WESTERN DEVELOPMENT COMMISSION

Policy Briefing No. 8

The Revised National Development Plan: Key Regional Issues

September 2021

WDC Policy Briefings:
The Western Development Commission (WDC) is a statutory body promoting economic and social development in the Western Region of Ireland (counties Donegal, Sligo, Leitrim, Mayo, Roscommon, Galway and Clare). WDC Policy Briefings highlight and provide discussion and analysis of key regional policy issues.

Contents

Join our Insights Mailing List here

Read more:

WDC Submission to the NDP Consultation Review to Renew

WDC Response to the Consultation on the Draft National Investment Framework for Transport in Ireland (NIFTI)

Introduction

Regional development is a broad term that can be characterised as a general effort to enhance well-being and living standards in all region types, from cities to rural areas, and improve their contribution to national performance and more inclusive, resilient societies.[1] Project Ireland 2040 is the government's long-term development strategy and contains an overarching vision to support balanced regional development. The National Development Plan (NDP) and the National Planning Framework (NPF) combine to form Project Ireland 2040.

The Western Development Commission (WDC) has made recent submissions to the review of the NDP and the related establishment of a National Investment Framework for Transport (NIFTI). A revised National Development Plan is due to be published shortly. This WDC policy briefing highlights some key regional issues that should be considered in the revised NDP.

Regional Challenges and Opportunities in the Face of COVID-19 and Brexit

Since the publication of the NDP 2018-27, the considerable impacts of COVID-19 and Brexit have had strong negative impacts on the Western Region and wider Atlantic Economic Corridor (AEC) (Lydon and McGrath; 2020; WDC Timely Economic Indicator Series). These shocks have highlighted and, in some cases, exacerbated longer-term pre-existing structural issues in our region (Lydon and McGrath, 2020; McGrath, 2021).

[1] OECD, Regional Development Policy.

There has been a historical trend of concentrated employment in tourism, agriculture, and public services

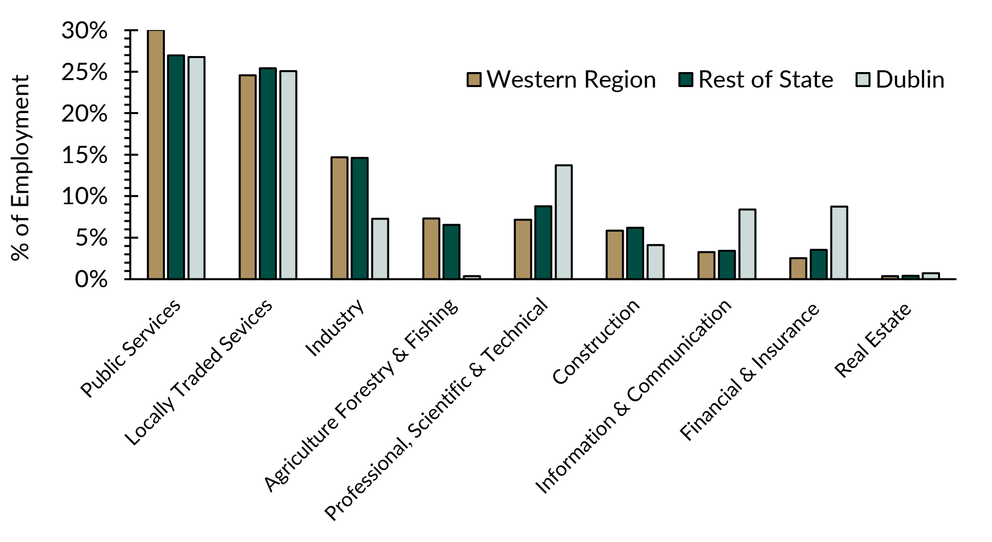
Five of the six slowest growing counties, in terms of employment, from 2011-2016 were in the Western Region

The structure of economic output provides some insight into this sluggish recovery and is likely related to the structures of employment and economic activity

Pre-Pandemic Economic Structures

There has been a historical trend of concentrated employment in tourism, agriculture, and public services (McHenry 2020a; 2020b). The Western Region holds a greater reliance on public service employment (health, education, and public administration), industry (largely manufacturing) and agriculture compared with the Rest of State and Dublin (Fig. 1). The Western Region also holds a comparatively lower share of employment in the generally higher value-added Knowledge Intensive Services (KIS) sectors (Financial, Insurance & Real Estate, Information & Communications, and Professional, Scientific & Technical activities). The enterprise structure in our region is also more reliant on micro-enterprises and self-employment (White, 2017).

Fig. 1 Sectoral Share of Employment from Census 2016



Source: McGrath (2021). Note: Rest of State excludes all Western Region counties and Dublin.

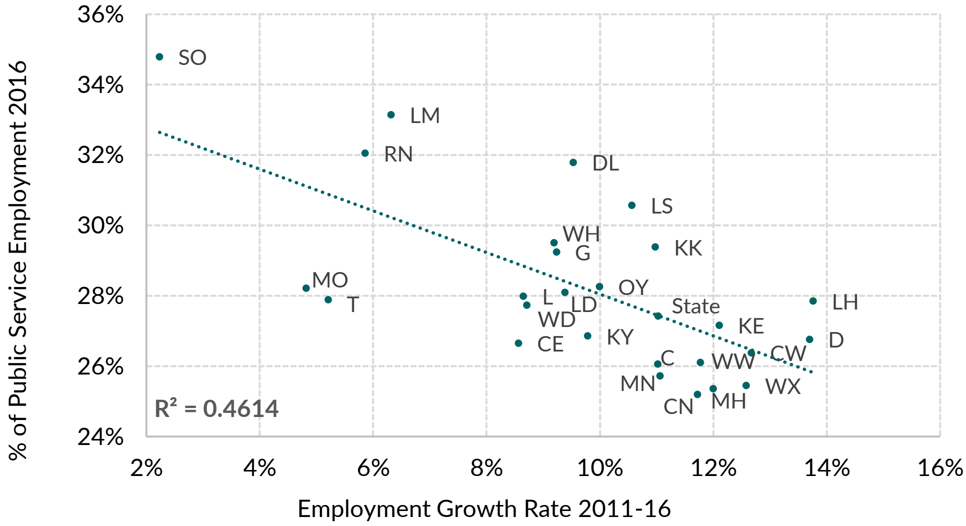
Census data shows that five of the six slowest growing counties, in terms of employment, from 2011-16 were in the Western Region. The structures of enterprise and employment are likely related to the sluggish recovery in employment growth from the previous recession. For example, O'Connor et al. (2018) found that a diverse industry structure had a significant positive impact on county-level employment growth from 2006-12.

Lydon and McGrath (2020) suggest that the low levels of employment growth may be, at least in part, a consequence of the reliance on public service employment. The authors noted that an analysis of the 26 counties showed a moderate to strong negative correlation between employment growth and the share of employment in public services. The negative correlation suggests that those counties with a larger share of public service employment held lower shares of employment growth (Fig 2).

The Northern and Western Region holds a large share of GVA in public services, sectors where there was slow growth in employment, and a low share of GVA in the KIS sectors where there were high levels of employment growth

A similar examination of the KIS share of employment shows a moderate positive correlation with employment growth over the same period. A simple econometric model of employment growth from 2011-16 that controls for both the KIS and public services share of employment shows that these correlations remain as indicated above and both are statistically significant.[2]

Fig. 2 Public Service Employment & Total Employment Growth 2011-16



Source: WDC analysis of Census data

In addition to the sluggish recovery in employment growth, there has also been a sluggish recovery in economic output and household incomes. The Regional Gross Value Added (GVA) data from 2000-18 reveals that the Northern and Western region, a close proxy for the Western Region, has persistently held the lowest level of GVA per capita of all NUTS 2 regions. McGrath (2021) shows a negative average annual GVA per capita growth rate of (-0.1%) for the Northern and Western Region from 2012-18.

The structure of economic output provides some insight into this sluggish recovery and is likely related to the structures of employment. Fig. 3 shows that the Northern and Western Region holds a large share of GVA in public services, sectors where there was slow employment growth, and a low share of GVA in the KIS sectors where there were high levels of employment growth. The Northern and Western Region's share of GVA from public services at 24% stands out. Nationally, public services accounted for just 11% of GVA, but this figure is misleading given the GVA

[2] Linear regression model = $Y_i = \beta_0 + \beta_1 KISshare + \beta_2 PublicShare + \varepsilon$ estimated using OLS. Y_i is the employment growth rate from 2011-16 in county i; KISshare is the 2016 % of employment in "Financial, Insurance & Real Estate", "Information & Communications", & "Professional, Scientific & Technical activities" and PublicShare is the 2016 % of employment in "Health", "Education", and "Public Administration". Health and Education includes private sector employment e.g., private nursing homes etc., but it is not possible to separate this out. The F-Statistic for the model = 22.74 and R^2 = 0.59.

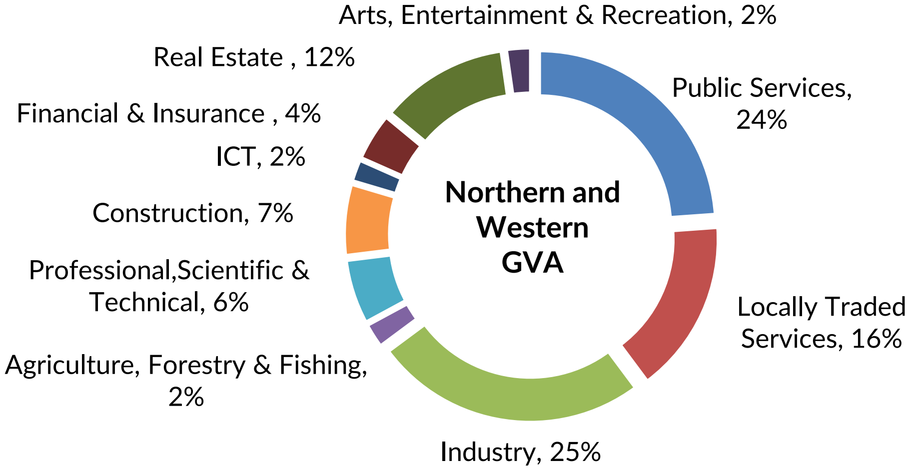
In addition to the sluggish recovery in employment growth, there has also been a sluggish recovery in economic output and household incomes

Read more:

Regional Economic Impact of COVID-19: 2020 in Economic Statistics

data suffers from well-documented macro-economic distortions.[3] When GNI*, an indicator developed to deal with the distortions, is used as the denominator the share of national output attributable to public services was 17% still considerably lower than the 24% in the Northern and Western Region.

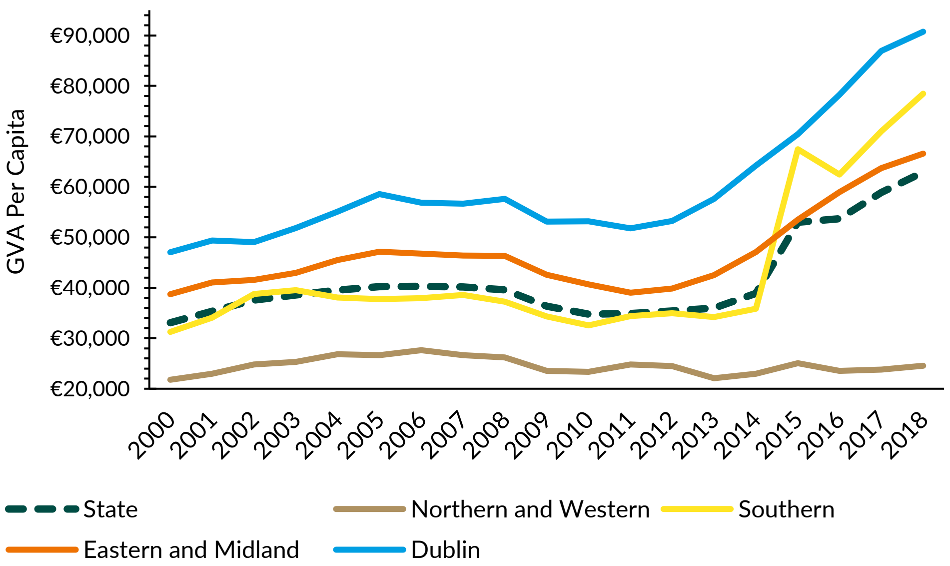
Fig. 3 Sectoral Share of Gross Value Added for the Year 2018



Source WDC Analysis of CSO County Income and Regional GDP data.

Stagnation was observed in the Northern and Western Region compared with growth in all other NUTS 2 regions since 2012 (Fig. 4).

Fig. 4 GVA per Capita in Constant 2018 Prices by NUTS 2 Region



Source: McGrath (2021).

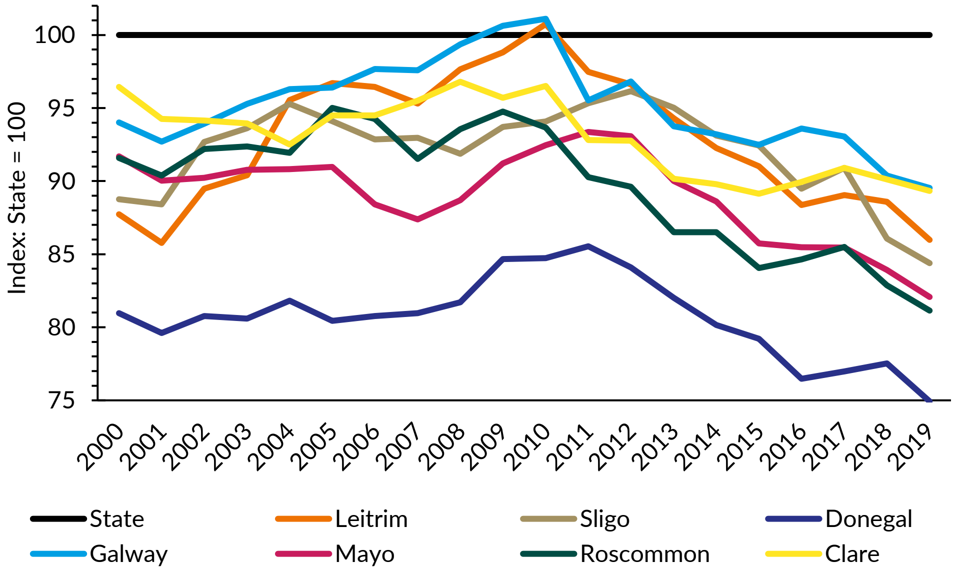
[3] Northern and Western GVA is much less impacted than other regions and thus offers a reasonable estimate of the region's economic output. See McHenry, 2018 for more detail on Regional GVA.

The county income data reveal a common trend of divergence in disposable household income in all Western Region counties relative to the State

To maximise future opportunities government policy must focus on the reduction of regional infrastructure deficits and broader policies to support the 3 E's (Education, Employment & Enterprise)

There are implausibly high GVA growth rates in some regions, driven by the distortions mentioned above. However, the trends across the EU and in household income suggest some degree of divergence. For example, sluggish economic growth has seen output per capita in the Northern and Western Region diverge from the EU average (NWRA, 2020). The county-level household income data is not subject to the same level of distortions as GVA and reveals divergence from the national average in all Western Region counties from 2011 (Fig. 5). The divergence in underlying economic activity may be even greater than that indicated by disposable income given the inclusion of social welfare transfers that abate income disparities.

Fig. 5 Disposable Household Income Per Person in the Western Region



Source: Author Calculations from CSO County incomes and Regional GDP; CSO CPI.

Responding to the Challenges

Given the comparatively large shares of employment in the agricultural and tourism sectors, Western Region counties may be susceptible to the dual shock of Brexit and COVID (Lydon and McGrath, 2020). These shocks have highlighted historical structural issues and thus provide a focus for policy responses. To maximise future opportunities and support effective regional development policy must focus on the reduction of regional infrastructure deficits and broader policies to support the 3 E's (Education, Employment & Enterprise). In the face of regional diversity, one-size-fits-all policies that fail to account for regional strengths and weaknesses will not succeed. OECD (2019) argues that regional productivity gaps can be closed by shifting policy interventions towards strengthening the inherent capacity of rural areas across economic sectors. Regions must be able to mobilise their assets to take full advantage of their growth potential.

Regions will face development constraints if infrastructure quality and regional connectivity and accessibility is not of a similar quality to other regions

The development of regional growth centres as targeted under Project Ireland 2040 will require investment in an accessible and efficient public transport network

Regional Infrastructure Deficits

Regions face development constraints if regional connectivity and accessibility are not of a similar quality to other regions. There is a broad consensus in the regional development literature that infrastructure is a necessary but not sufficient component of economic development (Minerva and Ottaviano, 2009). Improvements in physical and digital infrastructure are expected to generate productivity gains for local businesses and increase the attractiveness of an area for investment and tourism. The benefits arising from investment depend on the efficiency of investment, which will depend on type and location rather than the monetary outlay. While benefits will vary across projects the returns on infrastructure investment are generally higher where current endowments are lower (UNECE, 2016).

The NDP must expedite the roll-out of high-speed broadband as well as the development and leverage of remote work infrastructure and investment to enhance regional connectivity and accessibility. Connectivity and accessibility can have a large influence on the choice of location for both indigenous and foreign investors. Better domestic trade opportunities allow regions to capitalise on comparative advantages (OECD, 2020). The pandemic has shown that rapid changes in business practices can be facilitated and that regional entrepreneurs can respond rapidly and dynamically. The pandemic has also dramatically altered how and where we have worked. Research by WDC/NUIG has shown that the vast majority of those who can work from home wish to continue to do so (WDC/NUIG, 2021). Regional entrepreneurs are constrained by infrastructure deficits in both digital and physical infrastructure.

Regional infrastructure deficits are clear concerning the transport network. Past government policy has been to concentrate on the radial road and rail links between the provincial cities and Dublin. There are comparatively poor intra-regional links between each of the other cities, stifling development within and between the other regions.[4] One example of this regional disparity can be seen in terms of employment accessibility as measured by Transport Infrastructure Ireland (TII). Fig. 6 shows that the Western Region has a comparatively low employment accessibility score (TII, 2020) reflecting low population and low employment density locally and longer distances and greater travel time to key concentrations of employment. Another example relates to climate action where there is a clear national policy focus that will have diverse and wide-ranging impacts, yet there has been little investment in projects addressing climate change and emissions issues for people living in rural areas. There has been limited

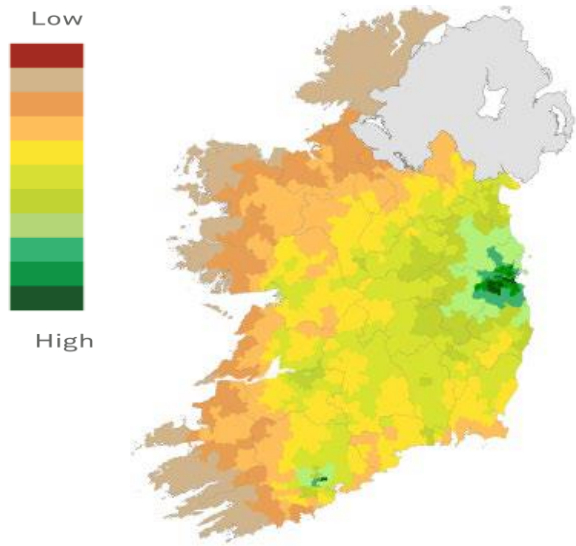
[4] With the recent exception of the Limerick-Tuam motorway.

The Western Region has a comparatively low employment accessibility score reflecting low population and low employment density locally and longer distances and greater travel time to key concentrations of employment

The development of regional growth centres as targeted under Project Ireland 2040 will require investment in an accessible and efficient public transport network

investment in environmentally sustainable public transport or active travel in the Western Region. While models of sustainable mobility (including public transport and active travel) differ from more urban regions and tend to operate at a smaller scale, this is a key area for investment.

Fig. 6. TII 2020 Employment Accessibility Score



Source TII 2020

The development of regional growth centres as targeted under Project Ireland 2040 will require investment in an accessible and efficient public transport network with better links between towns and their respective hinterlands. Specific regional infrastructure projects are noted in WDC (2021a) and WDC (2021b). The development of a coherent transport system, in addition to enhancing regional employment accessibility, should also ensure effective interchanging and links to airport and port infrastructure as well as to other important centres.

The WDC welcomes the regional population and employment targets as set out in Ireland 2040-Our Plan. These targets are ambitious and will need to be supported by regional investment to address historical infrastructure gaps that accompanying policies that facilitate regional employment and enterprise growth, which in turn will drive population growth. The pandemic has also resulted in a reappraisal of societal policy priorities that should be considered in the revised NDP. Key policy priorities that have emerged include a focus on quality-of-life challenges such as housing environment, health, childcare, and commuting.

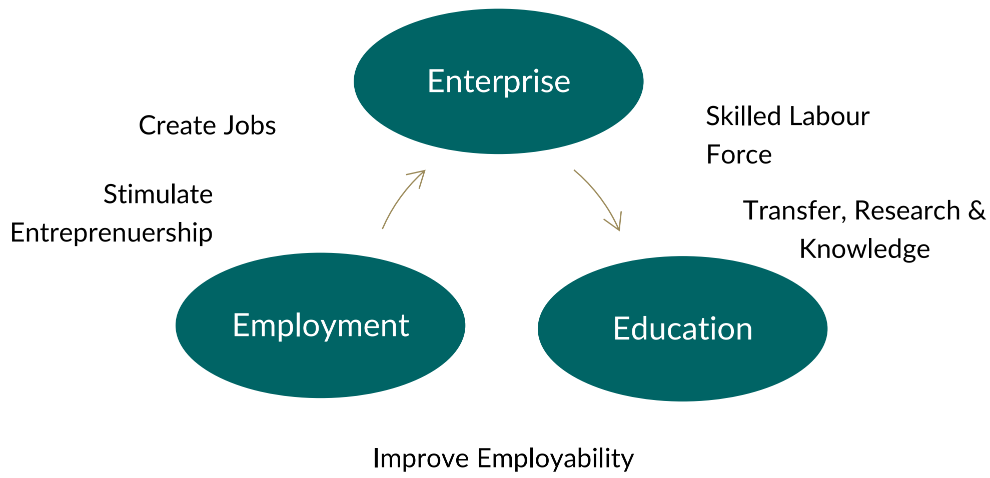
Addressing infrastructure deficits is important but must be coupled with policies that support the '3Es' of enterprise, employment and education

Building on regional strengths can help promote long-term economic development while also contributing to national economic growth

Support the 3 E's (Employment, Education and Enterprise)

Addressing infrastructure deficits is important but must be coupled with policies that support the '3Es' of enterprise, employment and education (McHenry and White 2010). When these areas complement and support each other, they drive regional growth. Education gives people skills for employment or entrepreneurship; enterprises create employment and depend on skilled labour; demand from individuals and firms for upskilling influences education provision; and enterprises collaborate with educational institutions to drive innovation.

Fig.7. The 3 E's to support regional development



Building on regional strengths can promote long-term economic development while also contributing to national economic growth. This requires integrated strategies for regional development policy across sectors and based on inclusive governance arrangements. If regional strengths and areas of comparative advantage are considered in the implementation of the NDP, it is likely to be far more effective.

The revised NDP must enable our towns and cities to adapt and maximise the opportunities for employment diversification and growth in our region. COVID-19 has highlighted structural issues such as graduate retention, labour market participation, reliance on micro-enterprises/self-employment and concentrated employment in tourism, agriculture, and public services. Regardless of the sector, enterprises depend on the quality of their workforce. Human capital is the most important determinant of regional performance (OECD, 2019). The NDP review provides an opportunity to enhance regional human capital by facilitating improvements in the provision of further and higher education services.

The aim of the revised NDP should be to provide the conditions for regions to grow to support the national objective of "sustainable development of the regions"

Join our Insights Mailing List here

Policy Insights

The aim of the revised NDP should be to provide the conditions for regions to grow to support the national objective of "sustainable development of the regions" as set out in the NPF. The dual shocks of COVID-19 and Brexit have exacerbated pre-pandemic structural issues in our region that future policy must address through the reduction of regional infrastructure deficits and broader support for the '3Es' of enterprise, employment and education to enable regions to make the most of their assets.

Given low levels of historical investment there is a clear need to improve regional connectivity and accessibility. A constraint for regional entrepreneurs is the lack of physical and digital infrastructure. The NDP must expedite the roll-out of high-speed broadband as well as the development and leverage physical infrastructure and investment to enhance regional connectivity and accessibility.

Authors:
Luke McGrath, Deirdre Frost & Helen McHenry

For further information:
Contact
policyanalysis@wdc.ie

Western Development Commission
Dillon House, Ballaghaderreen, Co Roscommon

Phone: +353 (0)94 986 1441
Email: info@wdc.ie
Web: westerndevelopment.ie