Investing Together: Working Effectively Across Levels of Government

Executive summary

Public investment is an important strategic responsibility, shared across levels of government

OECD governments spent over USD 1 trillion in public investment in 2011, two-thirds of which was carried out by sub-national governments. The financing and implementation of public investment typically takes place across different levels and sectors of government, which makes its management complex. Substantial co-ordination is necessary, and it is critical that sub-national governments have the capacity to work collaboratively in designing and implementing investment projects.

Doing more with less

Sub-national governments benefitted from the initial stimulus measures launched in response to the crisis. However, since then their public investment resource base has been significantly – and in some cases, dramatically – reduced. Given the importance of public investment for regional performance, there is a pressing need to do more with less. Improving the quality of investment governance can help, especially by addressing mechanisms for investment co-ordination and for assessing and building the needed capacity within sub-national governments.

Key findings

The quality of governance has a major influence on public investment outcomes

At the sub-national level, the quality of governance varies as widely within countries as it does between them. The regional variation in quality of governance may explain up to 60% of regional human development outcomes, including a population's health and education indicators. It also appears to be related to the effectiveness of public investment.

OECD countries face a range of common challenges when it comes to managing public investment

More than 75% of countries responding to an OECD survey on public investment governance see information asymmetries at the heart of the problem of sharing responsibilities across levels of government. Insufficient financial resources at sub-national levels and the lack of private sector involvement in financing and implementing public investment are also seen as major obstacles. Two-thirds of the countries responding to the questionnaire also cited the absence of critical sub-national capacities, such as the ability to engage in strategic planning.

The character of these challenges varies across countries and regions

To some extent, variation in perceptions of the challenges across countries reflects differences in the distribution of competences and autonomy related to investment, in legal frameworks and in the extent and maturity of decentralisation. As a rule, more centralised countries report greater problems for co-financing and integrating sectoral priorities into a complementary policy mix for sub-national development. This

mirrors limits to the financial and policy autonomy of sub-national governments in such countries. By contrast, in federal or quasi-federal countries, where sub-national tiers of government are well-established, national governments cite a lack of fiscal discipline at sub-national level as a core challenge.

Key recommendations

Vertical co-ordination

Mechanisms used for vertical co-ordination between central and sub-national levels of government range from informal policy exchange platforms to co-financing arrangements for shared responsibilities to conditionality requirements for receiving central funds.

- Central governments should consult with sub-national governments in the development of national public investment strategies.

- Cross-governmental investment policy forums can help overcome information and policy asymmetries. However, they must be backed by real resources and linked to real decision-making processes, to avoid becoming ineffective "talking shops".

- Co-financing mechanisms enable risk-sharing and policy alignment, especially in a fiscally constrained environment. They need to be adapted to sub-national governments' constraints and should encourage innovative sources of financing.

- The private sector can play an important role in co-financing and bring in valuable expertise (e.g. through public-private partnerships). To work effectively, institutions must be designed to facilitate such collaborations (e.g. making contractual design simple and straightforward for governments to administer).

- Conditions attached to funding can enhance systematic assessments of investment impacts and can clarify roles and accountability, thereby reducing the incidence of "bad" investments. To be effective, conditions must be designed to foster trust and partnership rather than simply to enforce compliance.

Horizontal co-ordination

Horizontal co-ordination is needed not only across sectors, which facilitates an integrated approach to investments in specific locations, but also across jurisdictions, which allows for maximising economies of scale and managing spillover effects of individually driven investments.

- National funding rules should not prevent the pooling of resources across sectors; inter-ministerial collaboration on investment projects should be encouraged. A collaborative approach allows for projects to be better adapted to local needs.

- Leadership is important to solve collective action problems in horizontal co-ordination. Mechanisms are needed to overcome competitive pressures, resource constraints, differing priorities and fears that the distribution of costs or benefits will be unequal.

- Governments may need to provide financial incentives for cross-jurisdictional project propositions or, where useful, require consolidation or mergers of administrative functions in different jurisdictions.

- Barriers to cross-jurisdictional collaboration remain in many places and need to be removed. The legal and regulatory framework should allow bottom-up, cross-jurisdictional collaboration.

- Horizontal co-ordination works best when sub-national governments have the capacity and the desire to work collaboratively with other governmental agents. Fostering a culture of collaboration is crucial.

Contractual arrangements

Inter-governmental contracts are an encompassing, cross-cutting mechanism for co-ordination, distinguished by the fact that they are more formal devices that enable governments across levels to arrange or delegate joint action, as independent entities, and to clarify the complexity of processes and responsibilities.

- To overcome fragmented structures and clarify the assignment of responsibilities across levels of governments, contracts need to embody commitments that are not only credible but also verifiable.

- Contracts should not increase administrative burdens by creating parallel structures. They need to be accompanied by measures that help sub-national governments develop their capacity for such arrangements.

Critical capacities

Limits on sub-national capacities can undermine the outcomes of public investment. Capacities should be built that allow sub-national governments to:

- engage in strategic planning that is tailored, results-oriented, realistic, forward-looking and coherent with national objectives;

- use long-term and comprehensive appraisals for investment selection;

- engage in transparent and competitive procurement with corresponding internal control systems;

- ensure the quality and availability of the technical and managerial expertise necessary for planning and executing public investment;

- produce data at the sub-national level and transform it into actionable evidence for decision makers;

- extend capacity building beyond a focus on workforce improvement to include the development of new institutions and procedures;

- identify the major capacity gaps that exist at various stages of the investment cycle and establish priorities for improving investment outcomes in particular places.