

Bridging the Gaps between Levels of Government

What is “mutual dependence” among levels of government?

What are the most common obstacles to effective multi-level governance?

How can governments bridge the gaps?

Which specific tools can help?

For further information

For further reading

Where to contact us?

Introduction

Managing relations between different levels of government is a necessity, since almost all countries are decentralised to one degree or another. In a time of economic crisis, it is crucial that these different levels of government work together effectively, as governments are having to do more, including implementing stimulus packages, with less. In OECD countries, sub-national authorities are responsible for an average of 60% of public investment, yet the finances of many sub-national authorities are severely strained. As tax revenues fall because of reduced economic activity, and expenditures rise to meet increasing demands for welfare services, the budget deficits and debt of sub-central governments swell. These swollen deficits might affect the delivery of public goods and services at the sub-national level and lead to a decrease in long-term potential growth due to cuts in investment. This can compromise national recovery plans decided at the central level.

In their pursuit of effectiveness, governments, regardless of their degree of decentralisation or type of constitutional arrangement, need to think about how to manage interdependencies in public policies between players at different levels of government. Such interdependencies can affect public policy initiatives with both domestic and global implications. In energy policy, for example, it is estimated that about 50% of the world's population now live in cities and account for some 66% of global energy use. The result is that cities emit about 76% of the world's energy-related greenhouse gases. Thus, policy plans or agreements risk becoming ineffective unless the commitments assumed by central governments can be properly implemented at the local level. In order to achieve this, the structures and capacities at all levels of government must be in place.

This *Policy Brief* outlines fundamental concepts in the relationship between national and sub-national levels of government. It discusses the gaps that exist between levels of government as they design and implement public policies, and examines some of the tools being used to help bridge these gaps. ■

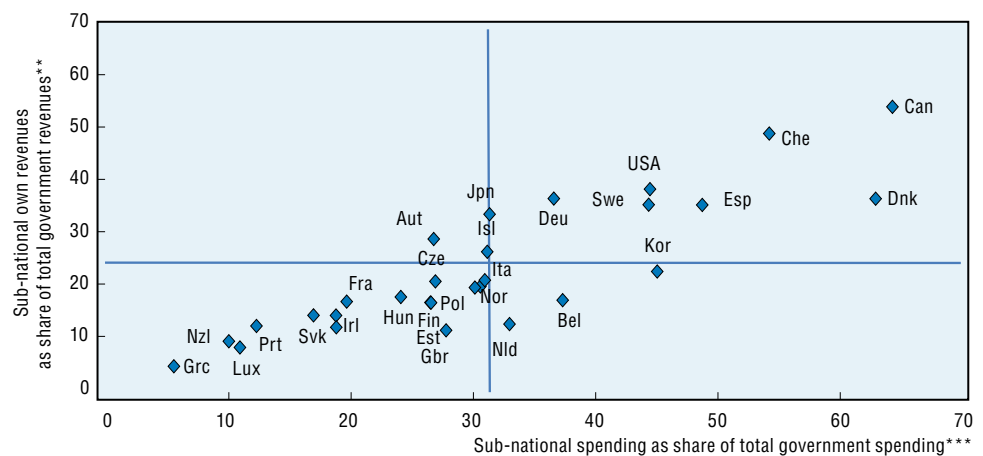
What is “mutual dependence” among levels of government?

Countries have implemented decentralisation policies to varying degrees, allocating more and often increasingly complex or resource-intensive competences to lower levels of government. As a result, there is constant movement along a continuum of decentralisation and recentralisation activity. For example, a number of European countries have recently recentralised some aspects of their healthcare systems.

While countries may share common objectives for decentralisation, including enhancing democracy by bringing government closer to citizens, and prioritising public services and investment, the degree of decentralisation varies widely among OECD countries (see Figure 1). This variety may be due to a number of factors: sub-national governments responsible for delivering public services often do not have the competence to decide on the resource allocation required to meet these needs, or to generate local public revenues, or to spend the available resources at their discretion, for example because of established standards related to providing services. In addition, competences may be imperfectly assigned among levels of government, resulting in an overlap or sharing of responsibilities. Any of these situations, alone or combined, makes it difficult for government to meet its obligations. Meanwhile, central government may have difficulties in promoting and assessing local public-service delivery and strategies for regional development unless information is obtained from sub-national-level government.

The relationship among levels of government resulting from decentralisation is characterised by mutual dependence, since it is impossible to have a complete separation of policy responsibilities and outcomes among levels of government. It is a complex relationship, simultaneously vertical, across different levels of government, horizontal, among the same level

Figure 1.
SUB-NATIONAL GOVERNMENTS' SHARE IN GENERAL GOVERNMENT REVENUES AND EXPENDITURES (2006)*



Source: National Accounts of OECD countries; US Bureau of Economic Analysis.

* Or latest year available.

** Excluding transfers received from other levels of government.

*** Excluding transfers paid to other levels of government.

of government, and networked. Given such an environment, policy programmes, whether focused on innovation, economic growth, cohesion or improved public service delivery, can be more efficiently and effectively implemented when resources are pooled and information is shared. However, governments must first try to bridge a series of “gaps” between levels. These gaps can exist vertically and horizontally, and bridging them is one of the primary challenges in multi-level governance. Countries may experience these gaps to a greater or lesser degree, but given the mutual dependence that arises from decentralisation, and the network-like dynamic within multi-level governance, countries are likely to face them simultaneously. ■

What are the most common obstacles to effective multi-level governance?

The five most common challenges that can hinder effective multi-level governance are information, capacity, fiscal, administrative, and policy gaps. An *information gap* can open when different levels of government do not have the same quantity or quality of information when designing, implementing and delivering public policy. Broadly speaking, a *capacity gap* arises when there is a lack of human, knowledge (skill-based and “know-how”) or infrastructural resources available to carry out tasks, regardless of the level of government. A *fiscal gap* opens when sub-national revenues are not sufficient to finance the required expenditures, indicating a direct dependence on higher levels of government for funding in order to meet obligations. (This gap is sometimes bridged by distributing sub-national funds to other sub-national programmes.) An *administrative gap* arises when administrative borders do not correspond to functional economic and social areas at the sub-national level, leading to a fragmentation of public policies. A *policy gap* results when line ministries take purely vertical approaches to cross-sectoral policies that can require co-design or implementation at the local level. This leads to a lack of intersectoral co-ordination, often seen in such areas as regional development, energy, water, or youth policies. ■

How can governments bridge the gaps?

Promoting co-ordination and capacity-building at both the national and sub-national levels is a large and critical step toward bridging these gaps and overcoming the obstacles they present. Co-ordination is essential for effectively providing public services. Joining together and striking a balance between the interests, capacities, and objectives of both the national and sub-national levels can help overcome fragmentation and overlap, and thus increase efficiency and efficacy. Given this, improving vertical relations among levels of government often requires horizontal co-ordination among line ministries in charge of public policy areas with an impact at the sub-national level.

Co-ordination should be accompanied by capacity-building at the national and sub-national levels. However, the question often arises: is it necessary to build capacity at the sub-national level before devolving responsibilities from higher to lower levels of government; or is it a “learning-by-doing” exercise through which sub-national governments acquire capacity once they

are faced with the responsibility of delivering specific policies? Sometimes local authorities promote innovative practices that are then adopted and disseminated by the central government.

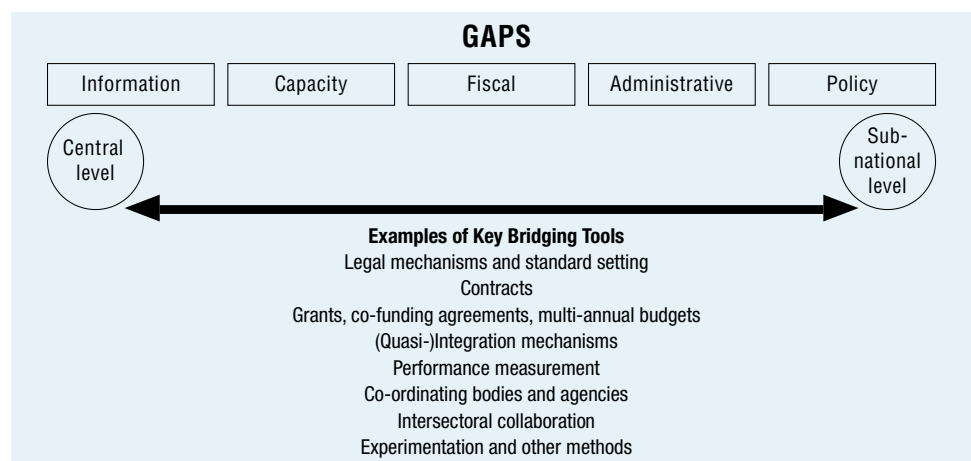
Differences among levels of government go beyond costs and resources. They may also be related to the level of education of municipal staff, weaknesses in project management and budgetary practices, or difficulties in responding to local citizens' preferences and firms' needs. Gaps in capacity not only involve the ability of sub-national governments to implement national policies but also to define their own strategy for long-term development. Sub-national governments are demonstrating a strong ability to accomplish functional tasks; but as demands become more strategic, for example in planning for sustainable development, the capacity of the sub-national level is often insufficient or shows important disparities among local actors. ■

Which specific tools can help?

OECD member and non-member countries are developing and using a wide variety of mechanisms to help bridge these gaps, improve the coherence of multi-level policy making, and smooth the disparities that can arise when tasks and resources are allocated (see Figure 2). These mechanisms are complementary, can be used individually or in combination, and their application depends on the national context, the issues to be addressed and the objectives to be realised. They may be “binding”, such as legal mechanisms, or “soft”, such as *ad hoc* meetings, and they all share certain characteristics: sufficient flexibility to permit territorially specific policies; an ability to help build capacity and overall efficiency; and broad applicability regardless of the country's constitutional structure.

Legal mechanisms, possibly the most binding, can address fiscal and capacity gaps, and promote vertical and horizontal co-ordination. The Dutch Law on Mutual Agreements regulates the co-operation between municipalities, provinces and other sub-national public bodies. In principle, co-operation is voluntary. However, under certain conditions and procedures, the national government can force sub-national authorities to co-operate for a well-defined public cause of great importance. Austria, Hungary and

Figure 2.
MINDING AND BRIDGING THE GAPS



Portugal use legislative tools to promote e-government. They have all passed specific e-government legislation aimed at removing barriers to developing e-government within the country.

Contracts among levels of government are another means to help manage vertical interdependencies and solve some institutional weaknesses. Since contracts are based on mutual agreement, when a requirement for performance information is included in a contract, for example, different levels of government share knowledge. A contract can thus help bridge an information or knowledge gap, while it addresses a capacity gap: the more information available, the easier it is to assess and adjust for capacity strengths and weaknesses regardless of the level of government. Contracts can also address fiscal gaps by allocating additional resources for a specific purpose.

(Quasi-)integration mechanisms are common throughout the OECD area and beyond. They include various methods of municipal co-operation, affecting vertical and horizontal co-ordination and providing a means to address multiple gaps, including gaps in capacity. Municipal co-operation in human resource management, for example, can lead to pooling resources, which

Box 1.**THE COUNCIL OF AUSTRALIAN GOVERNMENTS (COAG)**

The Council of Australian Governments (COAG) is the peak intergovernmental forum in Australia. It comprises the prime minister, state premiers, territory chief ministers and the president of the Australian Local Government Association (ALGA). The role of COAG is to initiate, develop and monitor the implementation of policy reforms that are of national significance and that require co-operative action by Australian governments at various levels. These include such areas as national competition policy, water reform, environmental regulation, and restriction on handgun availability.

Under the auspices of COAG, the Commonwealth, states and territories have agreed on a reform agenda to improve the national economy by focusing on competition, regulatory reform and human capital. The reforms are intended to increase autonomy of action and enhance accountability in the delivery of public services within the existing multi-level governance practices. These reforms involve significant changes to the management of federal, state and territory financial relations, including financial incentives to facilitate or reward reforms. The frameworks governing the reforms include national agreements in which desired outcomes are determined and agreed upon.

The COAG Reform Council, established by COAG as an independent body, is mandated to provide independent, evidenced-based monitoring of policy implementation, and to assess and report on the performance of all governments. The Reform Council publishes performance data associated with the agreed outcomes and assesses if milestones and performance benchmarks are achieved before incentive payments are made.

COAG, and the COAG Reform Council, illustrate how a government co-ordinating body may promote co-operation, build capacity, and simultaneously address the policy, fiscal, and information gaps, in the interest of reform success.

Source: www.coag.gov.au.

may have a positive impact on the capacity of local governments to deliver services more cost-effectively. Horizontal co-operation at the local level can also have a positive impact on e-government when local governments share tools developed by other local authorities and/or join forces to improve economies of scale.

An increasing number of OECD countries have established indicator systems for *performance measurement*, particularly by monitoring and evaluating sub-national public service provision. These indicators can help reinforce linkages among policy stakeholders at different levels of government, and help build capacity. They provide a basis for dialogue, discussion and learning, and can help a community of actors identify common reference points. They can also be used to identify and evaluate effective and innovative governance practices.

Co-ordinating bodies are government or non-government groups, such as municipal associations, working groups, government agencies, or specific government offices that help promote collaboration among levels of government. They are a key force for building capacity and sharing good practices at the sub-national level. Ultimately, their work targets the capacity and information gaps. In some countries, co-ordinating bodies represent the interests of the local or regional-level government to national-level decision makers. In Norway, the Association of Local and Regional Authorities plays a role as a national members' association for municipalities, counties, and public enterprises under municipal or county ownership. Working groups are an alternative form of co-ordinating body, and tend to focus on a specific topic. Canada established a working group on regulatory reform that included representatives from the federal, provincial, and local levels. It was created to help build a shared approach to regulatory reform, and aims to enhance the governments' capacity to produce quality regulation and encourage regulatory co-operation across jurisdictions. In Denmark, central and sub-national-level e-government actors have agreed to meet in a management board/steering group arrangement. The agreements that emerge from the group are based on trust and are implemented in the respective jurisdictions.

Ad hoc and informal meetings provide an opportunity to build communication and networks that are horizontal, vertical and cross-disciplinary. For example, those responsible for operating e-government in Belgium and the Netherlands often use informal as well as formal channels of communication. It may seem that such informal meetings are most appropriate for smaller countries where there is greater likelihood that individual members of government, regardless of level, know each other personally; but this type of communication appears to be valuable regardless of a country's geographic or population size. Australia, Brazil, Luxembourg, and Slovenia all use ad hoc and informal meetings to help manage multi-level governance relations.

Experimentation in policy design and implementation can promote co-ordination, build capacity, and synthesise many of the above tools

thanks to partnerships with the local area concerned. Experimentation often occurs at the local or regional level with the aim of applying positive results elsewhere. Countries in which resistance to reform is pervasive may choose to try out a particular practice with the support of specific contracts, performance evaluation mechanisms, and co-funding. *Pilot programmes*, for example, can promote innovative solutions, help identify the good practices that lead to the success of an initiative, and provide early insight into the challenges that may arise when a programme is more widely implemented. ■

For further information

For further information regarding this *Policy Brief* please contact:
Ms. Claire Charbit, tel: +33 1 45 24 99 19, email: claire.charbit@oecd.org, or
Ms. M-Varinia Michalun, tel: +33 1 45 24 91 84,
email: maria-varinia.michalun@oecd.org.



For further reading

OECD (2009), "Mind the Gaps: Managing Mutual Dependence in Relations among Levels of Government", *OECD Working Paper on Public Governance* No. 14, available at www.oecd.org/gov.

OECD (2009), **OECD e-Government Studies: Belgium**, ISBN 978-92-64-04786-0, € 40, 250 pages.

OECD (2009), **Governing Regional Development Policy: The Use of Performance Indicators**, ISBN 978-92-64-05628-2, € 40, 196 pages.

OECD (2009), "Investing for Growth: Building Innovative Regions", Background report prepared for the Meeting of the Territorial Development Policy Committee at Ministerial Level, 31 March 2009.

OECD (2008), "Employment in Government in the Perspective of the Production Costs of Goods and Services in the Public Domain", *OECD Working Paper on Public Governance* No. 8.

OECD (2007), **Linking Regions and Central Governments: Contracts for Regional Development**, ISBN 978-92-64-00873-1, € 40, 200 pages.

OECD (2007), **OECD Reviews of Regulatory Reform: Italy: Ensuring Regulatory Quality across Levels of Government**, ISBN 987-92-64-03797-7, € 45, 130 pages.

OECD Centre for Tax Policy and Administration, Fiscal Federalism Network
www.oecd.org/department/0,3355,en_2649_35929024_1_1_1_1_1,00.html.

OECD Directorate of Public Governance and Territorial Development
www.oecd.org/gov/regional/multilevel.

OECD publications can be purchased from our online bookshop:

www.oecd.org/bookshop

OECD publications and statistical databases are also available via our online library:

www.SourceOECD.org

Where to contact us?

OECD HEADQUARTERS

2, rue André-Pascal
75775 PARIS Cedex 16
Tel.: (33) 01 45 24 81 67
Fax: (33) 01 45 24 19 50
E-mail: sales@oecd.org
Internet: www.oecd.org

GERMANY

OECD Berlin Centre
Schumannstrasse 10
D-10117 BERLIN
Tel.: (49-30) 288 8353
Fax: (49-30) 288 83545
E-mail:
berlin.centre@oecd.org
Internet:
www.oecd.org/berlin

JAPAN

OECD Tokyo Centre
Nippon Press Center Bldg
2-2-1 Uchisaiwaicho,
Chiyoda-ku
TOKYO 100-0011
Tel.: (81-3) 5532 0021
Fax: (81-3) 5532 0035
E-mail: center@oecdtokyo.org
Internet: www.oecdtokyo.org

MEXICO

OECD Mexico Centre
Av. Presidente Mazaryk 526
Colonia: Polanco
C.P. 11560 MEXICO, D.F.
Tel.: (00.52.55) 9138 6233
Fax: (00.52.55) 5280 0480
E-mail:
mexico.contact@oecd.org
Internet:
www.oecd.org/centrodemexico

UNITED STATES

OECD Washington Center
2001 L Street N.W., Suite 650
WASHINGTON DC. 20036-4922
Tel.: (1-202) 785 6323
Fax: (1-202) 785 0350
E-mail:
washington.contact@oecd.org
Internet: www.oecdwash.org
Toll free: (1-800) 456 6323

The OECD Policy Briefs are prepared by the Public Affairs Division, Public Affairs and Communications Directorate. They are published under the responsibility of the Secretary-General.