer significant challenges to Småland-Blekinge. Publicly funded business and entrepreneurship promotion programmes implemented in the area are currently characterised by excessive diversity and overlap owing to a lack of co-ordination among the different actors and institutions involved.

183. The need for better co-operation on regional development is amplified by several factors: the large number of public actors involved in regional planning and development; the increasing mobility of people and businesses across administrative borders; the fact that issues such as transport infrastructure and innovation often require a broader geographic focus than the county; the search for economies of scale and efficiency in public administration in a context of population ageing; reduced fiscal resources and the provision of increasingly specialised public services; and the increasing challenges confronting municipalities as they execute their devolved competences.

184. The effectiveness of regional development policies and public service delivery will be directly related to strengthened interaction among administrative units and the development of efficient co-ordination and multi-level institutional co-operation arrangements among the actors and administrative units involved in regional development matters.

185. Within this framework, a regionalisation reform is under discussion in Sweden, with potentially significant implications for Småland-Blekinge. The main focus of the debate is the geographic boundaries of the counties. Improving public-sector efficiency seems to be at the heart of the national government's intentions in this process, while economic growth is a main focus at the regional level. Yet an overall

process for understanding, clarifying and agreeing on the concrete objectives, scope and characteristics of the reform is largely missing.

186. This chapter is divided into three sections. The first describes the governance structure of Småland-Blekinge. Territorial co-ordination is challenged by different factors including: *i)* the many institutions with a role in regional development matters; *ii)* the lack of a structure and mechanisms for promoting efficient interactions among them; and *iii)* the lack of an autonomous, directly elected body to manage regional development. All these factors may affect the capacity to articulate comprehensive regional strategies capable of promoting complementarities among policies and programmes for regional development. The second section analyses some of the arguments that should be considered when assessing the need for, and characteristics of, Sweden's regionalisation reform. However, the chapter does not prescribe specific contours for the Småland-Blekinge counties. Instead, it seeks to provide elements that help the different actors to take an informed decision by understanding the variety of challenges they will face, regardless of the specific configuration that emerges from the current process. The last section then focuses on the multi-level governance and co-ordination arrangements that could lead to a better match between public policies and territorial needs, whatever the structure of public authorities or administrative borders in the region.

3.1. Regional governance and territorial co-operation in Småland-Blekinge

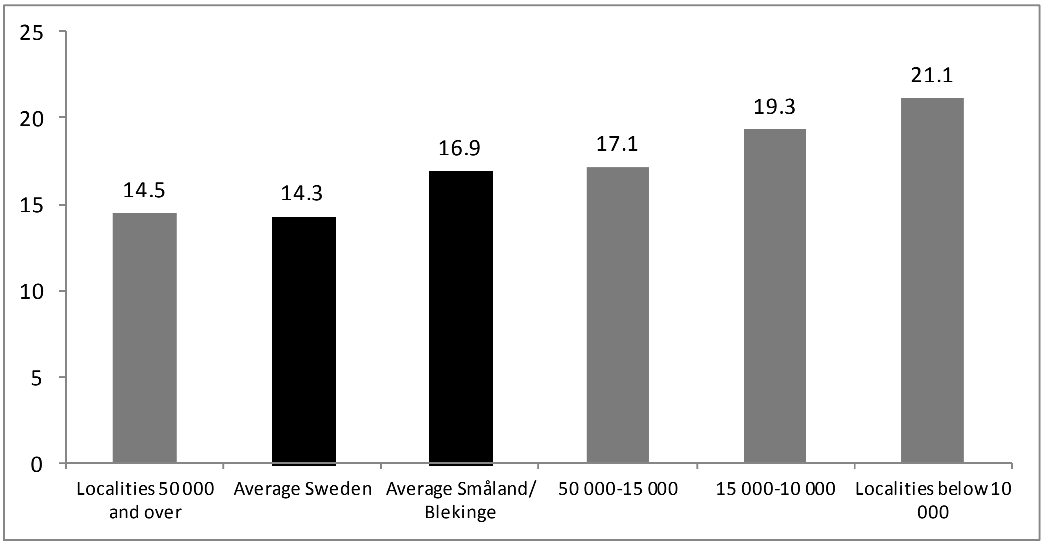
Sweden's multi-level governance structure in some ways resembles an "hourglass"

187. The Swedish system of governance is divided into three political and administrative decision-making bodies:[1] the central government, the county/region and the municipality. All these levels have the right to collect taxes from citizens and businesses and have assigned competences. Perhaps the most striking feature of this system is its "hourglass" configuration: the central government and the municipalities hold the majority of powers and functions, while the county/region is relatively weak. The national government has an unusually strong say in terms of strategic planning and allocation of public investment; it is responsible for allocating close to half of public investment, whereas national governments in many other OECD countries are responsible for less than 30%. Although Sweden is one of the most decentralised OECD countries in terms of sub-national government expenditure, most is devoted to welfare services provided at the municipal level (OECD, 2010a).

188. Sub-national public service provision is largely concentrated at the municipal level. Municipalities have extensive responsibilities for primary and secondary education, care for disabled and elderly people, social services, and provision of basic municipal services such as waste collection and public housing. Education and care for disabled and elderly people each account for roughly 30-40% of municipal spending in Småland-Blekinge municipalities. The four counties of Småland-Blekinge encompass 38 municipalities[2] that rely on income tax as their main source of revenue. However, government grants, including the inter-municipal equalisation system, are also an important source of income (on average 16.9% of municipal incomes in Småland-Blekinge, compared with an average 14.3% for all Swedish municipalities), especially for smaller municipalities (Figure 3.1). In part, this is because municipalities in Småland-Blekinge, though relatively large by OECD standards, are smaller than average for Sweden (they average 23 800 inhabitants *versus* 32 400 for all of Sweden). Without equalisation, smaller localities would have difficulties providing basic public services such as elderly care unless they imposed very high municipal taxes.

Figure 3.1. Share of grants and equalisation on municipal incomes by population size

Municipalities of Småland-Blekinge, 2010



Source: Statistics Sweden.

There is a relatively weak but strengthening regional level

189. A second striking feature of Sweden's system of multi-level governance is the heterogeneity of the intermediate (county/region) level. Traditionally, the county level has had two main political institutions: the county council and the county administrative board. The former is an elected authority, chiefly responsible for the administration of health care, while the latter is the county-level representation of the national government. An increasing focus on regional development has led to changes in this architecture in recent years. Since the late 1990s, Sweden has developed various regionalisation options, creating either directly elected regional councils (in Västra Götaland, Skåne, Halland and Gotland[3]) or indirectly elected councils (in most other counties) to deal with regional development. As a result, there are currently three different county-level political institutions in each of the four counties of Småland-Blekinge:

- **County councils** are directly elected every four years. They are mostly responsible for health care (95-96% of total expenditures in each of the four counties). Public transport is a shared responsibility of the county council and municipalities in Blekinge. From January 2012, in Kalmar and Jönköping public transport will be an exclusive responsibility of County Councils. Meantime in Kronoberg, it is the responsibility of the Regional Development Council (RDC). County councils also promote cultural activities and in some cases professional training, but the scale of such activities is limited. County council revenues come mostly from county taxes (72-77% of total incomes in the four counties in 2010), and to a lesser extent from the equalisation system and other grants or income streams.

- **County administrative boards (CABs)** are national government agencies representing the central authorities in each of the counties. They are headed by a county governor appointed by the central government for a period of six years. Their main role is to co-ordinate the implementation of national government competences at the county level in areas such as natural resource management, environmental protection, housing and infrastructure. CABs are also responsible for co-ordinating the activities of sectoral state agencies in the county. Regional development used to be a responsibility of the CABs, but it was taken over by the RDCs following the pilot regionalisation experiment in Kalmar in 1997 (see below). However CABs are still responsible for designing rural development programmes in the four counties. In Blekinge, Jönköping and Kronoberg, subsidies to companies and rural financial support are administered by the CABs.

- **Regional development councils** are indirectly elected political institutions responsible for growth and regional development in each of the four counties. RDCs are owned by the municipalities and the county councils, which designate representatives to their governing boards. Most of the budget allocation to these councils is provided by the county councils, followed by municipal contributions and national grants (for the tasks taken over from the CABs). The mandate of the RDC is to co-ordinate county activities related to the promotion of regional development and sustainable growth, including the provision of financial and professional support. They are also in charge of developing and co-ordinating regional development programmes. In addition, the RDC of Southern Småland (Kronoberg) is responsible for public transport, while the RDC of Kalmar is the only one that controls the financial subsidies to companies and rural financial support. As a consequence, the RDC budgets of Kalmar and Kronoberg are considerably larger than those of Blekinge and Jönköping. The RDC of Kalmar was created in 1997, when Kalmar became one of the pilot counties in the regionalisation process (see below). RDCs were established in Blekinge in 2001, in Jönköping in 2005 and in Kronoberg (the RDC of Southern Småland) county in 2006, with minor differences in the transferred responsibilities.

190. The distribution of competences between the different levels of government and county institutions is detailed in Table 3.1.

Table 3.1. Distribution of main competences among levels of government and county institutions

	Central government	County administrative boards	County councils	Regional development councils	Municipalities
Regional development		Shared[1]	Shared[2]	Shared	
Financial support to companies and rural areas[3]	Shared (national programmes that aims at single companies)	Shared in Jönköping, Blekinge and Kronoberg		Shared in Jönköping, Blekinge and Kronoberg. Exclusive in Kalmar	
Water					Exclusive
Sewage					Exclusive
Waste Collection					Exclusive
Electricity					Exclusive
Public Transport			Shared in Blekinge; Exclusive in Kalmar and Jönköping [4]	Exclusive in Kronoberg	Shared in Blekinge
Roads, transport infrastructure	Shared			Shared	Shared
Education	Shared				Shared
Health care			Shared		Shared
Environment	Shared	Shared			Shared
Housing	Shared	Shared			Shared
Recreation/sport facilities					Exclusive
Police	Exclusive				
Urban planning		Shared			Shared
Livelihood Assistance		Shared			Shared

1. Some special resources and support for projects related to regional growth policy or business support are still offered or managed by the CABs.

2. County councils are responsible for promotion of cultural activities and in some cases professional training.

3. The regional development grants are the responsibility of the Regional Development Council of Kalmar, while in Blekinge, Kronoberg and Jönköping the subsidies to companies and rural financial support are still administrated by the CABs.

4. In Kalmar and Jönköping public transport (previously shared between the county council and municipalities) will be an exclusive responsibility of the County Council from January 2012.

Many institutions are involved in regional development

191. The management of regional development policies involves many institutions at different government levels and is still highly influenced by the central and municipal levels. As mentioned, the national government has a strong role in regional strategic planning and investment decisions. Apart from the national ministries, a large number of semi-autonomous national public agencies are involved either directly or indirectly in regional development. CABs still have a direct role in regional development: they design the rural development programme of the four counties and, depending on the county, provide rural financial support and/or support to some regional growth projects. RDCs have an important role in regional planning and development. An increasing number of civil servants work at the RDCs (Table 3.2). Yet since most of the seats on the RDCs' governing boards are held by municipal representatives,[4] the management of these councils is directed, at least partially, by local rather than regional interests. Finally, though county councils' main role is the provision of health services, they also play a role in regional development: they share responsibility for public transport in Jönköping, Kalmar and Blekinge; they are also in charge of

cultural activities and, in some cases, they offer professional training. The county council in Jönköping even has an official in charge of regional development.

Table 3. Staff working at CABs and RDCs by main area of work[1,2]

Småland-Blekinge, 2011

County administrative boards	Kronoberg	Jönköping	Kalmar	Blekinge (3)
Rural development (Landsbygd)	46	73	77	5
Environmental protection (Miljövård)	46	72	73	31
Emergency and community planning (samhällsutveckling)	24	44	28	21
County management and administrative support (Länsledning och stödfunktioner)	51	54	25	35
Total	**167**	**243**	**203**	**92**
Regional development councils	**Kronoberg**	**Jönköping**	**Kalmar**	**Blekinge**
Public transport	27	0	0	0
Regional development	16	12	39	33
Training and conferences	3	1	3	0
AV-Media (ICT for schools)	9	0	8	0
Transport service for older and disabled people	16	0	0	0
Local development (municipal co-ordination)		20	12	0
Director, Administration and economy	19	7	16	13
Total	**90**	**41**	**78**	**46**

1. Numbers must be interpreted with caution. A first glance can give the impression that Kronoberg's RDC does not deal with municipal co-ordination and that Kalmar puts a lot of effort into this. The fact is that the regional development unit of Kronoberg's RDC deals actively with municipal co-ordination.

2. Many public officials at RDC are financed by external funding.

3. The number of staff working on rural development in Blekinge's CAB is small owing to an agreement with the CAB in Skåne which takes care of this responsibility in Blekinge.

There is no clear structure for facilitating co-ordination of regional development actors

192. Challenges to both horizontal and vertical co-ordination are acknowledged across all levels of government in Sweden. The value of horizontal co-ordination of regional policies at national level as a way to improve resource allocation and efficiency in service delivery is increasingly recognised in OECD countries (OECD, 2010b). Although a significant effort has been made to improve cross-sectoral co-ordination of regional development policy at the national level in Sweden, it is still relatively weak in comparison with other European countries (Swedish Agency for Public Management, 2008; ITPS, 2008). The challenge in Sweden is amplified by the fact that close to 400 public agencies are in charge of central government policy implementation and monitoring (OECD, 2010a).

193. Vertical co-ordination is challenged by the heterogeneous geographical organisation of national public agencies. CABs have the role of co-ordinating the implementation of national policies in the counties. They are seen as an administrative bridge between strategic goals at the national level and the devolved competences of municipalities and county councils. This can facilitate vertical co-ordination. However, the geographical scope and administrative borders of national public agencies vary considerably: geographical boundaries normally do not correspond to county borders or to those of other government agencies (OECD, 2010c). Therefore, governance of the broad variety of programmes and institutions with

implications for regional development is dispersed and fragmented among many national, regional and local authorities, and across different administrative units within each county.

194. At the regional level, there is currently no single institution capable of co-ordinating the different actors and policies dealing with regional development. The governor, as head of the county administrative board, was traditionally both the main representative of the central government in the county and the main representative of the county. As part of the regionalisation process, the competence of regional planning and part of the regional development grants were devolved from the CABs to RDCs. This helped to increase the participation of local actors (municipalities, private and social actors) in the design of bottom-up regional programmes, but the transition generated a sort of institutional vacuum, since RDCs (which are co-operative, indirectly elected bodies) still do not have the institutional strength or the official mandate to co-ordinate the various agencies and actors implementing regional development policies in each of the counties. Their budgets are limited when compared with those of other county-based institutions. As an example, RDCs' expenditures represent only 10.8% of total regional development expenditures[5] in Jönköping county and 40.5% in Kalmar County (both include public transport expenditures). Moreover, they do not have independent budgets, as they depend mainly on contributions from county councils and municipalities. Co-ordination or consultation between the CABs and the RDCs happens more as a result of personal efforts than on a systematic and institutionalised basis: in some of the four counties there is a fluent relationship between these institutions, while in others bilateral contacts and interactions are scarcer. This lack of an institutionalised fluent relationship may also affect interactions with national agencies, as CABs are responsible for co-ordinating the activities of sectoral state agencies. Finally, county councils have a secondary role in regional development but still have considerable resources (Table 3.3) mainly devoted to public transport and cultural activities. Even more, they are the only directly elected county-level body, which gives them a political legitimacy of a kind that the RDCs lack.

Table 3.3. Expenditures of county-based institutions

2010, Thousand SEK

	Blekinge County			Jönköping County		
	Total Budget	Regional Development[1,3]	Reg. Dev.& Public Transport[2,3]	Total Budget	Regional development[1,3]	Reg. Dev.& Public Transport[2,3]
Regional Development Councils	85 409	85 409 (71.8%)	85 409 (46.4%)	38 560	38 560 (17.1%)	38 560 (10.8%)
County Administrative Boards	186 474	15 395 (12.9%)	15 395 (8.4%)	822 428	56 069 (24.9%)	56 069 (15.6%)
County Council[3]	374 3200	18 193 (15.2%)	83 193 (45.2%)	7 682 956	130 648 (58%)	263 968 (73.6%)
Total	**4 015 083**	**118 997 (100%)**	**183 997 (100%)**	**8 543 944**	**225 277 (100%)**	**358 597 (100%)**
	Kalmar County			**Kronoberg County**		
Regional Development Councils	153 553	153 553 (64.4%)	153 553 (40.5%)	229 843	66 965 (39.9%)	229 843 (69.4%)
County Administrative Boards	1 225 396	31 075 (13%)	31 075 (8.2%)	481 751	52 168 (31.1%)	52 168 (15.8%)
County Council[3]	5 201 000	53 939 (22%)	194 939 (51.4%)	4 007 000	48 825 (29.1%)	49 051 (14.8%)
Total	**6 579 949**	**238 567 (100%)**	**379 567 (100%)**	**4 718 594**	**167 958 (100%)**	**331 062 (100%)**

2. Excluding public transport.
3. Including public transport.
4. The contribution of county councils to the regional development council's budget has been deducted from the regional development expenditures of county councils to avoid double counting.

Source: Statistics Sweden and information provided by regional development councils.

The Småland-Blekinge counties are relatively small

195. While the number of municipalities in Småland-Blekinge has been drastically reduced, county borders have been unchanged, with minor exceptions, since 1719. Moreover, the counties of Småland-Blekinge are relatively small even by Swedish standards in terms of population (with the exception of Jönköping) and surface area (except Kalmar) (Table 3.4). However, over time the counties and municipalities in Småland-Blekinge have been very active in developing different strategic planning and co-operation mechanisms to overcome size-related challenges.

Table 3.4. Size of counties in Sweden

Pop 2010 ('000)		Land area (Km^2)	
Stockholms	2054.3	Norrbottens	98249
Västra Götalands	1580.3	Västerbottens	55190
Skåne	1243.3	Jämtlands	49343
Östergötlands	429.6	Dalarnas	28197
Jönköpings	336.9	Västra Götalands	23956
Uppsala	335.9	Västernorrlands	21685
Hallands	299.5	Gävleborgs	18200
Örebro	280.2	Värmlands	17591
Dalarnas	277.0	Kalmar	11219
Gävleborgs	276.5	Skåne	11035
Värmlands	273.3	Östergötlands	10605
Södermanlands	270.7	Jönköpings	10495
Västerbottens	259.3	Örebro	8546
Västmanlands	252.8	Kronobergs	8468
Norrbottens	248.6	Uppsala	8208
Västernorrlands	242.6	Stockholms	6519
Kalmar	233.5	Södermanlands	6103
Kronobergs	183.9	Hallands	5462
Blekinge	153.2	Västmanlands	5145
Jämtlands	126.7	Gotlands	3151
Gotlands	57.3	Blekinge	2947
Average Sweden	448.4		19 538.8
Average OECD TL3 Regions	695.0		19 543.6
Average OECD TL2 Regions	3 587.9		98 649.4

Source: Statistics Sweden.

Different joint projects and inter-county co-operation initiatives are in place

196. Sectoral inter-county co-operation is evolving in Småland-Blekinge. Though the four counties of the area have no formalised multipurpose administrative arrangement as such, co-operation in distinct policy sectors has resulted in an intensive flow of joint projects, committees, companies and co-operative agreements. The provision of health care (the main devolved competence of county councils) has long been the main area of inter-county co-operation. Yet along with the increasing involvement of regional authorities in regional development, county authorities have been increasingly involved in other sectoral/thematic co-operation across county borders. These initiatives do not necessarily involve all four counties; many have either a narrower or wider geographical focus (Box 3.1). Inter-regional co-operation is a common tool in OECD countries to improve economic, political or social interactions among independent administrative units.

197. The objectives and impact of co-operative arrangements vary but offer a good base on which to build. Most sectoral co-operation in Småland-Blekinge aims to overcome limits due to the size of the counties, by taking advantage of economies of scale (*e.g.* provision of specialised health care), reaching a greater economic impact (*e.g.* tourism promotion), gaining a broader strategic regional vision (*e.g.* transport infrastructure or innovation) or exchanging knowledge and good practices. The scale and impact of inter-county co-operation has been variable. Some interactions have resulted in more practical outcomes while others have had more limited results. However, regional co-operation offers scope to develop and reinforce co-ordination among counties, and to plan and settle common positions on crucial aspects such as innovation, infrastructure or energy that require a vision transcending that of any single county.

Box 3.1. Sectoral co-operation among counties in Småland-Blekinge

Health care is the main area of co-operation between counties in Sweden. County councils own and run most hospitals and are responsible for the delivery of primary and hospital care. However, given the relatively small size of counties and the consequent lack of critical mass for highly professionalised medical treatments, counties co-operate through a reduced number of health-care regions. Each region has a population of 1-2 million and includes at least one university hospital. Counties in Småland-Blekinge are grouped into two medical service regions (out of six in Sweden) that co-operate in the provision of highly specialised care, medical research and training. The Southeastern Medical Services Region includes Kalmar, Jönköping and Östergötland. The Southern Medical Services Region integrates Kronoberg, Blekinge, Skåne and parts of Halland County. Each medical service region is run by an elected board, formed by representatives from the different county councils, which decides what medical care is to be common in the region and where it is to be located. Medical regions are regulated through formal agreements. However, the executive staff do not have a separate office; they are located in the administrative offices of each county council.

The regional councils of the four counties of Småland-Blekinge carried out in late 2010 an analysis of the **regional innovation system**. The decision to undertake a joint analysis was based on the fact that the socio-economic elements that trigger regional innovation go beyond the administrative borders of individual counties. The counties are small, with limited critical mass, but they are part of larger networks of counties and regions and have the potential to play a specific role in these networks. As part of this effort, the Regional Council of Southern Småland commissioned an overall analysis of the present situation and status of the innovation systems in Småland-Blekinge, produced in co-operation with the Royal Swedish Academy of Engineering Sciences and VINNOVA, the government agency for innovation systems. One of the conclusions of the report was that the four counties would benefit from setting a common strategy for the region, with a coherent vision and common objectives.

In terms of **infrastructure**, the regional development councils of Småland-Blekinge and the Regional Development Council of Östsam (Östergötland) were invited by the national government to prepare a joint regional transport strategy that would be taken as a an input for building the national long-term infrastructure plan for 2010-21. The analysis, prepared in September 2008, contained an overview of the functional infrastructure challenges and priorities within the region and in its links with surrounding regions, especially the three metropolitan areas. Collaboration by counties can help to avoid excessive fragmentation in transport infrastructure planning. The report does not offer concrete priorities or action lists. However, the analysis serves as a basis for future co-operation by the counties. From 2010, the regional office for the four counties in Småland Blekinge is in Kristianstad (Skåne). Beyond this central government initiative, there are several strategic bilateral or multilateral co-operation initiatives in the infrastructure field involving the four counties and beyond. Stambanan.com is a network in which the regional development councils of Jönköping, Kalmar, Kronoberg and Skåne, along with 26 municipalities, work to improve the connectivity of the Southern Main Line of the railway.

The Energy Agency for Southeast Sweden was established in 1999 as an EU project under the Association of Local and Regional Authorities in Kronoberg. The motivation for its creation was the increased global and European focus on climate change, which reinforced the need for qualified and impartial players in the energy and transport field. It is jointly owned by an association made up of regional councils, counties and municipalities in Blekinge, Kalmar and Kronoberg. The Energy Agency's approximately 20 employees work in all three counties in offices in Oskarshamn, Kalmar, Karlskrona and Växjö.

Miljösamverkan (Environmental Co-operation) Kronoberg-Blekinge is a co-operative body in the environmental health area involving all the municipalities, regional development councils and county administrative boards of Kronoberg and Blekinge. Its task is to contribute to sustainable development in both counties, and to provide support for more informational and preventive initiatives. Co-operation should lead to better utilisation of resources and should provide opportunities to establish greater consistency in environmental monitoring. It can lead to the exchange of experience and the development of greater competence, including the formation a knowledge bank containing good examples and models. Co-operation takes place on various sub-projects, such as private on-site wastewater treatment facilities, drinking water, and agricultural supervision to reduce environmental health risks due to the use of pesticides in agriculture. Several of these issues are of major importance to operations and inhabitants in rural areas.

The three regional development councils and the three county administrative boards in Småland (Kalmar, Kronoberg and Jönköping County) developed during 2010-11 the **Småland Wood Strategy**, a common strategy for the development of wood-related industries in Småland. Forestry is one of Småland's strengths and the wood-related industry is an essential element of the region’s growth and employment prospects. The strategy aims at co-ordinating the roles and efforts of the different actors of the Småland region (public actors, industry and academia) to consolidate and jointly promote wood-related industries nationally and internationally.

There are several efforts in the field of **education and culture**. There is ongoing collaboration with and around the Småland-Blekinge EU office in Brussels related to European skills-linking initiatives in the region. Linnaeus University was established on 1 January 2010 as a result of a merger between the University of Kalmar and Växjö University. It has campuses in Kalmar and Växjö with four faculty boards. In the strategy for Linnaeus University it is clearly stated that the university shall be a driving force in the development of the region and its expertise. Cultural co-operation in south-eastern Sweden includes library services, film and dance, among others. It does not include Jönköping County.

Tourism has several co-operation projects in Småland, including the common tourist promotion webpage www.visitSmåland.se. However, these joint tourist initiatives have limited connection to Blekinge County.

198. As a step forward in regional co-operation, a Småland-Blekinge steering committee started operating in 2010 under an agreement among the four regional development councils, and three higher education institutions (Linnaeus University, Blekinge Institute of Technology and Jönköping University) for 2010-14. The parties formed this steering committee mainly as a common platform for dealing with EU-oriented matters in Brussels. A joint Småland-Blekinge European office was established in Brussels. The committee has undertaken additional activities, mainly focused on international promotion and lobbying on behalf of the region and on launching thematic discussion groups involving the counties and the regional higher education institutions connected to the shared interests of the region (Box 3.2).

Box.3.2. The Småland-Blekinge Steering Committee

The steering committee is formed by the regional directors and two politicians (majority and opposition) from each regional development council and representatives of Linneaus University, Jönköping University and Blekinge Institute of Technology. The main objective in setting up this committee has been to establish a Småland-Blekinge European Office in Brussels to monitor and promote the region's economic interests in EU-related issues. This includes monitoring EU framework programmes and transferring knowledge about how they can be used at home. The European office is intended to facilitate the exploitation of potential synergies among the different counties and to strengthen the region’s voice in the European arena. It is also expected that the regional office will open new markets for the region's economy and attract investment to the region. The steering committee also served as a platform for the joint participation of Småland-Blekinge in Expo 2010 in Shanghai and for conducting this OECD territorial review.

The activities of the regional office in Brussels are dependent on the proper functioning of its parent organisations at home. Their work is organised in a number of joint working groups on priority issues during the fiscal year. Each group is headed by one of the members of the steering committee. The priority issues during the 2011 fiscal year were: the EU's strategy for the Baltic states (Blekinge); infrastructure and transport (Southern Småland- Kronoberg); sustainable development, particularly climate, energy and environmental issues (Kalmar); cohesion policy (Blekinge); strategic IT issues (Kalmar); skills (Regional Council of Jönköping); and increased participation in the EU's Framework Programme for Research and Development (higher education institutions) and a working group for business development.

The background to the formation of the Småland-Blekinge co-operation was the Sydsam co-operation agreement. Sydsam was formed in 1987 and also included the counties of Skåne and Halland. SydSam's objective was to promote co-operation, growth and development in southern Sweden. This agreement is currently not very active and Skåne and Halland have launched their own regional offices in Brussels.

Source : www.Smålandblekinge.se.

199. Finally, there is inter-county co-operation around the EU structural funds. The design and implementation of the National Strategic Reference Framework (NSRF) has been the basis for dialogue and co-ordination on regional development among levels of government and between counties. The Swedish Agency for Economic and Regional Growth, *Tillväxtverket*, is the managing authority for the structural funds. At the regional level, the resources are divided into eight regional structural fund programmes around NUTS 2 regions. The NUTS 2 regions in Sweden do not always correspond to economic or traditional regions. The Småland counties are part of the same area as Gotland (Småland and Islands) while Blekinge belongs to the same area as Skåne. Each territorial unit selects a structural funds partnership consisting of representatives from municipalities, county councils, social and professional associations. These partnerships are tasked with prioritising the projects considered eligible by Tillväxtverket. They have their own operational programme describing the investments to be implemented, the goals and the rules concerning implementation. During 2007-13, the European Regional Development Fund will invest SEK 607 million in Småland and the Islands, and SEK 600 million in Skane and Blekinge. The main areas of intervention aim to improve innovation, entrepreneurship and accessibility.

Municipalities are also seeking ways to increase co-operation to deal with common challenges

200. Inter-municipal co-operation has a long history and can have significant benefits. Municipalities, especially the smaller ones, face different challenges for implementing their devolved competences. For example, Kalmar ranks first among Swedish counties and Blekinge third in terms of the proportion of elderly people. It is especially high in the smaller municipalities (see Chapter 1). The main services provided by the municipalities (education, elderly care) are directly affected by the size and age structure of the population. In order to take up these challenges municipalities have traditionally formed joint committees and local federations. This is a way to benefit from economies of scale and spillovers, as well as to provide cheaper and better public services by rationalising administrative functions. Currently there are 18 municipal federations in the four counties and several inter-municipal co-operation arrangements (Box 3.3). There are no legal barriers to co-operation among municipalities in different counties, but administrative borders, combined with the structure of support from RDCs, explain why most of these inter-municipal co-operative agreements occur within county borders. There are, to be sure, successful examples of trans-county municipal co-operative agreements, but inter-municipal co-operation across county lines raises different challenges. Establishing associations takes time and involves administrative processes, and reaching consensus among different administrative units and political leaders can be complex (see Section 3.3.).

Box 3.3. Inter-municipal co-operation initiatives

There are several examples of inter-municipal collaboration in the Småland-Blekinge area to address issues such as waste management, fire-fighting, secondary education, public procurement (joint tenders), or the provision of social services. In areas such as emergency or childcare, municipalities often form local federations to benefit from joint service provision. The environmental offices in the municipalities of Sölvesborg, Olofström and Karlshamn (Blekinge) have joined together in a local federation called *Miljöförbundet Blekinge Väst* which deals with issues such as environmental care, health protection, agriculture and foodstuffs. *Miljöförbundet* has supervisory authority over important issues such as the quality of air, water and food, living environments, and pre-schools and schools. It also has supervisory authority for animal protection, handling of chemicals and sewage/waste issues.

Other inter-municipal co-operation initiatives involve broader intersectoral co-operation. This is the case for the Gnosjö Region (www.gnosjoregionen.se/) formed by the municipalities of Gislaved, Gnosjö, Vaggeryd and Värnamo (GGVV). The four municipalities are engaged in co-operation in the shared belief that services and development projects can be more cost-efficient if costs, expertise and other resources are shared. The GGVV co-operation has a framework consisting of a series of 6-8 formal meetings a year. In recent years GGVV co-operation has focused on developing the tourist industry, infrastructure improvement in the county, co-operation and joint undertakings regarding education and labour market questions. There are established networks for care for the elderly, social services, primary and secondary school, environment and planning and infrastructure.

Some co-operation projects span municipalities in different counties. The Entrepreneurial Region, *Entreprenörsregionen* (www.entreprenorsregionen.se/), is an association of 11 municipalities in the counties of Jönköping, Halland and Kronoberg. Its main objectives are: to increase the knowledge of the region and its business life; to generate a meeting ground for citizens, businesses and organisations in the 11 municipalities; to develop projects in the form of networks, and to strengthen the attractiveness, economic growth and development of the region. The Entrepreneurial Region is led by local political leaders in collaboration with industry and business associations. There is a co-ordinator for overall operations and a training co-ordinator with special responsibility for co-operation on youth and adult education issues. The municipalities of Kalmar, Växjö and Karlskrona also have regular and strategic co-operation in different fields, especially for infrastructure and transport.

Finally, there are some inter-municipal co-operation initiatives involving international projects. This is the case of the Cargoto project (www.cargoto.se) which aims to create a ferry link between Oskarshamn and Ventspils (Latvia). The RDCs in Jönköping and Kalmar, a number of municipalities (Oskarshamn, Nässjö, Sävsjö), the Port of Oskarshamn and logistics centres in Nässjö and Jönköping are all participating in this project.

The need for horizontal co-operation will most likely increase in the coming years

201. Population ageing and the increasing specialisation of public services are likely to put more pressure on municipal services provision in the future. Age-related municipal spending, including long-term care for the elderly, is projected to increase by about 1-2% a year over the next decade (OECD, 2006). These trends will increase pressure to improve the efficiency of public service delivery. Ageing will affect sparsely populated municipalities the most. The trend towards demographic concentration will probably make this challenge even more acute: as observed in Chapter 1, people are increasingly moving from the smaller to the bigger municipalities of the region and from there to Sweden's main urban agglomerations. Rapid ageing in small municipalities will not only raise the proportion of age-related spending in their budgets, it will also have a negative effect on the tax base, because municipalities rely heavily on income tax revenues and the share of the economically active population will be smaller. Finally, increasing immigration is putting more pressure on services for educational and labour-related integration of newcomers. Currently, revenue disparities between municipalities and counties are virtually eliminated thanks to the equalisation system. Yet the demographic transition may eventually put great pressure on this system (OECD, 2010a). Municipal co-operation will need to be strengthened and complemented with other measures in order to guarantee efficient provision of public services in the future (see Section 3.3).

202. At the county level, increasing health spending and health specialisation will require more interaction among counties to ensure hospital specialisation and rationalisation of health care services, so as to exploit economies of scale. As mentioned above, there is already relatively fluent inter-county co-operation with respect to the provision of specialised care at the university hospitals of the region. However, apart from specialised health services, each county controls and plans its hospitals and its health-care provision. OECD (2005) emphasises that to ensure the quality and efficiency of health-care provision across regions, Sweden should undertake more benchmarking and improve co-ordination among municipalities and county councils. It further recommends a reduction in the number of counties but greater consolidation of health services across counties could be an alternative.

203. Finally, larger labour market areas and mobility across county or municipal borders also call for more territorial co-operation. As shown in Chapter 1, there is active cross-border interaction among the four counties. Local labour market areas have grown in size, with the range of commuting for jobs, shopping and leisure covering wider areas. Future improvements in the infrastructure network (especially railway connections, see Chapter 2), could contribute to even more fluent territorial interaction. The widening of labour market regions and cross-border interaction call for more effective horizontal cross-sectoral co-operation among municipalities and among counties in areas ranging from spatial planning, transport and housing to human capital and business development.

Co-operation also faces challenges

204. Regional co-operation is still largely *ad hoc* and fragmented. Sectoral co-operation is currently more a reflection of the sum of individual county priorities than of any systematic analysis of potential complementarities and joint opportunities of the region. Inter-county co-operation is especially difficult when it involves joining resources in a common initiative, such as transport infrastructure. RDCs receive national grants for prioritising and implementing transport infrastructure projects. In addition, as mentioned above, the RDCs of Småland, Blekinge and Östergötland developed a joint regional transport strategy at the request of the national government. However, this common strategy has not yet resulted in plans for implementing common infrastructure initiatives for the larger region using financial resources from the different counties.

205. There are a number of barriers to more intensive inter-regional co-operation in the Småland-Blekinge area:

- Existing administrative divisions and local identities are longstanding and well established. Citizens are often attached to the local level and accord great value to geographical proximity to the centre of power. Beyond that, building co-operation across territorial borders (municipalities and especially counties) involves working with different institutional and financial administrations and requires the agreement of various political actors.

- The presence of different actors dealing with regional development in each of the counties, the lack of clear definition of the role and interactions among them, and the lack of a single strong actor to co-ordinate the different actions and initiatives all contribute to a lack of regional leadership on regional development matters at the county level. This, in turn, makes it more difficult to advance fruitful inter-county co-operation initiatives.

- Although the four counties have economic challenges and potentialities in common (see Chapter 2), in some domains they see more advantages in co-operating with counties outside the Småland-Blekinge area, such as Skåne or Östergötland. This may create conflicts of interest, as intentions to move towards formalised co-operation agreements may not coincide.

- Some local leaders (municipalities, county councils, regional development councils) evince little interest in further interaction and co-operation with neighbouring counties. These local or county leaders look to the concerns of their constituents, and the benefits of regional co-operation may be difficult to capture in political terms, particularly if the short-term, measurable impacts of regional co-operation are difficult to demonstrate.[6]

206. Beyond further co-operation, other administrative arrangements are being examined. Horizontal co-operation is a means to adapt to larger market areas, gain economies of scale, rationalise the provision of services such as health care, or to co-ordinate common investment projects that require a broader focus than a single county. It is also a way to confront common challenges or take advantage of common

potentialities through regional synergies. However, the challenges discussed above indicate some limitations. At the same time, if horizontal co-operation with the same actors becomes the rule rather than the exception, it may be a signal that the current administrative structure is inadequate or may benefit from enlarging the administrative units (see Section 3.3). The belief that such an enlargement may be needed underlies the debate on the restructuring of regional government now under discussion; the political parties and the counties in Sweden are evaluating possible configurations for larger regions that could replace the current counties in future.

3.2. Analysing territorial reform

Beyond regional co-operation, broader regional administrative reform is being considered

207. There is a surge of interest in the role of the regional level of governance. In Sweden, a political power structure consisting of strong municipalities and a strong central state has traditionally accorded little relevance to the intermediate (county) level in economic matters. Yet the organisation of the intermediate tier of authority has been under discussion for decades, and especially since the early 1990s. The main focus of the debate has been on the role and geographical delimitation of the regions; at times, the latter issue seems to predominate, with the discussion of boundaries eclipsing consideration of the functions of the counties/regions. The regionalisation process has been boosted by at least three factors: *i)* the expansion of functional labour markets; *ii)* the increasing role of regions in the European Union, in the context of Swedish membership in the EU since 1995 (Lindstrom, 2010; McCallion, 2008); and *iii)* the search for economies of scale and efficiency in public administration in a context of population ageing, reduced fiscal resources and increasingly specialised public services.

Regionalisation processes in other OECD countries have been undertaken in response to different agendas and challenges:

- Historical and ethno-cultural factors have been particularly important in places such as Spain, the United Kingdom, Belgium and Poland.
- Transition to democracy was a main driver in Spain and in eastern European countries such as Poland and the Czech Republic.
- As in Sweden, the requirements of EU regional policy have been an important driver in Ireland, Poland, the Czech Republic and Slovakia.
- Also similar to Sweden, the desire to exploit potential economies of scale and/or improve the efficiency of public service delivery have played a role in other Nordic countries such as Denmark, where former regions were considered too small to manage responsibilities such as public health efficiently. Such concerns are often linked to a combination of population ageing and tighter public budgets.
- Finally, the increasing role of regions in economic matters has been a common motivation for recent regionalisation reforms involving the creation or strengthening of a regional/provincial tier of public authority.

208. In Sweden, the regionalisation process has been asymmetric. Since the late 1990s, different regionalisation options have been adopted in different regions. The result is a very heterogeneous administrative map of regional development responsibilities, with, in broad terms,[7] three types of regions: those in which the county administrative board is still responsible for regional development issues; those with indirectly elected regional development councils (such as the four counties of Småland-Blekinge) and

those (Västra Götaland; Skåne) with directly elected regional councils managing regional development (Box 3.4).

Box 3.4. Regionalisation process in Sweden

In 1997/98 four "pilot regions" were created. Västra Götaland emerged as a result of the merging of three former counties and the City of Göteborg. Skåne was formed by the merging of two county councils with Malmö as its main centre. In both regions, a directly elected regional political assembly replaced the former county councils, taking over at the same time the competence of regional development from the county administrative boards. Because of strong regional support, the regional pilot project was prolonged for Skåne and Västra Götaland after 2002. In 2009, the government decided to make the governance arrangements in Skåne and Västra Götaland permanent after 2010.

In July 1997, a pilot experiment was also launched in Kalmar County. In Kalmar an indirectly elected regional council (with 13 members: the twelve municipalities of the county plus the county council) took over the regional development competences from the county administrative board. In this case the county borders remained the same. At the same time, the new regional council did not replace the county council, which continued to operate in parallel, dealing mostly with health-related issues. From 2002, the national government no longer pushed for the creation of pilot regions with a full set of competences for regional development. Instead, a Parliamentary Act of 2002 made it possible for counties, if all local municipalities agreed, to form regional development councils, along the Kalmar model. As a result of this parliamentary decision the Kalmar Regional Development Council was no longer a pilot experiment but a permanent body.

Finally, an indirectly elected council was also established in the municipality of Gotland. Gotland applied for conversion to a directly elected regional authority and permission was granted in 2010.

In February 2007, the Committee on Public Sector Responsibilities (*Ansvarskommittén*) published its recommendation for the future of the regional level in Sweden. This committee was commissioned by the government in 2003 to analyse the system of public administration and determine whether changes would be required to better address long-term challenges such as ageing. Relying on the positive assessments of outcomes in the two pilot regions, the committee argued for an extension of the pilot region model, and advocated a merger of current counties to create a total of six to nine enlarged regions. However, the recommended reform was not applied. Rather, after the elections in 2008, the government stimulated a bottom-up process for defining the new regions. Since 2008, several counties have applied for mergers and conversion to regional authorities.

Source : Based on *OECD (2010) OECD Territorial Reviews: Sweden*.

209. In early 2009 the national government set in motion a process intended to clarify the regional structure. The government decided to make the pilot regional authorities in Skåne and Västra Götaland permanent, and approved at the same time the applications from Halland and Gotland to become regional authorities. Beyond these cases, however, counties that wish to merge and establish regional authorities are to submit an application and an economic feasibility study of the proposed reform to the government-appointed Legal, Financial and Administrative Services Agency (*Kammarkollegiet*) by 31 January 2012. The agency will assess each application according to specific criteria, including those set out by the Committee on Public Sector Responsibilities. Following the submissions to this agency, parliament and the government will take a decision on the establishment of new regional authorities to be operational from January 2015. At the same time, an inquiry committee (2009-12) headed by a government-appointed special commissioner has been created to conduct a review of the central government's regional administration, *i.e.* of the CABs. The inquiry is unfolding in parallel to the county-based regionalisation process but is distinct from it. It is intended, *inter alia*, to submit proposals concerning changes to county boundaries when relevant and to conduct a review of national government agencies at the regional level (including the role and territorial organisation of CABs). The results of the investigation will be presented on 15 December 2012.

The need to clarify the regional structure has been broadly recognised

210. Although an asymmetric decentralisation process can have advantages, it also presents risks. Asymmetric regional reform allows smooth decentralisation on a learning-by-doing basis and adaptation of administrative structures to regional particularities (OECD, 2010a). In the case of Sweden, however, it has also resulted in a complex system of regional public administration (SOU 2007:10). The current situation, in which three different types of regions coexist, has been described by external observers as a "regional mess" (McCallion, 2008).

211. There is a clear intention on the part of the government to standardise the intermediate regional level in Sweden and to improve the efficiency of public service delivery. The government has clearly stated, however, that the initiative for mergers should be bottom-up, reflecting consensus among the counties concerned. However, it has also indicated that it may not consider requests that do not follow the Västra Götaland and Skåne arrangement, *i.e.* merging counties and creating a directly elected regional authority to deal with both health services and regional development. The final objective will be to improve the co-ordination and efficiency of public service delivery, which implies a need to co-ordinate the regionalisation reform with the overhaul of the central government's own regional-level administration.

212. This state of affairs leaves the counties in a state of considerable uncertainty, since it is not clear whether and to what extent the government is ready to act unilaterally if the results of the bottom-up negotiations among counties are deemed unsatisfactory. In cases where counties decide not to merge into a larger region, the government might nevertheless decide to consolidate CABs, so that those counties would no longer correspond to CAB jurisdictions. The government could also opt to take over the responsibility for regional development from the RDCs of small counties and vest this policy domain with the consolidated CABs.

213. An assessment of the consequences of these steps – especially in terms of co-ordination of the different institutions and the possible loss of the acquired regional development know-how of the autonomous regional institutions – should be considered before taking unilateral steps. A decision to consolidate CABs in places where county consolidation does not take place could complicate, rather than simplify, administration, not least because some CAB officials believe that they would have to maintain a central government presence at the county level in any case. Thus, while central government action could sanction counties that fail to merge, it is not clear that the government would actually do this or that it would be expedient to do so.

A regional consensus on future steps has yet to take shape

214. The authorities of the Småland-Blekinge area are involved in intense ongoing discussions with one another and with neighbouring counties to decide the future political and administrative organisation of southern Sweden. There does appear to be widespread support for a stronger, directly elected regional institution to take over the responsibilities of both the RDCs and the county councils by 2015. However, as of writing, there is still considerable disagreement within and among the counties regarding the borders that the potential enlarged regions may have. Moreover, supporters of mergers in the four counties are not wholly united as to their preferred model: some in Jönköping and Kalmar, for example, look to mergers with other neighbouring territories, mainly Östergötland. Finally, there remains the possibility that some counties may split, as opinions in the member municipalities differ. This is particularly an issue in Kalmar – its long, narrow geography means that northern municipalities tend to orient themselves naturally towards Östergötland and its southern municipalities towards Blekinge and Skåne.

215. Administrative reforms involving a potential re-arrangement of the roles, organisation and borders of the administrative units of a country are always complex. They involve shifting relations of power in public administration and overcoming historically forged institutional structures and habits. Moreover, these reforms may directly affect the interests of politicians, public servants and citizens. Resistance to change may come particularly from fears about unexpected outcomes. The need for change and the expected benefits should thus be clearly stated and widely communicated in order to create support for the reform (OECD, 2010d). This would allow taking informed decisions, building support and moving any potential reform forward. At issue are questions such as the potential for realising economies of scale and scope; the strength of an enlarged region's voice at national and European levels; and democratic legitimacy. The discussion that follows therefore addresses the different economic and governance elements that should be considered to take an informed decision and on ways of making the reform process smoother. It considers how a regionalisation reform such as the one under discussion in Sweden can be made smoother and some of the main arguments and elements that should be considered to take an informed decision.

Analysis of failures and successes of other regionalisation reforms may be relevant

216. The current regionalisation process in Sweden is part of a more general trend throughout the OECD area since the beginning of the 1990s which has involved different attempts to create or strengthen regional/provincial tiers of public authority. Some governments, especially among the new EU entrants, have set up a new regional level (Poland, the Czech Republic). Others have been transferring new responsibilities to the regional level (Italy, Spain). Some countries have reform processes under discussion (Slovenia, Sweden), while others have failed in their attempts to create a regional level (Norway) (Table 3.5). The Nordic countries have been particularly involved during the last few years in different stages of administrative reforms, where the competences and number of administrative tiers are the main subjects of debate (Nordregio, 2008).

Table 3.5. Examples of regionalisation reforms across OECD countries

Type of regionalisation reforms	Country
Consolidation of existing elected regions	France (1986, 2000s) Italy (1990s) Spain (1990s-2000s)
Newly created regional levels (elected)	Poland (1999) Czech Republic (2000) Slovak Republic (2002) Denmark (2007) Sweden (pilot experiences since 1997)
Newly deconcentrated non-elected regional level	Ireland (1994) United Kingdom (1998, 1999) Greece (1987) The Netherlands (city regions)
Attempts to create new elected regional level (under discussion)	Hungary: transformation of the seven existing statistical planning regions into local governments Slovenia: the creation of a second local public tier Chile: ongoing reform to create a directly elected regional council Sweden
Failed attempts to create an elected regional level	Portugal (1999) United Kingdom (2004) Norway

Source: adapted from OECD (2010b) Regional Development Policies in OECD Countries.

217. It should be noted that few examples resemble the case of Sweden. Few countries have succeeded in creating new regional layers of government through the merger of existing historical intermediary administrative units (such as the counties in Sweden). Denmark is among the few recent examples, and Norway is an interesting case of a failed attempt. Denmark's structural reform in 2007 aimed at improving the performance of sub-national governments by increasing their size. At the regional level, the 16 existing counties were replaced by five larger regions. However the regional level lost some of its traditional competences to municipalities and the central state (Box 3.5). In Norway, after ten years of debate on strengthening and amalgamating regions, the central government stopped the process: the regions received additional responsibilities in 2010, but their number remained unchanged (Box 3.6). Given their cultural, institutional and historical proximity both are interesting examples for the current administrative reform in Sweden. The institutional and territorial mergers in Västra-Götaland and Skåne are also particularly relevant as they are seen as a potential model for institutional standardisation in Sweden.

Box 3.5. Administrative reform in Denmark

In 2007, Denmark introduced a regionalisation reform with three main features: *i)* the amalgamation of municipalities and of counties; *ii)* the reallocation of authority and tasks in a number of key public areas, including economic development and public health care; and *iii)* a new financing and equalisation system, in which the new regions – as opposed to the counties – lose the capacity to impose taxes. As a result, the number of municipalities was reduced from 271 to 98 and five new regions replaced 14 former counties. Amalgamations were a prerequisite for the transfer of new competences (Mouritzen, 2011). The main arguments motivating the reform were to improve public sector efficiency, ensure better public services, and tackle problems of co-ordination of the different levels of government. Behind the reform was the idea that with fewer and larger regions and municipalities, the country would realise economies of scale in the provision and production of services. This, in turn, would produce increased efficiency as well as the ability to offer better and more specialised public services.

The new regions created by the 2007 structural reform were granted the responsibility to develop regional economic development policies. This was done through two main avenues: the creation of business development strategies by regional growth forums and the definition of regional development plans. The former are platforms in which regional players from business, trade unions, higher education and local government are represented. The forums act to stimulate regional innovation by advising the region on how to allocate its human and financial resources to best support regional projects. The latter is not an instrument with the power to impose directives; its purpose is to create a dialogue among municipalities and other stakeholders in the region. The regional government level has in this respect been weakened by the structural reform of 2007, which took away its formal regional planning capacities. Responsibilities for labour market, housing, transport, innovation and business development remain in the hands of municipalities, in many cases in conjunction with the central government. Regional development is an exercise in co-ordination but regions do not have many instruments to encourage municipalities to co-operate in implementing a vision for the region.

The Danish reform involved an interesting combination of top-down decisions and bottom-up initiatives. The reform lacked broad political consensus in parliament, but the government made the reform a political priority and pushed the reform through a divided parliament (Nordregio, 2008; Vrangbæk, 2010). Without the central government leadership and active push for the reform, it is unlikely to have seen the light of day (Blom-Hansen *et al.*, forthcoming). But the reform also included important components of bottom-up decision making. The reform stipulated that the minimum size of the new municipalities was 20 000 inhabitants; municipalities smaller than this were left with two options: either they entered into a (voluntary) binding partnership with neighbouring municipalities or the central government decided their merger. Given the short amount of time since the reforms were introduced, there is little empirical assessment of the effect of the reforms on governance outcomes.

Source: OECD (2008c), *OECD Economic Review of Denmark 2008*; OECD (2009d), *OECD Territorial Reviews, Copenhagen, Denmark* (2009); Vrangbæk, K. (2010), "Structural Reform in Denmark, 2007-09: Central Reform Processes in a Decentralised Environment", *Local Government Studies*, 36: 2, pp. 205-221.

Box 3.6. Administrative reform in Norway

A key driver for policy decentralisation in Norway was the Responsibility Reform initiated in 2003 following a White Paper on local democracy. The objectives of regional reform were, first, to strengthen local and regional democracy through devolution, with power and competences redistributed from the state to regional councils; second, to create a clear division of labour between the different levels of government; third, to develop a more coherent and efficient public sector; fourth, to create value and employment based on local and regional strengths; and finally, to ensure the efficient management of national goals such as sustainable development, equivalent service provision across the country and the legal protection of the individual. The reform process was taken further by the White Paper delivered in December 2006, which paved the way for future regional reform. It agreed that there should, in the future, continue to be three levels of government. Beneath the national level, the regions/counties were to be central actors for regional development while the municipalities would remain the main providers of public services. Unlike the Danish case, the municipal level is not subject to discussion in Norway even if a few mergers have taken place since 2000.

The main question was whether a reduced number of regions should replace the current counties, and if so, what responsibilities these new larger regions should have. The government, in its White Paper to the parliament, presented two alternatives. The first was to build upon the current 19 counties and to increase their responsibilities (as compared with the county councils) independently of any movement of boundaries. The second alternative was to have five or six regions with an increased area of responsibility, renamed as regional councils. The Association of Local and Regional Authorities took a clear stand in favour of fewer (7-9) and stronger regions with an extended area of responsibilities. In 2008 the government announced that county mergers should only be carried out voluntarily, and no such initiatives had been proposed. While no amalgamation of counties has taken place, the government decided to expand the responsibilities of the county councils, although these responsibilities are not as comprehensive as those initially presented in the White Paper.

Source : *Territorial Review of Norway*; Nordregio (2008), "Administrative reform – Arguments and values", by H. Aalbu, K. Böhme and Å. Uhlin, Nordic Research Programme 2005-08, Report 6.

Though regionalisation reforms are clearly context-dependent, some lessons can be learnt

218. Experience shows that regional reform processes are extremely context-dependent and need to be adapted to a country´s history, culture and institutional structure. An administrative arrangement that is feasible and works in one context might not be feasible in others (OECD, 2010d). Administrative reforms should consider the specific social, demographic and economic characteristics of each particular territory: lessons from Västra Götaland and Skåne, two metropolitan areas, may not be applicable to a mostly rural territory like Småland-Blekinge. Nevertheless, some common elements and challenges can be identified and facilitate a smoother and more efficient reform process.

Leadership from the centre is crucial

219. Guidance from the centre is required to clarify the purpose and direction of the reform process. One of the key factors in the divergent outcomes in Denmark's and Norway's regionalisation reform appears to have been the role played by the central government (Blom-Hansen *et al*., forthcoming; Mouritzen *et al*., 2009). The central government's leadership in Denmark's reform process was essential for the reform to result in a redrawing of territorial boundaries and create new, intermediate levels of governance.

220. In Småland-Blekinge, as in Sweden generally, there is a widespread feeling that the central government has not guided the regionalisation process clearly enough. Many different inquiry and investigation committees were created, but the lack of a clear and firm stance from the central government and the absence of consensus among the main political parties has prevented the definition of a clear direction for the regionalisation process. Political parties and the public sector are divided at both national and regional levels (McCallion, 2008; Niklasson and Tallberg, 2010). Yet the government has made clear that it does not intend to put forward its own plan for county consolidation; the process is to be bottom-up,

albeit subject to a timetable defined by the centre.[8] Bottom-up reform may allow for smooth participatory reform in which local actors take an active role in the process. However, many critics have expressed the view that the lack of leadership from the central government has left regional actors with too little understanding of the targets and potential outcomes of the reform (OECD, 2010a).

221. One of the crucial roles of political leadership in a reform process is to reduce local actors' uncertainty as they consider strategic options. The current situation in Sweden, however, is one in which local actors face a great deal of uncertainty regarding the possible consequences of strategic choices with regard to aligning themselves with neighbours (the Västra Götaland/Skåne model), going it alone (the Halland model), or maintaining the *status quo*. This can produce an unhealthy decision-making environment in which decisions involve many unknowns.

222. The apparent lack of political consensus on regionalisation within the Swedish government parties resembles in many ways the political situation in Norway after the 2005 general election. Immediately after this election, the three parties constituting the majority coalition government announced that a new intermediate regional level of governance with elected bodies was to be introduced before 2010 (Fimreite and Selle, 2009). This promise was made even though the three parties had held different views on the question before the election. In subsequent discussions these differences resurfaced. There was also a lack of agreement and alliance partners at the county and municipal level. Ultimately, as noted above, the lack of agreement led to a watered-down reform: there was no amalgamation of counties and the additional competences delegated to the county councils were much less extensive than originally planned.

… but stable reforms also require a certain degree of political consensus

223. Within the Småland-Blekinge area, there is no consensus on the need for, and characteristics of, the reform. Universal agreement is, of course, impossible, but a high level of consensus among the main stakeholders and the electorates involved is crucial to ensure legitimacy and political commitment. Otherwise, the reform may prove unstable or unsustainable. In this regard, it is worth noting that the pilot experiments in Västra Götaland, Skåne and Kalmar were largely the result of a bottom-up process by regional and local actors seeking greater involvement in the policy process and decision making in their regions (McCallion, 2007). In the four counties of Småland-Blekinge there is broad political support for institutional consolidation, with a single elected body responsible for both regional development and other county functions, such as health care. However, there is so far no consensus on the need for an enlarged region, let alone on its borders. Nor is there general agreement on the factors to be assessed or the potential outcomes of the different regionalisation options. Finally, it would appear that the participation of non-state (particularly, business and civil society groups) remains limited. During the two OECD fact-finding missions in 2011, private-sector representatives expressed the view that regionalisation was not high on companies' agendas, mostly because the issues at stake were not felt to be sufficiently concrete or relevant to firms.

224. By combining elements of both top-down direction and bottom-up decision making in the design of the reform, the likelihood of the reform taking place increases as does its legitimacy and functionality. This is important for the reform's stability. Based on the experience of Spain (Box 3.7), a combination of four factors seems to be crucial for promoting a stable re-arrangement of sub-national administrative borders: *i)* determination and leadership from the national government; *ii)* consensus among the main national parties; *iii)* broad multi-level dialogue between national government and sub-national actors; and *iv)* consensus among the main sub-national parties involved. As OECD (2010a) observes, the challenge for Sweden is to find a balance between a bottom-up process of reform, which has strong advantages in terms of consensus building, and central leadership.

Box 3.7. The role of consensus on the setting of the autonomous communities in Spain

The combination of multi-level political and social collaboration and consensus making seem to have been crucial for the establishing of the Autonomous Communities in Spain at the beginning of the 1980s. During the transition to democracy an extended dialogue was promoted among the different political parties and between the central government and the regional leaders to set the basis and procedures for the creation of the autonomous communities. The national constitution of 1978 included concrete guidelines for the formation of regions (autonomous communities) as a result of the amalgamation of bordering provinces, and for the competences subject to be devolved to the new intermediary level. The initiation of the process for forming an autonomous community required a proposal presented by all the provincial councils concerned and two-thirds of the municipalities whose population represented at least the majority of the electorate of each province to be merged. This process was supported by the political and social consensus the resulted from the transition to democracy in Spain.

Building broad agreement requires setting clearly defined goals and objectives

225. It is essential to clarify the goals and priorities of the reform. Once the objectives are clear, it is easier to assess the potential pros and cons. Setting objectives and evaluating potential outcomes also gives a better framework for reaching agreements and building a shared agenda based on the characteristics and scope of the reform. Understanding and clarifying the main objectives is a challenge and an opportunity. Intense discussions at both national and sub-national level help to clarify and agree positions and address information gaps. What is normally needed is a widely shared roadmap covering the objectives, priorities, strategy and scope of the reform. The roadmap remains as important during the implementation phase as during the decision phase, as it allows key stakeholders to assess whether and how much they gain or lose and to adapt to the changes being adopted (OECD, 2010d).

226. Discussion of the problem areas to be addressed through regional reform in Småland-Blekinge and of the potential outcomes associated with the different regionalisation options has remained focused on a very limited number of issues. These are not the same for the different actors. Administrative efficiency seems to motivate the regionalisation process at the central government level, while regional economic development, the consolidation of health care and the strengthening of the region's "voice" when dealing with the central government seem to be the focus at the regional level. Yet an overall process to understand, clarify and agree on the concrete objectives of the reform seems to be missing. This complicates the examination of evidence and the assessment of potential outcomes.

227. It has long been argued that the small size of Swedish counties presents a challenge for the efficient provision of devolved responsibilities such as health care, or, more recently, regional development. The pressure to improve public service in a context of increasing financial, social and demographic challenges has increased demands for structural reforms to improve the efficiency of public service delivery. One focus of the debate on reform of the public administration in Sweden, as in many Nordic countries, is whether or not larger and stronger regions can help make public administration more efficient. Some policy makers and analysts in Sweden argue that many of today's counties are too small to cope with the increased future complexity of health care provision; the number of regions, this line of argument goes, must be reduced if they are to fulfil their tasks efficiently (Eklund, 2007; Svegfors, 2007; SOU, 2007:10, p. 10). On the issue of state co-ordination it is argued, on the one hand, that a simplified and standardised regional division of the state (CABs, state agencies) with a reduced number of counties would benefit from economies of scale, better co-ordination and reduced costs. On the other hand, it is argued that smaller units may be more efficient and less bureaucratic, since they have better local knowledge, can choose measures more adapted to the needs of their inhabitants and are better able to adjust service provision to variations in local demand (Nordregio, 2008).

228. In Småland-Blekinge, the regionalisation debate increasingly focuses on regional growth. The pilot experiments in Västra Götaland, Skåne and Kalmar, with the greater involvement of regional authorities in economic development matters, have drawn attention to the respective advantages of larger/smaller administrative units for managing economic growth. This occurs in an international context that sees regions as more and more relevant for economic development. Policy makers, firms and the public increasingly view a location's specific endowments as critical to achieving efficiency gains or competitive advantage (Amin and Thrift, 1994). In Sweden the small size of counties raises issues with respect to regional development, as excessive territorial fragmentation can complicate the design, co-ordination and implementation of major regional development projects that require a broader focus such as transport infrastructure (OECD, 2010a). Moreover, a certain critical mass is important for activities such as research and technology development. Finally, larger administrative units may have more capacities and resources to meet the challenges of regional development in an increasingly competitive globalised world, in which regions compete against each other for markets and investments.

229. Nonetheless, the question of geographic size should be considered with caution as growth may depend more on factors such as population density and agglomeration economies which do not automatically occur as a result of an administrative merger (OECD, 2009a, 2010a). Some large urban areas offer a clear economic rationale for merging counties, but the economic rationale is less apparent in sparsely populated regions in which local labour markets are not deeply integrated and distances are significant (OECD, 2010a).

230. Ultimately, the narrow agenda of the regionalisation debate may represent a missed opportunity: one question that remains to be addressed – and might still be tackled during the implementation of any regional restructuring – is the issue of *what regions do*, particularly in the field of economic development. Clearly, no major decentralisation of power from central to regional level is envisaged; that is not on the reform agenda. However, this does not mean that an enlarged region would merely do what the current counties do on a larger scale; on the contrary, when it comes to economic development, in particular, it is likely that a larger region could do things that the four counties cannot do individually. The concentration of personnel and resources would imply not only an opportunity for economies of scale but also the chance to develop greater specialisation within regional development structures, more strategic capacity and, as a consequence, greater capacity to recruit and retain high-calibre staff.

In-depth cost-benefit analysis must be conducted…

231. There is no universal recipe for defining an optimal size of sub-national government. Public administration reformers are on a constant search for a better fit between the scale of problems and opportunities facing societies and the scale of governmental institutions responsible for addressing them (Baldersheim, and Rose, 2010a). Some of the arguments and criteria more relevant for Småland-Blekinge are presented in Box 3.8. It is important to note that these factors remain relevant regardless of the reform adopted. They need to be in the forefront of policy makers' thinking during the implementation of any regionalisation reform as well as prior to its adoption.

Box 3.8. Factors driving territorial governance reforms

The advantages and disadvantages of larger or smaller units of sub-national government, and the proper size of local authorities have occupied a prominent role in the theory and practice of public administration (see for example Dahl, 1972; King and Ma, 2000; Keating, 1995; Newton, 1982 among others). The consolidationist position argues in favour of amalgamating small political-administrative units into larger ones mainly based on arguments of economies of scale and effectiveness, while public-choice advocates often favour downscaling to smaller units to achieve improvements in allocative efficiency or for other reasons, such as democracy or identity. "Trans-scaling" by comparison denotes developments that result in increased or enhanced co-operation across administrative boundaries (Baldersheim and Rose, 2010a, 2010b). The arguments used to legitimate the need for re-organisation of sub-national governments are varied.

Economies of scale/ efficiency

Efficiency is one of the arguments most frequently employed in favour of larger administrative units (Baldersheim and Lawrence, 2010b). Larger administrative units may allow for economies of scale which can lead to cheaper and more efficient services (especially in welfare services) if the fixed costs of providing them can be shared across a larger territory. A critical mass is necessary for providing high-quality and cost-effective specialised public services that are too expensive to provide locally. The objective of reaching economies of scale is to improve efficiency. However, efficiency is partly about reducing costs, but costs are only one part of the efficiency equation – efficiency is by definition the input-output ratio (costs-benefits). Efficiency will be increased only if the same or better outcomes are produced at lower cost without sacrificing quality. In Sweden, Eklund (2007) argued that many of today's counties are too small to cope with the increasing complexity of health care provision, while Andreae (2006) and Björck (2007) argue that large regions do not necessarily offer better services.

Transaction costs

Transaction costs in this context refer to the costs of organising and operating administrative units within a jurisdiction (OECD, 1993). There are costs associated with the creation and operation of each government provision unit. Each has a fixed cost: staff, infrastructure. At the same time, it takes time and energy to participate in collective decision making, to organise elections, report results to citizens, and so on. Considering the transaction costs of managing many small provision units, reducing the number of provision units might result in net gains. However, when assessing net gains there may be a trade-off between transaction costs and other criteria: democracy and accountability might be easier to achieve in smaller, more homogenous administrative units. Moreover whether bureaucracy and administrative costs increase or decrease as a result of a reform that enlarges administrative units is an open question (Nordregio, 2008).

Economies of scope

Larger regions would have more capacity to combine a wider range of functions, some of which might be more efficiently and effectively performed if they are handled jointly. Currently, too little of the regionalisation debate in Sweden focuses on what enlarged counties might do that the current smaller ones cannot – the emphasis in most discussions tends to be on economies of scale and the greater "voice" that a larger entity might have in Stockholm and Brussels.

Stronger voice

A larger region can more effectively attract inward investments or market itself abroad. It can also make it easier to defend/promote shared regional interests. At national level, the voice/influence of larger regions is seen as more relevant. Larger regions can also implement larger projects with more substantial impact. In regions that have merged (Västra Götaland, Skåne), the experience has been positive. However, in these regions, direct election of a regional council (as a single strong actor speaking for the region) also played a role. Moreover, it should be recalled that both Västra Götaland and Skåne are led by the metropolitan areas of Göteborg and Malmö which had a strong voice prior to regional unification. Finally, on the downside, even if the voice of a single larger region may be stronger, it may mask the specific nature of individual counties. This could happen especially if the economic or demographic size of the merged counties is very different.

Policy effectiveness

Larger local/regional governments may plan economic development policies more effectively. This is an issue that must be distinguished from pure efficiency concerns. "Effectiveness" is concerned with performance in respect of the policy objectives set, without regard to cost. Effectiveness reforms may increase or decrease costs or result in no change. The argument for enhanced effectiveness at a larger territorial scale has to do with the conviction that tasks such as transport infrastructure planning or innovation are better addressed at a territorial scale larger than the county – not only because of cost/efficiency concerns. For example, externalities may make it undesirable for small counties to act on their own, while the information gap would suggest that centralisation of such functions entirely at national level would also be undesirable. Nevertheless, on the same effectiveness argument, other, more local problems, challenges or opportunities may be less effective if addressed at a broader regional scale.

Democracy and accountability

The democracy argument also has different nuances. Very often it is considered that the link between citizens/voters and local representatives is closer in smaller communities (*e.g.* Lassen and Serritzlew, 2011). As a result, sub-national governments would be more accountable to local populations. According to Oakerson (1999), the ease with which citizens can hold officials accountable is related to a combination of three factors: *i)* the size of the jurisdiction; *ii)* the heterogeneity of citizens living in the jurisdiction; and *iii)* the number of functions in the government administration's mandate. This means that officials in a single, small jurisdiction related to a single coherent community (low heterogeneity of interests demanding a particular policy response) can be held accountable relatively easily. In general, the costs of holding officials accountable to citizens are kept to a minimum when the decision-making unit closely overlaps with the community of interest. There is evidence however that indicates that small units are not necessary for a well-functioning democratic system. Blomqvist and Bergman's (2010, p. 45) research on the conditions for democratic governance at the sub-national level in Sweden suggests that there is little difference in the degree of democracy between the larger regions and the smaller counties and that, in so far as they found any differences, these seemed to be related to local institutional design rather than size. At the same time Kjær and Mouritzen (2003), for instance, conclude, on the basis of Danish evidence, that large municipalities are at least as democratic as small ones when measured on core democratic variables such as political participation and self-confidence. Moreover stronger regions allow for broader spheres of government activity, including regional involvement in local economic development (which would otherwise remain in the hands of the central state) thus raising the participation of regional actors and allowing a tailored regional development process.

Source: Baldersheim, H. and L.E. Rose (2010a), "Territorial Choice: Rescaling Governance in European States", in H. Baldersheim and L.E. Rose (eds.), *Territorial Choice: The Politics of Boundaries and Borders, Palgrave Macmillan,* Chapter 1, s 1-20; Baldersheim, H. and L.E. Rose (2010b), "A Comparative Analysis of Territorial Choice in Europe – Conclusions", In H. Baldersheim and L.E. Rose (eds.), *Territorial Choice: The Politics of Boundaries and Borders*. Palgrave Macmillan, pp. 234-259; Nordregio (2008), *Administrative reform – Arguments and values*, Stockholm; Kjær, U. and P.E. Mouritzen (eds.) (2003): *Kommunestørrelse og lokalt demokrati*, Syddansk Universitetsforlag, Odense; Blomqvist, P. and P. Bergman (2010), "Regionalisation Nordic Style: Will Regions in Sweden Threaten Local Democracy?" *Local Government Studies*, 36: 1, pp. 43-74.

232. For most collective problems, devising appropriate institutions and policy responses involves searching for the arrangements that represent the most acceptable trade-offs among several outcome characteristics – it is rarely possible to optimise all elements. For example, a given organisation of sub-national government may produce conditions that are conducive to achieving greater economies of scale in the delivery of public services, or a reduction of the transaction costs of regional development planning, but this outcome might be somewhat offset by a reduction in the conditions for democratic accountability or an increase in information gaps. It is therefore crucial for decision makers to acknowledge explicitly the weight assigned to each of the criteria in cost-benefit analyses, because this will affect the results.

233. With an in-depth cost-benefit analysis of the potential consequences of specific reform proposals, local actors in Småland-Blekinge might gain a deeper understanding of how to design institutional arrangements that increase the likelihood of achieving a good mix of locally valued outcomes. This will inevitably involve trade-offs. A cost-benefit analysis may be described as a search for the "best possible" reform design under specific constraints, informed by the particular context and objectives of a county or group of counties. Moreover, a clear awareness of the trade-offs being made should alert decision makers charged with implementing the reform to the specific governance challenges they may face as the reform unfolds.

…with a focus on assessing and communicating the benefits of the reform

234. In the regionalisation debate it is important to clarify why reform is needed and the potential benefits it will bring. It is important to deal explicitly with the ways in which the reform will help solve the region's concrete problems. Reform proponents would get more support from citizens if they adopted a clearer problem orientation in their discourse, showing how a particular reform design affects citizens' daily lives. This obliges them to make their arguments more specific. Because citizens will relate more

readily to such arguments they will be able to assess the desirability of different regionalisation options. This is healthy for the reform process as it steers the discussion towards a more systematic review of the strengths and weaknesses of different reform proposals.

Why merge when it is possible to co-operate?

235. An in-depth analysis of the pros and cons of alternative reform proposals has the potential to expand the menu of choices faced by local actors in Småland-Blekinge. There is not a simple choice between amalgamation or not. The option of strengthening co-operative arrangements among areas that would benefit from a broader vision than that of the county should also be considered. Economies of scale can be created for example though co-ordination agreements between administrative units without modifying the boundaries of existing provision units. This is effectively what many Swedish counties have long been doing by entering into co-operative contracts involving shared access to health-care services. The potential downside of such a solution is that it may be difficult to reach agreements between different administrative units. One way to deal with this is to create special-purpose institutions and arrangements (such as those created for the six health-care regions in Sweden or the Småland-Blekinge steering committee for dealing with EU matters) with boundaries that span several (or even parts of several) counties or regions. This allows for flexible interaction, as co-ordination units for different purposes can have different administrative borders adapted to the specific characteristics of the activity or service provided: the borders for an institution dealing with inter-county transport infrastructure can differ from those of units working with health or EU matters. However, such solutions normally work for single purposes but would not be adequate to address structural territorial/organisational failures. A key question is how much co-operation is needed for joint decision-making/service provision. If only a few limited aspects of policy are concerned, co-operative arrangements may involve lower transaction costs than an overhaul of territorial structures. However, if the same players/counties find themselves co-operating with the same partners in more and more spheres, then the question of merger arises. Assessing the pros and cons of strengthened co-operation and administrative mergers is thus crucial.

236. The discussion and analysis of administrative reform should in any case be conducted within the broader framework of the problems of multi-level governance (MLG). Whatever the structure of the public authorities, policy problems are generally not defined in terms of public departments and agencies or discrete territorial entities. As such, they require the involvement and co-operation of different kinds of actors at different levels of government. Hence the need for a more multi-dimensional approach to MLG that looks at ways of closing governance gaps. The question of how the public authorities seek solutions to citizens' and firms' problems, is a perennial one and concerns not only the formal structure of vertical and territorial hierarchies but also the incentives and mechanisms for co-ordinating public administration actions to achieve coherent policy-making and implementation. These issues are discussed in the following section.

3.3 Towards better governance of regional development

237. A crucial, often difficult task when implementing integrated policies is to achieve good co-ordination and coherence among the different levels of government and the various actors operating in a given territory. The provision of most public services requires the intervention and co-ordination of different levels of government, which in turn requires clear, flexible multi-level governance arrangements. This section focuses on a number of institutional and multi-level governance arrangements that can contribute to more coherent governance for regional development regardless of any redrawing of administrative borders.

Better co-ordination is crucial to improve the performance of regional development policies and of public service provision

238. Whatever the future administrative structure of Småland-Blekinge, better horizontal and vertical co-ordination of the different actors will be necessary. This was a key recommendation of the recent OECD *Territorial Review of Sweden* (OECD, 2010a). Specifically, that report highlighted the need for better horizontal co-ordination of regional policies at the national level and for vertical co-ordination of levels of government as a way to improve resource allocation and efficiency in public service delivery. As observed in Section 3.1, this is a crucial challenge in Småland-Blekinge. The key issue is likely to be the development of a governance structure that fosters collaborative, context-sensitive interventions that respond to local particularities in terms of strengths, opportunities and challenges. This will require institutionalised channels of communication among the different actors involved in regional development. Several recommendations are especially relevant for improving co-ordination in Småland-Blekinge:

- *Clarifying the roles of the different actors dealing with regional development*. An initial step for establishing good interaction mechanisms among different institutions and actors is to define their roles and competences clearly.

- *Ensuring regional leadership*. It would be useful to have a strong actor capable of speaking for the region on regional development matters and co-ordinating the work of other institutions. The creation of a directly elected body dealing with regional development can strengthen regional leadership.

- *Promoting a better definition of the role and organisation of central government agencies*, including strengthening the role of the CABs as a bridge between central and county policies.

- *Strengthening regional development programmes* as a main framework for guiding regional development efforts.

- *Strengthening inter-county and multi-level planning*.

- *Further involving the business community and universities*. At present, the role of private actors in designing a regional strategy/vision or in co-financing public initiatives is limited.

The discussion that follows considers each of these proposals in turn.

The roles of institutions dealing with regional development need to be further clarified

239. An initial step in establishing good interaction mechanisms among different institutions and actors is to define their roles and competences clearly. Efficient decentralisation and regionalisation reforms require a clear understanding of the rights and responsibilities of the different actors and levels of government. In the Småland-Blekinge area, this is certainly true for regional development. As mentioned in Section 3.1, the roles of the various institutions involved in the implementation of regional development policies are often ambiguous and overlapping. In addition the regional development councils do not yet have the human, financial and institutional capacities to promote synergies between the different policies, instruments and actors involved in economic development. Most OECD countries have numerous institutions that deal with regional development. Indeed, many responsibilities and public services (even those decentralised to sub-national levels) normally require the involvement and interaction of multiple levels of government as well as a variety of governance actors at the same level. But, a clear definition of the roles and mandates of all relevant actors, as well as efficient organisation of the interactions among them, are crucial to avoid overlaps and to facilitate the exploitation of potential synergies.

There would be benefits to having a main county/regional leading representative

240. The counties in Småland-Blekinge could benefit from the presence of a main actor capable of speaking on behalf of the county/region on regional development matters and co-ordinating the work of the different institutions and actors. It would need adequate financial and human resources and enough institutional support to carry out its task efficiently. Regional development councils were created to be the main county-based institution dealing with regional development. However, as mentioned, even if they have an increasing presence in regional development matters, they still lack the institutional strength, resources and support to play this role efficiently. The pilot experiences in Skåne and Västra Götaland suggest that when there is a clear, active and undisputed actor overseeing and co-ordinating regional development policy, it is possible to overcome many of these constraints.

Directly elected bodies present several advantages

241. A single, democratically elected institution dealing with both health care and regional development would facilitate regional leadership. The municipal base of the regional development councils' governing boards introduces a "localist" bias into regional development agendas and decisions. Greater political legitimacy, autonomous resources and a directly elected body with a larger constituency would probably reinforce its leadership in regional development matters. It would also reduce the number of public actors and possibilities of overlapping competences in the region. When the model of indirectly elected councils was established in Kalmar in 1997, there were fears of mixing regional development with health care (Regional development Council of Kalmar, 2007). Yet the organisation of regional councils in Västra Götaland and Skåne shows that these competences have evolved well together, organised in different branches under the umbrella of the regional council. Moreover, there is a feeling that both regional councils have become more active and empowered promoters of regional growth: experience with stimulating public-private co-operation in Västra Götaland and Skåne indicates that private agents can be more motivated to participate in public actions when there is a clear, active and undisputed actor managing regional development policy (OECD, 2010a). An additional advantage is that directly elected regional councils have more budgetary autonomy, as most of their budget comes from taxes and not from member fees.

242. However, in the context of the regionalisation reform now under discussion in Småland-Blekinge, one option could be to wait until the configuration of the different counties has been stabilised before engaging in a transition from an indirectly to a directly elected regional council. In the meantime, within the present structure of RDCs, the role and position of the regional director could be strengthened. Regional directors have tended to be active promoters of regional development. Their degree of autonomy varies from county to county. For example, in Kronoberg they can only take investment decisions for amounts smaller than SEK 100 000 (roughly EUR 10 800). The regional director's financial autonomy in Kalmar is higher, as he/she is authorised to take investment decisions of up to SEK 500 000 (roughly EUR 54 000). However, the most important decisions need to be taken by the RDC's governing board, which consists of the chairmen of the different municipalities and the county council. Strengthening the role and institutional leadership of regional directors within the RDC would facilitate the decision-making process, and would help regional leadership to become more than the sum of municipal intentions.

Municipalities would still play a central role

243. Municipalities will play a relevant role in any future administrative arrangement. A potential move from indirectly elected (inter-municipal) RDCs to directly elected regional/county councils will not undermine the role of municipalities. Municipalities have always had an important role in Sweden, and will continue to be important in any future administrative arrangement. A stronger regional actor could exist in parallel to a range of municipal associations with different roles. Currently, for example, RDCs exist along

with the EU leader groups or with local development associations (see Box 3.3). Clearly defined roles, targets and interaction mechanisms could create synergies among the different tiers and institutions. When Västra Götaland and Skåne were created through the merger of former councils, internal sub-regions were defined. In Västra Götaland, instead of centralising decision making for all of the mandated regional government functions with the regional council, the region created four sub-regions with a certain level of decision-making autonomy in terms of the provision of some services (*e.g.* labour market services). This model of multi-level governance increases the likelihood of achieving effective policy responses to a diversity of problems. These sub-regions are headed by inter-municipal co-operation institutions with a key role and delegated competences (Box 3.9).

Box 3.9. Inter-municipal co-operation in the Göteborg sub-region (Västra Götaland)

The major unit for municipal co-operation in the Greater Göteborg area is the Göteborg Region Association of Local Authorities (Göteborgsregionen, GR), which covers a territory that corresponds fairly well to the commuting area. The Göteborg Region has 13 member municipalities and a more specific focus on common tasks and problems in the metropolitan area than the Västra Götaland region. The Göteborg Region is an indirectly elected unit. The main decisions are taken by a 91 member council, appointed by the member authorities according to their population size. In order to safeguard the region from excessive control by the centre, the statutes stipulate that the number of representatives from the city of Göteborg must not exceed 45. The council appoints a board and specialised co-ordinating committees. Most of the revenue takes the form of various user fees but about a quarter of the resources comes from the municipalities as membership fees. The municipalities decide which functions they want to co-ordinate through the region. For example, the Göteborg Region organises joint admission to upper secondary education in the metropolitan area and joint purchasing by municipalities. It also co-ordinates labour market measures and environmental protection activities and offers training programmes for municipal personnel and an arena for exchange of ideas and experience. The Göteborg Region has very limited redistributive functions within the area although the co-ordination of some functions may benefit smaller municipalities rather than the larger ones.

Source: Herrschel, T. and P. Tallberg (eds.) (2011), *The Role of the Regions, Networks, Scale and Territory*, Kristianstads Boktryckeri, Sweden.

A better definition of the role and organisation of central government agencies will be crucial

244. One of the key challenges of administrative reform identified by the Committee on Public Sector Responsibilities (SOU, 2007:10) relates to co-ordination of the different agencies of the central state and between them, the CABs and the regional bodies. It is widely reckoned that the boundaries of the regional agencies should be simplified. As mentioned above, the administrative borders of the national public agencies vary considerably. Many have a single national office and interact either through the CABs, or through county-based institutions – such as RDCs – when dealing with territorial issues. Yet some of the most important agencies also have territorial branches, with borders that often do not correspond to county limits (Annex 3.A1). Given this diversity, many agencies are concerned with closely related services and policies,[9] while each agency delineates its own region, very few of which follow county boundaries. This hampers co-ordination among agencies, and between agencies and county-level institutions. It also complicates the generation of policy complementarities that might be realised with better co-ordination of different sectoral policies. Further consolidation of agencies, together with a more systematic use of common territorial boundaries, would certainly make co-ordination easier. In this regard, the central government has expressed its preference for better territorial articulation of central government agencies, as proposed in the conclusions of the Committee on Public Sector Responsibilities; it stated that regionally divided sectoral agencies should, as a rule, follow county and regional divisions (SOU, 2007:10). Finland developed an alternative by consolidating the national agencies involved in regional development matters (Box 3.10).

Box 3.10. Consolidating central government agencies in the regions: Finland's Alku

Finland's recent reform, ALKU (Reform Project for Regional Administration), was completed in 2010. It aimed at rationalising the system of regional state administration by clarifying and re-organising the roles, duties, steering and regional division of all regional administrative authorities. First, the powers of 18 regional councils, in charge of regional development policy in Finland, were increased to some extent. They were given more responsibility to co-ordinate regional development activities as well as strategic tasks. Second, existing – and numerous – regional state authorities were consolidated and merged. All state provincial offices, employment and economic centres, regional environmental centres, environmental permit agencies, road districts and occupational health and safety districts were phased out and their functions and tasks reorganised and streamlined into two new regional state administrative bodies: the Centres for Economic Development, Transport and the Environment (ELY) and the Regional State Administrative Agencies (AVI).

The 15 ELY centres manage the regional implementation and development tasks of the state administration. Their tasks are to promote regional competitiveness, well-being and sustainable development, and to curb climate change. They also focus on development of business and industry, the labour force, competence and cultural activities, transport and infrastructure as well as the environment and natural resources. The task of the six AVI centres is to foster regional parity by carrying out all legislative implementation, steering and supervision functions in the regions. These agencies strengthen the implementation of basic rights and legal protection, access to basic public services, environmental protection and sustainability, public safety and a safe and healthy living and working environment in the regions. The agencies work in close collaboration with local authorities.

The ELY and AVI centres exercise their influence at the national level with the national ministries as they negotiate and agree on the programme of work for the whole government period. The resulting strategy documents lay the foundation for the work of regional centres and national ministries. Regional councils influence the preparation of these documents, and in this way, bring the "voice of the region" into the centres' strategic choices and ensure that the regions are heard in the ministries.

According to the interim evaluation of ALKU project, the reform has been a good starting point for consolidating the administration and preventing fragmentation. The administration's ideas on services have been clarified but no clear commitment to improve the level of services has been made. With several ministries jointly steering the merged regional administration, there are more negotiations but also some challenges related to co-ordination. However, it is expected that the focus in regional development policies will increasingly move to a policy that is based on interactive negotiation and agreement between the national and regional levels.

Source: Ministry of Employment and the Economy of Finland.

245. The role of county administrative boards as the main bridge between the county/region and the central government should be strengthened. In 1989, in an attempt to improve territorial co-ordination, the CABs were given a mandate to co-ordinate the activities of national public agencies at county level. However, this role has not been easy to carry out, as the formal status of national agencies has not changed; agency staff in territorial offices often still report directly to the national government, rather than to the CAB (OECD, 2010a). The Committee on Public Sector Responsibilities insisted on the need to strengthen CABs as the agency focused on central government co-ordination, supervision and permits, as well as follow-up, evaluation and cross-sectoral knowledge creation (SOU, 2007:10). In this context, as mentioned above, any movement to consolidate CABs (one CAB as a representative of the central government in more than one county) should be carefully considered, as it could weaken or at least complicate the bridging role.

There is a need to give further support and enforcement to the regional development programmes…

246. Regional development programmes (RDPs) are a useful but under-performing framework for regional co-ordination. The RDP process provides a useful arena for regional and local actors to co-ordinate their efforts. Various stakeholders in the four counties of Småland-Blekinge are involved in the

development of the RDPs (in particular, trade and industry representatives and various interest groups) as part of an effort by the RDCs to create inclusive bottom-up development agendas. Yet RDPs remain broad in scope, dependent on small budgets from the RDCs, not well connected to EU structural fund programmes, and unenforceable, as actors operating in the territory are not obliged to follow their guidelines (OECD, 2010a). This creates a disincentive for regional planning and makes it more difficult to involve the private sector in the RDP process, as private actors do not necessarily perceive the regional programme as having a clear impact in guiding regional development investments.

247. The many institutions with a role in regional development, the lack of arbitration capacity of RDCs and the relatively small size of counties may affect the capacity to articulate comprehensive strategies for promoting regional synergies among the various regional development policies and programmes. Recommendations for giving further relevance to regional development programmes as a guiding framework of regional policies include:

- Develop more concrete and institutionally reinforced programmes. The objectives of the strategies are broad in scope, and actors are not required to follow the guidelines. It would be good to develop more tangible strategies, including concrete targets and measurable outcomes, assessed on the basis of indicators agreed in advance. OECD (2009c) provides an overview of the potential and limits of such indicators in the formulation and implementation of regional development policy. Some of the main lessons emerging from that work are set out in Box 3.11.

- Establish an enforcement framework for linking investment priorities with the objectives of the regional programmes to help to reinforce the strategies.

- Integrate rural development strategies. Rural development is still a responsibility of CABs. As noted in Chapter 2, each CAB has a rural development programme which has to be aligned with the national government plan, but may or may not fit the regional development programme of the RDCs. It would be helpful to integrate rural and general development programmes in a single comprehensive regional development strategy. This is especially relevant given the rural profile of the Småland-Blekinge area.

Box 3.11. Lessons from the use of performance indicators in regional policy

Performance indicator systems can be extremely useful for focusing policy makers' attention on outcomes, clarifying priorities, facilitating communication and policy learning. They can be crucial for addressing the information gaps that often afflict regional development policy. However, they should be developed and employed with great care, as faith in such indicators can also have unintended and unwanted consequences. Some important lessons emerge from recent OECD research regarding their use for regional policy.

- *Incentive effects are inevitable when monitoring performance.* The strength of incentives depends on how the information will be used and by whom. Attaching explicit rewards (or sanctions) to performance data can sometimes be a powerful way to encourage effort and improvement; however an explicit monetary incentive is not a sufficient condition for success. Moreover, potentially *perverse* incentives often emerge in connection with the use of indicator systems, because reporting performance data is not neutral, even when it is not associated with explicit rewards and sanction mechanisms.

- *Partnership between levels of government is crucial*, particularly if the aim of monitoring is not to control but to build co-operation and promote learning. Rewards and sanctions are more likely to create intended incentive effects if there is strong *ex ante* commitment from all levels of government to rigorous assessment of performance. A lack of collaboration can undermine ownership, producing resistance and jeopardising the long-term sustainability of the system.

- *Capacity is needed* to design performance monitoring systems, to implement them and to use performance information to improve public action. Thus, while monitoring can support capacity building, it also requires competences and an institutional background for using the performance information.

- *While a focus on outcomes is critical, input, process and output indicators must also be monitored*. Orienting an indicator system solely towards outcomes can reduce the flow of information and transparency needed for strategic short- and medium-term decision making, particularly when – as with regional development – policy impacts are expected to materialise over an extended period. Thus, indicator systems should always provide information on inputs, processes and outputs, all of which can be crucial for monitoring progress as the programme unfolds.

The foregoing implies, first, that there is probably no "optimal" design for performance indicator systems in regional development policy, and, second, that implementation of a performance indicator system will be an iterative process, evolving as information about its usefulness and any unanticipated effects is revealed.

Source: OECD (2009c).

…and to promote and strengthen inter-county regional planning

248. Beyond strengthening the regional development programmes, there is a need to strengthen inter-county regional planning. Issues such as transport infrastructure or innovation require a broader focus than the current county borders and call for improved collaboration between the Småland-Blekinge counties and beyond. As mentioned above the need for horizontal co-operation will most likely increase in the coming years. Some common strategies have already been developed (Box 3.1). Yet they are broad, are not translated into concrete project activities, and are not generally supported by joint financial resources. Strengthening cross-border regional planning, on issues of common interest, would help to better exploit functional linkages across areas and policy synergies. Counties' development programmes should act as the framework and basis for cross-border regional strategies. To be effective, these strategies should include concrete initiatives and funding and implementation modalities.

A framework of multi-level contracts can help

249. The state-region contracts developed in OECD countries such as France, Italy, Spain and Chile (Box 3.12) could be a way to reinforce regional planning and to define the characteristics and funding modalities of big initiatives in areas such as innovation or infrastructure which often require the participation and funding of the central government and more than one county. Such a contract is an agreement between national and sub-national governments concerning their mutual obligations, *i.e.* assignment of powers of decision, distribution of financial commitments. It allows sharing the design and financing of concrete initiatives. It facilitates territorial co-operation at the national and sub-national levels and enhances the accountability of regional actors with respect to agreed targets. It serve as a tool for dialogue and for clarifying responsibilities between the parties involved (for further details, see OECD, 2007, 2010a).

Box 3.12. Programming agreements in Chile

Programming agreements are formal agreements between one or more regional governments and one or more national ministries, detailing measures and procedures to be undertaken in projects of common interest over a specified period of time. These agreements can also include other public or private national, regional or local institutions. For the resources to be made available the agreements have to respect the following stages: *i)* formulation of the idea: to identify projects that address regional problems effectively in the context of the regional development strategy; *ii)* the signing of a protocol of purpose which initiates negotiations between the parties; *iii)* deciding on projects and programmes: project decision making, pre-investment studies if they do not exist, technical units for the investigation's monitoring and results; *iv)* drafting the programming agreement: defining rights and responsibilities of the parties involved; and *v)* presentation of the agreement to the Regional Council (the main regional government' institution) for approval and signature. Projects are carried out using the resources of both line ministries and regional governments (grants from the National Fund for Regional Development). On average, regional governments contribute 33% of the resources and line ministries make up the remaining 66%. These agreements offer a useful legal framework for co-ordinating regional and national priorities and responsibilities. As of now they have been mostly used for shared planning and financing of large Infrastructure projects.

Source: *OECD Territorial Review of Chile*, 2009.

Public-private interactions could be developed further…

250. Enforcing the regional planning process requires the strong involvement of private actors and civil society. Public-private co-operation offers opportunities, not only for sharing costs and for attracting external sources of funding, but also for knowledge transfer and for innovation. The specific knowledge and involvement of the private sector and civil institutions (such as employer and industry groups, labour unions, universities and research centres) in the regional planning process can contribute to better use of public funds, by planning and implementing policy options on the basis of more comprehensive knowledge. At the same time, open and active participation of regional actors in the policy process can reinforce the social ownership and legitimacy of the regional development process.

251. Mobilising private actors to participate in the planning of regional development in Småland-Blekinge would require both public mobilisation and persuasive strategies. The private sector plays a limited role in the regional planning process in Småland-Blekinge. Pilot regions' experience indicates that elected regional actors have an important role in stimulating public-private co-operation. For example, Västra Götaland established five platforms for co-operation with stakeholders from industry, academia and municipalities to design a common vision for the region, entitled "The Good Life" (OECD, 2010a). Similar public-private platforms could be established in Småland-Blekinge. However, the involvement of a broader group of stakeholders requires strong regional development strategies viewed by private sector actors as concrete, relevant and capable of generating tangible effects.

252. Some OECD countries have developed regional development agencies (RDAs) and other institutional settings to promote public-private collaboration. Despite a great diversity in the details of their organisation and objectives, RDAs are public-private agencies that collaborate with central and sub-national governments to support economic or business development in a given geographic area. They often provide loans for business development as well as advisory services, especially to SMEs. They offer a good framework for public-private collaboration. As such, the governance structure of RDAs generally involves significant representation of the private sector and other non-governmental actors. In general, RDAs can play a key role in improving relations between enterprises of all sizes and the public sector. However, it is sometimes difficult to make them strong enough to promote regional development effectively, but not so strong as to "capture" the strategic issues of regional policy and thereby disempower the regional development authorities (OECD, 2008a). Moreover, in Sweden, introducing a new institution might further complicate an already complex regional development governance structure. Additional institutional settings to increase public-private interactions are widely promoted in OECD countries. Scotland's regional advisory boards and the industry advisory groups are examples of initiatives to promote better exchanges between private and public actors and could serve as a benchmark for Småland-Blekinge (Box 3.13).

Box 3.13. Regional advisory boards and industry advisory groups in Scotland

Regional advisory boards ensure that the private sector and key stakeholders in specific regions have an influential role in the economic development strategy of Scotland. They are regionally based boards which advise on the best way to maximise the contribution of each region to Scotland's economic growth, through: *i)* ensuring industry alignment and providing strategic direction, and *ii)* identifying and developing major projects. They have matured over the past three years and experience suggests that they add most value in the following areas:

- Early-stage development of industry strategies and action plans within the context of the region's contribution to the Scottish offer.
- Creation of cross-sectoral linkages *e.g.* low carbon opportunities between construction and forest industries.
- Help in shaping the approach to thematic policies/initiatives, e.g. leadership, low carbon.
- Championing of co-ordinated regional approaches to economic opportunities.
- Help in developing and championing major projects, and in identifying regional economic opportunities that can contribute to the growth agenda.
- A conduit for sharing economic intelligence.

The advisory boards have up to 18 members. Membership is mainly from the private sector but includes partner organisations, such as local authorities and the higher education sector.

Industry advisory groups are responsible for developing and delivering evidence-based forward-looking industry strategies which provide compelling industry propositions. They provide strategic leadership and advice to industry and the public sector in Scotland, drawing on their members' national and international expertise on global trends and issues and the niche areas in which Scotland has global competitiveness. Industry advisory groups are composed of leading business figures from across the private sector as well as senior representatives from the public sector including Scottish Enterprise, the Scottish government and key stakeholders. They vary widely in terms of governance, structure, approach, membership and resources, having evolved in response to the particular needs of their industry. They are external to Scottish Enterprise and comprise high-level private- and public-sector leadership. There are over 300 individuals in the 16 industry groups, providing advice and support to Scotland's key sectors and other growth industries. The benefits come from:

- Developing robust forward-looking strategies for the various industries with a focus on transformational change, which is consistent with the aims of sustainable low-carbon economic growth.
- Ensuring industry ownership of – and input to – the strategy and identification of the actions required to deliver the strategy and the respective roles of government and industry.
- Having a strategy with a clear vision, objectives for growth and a set of quantifiable outcomes and impacts which can be regularly monitored and reviewed.
- Having a robust national / international perspective, informed by a strong sense of global trends, issues and niche opportunities so that the industry in Scotland can develop competitive advantage.

At least once a year all the Boards come together and meet with officials from Scottish Enterprise, the Scottish government and Scottish government ministers.

Source: Scottish Enterprise.

253. Beyond participation in the planning process, public-private co-operation for infrastructure development could go further. The improvement of transport infrastructure and connectivity is crucial for effectively exploiting local amenities and improving the framework for business competitiveness in Småland-Blekinge (see Chapter 2). Regional public and private actors are already working together to raise awareness and lobby for the expansion of the E22 southeast coastal motorway to link Norrköping in the north to Trelleborg in the south (www.e22.nu/). Public-private co-operation could go further and involve private actors in the design and financing of big infrastructure projects, for example by using the contractual agreements mentioned above, to enable the participation of national, sub-national, public and private actors. An option to consider would be a further development of public-private partnerships (PPPs). These are rarely used in Sweden. An exception (and the main example of PPP in transport investment so far in Sweden) is the Arlanda express train that links Stockholm's main airport to the city centre. The main financial advantage of PPPs is to split the costs and risks of projects between the public and private sectors and tap into the expertise and economies of scale available in the private sector. Although PPPs should not be considered a "magic wand" they can provide interesting options for further involvement of the private sector in the funding and operation of long-term investments, especially in transport infrastructure (OECD, 2010a).

254. Co-operation between the public and private sectors at the local level could also be encouraged. In Småland-Blekinge, there are examples of public-private collaboration to promote projects, such as the AB Glasriket company in the Kingdom of Crystal or the Western Småland Teknikcollege (Box 3.14). In these cases, mutual self-interest in the promotion of local economic development triggered the agreements. However, legal restrictions limit the possibilities or at least the incentives for public- private partnerships between local governments and private operators in Sweden. Evidence suggests that co-operation by municipalities and counties and the private sector will have to go further and improve to meet future structural challenges such as the increasing costs of public service provision (SALAR, 2005).

Box 3.14. Examples of co-operation between municipalities and the private sector in Småland

The Kingdom of Crystal (Glasriket) is an association covering the municipalities of Emmaboda, Lessebo, Nybro and Uppvidinge in Kalmar and Kronoberg counties. It promotes and develops the regional hand-blown glass industry and tourism. Hand-blown glass has been made in this region since 1742. Currently the area has 13 glassworks. AB Glasriket is the Kingdom of Crystal's official sales and marketing company and it is owned by the glassworks (60%) and the four municipalities (40%). As part of the Kingdom of Crystal the Kosta Boda Art Hotel was established as a venture in which private funding was invested in partnership with Lessebo Municipality.

Teknikcollege started as a bottom-up initiative launched by an industry sector suffering from a skills shortage. It is a bottom-up initiative to improve vocational training in which municipalities, education and business communities work together to enhance the attractiveness and quality of technical training. In this initiative large or medium-sized companies in the region influence and contribute to courses content and may share costs. The social partners are also involved in steering groups responsible among other things for the quality of vocational training. Today Sweden has 27 regional Teknikcolleges, each with its own focus and speciality. Teknikcollege Western Småland is a collaboration between Gislaved, Gnosjö and Värnamo municipality with roughly 40 private companies of the region.

Sources: www.glasriket.se/en/About-Glasriket/About-AB-Glasriket/; http://teknikcollege.se/.

…as could inter-municipal co-operation in delivering public services

255. The increasing challenges for providing municipal services and the increasing interdependencies of labour market areas call for reinforced municipal co-operation. Structural changes will place greater demands on municipalities to find new cost-effective solutions. Sweden's extensive delegation of responsibilities to the municipal level requires municipalities to deal with issues related to the provision of specialised services to an increasingly ageing population. Currently the financial equalisation system evens

out differences in local authorities' tax base or in the cost of providing services related to age structure, ethnicity, socio-economic conditions or geography. However, beyond the financial issues, smaller municipalities confront challenges such as recruiting and retaining highly skilled or specialised staff. Moreover, in the longer term, the commitment to a high degree of equalisation combined with a trend towards centralised financing of equalisation implies a strong claim on national fiscal resources. This may create tensions for issues with a strong territorial dimension, such as ageing or integration of immigrants (OECD, 2010a).

256. Increasing cross-municipal commuting and larger labour market areas (see Chapter 1) call for more horizontal cross-sectoral co-operation by local governments and spatial planning based on functional areas. These interactions sometimes occur with municipalities of adjacent counties either within or beyond Småland and Blekinge. The mismatch between administrative areas and functional regions occurs in all OECD countries: functional areas evolve constantly and administrative areas tend to be quite rigid. Although the mismatch tends to affect metropolitan areas more than rural regions, issues such as spatial planning and public transport infrastructure, housing and labour markets, or private sector interests normally require a broader focus than a single municipality and call for improved inter-municipal collaboration. Co-operation within functional labour markets does not occur automatically, however, and public intervention and support is often needed to overcome failures to act collectively.

257. Municipal co-operation is an alternative to mergers in order to reduce costs and increase economies of scale. Sweden has actively promoted municipal mergers and inter-municipal co-operation over the past decades. The number of municipalities dropped from 2 498 to 1 337 in 1952, and then to 278 between 1962 and 1974. The number of municipalities in Småland-Blekinge was also drastically reduced. Because of this, opportunities for further amalgamations may be relatively limited (OECD, 2010a). Municipal co-operation is a less politically and culturally charged option for promoting co-ordination and enhancing capacity. It generally faces less resistance and has potentially greater political acceptance by local leaders (OECD, 2009b).

258. Municipal co-operation offers several advantages for building critical mass and increasing the efficiency and efficacy of public service delivery:

- It can facilitate the realisation of economies of scale and scope in the provision of services and improve the cost-effectiveness and quality of certain public services (Oakerson, 1999).

- It can be very important for recruiting or sharing the services of highly skilled or specialised staff (managers, engineers, biologists). Pooling resources and capacities may positively affect the capacity of local governments to deliver services more effectively and at lower cost (OECD, 2008b). According to the Swedish Association of Local Authorities and Regions (SALAR), horizontal co-operation makes it easier to recruit managers and increases job satisfaction.

- Finally, neighbouring jurisdictions are likely to see significant benefits as well as fewer negative spillover effects. Many residents work in neighbouring jurisdictions, and firms are likely to have important linkages with firms in other jurisdictions at all stages of the supply and distribution chain. Inter-municipal co-operation can help to address the spillover effects that occur when people live and pay taxes in one jurisdiction and work in another.

Enhanced co-operation across municipalities needs to be supported

259. However, there are obstacles to inter-municipal co-operation:

- First, there are legal constraints on selling and buying services between municipalities. According to Swedish law all municipalities must provide and produce certain services for their own inhabitants, regardless of their population size or available resources. These services cannot be bought or sold between municipalities. Instead municipalities have to form a common board, a municipal association or a municipal federation, a somewhat more complex undertaking. Municipal obligations also include regulatory tasks such as inspections of restaurants, environmental inspections or building permits. Municipal inspection has become more demanding with the rise in national environmental and building regulations. Again, these cannot be "contracted out" by one municipality to another but require the establishment of a municipal association or federation.

- The second constraint is what is referred to as the "United Nations problem" or the difficulty to reach a consensus on which activities to carry out jointly and how to do so. Municipal associations are complex organisations with their own administrations, and this can sometimes stand in the way of smooth and flexible inter-municipal co-operation. There can be difficulties in reaching a consensus between two or more independent administrative units, in deciding where to allocate resources, which kind of common organisation to establish, or how to tackle the common challenges, or in choosing the location of jobs or the common committees. These problems may be exacerbated when municipalities belong to different counties as interactions between municipalities in different counties tend to be weaker.

- The third constraint relates to incentives for co-operation. Formal co-operation involves time, trust, political consensus and administrative arrangements. However, the incentives may be weak as the benefits of regional co-operation may be difficult to capture in political terms, and it can be difficult to show measurable impacts of territorial co-operation in the short term.

260. To overcome such obstacles, local authorities often require external support or incentives. Some OECD countries have adopted a top-down incentive policy to encourage municipalities to co-operate to achieve economies of scale in service provision and save expenses by rationalising administrative functions. Experience shows that legal instruments to promote co-operation work better when accompanied by fiscal incentives. In France laws for the creation of urban communities or agglomeration communities promote voluntary co-operation by offering participating municipalities an incentive grant in addition to their existing block grant entitlements. One of the conditions is that the municipalities accept to transfer certain responsibilities (mandatory and optional) to the new supra-municipal body (Box 3.15).

Box 3.15. Urban and agglomeration communities in France

The fragmentation of municipal organisation in France has encouraged municipalities to develop pools for certain services. This form of collaboration was practised on a voluntary basis. In the late 1990s, the government established a legal framework allowing inter-municipal and inter-governmental relations in urban areas to be based on contracts. The mechanism to encourage the voluntary implementation of public policies on a regional and contractual basis is an agglomeration contract. It is based on the principle of "one territory – one project – one contract", and is proving increasingly successful in contributing to governance based on agglomeration. The agglomeration contract procedure brings together the central government, the region and the *communauté d'agglomération* (a public inter-municipal co-operation body for urban areas of over 5 000 inhabitants grouped around a central city with at least 15 000 inhabitants) or the *communauté urbaine* (a public inter-municipal co-operation institution for urban areas with over 500 000 inhabitants). The county council (*conseil général*) can be associated with the signature of the contract, in particular for questions related to social policies. The central government puts forward its views regarding the goals and strategic direction for the agglomeration. This procedure involves several stages:

i) The agglomeration project. The basic document with a diagnosis of the functioning of the agglomeration. It identifies the issues, provides development policy options and an indication of the support areas, as well as the relevant implementation policies and measures, with a phased timetable and identification of priorities. The project must focus on regional development (economic, social and human development) rather than infrastructure development and improvement. The project must be based on dialogue with the municipalities and the main actors in the area. The dialogue must be organised to strengthen the impact of the project and the collective essence of the contract by mobilising non-public actors for implementation.

ii) The development board. This represents a variety of economic, social, cultural and association groups and must be consulted during the preparation of the project and on final delivery of the project, prior to signature of the contract. The different groups can also be involved in the drafting of the contract.

iii) The agglomeration contract. The financial and programme document on the implementation of the project, which identifies the partners, projects, multiannual financing and contractors.

iv) The regional coherence plan (SCOT). This document is a spatial projection of the agglomeration project, which translates the project decisions into urban planning law.

This territorial project is a five to ten year plan that concerns infrastructure, economic development, social housing, culture, environment, etc., at the metropolitan level. However, it is more than a plan, since it specifies the amount of funding and details all the operations to be performed to achieve the plan's objectives. Once approved by the council of the *communauté*, the project is discussed with the central government. When it is approved by the central government, an agreement is signed between the central government and the *communauté*, called *a contrat d'agglomération*.

This agreement guarantees that the central government will finance some of the actions decided in the territorial project (entailing negotiations between the central government and the *communauté* regarding government funding). In addition, the law states that the *contrat d'agglomération* must also be signed by the regional council. This means that the actions envisaged in the *contrat d'agglomération* will also be financed by the region and will be part of the *contrat de Plan*, a larger five-year agreement signed by the central government and the region. Moreover, this means that EU Structural Funds will feed into the general budget of the territorial project.

Source : OECD (2011) *OECD Urban Policy Reviews: Poland.*

261. Regional institutions can also encourage municipal co-operation. Some regional development councils have been particularly active in promoting the formation of inter-municipal committees. The Primary Municipal Committee of the RDC of Kalmar has as one of its main objectives to initiate and promote co-operation among the country's municipalities and to take the initiative for joint investigations and development projects. Similarly, the Regional Development Council of Southern Småland promotes networks for staff in leading positions in the municipalities in the areas of school, social work, environment, water and waste, and local development for businesses, among others. These networks offer local government officials from different municipalities a good opportunity to meet and potentially find areas of common interest or concern. These exercises could expand and take advantage of the platform of regional councils to facilitate and promote inter-municipal co-operation.

262. However, it will be important for regional support for inter-municipal co-operation to cross county borders. As Chapter 1 noted, there are some fluent functional relationships between municipalities in the region with neighbouring municipalities in counties sometimes outside the Småland-Blekinge area. This is the case, for example, of Sölvesborg municipality in Blekinge, which presents relatively large commuting flows with Bromölla municipality in Skåne. Promoting co-operation between these municipalities would also require increasing co-operation between the counties. Setting common inter-county plans for supporting agreements and interactions between bordering municipalities would be very

useful. The plans could focus both on small municipalities with limited capacities and resources and on bordering municipalities with large commuting flows.

Exchange of knowledge can support local development

263. Municipalities in Småland-Blekinge share certain features and challenges and have complementary strengths. Interaction between municipalities and the sharing of knowledge and challenges can help improve local development strategies and trigger co-operation initiatives. A web-based information network that allows municipalities in southern Sweden to find or share ideas or best practices could serve as a platform for such exchanges. Several OECD countries have developed incentives for the exchange of best practices in the public realm, such as the citizenry award and the development of the territories award in Chile (Box 3.16).

Box 3.16. Promoting good practices in local governments: Chile

The Innovation and Citizenry Award programme was organised in 2000 as a competition for prizes in innovative approaches to participatory provision of public goods and services in Chile. The goal of the award programme is to give public recognition to self-organised and participatory problem-solving initiatives in the public realm, and to document and learn from these experiences so that they can benefit other actors struggling with similar problems in different locations. The programme has been known to serve as an important forum for exchange, learning and debate about new ideas in local public affairs in Chile. The ten most innovative approaches were awarded a grant and another ten were given an honorary mention. Apart from stimulating local organisations and governments to develop new, innovative approaches to effective problem solving in public affairs, the programme serves a very important function of social learning that benefits all actors involved in public affairs, not just those who win the prizes. Other actors interested in public policy are able to learn about the winning initiatives by reading about them in a variety of forums. With similar characteristics the award “Best Practices for the Development of the Territories” has been organised since 2008 to find innovative municipal experiences, as examples of good practices for other municipalities or sub-national institutions. The award works through a web-based platform.

Source: OECD (2009), *Territorial Reviews, Chile*; www.territoriochile.cl.

Re-centralising some competences?

264. Finally, an in-depth assessment could help to decide if some competences could be *re*centralised to regional or national institutions in cases where the human, financial or institutional capacities of municipalities are clearly inadequate for carrying out their delegated competences efficiently. It could indicate which competences could be carried out more efficiently by higher tiers of government (county/region; central government). This is clearly the case, for example, of the function of municipal inspection. Resources aside, making municipalities responsible for compliance with national regulations may sometimes represent a conflict of interest, in that failing inspections may have negative financial consequences for the municipal administration (lost jobs, stalled construction projects, and decreased tax revenues). With these issues in mind, it may make sense for the CABs, as the main representative of the national level in the county, to take over this responsibility. In the 2007 conclusions of the Committee on Public Sector Responsibilities (SOU, 2007:10) it was stated that CABs should be given overall responsibility for supervision at county level. They should take over a number of supervisory activities from the municipalities, while regional supervision conducted by certain sectoral agencies could be co-located with the CABs. An in-depth assessment could detect other competences that would be better conducted at higher administrative levels (such as the regional councils or the CABs). For example, there could be a case for strengthening the role of regional development institutions in spatial planning in order to exploit synergies within and among functional areas that transcend municipal borders.

265. If necessary, this process could be asymmetric: bigger municipalities could have certain competences that smaller municipalities would not have. In Spain for example certain municipal competences are compulsory for all municipalities, some only compulsory for municipalities of over 5 000 inhabitants (*e.g.* waste treatment), and some only delegated to municipalities of over 20 000 inhabitants (*e.g.* social services, fire fighting). In any case, any process of recentralisation of competence should be made based on a comprehensive dialogue in which representatives of the main parties involved agree on the rationality of moving up a devolved competence.

Conclusion

266. There is no universal recipe for defining an optimal architecture of sub-national government. Arguments are varied and the conclusions reached when analysing them are sometimes contradictory. The choice of reform design will probably involve trade-offs between satisfying some criteria at the cost of others. Evaluating the need for and characteristics of regional reform in Småland-Blekinge will first involve agreeing on goals and priorities. This may be very difficult and require intense discussions at national and sub-national levels. Nevertheless it is essential for addressing information gaps. Once the objectives of the reform are clear and agreed it will be easier to conduct a cost-benefit analysis of the potential advantages and disadvantages of reform. This would enable building a roadmap describing the characteristics and scope of the reform that is widely shared by national and sub-national stakeholders. Such a roadmap will probably require clear direction from the central government but also a clear will and decision from the regional actors involved.

267. Reaching an agreement about the objectives of a regionalisation reform and, on this basis, conducting a cost-benefit analysis will have an additional advantage: it will make it possible to clarify whether the aims of the reform can be achieved by strengthening co-operative agreements rather than making changes in the counties' administrative borders. Creating special-purpose institutions allows flexible territorial interactions, as their administrative borders can be adapted to the requirements of a given joint activity or service. However, this option is generally effective for single purposes but would not be the best way to address structural territorial/organisation challenges. Whatever the result of the current regionalisation reform, further and closer cross-border co-operation will be probably required to avoid territorial fragmentation in the design of major regional strategies in areas such innovation or transport infrastructure which require a broad strategic vision.

268. Ensuring the effectiveness of regional development policies and public service delivery will require more than determining the best size of the counties or developing trans-border interactions. Beyond the horizontal dimension, a multi-dimensional approach to co-operation is needed. Whatever the future structure or size of the counties in Småland-Blekinge, it will be necessary to ensure good co-ordination and achieve coherence among the different levels of government and the actors operating in the territory. This will involve: clarifying the roles and competences of the actors dealing with regional development; having a strong actor capable of speaking and acting on regional development matters in each county/region; establishing a clear definition of the role and organisation of central government agencies; strengthening inter-county and multi-level planning and arrangements (such as contracts); and promoting further involvement of the business community and universities in regional development matters.

269. Finally, there is a clear need to support and strengthen inter-municipal co-operation. Municipalities are finding it more difficult to manage their devolved competences. One way of making the delivery of municipal services more efficient is through inter-municipal co-operative agreements. Småland-Blekinge has several examples of inter-municipal collaboration. However there are legal, and especially institutional, constraints for reaching consensus among two or more independent administrative units with different electorates. Regional institutions (such as the regional development councils) could go further in encouraging municipal co-operation. These efforts should increase and include inter-county co-

operation in the case of bordering municipalities in different counties. It would be very useful to establish common inter-county plans for agreements and interaction between bordering municipalities, especially for small municipalities with limited capacities and resources and for border municipalities with large commuting flows.

Summary of key recommendations for Chapter 3

- Define clear goals and objectives for the regionalisation reform. Clarifying the objectives of the reform will require intense discussions at both national and sub-national level to clarify and agree positions and address information gaps.
- Conduct an assessment of the costs and benefits of possible reform options.
- Consider what a larger region might do that single counties do not. The potential (or lack thereof) for reconfigured regions not only to deliver economies of scale but also to develop capacities that individual counties are too small to sustain on their own should be a key consideration
- Strengthen multi-level co-ordination. Whatever the structure of public authorities, they will require the involvement and co-operation of different kinds of actors. Further co-ordination of the multiple national and sub-national actors involved in regional development would contribute to more efficient and better targeted investments and to create regional synergies between the different interventions.
- Clarify the roles of the different actors dealing with regional development. An initial step for establishing good interaction mechanisms among different institutions and actors is to define more clearly their roles and competences, as well as the way in which they interact.
- Vest responsibility for both health care and regional development in a single elected body. It is crucial to have a strong actor capable of speaking for the county/region on regional development matters.
- Develop more concrete and institutionally reinforced regional development programmes. Strengthening these programmes would involve: i) developing more concrete and institutionally reinforced strategies including concrete targets and measurable outcomes; ii) establishing an enforcement framework for linking investment priorities with the objectives of the programmes; and, iii) Integrating rural development strategies and general development programmes in a single comprehensive strategy.
- Strengthen inter-county and multi-level regional planning in areas that require the participation and funding of the central government and involve more than one county, such as transport infrastructure or innovation. Inter-county strategies should include concrete initiatives, as well as funding and implementation modalities.
- Give the business community a greater role in regional development planning (e.g., through public-private platforms) and in the co-financing of joint initiatives (especially in infrastructure).
- Promote inter-municipal co-operation, not least by making it cheaper and easier to organise.
- Conduct an in-depth assessment to decide if some municipal competences could be recentralised to regional or national institutions. This process could be asymmetric: bigger municipalities could have certain competences that smaller municipalities would not have.
- Consider transferring the municipalities inspection competence to County Administrative Boards.

NOTES

1. The Swedish Constitution mentions only two levels of government: local and national. However, since the 1862 reform, counties have had an elected council that is independent from the national government.

2. Jönköping has 13 municipalities, Kronoberg 8, Kalmar 12 and Blekinge 5.

3. Since 2010 Halland and Gotland have a directly elected council.

4. Roughly 66% of the members of the Småland-Blekinge regional councils' governing boards are designated by the counties' municipalities and 33% are nominated by the respective county councils.

5. Excluding regional development investments coming from national public agencies other than CABs.

6 Information from interviews conducted in the region.

7. It is important to notice that Stockholm has a unique organisation and that, as mentioned above, there are differences in the competences transferred to the four regional development councils of Småland and Blekinge.

8. The above-mentioned inquiry committee is to submit proposals concerning changes to county boundaries. The extent to which these proposals are supposed to affect the regionalisation process is unclear.

9. For example, as observed in Annex 3A1 different agencies deal with education (Skolverket), higher education (Högskoleverket), and youth affairs (Ungdomsstyrelsen) and with Agriculture (Jordbruksverket), Fisheries (Fiskeriverket), Forestry (Skogsstyrelsen), and Environment Protection (Naturvårdsverket).

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ANNEX 3.A1

Table 3.A1.1. Administrative Organisation of some of the Main National Public Agencies

Agency (Swe)	Agency (En)	Main competence	Location regional office and serving counties
Tillväxtverket	Swedish Agency for Economic and Regional Growth	Its role is to strengthen regional development and facilitate enterprise and entrepreneurship throughout Sweden. Tillväxtverket covers the areas of responsibility previously belonging to Nutek and to the Swedish National Rural Development Agency as well as the Swedish Consumer Agency's tasks concerning commercial and public service. It has around 300 employees in 11 offices around the country.	Regional representatives for administration of EU structural funds. Småland and Islands office serves Kronoberg, Kalmar and Jönköping counties. Skåne/ Blekinge serves Blekinge county.
Vinnova	Vinnova	Sweden's innovation agency. Vinnova´s task is to promote sustainable growth in Sweden by funding needs-driven research and the development of effective innovation systems.	No regional offices or organisation.
Trafikverket	Swedish Transport Administration	The agency responsible for all modes of traffic: roads and railways, on the sea and in flight. It also builds, maintains, and operates all national roads and railways	The regional office relevant for the four counties in Småland Blekinge is in Kristianstad (Skåne). The headquarters are in Borlänge (Dalarna County).
Socialstyrelsen	The National Board of Health and Welfare.	A government agency under the Ministry of Health and Social Affairs.	Monitoring issues are divided into six regions. Region Southeast serves Östergötland, Jönköping and Kalmar. Region South serves Kronoberg, Blekinge and Skåne.
Skolverket	The Swedish National Agency for Education	Central administrative authority for the Swedish public school system for children, young people and adults, as well as for preschool activities and child care for school children.	Skolverket has offices in Skåne (Lund) and in Östergötland (Linköping) that serve Småland/Blekinge.
Högskoleverket	Swedish National Agency for Higher Education	It reviews the quality of higher education and ensures that HEIs comply with relevant legislation and regulations.	No regional offices
Ungdomsstyrelsen	The Swedish National Board for Youth Affairs	A government agency that works to ensure that young people have access to prosperity and welfare. It distributes state aid for integration, equality, social movement organisations and projects.	No regional offices
Jordbruksverket	The Board of Agriculture	The national authority in the agro-food sector, and is responsible for all matters related to agriculture and horticulture.	No regional offices. Operates through County Administrative Boards.
Skogsstyrelsen	The Swedish Forest Agency	The national authority in charge of forest-related issues. Among other tasks the Forest Agency is responsible for the national rural development programme.	Region East includes Östergötland, Kalmar, Kronoberg and Skåne counties. Region West contains Jönköping, Halland and Västra Götaland counties.
Fiskeriverket	The Swedish Board of Fisheries	The government authority responsible for the conservation and exploitation of Sweden's fish resources.	No regional agency organisation. However several research stations and institutes all over the country, including one in Karlskrona.
Naturvårdsverket	Swedish Environmental Protection Agency	One of many stakeholders with responsibility for the environment. It co-ordinates, monitors and evaluates efforts involving many agencies to meet Sweden's environmental objectives.	No regional offices. Operates through County Administrative Boards.