TRANSPORT POLICY AND SUBNATIONAL INVESTMENT IN A DECENTRALISED CONTEXT: OECD TRENDS AND TOOLS

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Introduction

• Subnational government investment by area
• Drivers for investment in transport and infrastructure
• Managing public investment across levels of government
• Making the most of transport investment in a decentralised context
• Drawing some conclusions for Ukraine
OECD Subnational Government Investment by Area (2015)

- Economic Affairs / Transport, 39.8%
- Education, 20.5%
- General Services, 9.4%
- Housing and Community Amenities, 8.8%
- Environmental Protection, 6.3%
- Other*, 15.3%

*Other: defence; public order and safety; health; recreation, culture and religion; social protection

Source: OECD (2017), Subnational governments in OECD countries: Key data (brochure), OECD, Paris
Defining the Transport Sector

- **Mode**: rail, road, air, water, pipes
- **Usage**: goods, people
- **Component**: infrastructure, provision, operation
Decentralisation in the road sector

Task allocation among different levels of government

<table>
<thead>
<tr>
<th>Network</th>
<th>Administration</th>
<th>Construction/renovation</th>
<th>Maintenance</th>
</tr>
</thead>
<tbody>
<tr>
<td>National</td>
<td>Central</td>
<td>Central or regional</td>
<td>Central or regional</td>
</tr>
<tr>
<td>Regional</td>
<td>Regional/central</td>
<td>Regional</td>
<td>Regional</td>
</tr>
<tr>
<td>Rural</td>
<td>Regional/central</td>
<td>Local</td>
<td>Local</td>
</tr>
<tr>
<td>Urban</td>
<td>Local/metropolitan</td>
<td>Local</td>
<td>Local</td>
</tr>
</tbody>
</table>
Why Subnational Public Investment in Transport?

- Complements structural reform
- Supports inclusiveness
- Helps building productivity
- Improves public service delivery, well-being and meeting sustainability goals
Why Subnational Public Investment in Transport?

- As a policy tool for regional development

Use of Policy Tools in Regional Development

- Business development: 27
- Transport investment: 26
- Other infrastructure investments: 24
- Cluster policies, centres of expertise: 24
- Skill training: 20
- Capacity building for local governments: 18
- Special economic zones: 16
- Service delivery: 14

N=30 (respondents to OECD “Regional Outlook Survey”)
Why Subnational Public Investment in Transport?

- It is considered a priority for urban development

Urban Development Policy: Countries rating objectives as high priority

- Urban transportation: 21
- Economic development: 18
- System of cities: 17
- Urban form: 15
- Urban sustainability and resilience: 14
- Housing: 13
- Innovation support: 13
- Social cohesion and service delivery: 13
- Employment: 12
- Inter-institutional co-ordination and metropolitan governance: 11
- Urban investments: 11

N=25 (Countries reporting on the importance of each priority in their urban development policy efforts on a scale of 1 (not important) to 5 (extremely important). Responses with a value of 4 or 5 are included. Source: OECD Regional Outlook 2016, OECD Publishing, Paris
Why Subnational Public Investment in Transport?

- It is less of a priority for rural development

### Rural Development Policy: Countries rating objectives as high priority

<table>
<thead>
<tr>
<th>Objective</th>
<th>Rating (1-5)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agricultural production</td>
<td>22</td>
</tr>
<tr>
<td>Environmental sustainability</td>
<td>20</td>
</tr>
<tr>
<td>Quality of life</td>
<td>20</td>
</tr>
<tr>
<td>Landscape preservation</td>
<td>17</td>
</tr>
<tr>
<td>Innovation support</td>
<td>17</td>
</tr>
<tr>
<td>Accessibility (transport or broadband)</td>
<td>15</td>
</tr>
<tr>
<td>Service delivery</td>
<td>14</td>
</tr>
<tr>
<td>Land occupation</td>
<td>14</td>
</tr>
<tr>
<td>Ageing and outmigration</td>
<td>12</td>
</tr>
<tr>
<td>Capacity building</td>
<td>11</td>
</tr>
<tr>
<td>Rural-urban linkages</td>
<td>10</td>
</tr>
</tbody>
</table>

N=24 (Countries reporting on the importance of each priority in their rural development policy efforts on a scale of 1 (not important) to 5 (extremely important). Responses with a value of 4 or 5 are included.

Coordination Challenges
• Cross sector
• Cross jurisdiction
• Need to align many and diverse interests

Principle 3: Horizontal coordination to invest at relevant scale
• Addresses issue of unsustainable investment
• Joins up related investment across policy sectors
• Invest based on well-informed, evidence based strategies

Potential solutions and pitfalls
• Potential solutions
  • Provide relevant incentives to enhance cross-jurisdiction mergers or collaboration
• Pitfalls to avoid
  • Invest without considering neighbours
  • Collaboration with unaligned fiscal incentives
Subnational Capacity Challenges

• Weak capacity to design investment strategies puts reaching objectives at risk

Principle 6: Diversify sources of funding and strengthen subnational capacity

• Bridge infrastructure financing gap
• Benefit from expertise and financing of private sector
• Develop PPPs at subnational level
• Enhance new or innovative financing arrangements for subnational investment

Potential solutions and pitfalls

Potential solutions
• Properly account for and disclose all costs, guarantees and other contingent liabilities of PPPs in budget documents

Pitfalls to avoid
• Sophisticated arrangements without guidance for subnational governments
• Use PPPs as way to hide bad financial health off balance sheet
### Managing Public Investment across Levels of Government: Challenges, Principles, Solutions

**OECD Principles for Effective Public Investment across Levels of Government**

<table>
<thead>
<tr>
<th>Framework</th>
<th>Condition</th>
<th>Challenges</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Inconsistency in good practices for budgeting, procurement, regulatory quality…</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Corruption</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Principle 10: Sound and transparent financial management at all government levels</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Ensure budgetary and financial accountability at all levels of government</td>
</tr>
<tr>
<td>• Enhance transparency with citizens and other stakeholders</td>
</tr>
<tr>
<td>• Ensure national fiscal stability</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Potential solutions and pitfalls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential solutions</td>
</tr>
<tr>
<td>• Coordinate public investment decisions with medium-term budget forecasts</td>
</tr>
<tr>
<td>• Assess options and maintenance costs of infrastructure investment and plan for future financing</td>
</tr>
<tr>
<td>Pitfalls to avoid</td>
</tr>
<tr>
<td>• Disconnect subnational public investment strategies from budget procedure</td>
</tr>
</tbody>
</table>
What to watch out for when investing in a decentralised context

- Adequate responsibilities and political power
- Stable and sufficient financial resources
- Framework conditions are fundamental
- Local management capacity
- Shared responsibility for planning, coordination, policy making and developing safely standards

Some Conclusions and Questions for Ukraine

- Will greater decentralisation and investment in Ukraine’s transport sector lead to
  - Increased productivity and inclusiveness?
  - Ability to seize the benefits of agglomeration economies?
  - Stronger urban-rural links?
  - Stronger rural development and improved urban environments?
- Some mechanisms in place to address investment challenges but they could be strengthened
- Proceed with some caution:
  - Framework conditions may be weak and require strengthening to maximise benefits of decentralisation in transport sector
  - Consider using good practice mechanisms to build capacity (e.g. those found in the OECD Recommendations for Public Investment across Levels of Government)
Thank you.

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