

Multi-level governance of public investment 2017

Table 1. Facts and figures related to direct public investment

2014	General Government	Subnational Governments
USD billion	5.9	3.3
USD per capita	723	401
% of GDP	2.1%	1.2%
% of public expenditure	5.2%	21.5%
% of total public direct investment	100%	55.5%

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

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

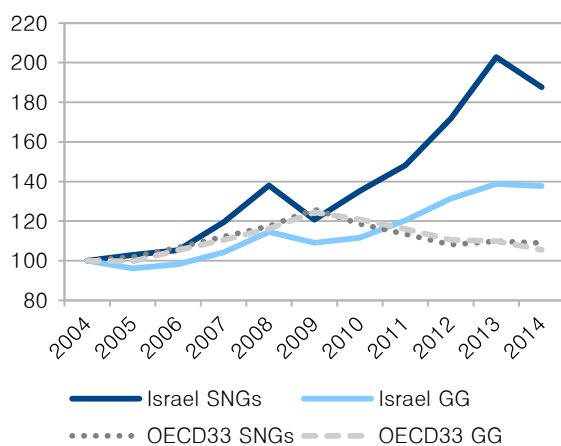
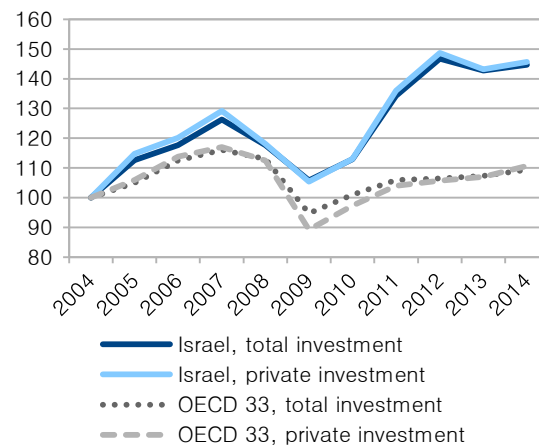


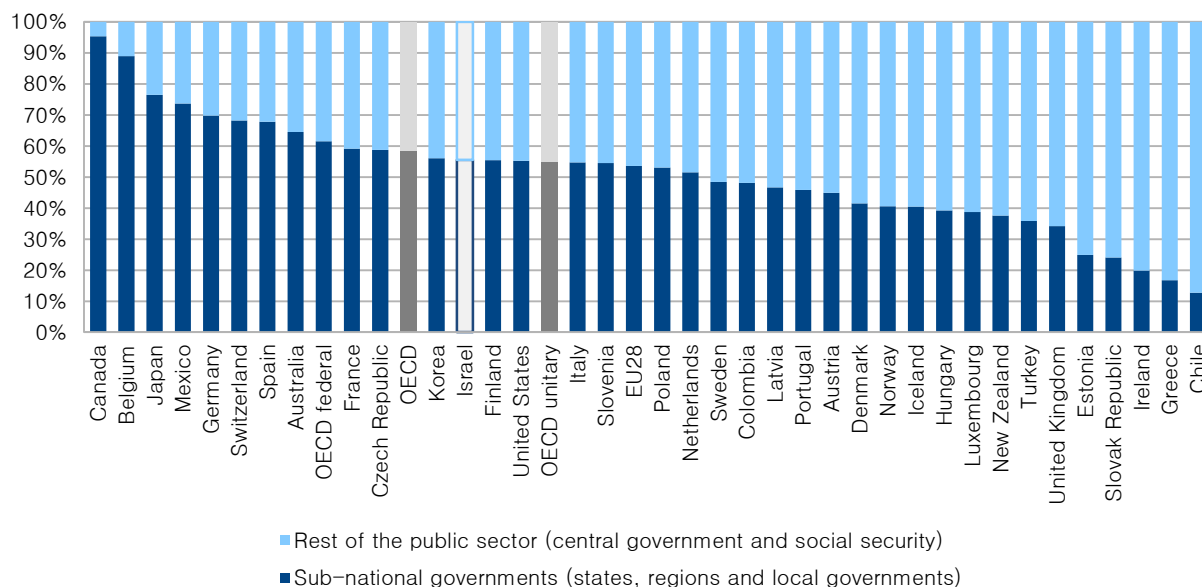
Figure 2. Trends in total and private direct investment in Israel (2004–14)



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

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

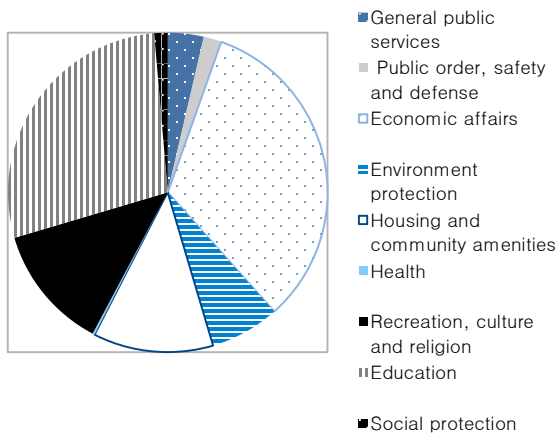


Source: OECD National Accounts.

Note: 2013 figures for Mexico, 2012 figures for Chile, 2014 figures for Turkey.

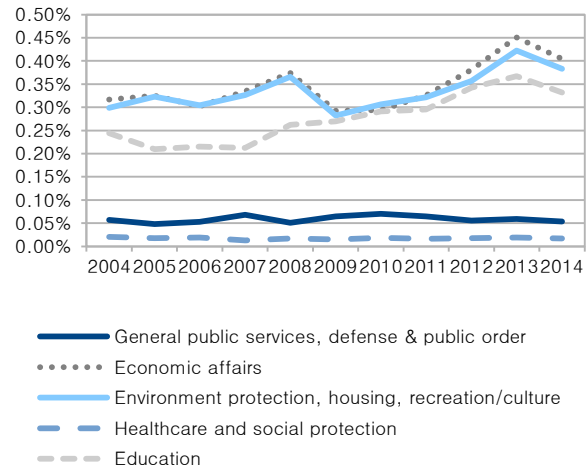
Most of subnational investments in Israel are dedicated to economic affairs¹ and education. Municipalities are in particular responsible for road maintenance. Other major categories of investment spending include recreation, culture and religion, housing and environment protection. In contrast, SNGs invest very little in healthcare or social protection (Figure 4 and 5).

Figure 4. Breakout of subnational direct investment in Israel by economic function (% of total direct investment, average 2008–14)



Source: OECD National Accounts.

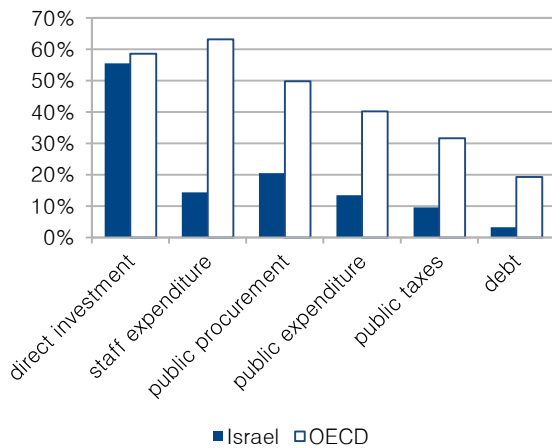
Figure 5. Trends in subnational direct investment by economic function (as a % of GDP)



Source: OECD National Accounts.

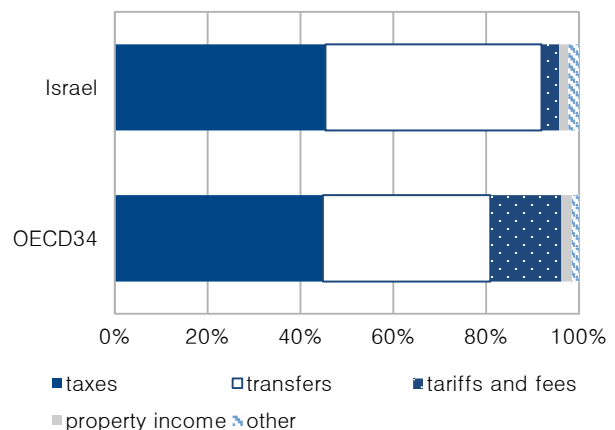
Israel is a highly centralised country, and subnational expenditure is lower than the OECD average for most large categories of spending (total expenditure, staff expenditure, public procurement), except investments (Figure 6). Although only a small fraction of national taxes are allocated to SNGs, taxes represent a major source of SNG revenues (Figure 7).

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



Source: OECD National Accounts.

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



Source: OECD National Accounts.

Examples of good practices or recent developments for effective public investment

Performance monitoring

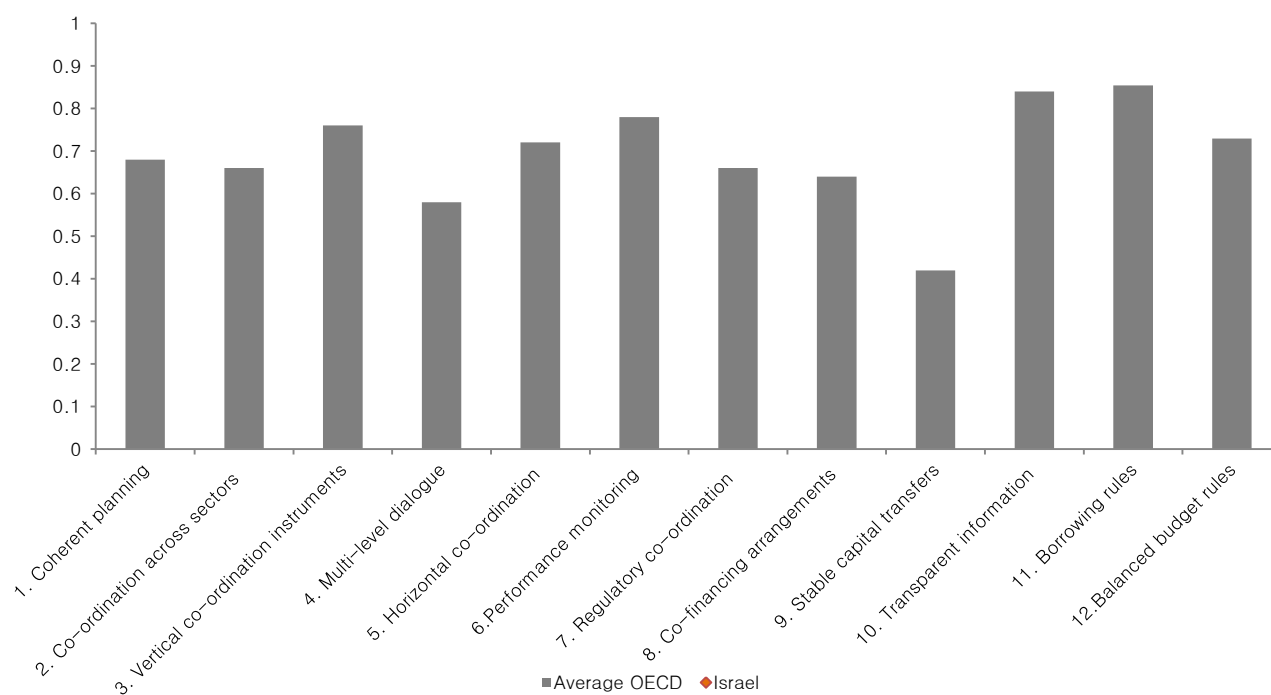
Indicators (such as the area of green and open spaces and public spaces and buildings per capita) are used to address the issue of increased number of housing units and density in urban areas, and their impacts on the standard of living.

Contracts between levels of governments

Frame agreements have been created within the government's policy to solve the housing issue in Israel. These agreements involve the central government and local authorities that have a potential to build many residential units within their area. Local authorities are in charge of the planning and implementation of the development works, but through the agreements pre-financing is provided by the Israel Land Authority, based upon accounts of proceeds from future sales. A steering committee composed of representatives from the central government and local authority is in charge of supervising each project.

Preliminary indicators of MLG of public investment for regional development

Figure 8. Indicators for the coordination 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 coordination of public investment for regional development

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 X
- 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:

Ministry of Construction and Housing (2015): Israel Housing Market Emerging Opportunities.

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: Israel, OECD Publishing, Paris; OECD (2010 – unpublished).

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.

OECD Accession Report: Israel, prepared for use by the Public Governance Committee.