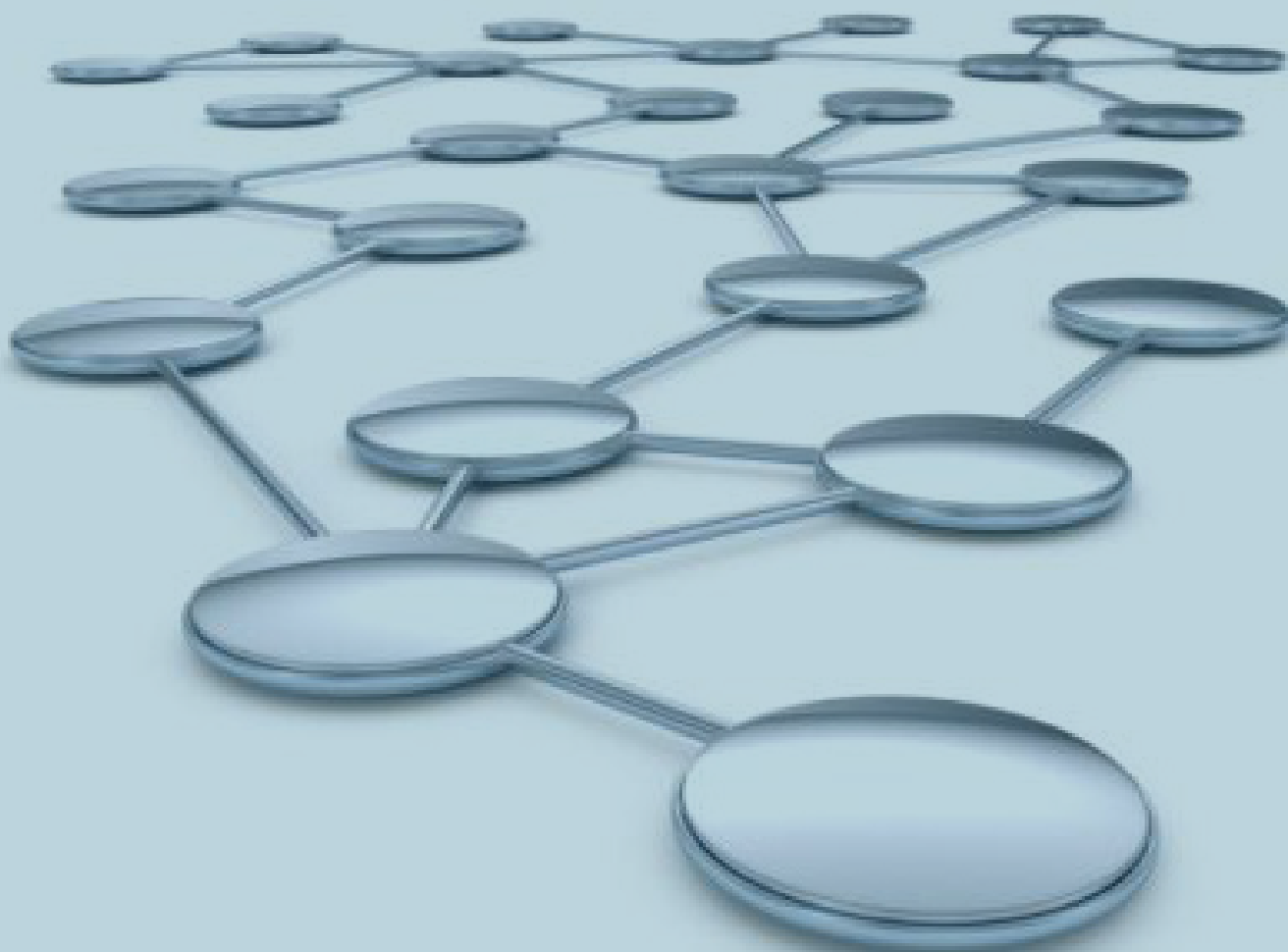


# Recommendation of the Council on Effective Public Investment Across Levels of Government

Adopted on 12 March 2014



## Foreword

This document presents the *Recommendation on Effective Public Investment Across Levels of Government* that was adopted by the OECD Council on March 12, 2014.

A Recommendation is an OECD instrument approved by the Council that results in international norms and standards, best practices and policy guidelines. Recommendations are not legally binding, but practice accords them great moral force as representing the political will of Member states.

The Recommendation was developed by the OECD Territorial Development Policy Committee (TDPC). It was submitted to an extensive consultation procedure within the OECD and externally, and was supported by Ministers at the TDPC Ministerial meeting on 5-6 December 2013 in Marseille.

The purpose of the principles set out in the Recommendation is to help governments at all levels to assess the strengths and weaknesses of their public investment capacity, a critical shared responsibility across levels of government, and set priorities for improvement. The OECD will further work towards the implementation of these Principles by developing a supporting Toolkit to guide policy-makers and practitioners.

For more information, please visit our website at: [www.oecd.org/regional-policy](http://www.oecd.org/regional-policy) or contact: [dorothee.allain-dupre@oecd.org](mailto:dorothee.allain-dupre@oecd.org) or [TDPCprinciples@oecd.org](mailto:TDPCprinciples@oecd.org)

**Directorate for Public Governance and Territorial Development**



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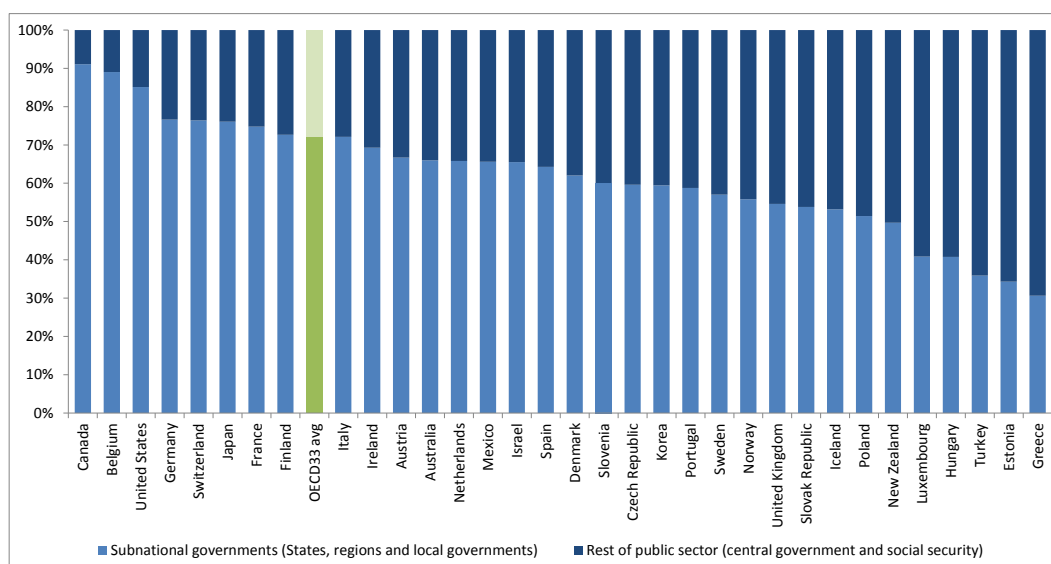
## Introductory note

Public investment shapes choices about where people live and work, influences the nature and location of private investment, and affects quality of life. If well-managed, public investment is a potentially growth-enhancing form of public expenditure. In contrast, poor investment choices waste resources, erode public trust and may hamper growth opportunities.

In 2012, OECD countries spent close to USD 1.2 trillion in public investment – 2.7% of OECD GDP and 15% of total investment. These overall figures mask variation among countries and *within* them. Within countries, there is regional variation both in terms of public investment as a percentage of GDP and public investment per capita.

Sub-national governments undertook 72% of total public investment in 2012 across the OECD area in terms of volume. In general the share is much higher in federal countries and lower in historically centralised countries. Whether through shared policy competencies or joint funding arrangements, public investment typically involves different levels of government at some stage of the investment process, which makes its governance particularly complex.

Sub-national share of country's public investment (2012)



Source: OECD (2013), *Regions at a Glance 2013* using data from the OECD National Accounts.

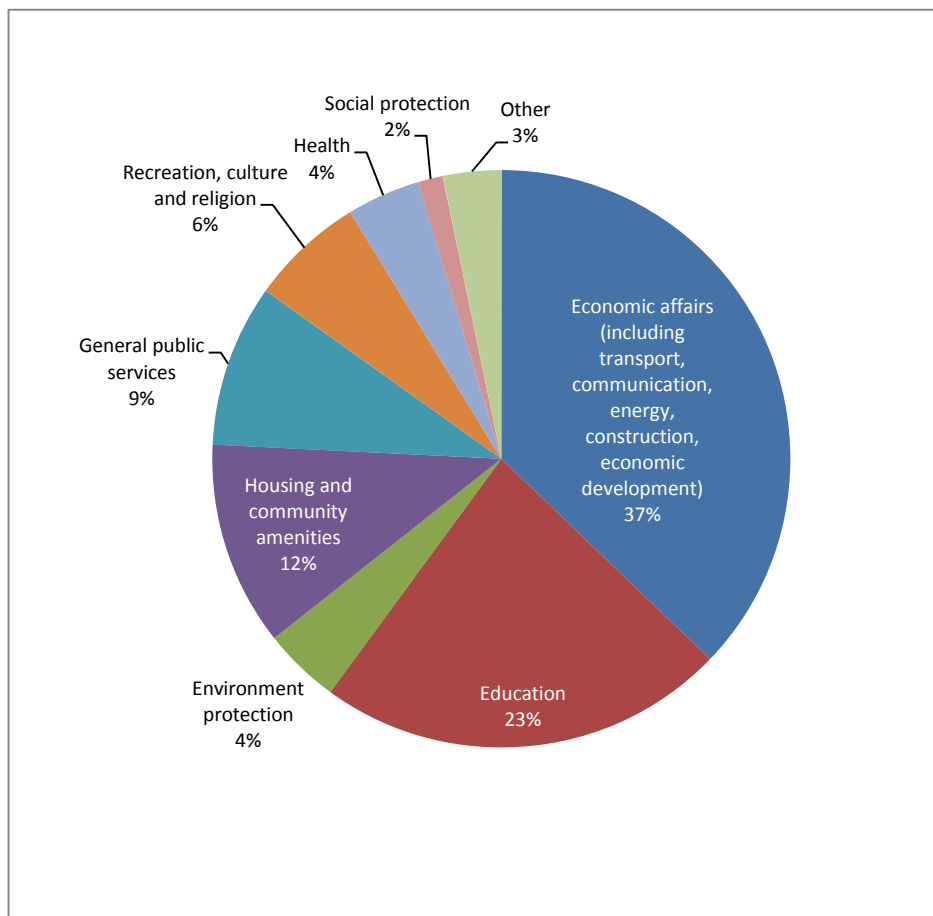
### A definition of public investment

Generally, “public investment” refers to capital expenditure on physical infrastructure (e.g. roads, government buildings, etc.) and soft infrastructure (e.g. human capital development, innovation support, research and development, etc.) with a productive use that extends beyond a year. Public investment comprises both direct and indirect investment. Direct investment is defined as gross capital formation and acquisitions, less disposals of non-financial non-produced assets during a given period. Indirect investment is defined as capital transfers i.e. investment grants and subsidies in cash or in kind made by subnational governments to other institutional units. Information in this document focuses on direct public investment, unless otherwise specified.

The way public investment is measured across countries varies. Gross fixed capital formation is often used as the best available proxy for direct public investment. However, there are differences across countries. For example, in some countries private contributions to public investment are accounted for in national accounts, while in others this may not be the case. There is also some variation as to where expenditure on operations and maintenance is recorded.

**Most of the sub-national public investment goes to areas of critical importance for future economic growth, sustainable development and citizens' well-being.** In terms of total investment by sub-national governments across the OECD, 37% is allocated to economic affairs (transport, communications, economic development, energy, construction, etc.). Approximately 23% of public investment is used for education, which helps determine the quality of the future labour force. A further 11% is dedicated to housing and community amenities.

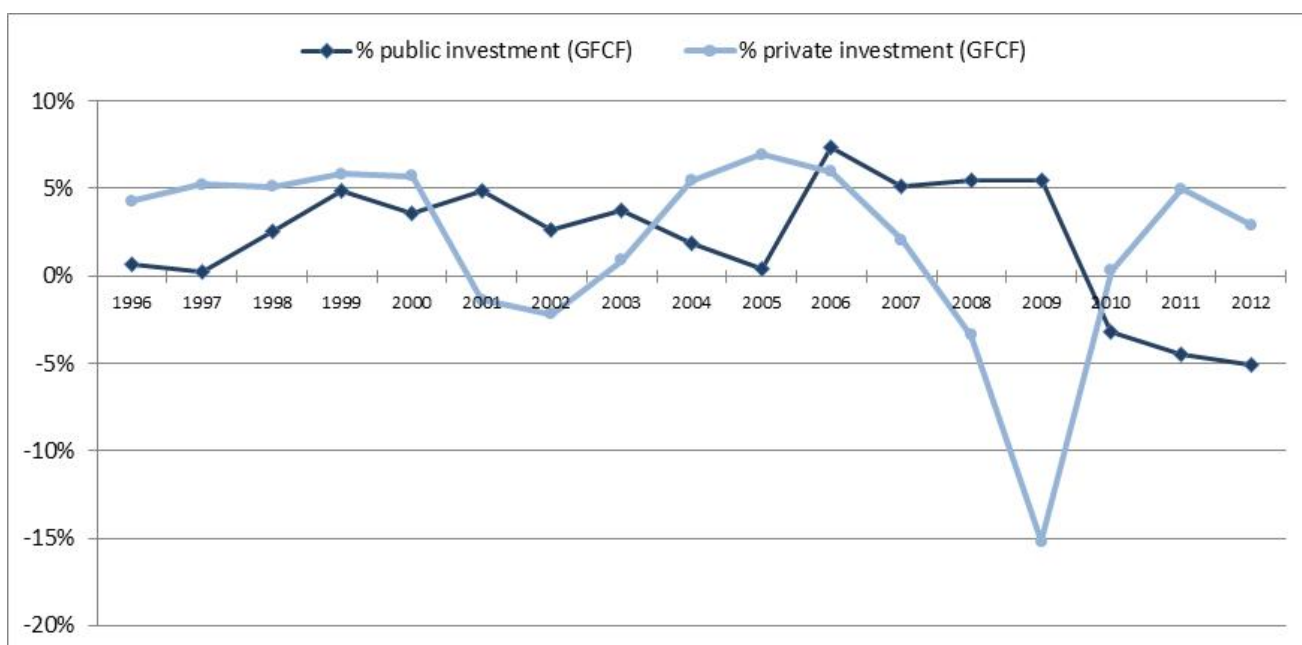
**Share of direct public investment by economic function undertaken by sub-national governments, 2011**



Source: OECD National Accounts.

**Public investment is under pressure following fiscal consolidation strategies.** Most OECD governments have moved from large-scale stimulus packages in 2008-2009 to fiscal consolidation in more recent years. Since 2010, consolidation strategies have reduced the resources for public investment, putting public investment onto a downward path, even as private investment in many countries has continued to contract. Being one of the most flexible items in the budget, public investment has been used as an adjustment variable. While investments peaked in 2009 with the stimulus packages, the annual level across the OECD has not yet recovered to pre-crisis levels. Compared to 2007, public investment per capita in 2012 had fallen in 15 out of 33 OECD countries. While not all OECD countries followed this trend, a sustained contraction in public investment at a time of sluggish growth may have negative long-term consequences for national growth and societal well-being.

## Annual changes in public and private investment (GFCF) in real terms in the OECD (1996-2012)



Notes: No data for Chile, Greece, Israel, Japan, Mexico, New Zealand and Turkey. Estimate for Public GFCF for Korea in 2012.

Source: OECD calculation based on OECD National Accounts.

**Given that public budgets across the OECD are likely to remain tight for some time to come, all levels of government will have to do better with less by spending smarter.** The challenges are much broader than just *financing* investment. In fact, even when investment funding is available, different levels of government may lack the appropriate governance tools to make the best use of investment funds. For example, during the crisis, the implementation of recovery packages across OECD countries in 2008-09 revealed that both national and sub-national actors may have lacked the appropriate tools and governance arrangements to make the best use of investment funds.

**The impact of public investment depends to a significant extent on how governments manage it.** Three systematic challenges for the multi-level governance of public investment hinder the achievement of the best possible outcomes:

1. **Co-ordination challenges:** Cross-sector, cross-jurisdictional and intergovernmental co-ordination are necessary, but difficult in practice. Moreover, the constellation of actors involved in public investment is large and their interests may need to be aligned.
2. **Capacity challenges:** Where the capacities to design and implement investment strategies are weak, policies may fail to achieve their objectives. Evidence suggests public investment and growth outcomes are correlated to the quality of government, including at the sub-national level.
3. **Challenges in framework conditions:** Good practices in budgeting, procurement and regulatory quality are integral to successful investment, but not always robust or consistent across levels of government.

**All countries are confronted by these challenges, whatever the institutional context** (in federal countries, or highly centralised countries) since mutual dependency across levels of government for public investment holds true in all countries.

**The purpose of the Recommendation on Effective Public Investment Across Levels of Government is to help governments at all levels assess the strengths and weaknesses of their public investment capacity, using a whole-of-government approach, and set priorities for improvement.**

**The Principles cannot be seen in isolation. They are intended to be used in conjunction with other OECD policy guidance and tools.** Existing instruments contains guidance relevant for public investment. The Principles offered by this Recommendation offer a whole-of-government approach that addresses the roles of different levels of government in the design and implementation of a critical and shared responsibility. Moreover, it is the first OECD instrument in the area of regional policy and multi-level governance. It emphasises the crucial contributions that all levels of government can make to national development and long-term growth.

**The Recommendation is organised around three pillars:**

- *Pillar A: Co-ordinate public investment across levels of government and policies.* This pillar focuses on the importance of seeking and creating complementarities in policies and programmes across policy sectors, vertically across levels of government, and horizontally among sub-national governments to increase the effectiveness of public investment.
- *Pillar B: Strengthen capacities for public investment and promote policy learning at all levels of government.* This pillar highlights different capacities that should be present at all levels of government to bolster conditions for effective investment and to promote continuous improvement from the strategic selection of investment to its execution and monitoring.
- *Pillar C: Ensure proper framework conditions for public investment at all levels of government.* This pillar emphasises the importance of good practices in fiscal decentralisation, public financial management, public procurement, and regulatory quality at all levels of government.

**The principles set out in the Recommendation are applicable to national, regional and local governments and address dimensions that are relevant for other stakeholders of public investment.** They are intended to apply to all Members and to provide useful guidelines for non-Members seeking to address challenges and identify good practices related to the multi-level governance of public investment. They offer valuable guidance for countries whatever their institutional framework and degree of decentralisation.

**To help countries and sub-national governments implement the OECD Principles, an implementation toolkit will be developed.** It will propose indicators and good practices for each principle set out in the Recommendation, illustrated with examples from countries, regions, and local governments.



# RECOMMENDATION OF THE COUNCIL ON EFFECTIVE PUBLIC INVESTMENT ACROSS LEVELS OF GOVERNMENT

## THE COUNCIL

**HAVING REGARD** to Article 5 b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

**HAVING REGARD** to the Recommendation of the Council on Improving the Quality of Government Regulation [[C\(95\)21/FINAL](#)], the Recommendation of the Council on Regulatory Policy and Governance [[C\(2012\)37](#)], the Recommendation of the Council on Improving Ethical Conduct in the Public Service including Principles for Managing Ethics in the Public Service [[C\(98\)70/FINAL](#)], the Recommendation of the Council on OECD Guidelines for Managing Conflict of Interest in the Public Service [[C\(2003\)107](#)], the Recommendation of the Council on Enhancing Integrity in Public Procurement [[C\(2008\)105](#)], the Recommendation of the Council on Principles for Transparency and Integrity in Lobbying [[C\(2010\)16](#)]; the Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships [[C\(2012\)86](#)], and the Recommendation of the Council on Private Sector Participation in Infrastructure [[C\(2007\)23/FINAL](#)];

**RECOGNISING** that effective public investment can make a crucial contribution to sustainable development and growth at the national and sub-national levels, and also increase citizen trust and well-being today and tomorrow;

**RECOGNISING** that the majority of public investment in OECD Member countries occurs at sub-national levels of government, while remaining a shared responsibility across levels of government;

**RECOGNISING** that both in times of fiscal pressure as well as fiscal expansion, governments require improved efficiency and effectiveness of public spending, including for investment;

**NOTING** that the OECD plays a leading role in promoting good governance at national and sub-national levels of government, as well as good practices for co-ordinating across levels of government;

**NOTING** that, at the meeting of the Territorial Development Policy Committee at Ministerial level on 5-6 December 2013, Ministers considered that the Principles on Effective Public Investment offered a plan for action and called for their transformation into an OECD instrument, stressing that its implementation would lead to more effective co-ordination mechanisms, stronger capacities and better framework conditions [Chair's Summary, see [GOV/TDPC/MIN\(2013\)3](#)];

**HAVING REGARD** to the background document for each Principle set out below and noted by Ministers on 5-6 December 2013 [[GOV/TDPC\(2013\)3/REV2](#)];

**NOTING** that, for the purpose of the present Recommendation, the following definitions are used:

- "Governments" means all levels of government;
- "Public investment" means capital expenditure on physical infrastructure (e.g. roads, government buildings) and soft infrastructure (e.g. human capital development, innovation support, research and development) with a productive use that extends beyond a year. Statistics capture direct public investment as measured by gross fixed capital formation;

- “Sub-national governments” means all levels of government below the national one (regional and local);
- “Regional governments” refers to the levels of government immediately below the national level in federal countries (i.e. federated states) and in unitary countries (with two or three tiers of subnational governments);
- “Local government” means administrative or political units immediately below the federated states level in federal countries but all subnational governments in unitary countries;
- The terms “region” and “local” can also refer to sub-national geographic areas with specific socio-economic or territorial characteristic that may or may not correspond with administrative or political units.

On the proposal of the Territorial Development Policy Committee:

**I. RECOMMENDS** that Members implement the following Principles to strengthen the effectiveness of public investment across all levels of government:

**A. Co-ordinate public investment across levels of government and policies**

**1. Invest using an integrated strategy tailored to different places**

- i) *Design and implement investment strategies tailored to the place the investments aim to serve.* Public investment choices should be linked to a development strategy based on assessment of regional (or local) characteristics, competitive advantages, growth, innovation, and job creation potential, and considerations of equity and environmental sustainability. Investment strategies should be results-oriented (with clearly defined policy goals), realistic and well-informed (based on evidence that points to the region’s or locality’s ability to make fruitful use of investments), and forward-looking (with investments that can position regions and localities for competitiveness and sustainable development in the context of global trends).
- ii) *Seek complementarities and reduce conflicts among sectoral strategies.* Mutually reinforcing impacts in the form of policy complementarities are often required to make the most of public investment. At higher levels of government, such complementarities can be facilitated by a) using strategic frameworks for public investment to align objectives across ministries and levels of government; and b) minimising administrative barriers through co-ordination mechanisms such as, but not limited to, inter-ministerial committees and programmes, and harmonisation of programme rules. Governments can also establish joint investment funds that pool monies across public agencies/ministries to encourage consideration of a broader set of priorities.
- iii) *Encourage the production of data at the relevant sub-national scale* to inform investment strategies and produce evidence for decision-making. Such data may be collected by statistical agencies but also from administrative records, other data sources, and citizens themselves.

**2. Adopt effective instruments for co-ordinating across national and sub-national levels of government**

*Co-ordinate across levels of government to strengthen the efficiency and effectiveness of public investment.* Co-ordination is necessary to identify investment opportunities and bottlenecks, to manage joint policy competencies, to minimise the potential for investments to work at cross-purposes, to ensure adequate resources and capacity to undertake investment, and to create trust among actors at different levels of government. Several tools can be used when coherence of investment across levels of government is required, such as co-financing arrangements, contracts between levels of government, formal consultation processes, national agencies or

representatives working with sub-national areas, or other forms of regular inter-governmental dialogue.

### **3. Co-ordinate horizontally among sub-national governments to invest at the relevant scale**

*Provide incentives and/or seek opportunities for co-ordination among regional and/or local governments to match public investment with the relevant geographical area.* Horizontal co-ordination is essential to increase efficiency through economies of scale and to enhance synergies among policies of neighbouring (or otherwise linked) sub-national governments. Modes of co-ordination include contracts, platforms for dialogue and co-operation, specific public investment partnerships, joint authorities, or regional or municipal mergers.

## **B. Strengthen capacities for public investment and promote policy learning at all levels of government**

### **4. Assess upfront the long-term impacts and risks of public investment**

- i) *Use comprehensive, long-term assessments for investment selection.* *Ex ante* assessments should be used to both clarify goals and reveal information. Appraisals should be technically sound, help to identify social, environmental and economic impacts, and investigate which investment method is likely to yield the best value for money. Policy makers should also consider policy and project complementarities, as well as alternatives to investment and efficient use of existing capital stocks to reach particular goals. Long-term operational and maintenance costs should be clearly assessed from the early stages of the investment decision.
- ii) *Assess different types of risks and uncertainty associated with public investment,* including longer-term impacts, at an early stage of the investment cycle as part of an appraisal. This includes fiscal risks, such as contingent liabilities, as well as political, social, and environmental risks. Such risks and adapted mitigation strategies should be re-evaluated as new information becomes available.

### **5. Engage with stakeholders throughout the investment cycle**

- i) *Engage with public, private sector and civil society stakeholders in the design and implementation of public investment strategies to enhance social and economic value, and to ensure accountability.* All levels of government should involve stakeholders in needs assessment and the design of an investment strategy at an early stage of the investment cycle, and, at later stages, in feedback and evaluation. Information on public investment plans, expenditures, and results should be exposed to some level of public scrutiny to promote transparency and accountability.
- ii) *Seek a balance when incorporating stakeholders' views, taking steps to prevent disproportionate influence by special interest groups.* Consultation processes at all levels of government should be inclusive, open and transparent, as well as promote transparency and integrity in lobbying.

### **6. Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities**

- i) *Match private financing arrangements to investment needs and government capacity, particularly at the sub-national level,* through careful analysis of the pros and cons of different private participation arrangements and what they entail in terms of risk and government financial and administrative capacity. Decisions regarding Public Private Partnerships (PPPs) should be co-

ordinated with the budget process and their potential value-for-money should be compared to that of traditional procurement.

- ii) *Involve private actors and financing institutions in public investment to offer more than just financing.* Involving private actors and financing institutions in the investment should be a way to strengthen the capacity of government at different levels and bring expertise to projects through better ex-ante assessment, improved analysis of the market and credit risks, and achieving economies of scale and cost-effectiveness. Governments should mobilise innovative financing instruments or mechanisms, but do so with a clear understanding of the capacities such approaches require.

## **7. Reinforce the expertise of public officials and institutions involved in public investment**

*Bolster the capacity of both officials and institutions associated with public investment.* Due attention should be paid to effective human resources management, as well as to cultivating knowledge (identifying, sharing and applying good practices such as the present Principles) and relationships (refining mechanisms for vertical co-ordination, strengthening co-operation among sub-national governments, and developing linkages to sources of expertise). Capacity at the sub-national level deserves particular attention; in some cases financial resources, professional skills, or institutional quality may be lacking. Not all capacities can be strengthened at the same time. It is therefore valuable to identify binding constraints and the proper sequence of reforms.

## **8. Focus on results and promote learning from experience**

*Clarify the outcomes to be achieved through public investment and pursue mechanisms to achieve them.* Those mechanisms can include results-oriented investment strategies with clearly defined policy goals, well-designed tendering procedures, effective monitoring systems, high-quality ex-post evaluation, regular reflection on and upgrading of investment choices, active exchange of information and on-going and mutual learning among actors involved in public investment.

## **C. Ensure proper framework conditions for public investment at all levels of government**

### **9. Develop a fiscal framework adapted to the investment objectives pursued**

- i) *Employ a fiscal framework adapted to the different investment policy objectives pursued.* Intergovernmental earmarked grants and co-financing (matching) arrangements are appropriate when projects generate positive spillovers, when economies of scale are needed, when risk sharing or temporary co-operation is sought, when it is necessary to align priorities across levels of government and when capacities of sub-national governments need to be bolstered. Co-financing can also increase the commitment of different stakeholders to the success of a project as well as encourage resource pooling across sub-national governments.
- ii) *Set enabling conditions for sub-national governments to be able to exploit their own revenue raising potential,* not only to finance investment, but to allow for participation in co-financing arrangements and to address long-term operations and maintenance costs.

### **10. Require sound and transparent financial management at all levels of government**

*Adopt good practices for budgeting and financial accountability* such as accurately costing public investment plans, reflecting them in budget strategies and allocation processes, fitting them into a medium-term budget framework and duly considering long-term operating and maintenance costs. This includes proper budgetary treatment of PPPs, local public enterprises, and any associated contingent liabilities.

**11. Promote transparency and strategic use of public procurement at all levels of government**

- i) *Maximise transparency at all stages of the procurement cycle, promote the professionalisation of the procurement function, and establish clear accountability and control mechanisms.* Procurement systems should be transparent, competitive, and monitored to ensure funds are used as intended, and effective at registering and addressing complaints. Governments should invest in ensuring adequate capacity, in particular at the sub-national level, by employing and training procurement professionals, using collaborative procurement mechanisms, and employing e-procurement tools.
- ii) *Use procurement to ensure effective public service delivery while pursuing strategic objectives at different levels of government.* To do so, the objectives of procurement should be clearly articulated and prioritised. These may be traditional value for money in the sense of price and quality, as well as wider governmental objectives such as sustainable development, innovation, and the development of small and medium enterprises (SMEs).

**12. Strive for quality and consistency in regulatory systems across levels of government**

*Pursue high-quality and coherent regulation across levels of government by evaluating the regulatory framework when establishing investment priorities and programmes.* Use co-ordination mechanisms to develop coherent regulation across sectors and levels of government, ensure consistency in application, and avoid duplication. National governments should regularly review the stock of regulation and assess costs and benefits of new regulations, taking into account the costs of compliance for sub-national governments. All levels of government should be aware of and seek to minimise the administrative burden of government formalities for a typical public investment project.

- II. **INVITES** the Secretary-General to disseminate this Recommendation.
- III. **INVITES** Members to disseminate this Recommendation at all levels of government.
- IV. **INVITES** non-Members to take account of and adhere to this Recommendation.
- V. **INSTRUCTS** the Territorial Development Policy Committee to monitor the implementation of this Recommendation and to report thereon to the Council no later than three years following its adoption and regularly thereafter, in consultation with other relevant OECD Committees.

# Appendix

## Additional background information supporting the Principles

The appendix is provided for information purposes and does not form part of the Recommendation. It provides information on the rationale for and good practices associated with each of the twelve Principles for Effective Public Investment Across Levels of Government. This annex draws on the numerous OECD reports and other publications, listed in the bibliography and particularly on the OECD report *Investing Together: Working Effectively Across Levels of Government* published in 2013.

### A. Co-ordinate public investment across levels of government and policies

#### Principle 1. Invest using an integrated strategy tailored to different places

Opportunities for growth exist everywhere, but the way forward varies for different places. *Governments should therefore design and implement investment strategies tailored to the place the investments aim to serve.* Public investment choices should be linked to a development strategy based on assessment of the potential opportunities for and impediments to growth and job creation in each region (or locality). Investment strategies should have clearly defined policy goals, be based on evidence that points to the region's ability to make fruitful use of investments, and position regions for competitiveness and sustainable, inclusive development in the context of global trends. The investment mix will inevitably vary among urban, rural, or mixed regions to reflect specificities and assets of different territories – and if they are leading or lagging in terms of growth.

#### Growth bottlenecks vary by region type

Growth drivers/bottlenecks	Relative level of development		
	Lagging (>75% of national average <i>per capita</i> GDP)	Intermediate (75-100% of national average <i>per capita</i> GDP)	Leading (>100% of national average <i>per capita</i> GDP)
Human capital/skills: presence of very low skilled	√√	√	√√
Human capital/skills: presence of highly skilled	√	√	√√
Labour-force mobilisation: participation/employment rates		√	√√
Innovation activity: patents, R&D spending, employment in knowledge-intensive sectors	√	√	√√√
Agglomeration effects: density of population, density of GDP			√
Quality of government	√√	√	√

Note: √ = somewhat important √√ = very important; √√√ = critical factor.

Source: Based on results in OECD (2012), *Promoting Growth in All Regions*, OECD Publishing.

Although there is no single path to growth, there is a common need for mutually reinforcing impacts in the form of policy complementarities to make the most of a public investment. OECD research has shown that infrastructure alone has little impact on regional growth unless regions are endowed with adequate levels of human capital and innovation (OECD, 2012e). A combination of investments in both “hard” and “soft” infrastructure are therefore needed to maximise potential for long-term growth (OECD, 2011a). *Governments should thus seek complementarities and reduce conflicts among sectoral strategies.* At higher levels of government, strategic frameworks for public

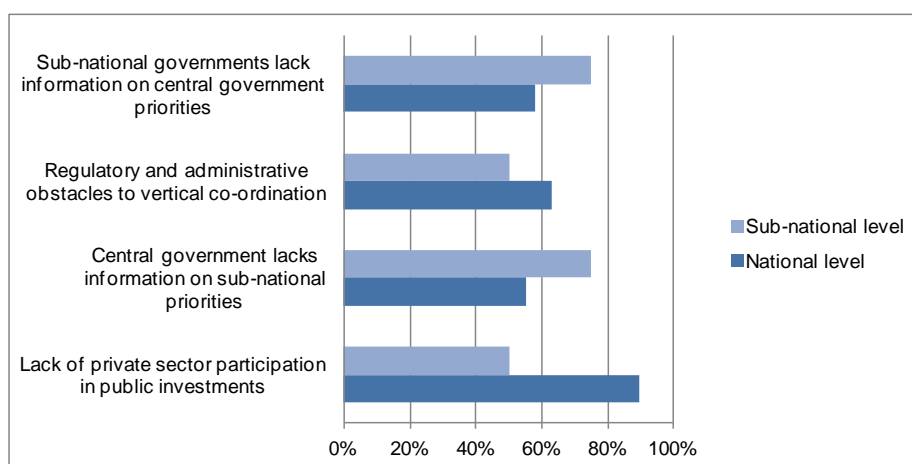
investment can facilitate the alignment of objectives across ministries and levels of government. Additional mechanisms to encourage cross-sectoral co-ordination include inter-departmental/ministerial committees and programmes, and harmonisation of programme rules. Establishing joint investment pools across public agencies/ministries can also help prioritise investment and encourage consideration of a broader set of investment options (OECD, 2011a). “Smart specialisation” brings together place-based assessment and cross-sectoral co-ordination to support innovation-based economic growth. Co-ordinated investments can be made in research and development, innovation, education, and industry after careful assessment of the existing capabilities, assets, competences and competitive advantages in a city, region or country.

Relevant data at the sub-national level are the basis for tailored economic development strategies, measurement of results, and indications of possible bottlenecks. *Governments should thus encourage the production of data at the relevant sub-national scale to inform investment strategies and produce evidence for decision-making.* National statistical offices have a key role in generating such data and/or providing the harmonisation of metrics to allow comparability across units and time. Sub-national levels of government and regional/local development agencies also have an important role to play in collecting and using data to inform the investment process.

**Principle 2. Adopt effective instruments for co-ordinating across national and sub-national levels of government**

Managing relations between different levels of government is a necessity. Nearly all countries are decentralised to one degree or another, with shared policy competences in critical areas such as public investment. When policy competences such as investment are shared, achievement of policy goals can be hindered by weak or lacking mechanisms for multi-level co-ordination (Allain-Dupré, 2011; OECD, 2011a). *Governments should therefore co-ordinate across levels of government to strengthen the efficiency and effectiveness of public investment.* Effective co-ordination among levels of government helps to identify investment opportunities and bottlenecks, to manage joint policy competencies, to minimise the potential for investments to work at cross-purposes, to ensure adequate resources and sufficient capacity to undertake investment, to resolve conflict, and to create trust.

**Perceived challenges to vertical co-ordination**



Note: Percentage of responses, OECD questionnaires on multi-level governance of public investment (2012)

Source: OECD (2012), “Multi-Level Governance of Public Investment”, national and regional case study questionnaires, [www.oecd.org/regional/effectivenessofpublicinvestmentatsub-nationallevelintimesoffiscalconstraints.htm](http://www.oecd.org/regional/effectivenessofpublicinvestmentatsub-nationallevelintimesoffiscalconstraints.htm).

OECD Member countries employ various mechanisms to strengthen vertical co-ordination across levels of government. These include national strategies with clearly defined goals for public investment, national territorial representatives, nationally funded regional development agencies, contracts and formal agreements between levels of government (OECD, 2007a), co-financing, formal consultation processes, platforms for regular inter-governmental dialogue, and ad hoc co-ordination arrangements. Approaches can be used individually or in combination. Their application depends on the national context, the issues to be addressed and the objectives to be realised. In science, technology and innovation policy, for example, most OECD countries surveyed report using four or more intergovernmental co-ordination tools, with consultation processes and regular dialogue noted to be the most helpful (OECD, 2011c).

Collaboration across jurisdictions and levels of government takes time, has a learning curve and has different types of costs, which tend to rise as the number of jurisdictions rises, but when properly designed and implemented, benefits of co-ordination should outweigh its costs (OECD, 2011a). Transaction costs, competitive pressures, resource constraints, constitutional conflicts regarding jurisdictional authority, overlapping authorities, differing priorities and fears that the distribution of costs or benefits from co-operation will be one-sided, can all impede efforts to bring governments together. Different mechanisms can help limit costs and maximise benefits of co-ordination: these include defining targets of co-ordination ex ante; establishing credible co-ordination mechanisms, with incentives and clear political engagement; allowing flexibility in their implementation, and avoiding multiplying instances of co-ordination, which can be counter-productive. Important are a high degree of transparency and trust among actors, as well as information sharing mechanisms with citizens, private actors, non-governmental organisations (NGOs), and local actors. Leadership, which can be found at all levels of government, is also critical in resolving the collective problems that co-ordination poses. Given the complexity of shared policy responsibilities, co-ordination on all aspects of public investment is not necessarily feasible. At a minimum, there is an aim to not work at cross-purposes across levels of government.

**Principle 3. *Co-ordinate horizontally across sub-national levels of government to invest at the relevant scale***

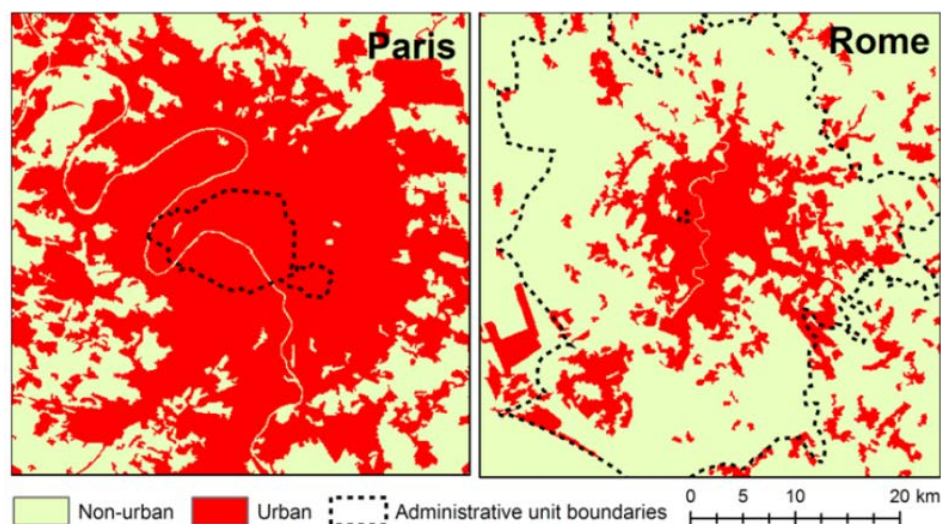
Sub-national horizontal co-ordination is essential to encourage investment in the presence of positive spillovers, to increase efficiency through economies of scale, and to enhance synergies among policies of neighbouring (or otherwise linked) jurisdictions such as localities, cities, counties or regions. It is important for physical infrastructure provision where the efficient scale often exceeds the administrative boundaries of individual regions or localities, and for investments in human capital development and innovation where administrative and functional boundaries may not coincide. For these reasons, *governments should provide incentives and/or seek opportunities for horizontal co-ordination across regions and/or local governments to match public investment with the relevant geographical scale.*

Horizontal co-ordination among sub-national governments can take a variety of forms. The appropriate approach depends on the characteristics of the locality or region and the policy objectives and investment(s) being considered. At one end of the spectrum are integration arrangements, such as municipal or regional mergers, which can include the creation of metropolitan government by merging multiple municipalities. However, economies of scale and thus “optimal size” can vary by investment, such as transportation, education, and sanitation. Decisions to merge should thus be based on a comprehensive assessment of a variety of factors, not only particular investments. More



flexible co-ordination arrangements may be better suited to achieve certain policy goals or to make the most of particular investments. These include establishment of joint authorities, co-ordinated investment strategies, polycentric co-operation in urban areas, rural-urban partnerships, cross-border co-operation and platforms for dialogue and co-operation.

### Functional areas do not match administrative boundaries: Examples of Paris and Rome



Note: The OECD Metropolitan Database identifies 1148 urban areas, defined as integrated labour markets with at least 50 000 inhabitants, in 28 OECD countries.

Source: OECD (2012), *Redefining Urban: A New Way to Measure Metropolitan Areas*, pg. 25

Different strategies for different places may be called for. Rural areas, for example, seek to ensure that residents have adequate access to public services and that entrepreneurs have adequate access to services and infrastructure. However, such investments can require economies of scale that individual rural municipalities are unable to achieve. Cross-jurisdictional co-ordination arrangements can permit governments to achieve scale and to ensure infrastructure development and service provision.

Rural-urban partnerships are another form of co-operation. The partnerships cover a territory with rural and urban areas connected by one or more functional linkages (e.g. value chains, commuting, natural resources, etc.). These linkages form the basis for a cooperative partnership which in turn manages these linkages for different possible purposes (e.g. supply chains, territorial branding, service delivery, environment protection, etc.). Benefits include: production of public goods, accounting for negative externalities, achieving greater economies of scale, overcoming co-ordination failures, and strengthening capacity (OECD, 2013e).

Horizontal co-ordination among sub-national governments is not without challenges. The willingness of sub-national governments to collaborate is likely to vary with the type of investment(s) being considered. It is likely to be easier, for example, to encourage co-ordination around investments in basic infrastructure and service provision (e.g. water, sewage) and more difficult around “strategic” investments where sub-national governments might find themselves competing to secure public facilities, to attract intergovernmental grants, or to attract firms and jobs (e.g. higher education, innovation). But hurdles need not be permanent obstacles; trust can be built over time.

## B. Strengthen capacities for public investment and promote policy learning across levels of government

### *Principle 4. Assess upfront the long-term impacts and risks of public investment*

*Governments should use comprehensive, long-term appraisals for investment selection.* High-quality ex-ante assessment plays an important role in public investment. While it can be challenging to undertake, it offers considerable benefits as part of the decision making process and should be used to both clarify goals and reveal information. Appraisal is a multi-step process which includes feasibility assessment, consideration of alternatives, financial analysis, and economic assessment (EC, 2008). Policy makers should consider policy and project complementarities, as well as alternatives to investment and efficient use of existing stocks to reach particular goals. Because infrastructure investment tends to involve large-scale, often irreversible projects, it is crucial to ensure that existing stocks are used efficiently before investing in new capacity. Long-term operational and maintenance costs, which are often under-estimated, should also be fully assessed and planned for early in the investment cycle. Appraisals should be technically sound and on par with the size and scope of the investment being considered (Dabla-Norris et al, 2011).

A comprehensive, long-term view of costs, benefits, and risks is important. Increasingly, this means evaluating value-for-money, the combination of quality, features and price over the life cycle of an investment (OECD, 2008a). Comprehensiveness also means a broad view of benefits and costs, including “accounting for the benefits if new infrastructure generates cross-jurisdictional spillovers” (Sutherland et al, 2009). While growth objectives are crucial, an exclusive focus on growth may neglect important social or environmental costs or benefits of an investment. Risk assessment is also important. *Governments should assess different types of risks and uncertainty associated with public investment (not only fiscal risks, such as contingent liabilities, but political, social, environmental ones as well),* including longer-term impacts as part of an appraisal. Such risks and adapted mitigation strategies should be re-evaluated as new information becomes available. There can be risks pertinent to a particular region or locality which should be considered as part of this assessment.

The challenge of ex-ante appraisal is likely to be greatest where it is most needed: where there is considerable uncertainty about the factors affecting returns on investment. Commonly used approaches to economic assessment, such as cost-benefit analysis, are most effective where there is a great deal of information about the project, the context, and the risks involved over the investment cycle. For projects where appraisal is particularly complex, there may be a need to tap technical expertise in organisations or units (public or private) with independence, experience, and a good reputation for such analysis. For sophisticated projects, technical requirements may extend beyond standard project appraisal skills and require specific types of expertise (e.g. engineering).

Finally, governments conducting, commissioning, or requiring ex-ante appraisals should evaluate the incentives and mechanisms used to produce assessments of costs, benefits and risks – encouraging actors to produce high-quality/high-accuracy assessments instead of high-benefit/low-cost project estimates that turn out to be inaccurate. Independent assessments of ex-ante appraisals can be used to mitigate such risks (Rajaram et al, 2010) particularly for large, multi-year investments. So too can the application more rigorous assessment for larger or risky projects.

### **Principle 5. Engage with stakeholders throughout the investment cycle**

Public, private sector, and civil society actors all have a stake in and a critical role to play to develop a vision and strategy for a region or locality's best economic future (OECD, 2012e). *Governments should therefore engage with these stakeholders in the development and implementation of public investment strategies to enhance social and economic value, and to ensure accountability.* All levels of government should involve stakeholders in priority-setting and needs assessment at early stages of the investment cycle, and feedback and evaluation in later stages. At minimum, this involves identifying relevant stakeholders, designing sound consultation process, communicating processes and results, and managing grievances. Information regarding public investment plans, expenditures, and results should be exposed to some public scrutiny to promote transparency and accountability.

Effective engagement has many benefits. It can help governments tap local and stakeholder-specific knowledge to craft informed, place-specific investment strategies. Furthermore, as governments are asked to respond to a "triple bottom line" of stronger, more equitable and more sustainable growth, understanding stakeholders' needs and preferences can help shape investment decisions to address them. Decisions based on stakeholder engagement can strengthen legitimacy due to transparency and improve efficiency due to greater adherence to decisions. It can help build citizens' support for investment projects and help identify problematic ones. Engagement can also help leverage private investment if potential investors perceive that investment opportunities reflect real needs and are thus likely to receive public and political support.

Stakeholder engagement is not without risk, however. Governments face a trade-off between improving their knowledge and the potential for "capture" when particular stakeholders drive investment strategy. *Governments should thus take steps to prevent disproportionate influence by special interest groups.* This can involve anticipating the long-term results of investment decisions, seeking balance when incorporating stakeholder views, ensuring consultation processes are inclusive, open and transparent, and promoting transparency and integrity in lobbying. (OECD, 2011b; OECD, 2012c)

### **Principle 6. Mobilise private actors and innovative financing arrangements to diversify sources of funding and strengthen capacities**

The type and extent of private engagement varies with the type of investment, as well as the policy objectives being pursued. Governments should therefore match private financing arrangements to investment needs and to government capacity, particularly at the sub-national level. Governments should aim to understand the pros and cons of different private participation arrangements and what they entail in terms of risk and government financial and administrative capacity – in both the short- and long-term.

Careful consideration of private engagement includes informed consideration of public-private partnerships (PPPs) at sub-national levels of government (OECD, 2011a). Decisions regarding PPPs should be co-ordinated with the budget process and based on their potential value-for-money. PPPs should be affordable *and* generate value-for-money (VFM) in excess of traditional procurement. VFM depends, in part, on sufficient transfer of endogenous risk to the private party and adequate competition to ensure that risk is transferred efficiently (to the party able to accommodate it at least cost). PPPs should not be used primarily to bypass budgetary constraints; VFM and affordability remain key considerations (OECD, 2008a). They must be treated soundly in the budget process, with proper accounting and disclosure of all costs, guarantees and other contingent liabilities. Failure to do so exposes governments to financial risk.

The complexity of PPPs can require technical capacity that may be lacking at sub-national levels. This can be bolstered through support from higher levels of government, through bench learning, targeted training, use of dedicated PPP units (which can exist at different levels of government), and promulgation of good practices.

Private sector involvement plays an important role in successful public investment. *Governments should look to involvement of private actors and financial institutions to offer more than just financing.* Private engagement can strengthen capacities of governments at different levels by adding expertise, enhancing ex-ante assessment of projects, strengthening analysis of the market and credit risks, and achieving economies of scale and cost-effectiveness. Sub-national governments (especially smaller ones with limited access to finance) could consider creating specific agencies for joint borrowing (municipal bond banks), mutualising capital funding, or mutualising guarantee funds to facilitate access to finance, and enhance their capabilities for financing and managing public investment projects.

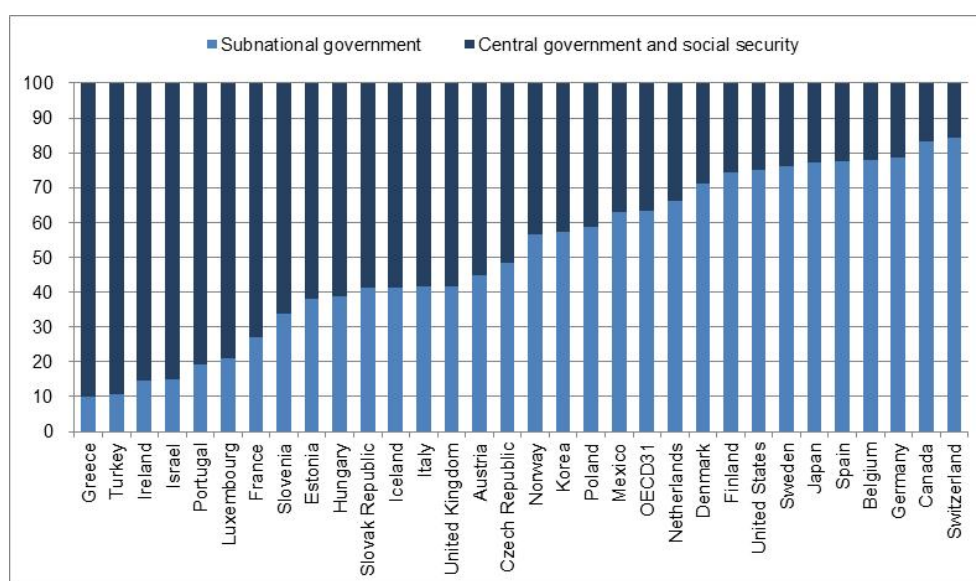
New or innovative financing arrangements such as loans, bonds, specific investment funds, tax arrangements, or market-based mechanisms may be particularly useful to finance green investments. Sub-national governments should use innovative financing instruments with an understanding of the capacities needed, as in some cases they could compromise local finances and cause risky dependence vis-à-vis financial markets.

#### ***Principle 7. Reinforce the expertise of public officials and institutions involved in public investment***

Effective public investment requires both substantial professional and technical skills among public sector employees and well-functioning institutions. *Governments should therefore seek to bolster the capacity of both public officials and institutions associated with public investment.* This includes on-going attention not only to people (strategic workforce planning, appropriate recruitment procedures, and training opportunities), but also to knowledge (identifying, sharing, and applying good practices) and to relationships (refining mechanisms for vertical co-ordination, strengthening co-operation among sub-national governments, and developing linkages to sources of technical expertise). Of particular importance is regions' and localities' capacity to diagnose and plan investment based on their competitive advantages and challenges (OECD, 2011a). Not all capacities can be strengthened at the same time. It is therefore valuable to identify binding constraints and the proper sequence of reforms (Mizell and Allain-Dupré, 2013).

Due attention should be given to capacity at sub-national levels of government and where sufficient resources, professional skills, or institutional quality may be lacking. Institutional and workforce capacity can be particularly challenging for some sub-national governments. An ageing workforce, high levels of turnover, and weakly competitive salaries can make attracting needed skills a challenge – precisely at a time when tasks such as supporting innovation, addressing climate change, engaging with private partners, or using more complex financial instruments require skills not previously held in some sub-national governments. Large regions, particularly established ones with substantial autonomy and significant numbers of staff, can tap a diverse range of professional skills. The same is not necessarily true for small regions, municipalities, newly created regions, or sub-national governments where the demands of decentralisation may exceed administrative capacity. Identifying the primary capacity challenges at the sub-national level requires understanding the country-specific multi-level governance context in which sub-national investment occurs. The greater the authority of sub-national governments throughout the investment cycle, the better developed their capacities must be.

## Share of staff expenditure by level of government in 2012



Notes: 2011 data for Japan, Korea and Turkey. No data for New Zealand, Chile and Australia.

Source: OECD calculations based on OECD national Accounts.

Capacity development can come in a variety of forms. Higher levels of government can support capacity building directly through activities such as technical assistance, training, and provision of guidance documents to enhance technical capacity in areas such as planning, project appraisal, procurement, or monitoring and evaluation. At a sub-national level, structural changes such as merging municipalities (or regions), engaging in inter-municipal (and inter-regional) co-operation, engaging in public-private partnerships, or the creation of agencies for certain sectors or regions can potentially strengthen medium- to long-term capacity through access to additional resources, expertise, and economies of scale. Complementary support can come from a number of places, including higher levels of government, universities, expert organisations, and consultants. For smaller regions or municipalities facing capacity constraints, partnerships and complementary support help to ensure access to capacity that they may not need, or be able, to maintain on their own. Other practices, such as open, competitive hiring and merit-based promotion as well as targeted workforce training can enhance workforce quality. E-government tools can also strengthen public investment management and narrow gaps in capacity across regions or localities.

### **Principle 8. Focus on results and promote learning from experience**

Public expenditures are increasingly viewed through a results-oriented lens. Input oversight and control coincide with emphasis on effectiveness (achieving policy and programme objectives), as well as value for money (balancing effectiveness, equity, economy, and efficiency considerations). *Toward this end, governments at all levels should clarify the outcomes to be achieved through public investment and pursue mechanisms to achieve them throughout the investment cycle.* Governments can use a number of mechanisms to orient public investment toward results over the course of the investment cycle. They include, but are not limited to, investment strategies with clearly defined policy goals, performance budgeting, well-designed tendering procedures and performance monitoring of procurement, technically sound project appraisals, effective investment monitoring systems, high-quality ex-post evaluation, and regular reflection on and upgrading of investment choices. Cross-sectoral and cross-jurisdictional co-

ordination, discussed elsewhere, can contribute to value-for-money through synergies and economies of scale.

Monitoring and evaluation activities are of particular value for public investment activities. They are important mechanisms for accountability and learning: for transferring knowledge among parties and for improving performance by integrating feedback during and between investment cycles. Information gaps, which inevitably emerge between levels of government, can be bridged, in part, through effective monitoring and evaluation arrangements (OECD, 2009b). Monitoring allows actors to follow the implementation of investments, to encourage performance, to make mid-course adjustments, and to track inputs, outputs and eventual outcomes. Associated indicator systems should balance comprehensiveness, usefulness, and cost – both in terms of money and administrative burden. Because monitoring activities are not neutral and incentive effects are inevitable, the design of indicator systems should take potential gaming and strategic behaviours into consideration (OECD, 2009b). Ex-post evaluation addresses the goals of investment, seeking to determine if intended outcomes were achieved and the role played by investment activities.

Importantly, the mere availability of information does not necessarily lead to its productive use. Harnessing the productive value of monitoring and evaluation information requires governments to produce information that is timely, relevant and actionable, and use it in a meaningful way.

### **C. Ensure proper framework conditions for public investment at all levels of government**

#### ***Principle 9. Develop a fiscal framework adapted to the investment objectives pursued***

Because sub-national governments play a leading role in public investment, intergovernmental fiscal arrangements are crucial. These arrangements, which establish the framework for expenditure and revenue assignment at different levels of government, differ among countries. Common for all countries is that *governments should employ a fiscal framework adapted to the different objectives pursued*. The fiscal framework should be clear, with timely and predictable transfers between levels of government. Choices regarding transfers, own revenues, and borrowing should reflect good practice, fit the institutional context of a particular country, and align with policy objectives.

Intergovernmental transfers play a key role in sub-national finance. These instruments should reflect policy objectives (OECD, 2009c). General purpose grants make sense for financing and equalisation purposes. By contrast, for public investment, earmarked grants and matching arrangements are appropriate when projects generate positive spillovers on neighbouring areas, such as transportation infrastructure, leading to a tendency to under-invest (Blöchliger and Petzold, 2009). They are also useful when risk sharing or temporary co-operation is sought, and when guidance from the national to the sub-national level is useful (OECD, 2009c), and when it is desirable to align priorities across levels of government. There are, however, both benefits and drawbacks of earmarked and matching grants to be considered. Notably, capturing the benefits suggested above involves a trade-off in sub-national expenditure autonomy. Extensive earmarking may unnecessarily “impede appropriate fungibility of resources and limit sub-national ability to deliver adapted policies” (Charbit, 2011), the latter being an important justification for decentralisation.

Sub-national own revenues are also important. Higher levels of government can help by *setting enabling conditions for sub-national governments to be able to exploit their own revenue raising potential*, not only to finance investment, but to allow for participation in co-financing arrangements and contribute to financing for long-term

operations and maintenance. Co-financing arrangements among levels of government should be more than a way for sub-national governments to secure funds. They should be designed in a way to ensure the commitment of different actors to the success of a project; to align investment priorities across different levels of government; or to incite sub-national authorities to engage in projects which generate positive spillover effects or to pool resources with their neighbours.

Finally, borrowing remains a crucial part of the picture for public investment. Sub-national borrowing is often subject to constraints imposed by higher levels of government with substantial variation in terms of restrictiveness among OECD countries. They range from total prohibition to no restriction at all. In most cases, sub-national government borrowing requires prior approval by higher levels of government, and is often restricted to certain purposes (such as investment). Other factors affecting borrowing, particularly for accessing private credit markets, include a sub-national government's fiscal strengths and weaknesses, the country where it is located (i.e. the general economic situation, the sovereign credit rating), and the general health of banks and the financial sector.

***Principle 10. Require sound and transparent financial management at all levels of government***

Good practices in financial management are a core element of a sound approach to public investment. Proper costing and budgeting play a crucial role in a government's capacity to prioritise and execute its investment programme effectively. Robust financial controls enhance accountability. *Governments should therefore ensure effective and transparent financial management for public investment at all levels by deploying good practices for budgeting and financial accountability.* Public investment plans should be accurately costed for the intended investment period, should be reflected in governments' budget strategies and allocation processes, and should fit into a medium-term budget framework. Long-term operating and maintenance costs of public investment, which are often under-estimated, should also be duly considered during the planning and budgeting stages (OECD, 2011a).

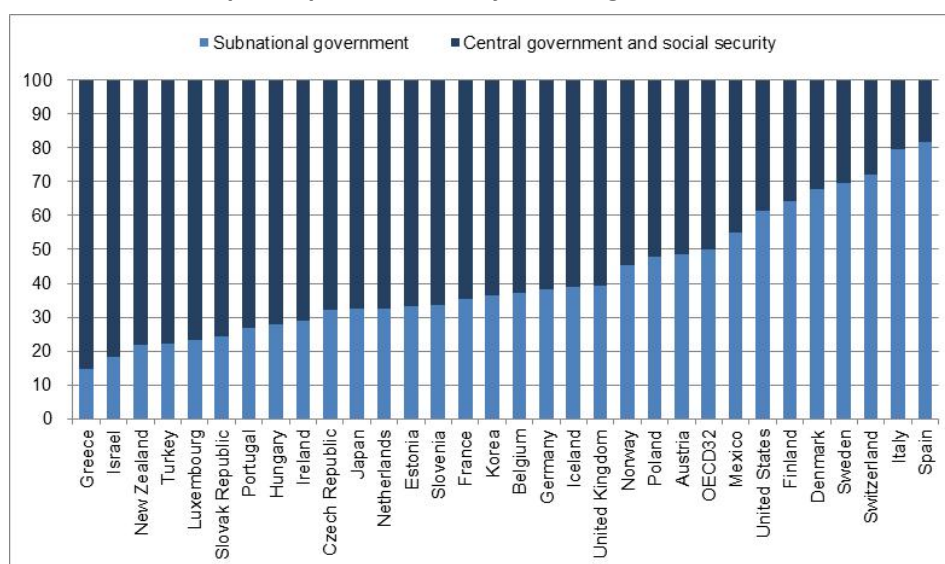
Budgeting transparency throughout the investment cycle provides visibility to investments, clarifies recurrent budgetary implications, and strengthens public accountability. Governments should make budgetary information regarding public investments publicly available to citizens and other stakeholders in a timely and user-friendly format. Transparency with respect to local public enterprises, often recorded in separate budgets, is a critical element for a clear picture of sub-national finances.

***Principle 11. Promote transparency and strategic use of public procurement at all levels of government***

General government procurement accounts for 13% of GDP and nearly a third of government expenditures in OECD countries (OECD, 2013b). Procurement is integral to public investment but also the "government activity most vulnerable to waste, fraud and corruption". Problematic procurement systems can undermine the integrity of the investment process, deter investors, and compromise the achievement of policy objectives. *Governments should therefore maximise transparency at all stages of the procurement cycle, promote the professionalisation of the procurement function and establish clear accountability and control mechanisms.* Procurement systems at all levels of government should be transparent throughout the procurement cycle; competitive, with measures taken to enhance integrity if exceptions to competitive processes are made; monitored to ensure funds are used as intended; and ensure that complaints can be registered and addressed (OECD, 2008b).

On average, 55% of public procurement spending occurs at the sub-national level (OECD, 2013b), ensuring sufficient capacity at the sub-national level is therefore crucial. Sub-national levels of government often lack procurement-specific knowledge or personnel (OECD, 2012a). Mechanisms for strengthening capacity include collaborative procurement across levels of government and at the sub-national level, (e.g. purchasing alliances, networks, framework agreements, central purchasing bodies), the use of e-government tools to simplify and harmonise procurement practices, and professionalising the procurement function.

**Share of public procurement by level of government in 2012**



Note: 2011 data for Japan, Korea, Turkey and New Zealand. No data for Chile and Australia.

Source: OECD (2013), *Government at a Glance, 2013*, calculations based on OECD National Accounts.

OECD countries increasingly recognise how procurement can be used for different objectives, not only value for money and integrity, but also wider objectives such as sustainable development, greening public infrastructure, innovation, or SMEs development. *Governments should use procurement to ensure effective public service delivery while pursuing strategic government objectives at different levels of government.* To do so, the objectives of procurement should be clearly articulated and prioritised. Consideration should be given to which means are best able to achieve these objectives: traditional procurement, PPPs, concessions, etc. To help, countries can provide guidance both nationally and sub-nationally on how to use procurement to achieve certain goals. Performance monitoring is also important. Governments should assess whether the procurement system is achieving its objectives based on evidence and data (OECD, 2012a).

**Principle 12. Strive for quality and consistency in regulatory systems across levels of government**

Governments should pursue high-quality and coherent regulation across levels of government. Divergent, overlapping, contradictory regulations or constantly changing ones can impose costs, particularly for sub-national levels of government, reduce efficiency, and deter investors. An important step to strengthen coherence is for governments to evaluate the regulatory framework when establishing investment priorities and programmes. Such a review can reveal potential obstacles to the efficient use of public funds across levels of government such as absent, obsolete, excessive or unnecessarily complex regulations; regulatory institutions with inadequate capacities or overlapping responsibilities; uneven or underdeveloped use of regulatory instruments; or sector-specific regulatory barriers that could impede proper utilisation of cross-cutting funds (Rodrigo and Allio, 2012).



In addition to regulatory review, mechanisms should exist to co-ordinate regulatory policy across levels of government. Intergovernmental platforms can help different levels of government to develop coherent regulation and ensure consistency in implementation. Other good practices include mutual recognition policies among governments, regulatory harmonisation agreements, and strict regulatory uniformity agreements (OECD, 2012b). National governments should also regularly review the stock of regulation and assess costs, benefits, and alternative to new regulations, taking the costs of compliance for sub-national governments into account.

Sub-national capacity for regulatory quality is an integral aspect of effective public investment. Sub-national governments should be able to implement regulation from higher levels of government effectively, as well as to define and implement their own strategy for regulatory management, including the assessment of regulatory impact and reforms needed (OECD, 2012b). As part of the 2012 Recommendation of the Council on Regulatory Policy and Governance, the OECD recommends that higher levels of government help foster this capacity by:

1. Supporting the implementation of regulatory policy and programmes at the sub-national level to reduce regulatory costs and barriers at the local or regional level which limit competition and impede investment, business growth and job creation;
2. Promoting the implementation of programmes to assess and reduce the cost of the compliance with regulation at the sub-national level;
3. Promoting procedures at the sub-national level to assess areas for which regulatory reform and simplification is most urgent to avoid legal vacuum, inconsistencies, duplication and overlap;
4. Promoting efficient administration and setting regulatory charges according to cost recovery principles, not to yield additional revenue;
5. Supporting capacity-building for regulatory management at sub-national level through the promotion of e-government and administrative simplification when appropriate, and relevant human resources management policies;
6. Using appropriate incentives to foster the use by sub-national governments of Regulatory Impact Assessments to consider the impacts of new and amending regulations, including identifying and avoiding barriers to the seamless operation of new and emerging national markets;
7. Developing incentives to foster horizontal co-ordination across jurisdictions to eliminate barriers to the seamless operation of internal markets and limit the risk of race-to-the bottom practices, developing adequate mechanisms for resolving disputes across local jurisdictions; and
8. Preventing conflict of interest through clear separation of the roles of sub-national governments as regulators and service providers.

Finally, administrative burden reduction is important at all levels of government. In some cases this can require the revision and simplification of formalities such as licenses, permits and authorizations that are required for the development of public investment projects at the different levels of government (i.e. construction licenses, transit permits, expropriations, among others). It is useful for governments to know, in terms of time and monetary costs, the administrative burden of government formalities for a typical investment project and the share that this burden represents in terms of the total project cost. This information can be used to help design and promote regulatory improvements directed to burden reduction and to make investment projects more agile and simple.

## EXAMPLES OF GOOD PRACTICES FOR THE PRINCIPLES

<p>Invest using an integrated strategy tailored to different places</p>	<ul style="list-style-type: none"> <li>• Link public investment to assessment of regional (or local) characteristics and growth factors</li> <li>• Seek complementarities among sector strategies (e.g. via inter-departmental/ministerial committees and programmes, harmonisation of programme rules or joint investment pools)</li> <li>• Review policies at an early stage to ensure territorial issues are adequately considered</li> <li>• Generate and use spatially-relevant data for investment planning</li> </ul>
<p>Adopt effective co-ordination instruments across national and sub-national governments</p>	<p>Consider:</p> <ul style="list-style-type: none"> <li>• National territorial representatives</li> <li>• Nationally-funded regional development agencies</li> <li>• Contracts/formalised agreements between levels of government</li> <li>• National strategies with clear goals for public investment</li> <li>• Co-financing arrangements between levels of government</li> <li>• Formal consultation of sub-national governments</li> <li>• Platforms for regular inter-governmental dialogue</li> </ul>
<p>Co-ordinate among sub-national governments to invest at the relevant scale</p>	<ul style="list-style-type: none"> <li>• Consider flexible co-ordination arrangements such as: 1) establishment of joint authorities; 2) co-ordinated investment strategies; 3) polycentric co-operation in urban areas; 4) urban-rural partnerships; or 5) platforms for cross-jurisdictional dialogue and co-operation</li> </ul>
<p>Assess upfront the long-term impacts and risks of public investment</p>	<ul style="list-style-type: none"> <li>• Use technically sound appraisals, with more rigorous assessment for larger or risky projects</li> <li>• Take advantage of expertise in organisations with independence experience and a good reputation for technical analysis</li> <li>• Use independent assessments of <i>ex ante</i> appraisals</li> <li>• Circulate guidelines for project appraisal at all levels of government</li> </ul>
<p>Engage stakeholders throughout the investment cycle</p>	<ul style="list-style-type: none"> <li>• Develop and implement a stakeholder engagement plan</li> <li>• Make investment information publicly available in a timely and visible way</li> <li>• Ensure engagement procedures are transparent and consistent with the OECD Principles for Transparency and Integrity in Lobbying</li> </ul>
<p>Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities</p>	<ul style="list-style-type: none"> <li>• Ensure financing arrangements reflect capacities for effective public investment management, with bottlenecks identified and clear guidance on steps to address them Base decisions about PPPs on value-for-money compared to traditional procurement</li> <li>• Properly account for and disclose all costs, guarantees and other contingent liabilities of PPPs in budget documents</li> </ul>

<p>Reinforce the expertise of public officials and institutions involved in public investment</p>	<ul style="list-style-type: none"> <li>• Distribute guidance documents in areas such as planning, project appraisal, procurement, or monitoring and evaluation</li> <li>• Promote open, competitive hiring and merit-based promotion as well as policies such as special pay scales for areas of needed technical expertise</li> <li>• Create special public agencies accessible to multiple jurisdictions in areas of needed expertise (e.g. PPP units, regional development agencies)</li> <li>• Use common e-government platforms to narrow gaps in capacity across regions or localities and facilitate bench learning</li> </ul>
<p>Focus on results and promote learning from experience</p>	<ul style="list-style-type: none"> <li>• Use monitoring systems to track performance, emphasising progress toward outcomes</li> <li>• Establish a manageable set of common indicators for sub-national reporting</li> <li>• Require and/or co-finance <i>ex post</i> evaluations</li> <li>• Incorporate lessons identified into subsequent investment decisions</li> <li>• Use a range of instruments to encourage results</li> </ul>
<p>Develop a fiscal framework adapted to the investment objectives pursued</p>	<ul style="list-style-type: none"> <li>• Link the use of earmarked and matching intergovernmental grants to positive spillovers and/or the need to align investment priorities across levels of government</li> <li>• Review the incentive effects of transfer arrangements to ensure adequate incentives for sub-national governments to maximise own-revenues</li> <li>• Ensure timely, predictable transfers between levels of government</li> <li>• Minimise the variance between estimated and actual transfers</li> </ul>
<p>Require sound and transparent financial management at all levels of government</p>	<ul style="list-style-type: none"> <li>• Co-ordinate public investment decisions with medium-term budget forecasts</li> <li>• Assess and plan for operations and maintenance costs of infrastructure investment</li> <li>• Disclose costs and contingent liabilities for PPPs in budget documents</li> <li>• Make information regarding public investment expenditures transparent and publicly available</li> </ul>
<p>Promote transparency and strategic use of public procurement at all levels of government</p>	<ul style="list-style-type: none"> <li>• Collaborate for procurement (e.g. purchasing alliances, networks, framework agreements, central purchasing bodies)</li> <li>• Use e-government tools to simplify and harmonise procurement practices</li> <li>• Professionalise procurement</li> </ul>
<p>Strive for quality and consistency in regulatory systems across levels of government</p>	<ul style="list-style-type: none"> <li>• Co-ordinate regulatory policy across levels of government, e.g. via inter-governmental platforms, mutual recognition policies, regulatory harmonisation agreements and regulatory uniformity agreements</li> <li>• Review the stock of regulation regularly, assessing costs and benefits of new regulations and taking compliance costs for sub-national governments into account</li> </ul>

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