



ISLAND ECONOMIES

Building resilient, innovative and connected island regions

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Stefano Barbieri, Senior Policy Analyst



Setting the scene

Why focus on island economies

- Highly relevant in today's policy debates
- Share traits with rural areas but face distinct challenges
- Clear demand for deeper analysis of specific dynamics

Why islands matter

- Home to millions of citizens (EU 4.6%, Italy 11%, Greece 15% of total population)
- Key partners for territorial cohesion and connectivity
- Strategic anchors in major sea basins
- Rich natural and social capital
- Living labs for green, blue, digital transitions and governance innovation

Key challenges for Islands

- Isolation and strong seasonality
- Small land areas and markets (limited agglomeration)
- Higher costs (especially transport)
- Weaker institutional capacity
- Inadequate classification and data

Main opportunities

- Sustainable tourism, cultural and creative industries
- High-quality agri-food and fisheries
- Green and blue economy potential
- Innovation and digitalisation
- Community participation and cooperation



OECD work on island economies



OECD Territorial Reviews: Gotland, Sweden (2022)

- It highlighted Gotland's particularities as an island region and provided recommendations to help improve quality of life for residents and support more efficient use of public resources.

OECD Initiative on Island economies (2022 -)

- It is a global platform to enable knowledge sharing, advocacy and dialogue between countries, islands, and island-regions. (2-3 discussions per year).

OECD –EU project “Improving the quality of multi-level governance and strengthening the resilience of island economies of Croatia, Greece and Sweden” (2023-2025)

Objectives

- Develop the economy of islands through the green and digital transition
- Improve multi-level governance
- Enhance citizen's well-being

6 case study island regions

- Croatia: Zadar county, Dubrovnik county
- Greece: Chios, Kastellorizo
- Sweden: Gotland, Öckerö



Classifying islands

Challenges for classification and data collection

Existing frameworks such as Eurostat’s Island Framework operate at NUTS3 level, which...

- exclude smaller and mixed mainland-island areas
- fails to capture functional interdependencies
- Miss key socio-economic and accessibility differences between islands

Closing the gaps

This project...

- combines Eurostat’s island and coastal classifications with OECD’s metropolitan framework on TL3 level
- proposes a hybrid, functional typology with more granular island classifications
- improves international comparability and capture actual connectivity and access

Common typologies and dimensions for classifying islands

Dimension	Categories	Policy relevance
<i>Land area</i>	<ul style="list-style-type: none"> • Large islands: More than 100 km² • Medium-sized islands: Between 10 and 100 km² • Small islands: Less than 10 km² 	Smaller islands face stronger land-use pressures, limited space for housing or infrastructure, and higher exposure to environmental risks, while larger islands can accommodate broader economic activity and more diverse land uses.
<i>Population size</i>	<ul style="list-style-type: none"> • Large islands: More than 50 000 permanent inhabitants (<i>15 islands in the EU</i>) • Medium-sized islands: Between 5 000 and 50 000 permanent inhabitants (<i>44 islands in the EU</i>) • Small islands: Between 50 and 5 000 permanent inhabitants (<i>303 islands in the EU</i>) • Very small islands: Fewer than 50 permanent inhabitants (<i>228 islands in the EU</i>) 	Smaller islands often face higher service costs and limited labour markets, while larger ones can sustain broader governance and economic functions.
<i>Governance status</i>	<ul style="list-style-type: none"> • Independent island municipality: Island governed by its own local authority with full municipal responsibilities. • Part of mainland municipality: Island administered as part of a mainland local government, often limiting island-specific decision-making. • Multi-island municipality: Municipality comprising several islands, requiring coordination across dispersed territories. • Island region: Autonomous regional government covering one or several islands with broader political, fiscal, and administrative powers. • Island state: Sovereign island country with full national governance authority (e.g. Malta, Iceland). 	Governance structure influences fiscal capacity, decision-making authority, and coordination with national policies. Islands integrated into mainland municipalities often face limited autonomy, while independent or regional island administrations can better tailor local strategies.
<i>Economic function</i>	<ul style="list-style-type: none"> • Tourism-based islands: e.g. Ionian islands • Primary sector-based islands: e.g. Crete • Manufacturing-based islands: e.g. Sardinia, Malta • Knowledge-intensive or service-oriented islands: e.g. Sicily, Hong Kong 	Islands’ dominant economic sectors shape employment, innovation potential, and exposure to shocks. Knowledge- and service-oriented islands benefit from stronger value creation and innovation linkages, while those dependent on tourism or primary industries face higher vulnerability to seasonality and external demand fluctuations.

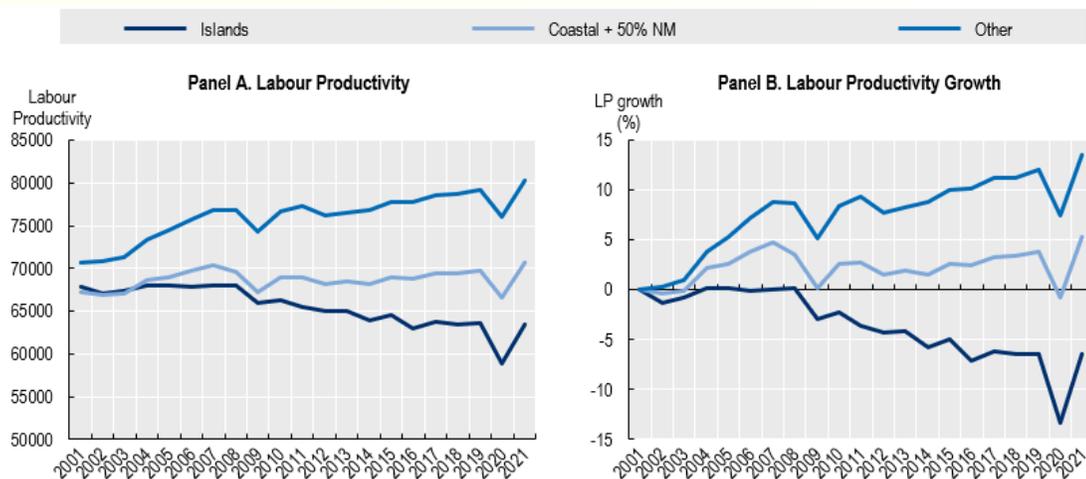
Definitions used for island regions are based on EU definition:

- **Island region:** 4% of sample (or 47 regions)
- **Coastal non-metro regions:** 16% of sample (or 170 regions)
- **Other regions:** 80% of sample (or 868 regions)

- **Population in Island regions is growing faster** on average (9%) than coastal non-metropolitan (3%) and other regions (5%).
- **Economic growth is weaker** in island regions (GDP + 5%) compared to other regions (GDP +16% and +37%).
- **Trade and Services are the largest sector of employment (30%)**, while the strongest recent growth was in the Professional and Scientific services sectors (9%).
- **Smaller firms (1-9 employees) employ a larger employment share** in Island regions (36%) than in other regions (28% and 19%).

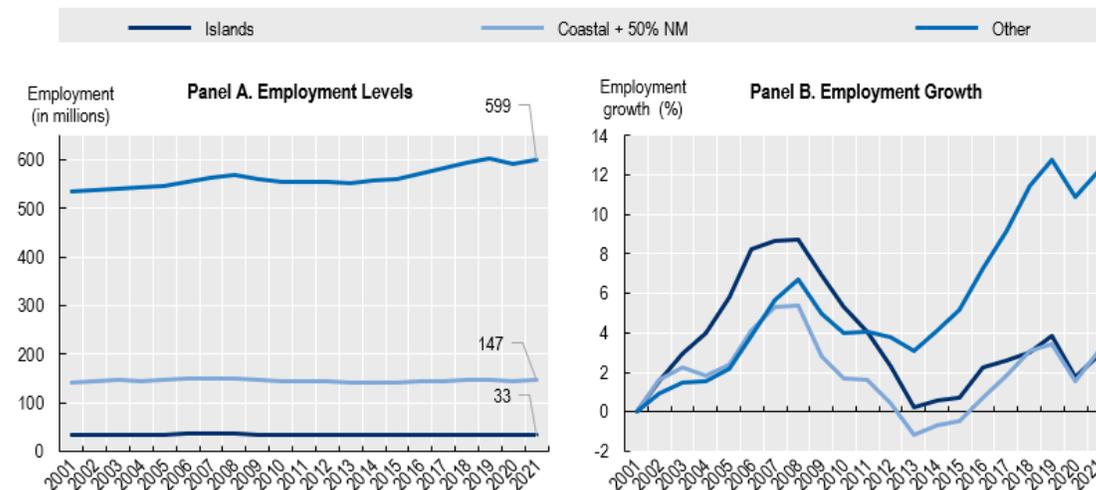
Labour productivity has fallen in island regions...

Labour productivity from 2001-2021, in absolute values (Panel A) and % (Panel B)



... and employment levels have grown at a slower rate

Employment from 2001-2021, in absolute values (Panel A) and % (Panel B)



Why are the costs of insularity important?

1. **Societal costs:** Insularity (e.g. connectivity challenges) imposes financial burdens on businesses, households, and governments
2. **Understanding the complexity of insularity costs:** Conceptualising the dynamic relationship and multiplier effect of insularity costs
3. **Policy development:** The costs of insularity could be integrated into policy planning and coordination processes (e.g. school construction or operating a business)
4. **Financing frameworks:** Making financing frameworks adaptive to insularity-related costs can be considered
5. **Cost comparisons:** Establishing a general framework to estimate insularity costs allows for comparisons across different islands and countries

Underlying causes of the cost of insularity

	Island geography alone		Geography and institutions		Island institutions alone	
<i>Primary impact</i>	Distance, terrain, disconnection		Shortages and inequities in the factors of production		Norms, approach, behaviours	
<i>Secondary impact</i>	Transport	Limits to development	Limited infrastructure	Shallow markets	Weak governance	Low productivity
Examples of cost impact						
<i>Households</i>	Travel	Housing	Commuting	Petty services	Water	Renovations
<i>Businesses</i>	Freight	Manufacturing	Exports	Skilled labour	Permits	Construction
<i>Governments</i>	Subsidies	Roads	Service delivery	Procurement	Staff costs	Health services



Leveraging island assets: islands as laboratories

Green innovation

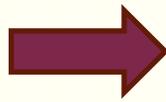
- Islands need to reduce fossil-fuel dependence, energy import costs, and climate risk exposure.
- Islands can pioneer renewable energy, smart grids, storage and energy efficiency, responding to high energy costs and climate risks.

Blue innovation

- Islands can leverage sustainable maritime and coastal resources for balanced growth
- Islands have strong potential to develop new blue value chains and marine biotechnology

Digital transformation

- Islands can connect to wider markets and global knowledge networks through digital tools
- Islands need reliable broadband, strong digital-skills training, and sound data governance



These opportunities are best realised through place-based strategies and solutions tailored to each island's geography, economy and community



Findings from Croatia, Greece and Sweden

Croatia

- Productivity gains
- Demographic and capacity gaps

Greece

- Demographic vitality
- Weak productivity and implementation gaps

Sweden

- Regional performance
- Pressures on small island municipalities

Governance

- Different models:
 - Sweden's "integrated decentralisation", Croatia's "institutionalised coordination", Greece's "constitutional recognition"
- Common challenges
 - implementation capacity
 - complex delivery arrangements
 - reliance on EU funds (Croatia, Greece), self-financed models (Sweden)
 - need for better data, monitoring and island-sensitive multi-level governance



Policy implications

Outputs and activities

1. Refine island **definitions** and **typologies** to guide place-based policy
2. Use “**cost of insularity**” **analyses** to redesign e.g. connectivity, services and housing policy
3. Rebalance from demographic growth to **productivity-led prosperity**
4. Invest in **people, skills and social inclusion** as transformation levers
5. Elevate **multi-level governance** and **data** as “infrastructure” for island development
6. Strengthen SME and agri-food ecosystems through **cooperative and cluster models**
7. Make island pilots for **green, circular and blue transitions**
8. Leverage **international networks** as multipliers
9. Embed a **distinctive EU strategy for islands** in Cohesion Policy 2028–2035



Strategic policy framework for island transformation

- **3 country reports with action plans** for Croatia, Greece, Sweden
 - each plan specifies **concrete actions, clear responsibilities and expected outputs**
 - **implementation pathways** defined for national, regional and municipal levels
- **One project synthesis report with 67 cross-cutting recommendations for island development**, organised under 10 thematic areas
 - Data, typologies and evidence-based policymaking
 - Strategic reframing and governance modernisation
 - Multi-level coordination and international networking
 - Fiscal frameworks and cost of insularity reduction
 - Financing, investment and EU cohesion alignment
 - Connectivity, infrastructure and digitalisation
 - Human capital, skills and demographic resilience
 - Economic diversification and SME competitiveness
 - Environmental resilience and green–blue transitions
 - Cross-cutting implementation and accountability

Thank you!



stefano.barbieri@oecd.org

Twitter: @OECD_local

LinkedIn: www.linkedin.com/company/oecd-local

Website: www.oecd.org/cfe

Blog: oecdcoquito.blog

