

EFFECTIVE PUBLIC INVESTMENT AT SUB-NATIONAL LEVEL IN TIMES OF FISCAL CONSTRAINT

MEETING THE CO-ORDINATION AND CAPACITY CHALLENGES

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Outline of the presentation

- **Objectives, context and rationale for the project**
- **Main co-ordination and capacity challenges:
Highlights from questionnaires**
- **Recent policies and good practices:
Highlights from questionnaires**
- **Purpose of the workshop and next steps**

Key objectives of the project

- **The project aims at better understanding:**
 - Broad conditions for regional growth and effective public investment strategies
 - Coordination mechanisms across levels of government for public investment, in particular requirements/incentives attached to public investment funds, and their strengths and weaknesses
 - Sub-national governance capacities challenges and mechanisms that can help strengthen them for improved public investment strategies

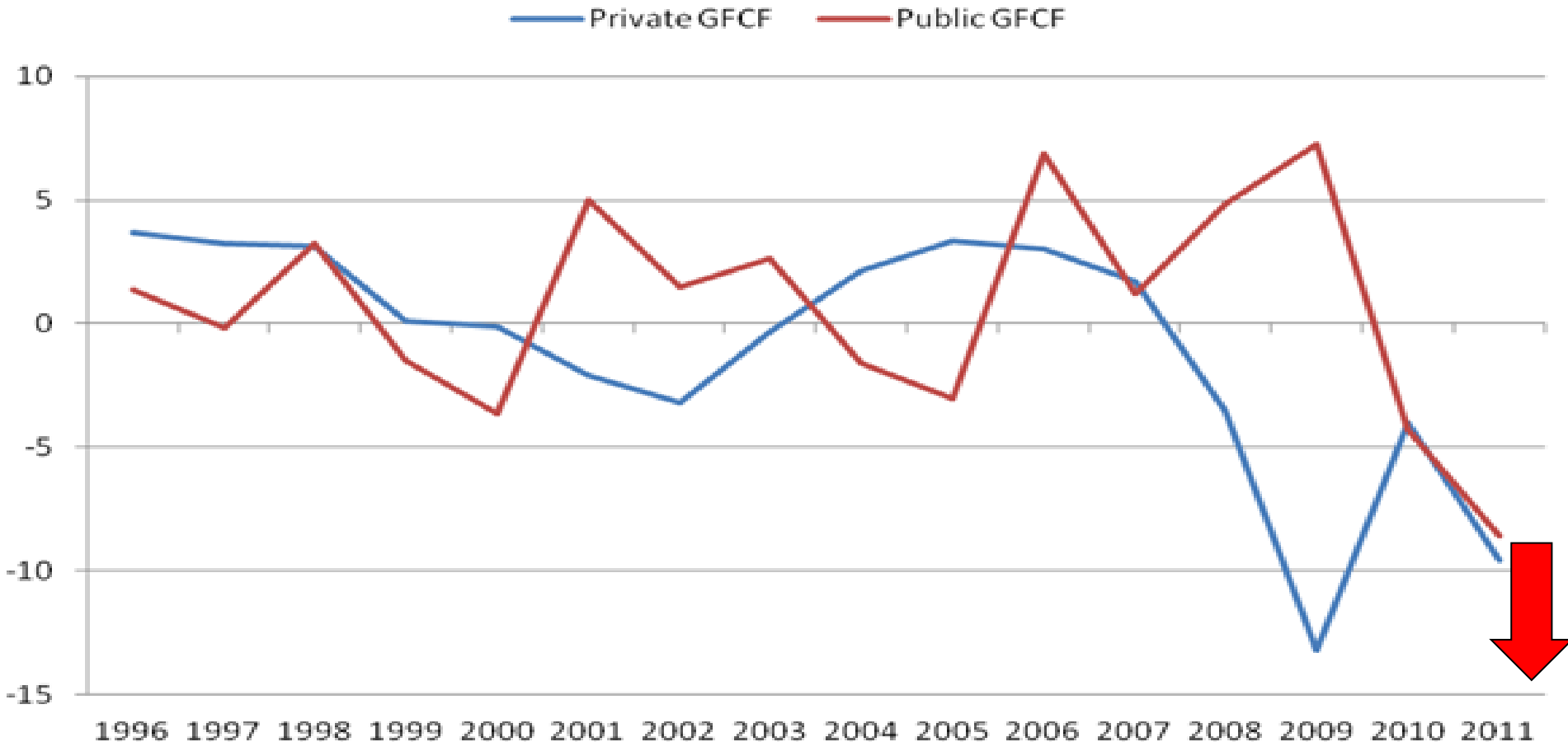
Methods

- **How to get there?**

- Regional questionnaires and case studies: six under way, (4 in the EU, 2 outside); others being discussed
- National questionnaire on multi-level governance of public investment sent to OECD countries, 22 responses received so far
- Empirical analysis: Broad conditions for regional growth and effective public investment strategies
- Network of experts (public finances, institutional economics, public management) and private actors perspective

Investment as an adjustment variable

Chart 1. Private and Public GFCF in OECD Countries (in % of GDP)



Source: OECD National Accounts

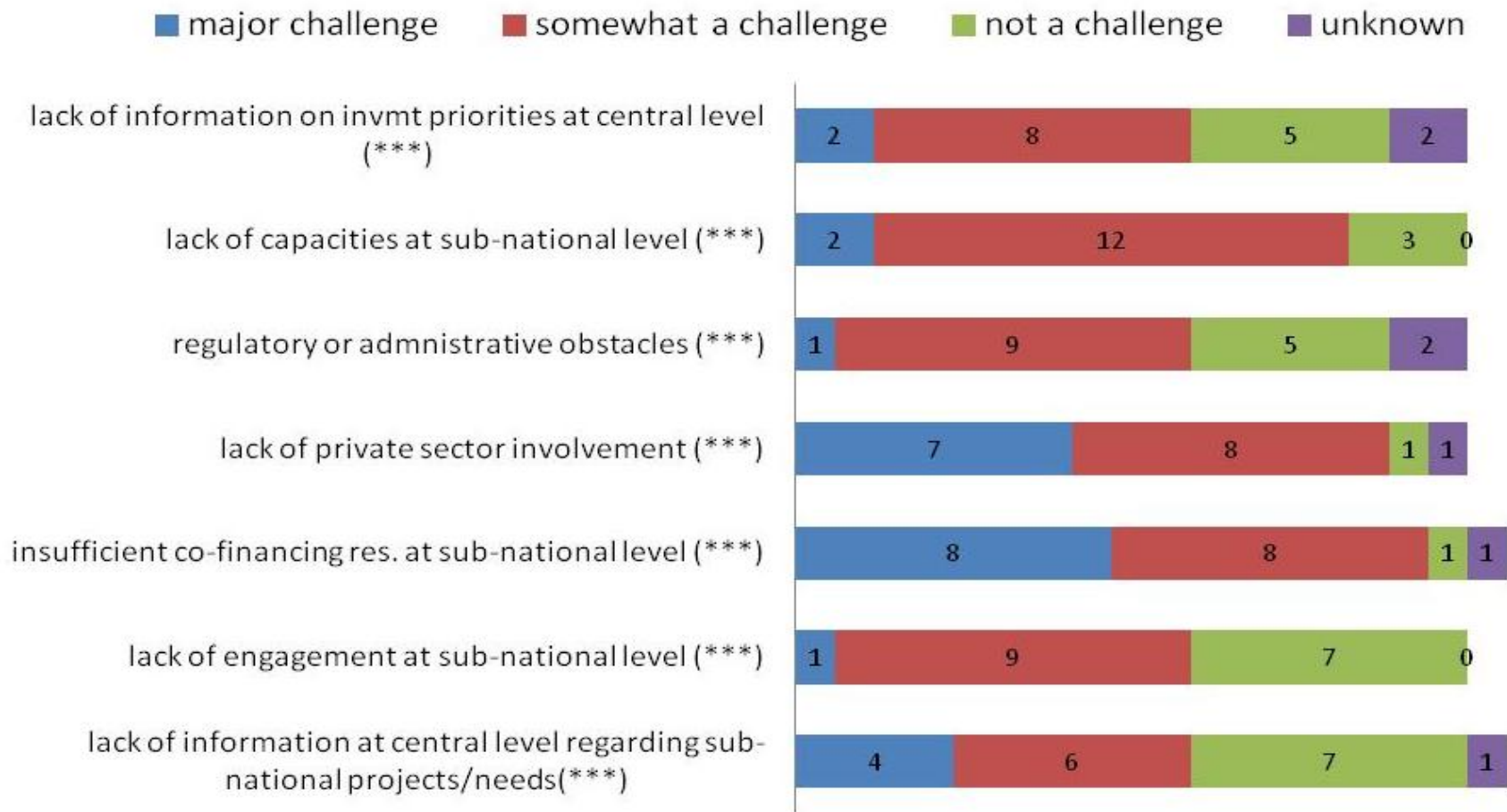
Strong cuts in public investment (together with fall in private investment)
Sub-national governments account for 66% of total public investment in the OECD

Improved co-ordination and capacities for public investment: why does it matter?

- **66 % of public investment occurs at the sub-national level**, but SNGs do not act alone: **mutual dependency across levels of government**
- **Co-ordination challenges/gaps across levels of government in ALL countries – federal or unitary** (gaps in terms of *policy coordination, fiscal relations, information asymmetries, accountability*)
- **Regional/local governance capacity: potential bottlenecks for effective public investment** - capacity challenges and needs vary significantly across countries and regions
- **Preliminary results of empirical work:**
 - ✓ *higher levels of institutional quality at the sub-national level are associated with greater effectiveness of EU funds*
 - ✓ *policy complementarities across investment priorities are critical → require governance tools to manage them*

⇒ **Improved governance capacities for PI critical for ALL regions, not only lagging ones – with different priorities across regions**

Co-ordination challenges on public investment strategies seen from the national perspective



Source: Answers to the OECD questionnaire on MLG of public investment (2012)

Main challenges seen from national governments for effective sub-national investment strategies: fiscal and capacity gaps, lack of involvement of private actors

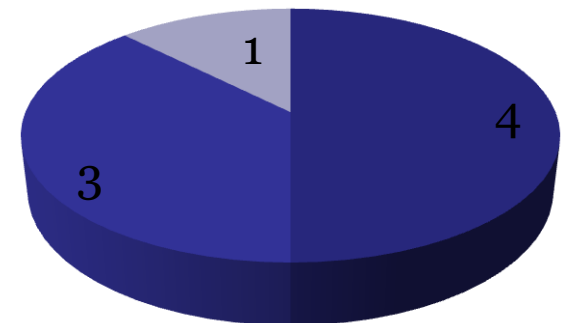
...and from the regional perspective

Key challenges mentioned in questionnaires:

1. **Lack of information about central government investment priorities**
2. **Lack of understanding by central level of existing regional projects/needs**
3. **Regulatory and administrative obstacles** to co-ordinate between central and regional levels

Source: Answers to the OECD questionnaire on MLG of public investment (2012)

Use of contracts between the central government and the region in the design/implementation of PI



■ Yes ■ No ■ No response

Main coordination challenges seen by regional actors: information gaps with the central government

Main capacity challenges for sub-national governments: different perspectives

Main capacity challenges seen by national governments	Main capacity challenges seen by regional governments
<ul style="list-style-type: none">▪ Sectoral priorities dominate over integrated approach▪ Weak long term strategic planning for public investment; a focus on <u>short term</u> priorities▪ Difficulty of involving private firms▪ Municipalities views prevail over regional priorities	<ul style="list-style-type: none">▪ Lack of involvement of private actors▪ Reduced fiscal capacity for PI▪ Lack of capabilities to administer public procurement▪ Excess of administrative procedures and red tape▪ Public employees' salaries not competitive with the private sector

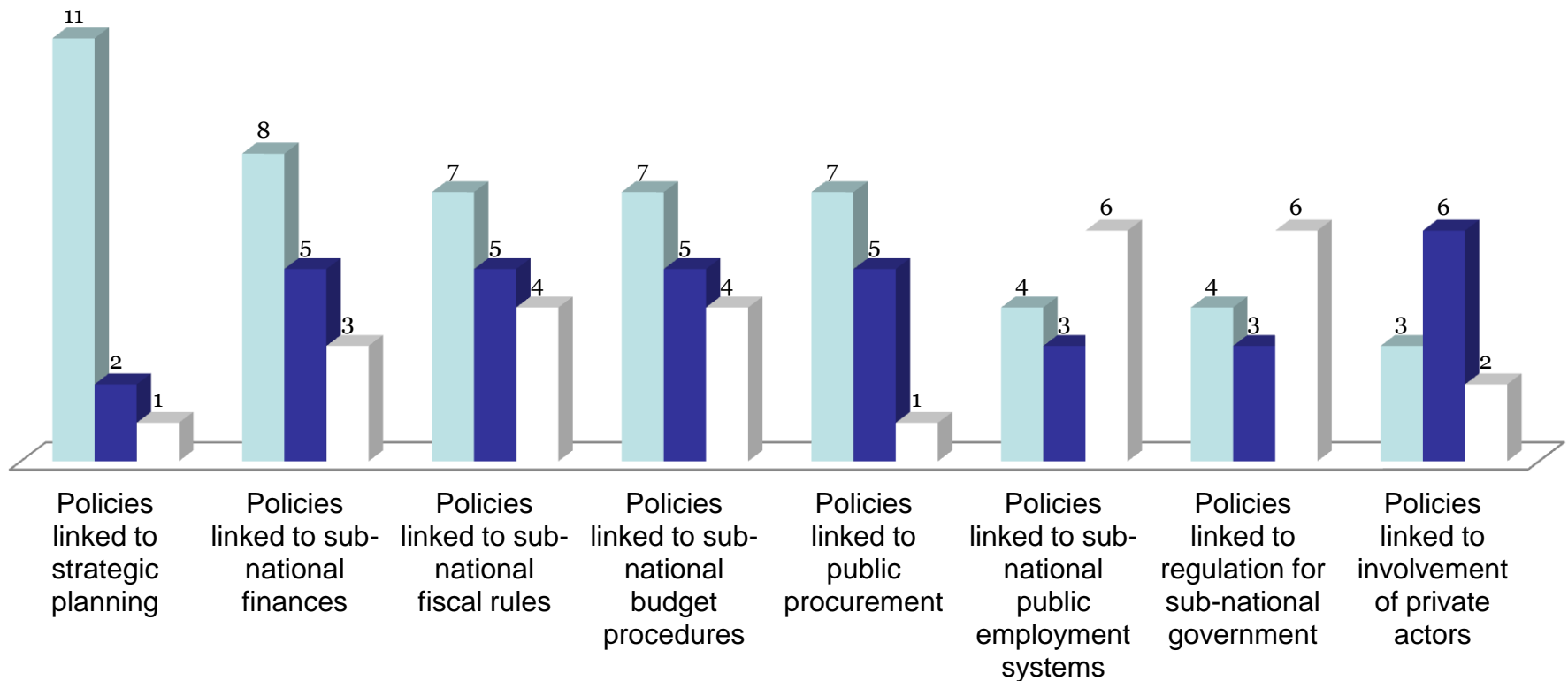
Insufficient resources and lack of fiscal discipline are seen as higher challenges in federal/regionalised countries (high degree of *Regional Authority Index*)

Central governments see the most important capacity challenges for regions/municipalities on the planning side, whereas SNGs emphasise financial and implementation capacity challenges

Policies to strengthen capacities of SNGs: national perspectives

National level policies for enhancing sub-national capacities implemented over the last 5-10 years

■ Implemented in past years ■ Currently planned ■ Not applicable



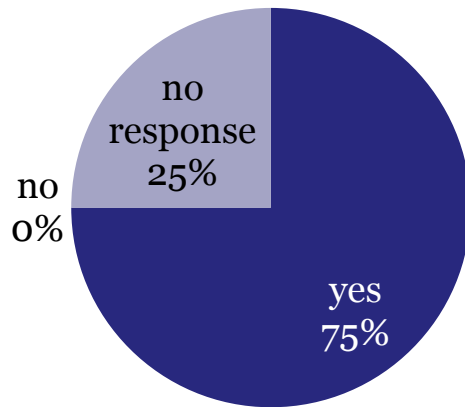
More than half of countries surveyed have implemented policies to improve sub-national strategic planning over the past few years

Policies to strengthen capacities of SNGs: regional perspectives

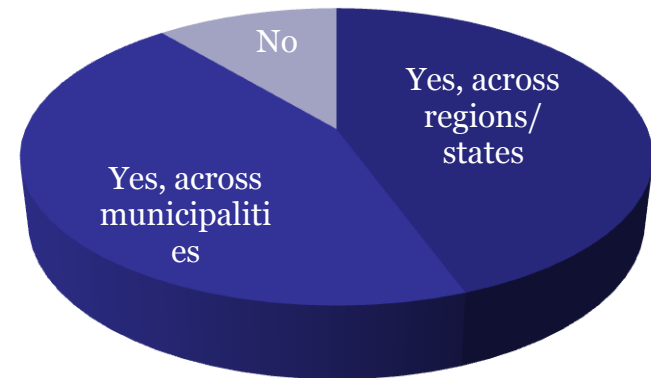
Good practices highlighted in questionnaires and missions:

- ✓ **Strategic planning:** regions increasingly promote inter-municipal co-ordination through financial incentives + multi-year budgeting
- ✓ **Implementation:** policies to strengthen the quality of procurement process (e-procurement, more training of local officials), administrative simplification
- ✓ **Evaluation:** regions increasingly use performance monitoring tools such as performance indicators and specific rewards

Use of performance indicators by regions surveyed



Mechanisms to encourage coordination across sub-national levels



An increasing focus from regions on the quality of strategic planning and performance evaluation for public investment projects

Towards an analytical grid to allow regions/municipalities to better assess their own capacity challenges and needs

Table 1. Summary of sub-national capacities for effective management of public investment

Type of capacities				Self-assessment criteria		
Stage of the Investment Cycle	Goal	Critical Capacity	Indicators	Absent	Developing	Consolidated
Planning	To designing a portfolio for endogenous growth	<i>4 capacities</i>				
Finance and budgeting	To ensure adequate resources	<i>3 capacities</i>				
Implementation	To achieve rigor, integrity, and coherence in implementation	<i>3 capacities</i>				
Evaluation and audit	To promote results and learning	<i>4 capacities</i>				
Throughout	To facilitate achievement of goals	<i>1 capacity</i>				

Purpose of the workshop and next steps

- **Purpose of the workshop:**

- Share preliminary findings and learn from regional/national experiences and experts

- **Key questions and organization of the day:**

- 4 sessions, around the key questions of the project
- Which enabling environment at the national level? How to strengthen coordination mechanisms across levels of government?
- How to strengthen regional and local capacities, from strategic planning to implementation, financing and evaluation of public investment project?

- **Next steps**

- Publication of preliminary analytical papers on the OECD web site in July
- Synthesis report in November 2012
- Communication of results through 2013
- Towards OECD Principles on multi-level governance of public investment

Thank you!