

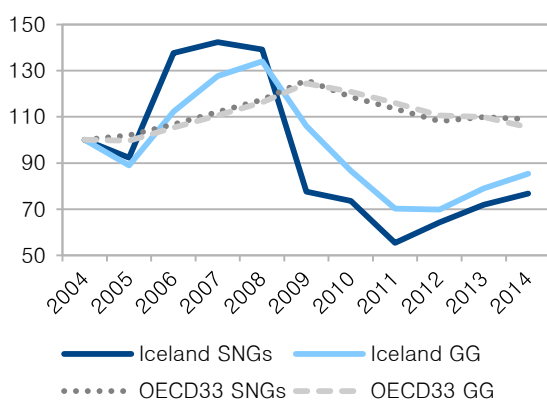
### Multi-level governance of public investment 2017

Table 1. Facts and figures related to direct public investment

2014	General Government	Subnational Governments
USD billion	0.4	0.2
USD per capita	1365	552
% of GDP	3.1%	1.3%
% of public expenditure	6.8%	9.2%
% of total public direct investment	100%	40.4%

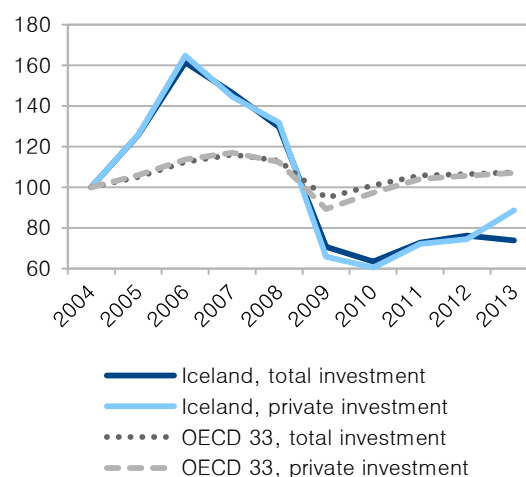
Source: OECD (2016), *Subnational governments in OECD countries : Key data, 2016 edition* (brochure):

Figure 1. Trends in direct public investment in Iceland (2004–14)



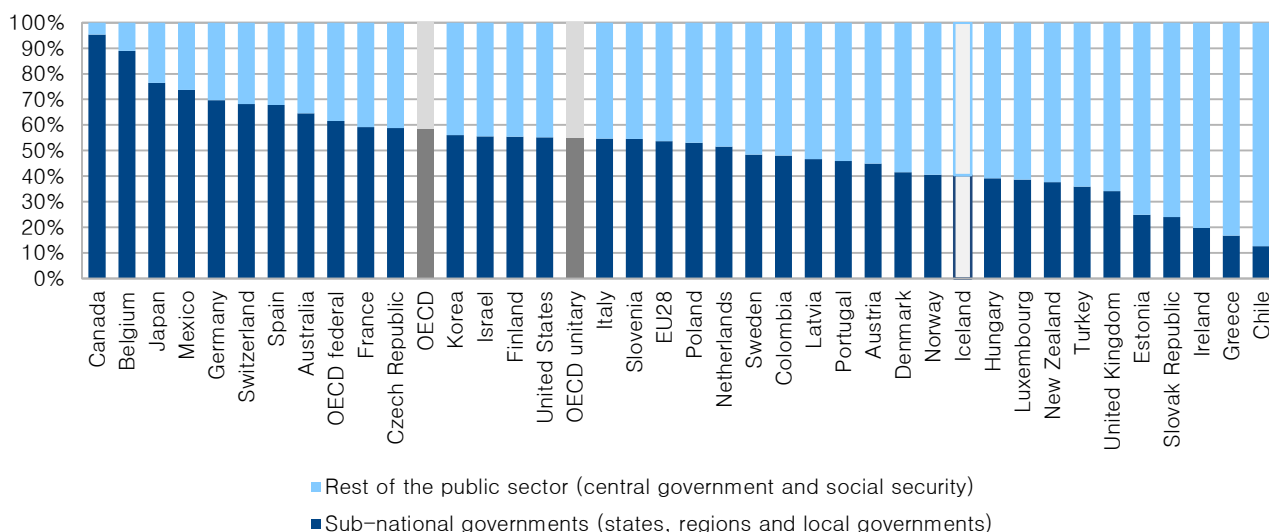
Source: OECD National Accounts. In real terms, base 100 in 2004.

Figure 2. Trends in total and private direct investment in Iceland (2004–13)



Source: OECD National Accounts. In real terms, base 100 in 2004.

Figure 3. Subnational public direct investment in OECD countries, 2014 (as a share of public direct investment)

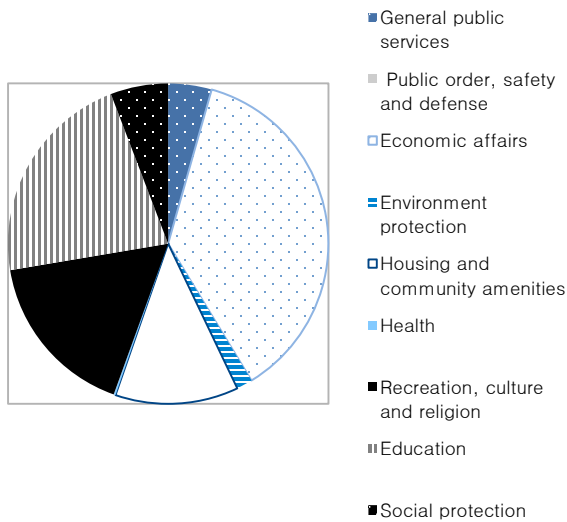


Source: OECD National Accounts.

Note: Data for Mexico: 2013 instead of 2014; Chile: 2012 instead of 2014; Turkey instead of 2014.

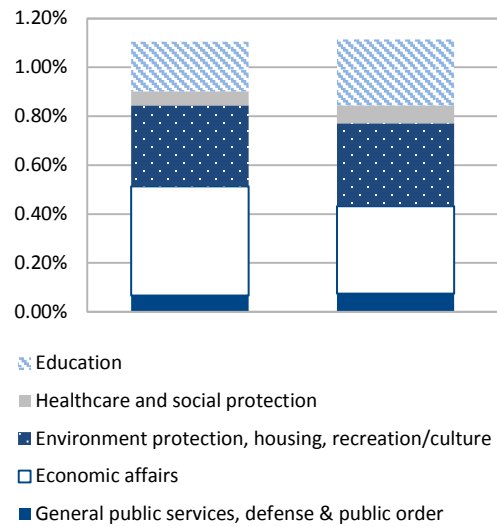
Most of subnational investments in Iceland are dedicated to economic affairs (transport, general economic, commercial and labour affairs, industry, agriculture, etc.). Municipalities are in particular responsible for transportation. Other major categories of investment spending include education and recreation, culture, religion. In contrast, SNGs invest very little in healthcare or social protection (Figure 4 and 5).

Figure 4. Breakout of subnational direct investment in Iceland by economic function



Source: OECD National Accounts. (% of total direct investment, average 2013–2014)

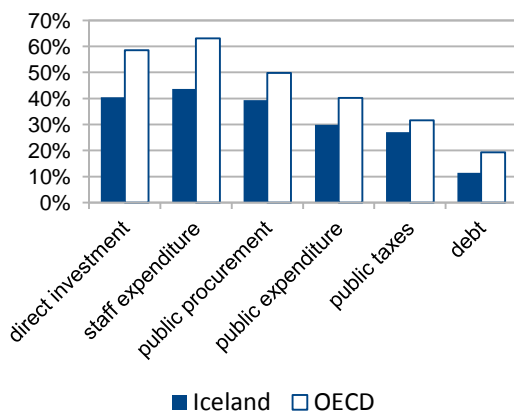
Figure 5. Trends in subnational direct investment by economic function (as a % of GDP)



Source: OECD National Accounts.

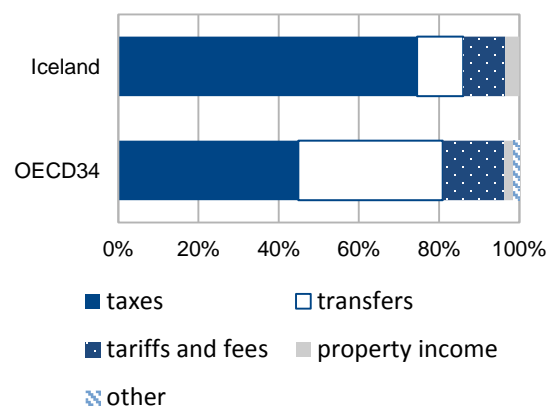
Iceland is a relatively centralised country, and subnational expenditure is lower than the OECD average for most large categories of spending (total expenditure, investments, staff expenditure, public procurement). The share of SNG debt in total public debt is also way smaller (Figure 6). Although subnational governments benefit from a smaller-than-average share of national taxes, taxes represent the bulk of their revenues (Figure 7).

Figure 6. The role of subnational governments in public finance in Iceland, 2014



Source: OECD National Accounts. Note: Iceland debt: 2013 instead of 2014.

Figure 7. Indicators of subnational fiscal revenues in Iceland, 2014



Source: OECD National Accounts.

## Examples of good practices or recent developments for effective public investment

### *Coherent planning:*

The Regional Policy of Iceland 2014–2017 is an integrated development plan for addressing social and economic development that provides a framework for regional support. On the basis of the Regional Policy, each region forms its own regional development plan, which then is financed through regional growth contracts.

Iceland also developed in 2011 the Iceland 2020 policy statement, which was drafted in collaboration with citizens, regional associations, local authorities, trade unions and economic interest groups. It includes plans for investments in human resources, for new infrastructures, and policy strategies for education and culture, innovation, development, environment planning, social infrastructure, etc.

### *Performance monitoring:*

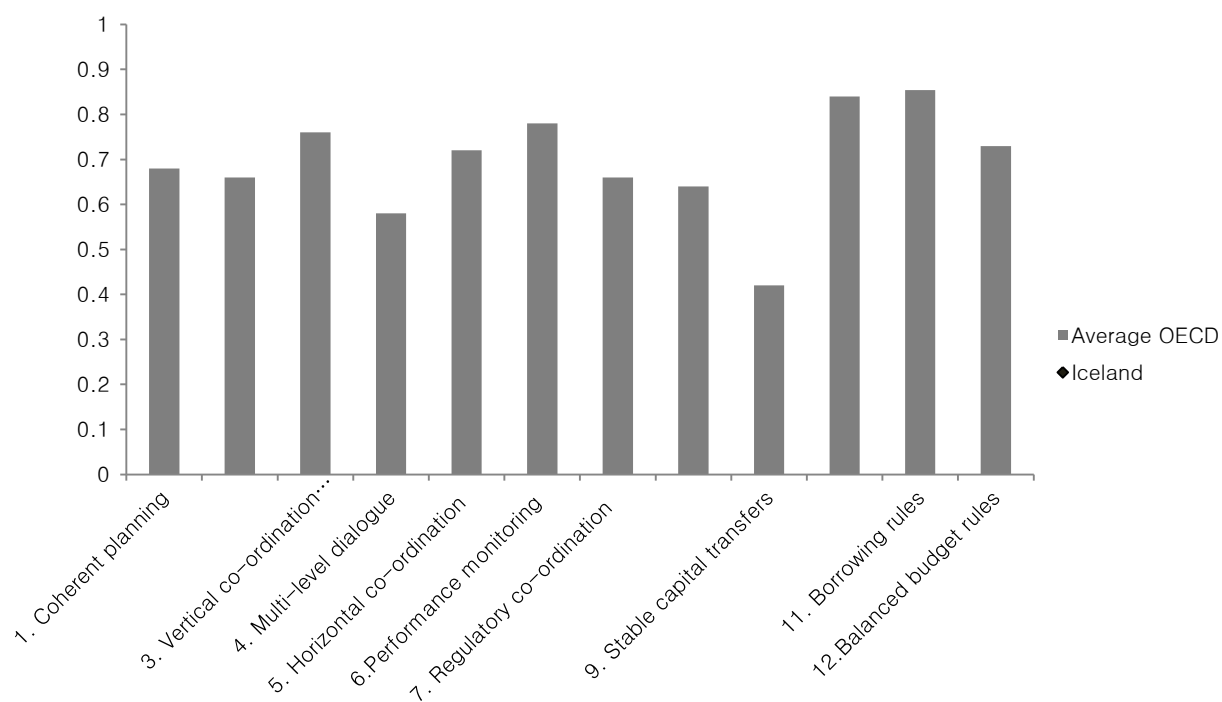
Based on the Organic Budget Law, at the beginning of its term the government is required to submit a Fiscal Policy Statement to Parliament for approval. It covers both central- and local government (agreement first must be reached with local government) and sets out numerical fiscal objectives for the long-term stock of liabilities and the medium-term budget balance for at least the life of the Parliament. The government is also required each year to present a Medium-Term Fiscal Strategy to Parliament for approval. It covers the subsequent five years and lays out fiscal performance targets for central and local government in line with the Fiscal Statement. It also lays out nominal expenditure ceilings in policy areas for each ministry to use in preparing its budget, and a summary of the specific policy measures planned to achieve the strategy's targets. In preparing the MTFS, it will be necessary to reach agreements with local governments on their targets. The MTFS must also include a discussion of fiscal risks. Disclosure and plans to manage these risks help to demonstrate that fiscal policy is based on prudent macro-economic and fiscal assumptions.

### *Co-financing arrangements:*

The Institute of Regional Development monitors and researches regional development in Iceland. It aims at strengthening local authorities through financial support for long-term large projects (either by credit or other forms of financing), implement government goals, and establish regional development strategies. It supports projects from regions (predominantly rural), and projects from eight industrial regional development agencies that include municipalities, federations of municipalities, trade unions, business concerns, etc.

## Preliminary indicators of MLG of public investment for regional development

Figure 8. Indicators for the co-ordination of public investment for regional development



Note: See Annex 1 for more detail on the indicators.

Source: OECD (2016b), Answers to the Regional Outlook Survey and OECD (2016c).

# ANNEX 1

## Indicators for the co-ordination of public investment for regional development

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### 1. Coherent planning across levels of government

The country has regional development policies/strategies to support regional development and local investments.

- a No explicit national policies to support regional development
- b Explicit national policies to support regional development in all or parts of the country
- c Explicit national regional development policies completed by regional investment strategies aligned with it

### 2. Co-ordination across sectors in the national planning process

The country has mechanisms to co-ordinate across sectors national policies and investment priorities for regional development

- a No mechanism
- b At least inter-ministerial committee and/or cross-ministerial plan
- c Inter-ministerial committee and/or plan + other mechanisms

### 3. Vertical co-ordination instruments

The country has mechanisms to ensure co-ordination across levels of governments (regional development agencies, national representatives in subnational governments, and contracts or agreements)

- a None of these
- b At least one of these mechanisms
- c At least one of these mechanisms involving many sectors

### 4. Multi-level dialogue to define investment priorities for regional development

The country conducts regular dialogue(s) between national and subnational levels on regional development policy including investment priorities

- a No regular dialogue
- b Formal or ad hoc dialogue
- c The platform has decision-making authority

### 5. Horizontal co-ordination across jurisdictions

The country has formal horizontal mechanisms/incentives between subnational governments to co-ordinate public investment

- a No mechanisms
  - b Formal horizontal co-ordination mechanisms at the municipal level
  - c Formal horizontal co-ordination mechanisms at the municipal level and other subnational levels (state, regions)
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## 6. Performance monitoring and learning

**The country has mechanisms in place to monitor and evaluate regional development policy**

- a No mechanisms
- b The country has indicators to monitor the effectiveness of regional development policy
- c The country has conducted evaluations of regional development policy

## 7. Regulatory co-ordination across levels of government

**The country has mechanisms to co-ordinate regulations across levels of government**

- a No intergovernmental co-ordination mechanisms
- b Formal co-ordination mechanisms between national/federal and state/regional governments
- c Requirement of national government to consult subnational governments prior to issuance of new regulations that concern them

## 8. Co-financing arrangements across national and subnational levels

**There are co-financing arrangements for public investment**

- a No co-financing arrangements
- b Co-financing arrangements exist but funds are not tracked
- c Co-financing arrangements exist and funds are tracked

## 9. Subnational governments benefit from predictable capital transfers over time

**Variations in total capital transfer from one year to the next**

- a Large variation: more than 20%
- b Medium variation: between 10% and 20%
- c Little variation: less than 10%

## 10. Transparent information across levels of government

**Subnational fiscal situation is publicly available**

- a Not available for any type of subnational government
- b Available for regions/states/some level of subnational government only (on an individual basis)
- c Available for each subnational government individually

## 11. Fiscal stability: rules for subnational governments

**There are limits on subnational borrowing**

- a No limits on subnational government borrowing
- b Non-binding borrowing constraints
- c Binding borrowing constraints

## 12. Safeguarding capital spending at subnational level

**Balanced budget rules protect subnational capital spending**

- a No balanced budget rule
  - b Balanced budget rule with no exception for capital spending
  - c Balanced budget rule protecting capital spending (type golden-rule)
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# ANNEX 2

## Definitions and sources

### *Definitions:*

- **General government (S.13):** includes four sub-sectors: central/federal government and related public entities (S.1311) federated government ("states") and related public entities (S.1312) local government i.e. regional and local governments and related public entities (S.1313) and social security funds (S.1314). Data are consolidated within S.13 as well as within each subsector (neutralisation of financial cross-flows).
- **Subnational government:** defined here as the sum (non-consolidated) of subsectors S.1312 (federated government) and S.1313 (local government).
- **Direct investment:** includes gross capital formation and acquisitions, less disposals of non-financial non-produced assets. Gross fixed capital formation (or fixed investment) is the main component of investments.

### *Sources:*

OECD (2016a), *Subnational governments in OECD countries: Key data*, 2016 edition (brochure).

OECD (2016b), *Regional Outlook Survey*.

OECD (2016c), *Overview and Preliminary Proposal on Indicators of Co-ordination of Public Investment for Regional Development*, Room document discussed in the April 2016 RDPC meeting, unpublished material.

OECD (2015a), *OECD National Accounts Statistics* (database), <http://dx.doi.org/10.1787/na-data-en..>

OECD (2015b) *Implementation Toolkit, Effective Public Investment Across Levels of Government* <http://www.oecd.org/effective-public-investment-toolkit/> OECD (2013), *OECD Economic Surveys: Iceland*, OECD Publishing, Paris.

OECD (2011), *OECD Network on Fiscal Relations across Levels of Government Survey on Sub-national Fiscal Rules and Macroeconomic Management*, OECD, September 2011, updated in March 2015.

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