Guided by the North Stars

No.1 - The Swedish Model of Regional Development as a Source of Inspiration for Tunisia

Nice Muhanzu & Vincent Castel*

Key Messages

• Held up against other regions, countries in North Africa today appear to have more in common than what they differ in, compared with the Nordic countries in the 1930s. The 1930s is remembered in the Nordic region as the decade of mass unemployment; the incidence of poverty was high, public service delivery poor and regional disparities high.

• Sweden and Tunisia are of particular interest. In the 1930s, Sweden struggled with a difficult international economic environment, unfavorable resource endowments, regional disparities, uneven population distribution, a challenging climate and major socioeconomic impediments to inclusive and sustainable growth.

• To overcome these challenges, the Swedish approach comprised a successful administrative and fiscal decentralization of the state and a well-defined social contract between all major stakeholders of society, both mechanisms cemented in good governance. Today, Sweden together with the other nordic countries are among the most prosperous nations of the planet.

• The challenges Sweden faced in the 1930s have considerable resemblances with the current situation in Tunisia. Regional disparities, social discontent and the demand for jobs, justice and inclusive growth, were at the core of the 2011-revolution and have accentuated the urgency of reforms in Tunisia.

• The policy instruments Sweden put in place over the last 80 years could therefore be a source of inspiration for Tunisian decision-makers in their endeavors to forge a better future for their people.

Introduction

When looking for sources of inspirations in guiding the Arab Spring countries during their transition process, most observers primarily focused on the Central and Eastern Europe experience during the 1990s. The parallel is an easy one to make. For long, both regions had authoritarian and highly centralized regimes displaying a lack of free political expression and tolerating no dissent. Power was in the hands on an elite; the state

*This paper was prepared by Nice Muhanzu (Economist at the North African Department of the AfDB), and Vincent Castel (Chief Economist at the North African Department of the AfDB) under the overall guidance of Jacob Kolster (Director of the North African Department of the AfDB). The authors will like to thank Michaeille Chauvin, Ahmed Yasser and reviewers for their valuables comments on earlier versions of this paper.
was omnipresent; and the civil society silent. Both regions had state-dominated economies that failed to meet the terms of their social contract with poor public service delivery and low level of governance leading to an overall perception of injustice and oppression.

However, when taking a closer look, the substantial differences between these two regions make such a comparison a challenging exercise. First, the countries of Eastern Europe are, contrary to the North African nations, “far from homogenous” whether one looks at the economic, political, institutional and even cultural dimensions as argued by George (2012). Second, despite their political status, North African countries are oriented towards a free market economy and had more than a decade of liberal reforms prior to the Arab Spring. Even if these reforms had not all bared the expected fruits, the post-communist states with their planned economies started from scratch on this front. Third, even if the drivers at the origin of the transition presented some similarities between the regions, they also differed. In North Africa, the issues of unemployment among the educated youth and regional disparities were central in the popular demands; in the Central and Eastern Europe, they weren’t.

Comparing developing and emerging economies to the advanced economies of Northern Europe (Denmark, Finland, Norway and Sweden) might be considered as utopian. The level of social and economic development in this region today is such that it makes all comparison difficult. As pointed out by the Legatum Global Prosperity Index, which takes into account economic indicators as well as drivers of human well-being (e.g. health, education, personal freedom, social capital, safety & security), the Nordic countries, are among the most prosperous nations on the planet. For 2012, Norway maintained (for the sixth year) its hold on the number one spot while Denmark, Sweden and Finland ranked second, third and fifth respectively. Income per capita lies between USD50,000 and USD98,000 and yet these countries display some of the lowest income inequalities in the world.¹ Unemployment² in the Nordic countries range from 3.2% to 7.9% is lower than the European average. For education, Finland has, since the beginning of the 2000s, ranked at or near the top in OECD’s PISA survey comparing 15-year-olds in different countries in reading, math, and science. Perhaps, most striking, equally available to all, Scandinavians benefit from an effective social safety net and well developed public services³ (e.g. free high-quality education, unemployment insurance, generous old-age and disability pensions, children allowances, health insurance).

However, instead of looking at the current social and economic framework of these economies, it may be useful to look at the policy instruments countries like Sweden put in place over the last 80 years. The first section of this brief will argue that that there are considerable resemblances between Tunisia today and Sweden in the 1930s. The second section will attempt to identify how Sweden managed, despite a difficult international economic environment, unfavorable resource endowments, regional disparities, uneven population distribution and a challenging climate, to overcome the socio-economic challenges the country faced in 1930s and the outcomes of the process along the development policy pathway.

Throughout this brief, we will learn that the Swedish regional development was rooted in a harmonious and sustainable development of regions and local entities comprising a successful administrative and fiscal decentralization of the state and a well-defined social contract between major stakeholders of society, both mechanisms cemented in good governance. The brief will conclude on the policy lessons we can derive from the Swedish experience to the benefit of Tunisia.

¹ As captured by a low Gini coefficient between 0.20 and 0.27.
² Statistics from Eurostat.
³ It is true that Scandinavians pay some of the highest taxes in the world. On the other hand, perhaps, better social services and less worry about having to pay for things such as medical bills, retirement and education make it worth the price.
Comparing 1930’s Sweden to 2012’s Tunisia

1. Similar socio-economic challenges in a difficult international environment

Similar to the situation during the Global financial and European debt crisis of 2000s, the world was facing an unprecedented economic crisis in the beginning of the 1930s. The economic environment during the years of the Great Depression (hereafter GD) was very unstable. In terms of the decline of the real economy as measured by real GDP or Industrial Production, the GD was a period of severe economic and social disturbance. GDP contracted in the entire region with Sweden and Finland being most severely hit with a 6.5% and 6.3% GDP contraction respectively (see table 1). This environment presents some similarities with the one faced by Tunisia since 2008. As a consequence of the Global financial crisis, Tunisian GDP growth fell drastically from 6.3% in 2001 to only 3.1% in 2009. There was a further decrease, triggered by a slowdown in the export of manufactured products to Europe. The recession in Europe also reduced the remittances (currency transfers) from Tunisian immigrants to their home country. Additional shocks to the economy occurred due to the rise in the world prices of fuel and cereal products. The Libyan conflict also compounded the economic challenges that Tunisia faced. In the first quarter of 2011, Tunisia recorded a decline of 7.8% of its GDP over the same period in 2010.

The 1930s is remembered in the Nordic region as the decade of mass unemployment. In Sweden, it rose from 10,000 in 1930 to 189,225 in 1933. In Denmark, there was, within a single year, a 14% increase of unemployment, which in a country with less than 4 million inhabitants makes a drastic shift (see table 2). In Norway, unemployment peaked at 33% in 1933. Similarly, Tunisia and the rest of the North Africa region is facing high level of unemployment (in particular within its educated youth) coupled with a low level of labor force participation. As a result of the return of Tunisian workers from Libya and other neighboring countries, unemployment soared to 19% in 2011, with youth unemployment at 42%. Figures from the third quarter in 2012 showed that unemployment stood at 18.1%. It reached a high of 30% for the 20-24 age segment and was estimated at 32.7% for university graduates and 46.4% for female graduates.

The incidence of poverty was high in the Nordic countries despite economic development. In Sweden nearly 25% of the population was in the beginning of the 1930s reported to be living below poverty levels. This occurred despite the wave of industrialization that swept through the country in the early 1900s and the economic boom during WW1. In Tunisia, recent estimates have similarly highlighted that despite what has been described as a North African tiger with social development in diverse areas, Tunisia faces an average poverty level of 15.5% (and close to 45% in some disenfranchised regions).

Public service delivery was poor. Although a universal pension insurance system was introduced in 1913 in Sweden, in the 1930s, only a small fraction of the population was effectively benefitting from it. For the broad population, the availability of key public services such as primary education, old-age pensions, child and health care was uncertain; and when available the quality of these services was far from satisfactory. The provision of key social service such as education, old-age pensions, child and health care was uncertain and mediocre. In Tunisia, the revolution pointed the wide disparities in terms of access and quality of public services. When it comes to primary education for example, Tunisian students’ performance is 25% lower on the standardized international reading test.

### Table 1: Fall in GDP/capita

<table>
<thead>
<tr>
<th>Country</th>
<th>Highest fall in GDP/capita</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>3.6</td>
<td>1931</td>
</tr>
<tr>
<td>Finland</td>
<td>6.3</td>
<td>1929</td>
</tr>
<tr>
<td>Norway</td>
<td>4.4</td>
<td>1930</td>
</tr>
<tr>
<td>Sweden</td>
<td>6.5</td>
<td>1929</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.6</td>
<td>2009</td>
</tr>
</tbody>
</table>

Sources: Maddison 2003, Krantz 2001, Grytten 2004. For Tunisia, IMF.

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4 Although the contraction was relatively moderate compared to other Western countries.
5 Kirkby, 2010.
6 80% of Tunisia’s exports are devoted to Europe, its foremost trade partner.
7 Not to mention the slowdown the Tunisian economy endured through its own unrest.
8 Håkansson, 1994.
9 According to figures from Statistics Denmark, the country’s population was 3.5 million in 1930.
10 Population lied between 3.550.656 and 3.844.312 from 1930 to 1939.
12 According to the statistics from the Tunisian Embassy in Tripoli, in 2010, Libya had over 82.000 Tunisians registered in the country. By July 2011, 41,322 workers had returned home.
13 Duncan, 1984.
(PISA score 2009) and the performance gap between students living in urban and rural areas is at least half a proficiency level.15

- Population and resources endowments and distribution

Tunisia and Sweden present many similar features beyond the short term socio-economic conditions presented in the previous section.

Both countries display a high degree of ethnic and cultural homogeneity within their territories and in their respective regions, whether North Africa or Scandinavia.

Both Sweden and Tunisia deal with a similar environment: a challenging climate and an extensive coastline. In Sweden, temperature varies sharply from north to south. The north of the country, including the mountainous parts, lies within the Arctic Circle and encompasses almost 60% of the country. Southern and central parts have a temperate climate while the northern part of the country has to face subarctic winters, with temperatures that often drop below freezing from September through May. Located west of the Baltic Sea and Gulf of Bothnia, Sweden enjoys a long coastline (3218km). Such extreme climatic variations also apply in Tunisia where more than 40% of the territory of Tunisia falls into the Saharan desert in the south while the country also enjoys a large coastline (1148km).

Tunisians are, just as Swedes, unevenly spread across their country. The majority of Tunisians live in the north east and coastal areas. 25% of the total population is concentrated in the greater metropolitan area of Tunis. Likewise, in 1930, the Swedish capital Stockholm and its suburbs held over 20% of total population.16 The north was sparsely populated and, half the population was concentrated in the three main conurbations, Stockholm, Gothenburg and Malmo, in the central lowlands, coastal areas and in the south.

Tunisia and Sweden are non-oil producing countries neighboring oil-producing giants. Neighboring oil-producing states could have (positive or adverse) impacts on regional growth, labor migration, remittances and socio-economic stability. Tunisia is bordered by Algeria to the west and Libya to the southeast, both important oil-producing countries (Algeria ranks 16th and Libya 18th). Norway, which borders Sweden, features as number 15 on a per-capita basis, and is the world’s largest producer of oil and natural gas outside the Middle East.

Like Tunisia today, Sweden in the 1930s suffered from regional disparities; the northern regions being the most affected by economic, demographic and geographic difficulties (e.g. declining population and a harsh climate) while the majority of the population and enterprises were concentrated in the southern parts. The country’s wide regional variations also meant that there were on the one side regions with a good rate of growth, and on the other side, regions with excessive high unemployment and other socio-economic stress. In Tunisia, regional disparities are reflected in i) particularly high unemployment rates in the hinterlands; ii) private investments, significantly higher in the coastal areas (see Figure 1) and; iii) the knowledge index in Tunis, which is according to the Ministry of Regional Development and Planning (MRDP), 30 times higher than in Kasserine and three times higher than in Kef (see Figure 2). The poor Mid-West also performs poorly in terms of social service delivery with the highest level of illiteracy rates in the country and the lowest number of pediatrician per inhabitant (see Figure 3). The MRDP’s health and population index, confirms these findings and shows that the quality of health services in Tunis is 6 times higher than in Kairouan and 11 times higher than in Sidi Bouzid (see Figure 4).

Thus, held up against other regions, Tunisia, a county in North Africa today appear to have more in common than what it differ in, compared with a Nordic country, like Sweden in the 1930s. Looking at their development pathway and policy instruments may provide some interesting food for thought for the Tunisia’s of Today.

Table 2: Unemployment in %

<table>
<thead>
<tr>
<th>Year</th>
<th>Denmark</th>
<th>Norway</th>
<th>Sweden</th>
<th>Tunisia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1932</td>
<td>31.7</td>
<td>30.8</td>
<td>22.4</td>
<td>2009</td>
</tr>
<tr>
<td>1933</td>
<td>28.8</td>
<td>33.4</td>
<td>23.2</td>
<td>2010</td>
</tr>
<tr>
<td>1934</td>
<td>22.2</td>
<td>30.7</td>
<td>18.0</td>
<td>2011</td>
</tr>
</tbody>
</table>

Sources: Gytten 1995, p. 247, Gytten and Brautaset 2000, pp. 47-50 . For Tunisia, IMF.

15 Source: OECD (2010), PISA 2009 Results, Volume II, Overcoming Social Background: Equity in Learning Opportunities and Outcomes, Figure II.2.6, available at http://dx.doi.org/10.1787/888932343570.
Figure 1: Private and public Investment per capita (in millions dinars) 1992-2010 in Tunisia

Figure 2: Knowledge Index in Tunisia

Figure 3: Number of inhabitants per pediatrician in 2004 in Tunisia
2 | Regional development - the Swedish model

The Swedish approach to regionalism created a new level playing field for development using regions as useful instruments in the welfare vision. The design and materialization of the welfare state was closely linked to the country’s remarkable economic performance. Sweden outperformed most of Europe in the years after WW1 (more on this in Box 1). Flourishing, the country started building a welfare state and was soon confronted with two main challenges:

1) How to guarantee inclusive growth in the entire country?
2) How to increase and guarantee accountability and citizen involvement?

The Swedish solution to this dilemma was to enhance regional development and decentralize (administratively and fiscally) the state:\(^17\) relying on a social contract between different stakeholders of the society, all this cemented in good governance.\(^16\)

A. Decentralization of the State

Sweden had an urgency to identify specific local needs, an urgency to minimize costs, enhance efficiency, effectiveness, accountability and ownership of welfare services. Hence, starting from the 1950s, the country started to be organized at county and municipality levels. As a result, counties and municipalities, not the state, became the main providers of social services maintaining essential elements in the citizens’ daily lives.

\(^{17}\) The deconcentration of decision-making power and delegation of authority to the grass roots - Responsibility and powers in many areas had gradually been devolved from central to local government.

\(^{16}\) Most of what was put in place then still applies in Sweden today, however, for convenience purposes; we will hereafter use the past tense.
with the expected postwar depression and recommendations on how to construct a comprehensive welfare system. Indeed, constructing a welfare state had, after WW2 become a national goal that most political parties, irrespective of their ideologies, increasingly agreed on. The commission published its outcomes in a “27 Points” post-war program. The program had three basic goals: 1) full employment, 2) fair and equitable distribution of wealth and rising living standards and 3) economic democracy and greater business efficiency and transparence. It contained many proposals concerning the expansion of social security, pension benefits, public health insurance, child allowances, public housing and educational reforms. The “27 Points” program was adopted jointly by the SAP and the LO (first as the election manifesto and then in the party program) in 1944. The Swedish welfare state was born.

- Delegating authority over execution and planning...

This demand for efficiency, effectiveness, accountability and ownership led the entire Swedish administrative structure to be built around delegation of authority. Sweden was divided into 21 regional “county councils”, and 290 localities “municipalities”. Both entities are characterized by extensive autonomy and a large degree of responsibility (capacity to execute) on the one hand and the right to levy taxes in order to finance their activities (capacity to finance) on the other. County councils and municipalities are so central to the decentralization process of the Swedish state that they are stipulated in and protected by Swedish legislation. Indeed, the Swedish constitution states that: “local authorities have the right, within the limits of the law, to regulate and manage a substantial share of public affairs under their own responsibility and in the interests of the local population”... local authorities shall be entitled, to adequate financial resources, mainly derived from local taxes and charges, which, within the limits of statute, they may determine themselves, and of which they may dispose freely within the framework of their powers”. This implies that localities are responsible for making their own decisions, albeit based in legislation and governmental directives (more on the Swedish history of local government in Box 2).

County councils have received an explicit mandate to actively promote regional development and “ensure that the county’s development proceeded in such a way as to facilitate the achievement of national goals while taking account of specific regional conditions and requirements”. Thus, counties are to promote economic, social and other types of development in the region as well as raise government awareness on prevailing regional conditions, problems and opportunities. As such, they are also, together with the municipalities, responsible for areas that contribute to regional development such as regional planning, research and development, gender equality, culture, tourism, commerce, nature conservation, environment protection, agriculture, forest and fishing and public infrastructure.

Meanwhile, municipalities are made in charge of facilities and services including schools (all primary and secondary education), handicapped and elderly care, childcare, libraries, housing, roads, city planning, rescue services (including firefighting), water and sewage, street and park maintenance, waste collection and disposal, and civil defense.

Although local governments have significant latitude in deciding what services they offer, and how these services are delivered, they are legally obliged to provide certain vital services. In fact, many of the tasks of municipalities and county councils are regulated in special legislations (e.g. the Social Service Act and the Health and Medical Services Act). This guarantees for example that all children no matter where in the country they live get access to good public education. But county councils and municipalities can procure social services from private companies as long as these activities offer citizens services on the same conditions as those which apply to similar public services.

Another important feature of local self-governance in Sweden is the fact that the decision-making power in these local authorities is exercised by locally elected assemblies. Hence, residents elect their own mayors, representatives and councils. In 2012, there were approximately 46,000 political assignments in the 290 municipalities and 3,500 political assignments in the 21 county councils. Roughly, this implies that 1% of the adult population in Sweden held a political assignment in a municipality or county council.

19 Chapter 1, article 3 of the Swedish Instrument of Government.
21 Statistics Sweden, www.scb.se
22 Also, women stood for 42% and 47% of the councilors, in municipalities and county councils assemblies, respectively.
Box 2 - Swedes and their local government-An old love story

Sweden has an ancient tradition of local self-government. The sub-division of the realm into counties is also very old. It was implemented in the 17th century when Finland still formed part of Sweden and some of the southern and western parts of present-day Sweden belonged to Denmark.

Thus, historically, Sweden was, even prior to becoming a Folkhemmet, a state with a strong local government. Back then, the parishes were responsible for the care of the poor. In the early 1800s, the parliament started to transfer the authority and responsibility for public functions to lower sub-national governments. In the mid-1800s, the municipalities were tasked with running the recently established elementary schools and their role was explicitly recognized in the municipal reform of 1862 (and incorporated in the constitution in 1975).

When the development of the Swedish welfare state accelerated after WW2, the Parliament and the Government decided to place a great deal of the responsibility for public services with the counties and municipalities including the local tax, believing that local administration and local responsibility best meet local needs.

- ... While identifying the financial means to implement the welfare state.

To carry out decentralized duties effectively, county councils and municipalities must have adequate levels of financial resources and the authority to make decisions about their expenditures. Fiscal autonomy is a core component of decentralization.

The principle of local fiscal decentralization has therefore been enshrined in the Swedish constitution. The Instrument of Government on local government states that: “...local authorities shall be entitled, to adequate financial resources, mainly derived from local taxes and charges, which, within the limits of statute, they may determine themselves, and of which they may dispose freely within the framework of their powers”. Thus, county councils and municipalities can not only levy taxes on their citizens, they can also within limits, set their own tax rates and decide the allocation of the resulting tax revenue.

This granted, makes the local income tax, the main form of direct tax paid by most Swedes (approximately 85% of tax-payers). Local taxes are entirely in the form of a local income tax that is paid both to the municipalities and to the county councils. These taxes are the most important source of income for the local authorities and represent 67% of the total budget of the municipalities and 69% for the county councils. Taxes are for example used in childcare and education (as extensively described in Box 3).

Box 3 - Swedish Childcare & Education

In the aftermath of the 1950s reforms, all municipalities had for example a child-care system guaranteeing a place for all young children ages one through six in a public day-care facility (with direct implication for female labor force participation). Some municipalities went further and voluntarily provided evening and night kindergarten.

The educational system was also comprehensively reviewed. Sweden had (since 1842) free mandatory seven year elementary schooling, but on average, only 5-6% of the pupils proceeded to secondary school. Tertiary education was even more socially segmented. The main obstacles for students from less affluent population groups being the living costs and the opportunity costs in terms of foregone labor income.

After WW2 and the enhanced standard of living, the demand for better distribution of wealth gave rise to strong aspirations for access to further going education. Compulsory schooling was expanded to nine years in 1963. Few years later, the government introduced a universal, zero tuition fee secondary education. To further promote education, particularly among students from less privilege families, the reforms were concomitant with the introduction of child allowances, free school lunches, free teaching materials, school health programs, study grants for upper secondary school and subsidized study loans at the tertiary level.

The results of these reforms in terms of increasing literacy rates and school enrolment rates at all levels across social groups and geographical regions were remarkable. In 1970, after completing the ninth grade, 90% of pupils attended upper secondary school for academic, technical or vocational education and 42% of those finishing an upper secondary level education continued to university studies. Administration was decentralized to the school level, where the principal made up a work plan for the school. The state universities were organized as independent government agencies.

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23 Chapter 6, Article 9.
24 In 2003, the highest combined municipality and county council tax was 33.3% and the lowest was 28.9%.
25 On average, Swedish citizens paid (in 2003) around 20.7% of their income to the municipality and 10.5% of their income tax to the county councils. The average municipal tax rate was 20.84% and the average county council tax rate 10.76% with the highest combined tax rate 34.24% and the lowest 28.9%. 
Besides revenues from local taxation, local authorities also receive grants from the central Government.26 These are divided into general and ear-marked grants. General grants are paid per inhabitant, thus, they are based on the county or municipality’s population and age structure or other local conditions. The ear-marked grants are nutritional, temporary and linked to a certain performance or activity. Counties and municipalities finances are also protected by the Funding Principle, stating that in case the government put on reforms involving new tasks for local authorities, it had to explain how such reforms were to be financed. If local authorities have no alternative but to finance the reforms by higher taxes, the state has to provide necessary financial compensation.

The importance of counties and municipalities in the administrative and political system in Sweden is also reflected in how public budget continues to be allocated between central and local entities. In 2001, total expenditure of the central government amounted to 716 billion SEK (€79 billion), 421 billion SEK (€46.5 billion) for the municipalities and 177 billion SEK (€19.3 billion) for the county councils. Taken together, the municipalities and county councils controlled almost the same amount of expenditure as the central Government (more details about Swedish public spending in Box 4). Municipalities and county councils were also Sweden’s two largest employers. In 2005, municipalities alone employed approximately 760,000 people and county councils around 250,000, in total roughly 25% of total employment in Sweden. Thus, the bulk of civil servants in Sweden mainly worked for the municipalities, not the state, particularly women27 which represented just over 80% of total employment figure for both entities.

Fiscal autonomy does not only enable county councils and municipalities to satisfy their inhabitants’ demand for community services; it also contributes to regional development by allowing counties and municipalities to mobilize their own resources to attract investment and create a good business climate. As such, many counties and municipalities had a clear strategy on how to attract and retain investors to their respective localities by for example providing good infrastructure (soft and hard), an adequate labor force and investing in education and research. Investors were crucial to the well-being of the localities because they among other things contributed to increased employment in and the attractiveness of the region and so in a way, secured long-lived regional development.

An example of such investment dynamics is the IKEA syndrome—the establishment of an IKEA store serving as a magnet for other companies—with positive agglomeration externalities. Box 5 retells the story of a region that attracted IKEA-investments and the subsequent benefits.

Electing their own representatives, raising their own revenues and having authority to make investment decisions, decentralization in Sweden goes far beyond only deconcentration or delegation of authority of the central government to regional or local authorities.

The Swedish approach to regionalism and decentralization created prosperous regions equipped to build and maintain the welfare state. Coupled with the objective of improving job opportunities for all, regional development—the Swedish way—implies a close link between universalism, equity, distribution and social policy on one hand and improved local governance, citizen participation and local accountability on the other.

### Box 4- Public Spending-Cradle to Grave*

Until 1932, government spending had been kept below 10% of GDP but with the welfare reforms, Sweden had, two decades later, the largest public sector of all comparable countries, amounting to almost 70% of public spending in the 1950s. In the 1960s, public sector growth in Sweden was more rapid than in most similar countries, reaching two-thirds of GDP in the 1980s—Sweden could boost having the most comprehensive cradle to grave welfare system.

Sweden had the highest level of spending on social protection in the OECD, and the lowest proportion of income left to independent households—less than half the country’s national income. More than a third of public expenditure consisted of transfer payments to households, with the aim being to channel consumption in certain directions and to equalize living standards. Almost half of public expenditure came in the form of direct public consumption, i.e. education and social services. Nearly two-thirds of government expenditures were used for education, health care, and social insurance and costs for health and medical care alone represented about 10% of the country’s GDP.

In 2010 for example, a standard county council costs for health and medical care, excluding dental, were SEK 196 billion (USD 29 billion, EUR 21 billion). The public sector accounted for about 90% of all health care expenditures, with private financing covering the remaining 10%.

* All statistics in this section are from Statistics Sweden (www.scb.se).

26 Local authorities third source of revenues were fees paid by users for their services. However, two basic rules applied: 1) If the county councils and municipalities were obliged to provide a service, they could only charge for the service if specifically permitted to do so by law. 2) A non-profit principle applied meaning that fees could not be higher than the costs relating to the service concerned.

27 Nurses formed the largest occupational group, followed by assistant nurses, doctors and administrative staff.

28 IKEA is a private Swedish company, currently the world’s largest furniture retailer, with 332 stores in 38 countries. In fiscal year 2010, it sold $23.1 billion worth of goods.
Haparanda, a small town— which sits against the border with Finland, 100 kilometers below the Arctic Circle in the northernmost parts of Norrbotten in Sweden, with its low population (only about 33,000 people even when adding in its town Tornio on the Finnish side of the border) was not, based on prior IKEA-establishments, a logical location for an IKEA store.

How did then this little municipality in the middle of nowhere succeed in persuading IKEA to bless it with a warehouse? Two factors appear critical-productivity and trust.

Haparanda invested substantial resources both in human capital (e.g. training cashiers and other key staff to efficiently handle languages and currencies of neighboring countries) and in physical capital (e.g. good infrastructures and communication opportunities with neighboring countries as for example the Haparanda-Tornio bridge, situated above the Torne River, an absolute necessity to ensure an efficient cooperation between the two cities).

Haparanda had a clear marketing master plan on how to wisely brand their city. They published for instance detailed analytical brochures showing the increasing welfare in the region, which they told IKEA, gave a strong local customer base. They also showed that their strategic location give advantages to trade over the borders. With 12 million of people passing through their borders every year, half a million living within one and a half hours (people being used to long travel distances in this region) from the city and over three million people visiting the trading centre per year (mostly visitors from distance) --settling in Haparanda was to give IKEA an impressive number of consumers in Finland, Norway and Russia (see the map below) and an important source of income, particularly as the usual concurrent to IKEA were not present in the region. They branded the northern exoticism with freezing winters and endless summer nights, and destroyed the myth that hardly any people lived in the north and that there was therefore no incentives in investing.

More to add, the Haparanda municipality leadership itself strongly contributed in attracting the IKEA investment. As a matter of fact, the personal involvement of Sven-Erik Bucht, the city’s councilor states how committed to attract IKEA the municipality clearly was. The saying goes that he flew to Stockholm to personally meet and convince Ingvar Kamprad (IKEA founder). Back to Haparanda, he set up a special team with the dedicated task to handle all IKEA queries.

And so, in June 2005, IKEA announced plans to open a store in Haparanda, literally turning around the fortunes of this struggling border town in Sweden’s far north. Attracting IKEA to invest was a real triumph for the town, the IKEA’s decision being like a stamp of approval for the town; “if Haparanda was good enough for the world’s largest furniture retailer, it was certainly good enough for anyone”.

The “IKEA effect” on Haparanda was instant; within one week of the decision, the municipality had sold land to developers for over SEK 60 million (USD 9.5). Two and a half years later, about SEK 1 billion has been invested in Haparanda, and 150,000 square meters (1,600,000 square foot) of retail space had been sold. The furniture retailer’s arrival in Haparanda triggered a wave of investment, drastically reduced unemployment from (from 12% to 4.7%), doubled house prices and gave the town a new sense of pride. The new IKEA branch was so successful that it had to be expanded to meet demand- the Haparanda store’s parking lot was jam-packed with vehicles from all over the region.
regional revenue transfers into the welfare system.\textsuperscript{30} The restricted possibilities for retaining marginal increases in tax revenue entailed significantly diminish incentives for institutional competition between municipalities.

C. Good Governance

The culture of openness and transparency that arguably pervaded Swedish politics and bureaucracy already in the 1950s enhanced the decentralization of the state and the harmonious regional development that followed. The Swedish society is till today characterized by a high level of trust between 1) fellow citizens, 2) citizens towards the state and government institutions and 3) politicians and civil servants as illustrated by the Swedish tax system. Swedes support the second-highest tax burden in the world with an average of 48.2\% of GDP going to taxes.\textsuperscript{31} Yet, when asked, the majority of Swedes are strongly in support of the high taxes because most people trust the state to manage taxes well. There seems to be a broad, deep faith that the money going into the welfare state will be employed usefully (more on the Swedish tax system in Box 6). Overall, Swedes have on the whole a positive view of their local governments as well as of the central Government. This mutual obligation approach helps ensure effective and stable institutions of public administration and continue to make it possible for the central government to allow high degrees of decentralization and administrative autonomy without fearing a debilitating loss of control.

The Swedish quest for good governance translate into two mechanisms- on the one hand, the possibility to control and report on public intervention both at local and central levels and, on the other hand the possibility for citizen to access public information.

Box 6- Happy to pay High taxes?

Till today, Swedes support the second-highest tax burden in the world - after Denmark’s - with an average of 48.2\% of GDP going to taxes. Yet, for most Swedes paying high taxes is a benefit, not a problem because to a large extent, people get value for the money. As mentioned in the introduction, Sweden, along with equally high-taxing Denmark and Norway, tops almost every international barometer of successful societies. Year after year, Save the Children\textsuperscript{\textregistered} puts Sweden at the top its league of countries where it is best to be a mother and Unicef ranks it second in its table of child wellbeing in rich countries (see UNICEF Report Card 7 from 2007). In 2012, Sweden was sixth on the UN Development Programme’s human development index (http://hdr.undp.org/en/statistics/).

But there is more:

Aside from universal kindergarten coverage, Swedes enjoy free schools - public and private (with free lunches and free books) - free health and dental care for under-18s, or generous personal benefits such as a child allowance of £1,080 a year per child.

Parents enjoy a joint parental leave lasting 480 days. For 390 days they receive 80\% of their income, capped at £440,000 kronor a year (£35,800), while for the remaining 90 days they receive 180 kronor (£14.60) a day. In theory the leave is split fifty-fifty, but it is up to the couple to decide how they want to organize it. One partner can give as many days as he or she wants to the other so long as each parent takes up to 60 days at the minimum. A single parent is entitled to the full 480-day period.

In total, people get about 70\% of their income when they retire. There is also a guaranteed minimum pension for those who have not worked enough to qualify for the state pension. Depending on personal circumstances, it can be at most 6,381 kronor (£514) a month for a married person and 7,153 kronor (£576) a month for a single person. You can start drawing on it from the age of 65.

In case of unemployment, most individuals receive 80\% of their previous salary for the first 200 days of inactivity - up to 680 kronor (£53) a day - dropping to 70\% for the next 100 days. To qualify, individuals must have been in paid work for a year before becoming unemployed. They must also be members of one of the country’s 33 unemployment insurance funds, which most working Swedes are. These are partly funded by taxpayers’ money and partly by members’ fees, which vary according to professions. If unemployed Swedes were not prior members of an unemployment insurance fund, they receive the basic unemployment benefit of 320 kronor (£25) a day for 300 days if they worked full-time, dropping to 160 kronor (£13) if they worked part-time. During that time, unemployed Swedes must show that they are actively looking for work. If they refuse the first job offer, they lose 25 per cent of their benefits for 40 days. If they turn down three job offers, their benefits are suspended. If Swedes have not found a job after 300 days, they will be enrolled into a job training programme until they find one, receiving 65\% of their previous income during that time.

If anything, Sweden proves that there are significant benefits from paying high taxes.

*This section draws extensively from an article by Gwladys Fouché published in The Observer: http://www.theguardian.com/money/2008/nov/16/sweden-tax-burden-welfare

- The establishment of oversight mechanisms

Regulatory and oversight state agencies were put in place throughout the 1930s and 1940s. For education for example, The National Agency for Education was made responsible for following up, supervising, and evaluating schools and the schooling system. Today, there are also regional commissions of inquiry, whose task is to look at how municipalities and county councils manage their welfare tasks based on demographic, social, cost-benefit and technological changes.
Oversight instruments enable the state to scrutinize counties and municipalities. Since the 1950s, at the end of each fiscal year, all counties and municipalities are reviewed by auditors and the outcomes made public.\textsuperscript{32} There is even a shame and blame comparison system, open to the broad public, allowing citizens to easily check the performance of their local government in terms of finances, transparency, citizen participation in decision-making, public service delivery and other areas of public interest. The yearly Healthcare Quality and Efficiency report is another striking example of Swedish oversight mechanisms and accountability in practice. By using a set of national performance indicators, every year, health care quality and efficiency in the 21 Swedish health care regions is compared, and the report is made public (nowadays also downloadable).\textsuperscript{33}

Alongside commissions of inquiry and oversight institutions, there is also the Ombudsman,\textsuperscript{34} whose main function is to monitor administrative agencies and civil servants to make sure that they abide by the laws, regulations, and general standards of good procedure and service that regulate their professional activities. While the Parliamentary Ombudsman receives its budget and instructions from Parliament, the latter refrains from interfering in the daily business of the Ombudsman so as not to compromise the integrity of the institution.

Oversight instruments also enable local authorities to more easily defend the interests of the grass roots at the central level. Thus, till today, local governments often attract local politicians of a high caliber and the turnout in local elections is usually very high.

- Promoting transparency

The Swedish openness and transparency in public affairs reveals how government funds are distributed across sub-governments and, make possible to easily trace those funds, allowing the monitoring of policy and tracking of financial flows from the source to points of delivery.

As such, fiscal transparency permit even ex-post assessments and questions about execution, implementation and procurement, rather than just formulation and approval. Citizens can for example check whether central government funds actually got to where they were supposed to, and if so, at what date and how much of those funds were spent on what kind of resources; clearly key questions in terms of creating a mechanism for accountability.

Demand for public insight into public bureaucracy and for disclosure of public documents is very high in Sweden. However, what distinguishes the Swedish culture of trust from other countries is the fact that their openness approach relies on two pillars-the principle of free access to official documents “Offentlighetsprincipen” and the principle of informant protection “Meddelarskyddet”.

Offentlighetsprincipen,\textsuperscript{35} the constitution principle of free public access to official documents states that “all documents that come in to, are stored at, or leave an administrative agency, or that are produced as a result of agency activities are public documents and must be accessible to any person who wants to see it”. In addition, the person asking to see the document can remain anonymous and do not have to state his or her motive for making the request. Further, the document requested is to be disclosed promptly, on the request day or the day after. This statutory requirement for free public access to information about the work of public agencies applies to the national as well as the regional and local levels. Hence, state and municipal authorities have to register all incoming and outgoing documents. These registers are public and the authority is obliged to let everyone who demanded to inspect a registered document.

Meddelarskyddet implies that everyone in Sweden is entitled to give information to the media that they consider important and that they feel should be made public. This informant protection principle also means that whoever provides information to the media about the conditions in the public administration has the right to remain anonymous. A journalist who has received the information has a legal duty of confidentiality to his or her informant.

\textsuperscript{32} National demand for public sector accountants grew extensively throughout the 50 and 60s.


\textsuperscript{34} Since 1810.

\textsuperscript{35} The principle of free access to official documents stems from the Freedom of the Press Act of 1766.
The person who has delivered the information cannot be punished by law. To the contrary, any official from a public authority who attempts to investigate the source of the information can be sentenced to prison.  

3 | Lessons for Tunisia

Regional disparities, social discontent and the demand for jobs, justice and inclusive growth, were at the core of the 2011-revolution and have accentuated the urgency of reforms in Tunisia.

Perhaps, reducing centralization of the state while stepping up on all other fronts to promote regional development could be one way of building a better Tunisia, with a better tomorrow. If we agree that decisions made with greater participation will be better informed and more relevant to diverse interests in society than those made only by national central authorities; if we agree that there needs to be a system of collaboration between national, regional and local entities of decision-making; if we agree that citizens and their locally elected representatives should have more power in public decision-making and in the formulation and implementation of policies, then, clearly, decentralization and regional development, is the way to go. Recommendations in this section are therefore structured around three main components: decentralization, social contract and governance.

A. Decentralization of the State

Over the years, Tunisia made several attempts to decentralize the administrative and fiscal systems to localities. The most important parts dealt with changes in local taxation powers, and in the sources and size of grants and loans communes received from the central state. Greater latitude was given to elected communal councils and increased taxes were launched to raise local revenues and enlarge communes’ capacity to undertake development actions.

However, the success of these reforms has been ambiguous. The communes, particularly the rural ones remained heavily dependent on grants from national sources as their tax base was persistently negligible. Central government’s grants to local entities significantly increased and the later remained severely constrained by central authorities. As such, communes were not independent in making decisions or providing solutions that met local people’s needs and wants, nor were they able to put pressure on national government agencies to make available to them larger quantities of national resources for local development.

From a national point of view, there was no empirical indication that the reforms led to better central government’s responsiveness to the grass roots demands or enhanced political involvement amongst the people. Instead, decentralization seemed to have added an additional layer to the state’s bureaucracy, weakening accountability and increasing corruption.

Thus, the costs in terms of allocative inefficiency, administrative effectiveness and citizen alienation lingered unaddressed. In recent years, political and socio-economic turmoil have unveiled that till today, the devolution of power has not lived up to expectations in any of the above mentioned areas. To the contrary, according to a recent report from the European Union, since 2011, the situation for local government has excessively deteriorated, limiting access to sustainable socio-economic opportunities for a broader number of people.

First, there is the legal aspect; local governments being neither recognized nor protected by legislation. Their legitimacy and those of their elected/appointed leadership/councils is therefore often contested. The Constituent Assembly (CA) drafting the new Tunisian Constitution has so far not given them any status.

This also implies that local governments are under no legal obligation to provide or deliver even basic public services. However, since the 2011 revolution, Tunisia seems to increasingly recognize the need of a more decentralized state and there are signs that the draft constitution might contain steps towards more delegation of authority to local entities.

Second, there is the financial aspect; communal tax revenues being alarming low. The rate of contribution to local taxes is sometimes as low as 40%. In 2011, these revenues decreased on average by nearly 30%.

Despite large grant transfers from the central state, the budget structure of many communes is unsustainable and many are increasingly indebted, mainly due to the notoriously heavy weight of the salary bill (in some communes exceeding 80% of the budget) in combination with a lack of gross savings. This dependence towards the central states makes their autonomy very shallow.

36 The only exception to the informant protection principle related to secret information concerning matters of national security.

37 Participation levels measured by turnout at elections are notoriously low.

38 Rapport de formulation du programme finances locales, September 2012.

39 In 2011 alone, additional to the earmarked grants, the central government transferred 251.3 million Tunisian Dinars to help communes.
Hardly surprising; i) most local governments do not provide (good) social services expected by their citizens, and ii) there are huge geographic disparities in the provision of public goods across the country.

Education and waste collection are striking examples of how dysfunctional communes can be. Despite spending 7% of its GDP in education, the quality of Tunisian education remains low, with a high rate of primary school dropout in the hinterlands. Some communes lack even primary schools teachers and children don’t learn to read and write until they are 9-10 years old. As mentioned in the introductory section, regional disparities in the quality of education are well-captured in the PISA (Program for International Student Assessment) test sponsored by the OECD and administered to 15-year olds. In Tunisia, PISA test results greatly differ across the country (see Table 3), with significantly poor learning outcomes in smaller and hinterland towns, reinforcing prevailing socioeconomic disadvantage of those smaller towns as noted in the Growth Diagnostics. Likewise, in some communes, there is in practice no system of waste collection or disposal leading to worrying sanitary consequences.

Tunisian communes also lack efficient local support structures for SME development and for more innovative entrepreneurship. With such adverse investment environment, most communes neither attract nor maintain local investments. Thus, there is no flow of decent job-creation.

<table>
<thead>
<tr>
<th>Size of Town or City</th>
<th>&lt; 3000</th>
<th>3000 - 15000</th>
<th>15000 - 100000</th>
<th>100000 - 1 million</th>
<th>&gt; 1 million</th>
<th>Difference, 3000-15000 to &gt; 1 million</th>
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<tbody>
<tr>
<td><strong>Tunisia</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of students</td>
<td>6.2</td>
<td>30.2</td>
<td>44.8</td>
<td>14.9</td>
<td>4.1</td>
<td></td>
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<tr>
<td>Socio-economic status</td>
<td>-2.09</td>
<td>-1.67</td>
<td>-1.06</td>
<td>-0.62</td>
<td>-0.03</td>
<td>1.64</td>
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<tr>
<td>Average reading score</td>
<td>365</td>
<td>389</td>
<td>401</td>
<td>437</td>
<td>480</td>
<td>91</td>
</tr>
<tr>
<td>Reading score adjusted for socio-economic status</td>
<td>378</td>
<td>396</td>
<td>399</td>
<td>428</td>
<td>463</td>
<td>67</td>
</tr>
<tr>
<td><strong>OECD</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percent of students</td>
<td>9.9</td>
<td>21.6</td>
<td>34.1</td>
<td>23.1</td>
<td>16.0</td>
<td></td>
</tr>
<tr>
<td>Socio-economic status</td>
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<td>-0.16</td>
<td>0.01</td>
<td>0.19</td>
<td>0.10</td>
<td>0.26</td>
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<tr>
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<td>482</td>
<td>495</td>
<td>509</td>
<td>503</td>
<td>21</td>
</tr>
<tr>
<td>Reading score adjusted for socio-economic status</td>
<td>477</td>
<td>487</td>
<td>495</td>
<td>502</td>
<td>497</td>
<td>10</td>
</tr>
</tbody>
</table>

Sources: Grytten 1995, p. 247, Grytten and Brautaset 2000, pp. 47-50. For Tunisia, IMF.
B. Social contract

In the post-revolutionary Tunisian context, social dialogue is imperative for achieving consensus on medium and long-term solutions that improve the labor market, reduce inequities and bring about more sustainable and broad-based growth. According to the International Labour Organization (ILO), the potential of national social dialogue in Tunisia has not been adequately exploited, being limited to political strategies with the ruling Government and failing to integrate social and economic issues within the agenda.

C. Governance

In terms of governance, Tunisia is still struggling with issues of trust, transparency and accountability. According to the growth diagnostic conducted by the AfDB, the Tunisian and US governments in 2012, poor governance is one of the two major binding constraints to broad-based growth in Tunisia. In the aftermath of the revolution, the growth diagnostics revealed that the socio-political unrest contributed to further deterioration of property rights and the investment climate. While big-scale corruption has decreased, small-scale corruption is persistently growing. The Global Financial Integrity Foundation estimated the cost of corruption in the country at about USD 1 billion dollar per year.

* Better decentralization

For a real, extensive and efficient decentralization of the state, Tunisia needs to constitutionalize the delegation of authority to local entities giving them:

- A mandate within clear limits, to plan and execute local public affairs in the interest of the local population.
- A mandate within clear limits, to levy and dispose of local taxes.
- An obligation to provide certain basic social services at minimum standard sets by the central state.
- A mandate to actively promote regional development and attract investment.
- The introduction of an efficient system of fiscal equalization and redistribution of transfers from wealthy to less fortunate areas to alter the regional disparities and inequities in terms of public investment and public service delivery existing across regions.
- The decision-making authority in the localities being exercised by locally elected assemblies. Letting residents elect their own mayors, representatives and councils.

Because Tunisia suffers from considerable regional disparities that imply wide variations in the per capita tax base and the cost per inhabitant of its different localities; the country needs to build up and legalized an efficient system for inter-regional redistribution of transfers to enable less fortunate regions to provide and maintain welfare services in line with the standard of the rest of the country.

* Stronger social contract

Since January 2013, Tunisia is theoretically under a new social contract*; however, it remains relatively unknown to the general public and lacks a given place in the public dialogue. The social contract should be divulged and strengthened to:

- Cement a clear national vision (above political affiliation as the case today) of a sound and more inclusive economic and social strategy (with improved social protection and labour market regulation).
- Be more inclusive gathering real support from a wide range of actors; e.g. civil society, labor unions, employers’ representatives, government, communes to guarantee that there will be a coalition and consensus to carry forward the national vision.
- Adopt a mutual obligation approach and question the adequacy of relations between benefits received and responsibility to the society.
- Improve accountability, state vis-à-vis citizens, localities vis-à-vis citizens, state vis-à-vis communes and vice versa.


40 Towards a New Economic Model for Tunisia—Identifying Tunisia’s Binding Constraints to Broad-Based Growth, 2012.
**Better governance**

*Tunisia should more strongly:*

- **Promote open budgets and more openness in major public decisions.**

  By opposing secrecy in government budget making and overall government accounting and public finances, openness and fiscal transparency will lead to more accountability. Such an approach will allow citizens and taxpayers to i) get what they are entitled to and ii) have greater incentives to do what they are supposed to (i.e. pay local taxes). Further, decision-makers, knowing they can be held accountable, will likely hold a more prudent posture with the country’s fiscal policy leading to lower deficits, lower accumulation of debt and overall more efficient management and utilization of the country’s resources. Third, open budgets can be a sign of a sound framework of economic governance and are good for business as they give investors a better context in which to invest.

- **Promote e-government**

  E-government as a communication tool (e.g. open-data, one-stop-shop) should be an instrument improving the efficiency, quality and accountability of the public administration alongside strengthening the relationship between the administration and the people. In 2012, the AfDB allocated a grant to support the formulation of a new e-gov / open gov strategy (The AfDB in North Africa in 2012).

*Tunisia should:*

- **Create the anonymous line.**

  Let citizens anonymously, rapidly and at no-cost access information of interest to the general public. Making information of interest to the general public easily accessible is essential to good governance because it increases citizens’ sense of ownership and participation.

- **Put in place effective and efficient oversight institutions.**

- **Creating institutions with the sole mandate to effectively ensure the rule of law, property rights and clear and clear and transparent investments rules.**

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**Conclusion**

*Sweden managed, despite a difficult international economic environment, unfavorable resource endowments, regional disparities, uneven population distribution and a challenging climate, to turn around its fortunes.* From the 1930s’ high unemployment, regional disparities and poor public service delivery, only memories remain. Throughout this paper, we have showed that the Swedish regional development was rooted in a harmonious and sustainable development of regions and local entities.

*The Swedish approach comprised a successful administrative and fiscal decentralization of the state and a well-defined social contract between major stakeholders of society, both mechanisms cemented in good governance.*

Without serving as a blueprint, the Swedish approach could be of inspiration for Tunisia, as the country struggles, in the aftermath of the 2011- revolution, with similar socio-economic difficulties.

As mentioned in the introduction, the similarities between Sweden and Tunisia go far beyond the two countries’ individual borders. Their respective regions, Scandinavia and North Africa are relatively homogenous in terms of population, culture and landscape, while oil and gas resources are unevenly distributed among countries in their regions. Future studies could investigate how Scandinavia as a region could inspire North Africa in their endeavors to modernize their economies and respond to the peoples’ demands for more inclusive social and economic development.
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