# ISRAEL

The OECD Regional Outlook reviews recent trends, policy developments, and prospects across OECD regions, including the underlying causes driving regional inequalities in performance and well-being. The report offers evidence, guidance and policy recommendations on how to improve competitiveness and productivity, promote inclusive growth, accelerate the net-zero transition and raise well-being standards through effective regional development policy and multi-level governance.

## Territorial definitions

The data in this note reflect different sub-national geographic levels in OECD countries. In particular, **regions** are classified on two territorial levels reflecting the administrative organisation of countries: large regions (TL2) and small regions (TL3). In Canada, TL2 corresponds to the provinces and territories.

Small regions are classified according to their access to metropolitan areas (Fadic et al. 2019). The typology classifies small (TL3) regions into metropolitan and non-metropolitan regions according to the following criteria:

- **Metropolitan regions**, if more than half of the population live in a FUA. Metropolitan regions are further classified into **metropolitan large**, if more than half of the population live in a (large) FUA of at least 1.5 million inhabitants; and **metropolitan midsize**, if more than half of the population live in a (midsize) FUA of at 250 000 to 1.5 million inhabitants.
- **Non-metropolitan regions**, if less than half of the population live in a midsize/large FUA. These regions are further classified according to their level of access to FUAs of different sizes: **near a midsize/large FUA** if more than half of the population live within a 60-minute drive from a midsize/large FUA (of more than 250 000 inhabitants) or if the TL3 region contains more than 80% of the area of a midsize/large FUA; **near a small FUA** if the region does not have access to a midsize/large FUA and at least half of its population have access to a small FUA (i.e. between 50 000 and 250 000 inhabitants) within a 60-minute drive, or contains 80% of the area of a small FUA; and **remote**, otherwise.

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## Overview

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| Population *(specify date)* and territory | 9.6403 million (as of November 2022), 22,072 km$^2$ |
| Administrative structure *(unitary/federal)* | Unitary country |
| Regional or state-level governments *(number)* | |
| Intermediate-level governments *(number)* | |
| Municipal-level governments *(number)* | 258 municipalities |
| Share of subnational government in total expenditure/revenues (2021) | 13.3% of total expenditure<br>15.0% of total revenues<br><br>[Source: Subnational governments in OECD countries: key data, 2023 edition] |
| Key regional development challenges | • Roughly 50% of Israel's municipalities are small with 15,000 residents or less. Their municipal budget is therefore limited.<br>• Although regional concepts and management mechanisms do exist to some extent (e.g. Ministry of Interior's 12 "Regional Clusters", engaging 64% of Israel's local municipalities) they are still partial and voluntary, and in most aspects, municipalities are still independently managed.[1]<br>• Lack of a national formal definition to regions: different government levels provide numerous spatial regional maps differentiated by their regional subdivisions. This adds another bureaucratic challenge and prevents potential collaborations between neighboring municipalities.<br>• Small municipalities are missing sufficient thresholds to provide quality infrastructure such as waste management treatment plants.<br>• Service provision is lacking in small municipalities (e.g. transportation, education, health).<br>• Major inequalities between center and peripheral municipalities.<br>• Competition between neighboring municipalities (instead of collaboration).<br>• Israel's key transportation mode is based on private car ownership which further challenges regional accessibility, especially in rural areas. |
| Objectives of regional policy | • In 2013, the Ministry of Interior established the concept of "Regional Clusters", with the aim to promote economic development and to support voluntary collaborations between neighboring municipalities across various initiatives (e.g., education, employment opportunities).<br>• The Ministry of Interior's "Regional Clusters" strive to promote the following objectives:<br>   - Increase service provision efficiency (both in terms of costs and service quality)<br>   - Improve services or management tools (including inequality, accessibility, expand or create services)<br>   - Regional management and development of spaces crossing municipal borders<br>   - Regional economic development<br>   - Regional cohesion (by promoting shared activities, shared representation, mutual support) |

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[1] To propose a new "Regional Cluster" the Ministry of Interior specifies the following criteria:
- The cluster needs to include a minimum of 6 municipalities;
- The cluster needs to include a minimum of 50,000 residents;
- The cluster needs to be heterogenic in terms of municipality type and social groups; Geographic sequence between municipalities is required.

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| Legal/institutional framework for regional policy | • The current institutional regional division is administrative but is not used as a tier of governance. It is used to provide and manage some services such as planning. The planning system is comprised of six districts. Each planning district has a Building Committee which is responsible for deliberating and approving plans within the district, in accordance to national policies and plans.<br>• The Ministry of Interior's "Regional Clusters" is a statutory organization initiated by the Minister's order. Each Cluster is officially known as a unifying body of municipalities and it is legally authorized to initiate, promote, and implement regional cooperations between member municipalities. The clusters act across different areas of interest (including economic, social, environmental, and strategic) with similar authority to the municipalities and according to the cluster's committee decisions. |
| Budget allocated to regional development (i.e., amount) and fiscal equalisation mechanisms between jurisdictions (if any) | • In 2022 the Ministry of Interior allocated 57 million NIS to "Regional Clusters"-related activities – a sum that represents a relatively small portion of its budget. However, this amount has increased over the last decade (in comparison to only 2 million NIS in 2013).<br>• Designated Geographic Investigation Committees advise the Minister of Interior on issues related to: (1) revenue distribution and (2) boundaries between adjunct municipalities. The Committees serve as professional advisory teams and can issue recommendations regarding land transfers from one municipality to another or re-distribution of revenues to address specific conditions. The Minister can choose whether to adopt the Committees' recommendations.<br>• Regional Clusters funding relies on several sources: municipal budget, allocation from the Ministry of Interior and other ministries, philanthropic funds, and self-funding mechanisms.<br>• In addition to the clusters, the Spatial Planning and Development team in the Home Affairs, Planning and Development division at the Prime Minister's office, promotes and manages the implementation of various government resolutions addressing regional development. These government resolutions target specific areas, for examples: Resilience Plans for the " Gaza Envelope" region (Government resolution No.566); Encourage sustainable demographic development in the Golan Heights sub district (No. 864); the Development of cities in the Eastern Negev region (No. 1416), the Empowerment and development plan for the Druze and Circassians populations (No. 959); the Development of cities in the north of Israel (No. 3740).These include policy tools from different themes, including infrastructure, education, welfare, housing, tax benefits, planning, waste treatment, climate change preparation and more. |
| National regional development policy framework | • See previous sections for information about the Regional Clusters and Israel's administrative division to districts. |
| Urban policy framework | • Israel does not have a specific urban policy framework. However, over 90% of Israel's localities are urban and therefore much of its policies address urban conditions. Densification of the urban environment by setting minimum density requirements, urban regeneration and infill development of existing cities, and urban development around mass transit systems are among Israel's urban policy priorities. All of these aim to efficiently utilize the use of land.<br>• Another example focuses on utilizing *underground* spaces in Israel. The Spatial Planning and Development team in the Home Affairs, Planning and Development division at the Prime Minister's office, promotes and manages the government resolution to support the development and utilization of underground spaces (No. 1736). The government decision forms a cross governmental committee, headed by the Director General of the Prime Minister's office, with a mandate to draft a national plan to promote and implement the utilization of underground spaces. The team's goals are as follows:<br>   -   Creating economic incentives for construction and development in the underground. |

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| | - Promoting planning, registration, and marketing in the underground.<br>- Promoting research and making knowledge accessible.<br>- Promoting infrastructure tunnels. |
| Rural policy framework | Government decision #2262 from April 2022 declared a list of specific regions and settlements as "National Priority Area(s)" in order to strengthen the Country's economic and social capital. National Priority Areas are municipal regions designated by the government to receive tax cuts, special benefits and funds for housing, education and culture, as well as tax exemptions, special mortgage rates, and other lucrative subsidies. |
| Major regional policy tools (e.g., funds, plans, policy initiatives, institutional agreements, etc.) | • The Spatial Planning and Development team in the Home Affairs, Planning and Development division at the Prime Minister's office in collaboration with the Ministry of Economy and Industry and the Ministry of Agriculture and the West Negev Regional Cluster, are promoting the development of the "agri-tech" industry in the West Negev area (government resolution No. 566).<br>• The Ministry of Interior acts to strengthen local municipalities. It works with other ministries to examine what needs to be accomplished at the regional level via the "Regional Clusters" organization and which challenges they could potentially overcome with support from regional policy tools. The Ministry of Economy and Industry, for example, provides incentives to employers based on the "National Priority Areas(s)" map to target and hire quality workforce. |
| Policy co-ordination tools at national level | • The Ministry of Interior promotes relevant **pilots** to examine government decisions with a regional character and to facilitate learning to all parts involved. For example: establishing a plastic recycling regional facility of agriculture waste (West Negev cluster) or creating a regional framework to promote social economic learning and skills toward the 21st century among newborns-job market ages to enable regional social mobility (Beit HaKerem cluster). |
| Multi-level governance mechanisms between national and subnational levels (e.g., institutional agreements, Committees, etc.) | • The Ministry of Interior initiates **Steering Committees** to monitor pilot results (see previous section).<br>• The Israel Planning Administration operates across government levels with a clear hierarchical structure. The Planning system is comprised of local, regional, and national planning committees and adjacent planning bureaus at each level. |
| Policy co-ordination tools at regional level | Each region has a planning bureau which adheres and reports to the national level. The planning system is hierarchical, and regional plans are attuned to national plans. |
| Evaluation and monitoring tools | The Ministry of Interior's **pilots** (see above) are required to provide assessment benchmarks such as implementation timeframe and scale, future revenues and IRR. Each pilot tailors their own monitoring tools. |
| Future orientations of regional policy | • Research on "Redefining spatial planning and development in Israel" is led by the Spatial Planning and Development team in the Home Affairs, Planning and Development division at the Prime Minister's office (January 2023). The research will include an overview and analysis of Israel's spatial development structure, current needs and future relevant trends, and will provide concrete spatial development policy recommendations. The output will be **an official OECD publication**, which is expected to respond to the needs of Israeli authorities.<br>• Government decision #675 from November 2021: Decentralizing powers to the local government and reducing excess regulation.<br>• A joint-departmental committee led by The Prime Minister's office and the Ministry of Interior was established based on #675 decision, to (1) map the various responsibilities throughout the government ministries that pertain to the local authorities; (2) hold discussions with local government representative; and to (3) present to the government a roadmap for the implementation of decentralization of powers. |

## Recent policy developments

The working group for promoting regionalism was established in 2019 by the Minister of Interior and was led by the Director General. The group was tasked with assessing the structural challenges and dis-efficiencies of the national-local government relationship. The taskforce completed its work in 2020 and submitted its reform proposal. The reform proposed to develop a third level of regional government to bridge between the national and the local. The reform was not adopted by the government; however, the government published resolution #675 (Nov 2021) with the purpose of decentralizing powers to the local government and reducing excess regulation (see more under "Future orientations of regional policy").