REGIONAL DEVELOPMENT AND MULTI-LEVEL GOVERNANCE IN OECD COUNTRIES: INSIGHTS ON IRELAND

Presentation to Association of Irish Regions Annual Training Seminar

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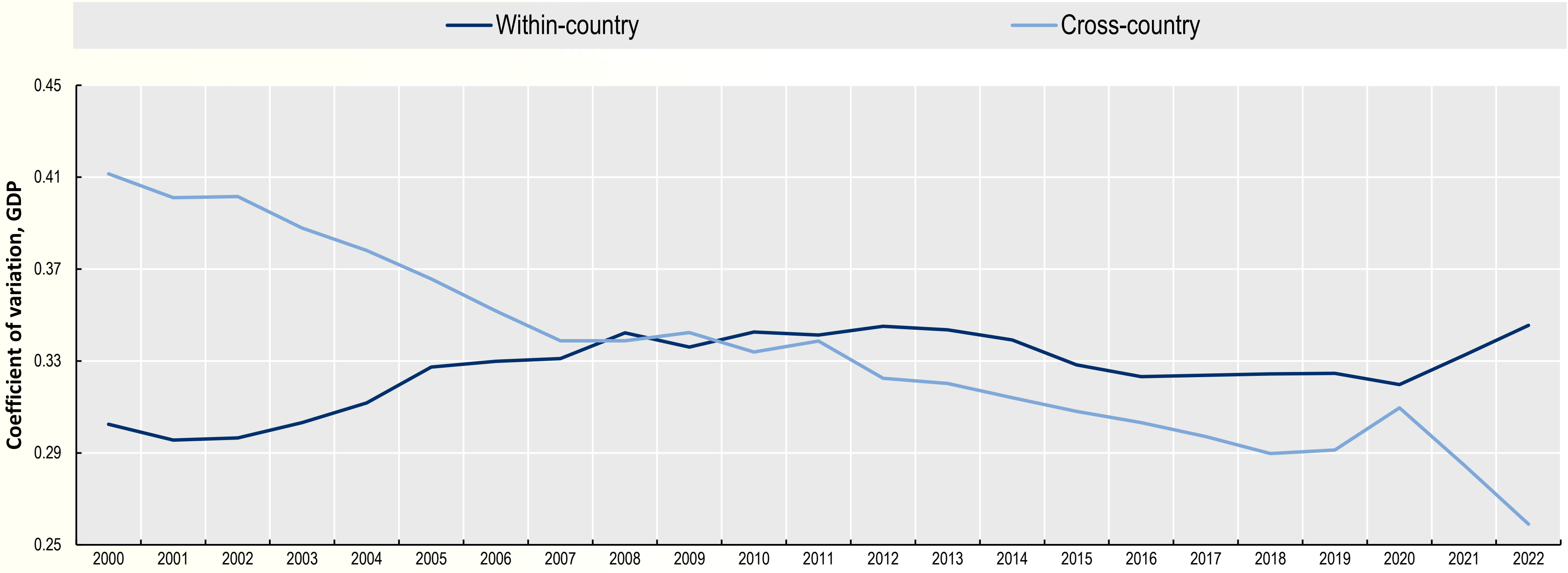
Regional disparities within OECD countries

Internal disparities in economic performance



Source: *Own calculation, from Gross domestic product – Regions, OECD Data Explorer,* *http://data-explorer.oecd.org/s/s9*

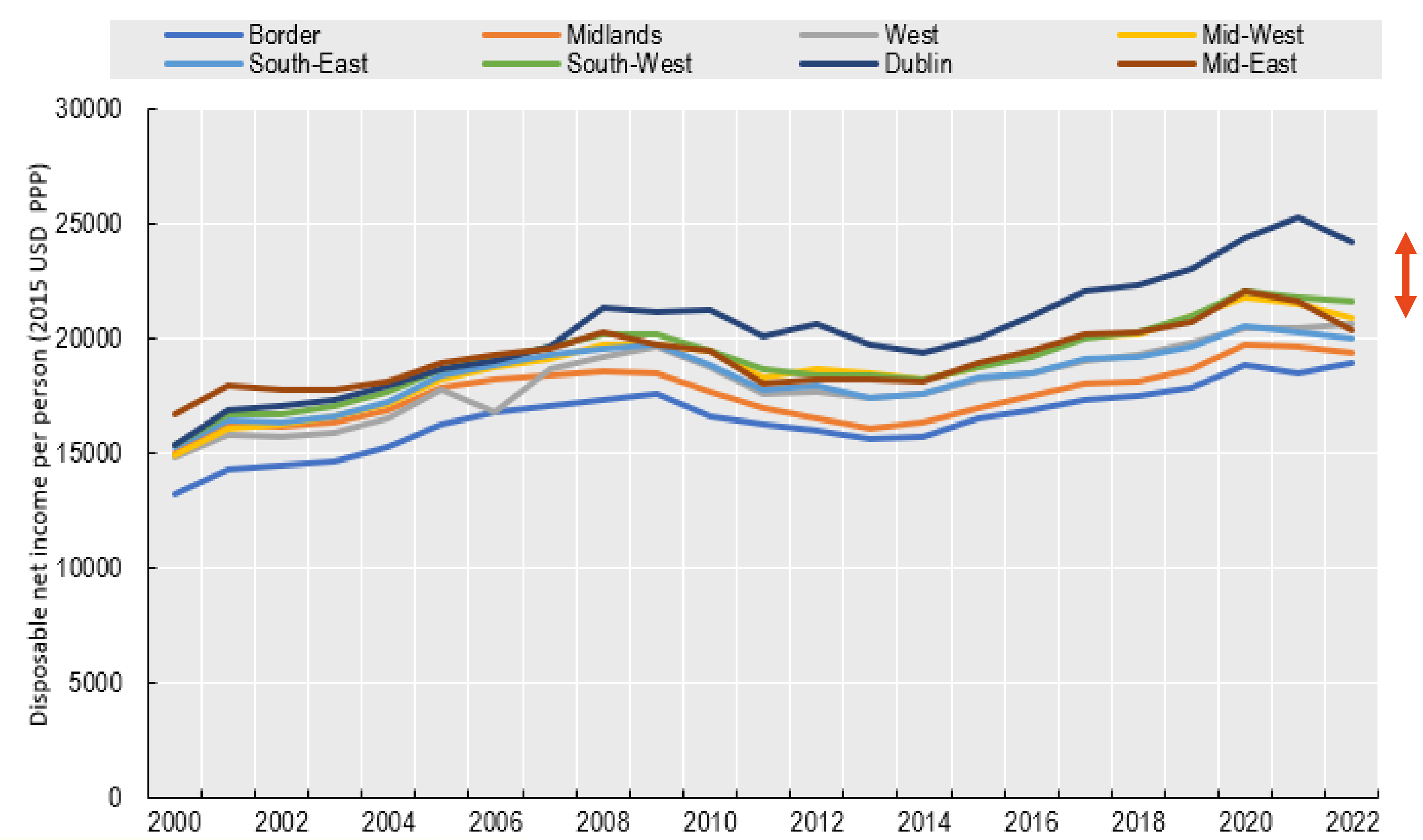
- Income inequalities <u>within</u> countries (TL3) **persist over time** despite an overall income convergence **between OECD countries**
- Today, **70% of the OECD population** live in a country with regional divergence across TL3 regions.
- **"Dominant" regions pulling ahead**

Countries have experienced different trajectories

	DECREASING REGIONAL INCOME INEQUALITY	INCREASING REGIONAL INCOME INEQUALITY
Above OECD mean GDP per capita	• Austria • Finland • Germany • Netherlands • Norway	• Belgium • Denmark • France • Japan • Sweden • UK • USA
Converging to OECD mean GDP per capita	• Korea • Latvia • New Zealand • Türkiye	• Czech Republic • Estonia • Hungary • Lithuania • Poland • Slovakia • Slovenia
Diverging from OECD mean GDP per capita	• Greece • Portugal • Spain	• Italy

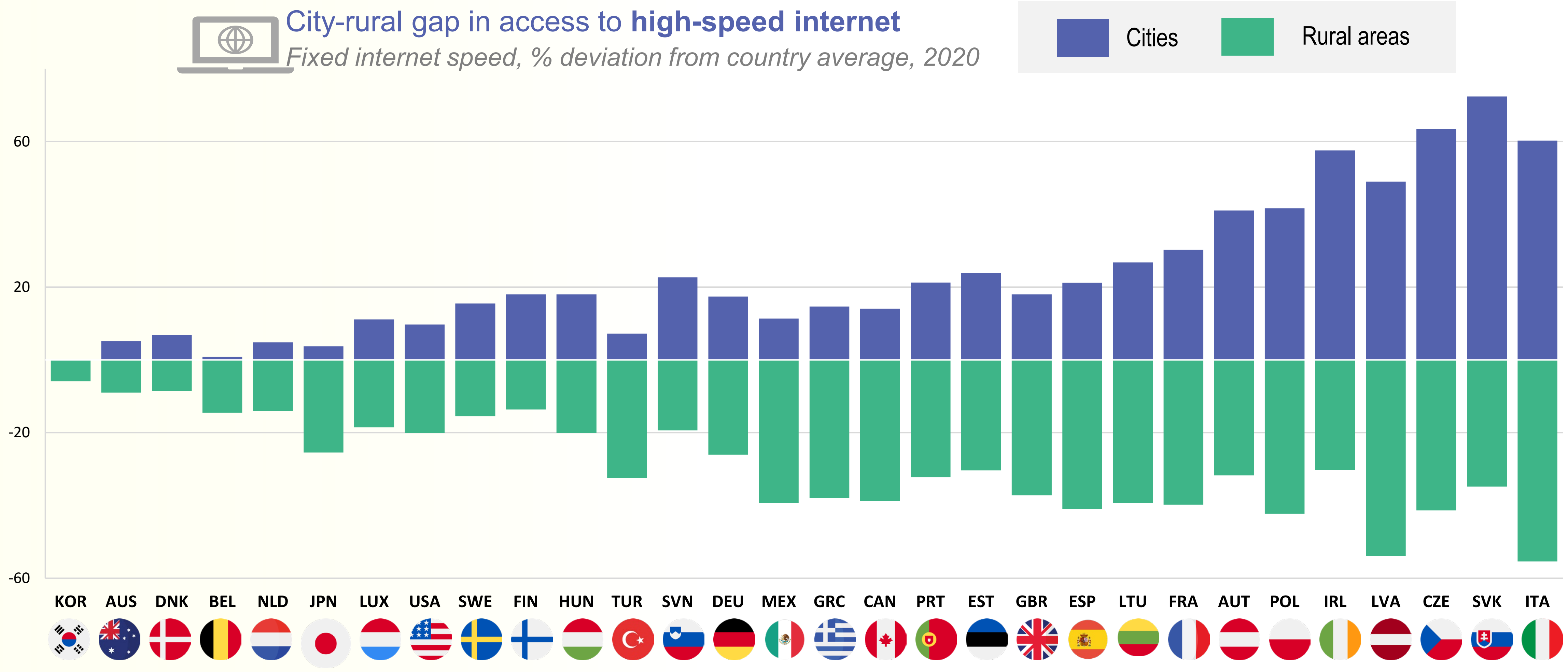
Source: OECD 2023 Regional Outlook

The evolution of disposable net income per person in Ireland's TL3 regions



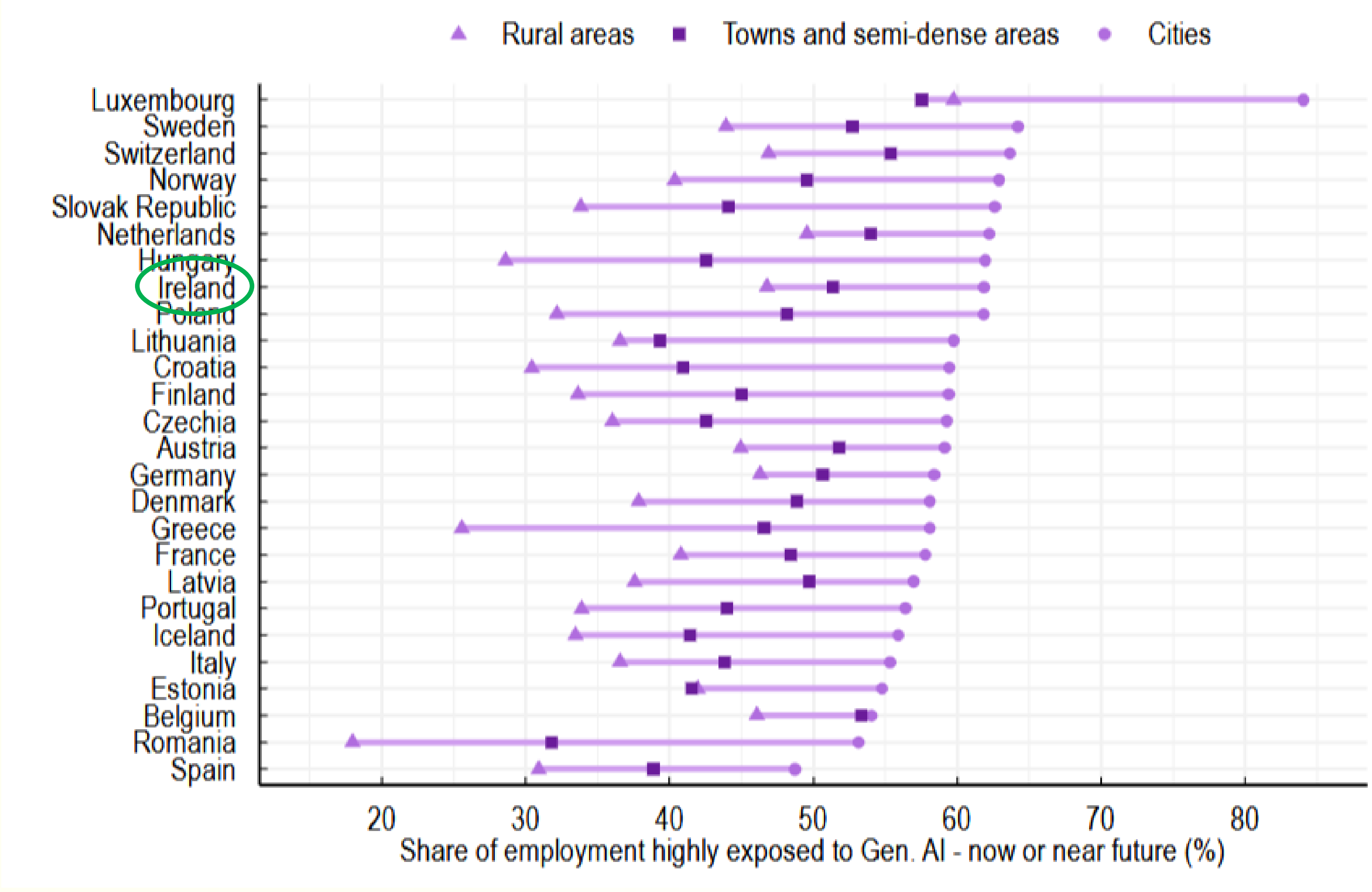
Source:Own calculation, OECD Regional Economy (database) OECD Data Explorer Economic statistics - Regions (for 'Developer API')

1/3 of households in rural areas do not have access to high-speed broadband



The labour market impacts of AI will vary across regions

Share of workers highly exposed to Gen-AI now or in the near future by the degree of urbanisation in EU countries, 2022



Cities are significantly **more exposed to Generative AI**

Source: OECD Job Creation and Local Economic Development 2024

Leaving disparities unchecked involves economic costs…

Megatrends risk exacerbating existing disparities

… which, over the long term, can lead to significant economic, social and political costs.

Policies need to better understand and reflect the long-term relationship between equity (inequalities) and efficiency (competitiveness)

Not least to exploit new opportunities

… which place-based policies can play a key role in fostering.

Multi-level governance & place-based policies in OECD countries

The power of place-based policies

Unlocking untapped potential	• Identifying **each region's potential** to maximise economic performance and prevent 'vicious circles' of underdevelopment
Leveraging global trends and transitions	• Acknowledging the **asymmetric impacts** of global transitions (climate/digital/demographic) to leverage new opportunities
Acknowledging limited mobility	• Workers and firms' mobility is much lower than traditional economic models predict – **OECD average annual rate of inter-regional migration: approx. 3% of the population**
Making regions more attractive to investors and talent	• Improving **transport and digital infrastructure as well as skills** development to attract and retain investors and talent

Source: EC/OECD (forthcoming) Place-Based Policies for the Future and Rethinking regional attractiveness in the new global environment

OECD Recommendation on Regional Development Policy

Focusing solely on compensating lagging regions does not work
→ creates dependency, not development

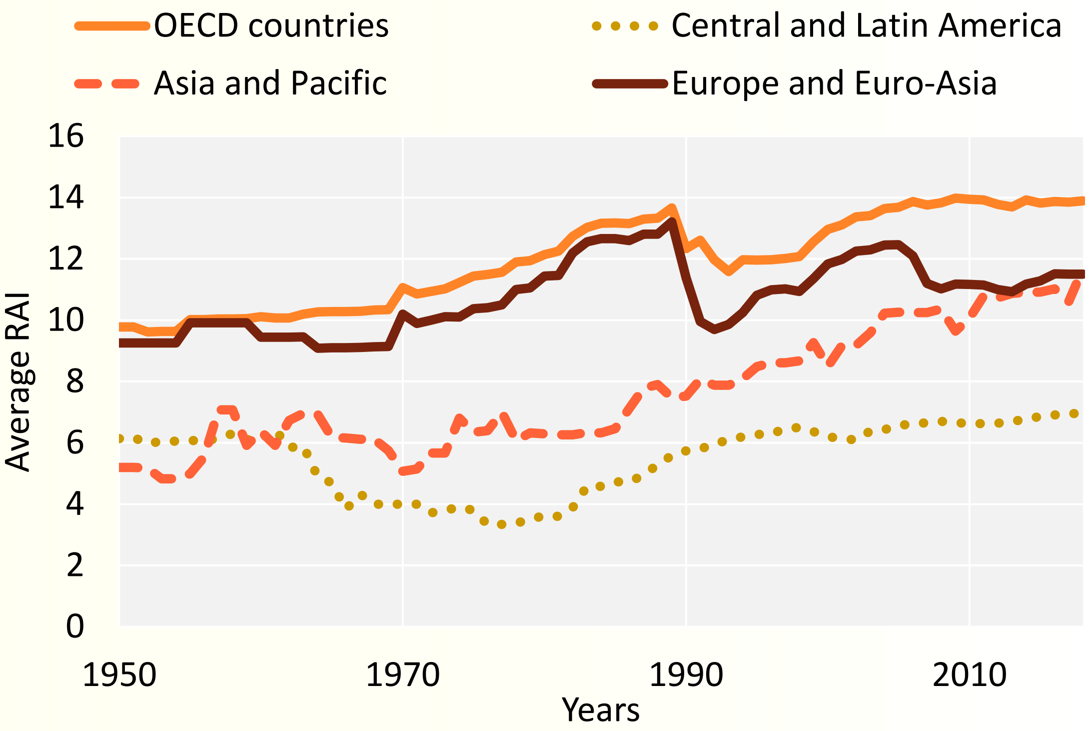
OECD promotes <u>'place-based' regional development policies</u> focusing on:
> Use of regional specific assets / comparative advantages / regional attractiveness
> Complementarities among sectoral polices at the regional (or local) level (integrated approach)
> Urban-rural linkages/ complementarities
> Multi-level governance mechanisms in a context of shared responsibilities for most policy areas

= **Proactive development strategies, focused on the transformation of places**

Regional and Local Authority is increasing around the world

67% of 96 countries analysed have experienced a net increase in the degree of regional authority over the period 1950-2018, especially in Asia-Pacific and in the OECD countries.

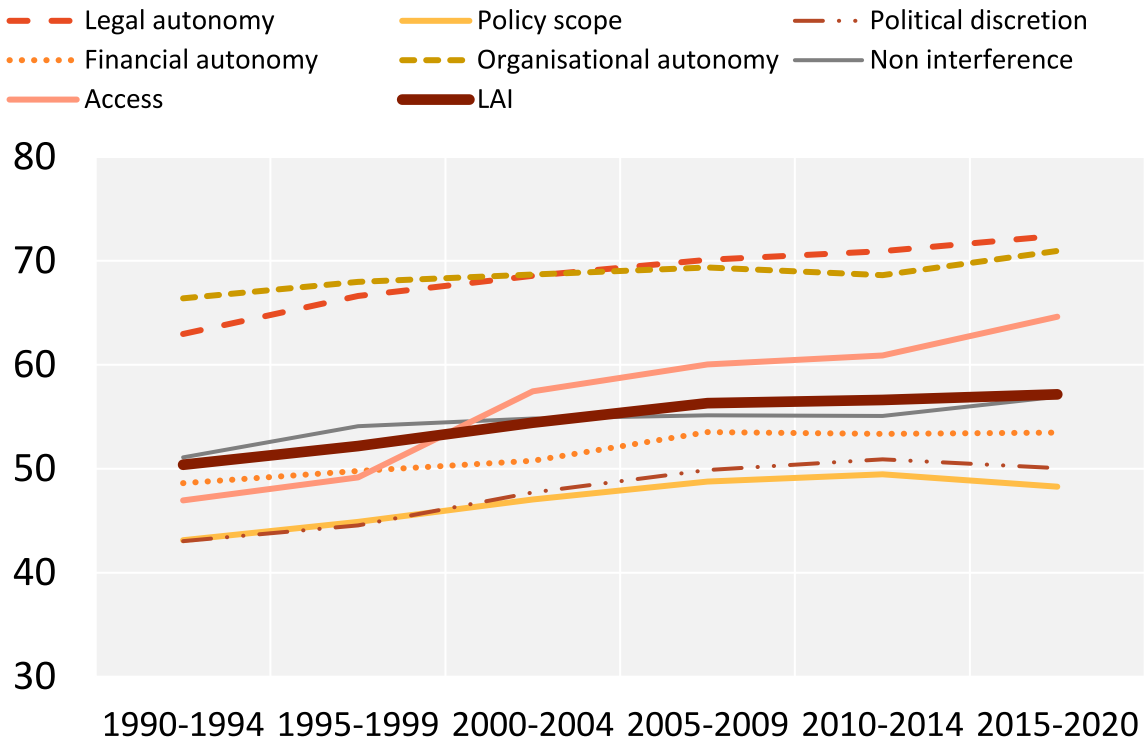
Evolution of the Regional Authority Index (RAI) in various world regions from 1950 until 2018



Source: Author's elaboration, based on (Schakel et al., 2018) ; (Hooghe et al., 2016)

The local autonomy index increased in a majority of the 57 countries analysed between 1990 and 2020, especially in the Central and Eastern European countries. All 7 dimensions increased, but especially legal autonomy and access.

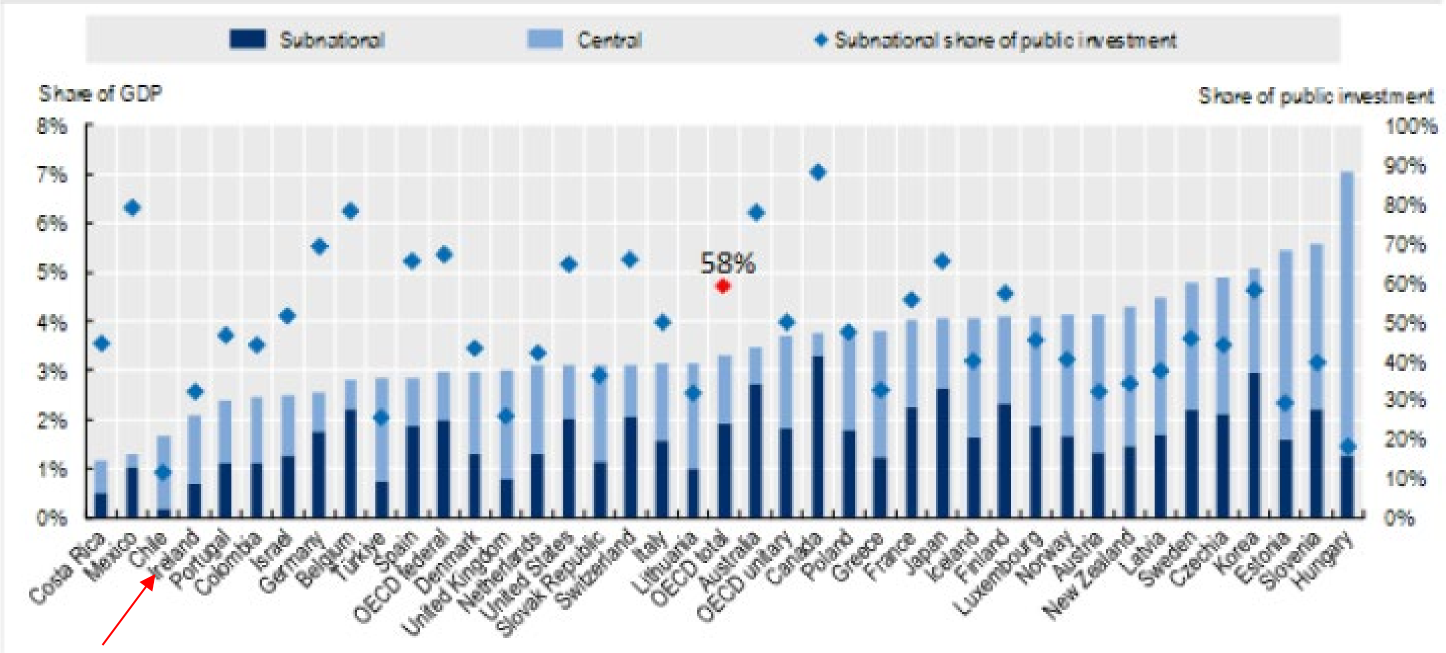
Evolution of the Local Autononmy Index (LAI), and its 7 dimensions from 1990-94 to 2015-20



Source: Self-rule index for local authorities in the EU, Council of Europe and OECD countries, 1990-2020 - European Commission - Andreas Ladner, Nicolas Keuffer and Alexander Bastianen (2021)

Regional and local governments are well placed to design investment strategies that respond to local needs

Public investment by national and subnational governments as a share of GDP in 2022



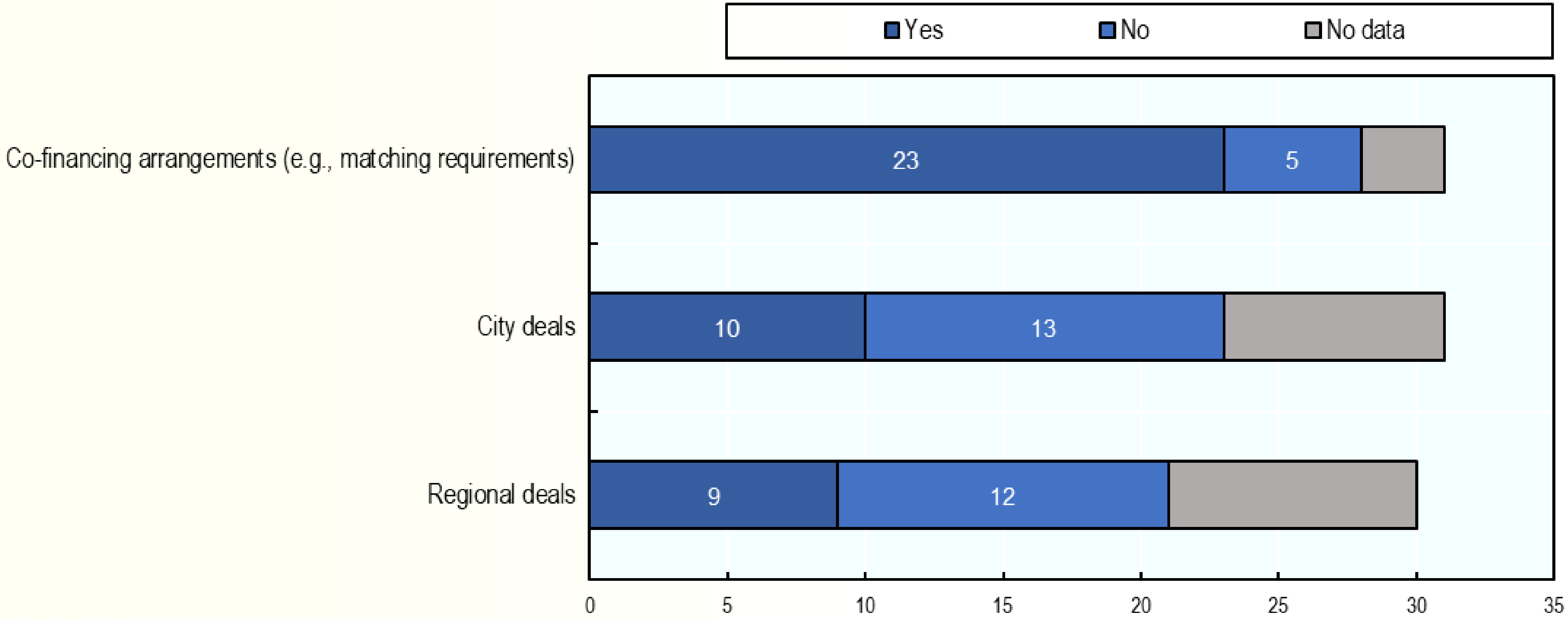
Note: Missing Chile, Colombia, and Türkiye.
Source: OECD (Forthcoming), Implementation of the Recommendation on Effective Public Investment Across Levels of Government, based on OECD National Accounts, Annual Government Non-Financial Accounts and Key Indicators (Expenditure); Annual GDP and Components (Expenditure Approach). Public investment on this graph is defined as Gross fixed capital formation (GFCF or fixed investment).

Obstacles to effective multi-level governance

Inadequate framework conditions at the national level	• Dysfunctional fiscal decentralisation – unfunded mandates • Lack of clarity in the way responsibilities and functions are shared • A major flaw of many transfer systems is inattention to their role in the overall intergovernmental fiscal system [Do transfers discourage SNG own-source revenue generation?
Coordination failures/gaps	• Gaps stemming from the interdependence and asymmetries among different levels of government
Lack of policy complementarities at the local level	• Policy complementarities are conducive to development and need to be managed at various scales, but too often policy complementarities emerge by accident
Lack of understanding of governance capacities required	• Multi-level governance instruments require a high degree of administrative capacity by all levels of government. Often, this capacity is understood in a narrow way , i.e. technical skills or expertise • The question of scale is critical

Managing mutual dependency: building adequate vertical coordination mechanisms

Does your country use any of the following mechanism to co-ordinate investments across levels of government?

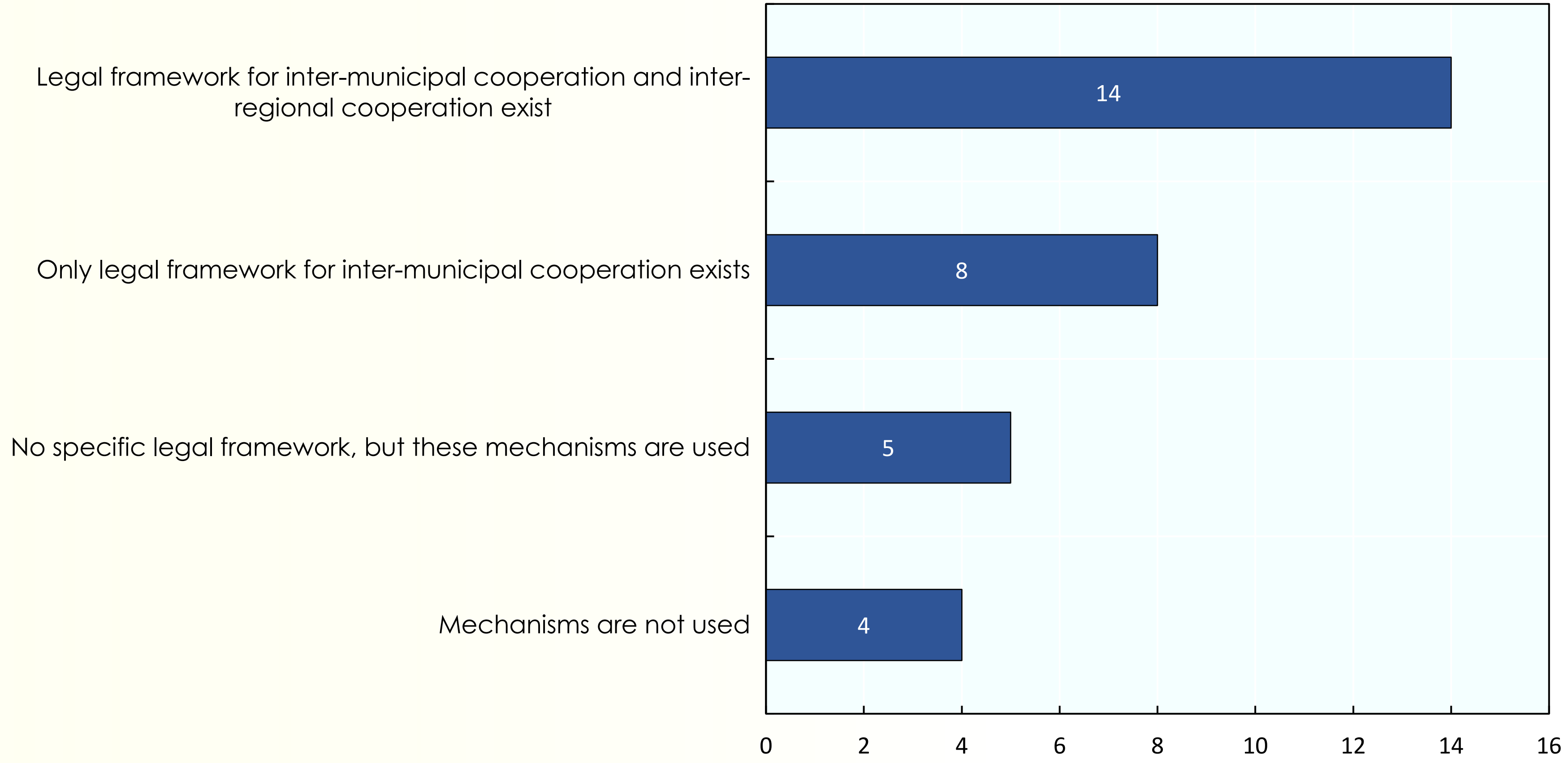


Source: 2024 Survey on the Implementation of the OECD Recommendation on Effective Public Investment Across Levels of Government

1/3 of countries use contracts among state/regions and national government **to coordinate public investment for regional development**

Strengthening horizontal co-ordination

Horizontally across jurisdictions, has your country implemented any of the following instruments to support joint investment for regional development?

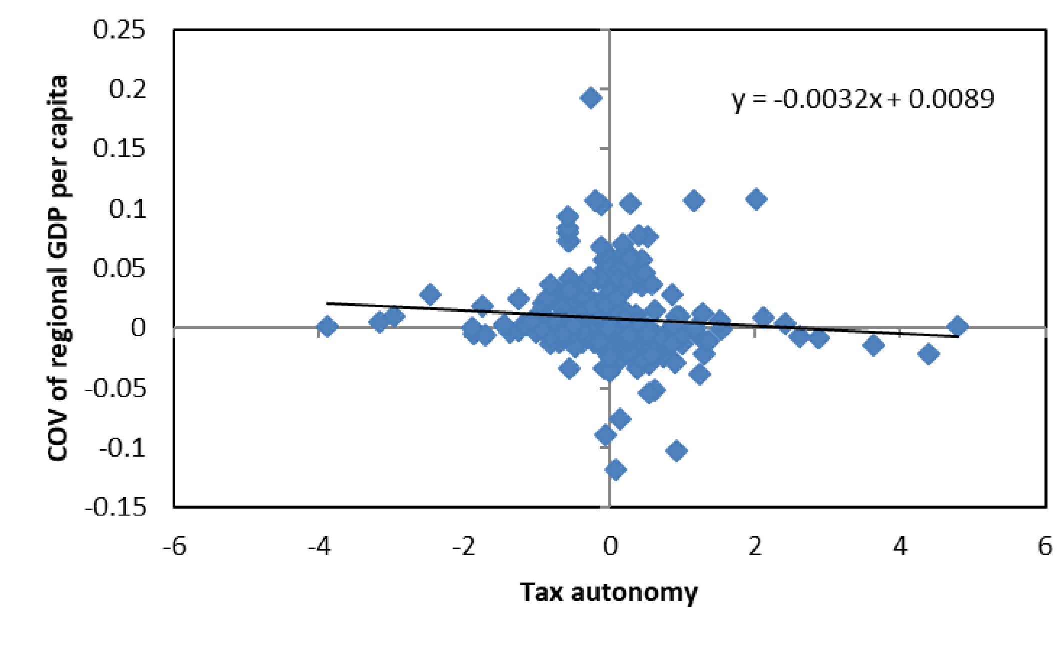


Example of Finland

- On 1 January 2025, the Finnish central government transferred its Employment Services to the municipal level.
- To implement this reform effectively, municipalities are encouraged to collaborate and establish joint services, ensuring a minimum employment base of 20,000 people

Source: 2024 Survey on the Implementation of the OECD Recommendation on Effective Public Investment Across Levels of Government

Strengthen SNGs' capacity to manage their own sources of revenues

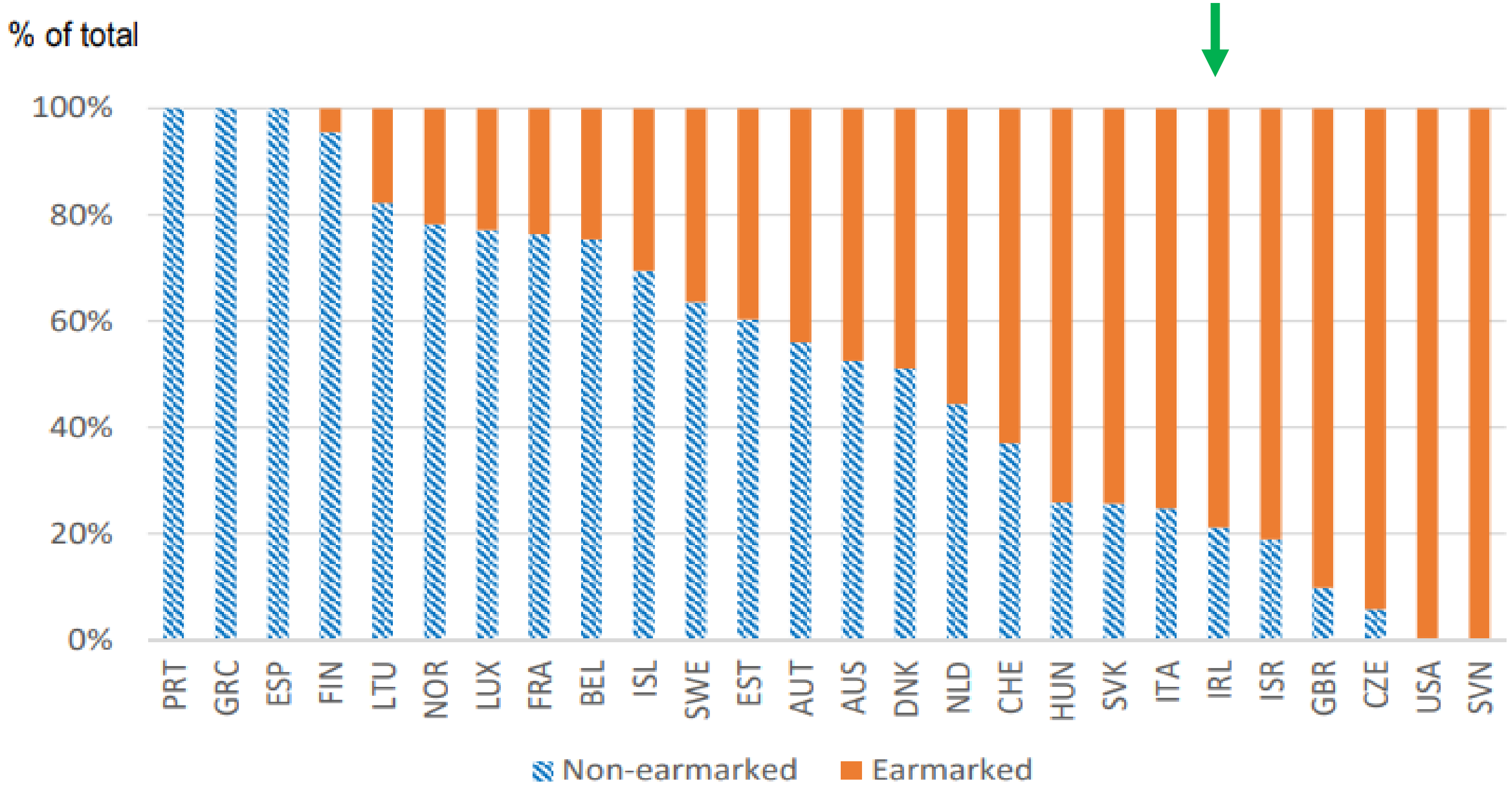


Note: The sample covers 20 OECD countries (19 for tax autonomy) and the years 1995 to 2011.
Source: (Blöchliger, Bartolini and Stossberg, 2016[81])

- SNGs need to have a balanced basked of revenues
- A balanced fiscal structure, where local spending is mainly financed by own-source revenue, may help reduce regional disparities, by providing an incentive to better use local resources
- Revenue decentralisation is more conducive to regional development than spending decentralisation

Nearly 80% of net transfers received by Irish subnational governments are earmarked

Net transfers received by subnational governments, by type, 2021

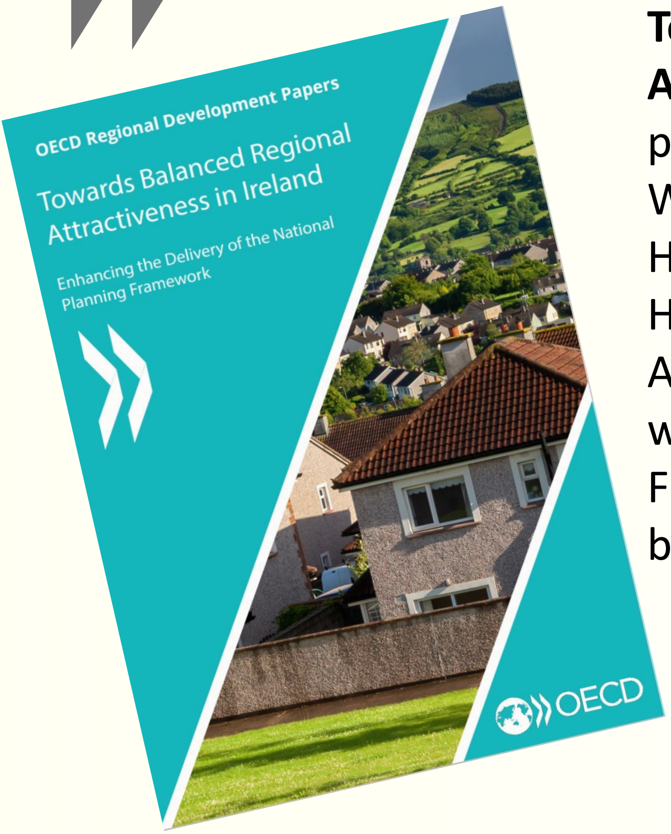


Note: for some countries, transfers may be reported as earmarked when paid to bodies only responsible for a specific policy area(s); Transfers related to social welfare in Finland have been classified as non-earmarked to maintain consistency with SNA as reported by Statistics Finland.

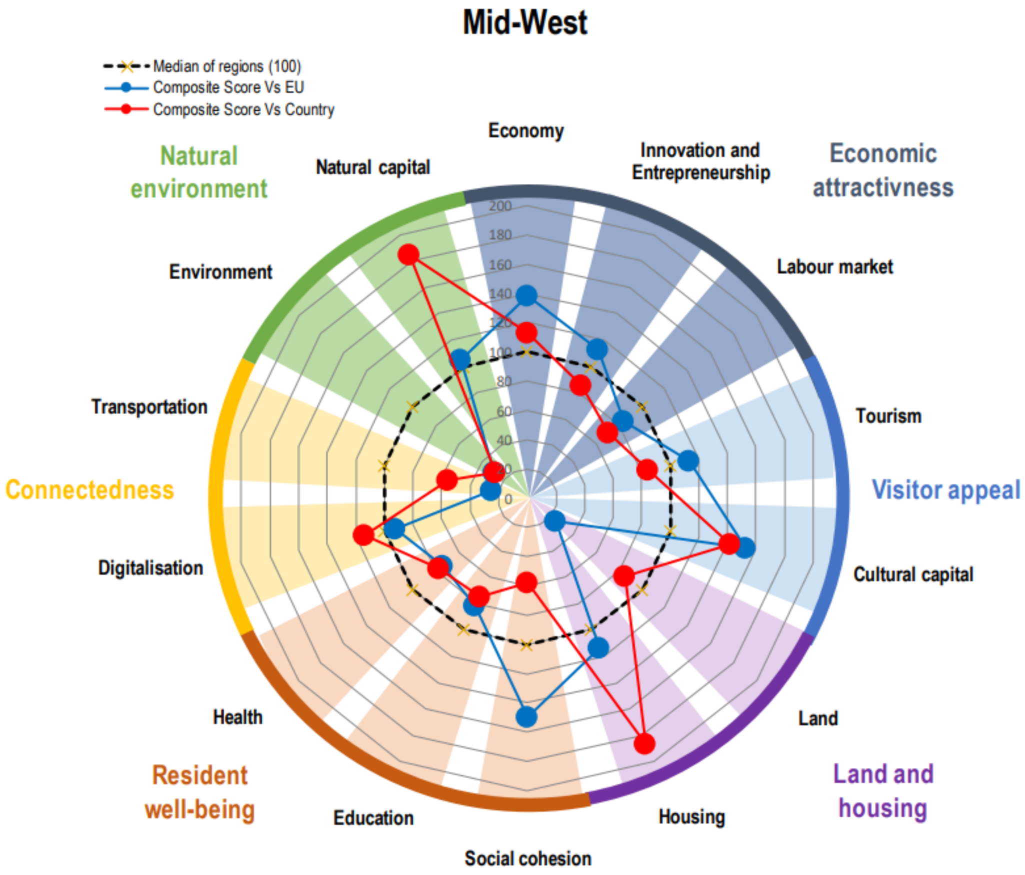
Source: elaboration based on the OECD Fiscal Decentralisation database.

Final insights on Ireland

Recent OECD work on regional development in Ireland



Towards Balanced Regional Attractiveness in Ireland report published in **December 2023**: Worked with the Department of Housing, Local Government and Heritage and the Regional Assemblies to consider means in which the National Planning Framework can help achieve more balanced regional attractiveness



TOWARDS BALANCED REGIONAL ATTRACTIVENESS IN IRELAND © OECD 2023

Currently working on a **Rural Review of Ireland:**
Already seven virtual meetings and two field visits involving over 500 government officials and stakeholders

More on regional development and multi-level governance:
https://www.oecd.org/regional

Thank you

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