



COORDINATING PUBLIC INVESTMENT ACROSS LEVELS OF GOVERNMENT

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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
- Highest effect in fields that are associated with large externalities ...lowest in countries where the public capital stock is already high
- 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

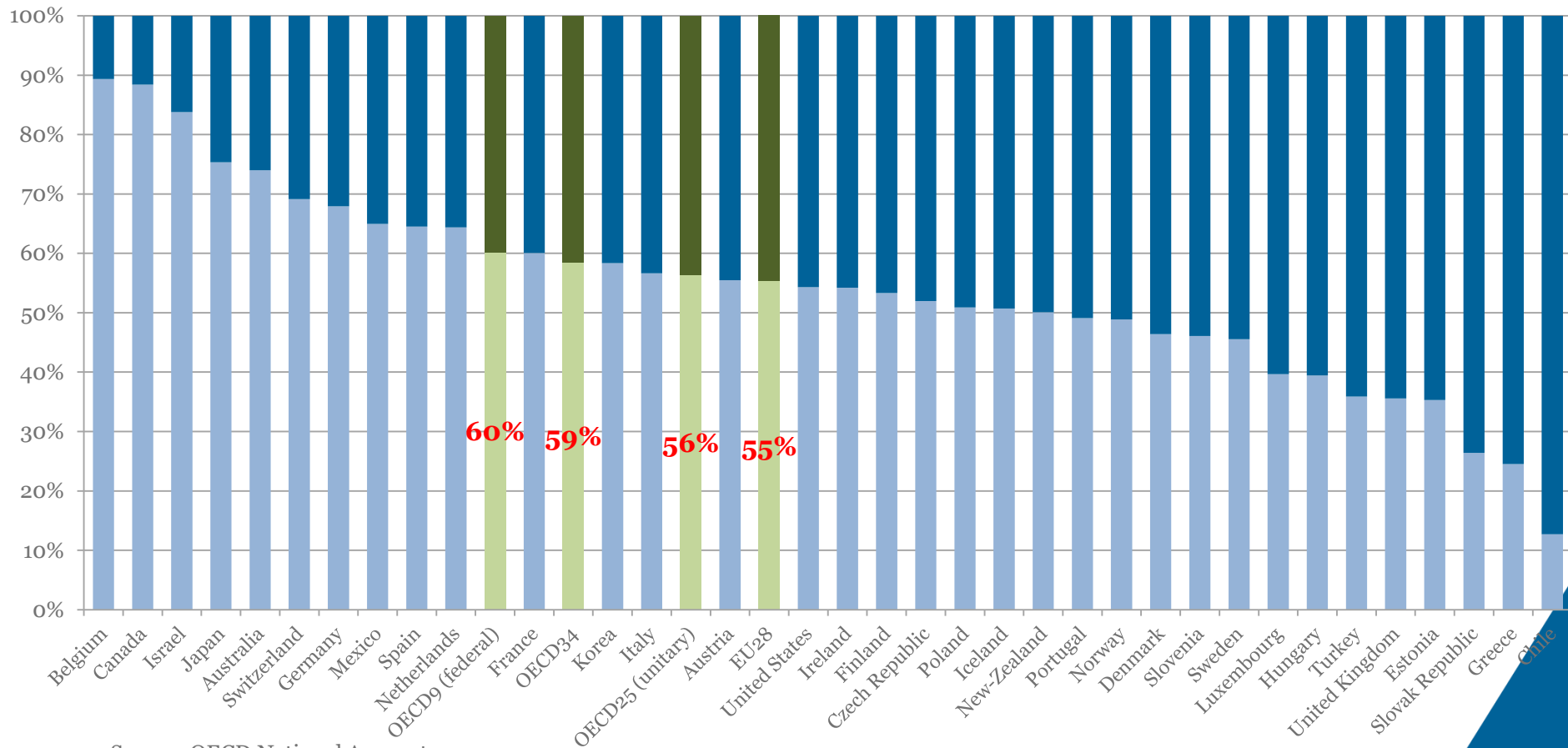


Subnational governments are key actors for public investment

SNGs responsible for almost 60% of public investment on average in OECD countries

Share of public investment at subnational level (2015 data)

■ Subnational government ■ Central government and social security



Source: OECD National Accounts



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 coordinated...**
- ... 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
- **Investment in physical infrastructure is important for regional performance, particularly when co-ordinated with other strands of policy (human capital, innovation)**



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

OECD-CoR survey results (2015)

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%)
- Lack of political will to coordinate across levels of government (77%)
- Co-financing challenges (79%)
- 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



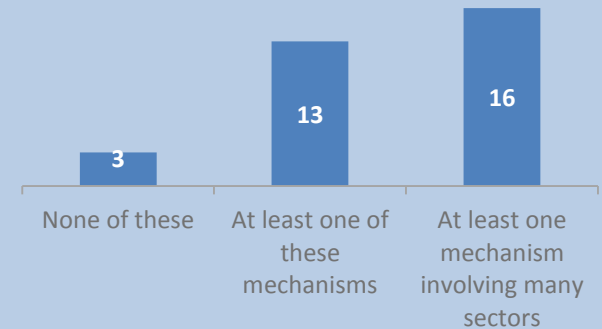
Vertical co-ordination across levels of government

Instruments to manage coordination

Vertical co-ordination instruments to support regional investments

The country has a mechanisms to ensure co-ordination across levels of governments: RDAs, national representatives appointed in SNGs, and contracts or agreements

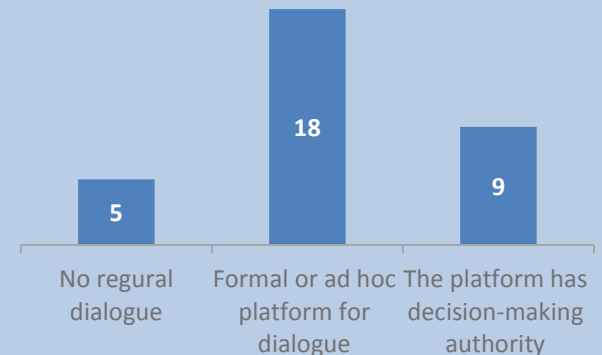
- a. None of these
- b. At least one of these mechanisms
- c. At least one of these mechanisms involving several sectors



Multi-level dialogue to define investment priorities for regional development

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

- a. No platform to conduct regular dialogue
- b. Formal or ad hoc platforms to dialogue on regional development and investment priorities
- c. The platform for dialogue has decision-making authority

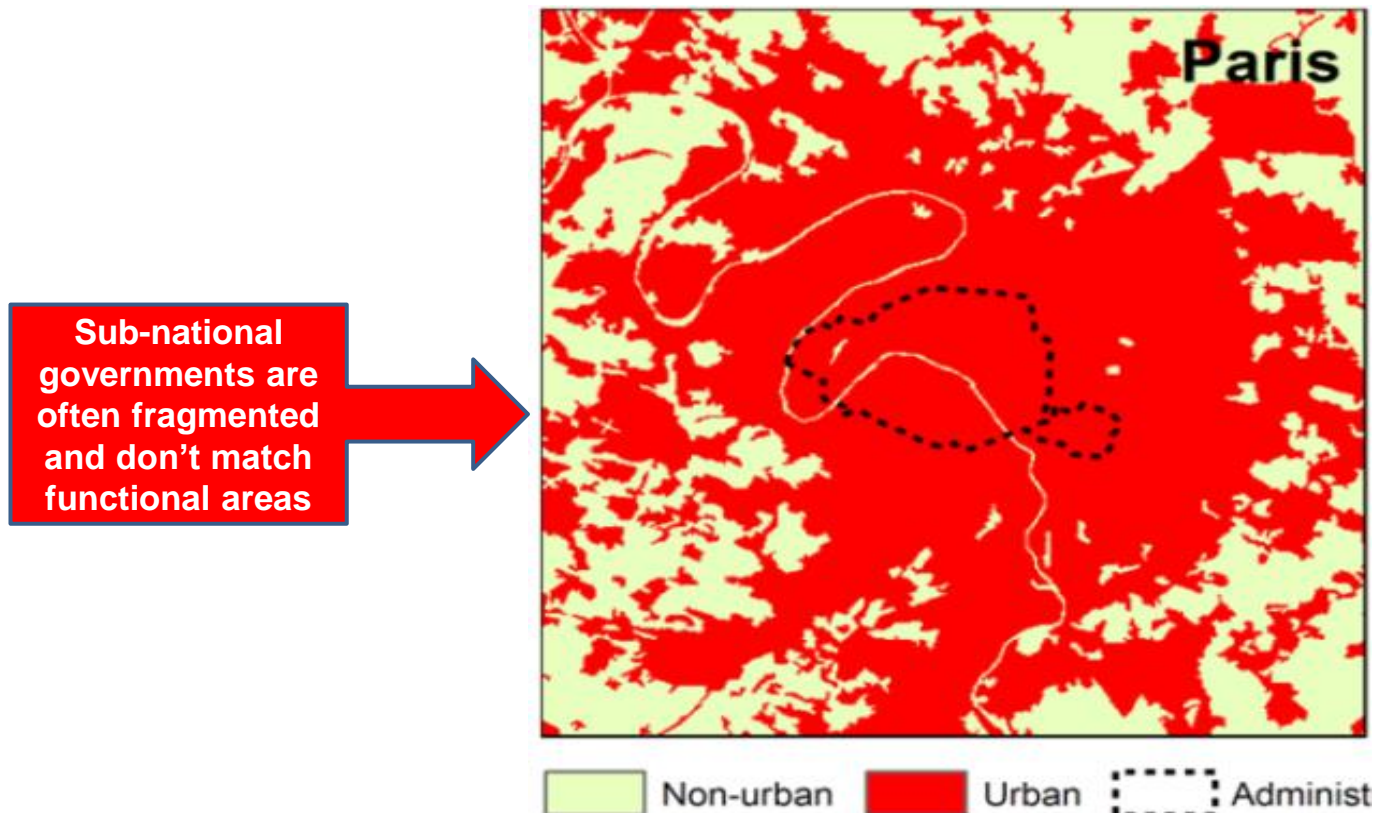




Horizontal co-ordination across jurisdictions

Why is it important?

- The small scale of SNGs and the potential mismatch with functional areas raises concerns for investment (e.g. insufficient scale, lower returns, competing investments, investments not adapted to the functional area)
- 76% of SNGs report a lack of incentives to cooperate





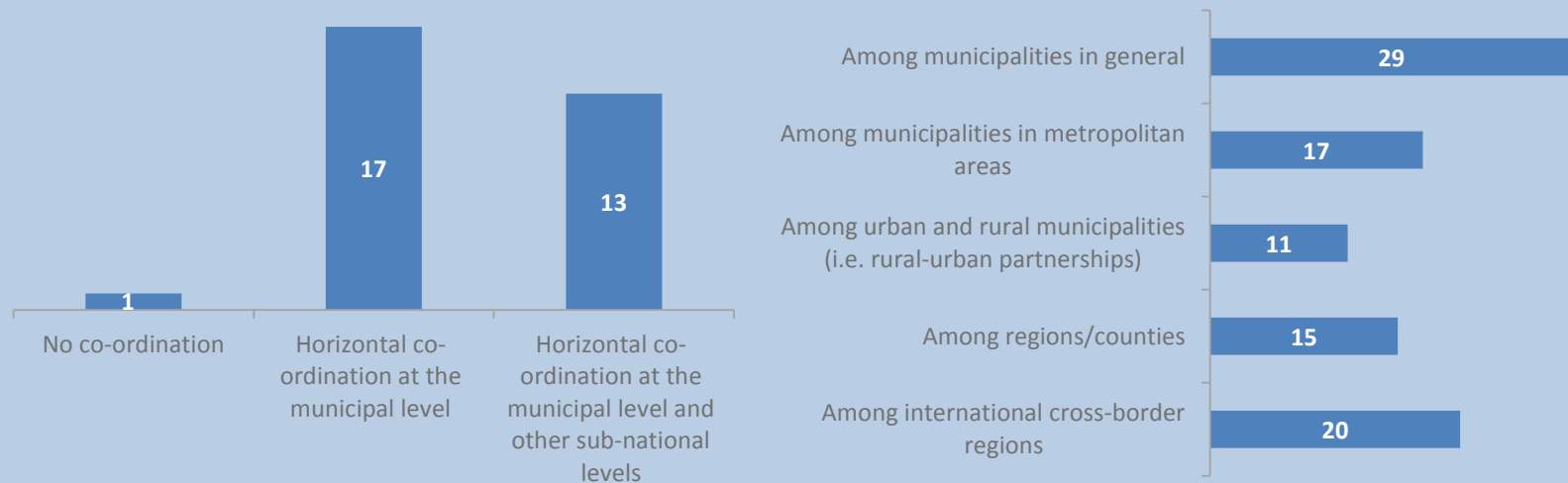
Horizontal co-ordination across jurisdictions

Tools for co-ordination

Horizontal co-ordination across jurisdictions for local investments

The country has formal horizontal mechanisms or incentives between sub-national governments to co-ordinate public investment

- No mechanisms
- Formal horizontal co-ordination mechanisms at the municipal level
- Formal horizontal co-ordination mechanisms at the municipal level and other sub-national levels (state, regions)



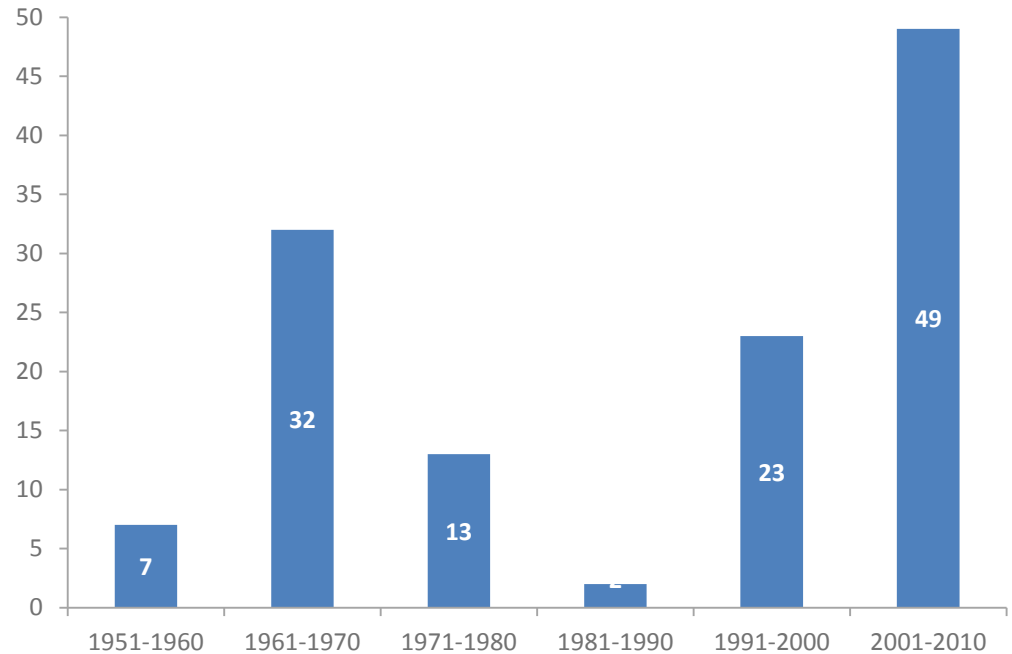
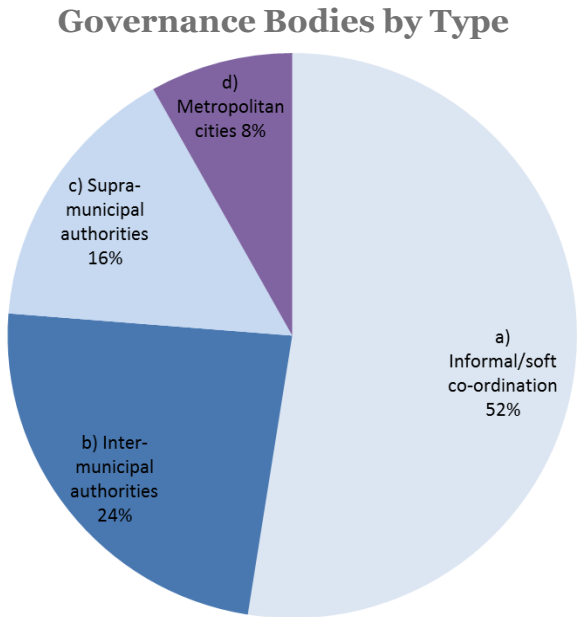


Horizontal co-ordination across jurisdictions

Tools for co-ordination: focusing on metropolitan areas

- A solution to fragmentation: governance bodies in OECD metropolitan area

Number of metropolitan governance structures (Metro Authorities) created or reformed in the OECD



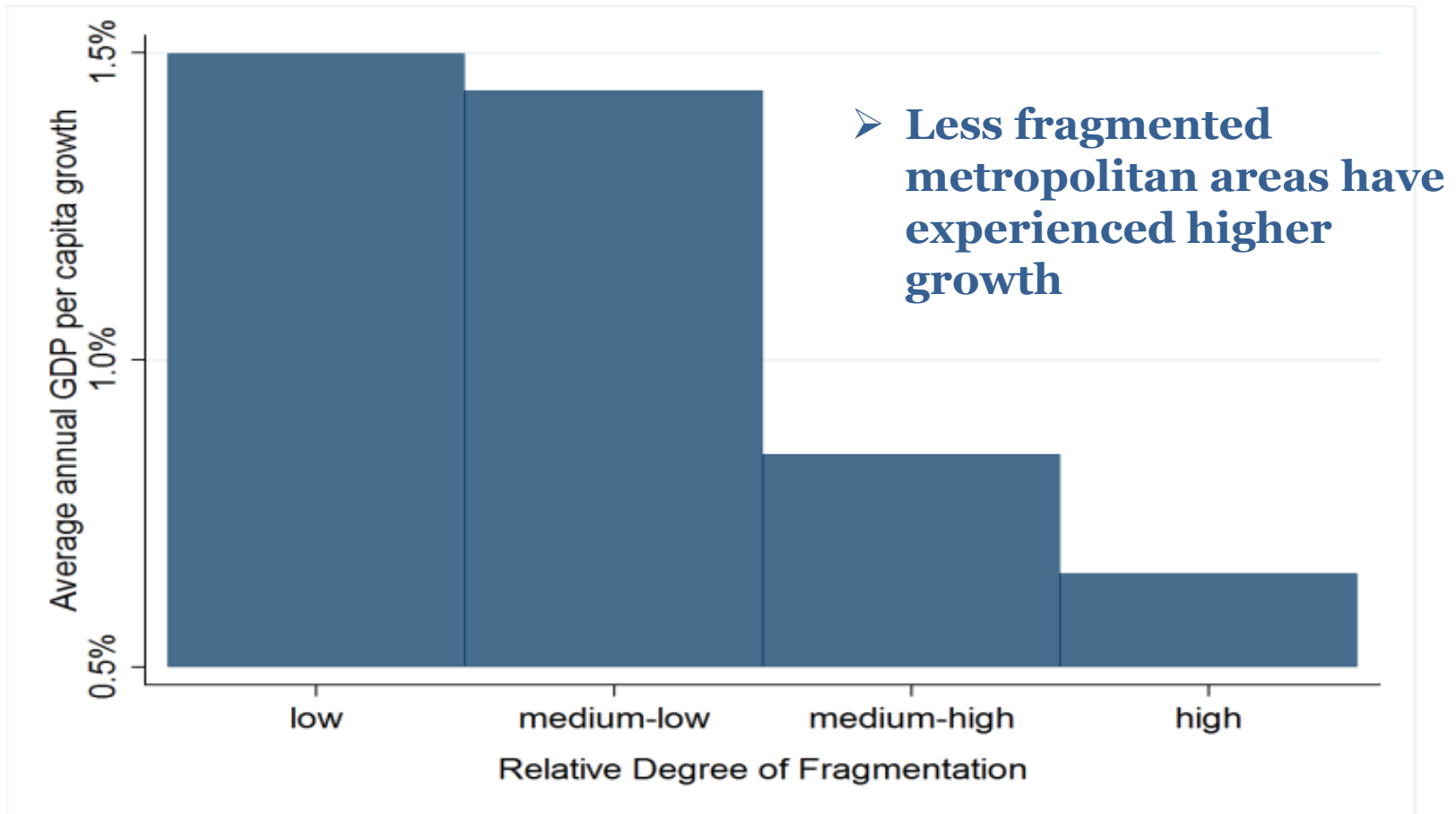
Source: OECD Survey on Metropolitan Governance



Horizontal co-ordination across jurisdictions

Tools for co-ordination: focusing on metropolitan areas

Annual average GDP per capita growth, 2000-2010



Source: Ahrend et al (2014)



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

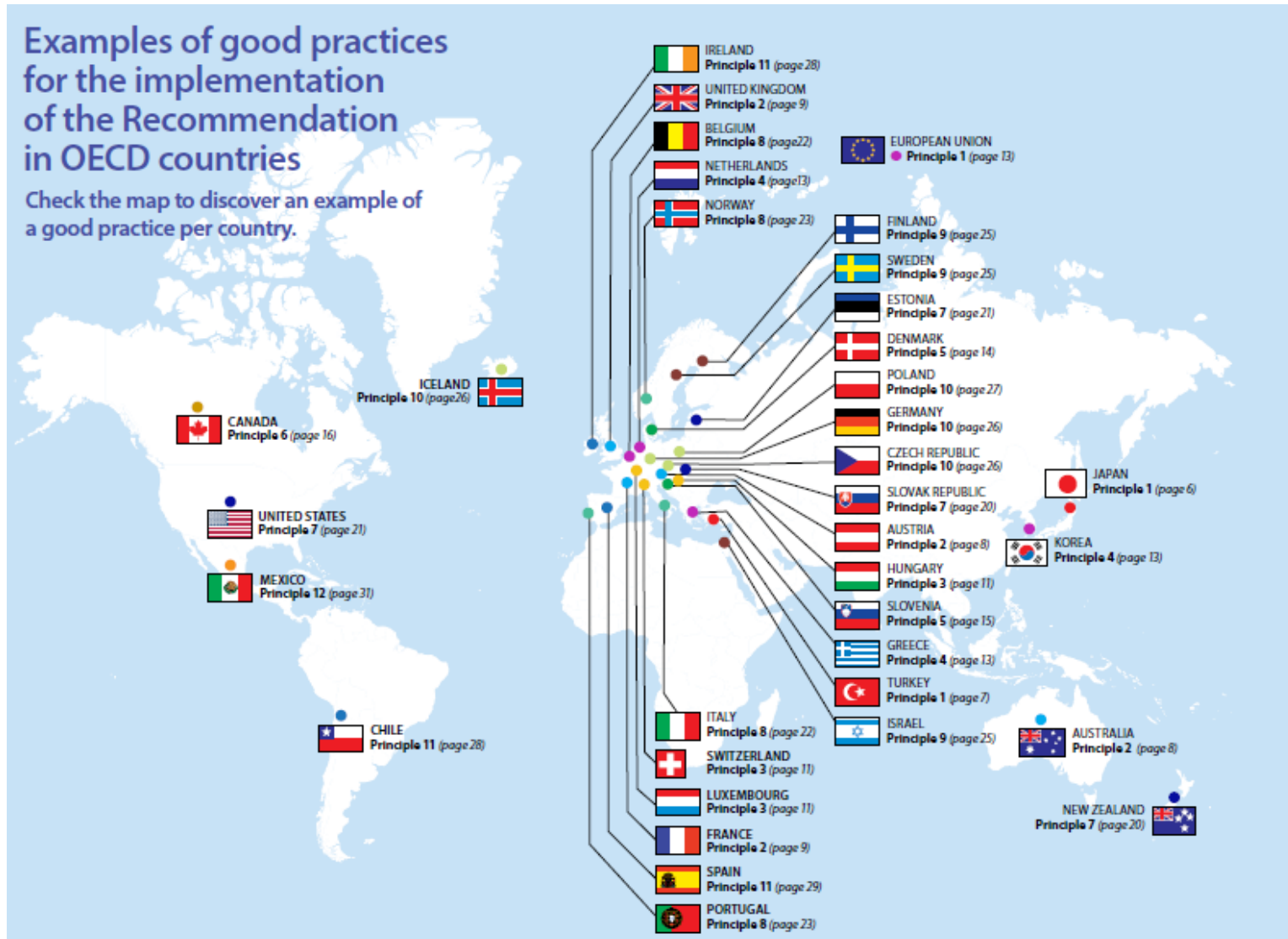


Supporting the implementation in countries

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

Country studies with detailed scoreboard of indicators

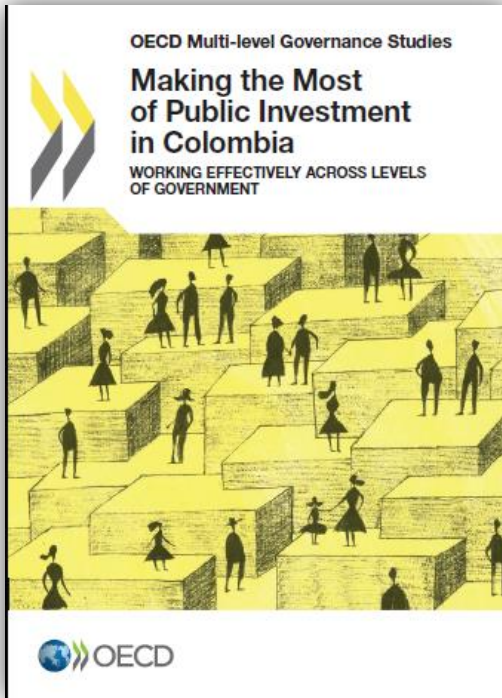


Table 0.1. Summary assessment: OECD Recommendation on Effective Public Investment across Levels of Government

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

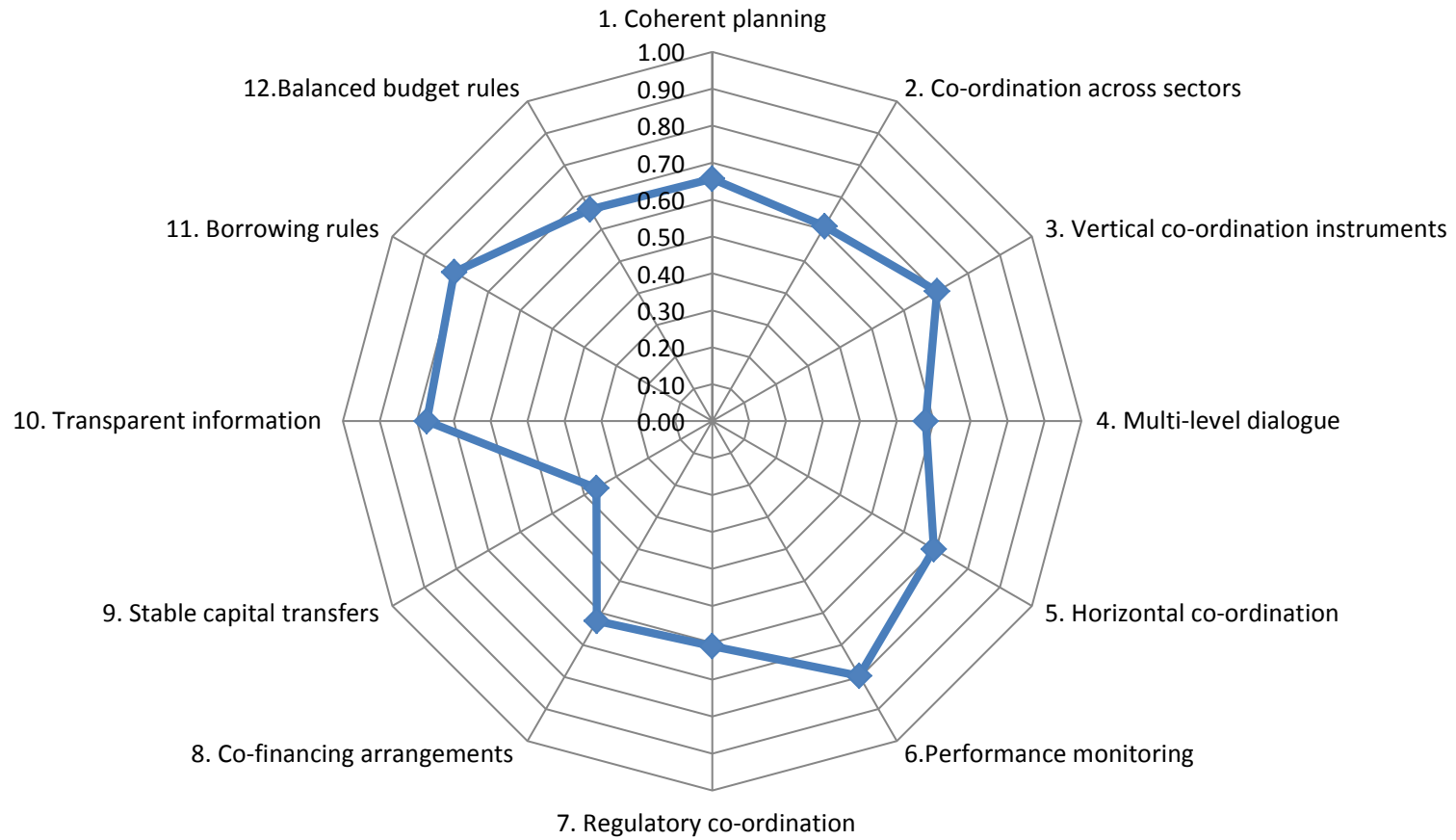
SWEDEN	
System is in place and works in a satisfactory way	System is not in place or not functioning well
System is in place, but improvements are needed	Additional information needed
PRINCIPLE 1:	
To engage in planning for regional development that is tailored, results-oriented, realistic, forward-looking and coherent with national objectives	<p>COHERENT PLANNING ACROSS LEVELS OF GOVERNMENT Mechanisms exist to ensure that sub-national investment plans reflect national and sub-national 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>
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Supporting the implementation in countries

Indicators for 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 stability of capital transfers.



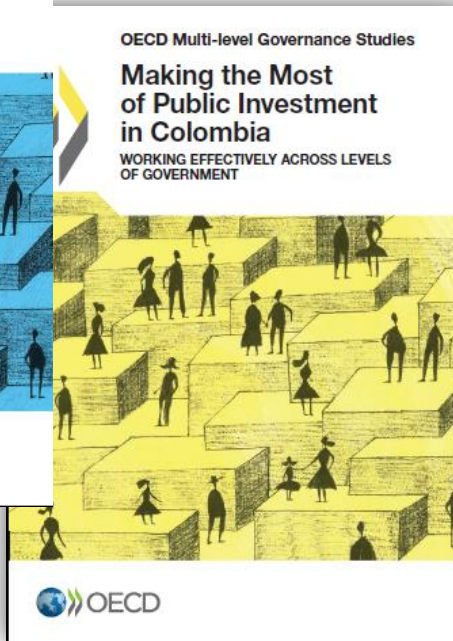
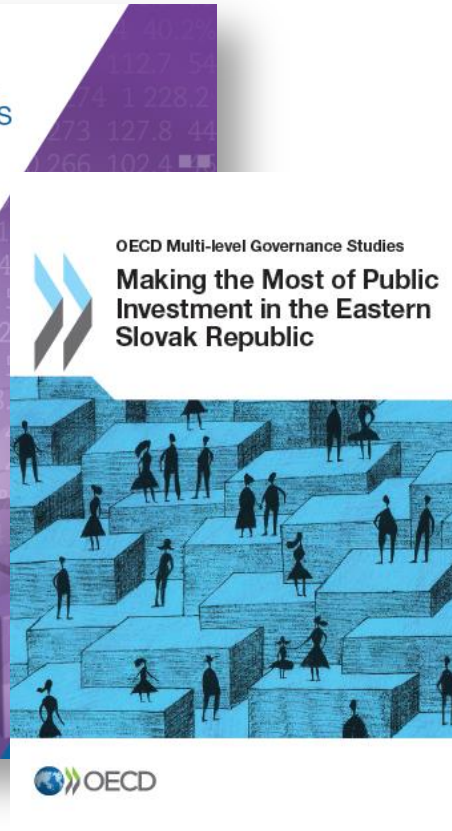
Priorities for Ukraine

Preliminary findings

- Allow amalgamation for cities of oblast significance
- Stronger **strategic development planning** at the regional level (as well as the local level) could better support horizontal and vertical coordination among the various levels of government
- Clarify responsibilities assigned at different levels of government for infrastructure development
- Clarify the status of Regional Development Agencies, so that they can be strong players in implementing regional development projects
- Strengthen fiscal and human capacities of subnational governments to address new responsibilities



Selected OECD publications on the topic





THANK YOU

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