



OECD Regional Development Ministerial

# MEGATRENDS: BUILDING BETTER FUTURES FOR REGIONS, CITIES AND RURAL AREAS

19-20 March 2019 | Athens



# PLENARY 1:

## LOOKING BACK, LOOKING AHEAD

*The OECD's Regional Development Policy Committee (RDPC) is the premier international forum for high-level regional development policymakers. Over the past 20 years, it has shaped the international debate – articulating the “why” and the “what” of regional development policy. It has anticipated and responded to the changing policy context, and bridged theory and practice to make concrete policy impacts. As policymakers prepare for megatrends going forward, its work continues to provide insights into “what's next” for regional development.*

### FRAMING THE DEBATE: KEY TAKEAWAYS FROM TWO DECADES OF OECD WORK ON REGIONAL DEVELOPMENT

Regional development policymakers inspire strategies, adaptable to various places, and support their coherent implementation. They depend on others: the various policies that determine life on the ground (housing, transport, employment, economic development, innovation, energy, water, welfare, education, land use, etc.), the regional and local governments with whom they share policy competences, as well as the private sector and citizens themselves. In this context, the OECD, through RDPC has helped to articulate the added value of regional development policies, and distilled high-level learnings on “what works” and “what does not”.

#### Why do regional development policies matter?

People's well-being is largely determined by where they live and work, and there are considerable differences across territories. The OECD's Regional Wellbeing Database shows that regional gaps are wider when considering multi-dimensional measures of living standards instead of income alone. This diversity of local realities calls for a diversity of policy responses, delivered at the scale that matters.

Within OECD countries, the most productive region is, on average, twice as productive as the least productive region. And while across the OECD, a few, large regions make outsized contributions to aggregate growth, the combined contribution of the remaining regions still account for approximately two-thirds of growth. Leveraging the growth potential of all places creates a double dividend of both increased aggregate productivity and inclusion. At the same time, an approach that promotes a diversity of regional development models is key for making our societies more resilient to future challenges.

#### What works for regional development?

The long-term vitality of communities depends not only on economic growth and competitiveness, but also on resident well-being, inclusion, and environmental sustainability. A renewed vision for regional development works across these objectives, leveraging complementarities and managing trade-offs as needed.

In the face of geographic diversity, one-size-fits-all recipes are doomed to fail. Leveraging endogenous factors of growth can help get communities on a long-term path of inclusive and sustainable growth. For example, the OECD has helped to modernise rural policy, helping to shift the logic of policy interventions in rural areas from a focus on agriculture to strengthening the inherent capacity of rural areas across economic sectors. It has also showed that rural regions close to cities have been able to borrow agglomeration benefits and narrow the productivity gap with urban areas, while rural remote regions have not.

Scale matters, and it is functional areas of regions rather than administrative boundaries that count. The OECD has empirically documented the productivity penalty that results from administrative fragmentation in metropolitan areas, and shown that strengthening urban-rural linkages can generate economic, social and environmental dividends for both urban and rural residents alike.

Effective multi-level governance mechanisms and adequate subnational capacities are essential not only for regional development policies, but also for policies with a place-based component, such as investment, infrastructure, land use, water etc. Indeed, subnational governments are responsible for 57% of public investment in the OECD. The Recommendation of the *OECD Council on Effective Public Investment across Levels of Government* provides concrete guidance for how this can be done. The *OECD Principles on Water Governance* also provide guidance to manage multi-level interdependencies in a particular policy area.

Subnational data and governance indicators should underpin an evidence-based approach to diagnosing challenges, developing strategies, and implementing policies at the right scale. The OECD has helped meet this demand through the RDPC's Regional Database, Regional Wellbeing Database, Metropolitan Areas Databases, the delineation of comparable functional urban areas, the World Observatory of Subnational Government Finance and Investment, the Multi-level Governance Indicators, the Metropolitan Governance Survey, and the Water Governance Indicators.

## HOW THE WORK OF THE REGIONAL DEVELOPMENT POLICY COMMITTEE WORK HAS INFLUENCED THE BROADER OECD POLICY AGENDA

RDPC's impact is not limited to the debate on regional development. It has also pushed the envelope within the OECD more generally, creating ripples that have reached across the organisation's various Committees and to different ministries.

**There is no "average" region.** Above all, RDPC has delivered the message that governments must go beyond national averages to diagnose and define policy priorities. Through a combination of economic and institutional analyses, RDPC has shown how national, sectoral policies actually have different impacts across regions. It has also documented the skewed distribution of regional growth, and helped to untangle the geographic dimension of the productivity puzzle, namely how better exploiting proximity to cities and concentration in tradable sectors can help lagging regions close the productivity gap.

**Implementation is half the battle.** RDPC anticipated the evolution of the OECD from a "think tank" to a "do-tank". The diversity of Ministries representing countries in the RDPC and its working parties on Urban Policy, Rural Policy and Territorial Indicators (Regional Development, Infrastructure, Economy, Interior, Administrative reform, Urban, Agriculture, etc.) have made a focus on implementation, coordination and action-oriented tools a "trademark" of the Committee.

**Broadening and deepening stakeholder engagement.** From the creation of thematic communities of practice (e.g. on water governance, port cities, rural regions for renewable energy, green cities, indigenous communities, mining communities, circular cities and regions, localising the SDGs), to providing a more permanent platform for dialogue across and within levels of government (Roundtable of Mayors and Ministers, Champion Mayors for Inclusive Growth, Territorial Dialogues), to multi-sector stakeholder engagement (Water Governance Initiative), RDPC has played a leading role in showing why stakeholder engagement matters, and how it can be done.

**Regions can be an early warning radar.** RDPC enriched OECD debates by providing a variety of local realities to draw on as a source of information and experimentation. From the challenges of rising inequalities and the slowdown in productivity growth, to the imperative to address climate change and environmental degradation, RDPC anticipated awareness of global issues that did not become unanimous until after the crisis.

### First wave: From redistribution only to competitiveness for all regions

RDPC was created in 1999 in recognition that changing economic and social conditions were giving rise to new regional development policies. Its first years focused on changing the paradigm of regional development policy. The first Ministerial discussion in Martigny, Switzerland on “Innovation and Effectiveness in Territorial Development Policy” in 2003 made clear that regional policy needed to rectify past mistakes to be more effective. Mainly avoiding top-down policies based on massive subsidies and the artificial creation of economic and technological poles disconnected from local assets. This shift included promoting investment to leverage regional opportunities as well as a focus on multi-sectoral approaches and multi-level governance, underpinning a dynamic vision to “Promote growth in all regions”.

### Second wave: Strengthening regional performance for the resilience of nations

The 2008 financial crisis marked a point of inflection. The short-term need to propose counter cyclical measures brought renewed attention to how regional development strategies can help better target public investment, ensuring a long-term positive impact from the rapid response. Ultimately, these discussions helped to pave the way for the development of the OECD Recommendation on Effective Public Investment across Levels of Government.

The crisis also triggered a questioning of mainstream economics, creating space for a more granular view of the world. Combined with a more in-depth understanding of how national performance is derived from the sum of its regions, regional development gained wider acceptance as a tool for advancing national prosperity. With a new mission to contribute to restoring the global economy and opening up more to other actors (international organisations, civil society, private sector, OECD Partner countries), RDPC’s work gained visibility and expanded to include issues such as innovation and entrepreneurship, climate change, skills, and demographic change. Regional development policy

is a “policy of policies”, mobilising multiple policy fields to support regional development together with the mission to “address the regional dimension of core issues that OECD governments are addressing”. This momentum was supported by the organisation of the second Ministerial Meeting in 2009 at the OECD headquarters in Paris, chaired by Finland, “Investing for Growth: Building Innovative Regions”, where Ministers reaffirmed the need to shift from subsidy-based single sector policies to integrated multi-sector and place-based policies that exploit each region’s competitive advantage and core economic strengths.

### Third wave: Putting regions and cities at the centre of inclusive and sustainable growth

By shining a spotlight on growing spatial disparities, the longer-term economic and social impacts of the crisis paved the way for the reintroduction of equity as an objective for regional policies. In this context, RDPC provided an answer to the longstanding debate on “place-based” versus “people-based” approaches: this is not an “either/or” question. A clear message from the RDPC was that there is a need for both, in particular because targeting people is more effective if done “at the appropriate scale” taking into account geographic specificities. The 2013 Ministerial Meeting in Marseille, chaired by France, underlined the need to adopt policy making at the relevant scale both through metropolitan governance and better rural-urban linkages.

The development of the Regional Well-Being tool embodies this shift to put people at the centre of policymaking. The question of scale was further addressed through several streams of work: (i) ongoing statistical work to define functional urban areas in order to facilitate international comparisons of metropolitan areas and encourage policymaking “at the right scale”; (ii) the finding that administrative fragmentation carries a productivity penalty for metropolitan areas; (iii) the furthering of the work on urban-rural linkages; and (iv) the implementation of the Recommendation on public investment.



## KEY MILESTONES

### FIRST WAVE

#### From redistribution only to competitiveness in all regions

- Thematic work on drivers of competitiveness, multi-level governance for regional development, metropolitan governance
- Launch of Territorial Review series at national, metropolitan and rural levels
- Launch of Regions at a Glance
- Emergence of the New Rural Paradigm
- Launch of Territorial Database (later renamed Regional Database)
- 1999 Creation of the Territorial Development Policy Committee, and its Working Parties on Urban Policy, Rural Policy and Territorial Indicators
- 2002 First OECD Rural Development Conference in Siena, Italy
- 2003 High Level Meeting in Martigny, Switzerland, "Innovation and Effectiveness in Territorial Development Policy"
- 2004 Official launch of the Network on Fiscal Relations Across Levels of Government

### SECOND WAVE

#### Beyond regional performance to the resilience of nations

- Thematic work on how regions grow, regional innovation systems, green growth in regions and cities, service delivery in rural areas
- Launch of Regional Innovation Reviews and National Urban and Rural Policy Reviews
- Launch of Regional Outlook
- Development of extended regional typology and Functional Urban Areas
- Launch of Metropolitan Database
- 2007 1st meeting of the OECD Roundtable of Mayors and Ministers
- 2009 Ministerial Meeting in Paris chaired by Finland, "Investing for Growth: Building Innovative Regions"

### THIRD WAVE

#### Putting regions and cities at the centre of inclusive and sustainable growth

- Thematic work on rural-urban partnerships, regional dimensions of productivity, governance of land use, inequality in cities, decentralisation, public investment, migrant integration, enhancing rural innovation and water governance
- Launch of Multi-Level Governance reviews
- National water policy dialogues
- Launch of Regional Well-Being Database
- New metropolitan / non-metropolitan regional typology
- Expansion of functional urban areas worldwide and creation of global definition of cities
- Expansion of datasets covered in Regional Database (innovation, migration, business demography, income inequality, subnational finance)
- Adoption of the OECD Recommendation on Effective Public Investment across Levels of Government
- Adoption of the OECD Principles on Water Governance
- 2013 Ministerial Meeting in Marseille, France "Regions and Cities: Where Policies and People Meet"
- 2013 Launch of Water Governance Initiative
- 2014-15 MOUs signed with European Committee of the Regions and United Cities and Local Governments (UCLG)
- 2016 Launch of Champion Mayors for Inclusive Growth as part of OECD Inclusive Growth Initiative
- 2017 Introduction of regional issues in the OECD Ministerial Council Meeting
- 2017 Launch of the World Observatory on Subnational Government Finance and Investment

### FOURTH WAVE

#### "Megatrends: Building better futures for regions, cities and rural areas"

2019 Ministerial Meeting in Athens

**National, Urban, Rural and Territorial reviews:** Over 130 reviews covering 40 countries

**Thematic work:** Over 60 thematic publications

**International Standards developed by the RDPC:** OECD Council Recommendation on Public Investment across levels of government and OECD Principles on Water Governance



**Statistical advances:** Internationally comparable demographic, economic, labour, social and innovation data for 2 000 regions as well as on indicators on subnational government structure and finance

**Meetings, events, and dialogues:** 4 meetings of Ministers, 11 Rural Development Conferences, 7 Roundtables of Mayors and Ministers and 11 Meetings of the OECD Water Governance Initiative

## HOW THE WORK OF THE REGIONAL DEVELOPMENT POLICY COMMITTEE HAS INFLUENCED NATIONAL POLICY AGENDAS

RDPC work has influenced the **overall regional development strategy in many places**. For example, it has supported **Canada's** shift to promoting regional competitiveness through place-based advantages; the development of the Territorial Concept **Switzerland** (Raumkonzept Schweiz / Projet de Territoire Suisse) and the Swiss regional innovation systems; the shift in **Japanese** regional development policy to place-based approach based on equal partnership between national and local governments; and the elaboration of various strategic documents and policies in **Poland**, namely through the 2008 Territorial Review of Poland and the subsequent urban and rural policy reviews.

It can also be credited with influencing **other specific regional development policies and strategies**. Following the recommendations of the 2014 Territorial Review in **Colombia**, the government territorialised its National Development Plan for the first time. The 2014 Territorial Review of **the Netherlands** laid the groundwork for a National City Agenda, followed by a European Urban Agenda shortly afterwards. In **Mexico**, following the recommendation of the 2015 Territorial Review of the Valle de México, the government of Mexico City eliminated the requirement for minimum parking spaces in new construction buildings. In **Japan**, the government has proposed a draft bill regarding how to strategically manage vacant lands, following the 2016 Territorial Review of Japan which highlighted the risks and opportunities of shrinking cities.

RDPC's messages on **rural development** have also been taken up by countries, including through **Sweden's** new rural policy and **Italy's** Strategy for Inner Areas. In **Estonia**, work on the new rural paradigm has helped the country take a more nuanced approach to rural development, in recognition that rural areas are in fact a diverse group, with many different possible sectors of growth. The 2011 Review of Rural Policy in England provided a valuable stocktaking of the role rural England plays in the **United Kingdom's** economy and how this could be improved. The UK government has since adopted mainstreaming as its rural policy strategy and introduced "rural proofing" in 2015.

RDPC work on **regional well-being** has also been influential, for example in Morelos, **Mexico** and Southern **Denmark**.

RDPC's work on **multi-level governance and on public investment across levels of government**, has also had concrete policy impacts. For example, the OECD work is being used in the **Slovak Republic's** National Development Strategy (2015), the national implementation of the Sustainable Development Goals, and the national investment plan (currently under development) to support a strong coordination across levels of government and across sectors. The 2016 Multi-level Governance Review in **Colombia** recommended strengthening asymmetric decentralisation, which is now being implemented in the new National Development Plan 2018-2022. Over the long-term, RDPC's work has also fed the 20 year process of shifting the responsibilities for regional growth policy from regional state agencies to regional political bodies in **Sweden**.

RDPC has also supported **urban governance reforms**. The development of the 2013 OECD Territorial Review of Aix-Marseille, **France** accompanied the elaboration and the discussions of the MAPTAM law in France on the modernisation of territorial public action and affirmation of metropolises promulgated in January 2014. In the **United States**, following the 2012 publication of the Chicago Tri-state Area Review, the Alliance for Regional Development was created following the review's recommendations for greater metro-area coordination to support regional competitiveness. The National Urban Policy framework developed by the OECD in collaboration with UN-Habitat is an official pillar of the New Urban Agenda.

RDPC's influence can also be seen both in **EU Cohesion Fund** programmes and in their national implementation. RDPC's work on the role of regional policy in the context of the financial crisis supported the preparation of anti-cyclical investment packages in several European countries where Cohesion Funds were relevant. For example, the internal debate on **Portugal's** National Strategic Reference Framework 2007-2013 benefited from the 2008 Territorial Review, while its work on multi-level governance and on public investment across levels of government has been used by the European Commission, notably with respect to conditionalities for the 2014-2020 financial period.

Source: OECD (2018), Based on inputs from delegates of the Regional Development Policy Committee.

## LOOKING AHEAD

The growing acknowledgement that uniform, place-blind policies, such as trade liberalisation, do not have neutral impacts on places and the increasing importance of the “geography of discontent” have helped push regional development policies to the core of the discussion on how to revive growth in a way that is both inclusive and sustainable. As place-based policies cement themselves as an essential component of – not just complement to – the overall structural economic policy package, what role can they play in preparing our economies and societies for the opportunities and challenges of tomorrow? And how can the OECD continue to accompany policymakers in this task?

**By responding to the concerns of communities that feel left behind and forgotten, regional development policies can help fortify public support for a global and open economic environment, and prevent a potential future backlash against technological change.** Like globalisation, digitalisation and technological change could also lead to widely shared benefits but concentrated geographic losses. Regional development policies must help both urban and rural areas seize the specific opportunities that technological changes present, while also preparing workers and firms for labour market disruptions such as increasing job polarisation automation-related job losses. Estimates show that the number of jobs at high risk of automation varies between 4% and 40% across OECD regions, and can vary by as much as 12% within countries. In the coming years, new technologies will also change the face of globalisation, for example through virtual technologies that decrease face-to-face costs. This will open up new opportunities for rural areas to attract remote workers, but also present new challenges for cities as it becomes easier to offshore the services that are currently the backbone of many urban economies.

**Regional development policies are key to managing the demographic changes that are already taking root, from ageing to urbanisation to migration.** While all communities will have to grapple with how to provide a high quality of life and public services for an increasingly elderly population, these questions will be particularly profound in rural regions, where ageing is concentrated, and compounded by outmigration to urban areas. New technologies, can be one part of the solution, allowing public services to be delivered in a more effective and efficient manner in low-density communities. Cities, particularly large metropolitan areas, on the other hand risk becoming victims of their own success. Affordability for middle- and low-income households, inequalities, congestion, and pollution are all key concerns. Successful migrant integration can help support diverse, dynamic places.

**Place-based policies are a crucial component of transitioning to a more sustainable development model, which balances economic, social and environmental objectives.** The Sustainable Development Goals (SDGs) provide a powerful tool for advancing this vision in a holistic way and rethink sustainable development from the ground up. Regional development policies will continue to be key to the effective implementation of these goals, notably because they can help balance trade-offs and reconcile split incentives in a way place-blind policies cannot. Because cities and regions have a critical role to play in most SDGs, multi-level governance is essential for better coordination across levels of government and sectors. The SDGs can also serve as a tool to rethink regional and local development strategies, prioritise investment and engage across levels of government, civil society and stakeholders around a shared vision.

**From digitalisation to climate change to demographic change, megatrends will deepen the demand for further investment in quality infrastructure, while also impacting subnational finances.** Already, the OECD estimates that USD 95 trillion in public and private investments will be needed in energy, transport, water and telecommunications infrastructure globally between 2016 and 2030. Subnational governments, which are in charge of 57% of public investment and 64% of public spending and investment sectors that have an implication for climate change in OECD countries, will play a key role to help fill the gaps. A territorial approach to investment can leverage the strengths of actors across levels of government: national governments that can help ensure a balanced approach to infrastructure development and strength urban-rural linkages, and regional and local actors that can identify complementarities and trade-offs in investment priorities at the local level. Effective decentralisation systems, with responsibilities clearly assigned, financed, and monitored, are critical.

### Key questions for discussion

- How can regional development policies foster geographically differentiated development models and preserve regional diversity, to make our economies and societies more resilient to emerging challenges?
- How can regional development approaches be reformed so that they can better speak directly to the concerns of people, at the level where they live and work, and address the territorial divides which have led to mistrust and discontent?
- How can the different levels of government engage in a strategic partnership to take advantage of opportunities generated by megatrends and address policy trade-offs, and what governance tools can support this partnership in responding to emerging opportunities and challenges in an agile way?



## PLENARY 2: TIRED OR WIRED? REGIONAL POLICIES IN A DIGITAL AND GLOBAL ECONOMY

Benefits from digitalisation and new technologies are large but unevenly distributed across regions. From artificial intelligence to robots, 3D printing, drones, the Internet of Things, self-driving vehicles, nanotechnologies, and blockchain, digitalisation and new technologies will continue to change how we live, work and interact. But not all regions are prepared to reap these benefits, and without appropriate policies existing large regional divides may widen further.

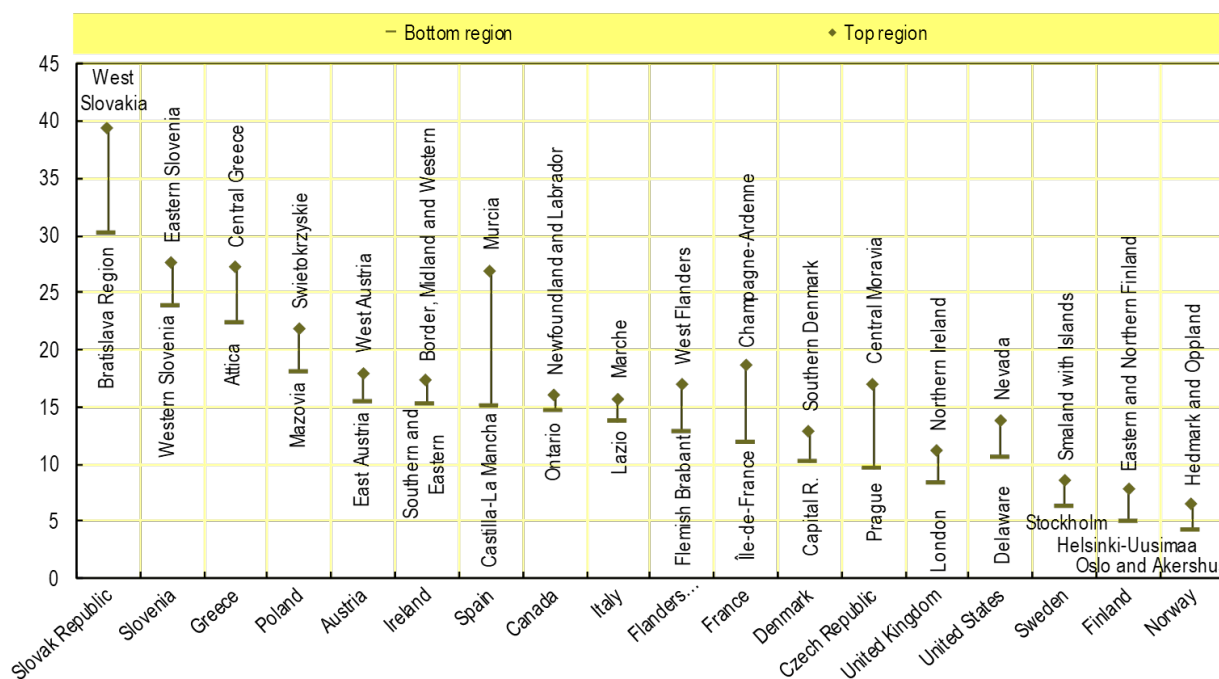
Technological advances will change globalisation, bringing new opportunities to rural and urban areas. Lower trade costs for goods and ideas created benefits for firms and consumers and changed the economic fortunes of some regions. New digital technologies can reduce the cost of face-to-face interactions, replacing physical meetings with virtual ones. This change may dramatically affect trade possibilities for services and alter economic advantages of big cities. Many services they provide could be accessed from any place, reducing the benefit of co-locating new firms or jobs, while other services would still require proximity.

Where losses will outweigh the gains, this could deepen spatial divides. Making the most of new opportunities requires tailored policies, otherwise the economic transition costs and labour market shake-ups that accompany this industrial change could be significant. Across the OECD, 14% of jobs are at high risk of automation, with more than 70% of tasks performed by workers expected to be replaceable within the coming decades. Across OECD regions, it varies from 4% to 40%. The gap between the region with the highest and lowest risk can be as wide as 12 percentage points within countries (Figure 1). Regions where firms, workers and even whole sectors fail to transition to new forms of production, will have to address high rates of unemployment that may lead to social upheaval.

Local economies need to tailor strategies to adapt to a changing global context. Output from manufacturing still grew between 2000 and 2016 in two thirds of 1 225 small OECD regions. Successful economies are those that will develop smart strategies adapting to the changing global economy and raise the productivity of their workers. The shift towards “industry 4.0”, distributed systems and more globally integrated production helps regions retain manufacturing, but the way goods are produced changes.

Figure 1. The risk from new technologies to local labour markets varies across regions

Percentage of jobs at high risk of automation, highest and lowest performing TL2 regions, by country, 2016



Note: “High risk of automation” is the share of workers with jobs with a “risk of automation” of 70% or above. Data for TL2 regions for 2016, except for Germany (TL2, 2013) and Belgium (Flanders only, NUTS2 regions, 2016).

Source: OECD (2019), *OECD Regional Outlook 2019: Leveraging Megatrends in Cities and Rural Areas* and OECD (2018c), *OECD Regions and Cities at a Glance 2018*, [https://doi.org/10.1787/reg\\_cit\\_glance-2018-en](https://doi.org/10.1787/reg_cit_glance-2018-en).

However, in the majority of regions where manufacturing output grew, employment has declined. To increase productivity, firms invest in capital, knowledge or global integration. This maintains firms' competitiveness and benefits workers through higher wages, but is often combined with employment decline, particularly in manufacturing. To retain jobs locally this decline could be compensated by regional policy supporting a shift into tradable services (OECD, 2018b).

Cities will continue to be at the forefront of new technologies, but will also need to adapt. As centres of entrepreneurship, firm creation, and innovation, cities may particularly benefit from increased economic concentration in knowledge-intensive services. The question remains whether emerging knowledge-intensive activities will be primarily clustered in a few "superstar" cities or also spread to second tier cities.

## FORWARD LOOKING POLICY RESPONSES

Bridging digital divides across places will require more than just infrastructure investment. Enhancing the digital skills of workers, managers, and citizens in general, as well as developing tailored digital public services are important complements. More than 50% of adults in 28 OECD countries can only carry out the simplest tasks on a computer or even fully lack the capacity to use a computer (OECD, 2013). Linking local training needs and capacities should complement the continued expansion of high-speed internet infrastructure in all regions. Governments can thus play a crucial role in facilitating the transition of their local economies, but engagement of a wider range of private sector, academic and civil society stakeholders is critical.

Despite opportunities, new technologies will put additional pressures on existing planning, policy and regulatory frameworks. Digitally enabled innovation has upended the traditional landscape for taxi services, cycling, retail, food delivery or short-term rental, posing congestion, waste, legal and regulatory challenges in many places. National, regional and local governments will have to work together to find solutions to balance the need to encourage (disruptive) innovation and the reduction of adverse environmental and social consequences.

The advantages of new technologies are not be limited to the private sector. "Smart" initiatives in regions, cities, and rural areas can also help governments reduce costs of service delivery and improve quality. For example, smart grids and smart meters can help providers and consumers better manage energy and water consumption, while artificial intelligence and other digital technologies can enable new forms of health care delivery and other public services. A challenge remains to find common responses for major investment strategies (e.g. cloud or smart solutions)

Rural areas should seize the opportunities of digitalisation and new technologies to face their inherent challenges. To overcome challenges related to distance and low density in rural areas, new technologies can open up access to markets, jobs and services. Digitalisation can facilitate access to external markets; 3D-printing allows for rapid prototyping and "mass customisation", making serving smaller markets and operating in more remote areas tenable. Driverless vehicles and drones, in turn, can help reduce transport and logistic costs. Enabled by an expansion of 5G and high-speed internet access, new technologies can also help to transform accessibility to services in rural areas, for example, through advances in telemedicine and tele-education. Rural areas can then capitalise on their high quality of life to attract remote workers and commuters (OECD, 2018d).

across regions and cities.

### Key questions for discussion

- What opportunities and challenges will digitalisation and technological changes bring to urban, rural and regional economies and how can policymakers respond?
- Is the existing regional development policy toolkit adequate to help all places boost productivity and jobs in the context of a digital and global economy?
- How should the existing governance framework and institutions be adapted to respond to this new environment? How can citizens and other stakeholders be better engaged in designing and implementing regional strategies?

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# PLENARY 3: INCLUDING EVERYONE, EVERYWHERE MANAGING DEMOGRAPHIC AND SOCIAL CHANGE

**Urbanisation, ageing and migration will continue to reshape regions, cities and rural areas.** Across OECD countries, the urban population has grown by 12% since 2000, with the largest cities experiencing growth that is even more pronounced. Between 2006 and 2016, 81% of young people (age 15-29) who moved within the same country settled in an urban or intermediate region. However, growing and thriving cities coexist with shrinking cities. In OECD countries, almost one in four cities (23%) with more than 50 000 inhabitants has shrunk in population since 2000. Smaller cities (i.e. less than 250 000 residents) account for the bulk of cities losing population.

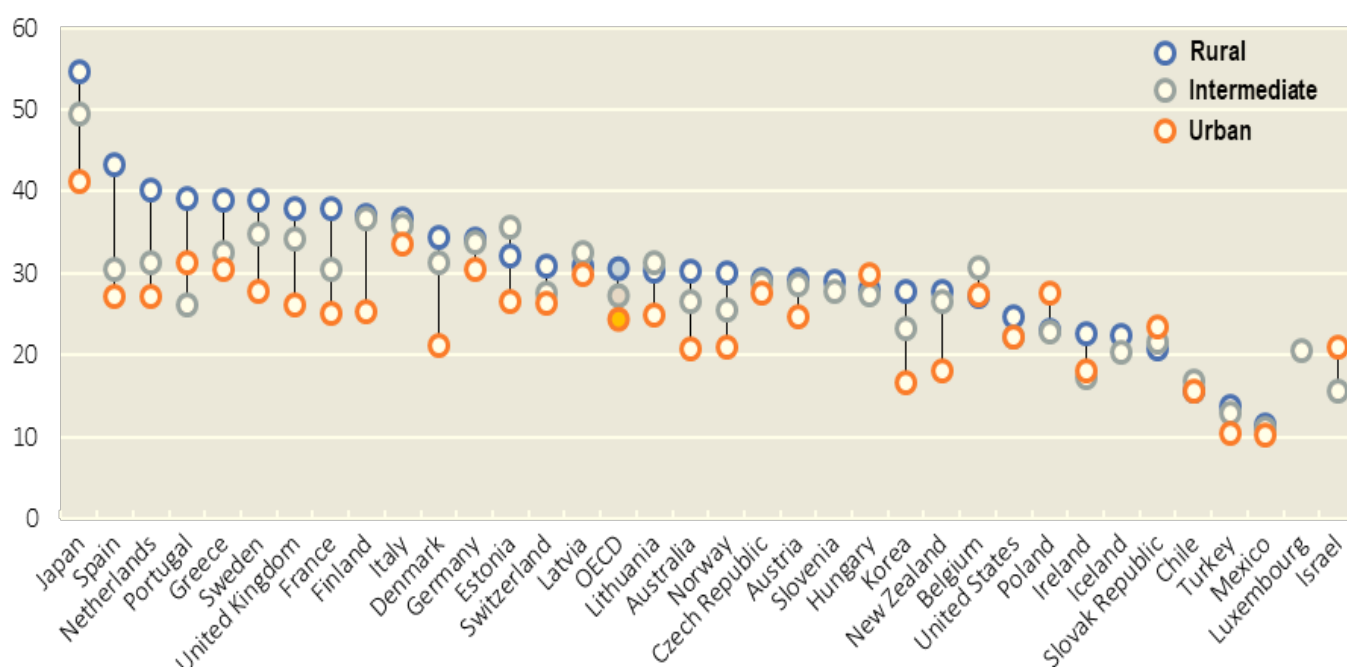
**The challenges of an ageing society matter for all places, but will be particularly acute in rural areas (Figure 1).** The number of people aged 65 or older per 100 people of working age (the old age dependency ratio) has increased by close to 25% between 2000 and 2015 and is expected to increase by another 25% by 2050. This trend will put strain on pension systems and the provision of public services for the elderly.

The effects of ageing are especially strong in rural regions, which, in addition, also often face outflows of young people. In the average rural region, there are more than 30 people aged 65 or older for every 100 inhabitants of working age, compared to just 24 in urban areas. In remote rural regions, the situation is often even more challenging, as the number of young residents leaving is even larger.

**Migration is another major demographic and social issue that has specific impacts at the local level.** Migrants tend to be more concentrated in certain places than the native-born population, and this concentration further increased over the last decade. Between 2005 and 2015, the share of migrants grew the most in regions that were already home to large migrant populations. In particular, large cities are often attractive destinations for migrants, because they offer job opportunities, but also networks of other migrants from the same country of origin.

**Figure 1. Population ageing is particularly affecting rural regions**

Elderly dependency ratio (number of people older than 65 per 100 people aged 15 to 64)  
by type of region, 2017



Note: Last available year was 2016 for Japan, Australia, New Zealand, and the United States

Source: OECD (2018a), *Regions and Cities at a Glance 2018*, [https://doi.org/10.1787/reg\\_cit\\_glance-2018-en](https://doi.org/10.1787/reg_cit_glance-2018-en).

## FORWARD LOOKING POLICY RESPONSES

### Cities need to better plan and adapt to inflows of population.

To prevent cities from becoming victims of their own success, policies need to anticipate and respond to urban growth. Innovative solutions for transport, environmental sustainability and especially housing are required. In many cities, housing costs have risen strongly because construction of housing has not kept pace with increasing demand. To prevent housing costs from rising further, cities need to ensure that sufficient housing for lower and middle-income households is built by either the private or the public sector. In parallel, public transport systems need to be upgraded to limit congestion and reduce commuting times.

### More can be done to address pockets of disadvantage, particularly in economically successful and growing cities.

Cities need to improve education and training opportunities as well as social services for low-skilled and marginalised groups. They should also prevent the segregation of deprived groups in neighbourhoods disconnected from services and jobs to avoid further concentrating disadvantage. Smart investments in infrastructure and education are essential to promote employment opportunities and ensure a safe and healthy urban environment for all.

### Infrastructure and service provision has to be adapted to ageing populations.

Communities need to adopt policies to help seniors stay healthy and active into old age. Strategies to build age-friendly communities are crucial to ensure well-being in all regions. They range from expanding lifelong learning to making infrastructure more accessible. The use of new technologies for service provision and a strategic use of automation can potentially mitigate many challenges related to these strategies. Beyond adapting infrastructure and services, regions should also promote a positive mind-set towards ageing. Positive attitudes towards ageing do not only improve inclusiveness. They can also help regions to reap the economic opportunities created by the growing “silver” economy.

### Integration of migrants in the labour market and in the society as a whole needs to be an integral component of regional development strategies.

Effective integration can help to build diverse and dynamic places as well as lessen challenges related to ageing and shrinking populations. Policies to integrate migrants should involve a wide range of local stakeholders, including businesses and NGOs. A priority is to ensure that migrants and other vulnerable groups are equipped with the right set of skills and education to find jobs in changing labour markets.

### The OECD Checklist for Public Action to Migrant Integration at the Local Level

Successful integration depends on co-ordinated policies that have a positive impact on migrant population and other inhabitants living in a specific place.

The *OECD Checklist for Public Action to Migrant Integration at the Local Level* (OECD, 2018), based on experiences collected across 72 cities, lists 12 priorities for integration. It also provides policy tools and 80 concrete examples. It covers four priority areas: i) Multi-level governance: Institutional and financial settings; ii) Time and space: Keys for migrants and host communities to live together; iii) Local capacity for policy formulation and implementation; iv) Sectoral policies related to integration.

As a self-assessment tool, the Checklist can guide cities of all sizes in their attempts to manage challenges and opportunities related to migration. It can also help national and regional governments as well as donors to provide adequate incentives to local governments.

### Inclusive growth should be a key objective for the next generation of regional policy.

Policy makers often face trade-offs between economic and social objectives. However, these trade-offs are much easier to overcome at the regional and local level than at the national level. Well-designed place-based policies consist of integrated policy packages that increase economic growth and reduce inequality in parallel through complementary measures. With the right policies and investments, we can bridge the divides that threaten our present and future well-being and the cohesion of our society.

#### Key questions for discussion

- What impact will demographic and social change have on different types of communities, and how should regional development policies be adapted accordingly? How can regional development strategies foster a holistic approach to building inclusive communities, which integrates policy areas outside of the traditional regional policy portfolio (e.g. health, education, housing, migration)?
- How can regional policies help reconcile potential trade-offs between social and economic objectives in the face of demographic megatrends?

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# BREAKOUT A: SMART SPENDING

## INVESTMENT IN QUALITY INFRASTRUCTURE

Investment in quality infrastructure, which aims to ensure economic development while addressing environmental and social challenges, is a key lever of regional policy. The right infrastructure investments, well prioritised, targeted to local needs, coordinated across sectors and implemented efficiently over their lifecycle, are essential for effective regional development policies. On the other hand, when scarce resources are spent on weak projects, or when projects lead to environmental degradation, infrastructure investments can undermine regional development and reduce trust in government.

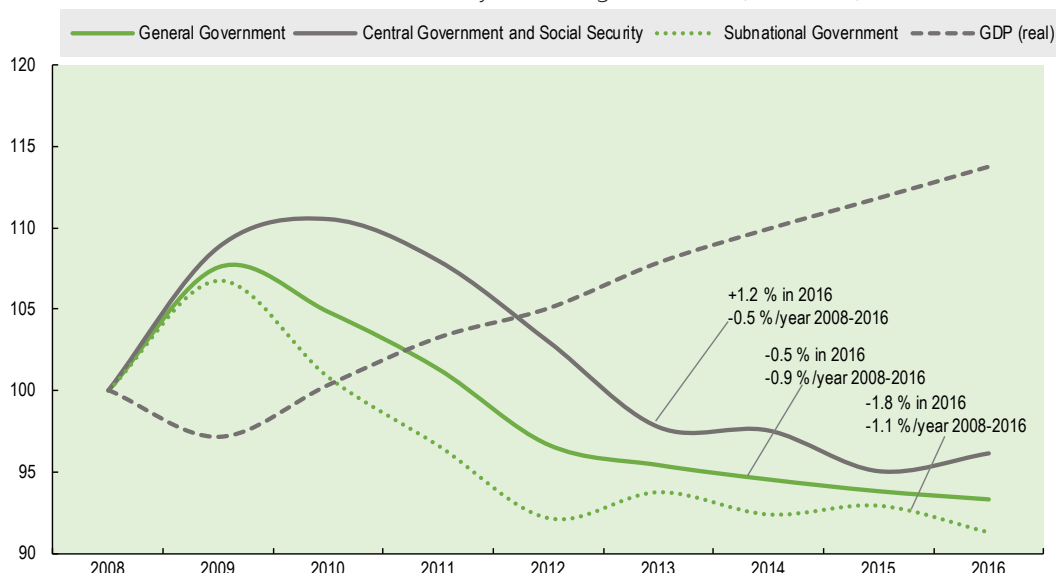
**Infrastructure investment is a shared responsibility across levels of government.** Regions and cities play ever larger roles in key policy areas linked to infrastructure and are critical for sustainable development and well-being, such as transport, energy, broadband, education, health, housing, water and sanitation. Over the past decades, the responsibilities of subnational governments in these fields have increased in a majority of OECD countries. Regions and cities are now in charge of 57% of public investment in the OECD on average, and they are responsible for 64% of environment and climate-related public investment. Furthermore, infrastructure investments, regardless of which level of government is ultimately responsible, almost invariably have large local impacts. Ensuring that decision-making takes the interests of local communities into consideration and meets user needs requires the involvement of subnational governments.

Megatrends – digitalisation, climate and demographic change, urbanisation – will deepen the demand of regions and cities for further investment in quality infrastructure. The OECD estimates that USD 95 trillion in public and private investment will be needed in energy, transport, water and telecommunications infrastructure, globally, between 2016 and 2030. Cities and regions have important needs for both maintenance and new investments in renewable energy, low-carbon buildings, energy efficiency, waste and pollution management systems, and clean public transport. Urbanisation trends will require upgrading urban infrastructure to meet rising demand, while figuring out how to adapt essential infrastructure in the context of depopulation and ageing in other places.

**Current infrastructure spending is not sufficient to address the needs, while demographic changes will continue to put pressure on subnational finances.** Total public and private investment in the OECD remains below 2008 pre-crisis levels. Public investment was particularly hit by the crisis in OECD countries, especially at the subnational level (see Figure 1). The quality of infrastructure has already deteriorated in some countries and current deficiencies in infrastructure can hamper productivity, socio-economic opportunities and resilience of regions. At the same time, demographic changes amongst other megatrends strongly affect subnational finances, both on the spending and the revenue side. The tax base of some regions might fundamentally change due to demographic shifts.

Figure 1. Public investment remains below 2008 levels in the OECD

Public investment by levels of government (2008=100)



Source: OECD calculations based on OECD (2018), National Accounts Statistics (database), <http://dx.doi.org/10.1787/na-data-en>



## FORWARD LOOKING POLICY RESPONSES

**Regions and cities need to invest more and diversify their sources of financing**, by better exploiting existing and potential fiscal resources for investment and better leveraging private investment. Property income, in particular land-value capture instruments and the sale or lease of properties, can open up new resources for investment. User charges and fees may also be further used. It is also critical to better mobilise private resources for infrastructure investment, as the scale of the resources required surpasses the public sector's financing capacity in most countries. To attract private investors, subnational governments may need the support of national actors to develop attractive pipelines of projects. Public-private partnerships (PPPs) can encourage minimising costs and potentially keeping a check on "white elephant" projects. However, PPPs work better in larger jurisdictions, which have the fiscal and institutional capacities.

**National and subnational governments need to invest not just more, but also better.** A territorial approach to infrastructure investment can leverage the strengths of actors across levels of government. National governments have a key role to play in ensuring a balanced approach to infrastructure development across national territories, while regional and local actors are well placed to prioritise needs and identify complementarities at the local level. Quality infrastructure investment also requires effective coordination arrangements to ensure strategies and priorities align between the national and subnational levels. In addition, infrastructure needs to be well coordinated with spatial and land use planning, as well as other with sectoral policy areas (e.g. housing, environment, industry, agriculture, water) so that they are mutually reinforcing.

**To deliver quality infrastructure for local development, regions and cities need to have the capacity to plan, prioritise and deliver investment projects at the relevant scale.** The prioritisation of projects can be improved through ex ante and ex post evaluations and forward-looking scenarios. However, less than half of OECD countries have implemented mechanisms to assess upfront the long term impacts of public investments. Further efforts are needed to minimise future detrimental social and environmental impacts that infrastructure investments may have. To promote economies of scale, national governments can provide incentives and mechanisms to foster cooperation across subnational jurisdictions so that investments can be planned at the relevant territorial scale.

**When properly managed, infrastructure investment can also be an instrument for governments to address regional inequalities.** There has been in some instances an excessive focus on infrastructure as a tool to address regional disparities. This was often due to a lack of a proper governance and prioritisation of public investments in lagging regions. Looking forward, metropolitan regions are more likely to attract private investors to fund some of their

bankable infrastructure projects. Lagging regions may have a harder time attracting this same type of investors. Therefore, well-targeted public investment would be particularly important in these regions, notably to strengthen urban-rural linkages and the digital connectivity of remote rural areas.

### Implementing the OECD Recommendation of the Council on Effective Public Investment across Levels of Government

The 2014 *OECD Recommendation of the Council on Effective Public Investment across Levels of Government* promotes a place-based approach to investment, through coordination across sectors, levels of government and jurisdictions. The OECD's Regional Development Policy Committee developed the first international standards in this field. Five years after its adoption, 39 countries have officially adhered to the *Recommendation*. The *2019 Monitoring Report* (OECD, 2019) highlights the progresses and challenges as countries have implemented the *Recommendation*.

**Enabling national framework conditions strongly influence infrastructure investment outcomes in regions and cities.** Effective decentralisation systems, with responsibilities clearly assigned, financed, and monitored, are critical. Building subnational capacity to plan and deliver infrastructure is also crucial and may require a differentiated approach targeting specific needs in different types of regions and localities. A key pre-requisite for capacity building is also to limit red tape and constant changes in the rules. A stable and predictable legal and regulatory framework underpins the economic efficiency of infrastructure investments.

### Key questions for discussion

- How are megatrends affecting the needs of regions and cities for quality infrastructure? How do the needs vary across regions?
- How can these needs be financed and sources of funding be diversified? How to support subnational governments in better mobilising private investment?
- How to best prioritise infrastructure projects? How to foster complementarities across sectors in integrated territorial strategies?

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## BREAKOUT B: RETHINKING POLICIES FOR SUSTAINABLE DEVELOPMENT FROM THE GROUND UP

Regional policy is essential to coordinate action across national and subnational governments to exploit the sustainable development potential of each region, city and rural area. Regions and cities are part of the problem *and* solution to sustainability, including environmental. On the one hand, cities concentrate half of the world's population, consume two-thirds of global energy, produce 50% of waste, and are responsible for up to 80% of greenhouse gas emissions. On the other hand, subnational governments have a hand in several policies – from water to housing, transport, infrastructure, land use or climate change – that drive sustainable development, and are responsible for the largest share of public investment in OECD countries.

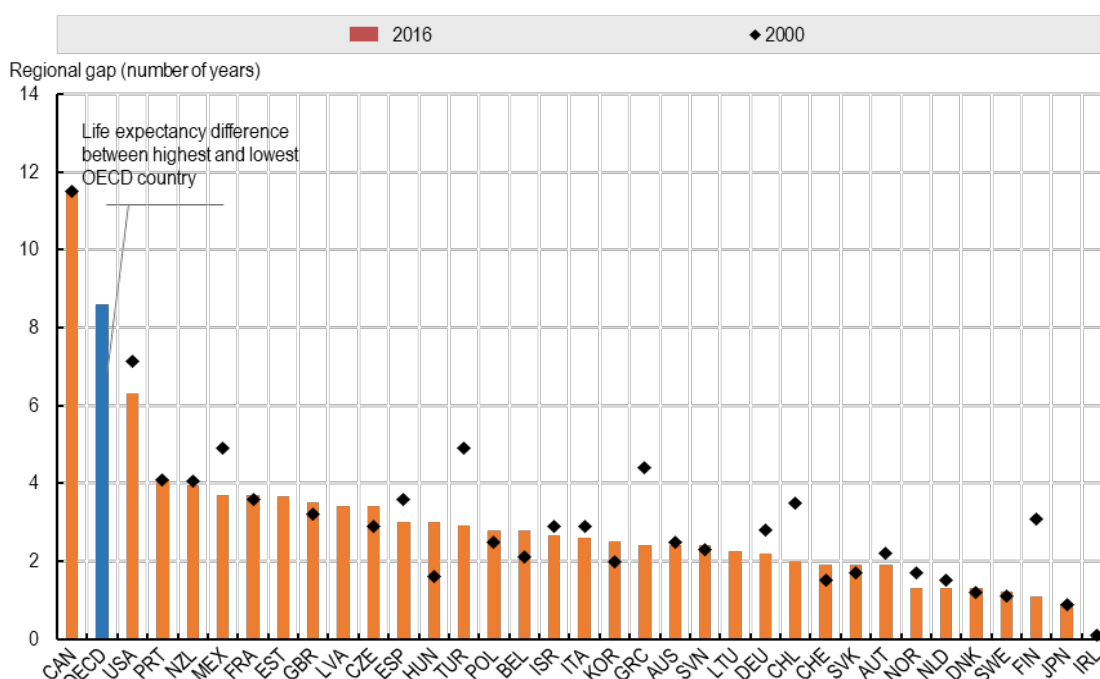
The opportunities and challenges for sustainable development vary significantly across rural and urban places. Some cities and regions are more vulnerable to climate change impacts than others and may have different capacity to anticipate, respond to and recover from natural and man-made disaster risks and shocks. The Intergovernmental Panel on Climate Change (IPCC) estimates that global warming at 1.5°C may expose 350 million more people to deadly heat by 2050, exacerbated by local heat island effects. In Europe, 70% of the largest cities are exposed to high risks of flooding. Some rural communities are left behind because of structural shifts in manufacturing and

natural resource-based industries combined with population loss and ageing. Therefore, the capacity of rural regions to embrace the new drivers of change will also impact national cohesion and prosperity. Regional disparities also persist for other aspects of sustainable development – for example, life expectancy varies 3 years across regions within OECD countries on average (Figure 1).

A major contribution of the global agendas adopted in 2015 was the call for multi-level action on all three pillars of sustainable development – environmental quality, economic growth and social inclusion – to end poverty, protect the planet and ensure prosperity. While the Paris Agreement and the Sustainable Development Goals (SDGs) were developed and agreed upon by national governments, they acknowledge the explicit role of subnational governments. The IPCC has found that Nationally Determined Contributions (NDCs) in aggregate are reported to be insufficient to limit the global temperature increase to 1.5°C, which underlines the pivotal role of cities and regions. According to the Sustainable Development Solutions Network, an estimated 65% of the SDGs will not be reached without proper engagement of and coordination with local and regional government.

Figure 1. Regional differences in life expectancy at birth, 2000 and 2016

Life expectancy of total population, large regions (TL2)



Note: 2016 data or latest available year: Australia, Canada and Korea, 2014; Japan, 2010. No regional data are available for Iceland. First year 2000, or first year available: Netherlands and New Zealand, 2001; Slovenia, 2005; Australia, 2010; Turkey, 2011.

Source: OECD (2018), *Regions and Cities at a Glance 2018*, [https://doi.org/10.1787/reg\\_cit\\_glance-2018-en](https://doi.org/10.1787/reg_cit_glance-2018-en).

The SDGs represent a powerful tool for national and local governments to work together to promote the issues of sustainability in a holistic way. To address concerns of environmental sustainability and equity – sometimes also called social ecology – alongside growth objectives rather than as subsidiary goals, a differentiated approach taking into account the specific conditions in each city, region or rural area can help manage trade-offs or complementarities. Regional policies are well equipped to create synergies at the appropriate scale, as opposed to policies that are “spatially blind” or sector-specific (OECD, 2011).

## FORWARD LOOKING POLICY RESPONSES

A holistic approach to the SDGs is needed in order to reach environmental quality, economic growth, and social inclusion objectives. The transition to low-carbon economy is an opportunity to leverage the potential of cities and rural areas to advance environmental quality, while fostering inclusive growth. For instance, improvements in air quality (by reducing CO<sub>2</sub> emissions from private cars) which is called for under SDG 11 (cities and communities) also helps minimise health cost as targeted by SDG 3 (good health and well-being). However, climate policies may affect negatively other goals such as social inclusion, the core of SDG 10 (reduced inequalities). Indeed, while climate-related investments such as retrofitting buildings, can lower energy bills and improve housing quality for low-income and vulnerable populations, other instruments such as carbon taxes or congestion charges may disproportionately affect them.

Likewise, water has externalities on many policies that are critical to sustainable growth. There can be no resilient and sustainable cities and communities if water resources are not properly managed. An estimated 1.6 billion people will be at risks from floods by 2050, especially in coastal cities; increasing droughts generate tensions across users including urban dwellers as in the recent cases of Rio de Janeiro, São Paulo or Cape Town. Access to clean water and sanitation (SDG 6) is critical to lift people out of poverty (SDG 1) and to foster gender equality (SDG 5), but the largest water consumers are farmers, which holds implications for SDG 2 (no hunger). While energy subsidies to farmers contribute to energy affordability, as called for in SDG 7, they undermine water use efficiency (SDG 6) because they incentivise over-abstraction from rivers and aquifers. Coordination across water, energy and agriculture policies is essential to manage trade-offs.

Cities and regions can help accelerate the transition to circular economy, helping to keep the value of resources at its highest level, while decreasing pollution, and increasing the share of recyclable materials. This supports the transition to more sustainable and responsible consumption and production (SDG 12), while contributing to economic growth and job creation (SDG 8 on decent work and economic growth), and reducing negative environmental impacts. A circular economy approach can reinforce rural-urban synergies and linkages to benefit from reduced waste and emissions, increased renewable

Subnational governments can help champion a place-based and territorial approach to global agendas, and rethink policies for sustainable development from the ground up. They are well-placed to experiment, pilot and replicate ambitious policies that can be tailored to the places where people work and live, and generate complementarities, co-benefits and synergies.

energy (SDG 7) and resource efficiency as called for by SDG 6 (clean water and sanitation) and SDG 15 (life on land). It also contributes to SDG 11 as cities provide a functional scale to resources inflows and outflows.

The SDGs provides a valuable framework to reconsider local and regional priorities, investments, planning and strategies, and to deliver better policies at all scales. For example, a localised version of the SDG Global Indicator Framework based on a common definition of cities and regions could improve policymaking by revealing important regional disparities within countries and helping local and regional actors track their performance and assess progress over time. They can also provide a tool to convene stakeholders from the private sector and civil society, for example to help catalyse private funding to help fill investment gaps and to raise citizen awareness of the imperative for sustainable development.

### Key questions for discussion

- How can sustainable development and climate change be mainstreamed into local and regional policymaking, planning tools, and investment strategies?
- Which tools are needed to better assess progress at the subnational level? What data and evidence gaps are there and how can they be filled?
- How can national and local actors work together to support the uptake of the circular economy?

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## NOTES

## NOTES





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