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Implementing investment recovery strategies across levels of government:

A few lessons from the crisis

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European Association of State Territorial Representatives
Lausanne, October 1st, 2010

Outline

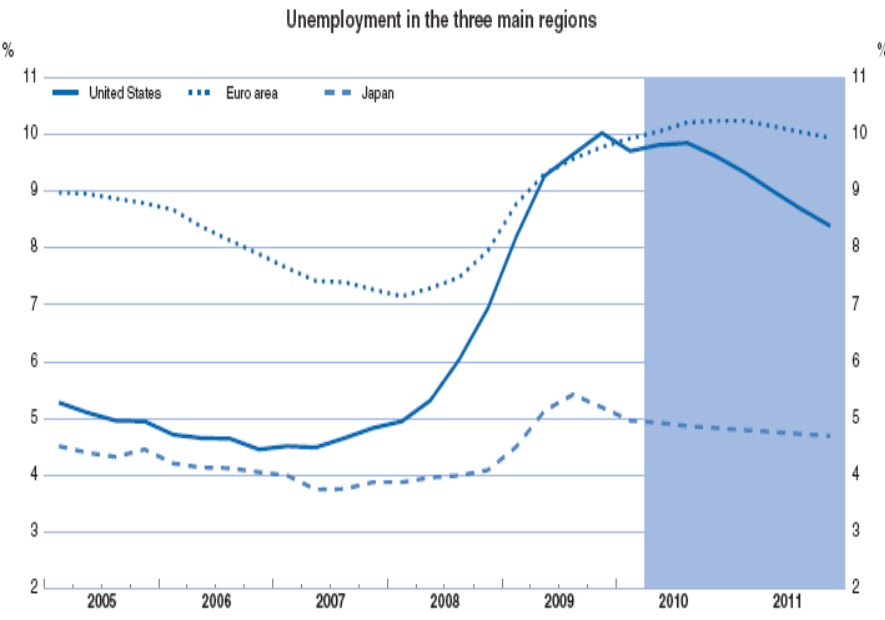
- 1) Where do we stand today?**
- 2) What have been the major implementation challenges for investment recovery strategies?**
- (3) Which governance arrangements have facilitated implementation?**
- (4) Which lessons and warnings can we draw for the future?**

1) Where do we stand today? (1)

Weak recovery, with persistent high levels of unemployment – 50 million unemployed in the OECD

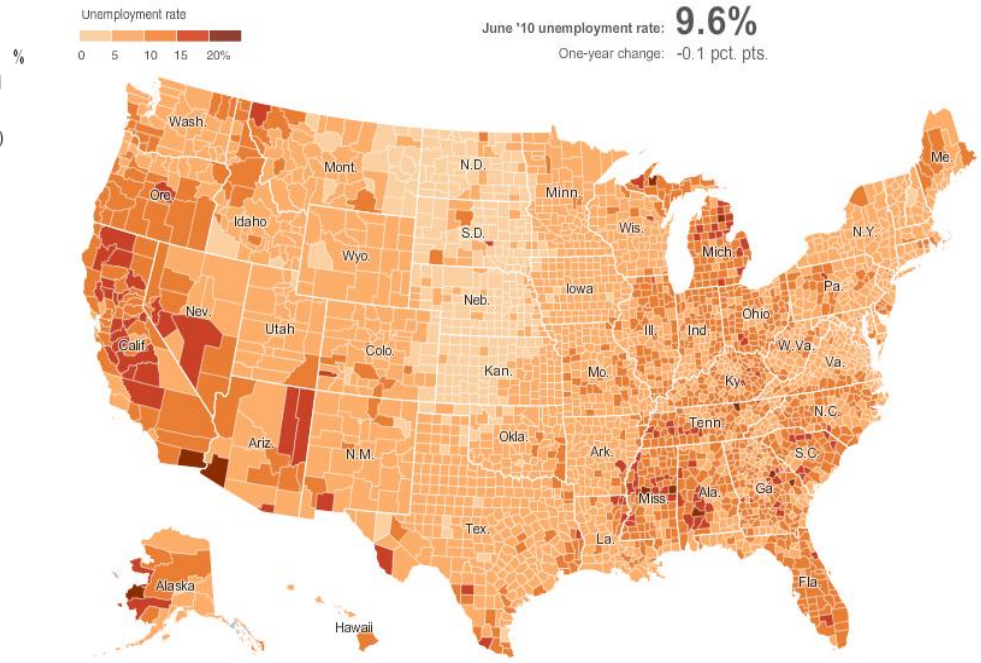
The lasting impact of the crisis will vary significantly across territories

Chart 1. Unemployment in the three main regions of the OECD



1. NAIRU is based on OECD Secretariat estimates.
Source: OECD Economic Outlook 87 database.


Chart 2. Regional disparities in unemployment: the example of the United States (June 2010 data)



Source: Geography of a recession, New York Times June 2010

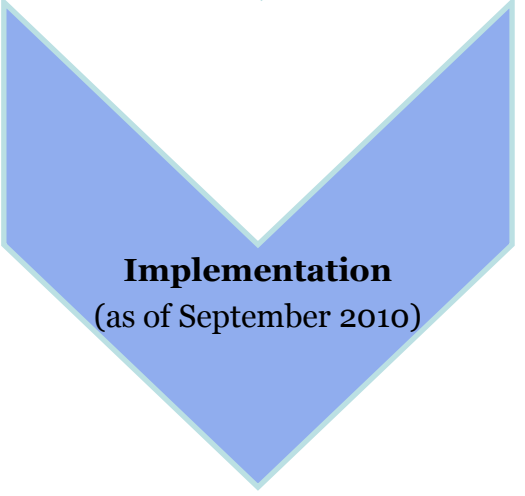
Fiscal austerity context: Many national and sub-national governments have seen their fiscal situation deteriorate significantly with the crisis: limited margins of manoeuvre

1) Where do we stand today for the implementation of investment recovery strategies? (2)

A large blue downward-pointing arrow with a white outline, indicating a flow from the design phase to the implementation phase.

Design of strategies
(end 2008-early 2009)

- Design of investment strategies: **Timely, Targeted and Temporary**
- **Major role played by governments and public action** (a 'turning point')
- Objective: **double dividend** effect of investment strategies (short term vs. long term)
- **Key role for sub-national governments for public investment strategies**

A large blue downward-pointing arrow with a white outline, indicating a flow from the design phase to the implementation phase.

Implementation
(as of September 2010)

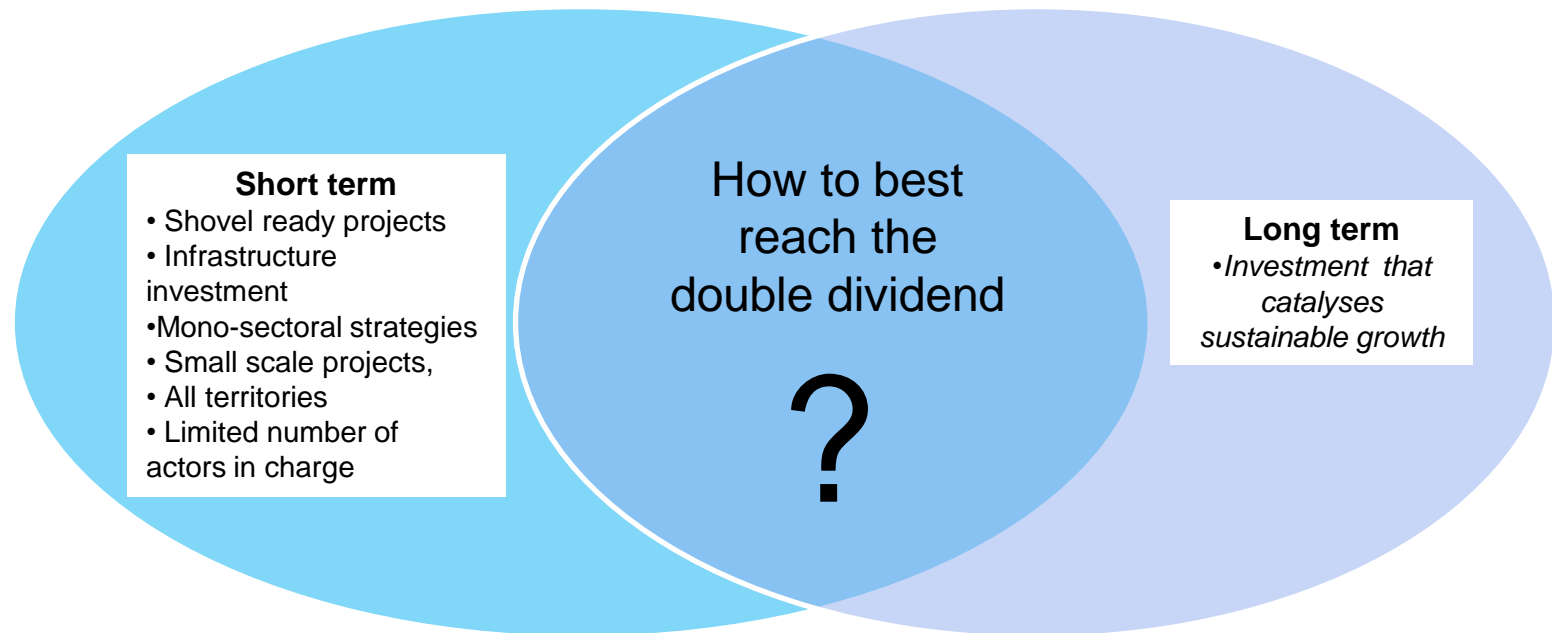
- **Timely and Temporary**
- **More than 90 % of the funding allocated in several countries** in Sept. 2010 (Canada, France, Germany, Korea, Spain); 80% in the US ; disparities across policy areas
- **Actual expenditure are lower** [53% at the federal level in the US, 41% at the state level in the US (GAO)]

Implementation of investment strategies across levels of government: Timely, Temporary...

1) Where do we stand today for the implementation of investment recovery strategies? (3)

... Targeted investment?

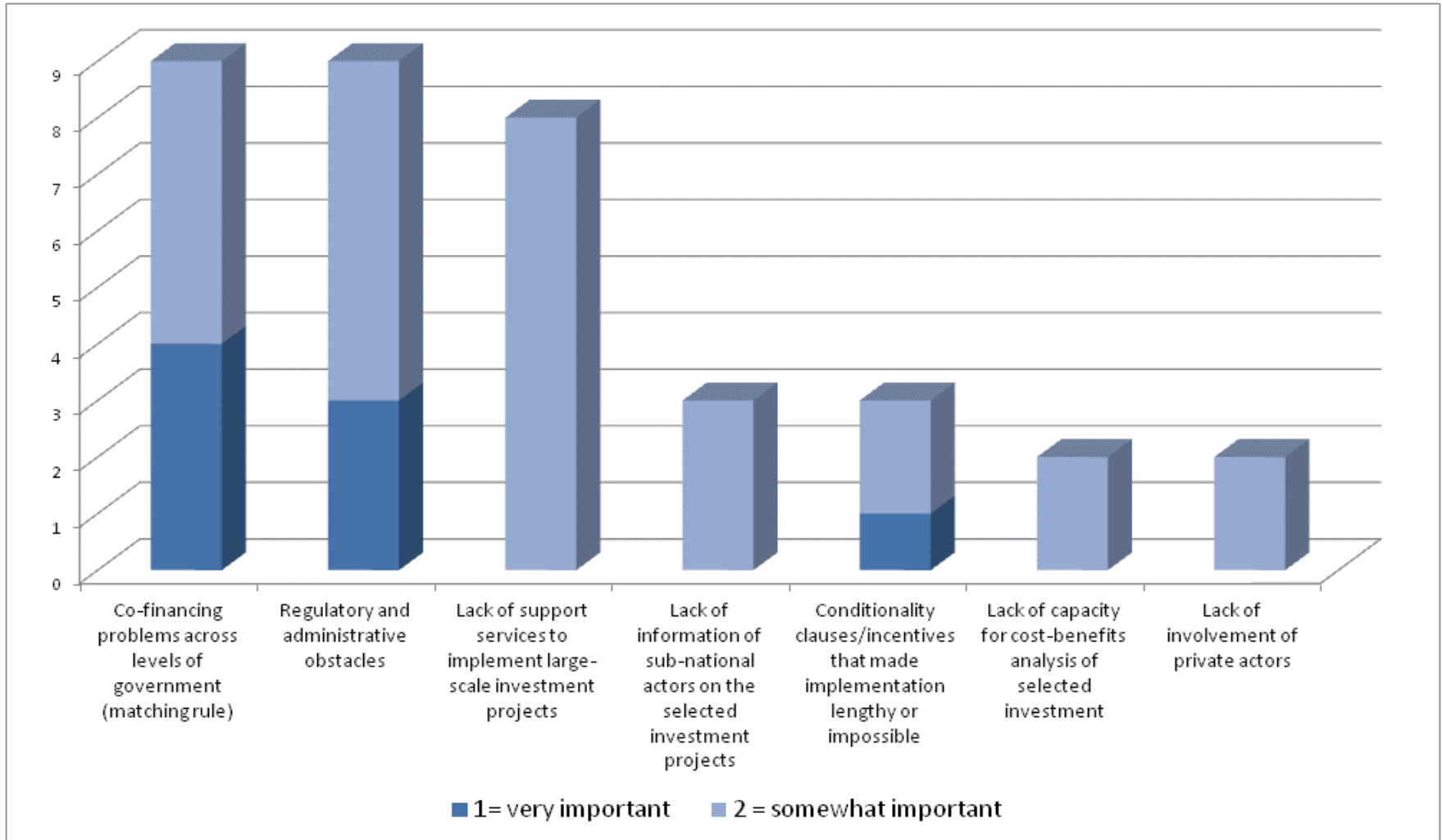
- Acceleration of 'shovel-ready' projects in infrastructure (roads, public transport, housing)
- Inherent short term vs. long term tension in public investment plans launched during the crisis
- The trade-off has been arbitrated in favor of short term investment measures, with the highest impact on jobs
- Focus on spreading resources across the entire territory rather than targeting for impact (to ensure quick adoption of strategies and limit political resistance)
- Ways to mitigate the short vs. long term trade-off



...The 'Targeted' dimension of investment has been the most problematic

2) What have been the main implementation challenges of investment recovery strategies? (1)

Chart 3. Main implementation obstacles/challenges across levels of government



Source: Answers to OECD questionnaire, State Territorial Representatives (17 responses)

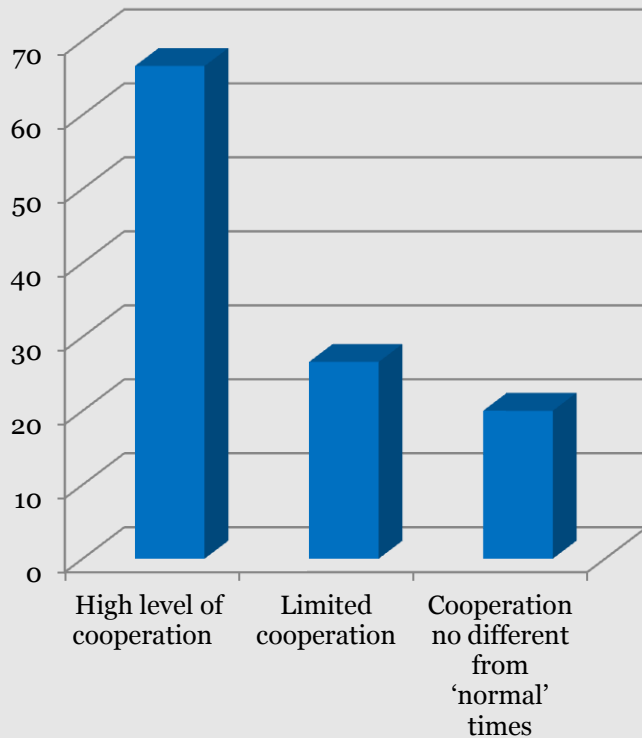
The crisis has highlighted various gaps in multi-level governance

2) What have been the main implementation challenges of investment recovery strategies? (2)

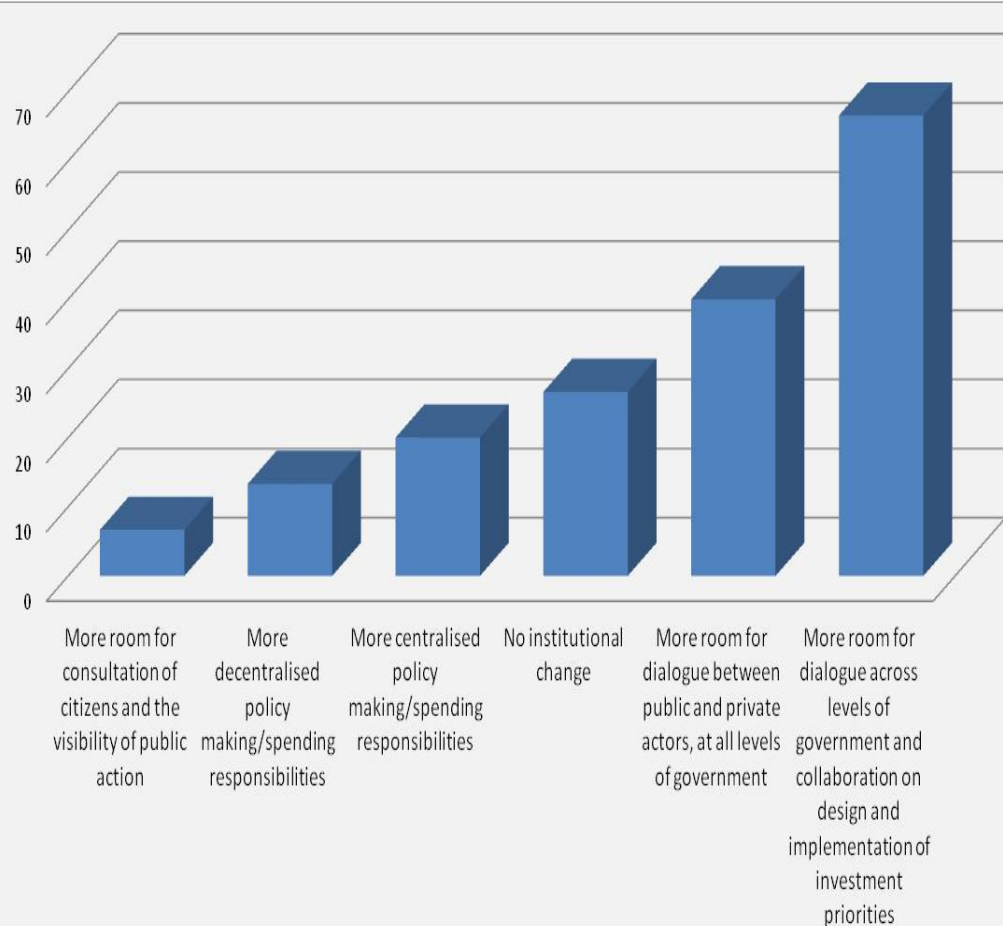
Challenges	Examples
Fiscal	Contradiction between the expansive fiscal policy at the federal level and the pro-cyclical policies conducted by the local governments, given the difficult fiscal situation they are experiencing (e.g. US, UK).
Capacity	Arises when there is a lack of human, knowledge or infrastructural resources available to carry out tasks, regardless of the level of government.; and to mobilize private actors.
Policy	Results when line ministries take purely vertical approaches to cross-sectoral issues. Example: US, Canada
Information	The crisis has revealed information gaps. <ul style="list-style-type: none"> ○ <i>Ex-ante</i>, as the prioritisation of investment does not often follow strong evidence, in terms of local needs, cost-benefit analysis, etc. ○ <i>Ex post</i>: little evaluation is conducted on the long-term impact of investment plans
Administrative	It occurs when the scale for investment is not necessarily the most appropriate one at the local level. Ex: municipal fragmentation (France, Spain).
Objective	Different rationalities creating obstacles for adopting convergent targets. Can lead to policy coherence problems and contradictory objectives across investment strategies
Accountability	Difficulty to ensure the transparency of practices across the different constituencies It also concerns possible integrity challenges of policy-makers involved in the management of investment.

3. Which governance arrangements have helped implementation? (1)

4. Coordination across levels of government for the implementation of public investment strategies during the crisis
 (% of responses, total: 17 responses)



5. Impact of the crisis on multi-level governance: answers to the questionnaire (% of responses)

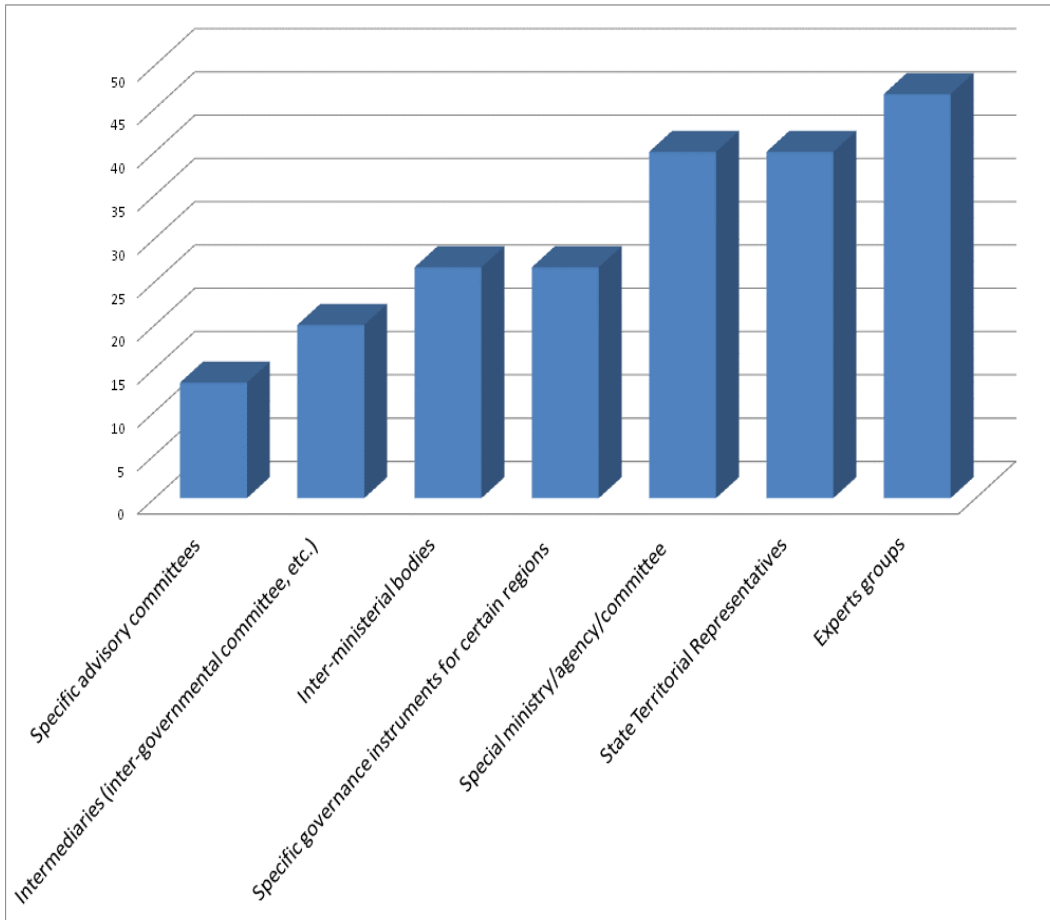


Source: Answers to OECD questionnaire, State Territorial Representatives

Whatever the type of system – federal, regionalised, unitary – the crisis has revealed a strong need of intermediation across levels of government

3. Which governance arrangements have helped implementation? (2)

6. Tools/actors which have proven to be particularly effective to enhance coordination across levels of government at a time of crisis/recession



Overall, existing coordination mechanisms across levels of gvt have been mobilised, rather than new ones build from scratch in a context of urgency

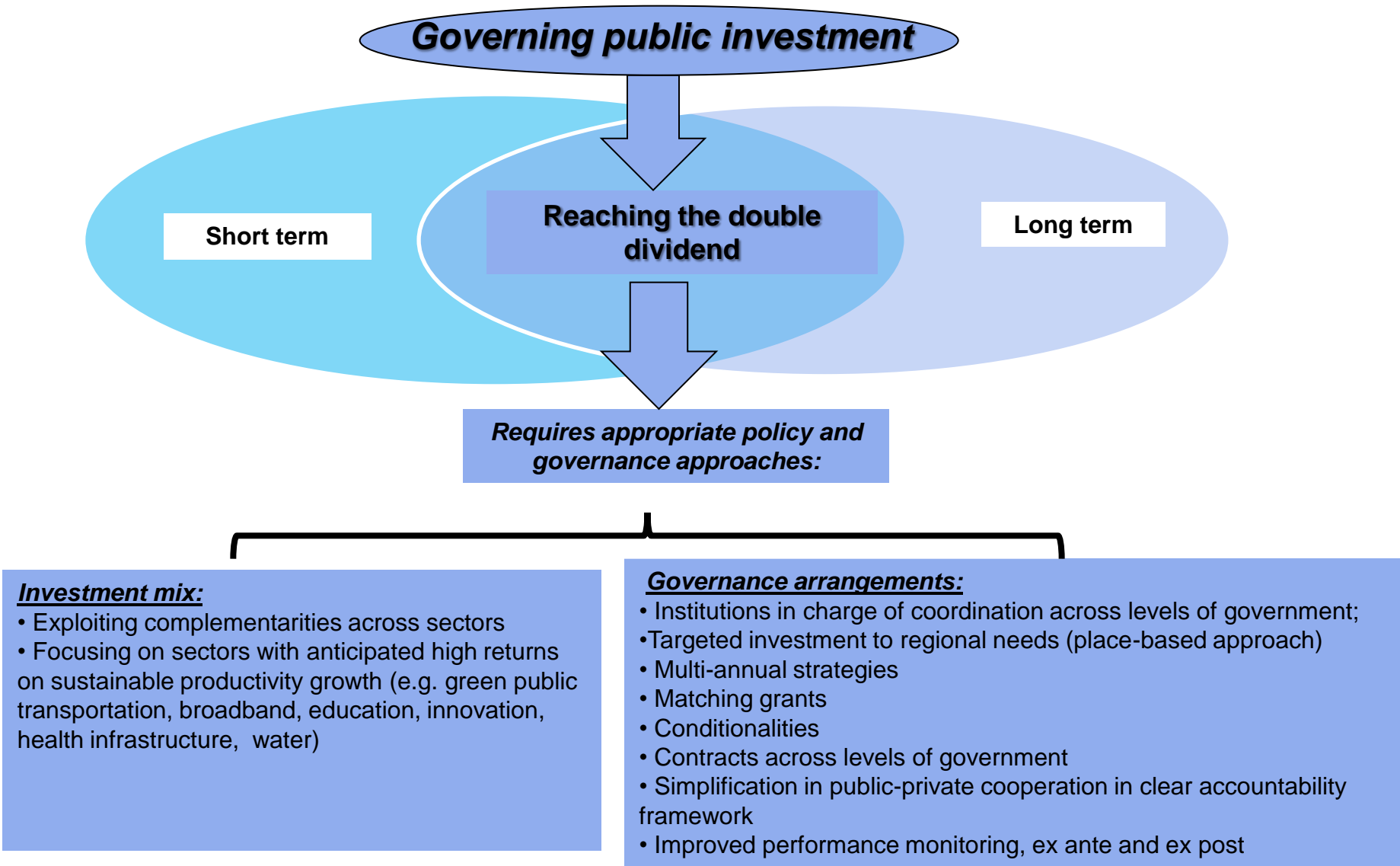
- State Territorial Representatives
- Existing multi-annual investment strategies
- Institutional platforms of dialogue for design & implementation of investment/Fiscal policy (e.g. COAG, Australia)
- Matching grants

To a certain extent, the crisis has also contributed to help bridging some gaps, in particular the accountability gap (e-gov, public-private cooperation, performance monitoring)

Source: Answers to OECD questionnaire, State Territorial Representatives

Countries which benefit from well-developed coordination arrangements across levels of government have had a comparative advantage in the management of the crisis (management of urgency & identification of long-term needs)

4. Which lessons and warnings for the future? A narrow path to long-term growth (1)

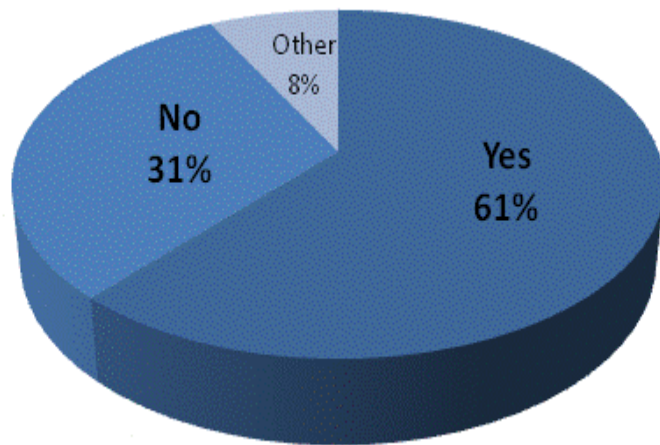


A narrow path to long-term growth: can't afford to get it wrong the governance of public investment

4. Which lessons and warnings for the future? A narrow path to long-term growth (2)

- *The crisis has revealed the need for new types of coordinating bodies/instruments*
- *Structural reforms for multi-level governance are planned in several countries, as part of exit strategies to the crisis*

Chart 7. Structural reforms discussed or planned in the coming months regarding relations across levels of government accelerated by the impact of the crisis



Main reforms quoted by respondents that will be accelerated by the impact of the crisis:

- Management of local public employment
- Reallocation of competencies across levels of government
- Reorganisation of de-concentrated services/state territorial representatives
- Reforms linked to integrity and transparency (incl. public procurement)
- Fiscal reforms across levels of government

Source: OECD questionnaire to STR, (2010), percentage of answers (total: 13 responses from countries)

4. Which lessons and warnings for the future? A narrow path to long-term growth (3)

Final warnings: Mind the Gaps for fiscal consolidation strategies

- Building TRUST through the right institutional mechanisms is critical in a period of uncertainty - State Territorial Representatives have a critical role to play
- Watching multi-level governance gaps for public expenditures and investment...
- ... as well as for the design and implementation of fiscal consolidation strategies (for investment and public services)
 - ❑ *Policies targeted to local needs, one-size fits all does not work*
 - ❑ *Regional actors – decentralised or de-concentrated – have a role to play*
 - ❑ *Pursue efforts to bridge different types of MLG gaps*



Risk: fiscal consolidation strategies may lead to a backlash: some countries are moving to the opposite direction: short term focus & space-blind