

# EFFECTIVE PUBLIC INVESTMENT ACROSS LEVELS OF GOVERNMENT

IMPLEMENTING THE OECD PRINCIPLES



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## About the Recommendation

The Regional Development Policy Committee (RDPC) created in 1999 aims to serve as the premier international forum for senior-level policy makers to identify, discuss, develop, and disseminate a vision of regional development policy that is place-based, multi-level, multi-sectoral, evidence-based and innovative.

In 2014, the OECD Regional Development Policy Committee endorsed the *Recommendation on Effective Public Investment Across Levels of Government*. 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.

Five years after the adoption of the Recommendation, the OECD has conducted a monitoring exercise to assess the implementation of the Recommendation in countries that have adhered to it. This brochure provides a picture of the implementation of the Recommendation in adherent countries and compiles a set of updated best practices implemented by countries. The full implementation Monitoring Report was approved by the RDPC in February 2019. By 2018, the Recommendation had 39 Adherents including all OECD countries (36) and 3 non-OECD countries (i.e., Brazil, Colombia and Morocco).

The **full implementation guidance** with details for all countries is available on the Toolkit website:

<https://www.oecd.org/effective-public-investment-toolkit/>

# Principles for Action

The Principles group 12 recommendations into the 3 pillars representing systemic challenges to public investment:

## Pillar 1

### Co-ordinate across governments and policy areas

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

**Adopt** effective co-ordination instruments across levels of government

**Co-ordinate** across SNGs to invest at the relevant scale

## Pillar 2

### Strengthen capacities and promote policy learning across levels of government

**Assess** upfront long term impacts and risks

**Encourage** stakeholder involvement throughout investment cycle

**Mobilise** private actors and financing institutions

**Reinforce** the expertise of public officials & institutions

**Focus** on results and promote learning

## Pillar 3

### Ensure sound framework conditions at all levels of government

**Develop** a fiscal framework adapted to the objectives pursued

**Require** sound, transparent financial management

**Promote** transparency and strategic use of procurement

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

# What purpose do the Principles serve?

**Current investment levels are not sufficient to address the needs, especially for infrastructure.** Total public and private investment in the OECD remains below 2008 pre-crisis levels. Public investment was particularly hit by the crisis in OECD countries, especially at the subnational level where it decreased by 1.1% per year in real terms in the 2008-2016 period (see Figure 1). In OECD countries, the current gross fixed investment spending needs to be raised by approximately 12% to ensure that the productive net capital stock grows at the pre-2008 pace (OECD, 2018c). The quality of infrastructure has already deteriorated in some countries and current deficiencies in infrastructure can hamper productivity, socio-economic opportunities, and the resilience of regions.

**Megatrends – in particular urbanisation, climate change, demographic pressures and digitalisation – will increase the demand of national and subnational governments for more and better public investment while also impacting national and subnational finances.** In order to keep pace with profound economic and demographic changes across the globe, approximately USD 95 trillion in public and private investments will be needed in energy, transport, water and telecommunications infrastructure at the global level between 2016 and 2030, i.e. around USD 6.3 trillion per year in the next 15 years. When taking into account the Paris Agreement commitments and the Sustainable Development Goals (SDGs), an additional annual investment of USD 300 billion will be needed.

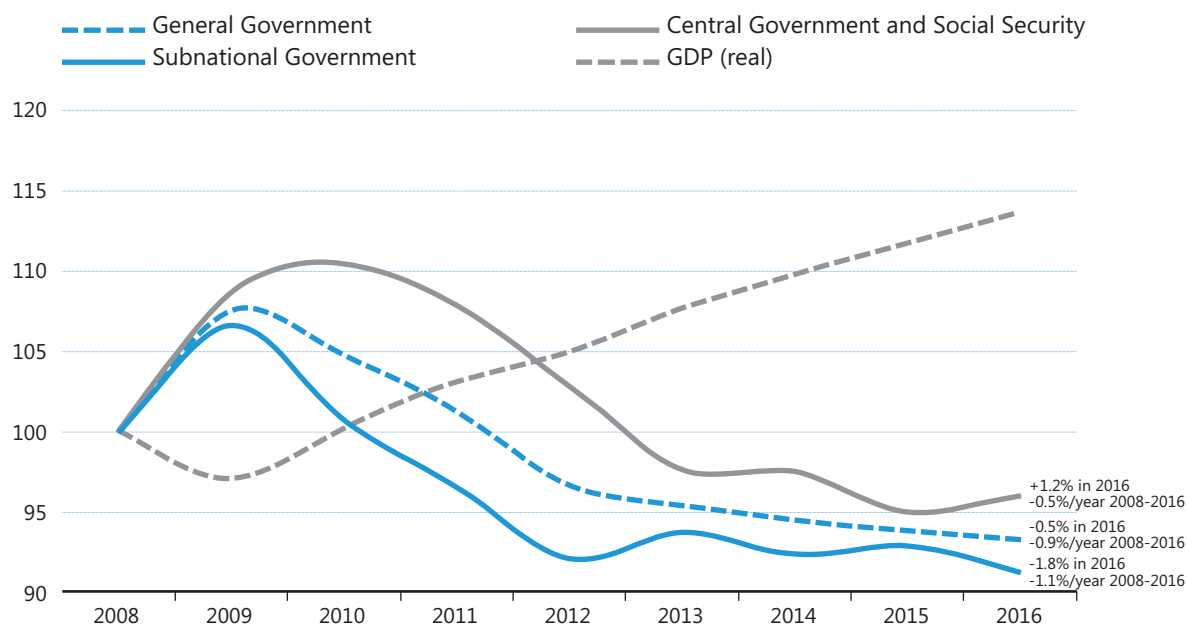
At the same time, megatrends like demographic changes strongly affect subnational finances, both on the spending and the revenue side. The tax base of some regions might fundamentally change due to demographic shifts.

## A definition of public investment

The way public investment is defined and measured across countries varies. In general, it refers to investment in physical infrastructure (e.g. roads, government buildings, etc.) and soft infrastructure (e.g. innovation support, research and development, etc.) with a productive use that extends beyond a year. Capital expenditure consists of investments (i.e. gross capital formation and acquisitions, less disposals of non-financial non-produced assets) and capital transfers (i.e. investment grants and subsidies in cash or in kind made by subnational governments to other institutional units). Gross fixed capital formation (or fixed investments) is the main component of investments.

*Note: since the new standards of the SNA 2008, expenditures on research and development and weapons systems are included in gross fixed capital formation.*

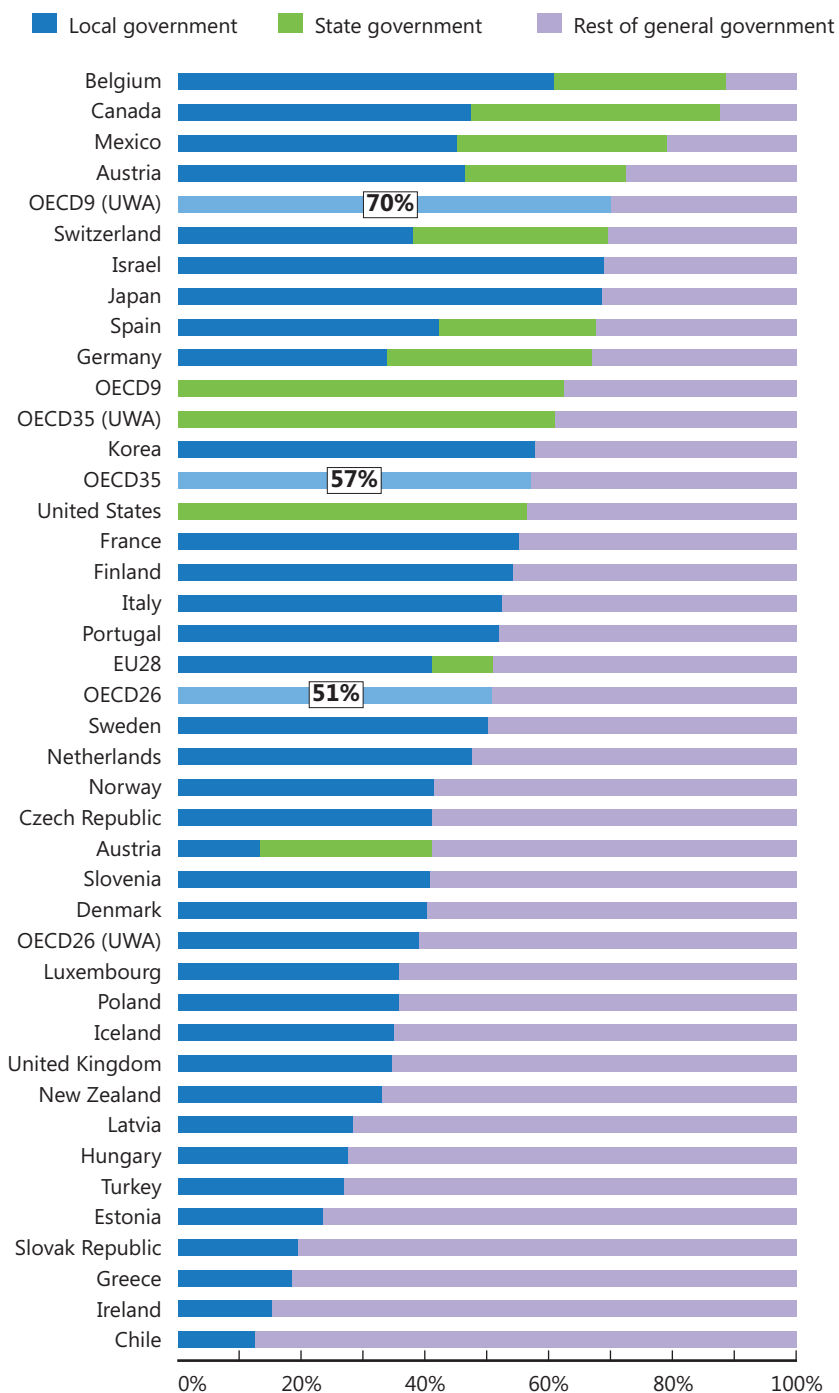
**Figure 1. Public investment from 2008 to 2016 by levels of government in the OECD**



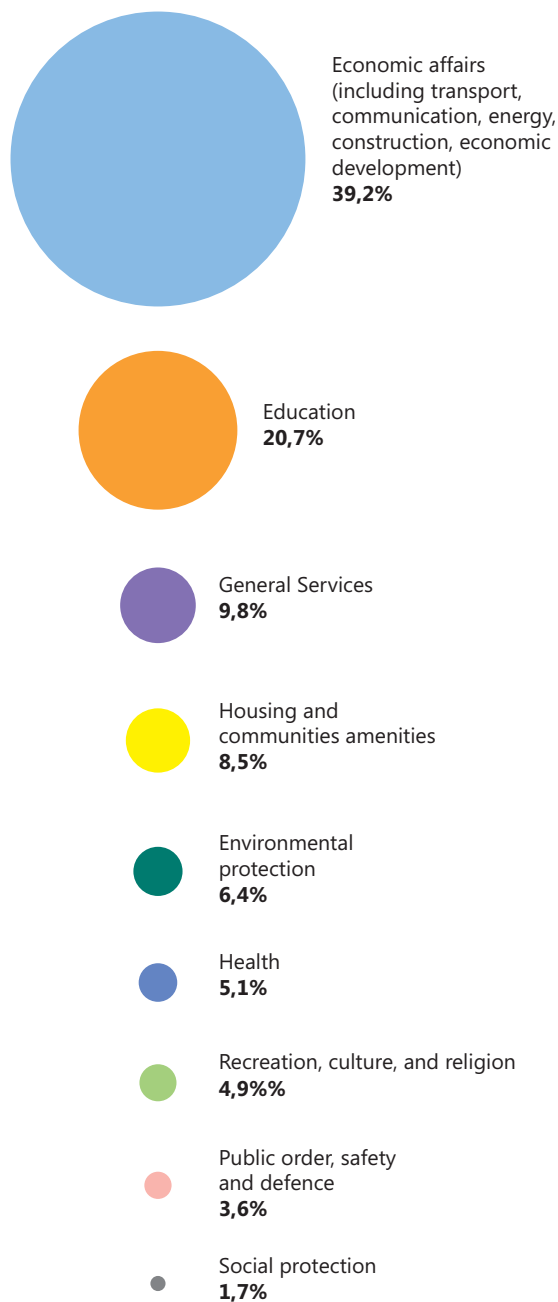
*Note: Australia and Chile: estimates from International Monetary Fund (IMF) government statistics.  
Source: OECD calculations based on (OECD, 2018[16]).*

**Regional and local governments play a pivotal role in filling these gaps as they invest in areas that are critical for growth and well-being.** Regions and cities play an increasingly important role in key policy areas linked to infrastructure, sustainable development and citizens' well-being (e.g. transport, energy, broadband, education, health, housing, water and sanitation). In 2015, almost 40% of total public investment at the subnational level was allocated to economic affairs (transport, communications, economic development, energy, construction, etc.) and 21% was used for education (see Fig 2). In recent decades, the responsibilities of subnational governments in these fields have increased in a majority of OECD countries. Subnational governments are now in charge of 57% of public investment in the OECD on average (see Figure 3), and they are responsible for 64% of environment and climate related public investment (OECD 2018a, b). Furthermore, infrastructure investments, regardless of which level of government is ultimately responsible, almost invariably have large local impacts.

**Figure 3. Public investment by levels of government, 2016 (%)**



**Figure 2. Subnational government investment by area (COFOG)**



Note: OECD 9 and OECD 26 refer to the average for OECD federal countries for OECD unitary countries.  
 Source: OECD (2018), "Subnational Government Finance", OECD Regional Statistics (database), <http://dx.doi.org/10.1787/regiondata-en>.

Source: OECD (2018), "Subnational Government Finance", OECD Regional Statistics (database), <http://dx.doi.org/10.1787/regiondata-en>.

**When well-managed, public investment can support growth.** An increasing body of work points to the positive effects of public investment on growth. Recent OECD research shows that countries with higher levels of public investment increase their productivity faster than countries with lower levels of public investment (Fournier, 2016; OECD, 2013). Evidence also suggests that the institutional quality and governance processes affect the expected returns on public investment and also influence the capacity for public investment to leverage private investment, rather than crowd out such investment directly (OECD, 2018d). It is not just framework governance conditions at the national level which have an impact, but also the quality of governance at the subnational level which varies greatly within countries.

**A territorial and multi-level governance approach to investment allows countries to maximise return on investment for regional development.** A territorial approach to infrastructure investment can leverage the strengths of actors among levels of government. National governments can help ensure a balanced approach to infrastructure development, and regional and local actors are well placed to prioritise needs and identify complementarities at the local level. Investment needs to be well coordinated with spatial and land use planning, as well as with horizontal policy areas (e.g. housing, environment, industry, agriculture, water) so that they are mutually reinforcing. Quality investment also requires effective co-ordination arrangements to ensure strategies and priorities at both the national and subnational levels are working in harmony.

**To deliver effective public investment for local development, subnational governments need to have the capacity to plan, prioritise and deliver investment projects at the relevant scale.** The prioritisation of projects can be improved through ex ante and ex post evaluations and by developing forward-looking scenarios. To promote economies of scale, it is important to provide incentives and mechanisms to foster co-operation across subnational jurisdictions so that investments can be planned at the relevant territorial scale. Building subnational capacity to plan and deliver infrastructure is also crucial and often requires a differentiated approach targeting specific needs in different types of regions and localities.

**Enabling framework conditions at the national level have an important impact on the efficiency of public investments.** Challenges related to framework conditions may arise from poorly designed budgetary, procurement or regulatory practices. A stable and predictable legal and regulatory framework underpins the economic efficiency of infrastructure investments.

Another critical aspect pertains to effective decentralisation systems, in which responsibilities are clearly assigned, financed, and monitored.

To address these recurrent challenges that are observed in all contexts, the OECD developed in 2014 the **Recommendation of the Council on Effective Public Investment across Levels of Government, which was the first OECD instrument in the area of regional policy and multi-level governance.** The Recommendation aims to help countries assess the strengths and weakness of their public investment governance capacity for regional development across all levels of government. It serves as a guide to setting priorities for improving the co-ordination mechanisms and capacities of subnational governments in the management of public investment.

**The Recommendation sets out 12 Principles grouped in three pillars of policy recommendations that represent three systematic challenges** to efficiently managing public investment at both national and subnational levels. **These 12 Principles cannot be seen in isolation.** The Principles 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. All the Principles are complementary and there is no hierarchy among them. They are also intended to be used in conjunction with other OECD policy guidance and tools.

**Five years after the adoption of the Recommendation, the OECD has conducted a monitoring exercise in order to assess the implementation of the Recommendation in Adherent countries.** The OECD prepared a Monitoring Report building upon the information gathered through the Monitoring Survey as well as other sources of information such as the online implementation toolkit, the Multi-Level Governance Indicators, the Regional Outlook Survey of 2015, among others (see Box 2).

**Since the adoption of the Recommendation, a majority of Adherents have reformed or adopted new policies that are in line with the 12 Principles.** The monitoring process shows that countries have adopted different reforms aligned with the Recommendation. A majority of Adherents have adopted integrated investment strategies and implemented mechanisms to co-ordinate public investments among levels of governments. A majority of Adherents have also adopted policies to promote a result-oriented investment strategy and a more strategic use of public procurement among levels of government. With these developments, Adherents are better prepared to carry out infrastructure investments with local and global impact (see Fig. 4).

## Box 2. Monitoring the Implementation of the OECD Recommendation

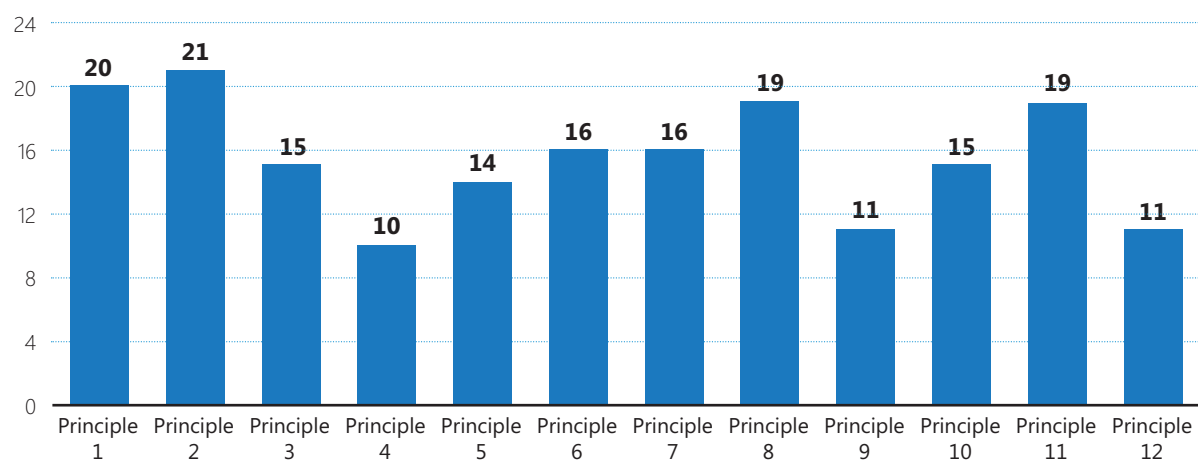
Since its adoption, the OECD regularly monitors the implementation of the Recommendation in Adherent countries. In 2018, the OECD conducted a Monitoring Survey to gain detailed insight into the implementation of the Recommendation. The questionnaire was sent to 37 Adherents in June 2018. Twenty-seven responses had been received by January 2019.

The OECD prepared a Monitoring Report building upon the information gathered through the Monitoring Survey as well as other sources of information such as the online

implementation toolkit, the Multi-Level Governance Indicators, the Regional Outlook Survey of 2015, two surveys carried out during 2015 and 2016 alongside the EU's Committee of the Regions. The Report also builds on thematic reviews conducted during the last four years on this topic.

The Monitoring Report was discussed by the Regional Development Policy Committee (RDPC) at the 40th Annual Meeting on 8 November 2018. The Report was also discussed in the Executive Council meeting on 27 February 2019.

**Figure 4. Number of countries that have reformed existing policies/programmes/initiatives or adopted new policies/programmes in line with one or more of the 12 Principles of the Recommendation**



*Note: Total respondents: 27.*

*Source: OECD 2018 Monitoring Survey*



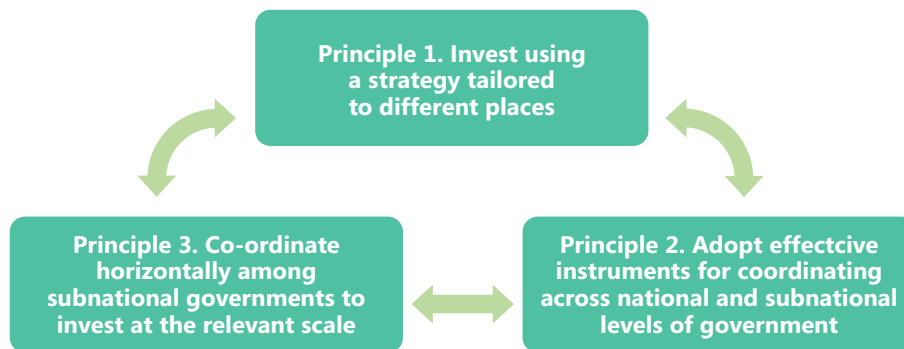


# Pillar 1. Co-ordination across levels of government and policy areas

## WHY CO-ORDINATION MATTERS?

Policy makers from different sectors and levels of governments tend to work in silos. The lack of co-ordination is often recognised by all levels of government as one of the main impediments to effective investment. Transaction costs and often competition for funds are major barriers preventing co-ordination from happening. It is thus crucial that policy makers balance intrinsic and extrinsic co-ordination costs with the long-term benefits that consistent and regular co-operation brings.

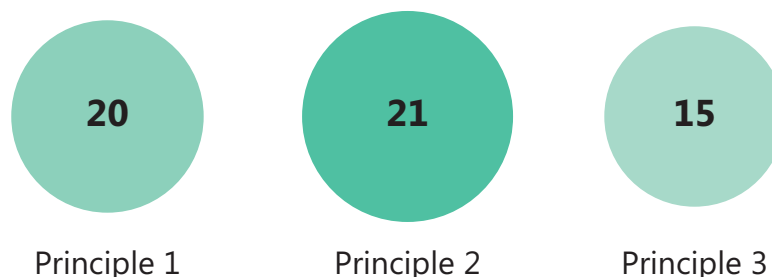
Co-ordination is also necessary to overcome the overlap and sometimes unclear assignment of responsibilities in a large spectrum of policy areas. Many of governments' most important functions are shared across levels of government or between deconcentrated and autonomous governments in the same territory. The unclear allocation of responsibilities and functions is particularly notable for policy areas which are the most 'shared' across levels of government, in particular infrastructure, transport, or education. Such unclear assignment poses a number of problems that constitute major obstacles in ensuring overall efficiency of public investments.



## CO-ORDINATION IN ACTION

- A majority of Adherents have adopted integrated investment strategies and implemented mechanisms to co-ordinate public investments among levels of governments.
- Adherents have adopted different tools to co-ordinate public investments among levels of government, notably co-financing arrangements or platforms for regular inter-governmental dialogue
- Legal frameworks and policies supporting co-operation across jurisdictions have been enhanced, but their degree of implementation varies strongly among countries
- The number of metropolitan governance authorities of all types – from soft inter-municipal co-operation, to more structured and integrated forms, up to mergers – has increased considerably during the last years.

### How many countries have reformed policies aligned with the Principles?



# Principle 1.

## Invest using an integrated strategy tailored to different places

### WHY IS IT IMPORTANT?

#### ■ To provide strategic guidance to all levels of government and maximise the growth potential of each region

A national strategy for public investment is critical to clarify the long-term objectives and with this, help in the prioritisation of projects by all levels of government. A place-based approach to regional development and investments – compared to spatially blind policies – maximises the growth potential of each region. This implies changing the objectives, the intervention scale and the tools and actors involved in the policy-making process.

#### ■ To take advantage of related investments across policy sectors and scale up infrastructure project

Public investment serves multiple objectives that extend well beyond growth. They are typically linked to inclusive development or environmental objectives, which need to be taken into account from the early stages of the planning process. Investments in both “hard” and “soft” infrastructure at the regional level are needed to maximise potential for long-term growth. It is important to seek complementarities and reduce conflict among sectoral strategies. For example, investments in housing need to be complemented by the right investment in transport networks. Such complementarities often need to be constructed and combined into integrated strategies.

#### ■ To better exploit opportunities offered by multidimensional global trends

Multidimensional challenges, namely globalisation, demographic and social changes, climate change, urbanisation, and digitalisation, require concrete actions to align policy objectives at all levels of government and sectors. An integrated and co-ordinated place-based investment strategy can also help countries to attenuate the impacts that megatrends can have on territorial inequalities.

#### ■ To invest on the basis of well-informed and evidence-based strategies

Good data can support good decisions. Governments should encourage the production of data at the right territorial scale to inform investment strategies and produce evidence for decision-making. For example, data at only a city level may limit the capacity to formulate strategies at the scale of the metropolitan area.

### THE PRINCIPLE IN ACTION

- Most Adherents have now integrated investment strategies and mechanisms to co-ordinate public investments across sectors
- Cross-sectoral co-ordination for investment planning represents a significant challenge at the subnational level



#### Canada

The Canadian Regional Development Agencies (RDA) develop place-based regional growth strategies with an all-of-government approach (federal/provincial/territorial), which aims to achieve long-term prosperity by collaborating on targeted, evidence-based actions around a common vision. The development of the strategies has involved a high level of engagement with stakeholders in the form of roundtables to validate the priorities and targeted actions or broad consultation processes, among others. The consultation involves businesses, academia, Indigenous peoples, communities and other organisations as well as different levels of government.



#### Czech Republic

The Czech Republic is creating a National Investment Plan that will come into effect in 2019. Government uses regional authorities to gather local investment plans of regions and cities. Data are collected via a system of Regional Permanent Conferences. Based on gathered local needs, the government will create a long-term fiscal framework and define priorities of investments for the Czech Republic. The National Investment Plan will be further developed and consultation will take place between local and regional authorities and stakeholders.



#### Italy

Italy's Strategy for Inner areas is an integrated strategy tailored to different places with the aim of reducing demographic decline and land abandonment in many rural areas, by improving the quality of essential services – education, health and mobility – and promoting the opportunities for economic activity and jobs. The strategy is pursued through (i) the identification in each project-area an alliance of municipalities willing and capable of working together; (ii) the promotion of a results-oriented strategy through a participatory approach; (iii) the definition of a set of integrated projects and their expected outcomes, through enhanced co-ordination across sectoral administrations and subnational governments.



## Netherlands

The Netherlands has implemented the Dutch Multi-Year Programme for Infrastructure, Spatial Planning and Transport (MIRT), which is a Consultation Committee that discusses projects and programmes involving the physical domain. Different ministries and regional partners may participate or launch MIRT programmes. Within the MIRT programme, all parties collaborate on projects regarding infrastructure and water, in the areas of quality of life, accessibility, and mobility in a clean, safe and sustainable environment. The MIRT Consultation Committee, with the regional agendas as their strategic compass, makes agreements on MIRT areas of work.



## Poland

Poland has established the Co-ordinating Committee for Development Policy (CCDP) as a permanent inter-ministerial committee linked to regional development issues through sub-committees (e.g. sub-committee for rural areas development, sub-committee for territorial dimension). The CCDP carries out analysis and drafts documents to facilitate the implementation of the country's Strategy for Responsible Development, which has a strong territorial dimension.



## United Kingdom

The UK's Industrial Strategy White Paper launched in November 2017 provides a framework for building on the strengths of different places to promote economic growth. The White Paper highlights a number of ways in which government policy can influence the prospects of different places through spending decisions to support regeneration and growth not only on strategic infrastructure but also transport, housing, higher education at national and sub-national levels. It introduces Local Industrial Strategies, which will be developed locally and agreed with the government.

### POTENTIAL ACTIONS

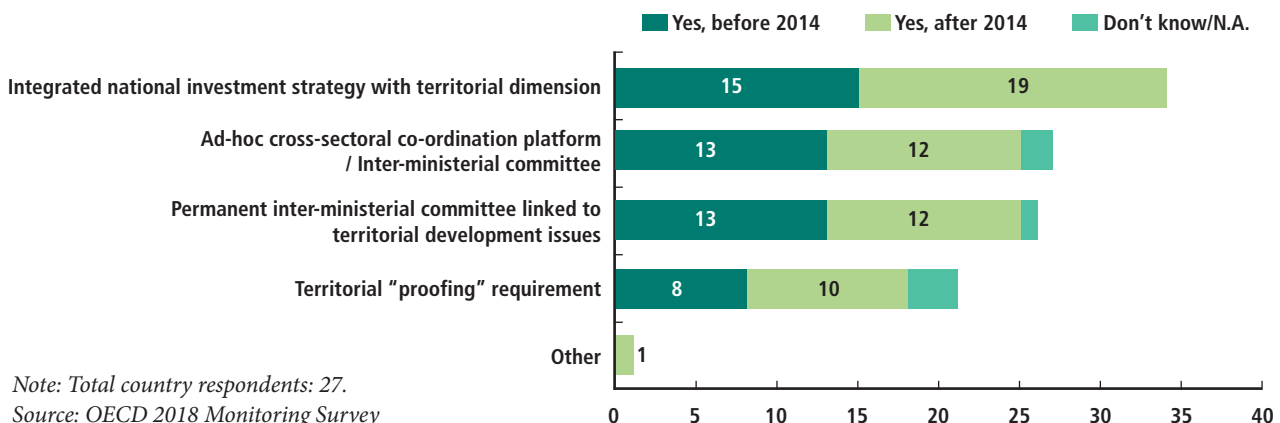
- Mobilise local and regional knowledge (dialogues, partnerships) to design public investment strategies
- Seek complementarities among sector strategies via inter-departmental/ministerial committees and programmes, harmonisation of programme rules or joint investment pools across public agencies/ministries
- Review policies at an early stage to ensure that the impacts on different types of regions and localities are adequately considered
- Generate and use spatially-relevant data for investment planning
- Establish a clear and transparent priority setting process that takes into account territorial impact of investment projects
- Establish multi-annual budgeting process linked to the investment strategic planning

### PITFALLS TO AVOID

- Copy another region's investment strategy without adaptation to regional, social, and economic development needs
- Elaborate a vague investment strategy that doesn't clarify priorities
- Have disconnected budgeting and strategic planning processes
- Ignore the positive or negative impacts of public investments from one policy area to another
- Plan investments ad hoc and outside of a particular strategy

### Cross-sectoral co-ordination

At the national/federal level, has your country developed or strengthened any of these mechanisms as a means to better co-ordinate public investments strategies for regional development?



Note: Total country respondents: 27.

Source: OECD 2018 Monitoring Survey

## Principle 2.

# Adopt effective instruments for co-ordinating across national and subnational levels of government

### WHY IS IT IMPORTANT?

#### ■ To align objectives between the central and lower levels of government and bridge information, financing, and capacity gaps

When decisions are taken in silos the likelihood increases of investing in projects that may work at cross purposes or allocate resources to projects that do not necessarily meet local needs effectively. Collaboration for public investment strategies across levels of government is difficult, even in situations where the actors involved clearly recognise the need for it. Transaction costs, competitive pressures, resource constraints, 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.

#### ■ Building synergies across national and subnational governments to address multidimensional challenges

The effective implementation of investments to address the multidimensional challenges of climate change, urbanisation, demographic pressures, among others require concrete actions and partnerships to align policy objectives at all levels of government. It also requires alignment across different sectors, such as transport, housing, water and energy, and across different policy areas such as land-use planning. Subnational governments, for example, have an important role to play in mitigating and adapting to climate change. Implementing aligned climate policies requires pursuing a multi-stakeholder, multi-level methodology that combines both bottom-up and top-down approaches. Close co-ordination is needed to promote the contributions from and benefits to all people, places and firms.

#### ■ To gain insight into which actions work best, where to implement them and under what conditions

Governments, through dialogue and evidence-sharing, gain insight into which actions work best, where to implement them and under what conditions. However, the sole creation of co-ordination tools or institutions that facilitate structured dialogue do not necessarily ensure an effective co-ordination of objectives and actions. Transparency of the rules and their consequences, simplicity of the information shared, credibility, and cross-government commitment are important ingredients to encourage all parties to engage in a fruitful dialogue.

### THE PRINCIPLE IN ACTION

- Adherents have developed a broad set of co-ordination mechanisms: financial incentives, co-financing mechanisms, joint investment strategies, conditionalities, platforms of dialogue, partnership agreements, contractual arrangements.
- Co-financing arrangements and platforms for regular intergovernmental dialogue are two of the most popular governance instruments used by Adherents to co-ordinate interests vertically.
- From the subnational perspective, co-ordination with the national level is strongly challenging

#### Austria

The Federal Ministry of Science, Research and Economy of Austria set up a policy platform, “*Bundesländerdialog*”, for national and regional governments and agencies in this field to exchange information. This platform creates the basis for the ministries and the *Länder* to co-ordinate their policies more closely. In particular, important policy instruments for the National Strategy for Research, Technology and Innovation are identified and co-financed by the federal government and the *Länder*.

#### Australia

In Australia the independent statutory authority Infrastructure Australia works with states, territories, local governments, and the private sector on the basis of rigorous cost-benefit analysis to identify investment priorities and the policy and regulatory reforms necessary to enable timely and co-ordinated delivery of national infrastructure investment. It also advises Australian subnational governments on how to manage infrastructure gaps and bottlenecks that hinder economic growth.

## Luxembourg

Conventions of State-municipal territorial co-operation promote inter-municipal and multilevel co-operation to foster sustainable regional development, promote integrated planning and address specific development issues. Conventions facilitate the vertical co-operation between the State and municipalities with the aim of implementing the objectives established in territorial strategies, such as the Master Programme for Spatial Planning (PDAT), the Integrated Transport and Spatial Planning Concept (IVL) and the Global Strategy for Sustainable Mobility (MoDu).

## Portugal

The Territorial Co-ordination Council in Portugal is the political body to promote consultation and concertation between the Government and the different political institutions, at regional and local levels. Portugal has also recreated the High Council for Public works as a technical advisory body for the Central Governments on infrastructure investments in which are represented, among other entities, the Metropolitan Areas, the Territorial Coordination Council, and the Municipalities National Associations.

## Sweden

The National forum for Regional Growth and Attractiveness 2014-2020 brings together national and subnational (regional) governments. One part of the forum is for high-level politicians and one is for high-level civil servants. Both instances meet four times a year. The forum serves as a platform for ongoing political and strategic dialogue among national and regional representatives, for which the national strategy and the Regional Development Programmes are the starting points.

### POTENTIAL ACTIONS

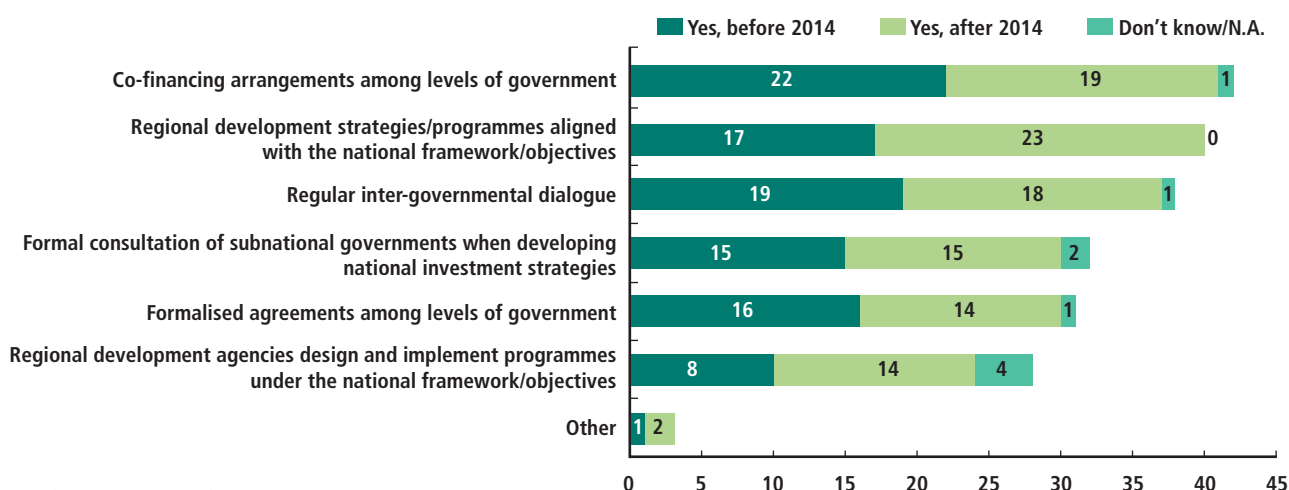
- Use contracts/formalised agreements between levels of government
- Develop co-financing arrangements between levels of government
- Formalise consultation of subnational governments in the development of national plans/strategies
- Share simple and credible information in a transparent and continuous way
- Ensure that subnational priorities are considered in the final national investment plans/strategies
- Establish platforms for regular inter-governmental dialogue throughout the entire investment cycle (from the design to the evaluation) and with cross-stakeholder involvement

### PITFALLS TO AVOID

- Underestimate the co-ordination challenges at stake during all stages of the investment cycle
- Engage in co-ordination with other levels of government too late in the investment decision-making process
- Involve co-ordination bodies without clear value added in the decision-making process
- Create a proliferation of inter-governmental contracts that are complicated to manage
- Focus on formal arrangements without considering their real effectiveness and the motivation of actors involved
- Underestimate the role of informal dialogues and social networks that favour cooperative relations

### Monitoring Survey – Vertical co-ordination

Across national and subnational governments, has your country developed or strengthened any of the mechanisms listed below to co-ordinate public investment for regional development?



Note: Total country respondents: 27.

Source: OECD 2018 Monitoring Survey



# Principle 3.

## Co-ordinate horizontally among subnational governments to invest at the relevant scale

### WHY IS IT IMPORTANT?

#### ■ To invest at the relevant scale

Joint actions for investments make it possible to reach a relevant scale and internalise positive or negative spillovers. Joint actions also enable the implementation of the complementary measures needed to make the most of investments. Horizontal coordination facilitates greater investment efficiency through economies of scale and enhances synergies among policies of neighbouring (or otherwise linked) subnational governments. This is typically the case for physical infrastructure investments where the most efficient scale often exceeds the administrative boundaries of individual regions or localities.

It is likely to be easier to encourage coordination around investments in basic infrastructure and service provision (e.g. water, sewage) and more difficult around “strategic” investments where subnational governments might find themselves competing to secure public facilities, to attract intergovernmental grants, or to attract private investment and qualified persons. Overcoming jurisdictional barriers requires the capacity to see and seize the opportunities, while garnering the necessary political support.

#### ■ To favour growth and productivity, especially in metropolitan areas

Co-ordination of investments and development policies is particularly relevant at the metropolitan scale where less fragmented governance structures can favour growth and productivity. For a given population size, a metropolitan area with twice the number of municipalities is associated with around 6% lower productivity, an effect that is mitigated by almost half when a governance body at the metropolitan level exists. Enhancing the co-operation and co-ordination for investments in public infrastructure or services at the metropolitan scale can also improve the quality of life and international competitiveness of large cities.

#### ■ To attract private investment

Reaching an efficient scale and viability for investment, in particular infrastructure investments, can become more attractive for private involvement, for example, in the form of PPPs.

### THE PRINCIPLE IN ACTION

- Adherents use different degrees of co-operation from “light” single or multi-purpose co-operative agreements to “strong” forms (supramunicipal authorities)
- Co-ordination of infrastructure investments projects across municipalities is a major challenge at the local level
- Adherents generally use incentives to enhance inter-municipal cooperation and networking, information sharing, and sometimes to help in the creation of joint authority entities
- Adherents are increasingly fostering co-operation across regions, provinces or states for public investments.
- Co-operation has been particularly encouraged at the metropolitan level
- Horizontal co-ordination has also been used by Adherents to attract private financing



#### European Union

For the next 2021-2027 programming period, EU Cohesion Policy will facilitate interregional and cross-border co-operation by empowering a region to use part of its own allocation to fund projects anywhere in Europe jointly with other regions. The new generation of interregional and cross-border co-operation (“Interreg”) programmes will help Member States overcome cross-border obstacles and develop joint services. The Commission proposes a new instrument for border regions and Member States eager to harmonise their legal frameworks: the European Cross-Border Mechanism.



#### France

France with more than 36 000 municipalities has about 2 145 inter-municipal structures with own-source tax revenues aimed at facilitating horizontal co-operation. 99.8% of municipalities are involved in them. Each grouping of municipalities constitutes a “public establishment for inter-municipal co-operation” (EPCI). The EPCIs assume limited, specialised, and exclusive powers transferred to them by member municipalities. They are governed by delegates of municipal councils and must be approved by the State to exist legally. To encourage municipalities to form an EPCI, the central government provides a basic grant plus an “inter-municipality grant” to preclude competition on tax rates among participating municipalities. EPCIs draw on budgetary contributions from member municipalities and/or their own tax revenues.



## Hungary

The 2012 Constitution states that sectoral laws may encourage municipalities to merge or co-operate. A threshold of 2 000 inhabitants is set for local administration to combine their administrative services.



## Slovenia

In Slovenia, inter-municipal co-operation has risen in recent years, in particular for projects that require a large number of users. In 2005, amendments to the Financing of Municipalities Act provided financial incentives for joint municipal administration by offering national co-financing arrangements: 50% of the joint management bodies' staff costs are reimbursed by the central government to the municipality during the next fiscal period. The most frequently performed tasks are inspection (waste management, roads, space, etc.), municipal warden service, physical planning and internal audit.



## Spain

The regional government of Galicia has encouraged economies of scale by improving the flexibility of for voluntary inter-municipal co-ordination arrangements while providing financial incentives to encourage them. Investment projects that involve several municipalities get priority for regional funds. "Soft" inter-municipal agreements tend to be popular in the water sector. Local co-operation is also being encouraged in the urban mobility plan for public transport, involving the seven largest cities in the region. The regional government also created the Metropolitan Area of Vigo, an association of 14 municipalities. Although the metropolitan area was defined by the regional government, it was based on a history of "light co-operation" among 12 municipalities (out of 14).



## Turkey

In Turkey, the Metropolitan Municipality Act was amended in 2012 to improve efficiency, and better integration of spatial development, co-ordination and quality of services through economies of scale in cities having more than 750 000 inhabitants. With the reform, the number of metropolitan municipalities has been increased from 16 to 30. Administrative boundaries of metropolitan municipalities have been extended to provincial boundaries (covering rural as well as urban areas).

### POTENTIAL ACTIONS

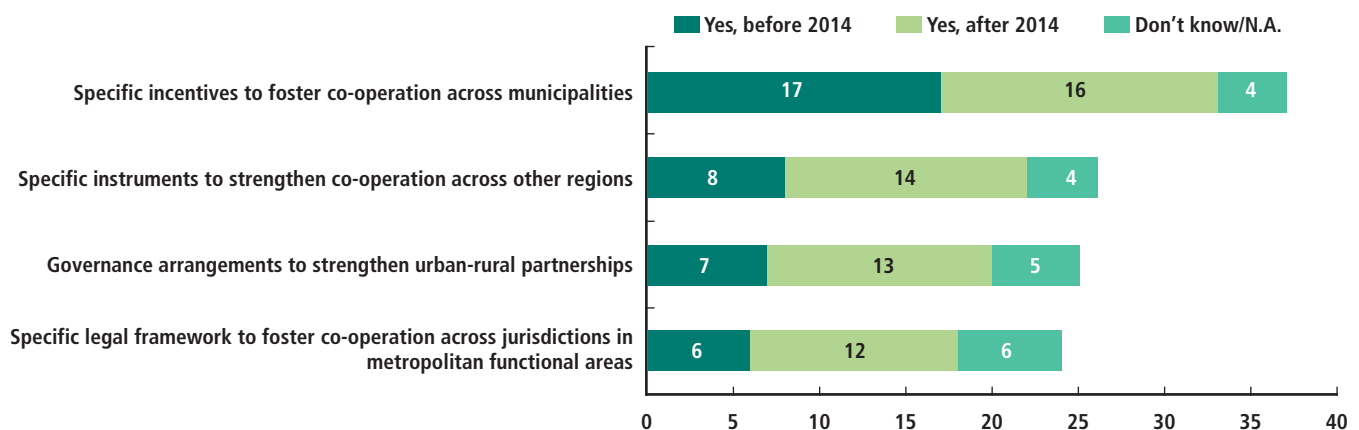
- Provide relevant incentives to enhance co-operation across jurisdictions through mergers or collaboration
- Develop adequate governance systems for metropolitan areas

### PITFALLS TO AVOID

- Invest without considering the investments in, or impacts on, neighbouring areas
- Create a mechanism for horizontal collaboration with duplicative functions for existing subnational governments
- Force collaboration where fiscal incentives are not aligned

### Monitoring Survey – Horizontal co-ordination

Horizontally across jurisdictions, has your country developed or strengthened any of the mechanisms listed below to co-ordinate public investment for regional development?



Note: Total country respondents: 27.

Source: OECD 2018 Monitoring Survey



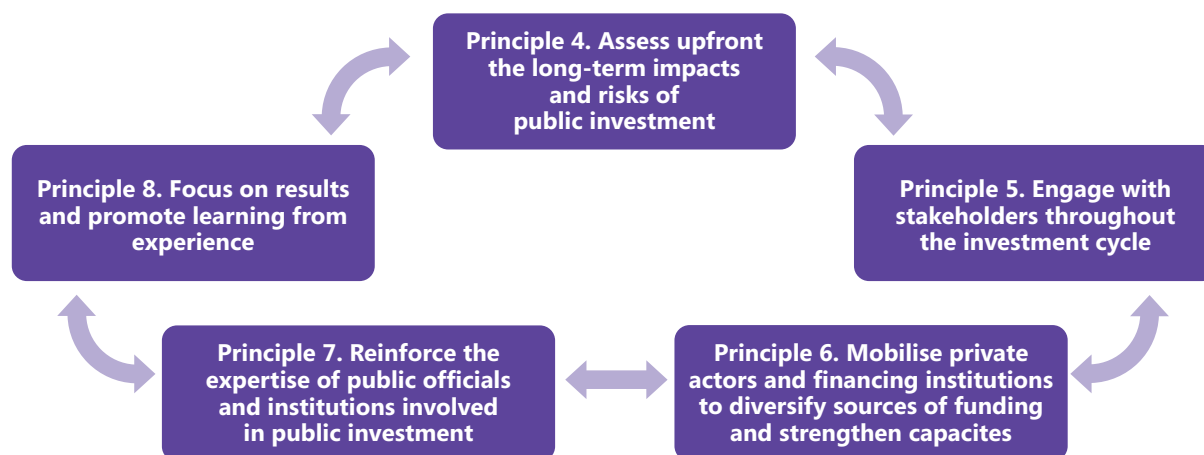


# Pillar 2. Strengthen capacities for public investment and promote learning across levels of government

## WHY SHOULD COUNTRIES STRENGTHEN CAPACITIES FOR PUBLIC INVESTMENT?

The low level of capacities to design and implement the right investment-mix, in particular at the subnational level, is probably one of the most important bottlenecks for effective public investment. Defining, structuring, implementing, operating and monitoring public investment requires a very diverse set of capacities. Investment projects may fail or engender significant waste or corruption if they lack adequate or sufficient capacities at all levels. This is particularly true for infrastructure investments for which the adequate capacities may help in ensuring value-for-money of projects, mobilising private sector resources, and improving the operation and maintenance of infrastructure investment in the long term.

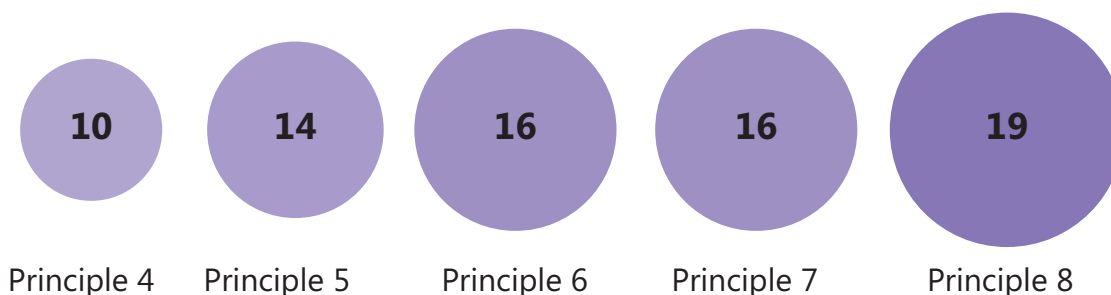
Capacity building goes beyond a narrow approach restricted to human resource management or workforce improvement activities. Capacities refer to the institutional arrangements, technical capabilities, economic resources and policy practices that affect public investment. They should be an enabler to achieve important goals at different stages of the investment cycle. Capacity building is also a “learning-by-doing” process in which national and subnational governments can acquire the needed capacities on a daily basis through practice. Building capacities is a long-term process that needs to be targeted to national and subnational governments, and requires continuous efforts from all levels of government.



## CAPACITY-BUILDING IN ACTION

- Stakeholder involvement throughout the investment cycle has improved, in particular the integration of the private sector’s perspective
- At the local level, especially in large cities, there is an increasing effort to involve civil society in the decision-making process
- Subnational governments still make little use of external financing options for public investment
- A majority of Adherents have established an indicator system to monitor and evaluate investments. Still, better performance could be achieved if monitoring and evaluation results were properly used
- Ex ante assessment of the long-term impact and risks of public investments is one of the weakest aspects of government capacity to make proper public investment decisions

### How many countries have reformed policies aligned with the Principles?



# Principle 4.

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

### WHY IS IT IMPORTANT?

#### ■ To ensure value for money and avoid investments that require unaffordable operation and maintenance costs

In a large number of cases, the root of the problem for the management of public investment is insufficient or weak planning: poor selection of projects, weak project appraisals which are often not based on sound data, and optimism bias (OECD, 2014[41]). The risk of investing in “white elephants” would be minimised if sound and rigorous ex ante evaluations take place. It is by assessing upfront the investments to be made that it is possible to ensure the value for money of an infrastructure project and avoid investments that result in excess capacity (e.g. underused highways, ports, or airports), or projects that require unaffordable operation and maintenance costs or never get completed.

#### ■ To identify social, environmental and economic impacts of investment projects

While the world is struggling with environmental consequences of policy and investment decisions taken in the past, it is primordial that the decisions taken today minimise future detrimental social and environmental impacts. Indeed, rigorous ex ante appraisals must be carried out to identify social, environmental and economic impacts while at the same time assessing which investment method is likely to yield the best value for money. Those evaluations need to integrate an assessment of all the different types of risk associated with public investment: not only fiscal risks but also financial, political, social and environmental risks in the short and long terms.

#### ■ To effectively prioritise projects across levels of governments

Project prioritisation is at the core of investment efficiency. In some cases, ex ante appraisals need to be conducted at the central level. Regions, cities or local governments do not always have the necessary information, the institutional capacity or the technical know-how to undertake this complex task. This is true for example, when a calculation of environmental costs and benefits is needed. Local governments also may lack the information and knowledge to carry out risk analysis, such as on exogenous macroeconomic developments or political factors.

### THE PRINCIPLE IN ACTION

- Ex ante appraisals are strongly challenging for both, the national and the subnational levels
- At the subnational level, the real use of ex ante evaluations remains limited



Canada has gradually deployed increasingly sophisticated forms of assessment, analysis, training and tools to improve the inclusivity and overall performance of federal programming. This effort includes a broad definition of inclusivity that considers the intersectionality of many of these issues including for differential impacts across regions. Training is provided to federal staff to support their work in this area.



Italy has a new planning procedure to ensure more efficient and effective infrastructure spending. This new national planning process explicitly includes economic project appraisal. The process is made transparent and verifiable and the decision-making criteria (both quantitative and qualitative) are explicit. Expenditure Departments must prepare sectoral appraisal guidelines to define standard procedures for project appraisal in different investment sectors (mobility, energy, water management, etc.). The Programming, Evaluation and Analysis Unit (NUVAP) is responsible for providing methodological support to public administrations at all levels, defining national standards for the evaluation of the economic and financial aspects of projects and spreading best practices among the National Evaluation System.



In late 2013, the Public Spending Code was launched by the Department of Public Expenditure and Reform, with an objective to ensure a comprehensive and uniform approach to project appraisal and evaluation for all government departments and agencies. For projects over EUR 5 million, a Sponsoring Agency will first undertake a preliminary appraisal. This Agency can be a central government department, a local authority, health agency, university or other public body according to the project.



## Portugal

The Portuguese Strategic Environmental Assessment (SEA) is an instrument that systematically analyses the significant environmental effects of plans, programmes and policies during the drafting process and before they are approved. As an instrument for assessing impacts of a strategic nature, its general objective is to help environmental integration and the evaluation of opportunities and risks of actions in the context of sustainable development. It allows stakeholders to evaluate and compare alternative development options, while these are still in the design phase. The evaluation thus places particular emphasis on the identification of drivers of positive opportunities or impacts, while also identifying the risks or negative impacts that may be associated with the proposals, so that they can be avoided or mitigated.



## United Kingdom

In 2018, the United Kingdom updated the 2003 version of central government guidance on appraisal and evaluation (“The Green Book”). The new version includes supplementary guidance and recommendations for subnational governments and local authorities to adjust the approaches of distributional analysis and cost/benefit analysis according to local needs and their own capacity.

### POTENTIAL ACTIONS

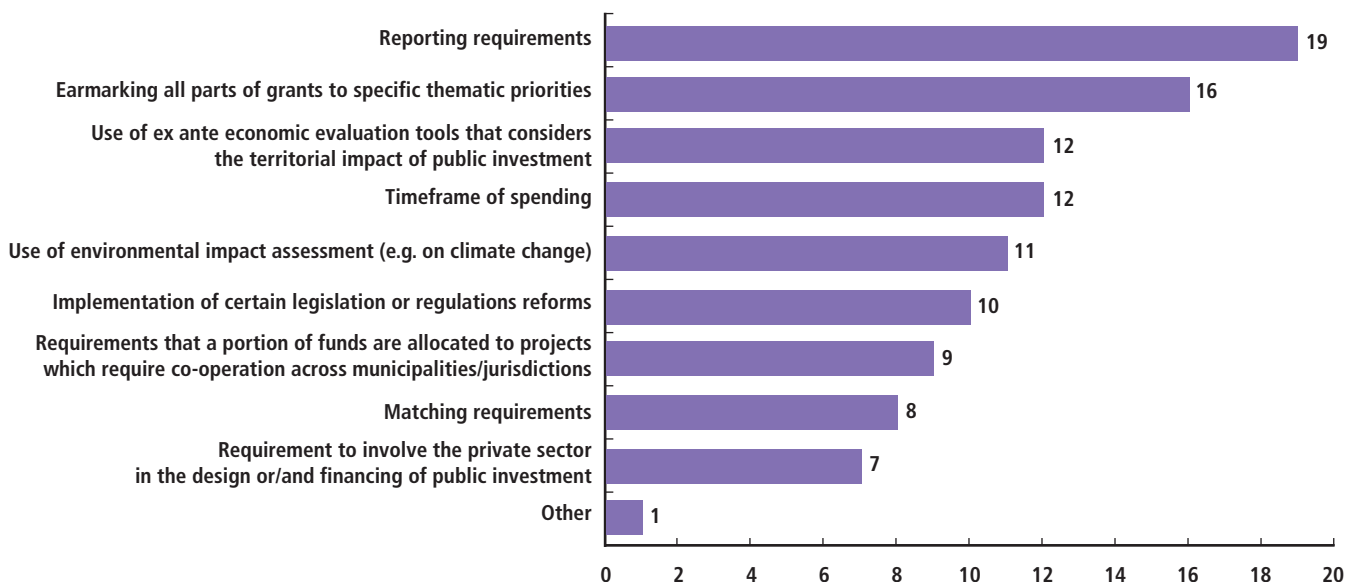
- Use technically sound appraisals, with more rigorous assessment for larger or risky projects
- Communicate the appraisal results and make the information easily accessible by all stakeholders and levels of government
- Use independent evaluation institutions to enhance credibility, trust, and enforcement
- Circulate guidelines for project appraisal at all levels of government

### PITFALLS TO AVOID

- Focus on the cashflow projections only, ignoring other economic, environmental and social costs or benefits
- Ignore new information that changes the investment approach after a decision has been made
- Under-assess alternatives to investment

### Monitoring Survey– Performance of public investments

Has your country developed or strengthened any of the mechanisms listed below to encourage the effective performance of public investment for regional development?



Note: Total number of respondents: 27.

Source: OECD 2018 Monitoring Survey.

## Principle 5.

# Engage with stakeholders throughout the investment cycle

### WHY IS IT IMPORTANT?

#### ■ To align objectives and improve the quality of the projects

Public, private and civil society actors all have a stake in (and a critical role to play in) developing a vision and strategy for the economic future of a region or locality. All levels of government should involve stakeholders in priority-setting and needs assessment at early stages of the investment cycle, in addition to feedback and evaluation at later stages.

Involving stakeholders can also help in improving the quality of the projects by better assessing investment needs and the environmental and social sustainability of the project. Governments can use participation as a means not only to understand public opinion, but also to challenge it, helping better inform and shape preferences. Well-managed consultation may also help to limit corruption, capture, and mismanagement, in particular for big and complex infrastructure projects.

#### ■ To gain legitimacy, generate ownership, and strengthen trust in government

It is through a fruitful dialogue with relevant stakeholders that investment projects can gain legitimacy by aligning objectives and putting on the table the needs and expectations of different relevant actors. Stakeholder involvement may improve legitimacy, strengthen trust in government, and cultivate support and buy-in for specific investment projects. By involving stakeholders in the decision-making process, governments at all levels can also generate ownership and a sense of fairness. This, in turn, encourages stakeholder engagement. In the end, if conditions are met and the quality of the relationship is good, early stakeholder engagement can be a two-way virtuous circle enabling better policy and investments outputs and outcomes in the long term.

#### ■ To prevent capture by special interest groups

Governments should also take steps to prevent “capture” by special interest groups, such as seeking balance when incorporating stakeholder views, ensuring consultation processes are inclusive, open and transparent, and promoting transparency and integrity in lobbying.

### THE PRINCIPLE IN ACTION

- National and subnational governments are increasingly considering the private sector in priority-setting
- Large number of adherents have formalised consultation processes at the national level
- At the subnational level stakeholder involvement is particularly challenging
- Cities are increasingly adopting participatory budgeting



#### Australia

The Australian Government, alongside state and local governments, funds 52 Regional Development Australia (RDA) Committees, representing all regions across the country. These Committees are made up of local leaders who work with all levels of government, business and community groups to support the development of their regions. In particular, RDAs are focused on connecting local businesses to industry in order to create more jobs and attract more local investment.



#### Korea

The 2030 Seoul Plan is an integrated plan for urban development in the Seoul Metropolitan City area over 2010-2030, which ensures citizen engagement at each step of planning. Citizens, experts, and other interested parties were involved in formulation of the 2030 Seoul Plan in an open and transparent manner. The “2030 Seoul Plan Development Committee” was founded to establish the plan within a collaborative network and framework of citizens, experts, administrators, and other stakeholders. The committee was comprised of the Seoul Plan Citizens’ Group that shapes the vision, and of sub-committees that help develop the plans for key issues.



#### Latvia

Latvia has developed a Regional development coordination council that involves private sector players as well as representatives from Employers’ Confederation of Latvia and Latvian Chamber of Commerce and Industry.



## Netherlands

In the Netherlands, many urban regions have set up “Economic Boards”, which consist of a triple-helix co-operation between subnational governments, knowledge institutes (e.g. universities) and the private sector. Economic Boards generally aim to spur development of a region by stimulating innovation and connecting this to the regional job market, development of economically strong sectors in a region and its knowledge hubs.



## Poland

The Poland’s Regional Social Dialogue Councils include the voivodeship marshal, representatives of trade unions, representatives of employers’ organisations and the province’s governor. Their task is to conduct social dialogue on the regional level, which embraces co-operation of representatives of employees, employers as well as local government and governmental authorities (marshal, governor). Representatives can provide opinions on the projects of the voivodeship development strategy and other programs, recommended solutions and proposals for legal changes, among others.



## United Kingdom

The private sector is represented in Local Enterprise Partnerships (LEP) which are voluntary partnerships between local authorities and businesses across a functional economic area. They have a private sector chair and involve local authorities and the voluntary and community sector. A national LEP assurance framework, which guides local decision making to support accountability, transparency and value for money, was created in November 2016. LEPs were the subject of a review of their governance and transparency in 2017. In January 2018 a best practice guidance on LEP governance and transparency was published to support LEPs in meeting the recommendations made by the review.

### POTENTIAL ACTIONS

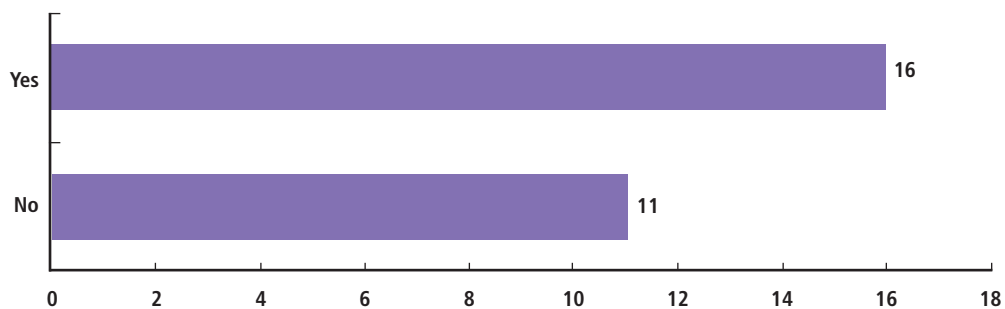
- Develop and implement a stakeholder engagement plan
- Make investment information publicly available in a timely, visible and simple way
- Ensure engagement procedures are transparent and consistent with the OECD Principles for Transparency and Integrity in Lobbying
- Develop formal fora to encourage dialogue and build trust by focusing on the simplicity of the information and feedback communicated
- Ensure transparency on the purpose of the process and whether it is for information or consultation
- Report back to citizens on how their contribution has been integrated
- Share clear and understandable information to all stakeholders involved

### PITFALLS TO AVOID

- Disappoint residents if engagement process poorly managed
- Involve stakeholders too late in the investment project
- Involve only a limited set of stakeholders
- Consult on issues that are not negotiable

### Monitoring Survey– Private sector involvement

Does your country have any specific mechanisms to engage private sector representatives in identifying the priorities of public investment for regional development?



Note: Total number of respondents: 27.  
Source: OECD 2018 Monitoring Survey.



## Principle 6.

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

### WHY IS IT IMPORTANT?

#### ■ To help narrow the investment gap, especially in response to megatrends

Public sources of funding are insufficient to cover investment needs. Diversification to external sources of financing, mobilising the private sector and institutional investors, is vital to fill the estimated investment gap at all levels of governments. While private financing complements traditional ways of funding, governments need to ensure their capacity to access and utilise intergovernmental transfers, maximise own revenue for investment, and maintain adequate financial management to ensure access to credit or borrowing.

#### ■ To benefit from private sector's expertise

Involving private actors and financing institutions in investment projects is also a way to strengthen the capacity of government at different levels and bring expertise to projects through better ex-ante assessment and improved analysis of the market and credit risks. It may also facilitate economies of scale and cost-effectiveness. The private sector may also contribute to important cost savings through innovations in project design and technological and managerial efficiencies.

#### ■ To develop public-private partnerships at the sub-national level, with careful consideration of the risks involved

Public-private partnerships (PPPs) at the subnational level may help to narrow the investment gap, especially when subnational governments face tight borrowing constraints. Well-designed PPPs have the potential to offer governments greater value for money than traditional procurement. By bundling the responsibility for the initial capital investment with future maintenance and operating costs, PPPs provide incentives for the firm to minimise costs over the project's lifetime, including by potentially keeping a check on "white elephant" projects. However, PPPs work better in larger jurisdictions, which have robust fiscal and institutional capacities. During the budget process, proper accounting and disclosure of all costs, guarantees and other contingent liabilities related to PPPs should be given special attention.

### THE PRINCIPLE IN ACTION

- At the subnational level, limited capacities represent the most important bottleneck to optimising private financing
- The issuance of bonds, PPPs, joint borrowing in capital markets or other innovative financing instruments such as green bonds and social bonds, remains very limited at the subnational level
- Complex regulatory frameworks limit the use of borrowing by subnational governments
- For SNGS, access to financing is often primarily limited to the credit market (loans), not extending to the capital markets (bonds).
- Increasing issuance of green bonds to fund projects that have positive environmental and/or climate benefits or social bonds to finance socially responsible investment



In 2017, Canada created the Infrastructure Bank, a new federal crown corporation that uses federal support to attract private sector and institutional investment in new revenue-generating infrastructure projects. The Bank funding may be accessed by all levels of government – federal, provincial, territorial, municipal and Indigenous governments – and the private sector. Projects supported by the Bank are decided by an independent board of directors drawn in large part from the private sector.



Federal states may call upon the services of Partnerships Germany, an independent PPP unit. Connecting the units at the federal state level, a federal expertise network (Föderales PPP Netzwerk) exists between the federal government, federal states and municipalities. It helps facilitate reciprocal vertical and horizontal knowledge transfers.



In 2015, Seoul launched the Energy Welfare Public-Private Partnership Programme to increase the energy independence of energy-poor households. The programme operates with an innovative and sustainable financing method to ensure its long-term sustainability. This includes public funding from the city government for energy-efficiency building retrofits for low-income households, as well as the training of energy consultants. The programme also receives private funding from the Energy Welfare Civic Fund, into which citizens and businesses can make

monetary and in-kind contributions. Contributions can come from savings earned through the Eco-mileage programme or the innovative “virtual power plant,” through which 17 municipal buildings and 16 universities save electricity consumption during peak hours and donate profits towards the Fund.



### Mexico

Mexico City issued the first municipal green bond in 2016 for USD 50 million. A second “sustainability” bond was issued for USD 105 million, which focused on green and social investments. The city prioritises water infrastructure, energy efficiency, and public transport projects in its issuance of green bond projects. In terms of water infrastructure, the city aims to upgrade and repair pipes to address water leakage, inadequate piping, and increase drinking water access. In the districts of Iztapalapa and Tláhuac, which have both received green bond infrastructure investments, over one-third of the population lives in poverty. The city is also investing in potable water wells and wastewater management.



### Poland

The Ministry of Investment and Economic Development supports public entities by providing complex advisory services for select PPP projects that are still in the pipeline. This support ranges from advisory services provided by internal experts to funding of legal, financial and technical external experts from leading international companies. The aim is not only to assist on a particular PPP project, but also to prepare on this basis a standard documentation and the best practices for similar cases in the future. The Ministry of Investment and Economic Development is also preparing guidelines for the preparation of PPP projects, tender procedure, and contract templates. The aim is to publish and disseminate the guidelines in order to help the public entities in such activities.



### United Kingdom

From the outset of the Private Finance Initiative (PFI) programme, the United Kingdom has been active in trying to build and reinforce public sector capacity to effectively engage with the private sector. Its primary focus has been on PPP units

and other institutional structures in order to strengthen government capacity for PPPs, reinforce project scrutiny and to provide financial resources to local governments to access technical support. The use of standardised contract documents has helped the UK to attenuate some of the risks presented by the complexity of PPP contracts and the administrative capacity constraints of the public sector.

**POTENTIAL ACTIONS**

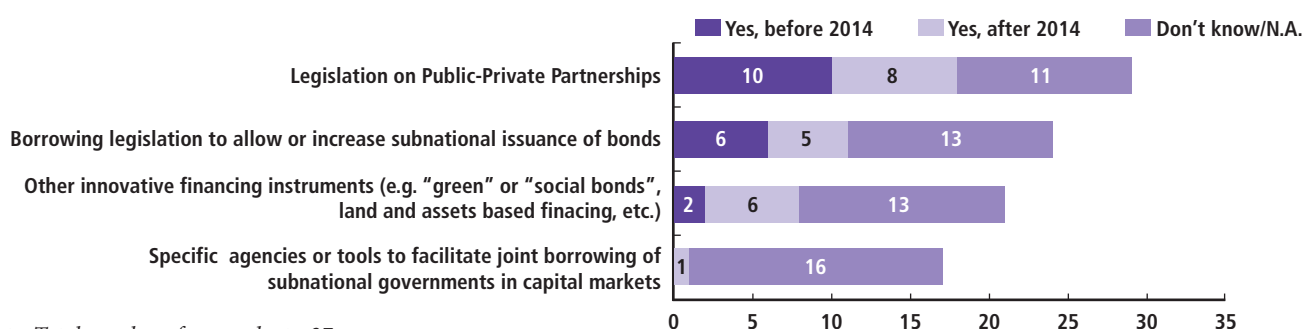
- Create specific agencies for joint borrowing (municipal bond banks)
- Mutualise capital funding or guarantee funds to facilitate access to finance
- Use PPPs with strong care of potential adverse effects and be consistent with OECD recommendations on the Governance of Public Private Partnerships
- Base decisions about PPPs on value for money compared to traditional procurement
- Properly account for and disclose all costs, guarantees and other contingent liabilities of PPPs in budget documents
- Ensure financing arrangements reflect capacities for effective public investment management at subnational level (in particular small jurisdictions), with bottlenecks identified and clear guidance on steps to address them
- Allow borrowing in the credit and capital markets for environmentally- and socially-related subnational investments
- Establish PPP units at the subnational level
- Ensure national assistance/support for subnational governments for the management of PPP projects

**PITFALLS TO AVOID**

- Develop sophisticated financial arrangements, with no guidance for subnational governments which will not be able to use them
- Use PPP as a way to hide bad financial health off balance sheet
- Mobilise private actors for just financing and not for contributing expertise
- Use PPPs for small-scale projects

## Question 9 Monitoring Survey – Mobilisation of private actors and financing institutions

Among private actors and financing institutions, has your country developed or strengthened any of the mechanisms listed below at the subnational level to mobilise them in public investment for regional development?



Note: Total number of respondents: 27.

Source: OECD 2018 Monitoring Survey.

## Principle 7.

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

### WHY IS IT IMPORTANT?

#### ■ To address the increasingly complex tasks linked to public investment.

In order to design and implement effective public investment strategies, governments at all levels need public sector employees and organisations to have substantial professional and technical skills. Beyond the technical capabilities, policy makers also need skills to consult, negotiate and co-ordinate with different levels of government as well as with nongovernmental partners. Moreover, to face the new mega challenges, public workers will need to develop new competencies and more networking-type skills in order to use complex and innovative financing sources for public investment.

#### ■ To develop institutional capacity and professional skills for better investment decisions, in particular in small subnational governments.

The capacity of local governments to undertake investment projects varies greatly within countries and the capacity gap between rural localities and large metropolitan areas can be substantial. Large regions, particularly those that are more autonomous and have big staffs, can tap into a diverse range of professional skills. The same is not necessarily true for small regions, municipalities, newly created regions, or where decentralisation reforms have outpaced improvements in administrative capacity.

The mobilisation of private actors and the need to resort to different funding mechanisms require a set of particular skills. The technical demands to design PPP projects are substantial. Administrators need to understand the pros and cons of PPPs and evaluate if and how to integrate their use into development plans. They also need the technical skills to evaluate and work with potential private partners, assess and assign risk, design a contract, and monitor (and respond to) project implementation.

### THE PRINCIPLE IN ACTION

- The lack of appropriate skills is one of the main barriers for public investment, in particular at the subnational level
- A majority of Adherents have in place some mechanism to strengthen the technical skills of policy makers
- Adherents have adopted new IT tools or joint e-government platforms to narrow the gaps in capacity across regions or localities and facilitate peer learning
- Responsibilities for capacity building at the national level are often unclear



#### Chile

The National Investment System (SNI) offers specialised training courses on formulation and evaluation of public investment projects for national and subnational officials. It has a dedicated module on field training and regional workshops for entities in charge of preparing investment initiatives (i.e. mainly municipalities and other public services at the local level). The objective is to develop the appropriate competencies of subnational civil servants in the design and preparation of investment projects, as well as in the methodologies of social evaluation. The training sessions take place in the municipalities and are organised by investment analysts from the Regional Office of the Ministry of Social Development in each region. The timing is defined by the Regional Co-ordinator of Training with the Investment Co-ordinator from the Regional Office. Training sessions are designed for a group of two to eleven people.



#### Colombia

In 2017, the National Planning Department (DNP) created a new unit aiming to strengthen territorial institutional capacity and articulating the capacity building offer. For this, the DNP is developing several tools: (i) the planning and public investment network to build capacities and reinforce a vertical and horizontal dialogue between the national government and subnational governments; (ii) Identification, systematisation, dissemination and exchange of best practices on public investment management; (iii) Compilation and design of the portfolio offer of the DNP regarding planning and public investment management; (iv) Technical assistance for capacity building in subnational governments.





### Estonia

Estonia has carried out several studies examining local governance capacity since 2008. These studies incorporated indices to measure institutional capacity, financial capacity and ability to provide public services at the local government level.



### Latvia

Latvia is designing integrated development strategies at regional and local levels based on needs assessment and competitive advantages. To promote realistic and result oriented strategies with clearly defined goals, measures and achievable results at regional and local level, specific Methodological Guidelines have been developed and widely used among regions and municipalities.



### Morocco

In Morocco, the Agency for the Promotion and Development of the North (APDN) liaises between the various public and private operators, according to a partnership approach. Today, the APDN offers operational expertise in setting up and managing development programmes and projects for its partners. This approach involves various professionals aiming to develop a wide scope of intervention: mobilizing funds for vulnerable populations, listening to local initiatives and supporting local capacity building, stimulating civil society, consolidate interventions of development actors in integrated programs, among others.



### Slovak Republic

In 2012, the Slovak Republic launched the ESO (Efficient, Reliable and Open) public administration reform programme. Reforms introduced in 2012 and 2013 included streamlining the deconcentrated state government administration by consolidating numerous specialised offices into 72 district offices. The ESO Programme includes reforms intended to strengthen human resource management as well as the capacities of seven analytical centres attached to economic and social ministries. Public administration capacity building is also the target of a single Operational Programme for the 2014-20 programming period.

## POTENTIAL ACTIONS

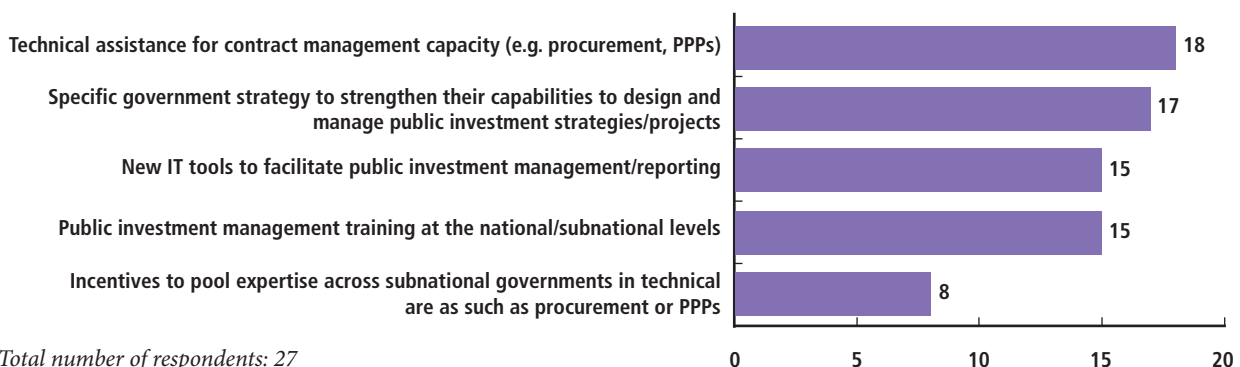
- Pool expertise across jurisdictions in areas of needed expertise (e.g. PPP, procurement, regional development agencies)
- Use common e-government platforms to narrow gaps in capacity across regions or localities and facilitate peer learning
- Identify subnational governments/regions with the highest capacity challenges
- Accompany decentralisation reforms with policies to strengthen subnational capacities for investment
- Distribute guidance documents in areas such as planning, project appraisal, procurement, or monitoring and evaluation
- Adopt open, merit-based and competitive hiring practices for areas where technical expertise is needed
- Develop a permanent, comprehensive and articulated training and technical assistance system targeted to local needs.
- Establish partnerships with universities, technical consultants, quasi-public agencies, in particular for sophisticated projects, such a “mega-projects” or projects with network characteristics
- Establish the conditions to facilitate a “learning-by-doing” process

## PITFALLS TO AVOID

- Recreate needed expertise in every jurisdiction, regardless of scale and cost effectiveness
- Outsource all competencies resulting in a minimum level of in-house skills
- Have high turnover of staff in teams involved in public investment
- Provide uniform training to different subnational governments which face different and specific challenges

### Monitoring Survey – Capacity building

Has your country introduced the policies/mechanisms listed below to reinforce the skills and capacities of national and subnational public officials and institutions to better support public investment for regional development?



Note: Total number of respondents: 27

Source: OECD 2018 Monitoring Survey

## Principle 8.

### Focus on results and promote learning from experience

#### WHY IS IT IMPORTANT?

##### ■ To focus on investment outcome goals and pursue them throughout the investment cycle at all levels of government

Governments need to develop a results-oriented public investment strategy that focuses on the performance of investments throughout the entire cycle. Evaluation and monitoring criteria need to be defined in the early stages of the policy design to allocate the resources needed and produce the appropriate data for this purpose. This is especially true today, as governments need to be more agile in their response to the megatrends and their associated risks and impacts.

##### ■ To monitor the implementation progress of projects

Focusing on performance through monitoring and evaluation mechanisms, including a clear indicators system, improves the efficiency and effectiveness of public investment at different stages of the investment cycle. It does so by linking policy objectives and outcomes and revealing information throughout the investment cycle that should feed into decisions regarding investment in subsequent stages. Yet, setting evaluation standards and using their results in future interventions is not always easy. Beyond the capacity needs it involves, policy monitoring and evaluation imply additional costs that need to be balanced with the need to pursue effectiveness.

##### ■ To adjust to evolving priorities and contexts throughout the investment implementation

#### THE PRINCIPLE IN ACTION

- More than half of Adherents have an independent institution at the national level that carries out ex-post evaluations and provides guidance or specific incentives for regions to develop their own performance system
- Adherents are increasingly adopting key national indicators, an overarching framework of higher level strategic goals
- The use/impact of performance evaluations remains limited
- Adherents are increasingly disseminating the monitoring and evaluation results making them available and comparable between entities and subnational governments



#### Ireland

The annual report of the Oversight and Audit Commission compares the performance of local authorities. One of the main tasks assigned to the commission is to scrutinise the performance of local government bodies against relevant indicators, including customer services. It is hoped that the published data will cause local authorities to critically review their performance relative to other comparable authorities, make improvements where the data indicate that their performance is not as good as it should be and highlight best practices so that local authorities can learn from each other for the betterment of the services that they provide to their communities.



#### Norway

Norway's KOSTRA system is an electronic reporting system for municipalities and counties. It can publish input and output indicators on local public services and finances and provide online publication of municipal priorities, productivity and needs. KOSTRA integrates information from local government accounts, service statistics and population statistics. It includes indicators of production, service coverage, needs, quality and efficiency. The information is easily accessible via the Internet and facilitates detailed comparison of the performance of local governments. KOSTRA data is frequently used by the local government themselves and by the media and researchers. Although individual local governments could use KOSTRA more efficiently (e.g. by systematic benchmarking), the system has helped facilitate comparisons of municipalities thereby promoting "bench-learning".



## Portugal

Portugal has developed the Regional Development Composite Index (ISDR) to monitor regional development and inform in a simple manner both citizens and policymakers about the progress achieved with regard to development. The ISDR relies on a conceptual framework that benefits from a broad view of development that encompasses competitiveness, cohesion and environmental quality. The ISDR has been issued on an annual basis since 2010 by the Portuguese National Statistical System. The local finance law establishes that central government grants to associations of municipalities depend on the regional performance as captured by ISDR.



## Turkey

In Turkey, the regional development agencies (RDAs) have designed “Results Oriented Programmes” since 2017. These medium-term programmes include measurable outcome and output targets in line with the Regional Plans, based on qualified analytics, prepared in collaboration with the relevant institutions, including sub-programmes, projects and activities aimed at achieving development results in a specific sector or theme with a view to achieving strategically defined development objectives.



## United States

In an effort to improve the focus on outcomes and to strengthen accountability for performance of the agencies of the federal government, the Government Performance and Results Act requires agencies to identify a small number of priority goals. A performance report is submitted annually to Congress and made publicly available on line.

## POTENTIAL ACTIONS

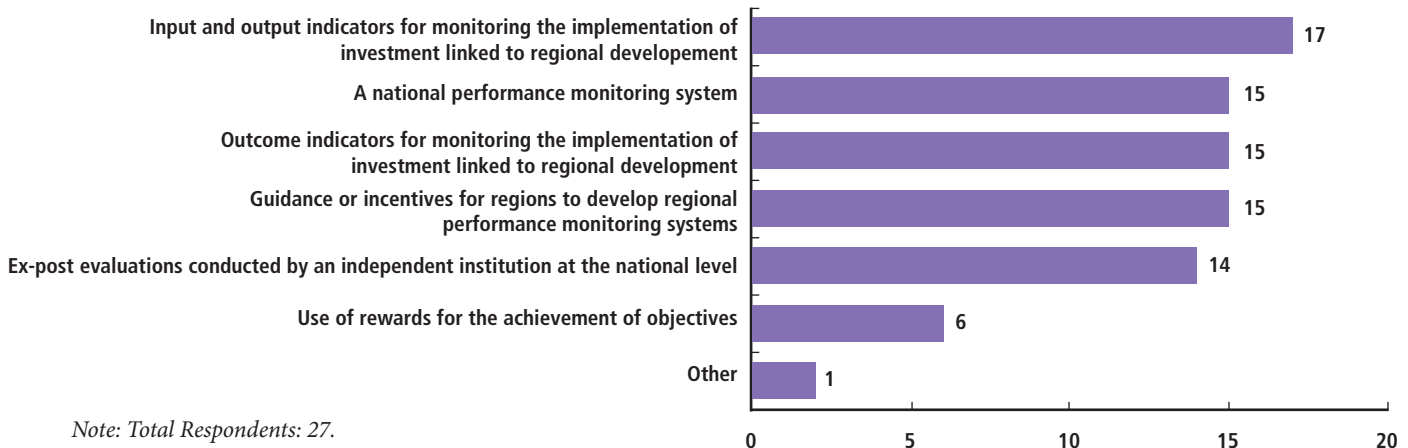
- Use monitoring systems to track performance, emphasising progress toward outcomes
- Develop indicators that are relevant (linked to national and regional objectives), valid (measure the constructs of interest), reliable, and useful (provide actionable information for administrators and policy makers)
- Establish a manageable set of common indicators for subnational reporting and develop “bench learning” practices among SNGs
- Require and/or co-finance ex post evaluations
- Release reports comparing different regions, agencies, service providers to encourage performance
- Attach explicit rewards and sanctions to stimulate effort by regional policy actors where specific performance objectives are to be met
- Establish clear, known and measurable relationships between inputs, outputs, and outcomes to manage accountability chains
- Limit the number of indicators to better capture performance that is under the control of the actor in the timeframe being measured
- Ensure consistency on the evaluation timeframe as the impacts are often only visible in the long term

## PITFALLS TO AVOID

- Require subnational governments to report back on too many different indicators and focus excessively on output indicators that can lead to an indicator-driven policy-making
- Change indicators constantly, not allowing subsequent evaluation and effective learning processes
- Gaming indicator systems and thus not achieving the desired outcomes

### Monitoring Survey – Results-oriented investment strategy

Has your country developed or strengthened any of the mechanisms listed below to promote a results-oriented public investment strategy?



Note: Total Respondents: 27.

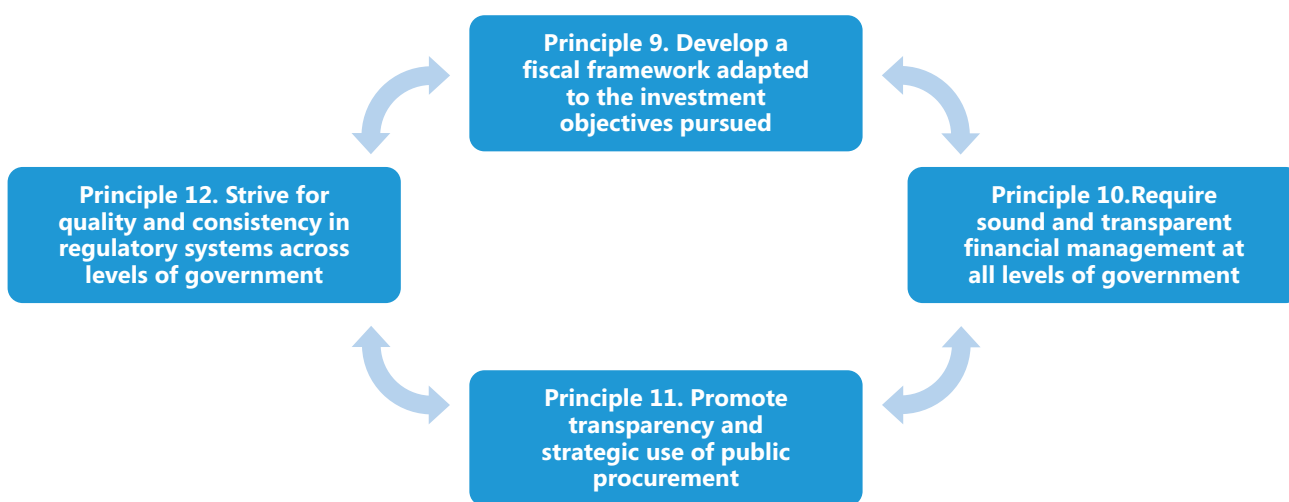
Source: OECD 2018 Monitoring Survey.



# Pillar 3. Ensure sound framework conditions at all levels of government

## WHY DO FRAMEWORK CONDITIONS MATTER?

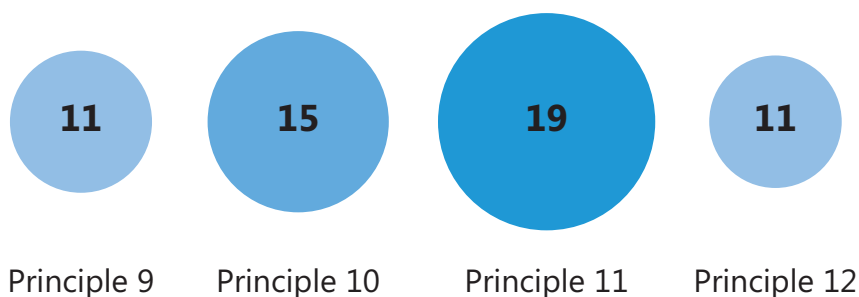
Challenges related to framework conditions may arise from poorly designed budgetary, procurement or regulatory practices. These practices may not be consistent across levels of governments, or even within a single level of government. In particular, local fiscal arrangements are a key determinant of local public investments. The level and stability of capital transfers received by subnational governments from national or supra-national bodies have a direct impact on their levels of capital expenditure. The stability of the local fiscal framework is also crucial in order to plan for future expenses generated by investments (such as maintenance) and reduce uncertainty. Regulatory frameworks across levels of governments should be consistent and stable, with no divergent, overlapping or contradictory regulations. Mechanisms to co-ordinate regulatory policies across levels of government (mutual recognition policies among governments, regulatory harmonisation agreements, etc.) can help facilitate the development of a coherent regulatory framework.



## FRAMEWORK CONDITIONS IN ACTION

- Adherents have made important advances in increasing budgeting transparency at the national level through web portals, tablet apps and other communication tools such as “citizens’ budgets”
- Adherents are increasingly adopting measures to make public procurement more efficient through the simplification of procedures or the use of strategic procurement
- Increasing recognition of the need to minimise the administrative burden associated with public investment projects
- Stronger efforts are needed to develop a multi-year approach to investment by connecting planning and budgeting frameworks

### How many countries have reformed policies aligned with the Principles?



# Principle 9.

## Develop a fiscal framework adapted to the investment objectives pursued

### WHY IS IT IMPORTANT?

#### ■ To ensure subnational government's financial capacity to invest through appropriate intergovernmental fiscal arrangements

Appropriate intergovernmental fiscal arrangements determine to a large extent, subnational government's financial capacity to invest. Local governments often have rigid budgetary arrangements and reduced financial room for manoeuvre. This reduces the space for subnational governments to invest and strongly constrains the free exercise of local powers and their accountability.

#### ■ To encourage subnational governments to play an active role in investment and development

As main drivers of public investment, subnational governments need to play an active role in exploiting their own revenue-raising potential to finance investment, to ensure financing for long-term operations and maintenance, and to participate in co-financing arrangements.

Adjusting budgetary and fiscal frameworks according to the institutional context and the variety of local situations or capacities should help to modernise and make local governments more efficient and responsible. Reforms in this area should ensure greater transparency of municipal functioning, reinforce local elected representatives' responsibility and accountability and guarantee fiscal sustainability of public investment.

#### ■ To develop a robust budgetary framework to respond effectively to pressing megatrends

To respond to urgent megatrends, a robust budgetary framework should be in place to meet the diversity of local needs and associated challenges. For example, the ageing population and the upward trend in long-term healthcare spending put strong pressure on public funds at the national and subnational level.

#### ■ To co-ordinate investments and align priorities

Choices regarding subnational transfers, own revenues and borrowing should also be determined by the need of aligning policy objectives. Co-financing schemes should be more than a way for subnational governments to secure funds. They can help to ensure the commitment of different actors to the success of a project and create collective ownership; to align investment priorities across levels of government; or to encourage subnational authorities to engage in projects with positive spillover effects or to pool resources with neighbours.

#### ■ To better connect planning and budgeting frameworks

Governments should also better connect planning and budgeting frameworks, to have a multi-year approach to investment. Public investment plans need to be accurately costed, including the operating and maintenance costs – which are often underestimated during the planning and budgeting stages. The lack of discipline around costing and budgeting undermines a government's capacity to prioritise its investment programme, and can lead to chronic underfunding of individual investment projects. Fitting public investment plans into a medium-term budget framework helps provide visibility regarding resource availability and predictability, particularly for long-term projects, which may need to survive changes of government.

### THE PRINCIPLE IN ACTION

- Countries that have implemented decentralisation reforms have done so together with local finance reforms
- Following the crisis, many OECD countries have tightened their fiscal rules at all levels of government
- Several countries are reforming central governments' transfers to subnational governments often modifying horizontal or vertical equalisation mechanisms to address territorial inequalities



The Co-operation Agreement reached in December 2013 between the federal government, communities and regions for implementing the Treaty on Stability, Co-ordination and Governance requires the general government budget to be balanced; individual targets in nominal and structural terms for central and local authorities will be defined.





### Iceland

The Parliament passed an act on local governments in September 2011, which includes two main fiscal rules on local government finances. The first is a balancing rule for current operations of local governments, obliging them to balance revenues and expenditures over a three-year period. The second is a debt rule that limits the total debt and liabilities of local governments to 150% of total revenue. Local governments with debt and liabilities above 150% are required to bring the debt ratio under this benchmark in ten years. Local governments with total debt exceeding 250% of revenue are prohibited from raising new debt except for refinancing.



### Sweden

The National Reform Programme connected to the Europe 2020 targets emphasises growth-friendly fiscal policy while preserving sound public finances. Returning to surplus is vital for protecting jobs and welfare in a small open economy such as Sweden's. The 290 municipalities throughout the country also work on many fronts and within many of their core activities on measures that can be linked to the Europe 2020 objectives. In a majority of regional councils, municipalities have also integrated the targets of the strategy into their operational plans and budgets and defined measurable indicators.



### Finland

In the context of the implementation of the EU fiscal compact, the government developed a new steering system for local government finances, which took effect from 2015. As part of the General Government Fiscal Plan relating to local government finances, the central government limits the growth of local government expenditure arising from central

government measures. In particular, the purpose is to make sure that all new assignments to municipalities are fully funded, either with increased transfers or with reducing previous assignments, or both. The aim is to strengthen the co-ordination and predictability of public finances.

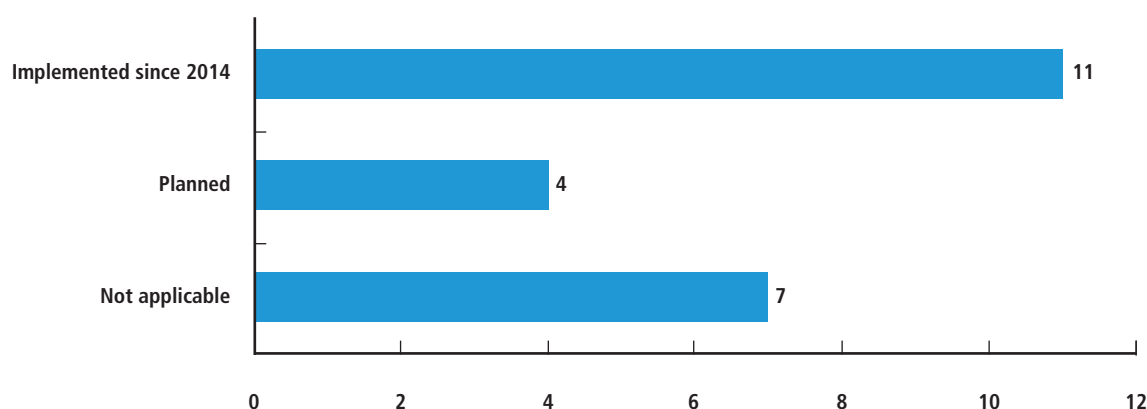
#### POTENTIAL ACTIONS

- Link the use of earmarked and matching intergovernmental grants to positive spillovers and/or the need to align investment priorities across levels of government (this can be done through specific conditionalities)
- Review the incentive effects of transfer arrangements to ensure adequate incentives for sub national governments to maximise own-revenues
- Ensure timely, predictable transfers between levels of government
- Minimise the variance between estimated and actual transfers

#### PITFALLS TO AVOID

- Create fiscal gaps or unfunded mandates, linked to mismatch between allocated competencies and resources to fulfil the mandates
- Often change the rules in transfers, that cloud subnational governments' long-term visibility on revenues – a key pre-condition for public investment

#### Have you planned or implemented reforms of the fiscal rules, in particular applied to subnational governments (budget balance rules, spending rules, borrowing rules, etc.) since 2014?



Note: total respondents: 27.

Source: OECD 2018 Monitoring Survey.

## Principle 10.

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

### WHY IS IT IMPORTANT?

#### ■ To ensure budgeting and financial accountability at all levels of government.

Proper costing and budgeting serve to prioritise and execute investment programmes effectively. Robust financial controls bolster accountability. Governments at all levels should therefore adopt best practices in favour of budgeting and financial accountability, as defined in the OECD Principles of Budgetary Governance. This includes 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.

#### ■ To enhance transparency with citizens and other stakeholders.

Budgeting transparency throughout the investment cycle provides visibility to investments, clarifies recurrent budgetary implications, and strengthens public accountability. Governments at all levels 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 subnational finances.

#### ■ To ensure national fiscal stability.

Poor budgeting and financial practices at the subnational level with respect to investment can have a cascading effect on other subnational governments and on the national government. If subnational governments accumulate unsustainable levels of debt, they may then require (and often obtain) implicit or explicit central bailouts to prevent a default.

### THE PRINCIPLE IN ACTION

- A majority of Adherents ensure accessibility to budget documents and data, including through web portals, tablet apps and “citizens’ budgets
- Adherents are increasingly developing “transparency portals”, designed to provide citizens and businesses with comprehensive information on public accounts and financial management practices
- Adherents recognise that it is a priority to better connect planning and budgeting frameworks to have a multi-year approach to investment

#### Estonia

Estonia is currently developing a joint performance based state budgeting (PBB) system to integrate performance-based and financial management. The system develops a single integral digital platform for accounting and financial analysis to all public authorities that is publicly accessible via a web-based tool developed for querying, monitoring and analysing public expenditures at all levels of government.

#### Germany

The state courts of audit (*Landesrechnungshöfe*) examine the financial management of the Länder while the Bundesrechnungshof examines federal financial management. The Bundesrechnungshof (Federal Court of Auditors) and the (State Courts of Auditors) audit public investment projects and publish yearly reports that document instances of wasteful spending. Co-operation is necessary because the revenue from the most important taxes is shared among the Federal Government and the states and a wide variety of programmes are funded jointly by the Federal Government and the states. The Bundesrechnungshof and the state courts of audit work closely and regularly meet at conferences of the Presidents and working groups specialised in particular subjects.





## Italy

The Open Coesione web portal provides analysis and monitoring on the use of regional policy resources, offering information, accessible to anyone, on what is funded, who is involved and where. The web portal contains information about every single project carried out to implement EU Cohesion Policy, and more specifically: funds used, places and categories, subjects involved and implementation timeframes. It concerns more than 700 000 investment projects (around EUR 17 billion, funded by national and local governments). Users can either download raw data or browse through interactive diagrams itemised by expenditure categories, places and type of intervention. They can also access files on individual projects and subjects involved. Data on the local economy and social context are provided as well.



## Morocco

Morocco has introduced a monthly bulletin of local finance statistics, which presents the execution of the budgets of the territorial entities notably, including the distribution of investment expenditure by type of local authority and by region.



## Switzerland

Switzerland has developed a database that provides an overview of the projects of the New Regional Policy (NPR) as well as the projects of the previous programme "Regio Plus". The database contains the projects of the cantonal and supracantonal implementation programmes as well as the projects launched under the Interreg cross-border programme with Swiss participation. This database also contains the projects of the pilot programme Territory of Economic Action (PHR Economy), a common measure of the agglomeration policy (AggloPol) and the projects of the policy for rural areas and mountain regions (P-LRB). Since 2016, all NPR projects have gradually been posted online; a large selection of projects dating from previous periods is also available.

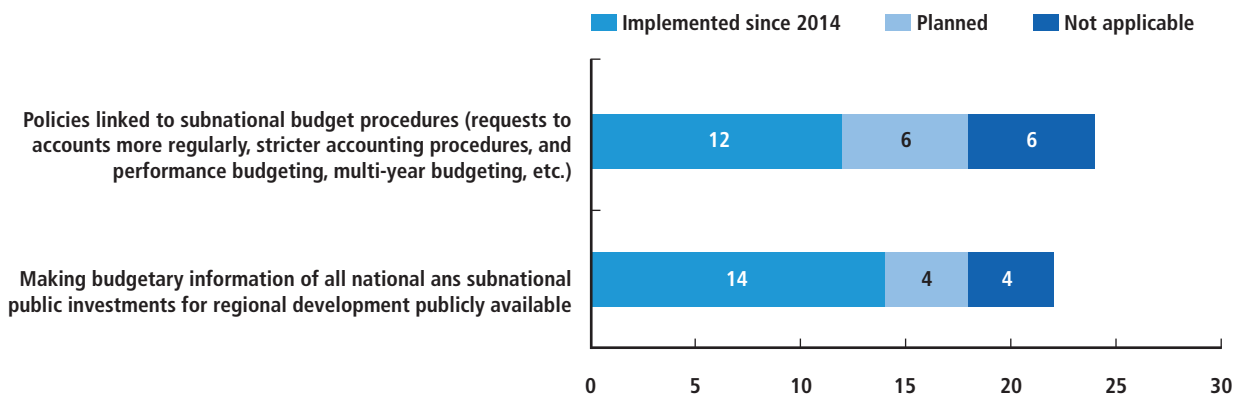
### POTENTIAL ACTIONS

- Ensure that budget transparency occurs at all levels of government
- Co-ordinate public investment decisions with medium-term budget forecasts
- Accurately assess costs of public investment and select investments based on their value for money
- Assess operations and maintenance costs of infrastructure investment and plan for future financing
- Disclose costs and contingent liabilities for PPPs in budget documents
- Make information regarding allocations for and spending on public investment transparent, comparable and publicly available

### PITFALLS TO AVOID

- To exclude contingent liabilities from budget documents, notably at the subnational level
- To disconnect subnational public investment strategies from the budget procedure

### Have you implemented or planned the reforms/policies below to improve financial management at all levels of governments since 2014?



Note: total respondents: 27.

Source: OECD 2018 Monitoring Survey.

# Principle 11.

## Promote transparency and strategic use of public procurement at all levels of government

### WHY IS IT IMPORTANT?

#### ■ To diminish the risk of fraud and corruption

Procurement is critical for public investment, and at the same time, a governmental activity that is particularly vulnerable to waste, fraud and corruption. Corruption in public procurement can occur both at the national and subnational levels. While decentralisation may narrow the scope for corruption as public officials might be more accountable to citizens, there can also be fewer obstacles to corruption at the subnational level due to weaker auditing functions or limited legal expertise or even greater closeness between public officials and business representatives.

#### ■ To ensure efficient and transparent subnational procurement systems.

In 2016, subnational governments accounted for almost 50% of public procurement in the OECD. However, subnational governments often lack procurement know-how or specialised personnel. Problematic systems can compromise the integrity of the investment process, deter investors and compromise the achievement of policy objectives. Transparency throughout the procurement cycle, professionalisation of the procurement function, and clear accountability and control mechanisms are all required.

#### ■ To enhance the use of procurement by subnational governments as a strategic tool.

In addition, governments should use procurement to ensure effective public service delivery while pursuing strategic government objectives – not only value for money and integrity, but also wider objectives such as greening public infrastructure, adapting to climate change, supporting innovation or SME development.

### THE PRINCIPLE IN ACTION

- Procurement processes represent an important challenge for investments at the national and sub-national levels
- For SNGs, procurement processes are particularly difficult due to the lack of appropriate skills and technical knowledge
- More than half of Adherents have adopted policies to make procurement more accessible and transparent through the simplification of procurement procedures or the use of strategic procurement, among others
- Several Adherents are currently planning to implement reforms linked to public procurement policies



#### Australia

The Australian Government adheres to principles related to transparency and the strategic use of public procurement by ensuring all public investment aligns with the Public Governance, Performance and Accountability Act 2013 (PGPA Act). The PGPA Act establishes a coherent system of governance and accountability for public resources, with an emphasis on planning, performance and reporting. The Act applies to all Commonwealth entities and Commonwealth companies.



#### Austria

In Austria, the BBG acts as both central purchasing body and the body responsible for e-procurement. It manages contracts for approximately 270,000 products and services available not only to central federal bodies, for whom the use of BBG is mandatory, but also to federal states, municipalities, and public-owned bodies such as universities and healthcare services. In addition to the BBG, municipalities are increasingly co-operating to support centralised procurement management at the local level. The BBG provides all employees of the public sector (federal, state, local and public-owned companies) with training and information sessions on public procurement, as well as e-learning courses. It covers for instance basics on procurement law, introduction to procurement processes, electronic buying, and thematic subjects such as procurement for health-care services.



## Greece

For the implementation of procurement procedures in municipalities in Greece, each municipality has a dedicated Department of Finance and a Procurement Office. They are in charge of the implementation and co-ordination of the public procurement procedures, according to the “Procurement Regulation of Local Authorities”.



## Israel

As part of the recent amendment to the Municipal Association Law, Regional Clusters of local authorities – which were identified through a legal procedure under a project led by the Ministry of Interior – have been given the option of conducting joint tenders in public procurement, which will enable the local authorities in the Cluster to contract with the winner of the regional tenders. This policy is designed to pool resources and take advantage of the size on which the cluster is based, to improve financial efficiency as well as the quality of services.



## Italy

In 2014, procurement bodies were created at the local level, including Regional Purchasing Bodies and Metropolitan Area Purchasing Bodies. Thresholds have been set (i.e., small municipalities cannot purchase goods or services over EUR 40 000 or works over EUR 150 000), which encourage municipalities to merge their public procurement offices to form a “Centrale Unica di Committenza”; or to merge with their provincial procurement office.



## Sweden

Sweden recently founded the National Agency for Public Procurement, which has the overall responsibility of developing and supporting procurement carried out by the contracting authorities and entities. Their task is to work for effective (and socially and environmentally sustainable) public procurement to the benefit of the society and the participants in the markets. They provide support to contracting authorities, entities and suppliers.

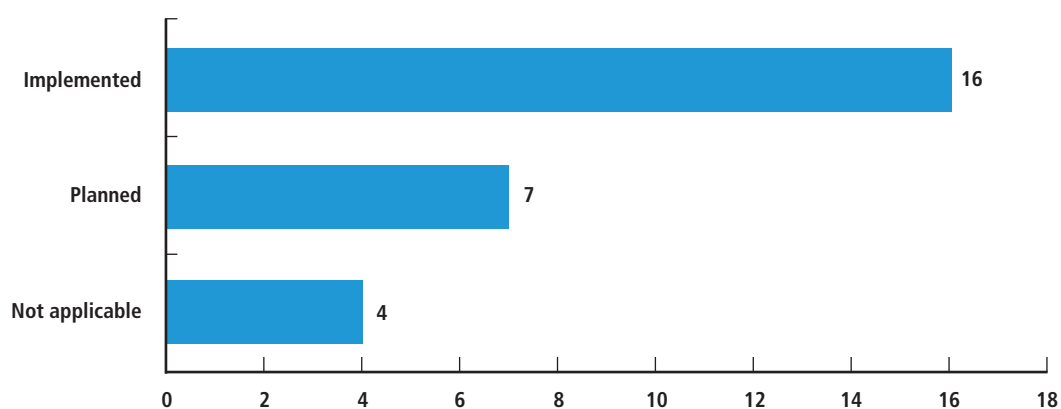
### POTENTIAL ACTIONS

- Provide guidance for subnational governments for procurement
- Collaborate for procurement (e.g. purchasing alliances, networks, framework agreements, central purchasing bodies)
- Use e-government tools to simplify and harmonise procurement practices
- Professionalise procurement

### PITFALLS TO AVOID

- To create procurement functions in each single jurisdiction without mutualising the operations
- To frequently change procurement rules, thus heightening uncertainty for subnational governments
- To undermine training needs for procurement
- To underestimate the strategic potential of procurement

### Have you implemented or planned policies linked to public procurement (simplification of procurement procedures, use of strategic procurement, etc.) since 2014?



Note: total respondents: 27.

Source: OECD 2018 Monitoring Survey.

# Principle 12.

## Strive for quality and consistency in regulatory systems across levels of government

### WHY IS IT IMPORTANT?

#### ■ To promote a regulatory framework conducive for both public and private investment at the subnational level

Divergent, overlapping, contradictory or constantly changing regulations can lead to higher costs, particularly for subnational governments, reduce efficiency and deter investors. Regulatory coherence is of particular importance in network sectors, like power, telecommunications and water, owing to the greater degree of regulation to which such activities are typically subject. Even relatively basic public works projects may be impeded by a lack of regulatory clarity or coherence. And the private sector may stay away, experience delays, or even abandon a project if there are issues in the regulatory framework or if the procurement process becomes problematic.

#### ■ To enhance regulatory capacity of subnational governments.

Subnational capacity for regulatory quality is an integral aspect of effective public investment. Subnational 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. Special attention should be given to administrative simplification, which could help involve private partners in public investment strategies.

#### ■ To increase the effectiveness of regional policies, in particular where capacities are low

The complexity of administrative procedures has been identified as one of the major obstacles for regional development policies in general. An excessive amount of legislation and guidance or the proliferation of multiple conditions coupled with weak capacities may lead to an inefficient or low use of regional development funds by subnational governments. Over-regulation can also make it difficult for policy makers to take ownership of their responsibilities. If the administrative burden exceeds the expected benefits of regional policy outcomes, project beneficiaries might not even bother to apply for central grants or financial instruments to fund their initiatives. It is thus crucial to compare the administrative burden with the expected policy benefits to avoid an excessive

amount of guidance and legislation. Moreover, administrative burden combined with unequal capacities within countries, risk deepening pre-existing inequalities.

### THE PRINCIPLE IN ACTION

- Excessive red tape is a central challenge for public investment at the subnational level and one of the main barriers to infrastructure investments
- Few Adherents have adopted measures to simplify the overall administrative framework to better manage investment funds
- Adherents increasingly recognise the need to minimise the administrative burden of government formalities



#### Australia

Through the Council of Australian Governments (COAG), governments agreed to revise their Regulatory Impact Assessment (RIA) procedures to account for new regulatory initiatives whether an existing regulatory model outside their jurisdiction would efficiently address the policy issue in question and whether a nationally uniform, harmonised or jurisdiction-specific model would be best for the community. This involves a consideration of: the potential for regulatory competition, innovation and dynamism; the relative costs of the alternative models in use, including regulatory burdens and any transition costs; whether the regulatory issue is state-specific or national, and whether there are substantial differences that may require jurisdiction specific responses.



#### Denmark

The Danish Competition and Consumer Authority has provided municipalities with guidance notes covering interpretation of legislation, how to apply legislation in practice as well as exchange of best practices. The notes also contain guidance on public-private partnerships, whose use has increased in recent years. A working group on public procurement was set up in June 2013 to produce clearer, simpler and more flexible draft legislation on public procurement and to reduce transaction costs faced by the participating parties in public procurement. Legislation on public procurement should be simplified as soon as possible, in line with the recommendations of the working group. In late 2013, the appeals procedure was made more efficient by increasing fees and shortening deadlines on when complaints are allowed to be filed.



## European Union

For the 2021-2027 Cohesion Policy programming period, the European Commission is envisaging to simplify the procedures with shorter, fewer and clearer rules. For businesses and entrepreneurs benefiting from EU support, the new framework offers less red tape, with simpler ways to claim payments using simplified cost options. To facilitate synergies, a single rulebook now covers seven EU funds implemented in partnership with Member States (“shared management”). The Commission also proposes lighter controls for programmes with a good track record, with an increased reliance on national systems and the extension of the “single audit” principle, to avoid duplication of checks.



## Mexico

In Mexico, 20 out of 31 states and the Federal District have issued regulatory reform laws; eight states have laws on economic development containing a section on regulatory improvement; ten of the 32 subnational units have a commission in charge of advocating and implementing better regulation; 20 have a unit within a ministry, and two have another body fulfilling this role. In addition, e-government tools are widely employed by states and municipalities to enhance regulatory transparency and simplify formalities. Furthermore, the new General Law on Better Regulation issued in May 2018 establishes the National System of Better Regulation, specifying the duties and responsibilities of autonomous bodies and state and municipal governments. The Law requires subnational governments to adopt key tools such as Regulatory Impact Assessments.



## Spain

In October 2012, Spain’s Council of Ministers launched a process of public administration reform, establishing a Commission for the Reform of the Public Administration (CORA). The focus is on administrative streamlining, simplifying legislation and procedures, and avoiding duplication between the state and the Autonomous Communities (ACs). Of the 217 proposals presented in the reform, 118 relate to eliminating duplications at the national level and between the national and subnational levels. A code of best practices is also proposed in order to rationalise public expenditure and increase the efficiency of public services by optimizing the use of new technologies.

Simplification of the overall administrative framework linked to the management of investment funds for regional development

Policies linked to regulation for subnational governments (reducing the stock of regulation, harmonising regulation, using regulatory impact assessment, etc.)

Note: total respondents: 27.

Source: OECD 2018 Monitoring Survey.

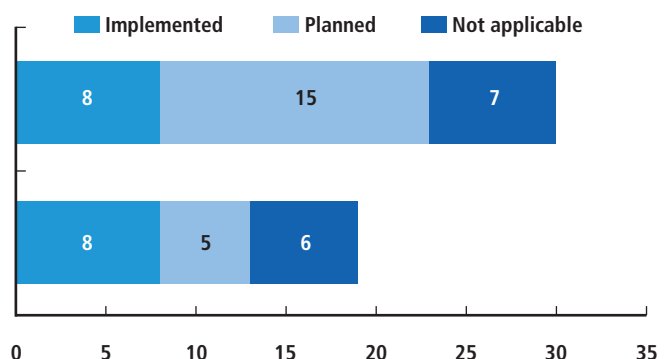
## POTENTIAL ACTIONS

- Co-ordinate regulatory policy across levels of government, e.g. via inter-governmental platforms, mutual recognition policies, regulatory harmonisation agreements and regulatory uniformity agreements
- Review existing regulations on a regular basis, assessing costs and benefits of new regulations and taking compliance costs for subnational governments into account
- Foster subnational capacity for regulatory quality as an integral aspect of effective public investment and implement the OECD 2012 Recommendation of the Council on Regulatory Policy and Governance.
- Ensure flexibility in the rules to adapt programmes to specific local circumstances and development needs
- Keep instructions clear, succinct, and convenient to improve participation from relevant parties and reduce errors
- Maintain stability of rules and regulations over a long period of time to facilitate compliance

## PITFALLS TO AVOID

- Constantly changing regulations undermining predictability
- Undermine high quality regulation at one level of government by poor regulatory policies and practices at other levels
- Implement regulations that focus on a single jurisdiction’s welfare to the detriment of other jurisdictions (such as race-to-the-bottom forms of competition)
- Ignore innovative regulatory practices set up at the regional or local level that could benefit higher levels of government
- Apply over-detailed regulations and procedures to address fiduciary and accountability concerns
- Use excessively technical language to communicate

### Have you implemented or planned reforms/policies below since 2014 to improve the regulatory system?





# How can you monitor the implementation of the Principles in your country?

## ONLINE TOOLKIT

The online Toolkit offers a complete and comprehensive database of best practices, self-assessment indicators and guidance for Adherents at all levels so they can successfully implement the principles.

<https://www.oecd.org/effective-public-investment-toolkit/>

The screenshot shows the homepage of the 'EFFECTIVE PUBLIC INVESTMENT ACROSS LEVELS OF GOVERNMENT TOOLKIT'. It features a blue header with the title and a navigation menu on the left. The main content area includes a description of the toolkit, a section for 'CO-ORDINATING STRENGTHENING ENSURING' with a 'A SOUND, MULTI-LEVEL APPROACH TO PUBLIC INVESTMENT' tagline, and a progress indicator showing steps 1 through 12. Below this, there are three main sections: 'Review', 'Discover', and 'Assess', each with a brief description and a call-to-action button.

Information	Effective Public Investment Toolkit
12 Principles for action	<p>This online resource will guide you in implementing the OECD Principles on Effective Public Investment Across Levels of Government.</p> <p>In addition to better familiarising you with the 12 Principles, the Toolkit lets you compare indicators and good practices in use in numerous countries, regions and municipalities.</p> <p>The self-assessment section of this Toolkit will help governments assess the strengths and weaknesses of their public investment capacity, with a focus on the sub-national level. This, in turn, will help policy makers set priorities for improvement.</p>
OECD-EU survey	
Effective public investment brochure	
Brochure investissement public efficace FR	
Folleto Recomendación sobre Inversión Pública Efectiva ES	
Background information	
Recent events	
Contact us	

**CO-ORDINATING  
STRENGTHENING  
ENSURING**

**A SOUND, MULTI-LEVEL APPROACH  
TO PUBLIC INVESTMENT**

1 2 3 ... 12

Review	Discover	Assess
Principles on Effective Public Investment Across Levels of Government. » Review	Discover how other countries are implementing the Principles. » Discover	Assess your public investment capacity with in-depth worksheets. » Assess

## WORLD OBSERVATORY ON SUBNATIONAL GOVERNMENT FINANCE AND INVESTMENT (SNG-WOFI)



In 2017, the OECD launched jointly with United Cities and Local Governments (UCLG) the World Observatory on Subnational Government Finance and Investment (SNG –WOFI), to collect data and information on subnational finance and investment in more than 100 countries. The Observatory is the first and only worldwide platform that offers comparable data and information to support national and subnational government decision-making on public investments. The Observatory serves as a tool to monitor the implementation of the Recommendation by countries as it collects information that facilitates a better understanding of the subnational fiscal space for investment, as well as information on multi-level governance practices associated with public investment.

<http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm>

## MULTI-LEVEL GOVERNANCE INDICATORS

The OECD has developed a set of twelve indicators to assess the multi-level dimension of public investments based on some of the key issues addressed in the OECD Council Recommendation on Effective Public Investment across Levels of Government. While the importance of addressing multi-level governance challenges seems to be increasingly recognised, there is less information and evidence on the way countries address these challenges, and how co-ordination needs may vary across different types of systems. There is also less evidence on the conditions to make governance instruments effective in addressing these challenges, i.e. ensuring that benefits of co-ordination offset costs – as co-ordination implies a number of costs. The primary objective of collecting indicators is thus to codify the information the OECD has gathered on the topic in recent years to facilitate benchmarking and peer-learning.

The multi-level governance indicators can help to identify different groups of countries that share similar or different strengths and challenges, thus facilitating peer-learning and experiences exchange. They can also help to monitor efforts made by countries to strengthen their multi-level governance frameworks.

The twelve indicators were identified in connection with some of the key issues addressed in the OECD Recommendation on Effective Public Investment across Levels of Government (notably pillars 1 and 3). The indicators are grouped in sets (6 indicators for each set) as shown below:

### Multi-Level Governance Indicators

#### Pillar A. Co-ordination institutions and instruments between levels of government for public investment

1. Coherent planning across levels of government
2. Co-ordination across sectors in the national planning process
3. Vertical co-ordination instruments
4. Multi-level dialogue to define investment priorities
5. Horizontal co-ordination across jurisdictions
6. Performance monitoring and learning


#### Pillar B. Framework conditions for effective public investment across levels of government

7. Regulatory co-ordination across levels of governments
8. Co-financing arrangements across national and subnational levels
9. Previsible capital transfer over time
10. Transparent fiscal information at the SN level
11. Borrowing rules for SNGs
12. Capital spending at the SN level


## SELF-ASSESSMENT INDICATORS




### Indicators\* to measure the implementation of the OECD Recommendation for Effective Public Investment Across Levels of Government

You may use this checklist in your city/region, or at the national government level

 System is in place and works in a satisfactory way




 System is in place but improvements are needed

 System is not in place or not functioning well

OBJECTIVES	INDICATORS			
<b>PRINCIPLE 1. Invest using an integrated strategy tailored to different places</b>				
To engage in planning for regional development that is tailored, results-oriented, realistic, forward-looking and coherent with national objectives	<b>Coherent planning across levels of government</b> Mechanisms exist to ensure that sub-national investment plans reflect national and sub-national development goals			
	<b>Tailored, place-based development plan</b> There is correspondence between assessment of territorial needs and strengths and planned projects			
	<b>Clear public investment priorities</b> There is a clear and authoritative statement of public investment priorities at national and regional levels			
To co-ordinate across sectors to achieve an integrated place-based approach	<b>Complementary of hard and soft investments</b> Consideration is given to complementarities between investments in hard and soft infrastructure			
	<b>Complementarities across sectors</b> Attention is given to potential complementarities and conflicts among investments by different ministries/departments			
	<b>Cross sectoral coordination</b> Formal or informal mechanisms exist to co-ordinate across sectors (and relevant departments/agencies) at the sub-national level			
To support decisions by adequate data	<b>Forward-looking investment plans</b> Authorities assess the potential contribution of investments to current competitiveness, sustainable development and regional & national well-being			
	<b>Data availability &amp; use for investment planning</b> Data are available and used to support the territorial assessment and planning process			
<b>PRINCIPLE 2. Adopt effective instruments for co-ordinating across national and sub-national levels of government</b>				
To coordinate across levels of government to reduce asymmetries of information	<b>Coordination bodies across levels of government</b> There are formal mechanisms/bodies for co-ordination of public investment (formal platforms and ad hoc arrangements) across levels of government			
	<b>Cross-sectoral approach</b> These coordination bodies/mechanisms have a multi-sector approach			
	<b>Mobilisation of coordination arrangements</b> These co-ordination mechanisms are mobilised regularly and produce clear outputs/outcomes			
	<b>Efficacy of coordination platforms</b> Stakeholders' perception (or empirical data) regarding the efficacy of these different platforms			
	<b>Contractual agreements/partnerships</b> Contractual agreements/partnerships across levels of government have been developed to manage joint responsibilities for sub-national public investment			
	<b>Effectiveness of contractual agreements</b> The share of sub-national public investment covered by these agreements is measured			
To align priorities across the national and sub-national levels	<b>Co-financing arrangements</b> There are co-financing arrangements for public investment			

\*Indicators are conceived in a broad way to be applicable to sub-national and national governments and in all countries.



OBJECTIVES	INDICATORS	  
<b>PRINCIPLE 3. Co-ordinate horizontally among sub-national governments to invest at the relevant scale</b>		
To co-ordinate with other jurisdictions to achieve economies of scale across boundaries	<b>Horizontal coordination</b> Cross-jurisdictional partnerships involving investment are possible	
	<b>Cross-sectoral approach</b> Cross-jurisdictional partnerships cover more than one sector	
	<b>Incentives from higher levels of government</b> Higher levels of government provide incentives for cross-jurisdictional co-ordination	
	<b>Effectiveness of horizontal coordination</b> The share of investments involving use of cross-jurisdictional co-ordination arrangements at the sub-national level can be measured by mechanism and/or by sector	
To plan investment at the right functional level, in particular in metropolitan areas	<b>Use of functional regions</b> Functional regions are defined, identified, and used in investment policy	
<b>PRINCIPLE 4. Assess upfront the long-term impacts and risks of public investment</b>		
To identify social, environmental and economic impacts, ensure value for money and limit risks	<b>Ex-ante appraisals</b> A large share of public investment is subject to ex-ante appraisal	
To conduct rigorous ex-ante appraisal	<b>Results of ex-ante appraisals</b> The results of ex-ante appraisals are used to prioritise investments	
	<b>Quality of appraisal process</b> Ex-ante appraisals are conducted by staff with project evaluation skills	
	<b>Independent review of ex-ante appraisals</b> Share of ex-ante appraisals subject to independent review	
	<b>Guidance for ex-ante appraisals</b> Technical guidelines for ex-ante appraisal are available and used at all levels of government	
<b>PRINCIPLE 5. Engage with stakeholders throughout the investment cycle</b>		
To engage public, private and civil society stakeholders throughout the investment cycle	<b>Mechanisms to involve stakeholders</b> Mechanisms exist to identify and involve stakeholders throughout the investment cycle	
	<b>Fair representation of stakeholders</b> Fair representation of stakeholders in the investment cycle consultation process is guaranteed (to avoid capture situations)	
	<b>Early involvement of stakeholders</b> Stakeholders are involved from the early stages of the investment cycle	
	<b>Access to information</b> Stakeholders have easy access to timely and relevant information throughout the investment cycle	
	<b>Feedback integrated in decision-making process</b> Stakeholders are involved at different points of the investment cycle and their feedback is integrated into investment decisions and evaluation	

OBJECTIVES	INDICATORS	✓	✓	✓
<b>PRINCIPLE 6. Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities</b>				
To mobilise private sector financing, without compromising long-term financial sustainability of sub-national public investment projects	<b>SNGs have access to technical assistance for PPP</b> Sub-national governments have access to and use technical assistance for public-private partnerships (e.g. via PPP units, formal training, good practice guidance)			
	<b>Use of quantifiable indicators</b> The amount of private financing per unit (e.g. Euro, USD) of public investment is known			
	<b>Access to information</b> SNGs have access to information concerning (supra) national funds for investment			
To tap traditional and innovative financing mechanisms for sub-national public investment	<b>Use of innovative financing instruments</b> The use of new, innovative financing instruments at sub-national levels is accompanied by assessment of their benefits, risks, and sub-national capacities to employ them			
<b>PRINCIPLE 7. Reinforce the expertise of public officials and institutions involved in public investment, notably at sub-national levels</b>				
To develop institutional capacity and professional skills	<b>Specific focus on investment required skills</b> Human resource management policies demonstrate attention to the professional skills of staff involved in public investment (e.g. hiring is targeted, needs assessments are made, appropriate training is available and used)			
	<b>Dedicated financial assistance</b> Dedicating financial assistance is made available for technical training of civil servants involved with public investment; training utilisation rates			
	<b>Technical guidance</b> Technical guidance documents are available for actors at all levels of government to clarify approaches to planning, implementation, and evaluation of public investment			
To identify binding capacity constraints and the proper sequence of reforms	<b>Assessment of binding capacity constraints</b> Specific assessments are conducted to assess binding constraints for effective public investment and identify the needs and the proper sequence of reforms			
<b>PRINCIPLE 8. Focus on results and promote learning from experience across levels of government</b>				
To design and use monitoring indicator systems with realistic, performance promoting targets	<b>Performance monitoring in place</b> A performance monitoring system is used to monitor public investment implementation			
	<b>Timely reporting</b> The monitoring systems facilitate credible and timely reporting of expenditure and performance			
	<b>Output and outcomes</b> The indicator system incorporate output and outcome (results) indicators			
	<b>Targets</b> Part of the indicators are associated with measurable targets			
To use monitoring and evaluation information to enhance decision making	<b>Performance monitoring information is used in decision-making</b> Performance information contributes to inform decision-making at different stages of the investment cycle			
To conduct regular and rigorous ex-post evaluation	<b>Ex-post evaluations</b> <ul style="list-style-type: none"> <li>• Ex-post evaluations are regularly conducted. Some ex-post evaluations are conducted by independent bodies (e.g. research organisations, universities, consultancies)</li> <li>• Clear guidance documents exist that detail ex-post evaluation standards</li> </ul>			

OBJECTIVES	INDICATORS	✓	✓	✓
<b>PRINCIPLE 9. Develop a fiscal framework adapted to the objectives pursued</b>				
To define appropriate inter governmental fiscal arrangements that help align objectives across levels of government	The intergovernmental fiscal framework is clear, with timely indications of transfers between levels of government.			
	There is minimal variance between estimated and actual transfers.			
	Information is made publicly available on the fiscal situation of sub-national governments and their comparison			
<b>PRINCIPLE 10. Require sound and transparent financial management at all levels of government</b>				
To ensure budget transparency at all levels of government	<b>Budget transparency</b> Budget transparency principles apply at all levels of government			
	<b>Timely information</b> Budgetary information regarding public investment is publicly available to stakeholders at all levels of government in a timely and user friendly format			
To ensure sub-national and national fiscal stability	<b>Maintenance costs integrated into budgeting</b> Operations and maintenance costs of infrastructure investment are assessed and integrated into budgeting and planning decisions			
	<b>Budget coordination across levels of government</b> Budgetary coordination across levels of government in terms of contributions to national fiscal targets			
To link strategic plans to multi-annual budgets	<b>Multi-year forecasts</b> Public investment is linked to multi-year budget forecasts, which are reviewed regularly			
	<b>Medium term budgeting framework</b> The medium-term planning and budgeting framework is integrated with the annual budget			
	<b>Multi year forecasts</b> Multi-year forecasts for public investment reviewed and updated regularly			
<b>PRINCIPLE 11. Promote transparency and strategic use of public procurement at all levels of government</b>				
To engage in transparent, competitive, procurement processes	<b>Competitive procurement</b> <ul style="list-style-type: none"> <li>The share of public tenders for public investment that are competitively awarded is known and publicly available</li> </ul>			
	<ul style="list-style-type: none"> <li>The participation rates for tenders is known</li> </ul>			
	<ul style="list-style-type: none"> <li>Procurement information from the full procurement cycle is publicly available at the national and sub-national levels of government</li> </ul>			
	<ul style="list-style-type: none"> <li>Procurement review and remedy mechanisms are in place at the national and sub-national levels</li> </ul>			
To encourage procurement at the relevant scale	<b>Strategic procurement</b> The share of procurement which involves more than one sub-national government is known			
To promote the strategic use of procurement	<ul style="list-style-type: none"> <li>Procurement is used strategically by SNGs to achieve green objectives</li> </ul>			
	<ul style="list-style-type: none"> <li>Procurement is used strategically by SNGs to achieve innovation objectives</li> </ul>			
To foster sub-national capacity building for procurement	<b>Sub-national capacities for procurement</b> <ul style="list-style-type: none"> <li>There is recognition of procurement officials as a specific profession</li> </ul>			
	<ul style="list-style-type: none"> <li>Formal guidance regarding procurement procedures is provided to sub-national governments</li> </ul>			
	<ul style="list-style-type: none"> <li>There is a procurement unit that can assist SNGs</li> </ul>			
	<ul style="list-style-type: none"> <li>The percentage of total annual contracts awarded go to SMEs in sub-national procurement is known</li> </ul>			
	<ul style="list-style-type: none"> <li>The percentage of national/sub-national procurement conducted on-line is known</li> </ul>			

OBJECTIVES	INDICATORS	✓	✓	✓
<b>PRINCIPLE 12. Strive for quality and consistency in regulatory systems across levels of government</b>				
To engage in “better regulation” at sub-national levels, with coherence across levels of government	<b>Regulatory coordination across levels of government</b> Formal co-ordination mechanisms between levels of government that impose specific obligations in relation to regulatory practice			
	<b>Regulatory impact assessment</b> Regulatory Impact Analysis (RIA) are used			
	<b>Reduction of stock of regulation</b> Efforts to reduce the stock of regulation or simplify administrative procedures in relation to public investment are made			
	<b>Public consultations</b> Public consultations are conducted in connection with the preparation of new regulations of sufficient duration, accessible, and appropriately targeted			
	<b>Use of e-government tools</b> Use of e-government tools used to simplify administrative procedures for public investment projects			

# 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 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 their 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.

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The Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) provides comparative statistics, analysis and capacity building. It helps local and national actors work together to unleash the potential of entrepreneurs and small and medium-sized enterprises (SMEs), promote inclusive and sustainable regions and cities, boost local job creation, and implement sound tourism policies.

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