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Effective Public Investment across levels of government

Sub-national Capacities in a Multi-level Governance Context

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Outline of the presentation

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OECD Regional Development Working Papers 2013/04

Creating Conditions for Effective Public Investment

SUB-NATIONAL CAPACITIES IN A MULTI-LEVEL GOVERNANCE CONTEXT

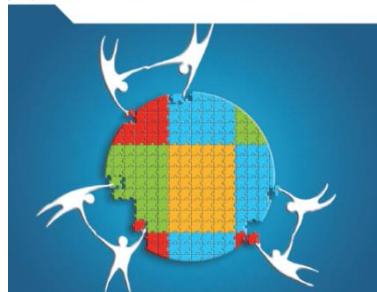
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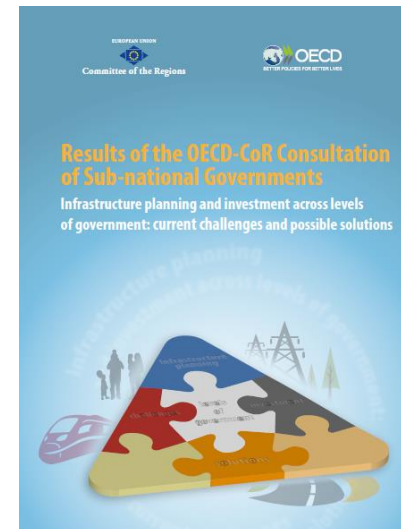
Investing Together

WORKING EFFECTIVELY ACROSS LEVELS OF GOVERNMENT



DIRECTORATE FOR PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT

EFFECTIVE PUBLIC INVESTMENT ACROSS LEVELS OF GOVERNMENT
PRINCIPLES FOR ACTION



Results of the OECD-CoR Consultation of Sub-national Governments

Infrastructure planning and investment across levels of government: current challenges and possible solutions

- 1. Why does governance matter critically** for public investment effectiveness— in particular at the subnational levels?
- 2. Which governance capacities matter the most** for effective public investment across levels of government?
- 3. How to best support countries** in implementing good governance practices for public investment?



**Why does governance matter
critically for public investment – in
particular at the subnational levels?**



Public investment, growth and governance

Key messages from the OECD

- OECD (WB & IMF): the effect of public investment on growth is sizeable – high multiplier effect + critical for environmental performance and well being
⇒ The first year effect of a ½ per cent of GDP public investment stimulus by all OECD economies is significant and translates for example in 0.6% of GDP increase in the United States, and 0.5% in the Euro area (OECD, 2016)
- highest effect in fields that are associated with large externalities ...lowest in countries where the public capital stock is already high (OECD, 2016)
- It is total investment and the capital stock that matter for growth
- Strong decline in public investment following the crisis...Call for more public investment in OECD countries (well targeted to specific sectors/places)
- Subnational governments are key actors for public investment

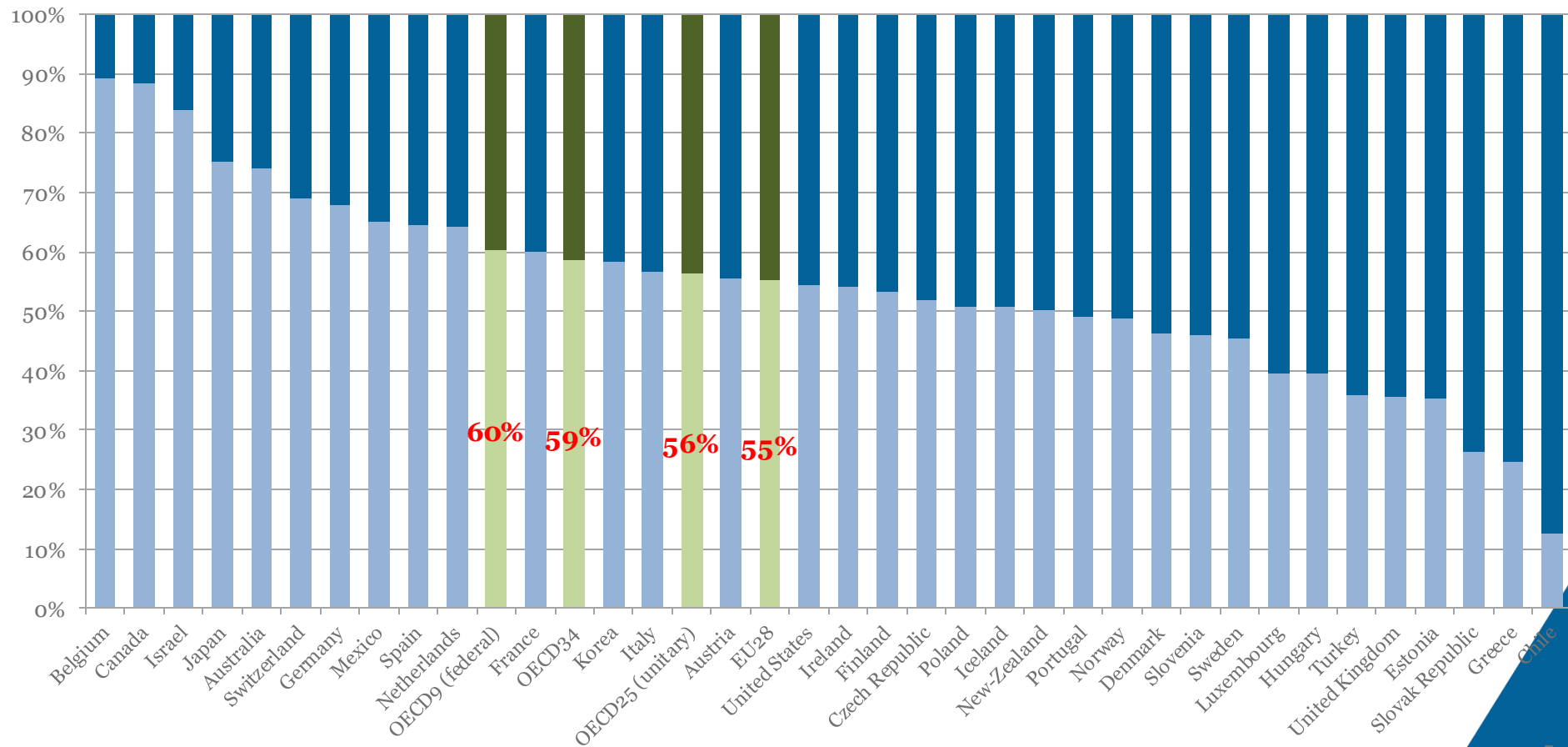


Subnational governments are in charge of almost 60% of public investment

This raises important governance challenges

Share of public investment at subnational level (2014 data)

■ Subnational government ■ Central government and social security





Public investment, growth and governance

Key messages from the OECD

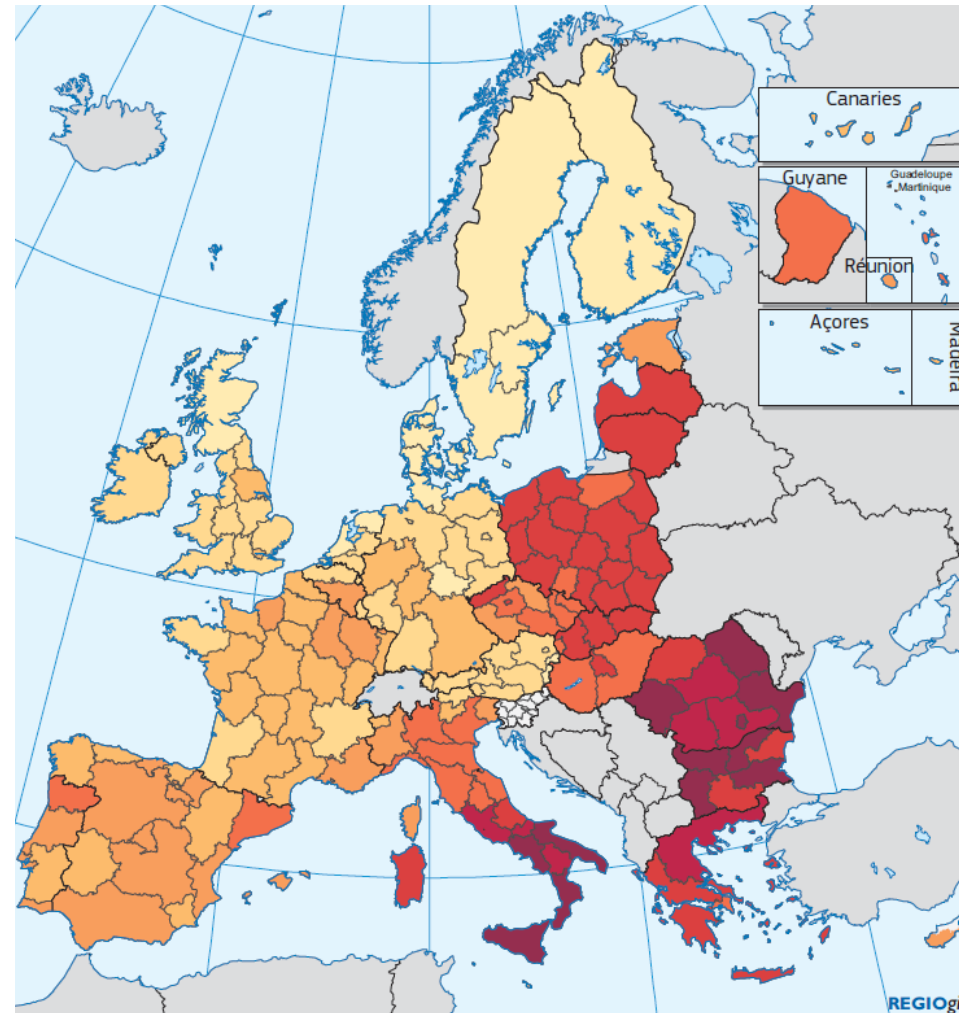
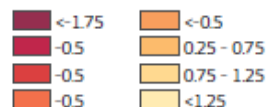
- **Governance challenges:** public investment inherently fragmented = horizontal/vertical coordination challenges
- ...+ issues of **capacities of subnational governments** to handle public investment
- Impact of public investment depends **on the way it is managed...**
- ... and the extent to which it is targeted towards a **place-based approach**
- **Public investment needs to differ across regions** depending on their density, economic structure and distance from the productivity frontier
- **Heterogeneity calls for differentiated investment strategies** to tailor investment to local needs and the competitive advantages of regions ⇒ place-based approaches very demanding from a governance perspective
- **Investment in physical infrastructure is important for regional performance, particularly when co-ordinated with other strands of policy (human capital, innovation).** When undertaken in isolation, it can yield poor results, and it seems to be subject to diminishing returns (OECD, 2009) - *Policy complementarities across investment priorities are critical → require governance tools to manage them (OECD, 2011, 2013, 2015)*



Institutions and governance matter

Empirical evidence indicate that investment and growth outcomes are correlated to the quality of government at the sub-national level

- Quality of regional government (QoG) varies greatly across regions within countries
- Rodriguez-Pose and Garcilazo (2013), OECD (2013): Institutional quality and governance processes affect the returns to public investment
- ...and strongly mediates the returns of expenditure on EU funds
- Better QoG is associated with better returns to public investments in places with relatively large investment expenditure (the case of cohesion policy).
- This reinforces concerns about SNG capacity challenges = need to invest in governance



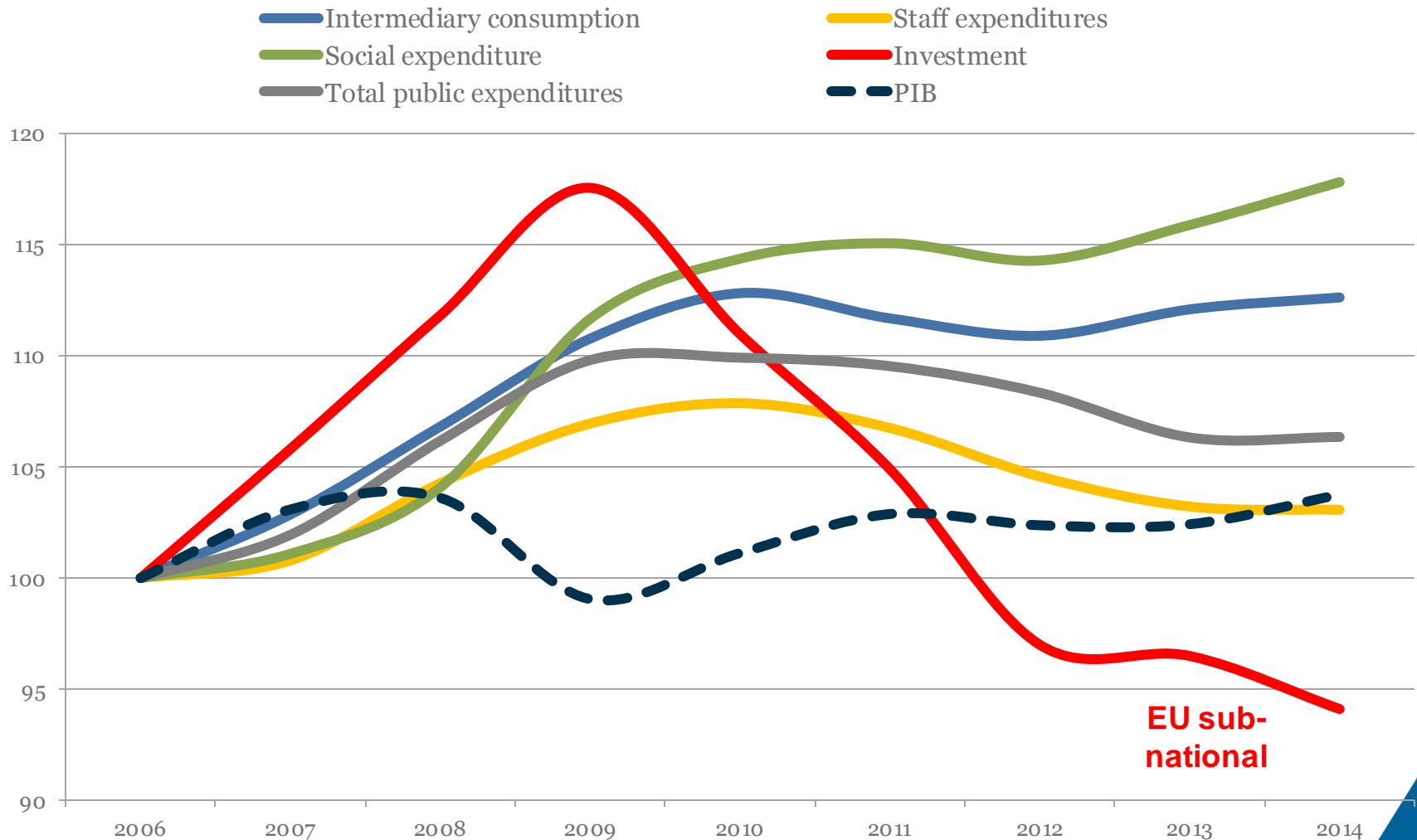
Source: N. Charron, V. Lapuente and L. Dykstra (2012.) "Regional Governance Matters: A Study on Regional Variation in Quality of Government within the EU" (forthcoming *Regional Studies*).



Improved governance matters critically to make the most of reduced public investment

Public investment as an adjustment variable at the subnational level (EU)

Public investment at the sub-national level used as an adjustment variable in the EU
(Base 100 = 2005)



EU sub-national

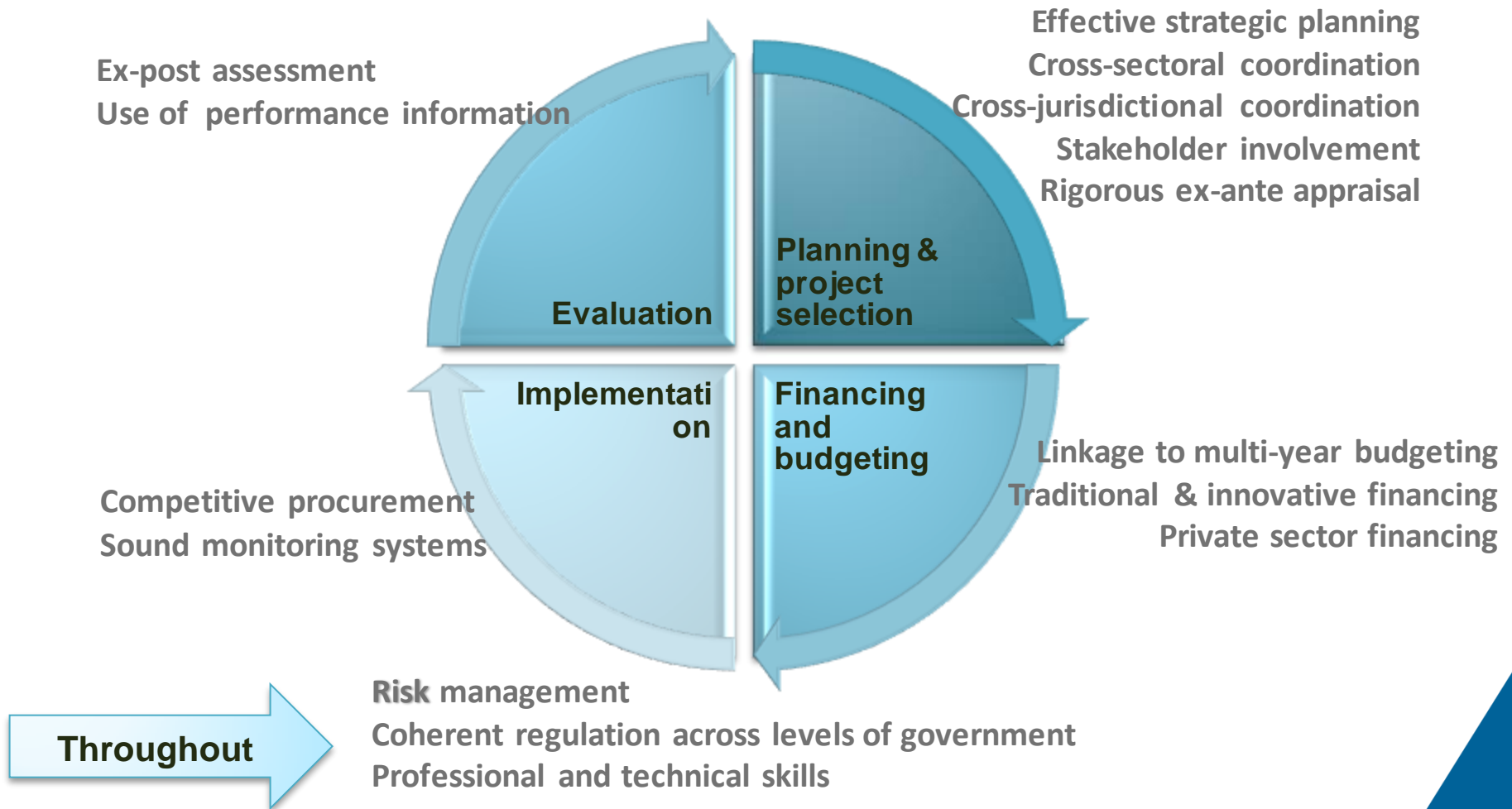


**Which governance capacities
matter the most for effective public
investment across levels of
government?**



Which sub-national capacities are important?

15 important sub-national capacities that correspond to the principle stages of the investment cycle



Capacity needs and bottlenecks differ from region to region



OECD-CoR survey results (2015)

Governance challenges are prominent for SNGs (and vary according to their size)

Designing and planning infrastructure in a long-term perspective

- Lack of capacity to design long-term infrastructure strategies (65% SNGs)
- Lack of sufficient in-house expertise to design infrastructure projects (56%)
- Lack of coordination across sectors

Coordination across levels of government & jurisdictions

- Mismatch between local/regional needs and those given priority at central level (84%).
- Absence of a joint investment strategy with neighbouring cities/regions (76%)
- Lack of incentives (such as financial incentives) to cooperate across jurisdictions

Performance monitoring

- Though a monitoring system might exist, it is frequently pursued as an administrative exercise and not used as a tool for planning and decision-making (66% of SNGs)
- Lack of (ex-post) impact evaluations (71%)

Red tape and regulatory burden

- A large majority of respondents (90%) consider excessive administrative procedures, lengthy procurement and red tape as a challenge



OECD-CoR survey results (2015): learning from good practices

Practices that help the management of public investment

Subnational governments should:

- **Improve medium-term planning for infrastructure investment**
 - ✓ Multi-year
 - ✓ Linked with budget
 - ✓ Credible enforcement mechanisms
- **Adopt investment strategies that cross existing jurisdictional boundaries**
- **Mutualise functions**
 - ✓ Procurement (framework contracts)
 - ✓ capital funding to have access to finance

National governments should:

- Adopt national strategies for infrastructure investment which help guide the strategic priorities for the country – beyond policy silos
- Develop some platforms of coordination with SNGs/instruments to foster joint investment/co-financing with SNGs
- Provide incentives for SNGs to cooperate on infrastructure development
- Clarify the allocation of competencies in the field of infrastructure



OECD Recommendation on Effective Public Investment Across Levels of Government

Pillar 1

**Co-ordinate across
governments and policy
areas**

- Invest using an integrated strategy tailored to different places
- Adopt effective co-ordination instruments across levels of government
- Co-ordinate across SNGs to invest at the relevant scale

Pillar 2

**Strengthen capacities and
promote policy learning
across levels of
government**

- Assess upfront long term impacts and risks
- Encourage stakeholder involvement throughout investment cycle
- Mobilise private actors and financing institutions
- Reinforce the expertise of public officials & institutions
- Focus on results and promote learning

Pillar 3

**Ensure sound framework
conditions at all levels of
government**

- Develop a fiscal framework adapted to the objectives pursued
- Require sound, transparent financial management
- Promote transparency and strategic use of procurement
- Strive for quality and consistency in regulatory systems across levels of government



How to best support countries in implementing good governance practices for public investment?



Supporting the implementation in countries

Toolkit, indicators and country studies

Examples of good practices for the implementation of the Recommendation in OECD countries

Check the map to discover an example of a good practice per country.





Supporting the implementation in countries

Toolkit, indicators and country studies

Implementation Toolkit with:

- Practical guidance for each of the 12 Principles
- Country profiles with data & indicators
- Recent developments and good practices in countries
- Checklist and self assessment tools

Key objectives

- **Peer learning and capacity-building:** Disseminate examples of good practices, data and indicators and help governments at all levels diagnose key challenges for investment
- **Monitoring:** Follow-up reforms and recent developments in this field

EFFECTIVE PUBLIC INVESTMENT
ACROSS LEVELS OF GOVERNMENT

TOOLKIT

Effective Public Investment Toolkit » Country profiles

Country profiles

Country profiles in alphabetical order (OECD members and non-members)

Australia	Italy
Austria	Japan
Belgium	Korea
Canada	Luxembourg
Chile	Mexico
Colombia	Netherlands
Czech Republic	New Zealand
Denmark	Norway
Estonia	Poland
European Union	Portugal
Finland	Slovak Republic
France	Slovenia
Germany	Spain
Greece	Sweden
Hungary	Switzerland
Iceland	Turkey
Ireland	United Kingdom
Israel	United States



Supporting the implementation in countries

Country studies with detailed scoreboard of indicators

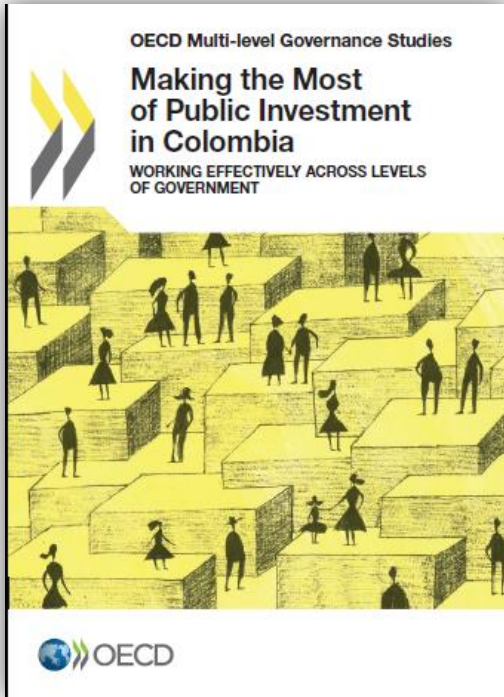


Table 0.1. Summary assessment: OECD Recommendation on Effective Public Investment across Levels of Government

Colombia	
System is in place and works in a satisfactory way	System is not in place or not functioning well
System is in place, but improvements are needed	Additional information needed
PRINCIPLE 1:	
To engage in planning for regional development that is tailored, results-oriented, realistic, forward-looking and coherent with national objectives	<p>COHERENT PLANNING ACROSS LEVELS OF GOVERNMENT Mechanisms exist to ensure that subnational investment plans reflect national and subnational development goals.</p> <p>TAILORED, PLACE-BASED DEVELOPMENT PLAN Assessment of territorial needs and strengths corresponds with planned projects.</p> <p>CLEAR PUBLIC INVESTMENT PRIORITIES There is a clear and authoritative statement of public investment priorities at national and regional levels.</p>
To co-ordinate across sectors to achieve an integrated place-based approach	<p>COMPLEMENTARITY OF HARD AND SOFT INVESTMENTS Consideration is given to complementarities between investments in hard and soft infrastructure.</p> <p>COMPLEMENTARITIES ACROSS SECTORS Attention is given to potential complementarities and conflicts among investments by different ministries/departments.</p> <p>CROSS-SECTORAL CO-ORDINATION Formal or informal mechanisms exist to co-ordinate across sectors (and relevant departments/agencies) at the subnational level.</p> <p>FORWARD-LOOKING INVESTMENT PLANS Authorities assess the potential contribution of investments to current competitiveness, sustainable development, and regional and national well-being.</p> <p>DATA AVAILABILITY AND USE FOR INVESTMENT PLANNING Data are available and used to support the territorial assessment and planning process.</p>
To support decisions with adequate data	
PRINCIPLE 2:	
To co-ordinate across levels of government to reduce asymmetries of information	<p>CO-ORDINATION BODIES ACROSS LEVELS OF GOVERNMENT There are formal mechanisms/bodies for co-ordination of public investment (formal platforms and ad hoc arrangements) across levels of government.</p> <p>CROSS-SECTORAL APPROACH These co-ordination bodies/mechanisms have a multi-sector approach.</p> <p>MOBILISATION OF CO-ORDINATION ARRANGEMENTS These co-ordination mechanisms are mobilised regularly and produce clear outputs/outcomes.</p> <p>EFFICACY OF CO-ORDINATION PLATFORMS Stakeholders' perception (or empirical data) regarding the efficacy of these different platforms are available.</p> <p>CONTRACTUAL AGREEMENTS/PARTNERSHIPS Contractual agreements/partnerships across levels of government have been developed to manage joint responsibilities for subnational public investment.</p> <p>EFFECTIVENESS OF CONTRACTUAL AGREEMENTS The share of subnational public investment covered by these agreements is measured.</p> <p>CO-FINANCING ARRANGEMENTS There are co-financing arrangements for public investment.</p>
To align priorities across the national and subnational levels	

Indicators: OECD Recommendation on Effective Public Investment across Levels of Government

SWEDEN	
System is in place and works in a satisfactory way	System is not in place or not functioning well
System is in place, but improvements are needed	Additional information needed
PRINCIPLE 1:	
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Supporting the implementation in countries

Indicators on multi-level governance of public investment

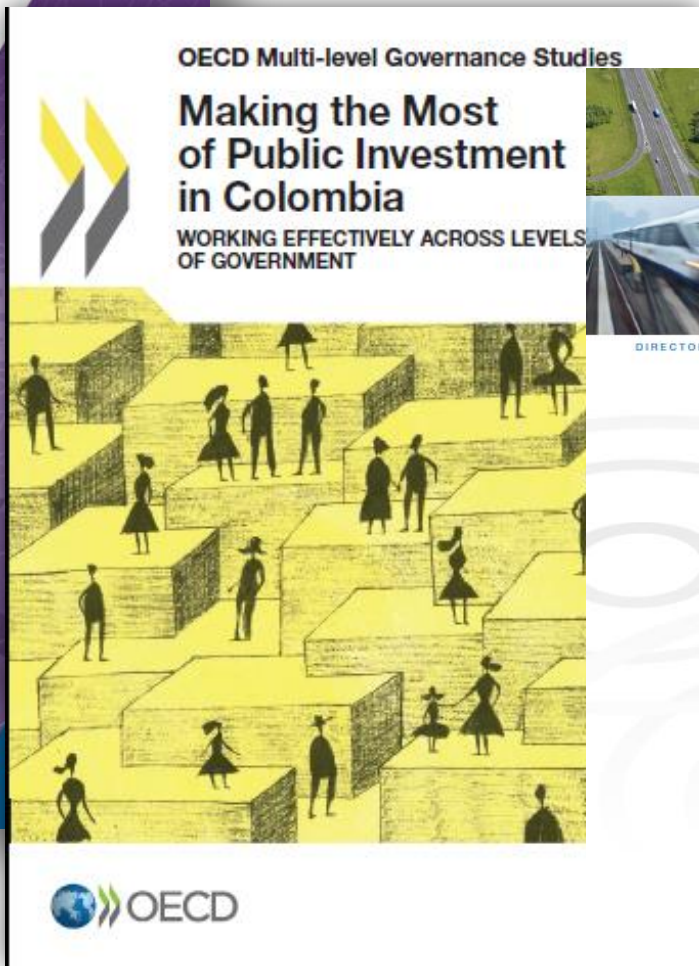
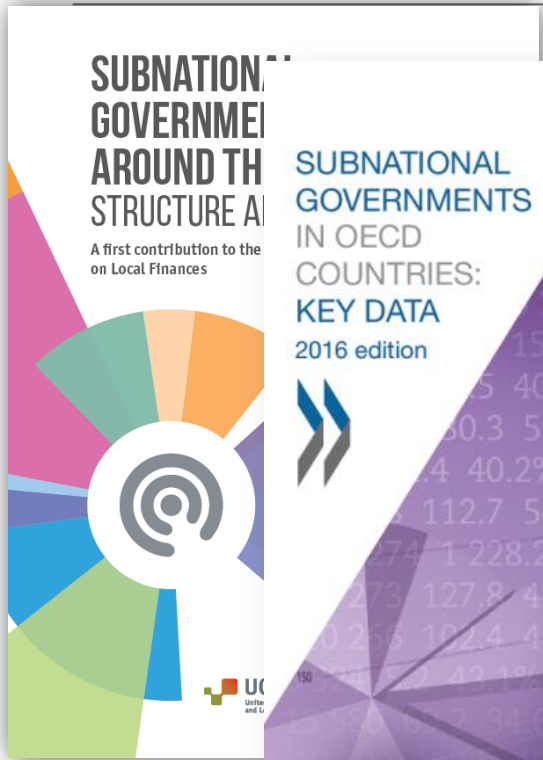
Results of indicators for OECD countries (average) (OECD, 2016)



- Centralised countries tend to have more challenges on planning or multi-level dialogue
- ...whereas highly decentralised countries have more challenges for the coordination across sectors or fiscal stability.



Recent OECD publications





THANK YOU

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<http://www.oecd.org/effective-public-investment-toolkit/>