



EFFECTIVE PUBLIC INVESTMENT  
ACROSS LEVELS OF GOVERNMENT

# IMPROVING (HORIZONTAL/VERTICAL) COORDINATION TO REACH BETTER INVESTMENT OUTCOMES

Seminar - Bogota  
3 May 2016

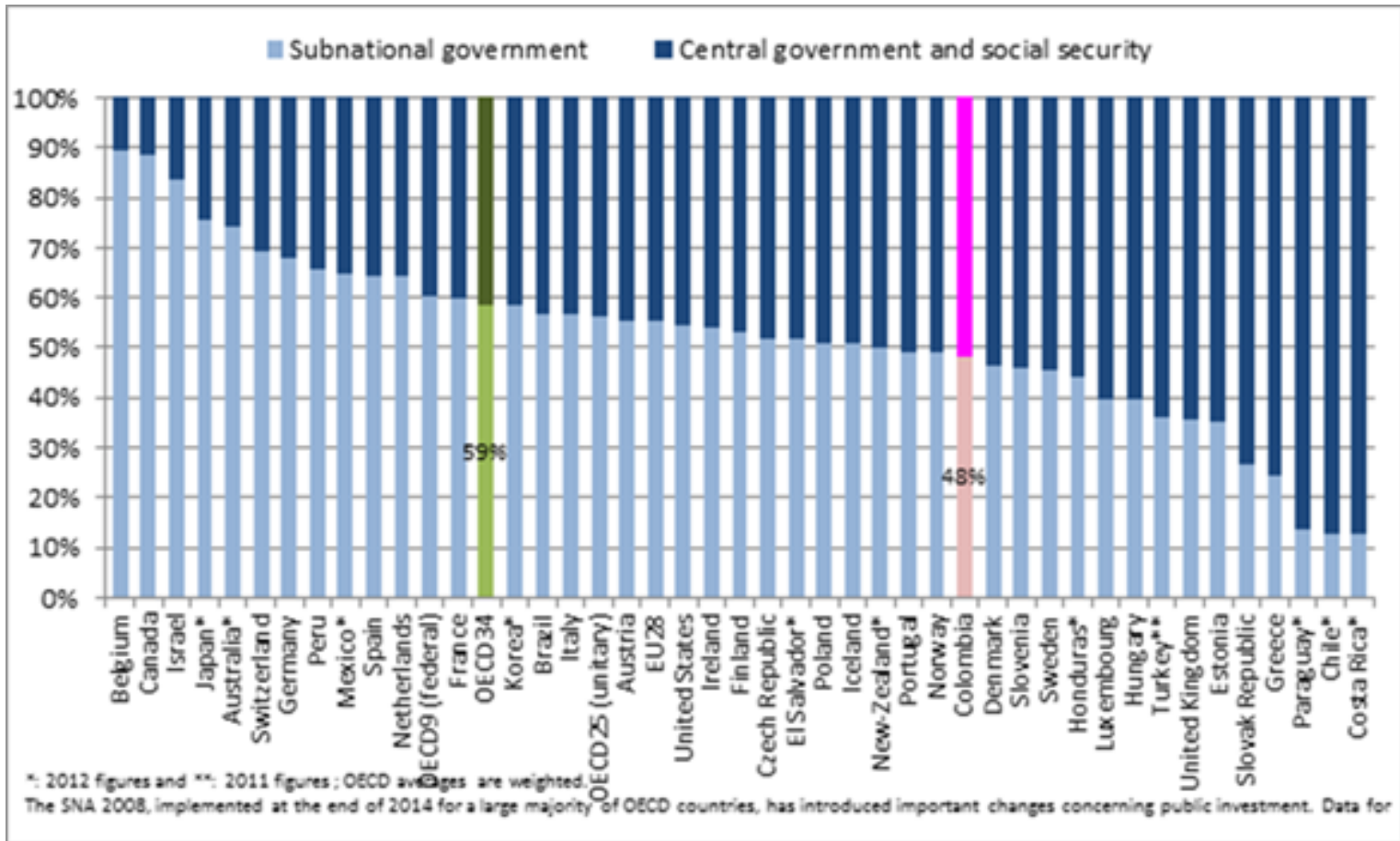
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# Public investment across levels of government

## Why is governance so complex for public investment?

- Sub-national governments are responsible for almost 60% of total public investment across the OECD (2013)



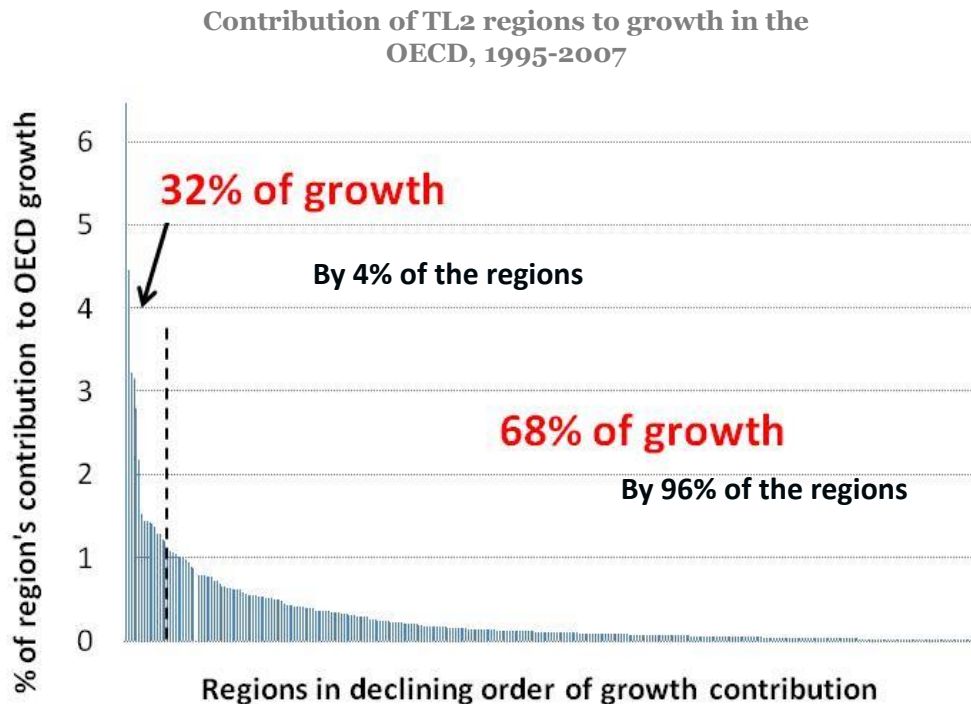
Source: OECD National Accounts



## Issue 1: Integrated investment strategy tailored to different places

### Why is it important?

- Regions differ in their performance and growth rates and these differences persist over time.
- A small number of large cities contribute disproportionately to growth, BUT many smaller and lagging regions also make important and vital contributions to national growth.
- Drivers of growth vary across regions and capacity needs and bottlenecks differ from region to region => a place-based approach is needed



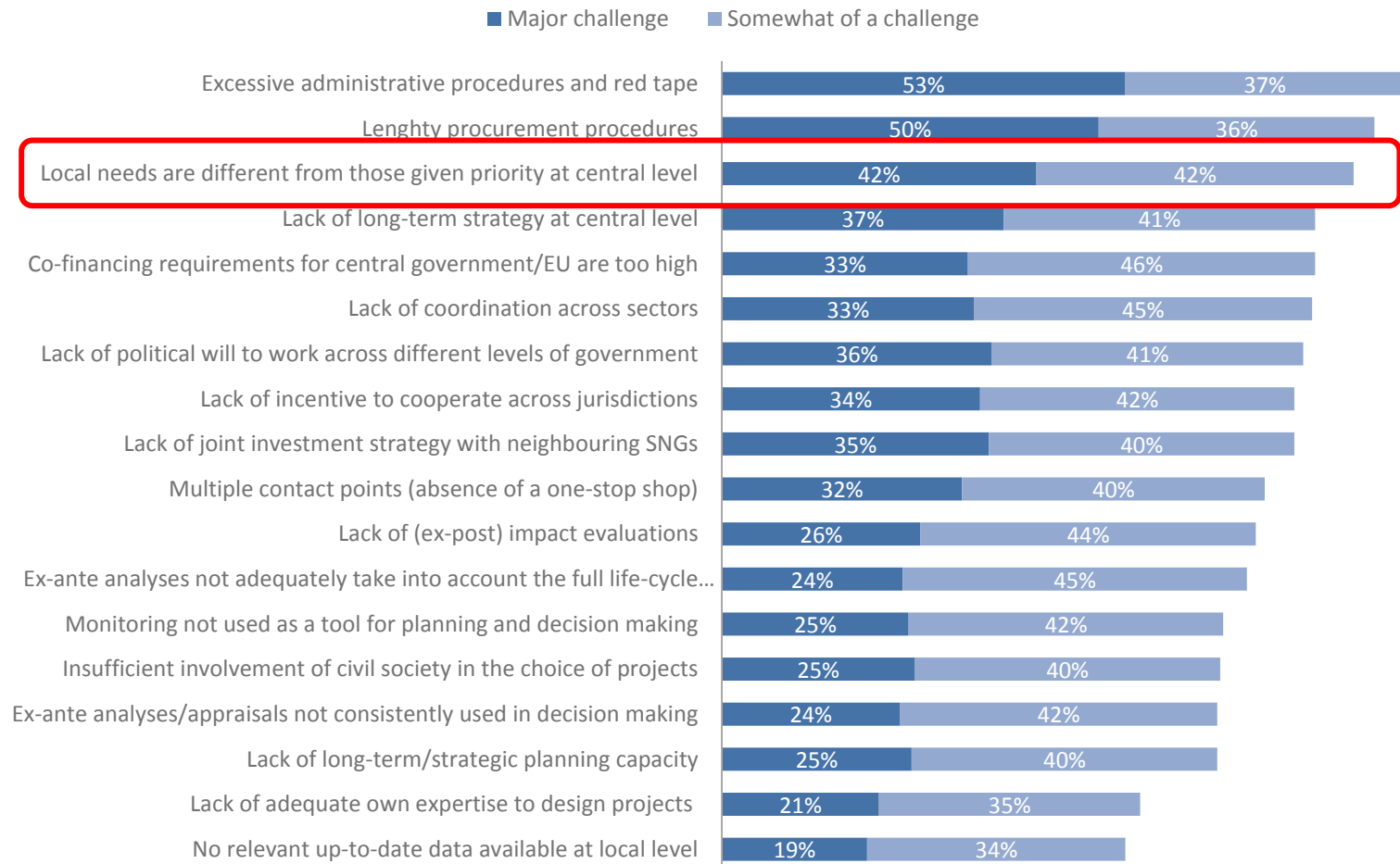
Source: OECD (2011), Regional Outlook



# Issue 1: Integrated investment strategy tailored to different places

## Why is it important?

➤ Difference in local and national needs appears as a major governance challenge for SNGs

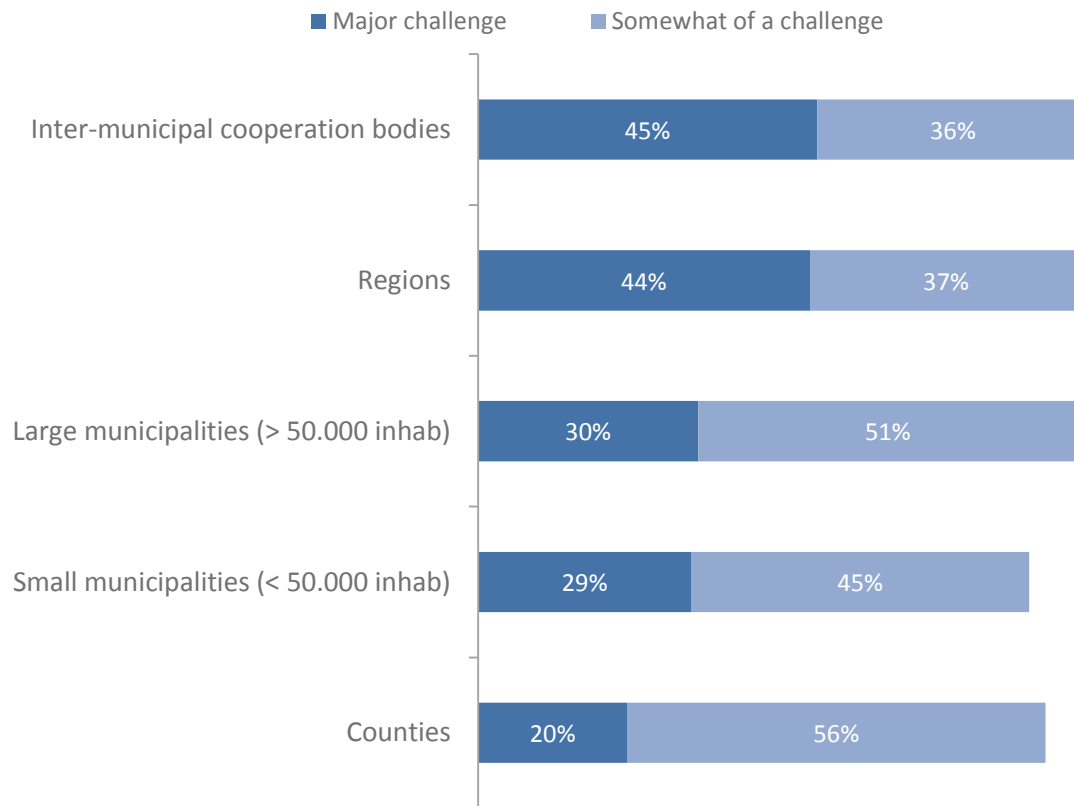




## Issue 1: Integrated investment strategy tailored to different places

### Why is it important?

- Lack of co-ordination across sectors to exploit possible complementarities of investment projects appear as a major challenge, specially for SNGs





## Issue 1: Integrated strategy tailored to different places

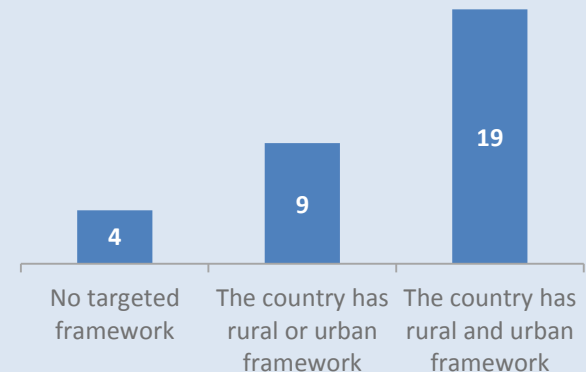
### Key messages

Importance of integrated approaches which combine different policy areas, ensuring they are adapted to the needs and circumstances of different regions.

- ✓ Design and implement investment strategies tailored to the place the investments aim to serve
- ✓ Seek complementarities and reduce conflicts among sectoral strategies
- ✓ Encourage the production of data at the relevant sub-national scale

**Number of OECD countries which have explicit national framework to support urban and/or rural development in all or some areas:**

- No framework for urban or rural area
- The country has rural or urban framework that may be mobilized to guide investments
- The country has both, rural and urban frameworks that may be mobilized to guide public investment






# Issue 1: Integrated strategy tailored to different places

## Key messages

- Shift on how OECD countries approach regional policies: from traditional regional policies to a new paradigm focusing on competitiveness and well-being and working with regions to unlock growth potential

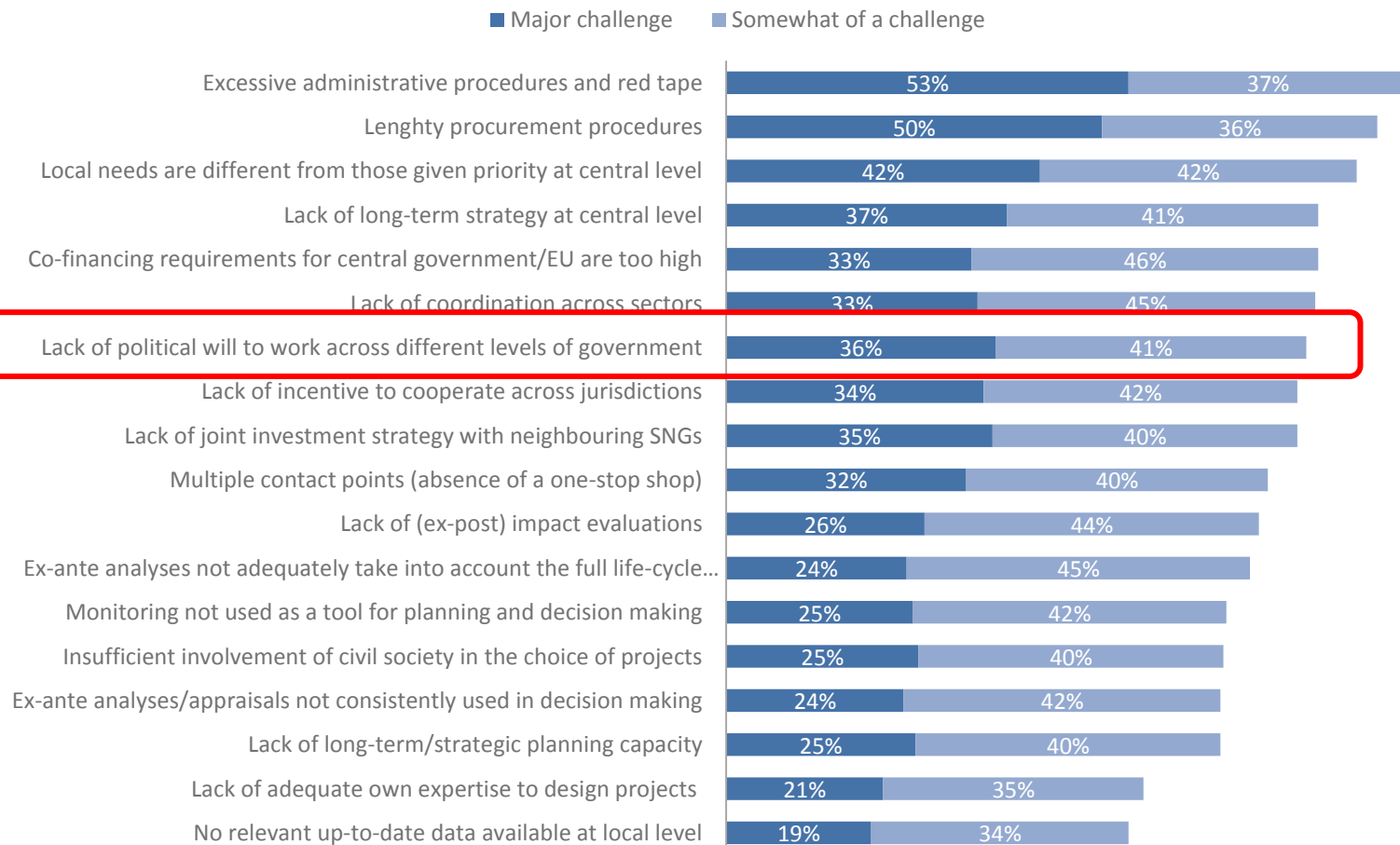
	Traditional regional policies	New paradigm
Objectives	Balancing economic performance by temporary compensation for regional disparities	Tapping underutilised regional potential for competitiveness
Strategies	Sectoral approach	Integrated development projects
Tools	Subsidies and state aid	Soft and hard infrastructure
Actors	Central government	Different levels of government
Unit of analysis	Administrative regions	Functional regions
	Redistributing from leading to lagging regions	Building competitive regions to bring together actors and targeting key local assets



## Issue 2: Vertical co-ordination across levels of government

### Why is it important?

- In all contexts, but co-ordination needs grow with decentralisation
- Vertical co-ordination is also perceived as a major governance challenge by SNGs







## Issue 2: Vertical co-ordination across levels of government

### **Tools for co-ordination**

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- Several tools can be used to strengthen coordination across levels of government to enhance investment outcomes :
  - ✓ Co-financing arrangements/matching grants
  - ✓ Contracts between levels of government
  - ✓ Formal consultation processes or regular dialogues
  - ✓ National agencies or representatives working with SNGs

Colombia's ***contratos plan*** is a governance tool that helps align investment agendas at the national and local level, improving accountability and transparency and providing subnational –authorities with capacity building. The parties commit to co-ordinate their investment agendas among sectors and across tiers of governments. They agree to deliver their interventions within a given timeline.

Source : OECD (2014), OECD Territorial Reviews: Colombia 2014, OECD Publishing



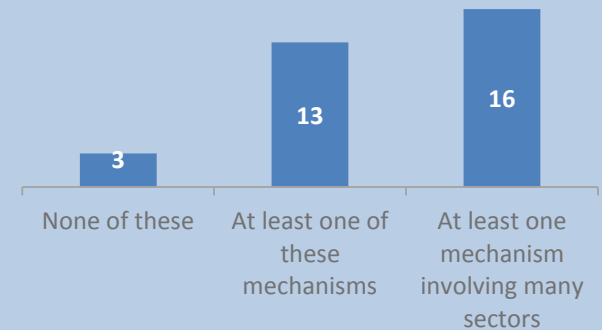
## Issue 2: Vertical co-ordination across levels of government

### Tools for co-ordination

#### 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**

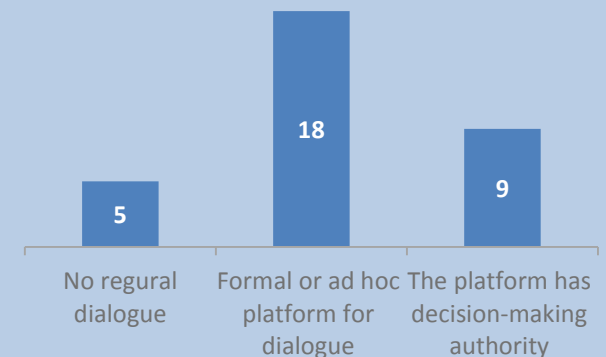
- None of these
- At least one of these mechanisms
- At least one of these mechanisms involving several sectors



#### 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**

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





## Issue 2: Vertical co-ordination across levels of government

### **Key messages**

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- Co-ordination is necessary to:
  - ✓ Bridge fiscal, information or policy gaps
  - ✓ Identify investment opportunities and bottlenecks
  - ✓ Manage joint policy competencies
  - ✓ Minimise overlapping and cross-purposes investments
  - ✓ Ensure adequate resources and capacity
  - ✓ Create trusts among actors across levels of government

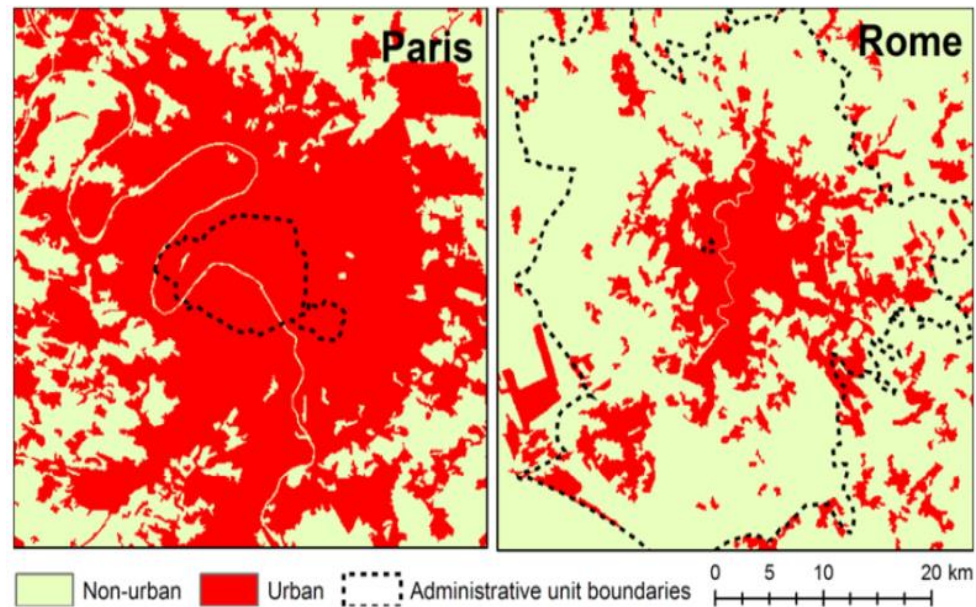


## Issue 3: Horizontal co-ordination across jurisdictions

### 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)

**Sub-national governments are often fragmented and don't match functional areas**



**According to an OECD survey, 2/3 of countries find that municipal views prevailing over regional/functional scale is a challenge in managing public investment**

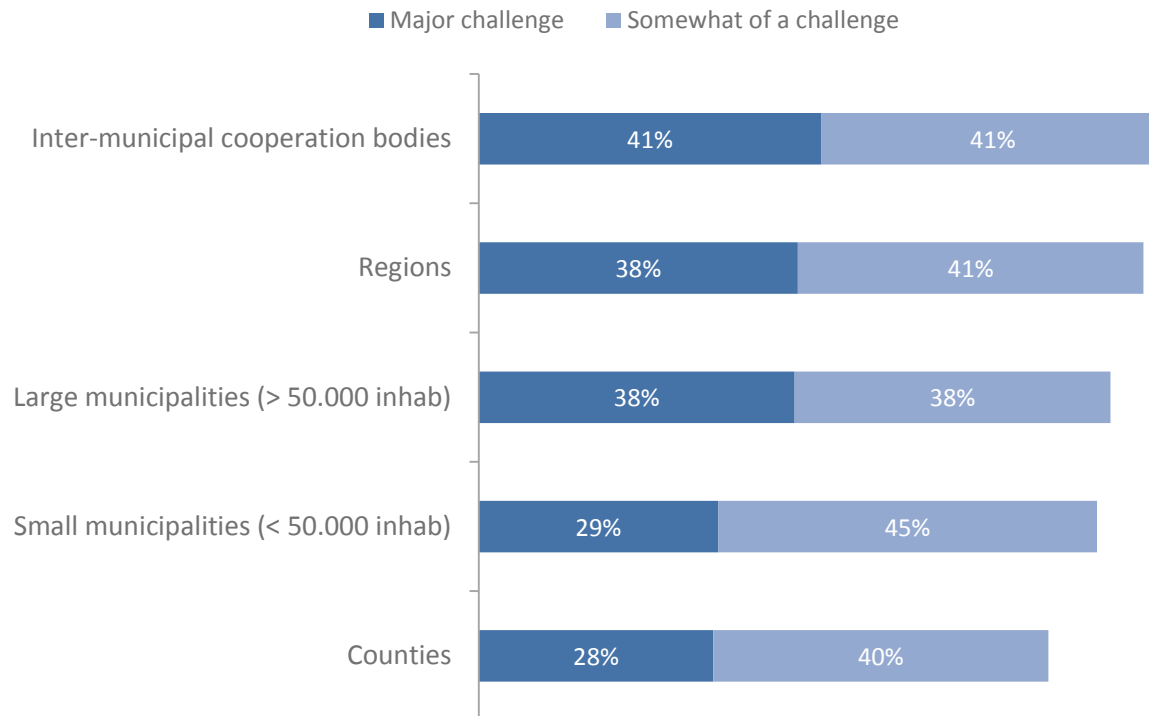


## Issue 3: Horizontal co-ordination across jurisdictions

### Why is it important?

- Co-ordination across SNGs appears as a major governance challenge for SNGs

### Lack of incentive to cooperate across jurisdictions



Source: OECD –CoR Survey (2015)

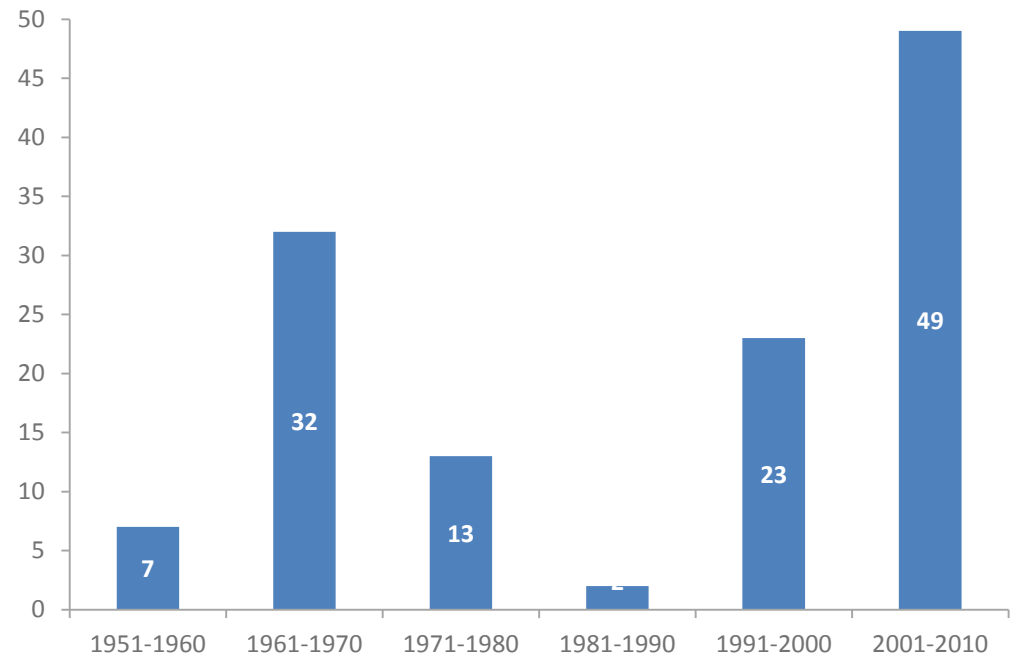
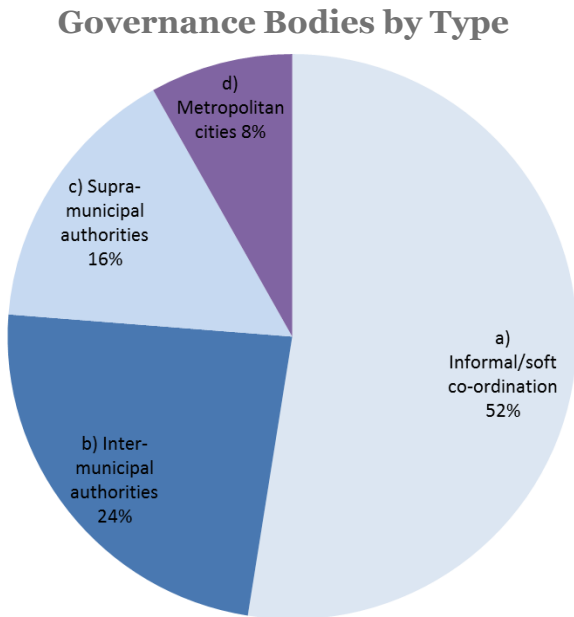


## Issue 3: Horizontal co-ordination across jurisdictions

### 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





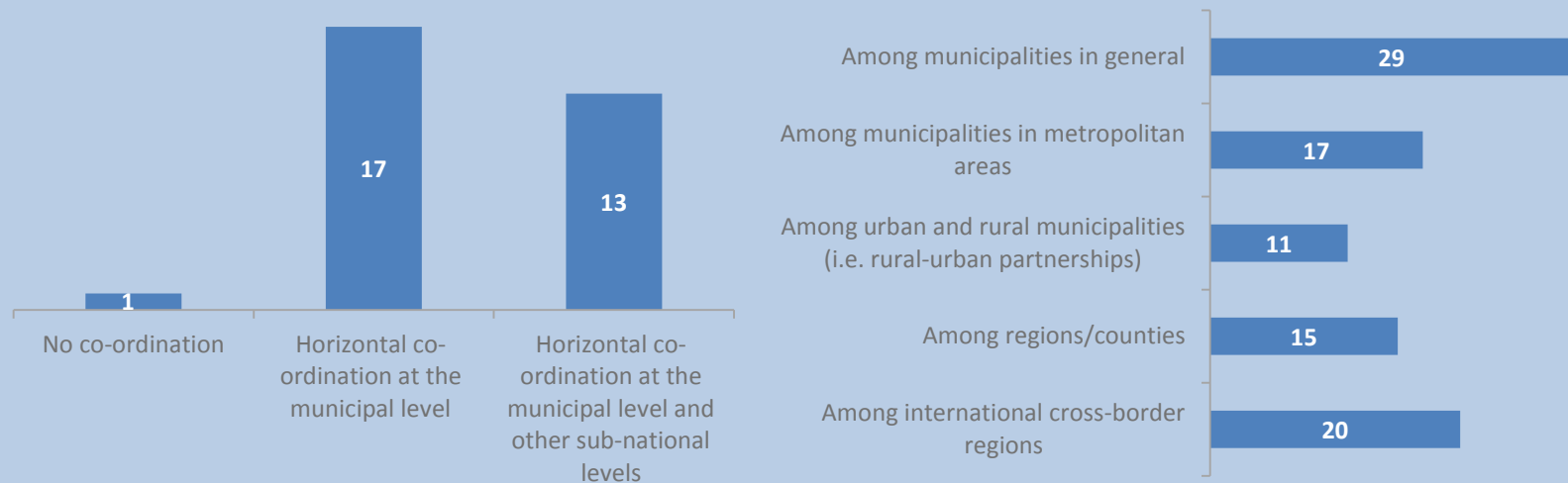
## Issue 3: Horizontal co-ordination across jurisdictions

### 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)

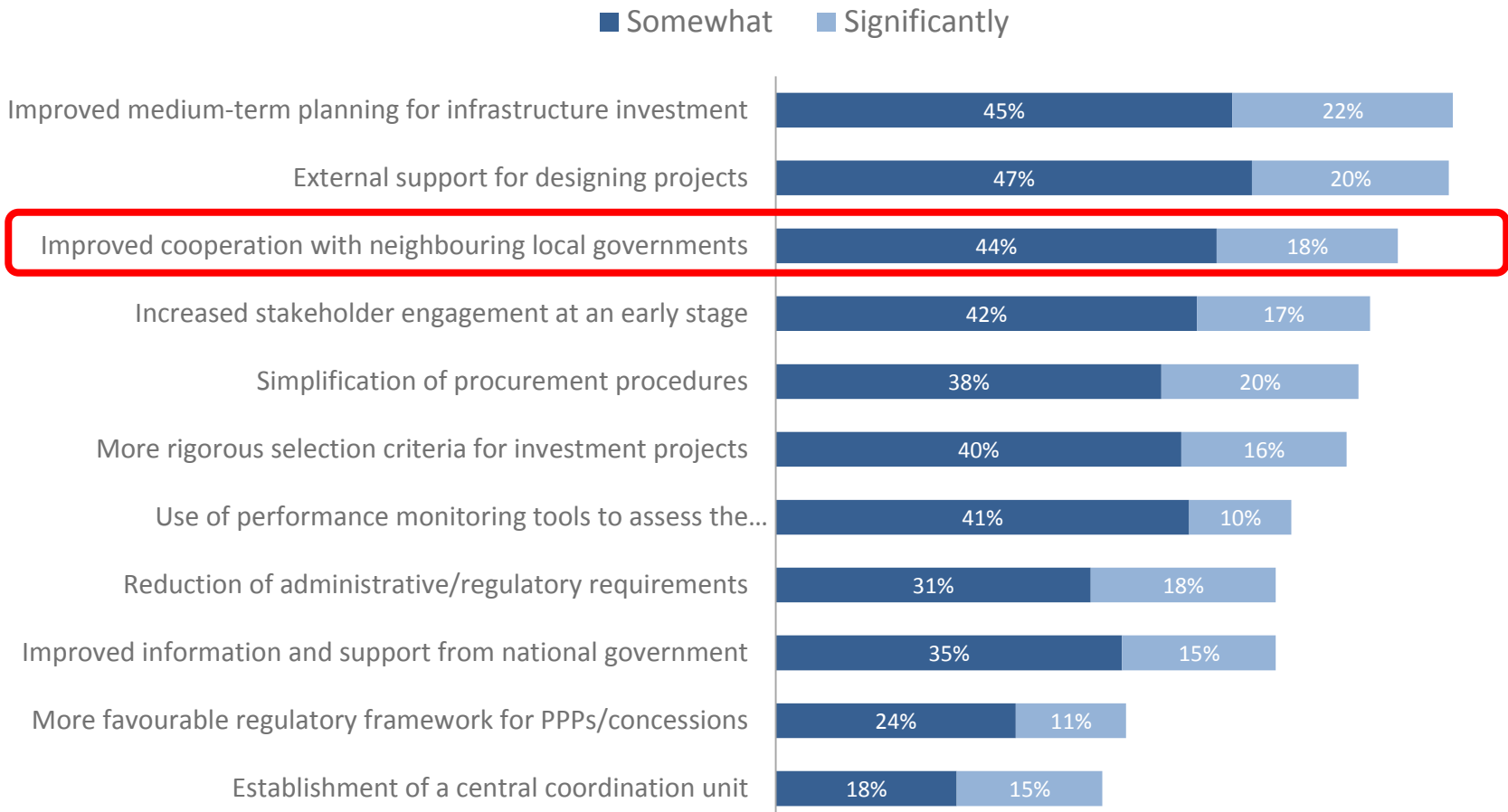




## Issue 3: Horizontal co-ordination across jurisdictions

### Key messages

#### Practices which have helped the management of infrastructure investment in SNGs



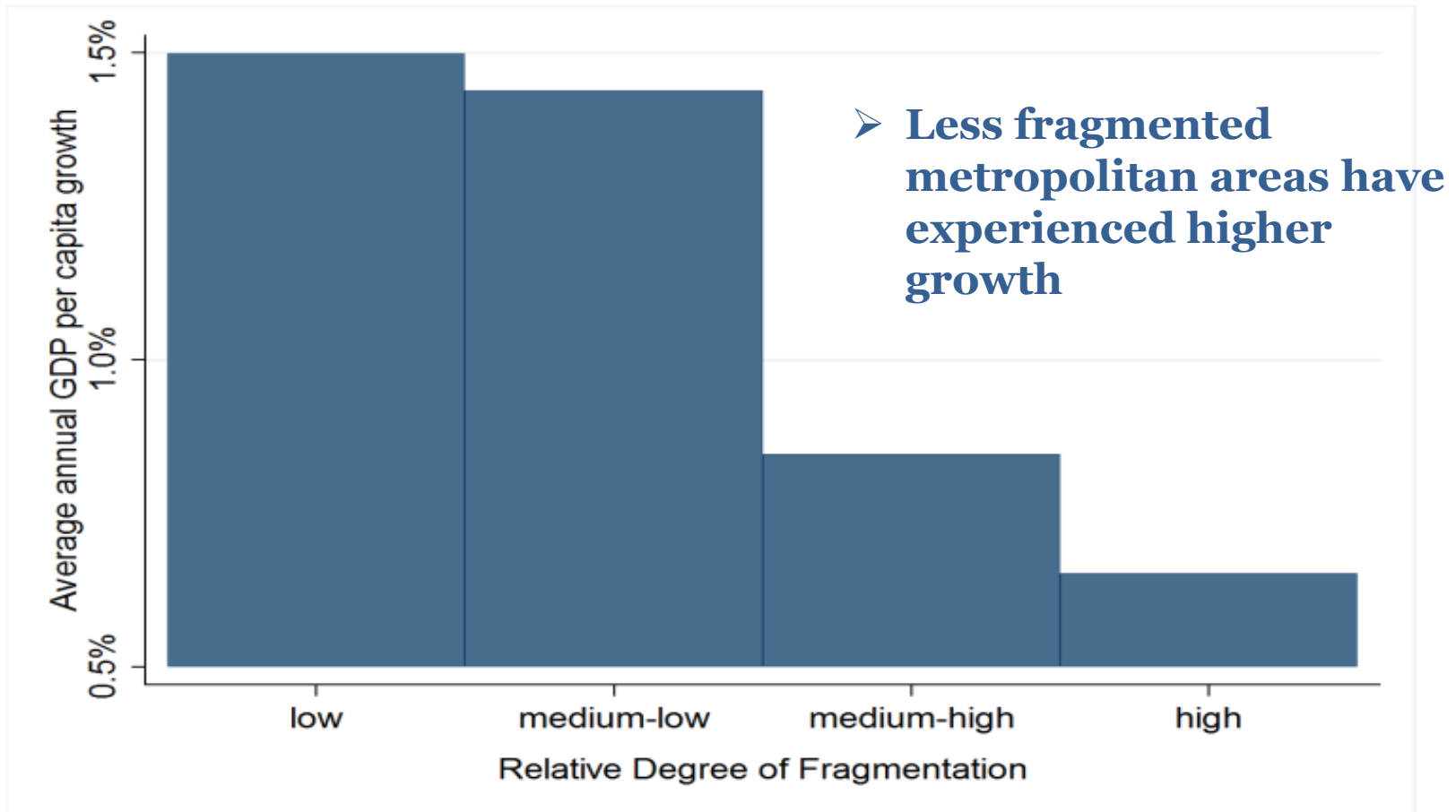




## Issue 3: Horizontal co-ordination across jurisdictions

### Key messages

#### Annual average GDP per capita growth, 2000-2010



Source: Ahrend et al (2014)



# Council 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



## Conclusion: Addressing challenges for Effective Public Investment across Levels of government

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- OECD has identified concrete tools and good practices on MLG.
- OECD-CoR survey has highlighted challenges, gaps and areas for improvement, particularly link between budgeting and planning
- An OECD toolkit is being developed to help countries design, implement and evaluate their strategies



THANK YOU