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Regions and Cities: Where Policies and People Meet

Policy Briefs

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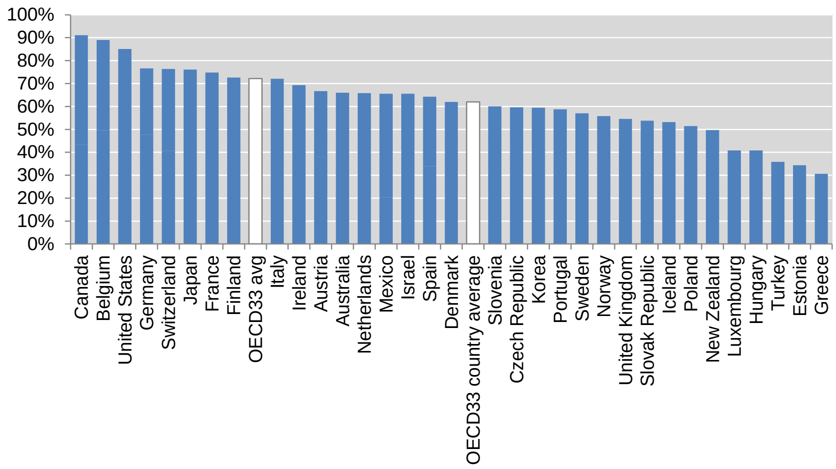
Public investment shapes choices about where people live and work, influences the nature and location of private investment, and affects quality of life. If well-managed, public investment is a potentially growth-enhancing form of public expenditure. In contrast, poor investment choices waste resources,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

In 2012, OECD countries spent USD 1.17 trillion in public investment – 2.7% of OECD GDP and 15% of total investment. These overall figures mask variation among countries and *within* them. Within countries, there is regional variation both in terms of public investment as a percentage of GDP and public investment per capita.

Rarely does the national government "go it alone" with respect to public investment. Whether through shared policy competencies or joint funding arrangements, public investment typically involves different levels of government at some stage of the investment process. Sub-national governments undertook 72% of total public investment in 2012 across the OECD area in terms of volume (62% as an average among OECD countries). Even when not directly involved in selecting or financing investment, sub-national governments can support or detract from its effectiveness. Thus public investment requires co-ordination across levels of government as well as governance capacities to design and implement investment projects.

Figure 1. **Sub-national governments are responsible for most public investment**

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



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

Why Principles for public investment?

> Generally, "public investment" refers to capital expenditure on physical infrastructure (e.g. roads, bridges, government buildings) and soft infrastructure (e.g. human capital development, innovation support, research and development), with a productive use that extends beyond a year. Gross fixed capital formation is often used as the best available proxy for "direct" public investment. However, there are differences in the calculation of public investment across countries.

Effective public investment is important in good times and in difficult ones. There are signs of a return to growth among OECD economies, but for many countries, fiscal constraints will remain tight. Since 2010, consolidation strategies have reduced the resources for public investment in many OECD countries. On average in the OECD, sub-national public investment has declined by 13% since 2009. While not all OECD countries followed this trend, a sustained contraction in public investment at a time of sluggish growth may have negative long-term consequences for national growth and societal well-being. As public budgets across the OECD are likely to remain tight for some time to come, all levels of government will have to contribute to doing better with less, which requires developing their individual and collective capacities for more efficient public investment.

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

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

The purpose of the 12 OECD Principles for Effective Public Investment (Figure 2) developed by the OECD Territorial Development Policy Committee is to help governments at all levels assess the strengths and weaknesses of their public investment capacity, using a whole-of-government approach, and set priorities for improvement.

Figure 2. **The Principles group 12 recommendations into 3 pillars representing systemic multi-level governance challenges for public investment**

Pillar 1 Co-ordinate across governments and policy areas	• Invest using an integrated strategy tailored to different places • Adopt effective instruments for co-ordinating across national and sub-national levels of government • Co-ordinate horizontally among sub-national governments to invest at the relevant scale
Pillar 2 Strengthen capacities for public investment and promote policy learning across levels of government	• Assess upfront the long-term impacts and risks of public investment • Engage with stakeholders throughout the investment cycle • Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities • Reinforce the expertise of public officials and institutions involved in public investment • Focus on results and promote learning from experience
Pillar 3 Ensure sound framework conditions at all levels of government	• Develop a fiscal framework adapted to the objectives pursued • Require sound and transparent financial management at all levels of government • Promote transparency and strategic use of public procurement at all levels of government • Strive for quality and consistency in regulatory systems across levels of government

What are the 12 Principles for action?

1. Invest using an integrated strategy tailored to different places. Opportunities for growth exist everywhere, but the way forward varies for different places. Governments should thus 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 an assessment of the potential opportunities for, and impediments to, growth in each region (or locality). Investment strategies should be results-oriented (with clearly defined policy goals), realistic and well-informed (based on evidence that points to the region's ability to make fruitful use of investments), and forward looking (with investments that can position regions for competitiveness and sustainable development in the context of global trends). The investment mix will inevitably vary among urban, rural or mixed regions to reflect the specificities and assets of different territories – and if they lead or lag in terms of growth (see Table 1).

Table 1. **Growth bottlenecks by region type**

Growth drivers/bottlenecks	Relative level of development		
	Lagging[1]	Intermediate[2]	Leading[3]
Human capital/skills: presence of very low-skilled labour	√√	√	√√
Human capital/skills: presence of highly skilled labour	√	√	√√
Labour-force mobilisation: participation/employment rates		√	√√
Innovation activity: patents, R&D spending, employment in knowledge-intensive sectors	√	√	√√√
Agglomeration effects: density of population, density of GDP			√
Quality of government	√√	√	√

Notes: √ = somewhat important; √√ = very important; √√√ = critical factor.
1 = <75% of national average per capita GDP; 2 = 75-100% of national average per capita GDP; 3 = >100% of national average per capita GDP.

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

Although there is no single path to growth, there is a common need for mutually reinforcing impacts in the form of policy complementarities to make the most of a public investment. Investments in both "hard" and "soft" infrastructure at the regional level are needed to maximise potential for long-term growth. It is thus important to seek complementarities and reduce conflict among sectoral strategies. Such complementarities often need to be constructed and combined into integrated strategies.

Finally, good data can support good decisions. Governments should encourage the production of data at the right sub-national scale to inform investment strategies and produce evidence for decision making. Such data may be collected by statistical agencies but also through administrative records, other data sources and citizens themselves.

Box 1. **Examples: Spatially relevant data**

France: The DATAR, the French inter-ministerial delegation to promote regional attractiveness and development, produced a good practice guide and worked with regions to develop tailored regional innovation strategies. The DATAR has also supported efforts to collect data at sub-national scale, including support to the EuroLIO (*l'Observatoire Européen des Données Localisées de l'Innovation*) that brings together several French research centres for sub-national data and analysis on innovation. It also supports efforts to understand cross-border regions with neighbouring countries.

Chile: The Sub-secretariat for Regional and Administrative Development (SUBDERE) has implemented a Regional Observatory which provides comparable statistics on each region. Three categories of statistics are available: 1) economic variables; 2) social variables; and 3) territorial environment variables. The system is used to produce a quarterly publication with data for each region. The platform is open to comments and inquiries from users to help meet their specific information requirements.

2. Adopt effective instruments for co-ordinating across national and sub-national levels of government. Because responsibilities for investment are often shared between levels of government, co-ordination is needed to achieve policy goals. Effective co-ordination among levels of government helps to identify investment opportunities and bottlenecks, manage joint policy competencies, minimise the potential for investments to work at cross-purposes, ensure adequate resources and sufficient capacity to undertake investment, resolve conflict and create trust. While co-ordination on all aspects of public investment is not necessarily feasible, at a minimum, there is an aim to not work at cross-purposes across levels of government.

Box 2. **Example: Vertical co-ordination**

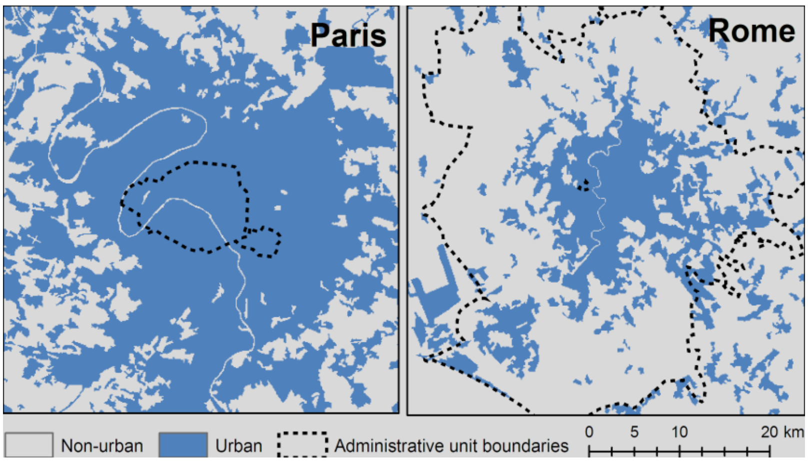
Australia: The Council of Australian Governments (COAG) is the main forum for developing and implementing inter-jurisdictional policy. It is composed of the Australian Prime Minister as its chair, state premiers, territory chief ministers and the President of the Australian Local Government Association. Through COAG, the federal and sub-national governments have endorsed national guidelines on public-private partnerships (PPP), agreed to a national port strategy and concluded inter-governmental agreements on heavy vehicles, rail and maritime safety. The COAG also receives regular reports from Infrastructure Australia, a statutory federal body that supports nationwide infrastructure investment and advises governments and other investment stakeholders.

3. Co-ordinate horizontally among sub-national governments to invest at the relevant scale. There are many reasons why sub-national horizontal co-ordination is essential to encourage investment. It can manage positive and negative spillovers. It helps increase efficiency through economies of scale through joint investments. It can also enhance synergies among policies of neighbouring (or otherwise linked) jurisdictions. To help, governments can offer incentives and/or seek opportunities for co-ordination across regional and local jurisdictions to match public investment with the right geographical scale.

The willingness of sub-national governments to collaborate may vary with the type of investment(s) being considered. It is likely to be easier, for example, to encourage co-ordination around investments in basic infrastructure and service provision (e.g. water, sewage) and more difficult around "strategic" investments where sub-national governments might find themselves competing to secure public facilities, to attract intergovernmental grants, or to attract firms and jobs (e.g. higher education, innovation). But hurdles need not be permanent obstacles; trust can be built over time.

Figure 3. **City limits do not match socio-economic realities**

Population density in urban areas and administrative boundaries



Note: The *OECD Metropolitan Database* identifies 1 148 urban areas, defined as integrated labour markets with at least 50 000 inhabitants, in 28 OECD countries.

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

Box 3. **Example: Cross-jurisdictional co-ordination**

In **Germany**, the regions of Berlin and Brandenburg are engaged in joint spatial planning (important for enabling Brandenburg to control urban sprawl from Berlin), collaborating with the federal government around a new airport and establishing a harmonised transport network. The two *Länder* have also developed a joint innovation strategy.

4. Assess upfront the long-term impacts and risks of public investment. Comprehensive, long-term assessments can help clarify goals and reveal information that can be used to refine investment selection. It is important for appraisals to be technically sound; identify social, environmental and economic impacts; and reveal 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 stocks to reach particular goals. Long-term operational and maintenance costs should be assessed from the early stage of the investment decision. Integrating assessment of different types of risks and uncertainty associated with public investment (not only fiscal, such as contingent liabilities, but also financial, political, social and environmental risks), including longer term impacts, are an important part of an appraisal. Risks and adapted mitigation strategies should be re-evaluated as new information becomes available.

Box 4. **Example: Managing risk**

The Delta Commission helps to protect the **Netherlands** against flooding. This requires efforts of numerous sectors, governments and public water organisations. The Governance Agreement on Water is a way to formulate binding, feasible and affordable measures between multi-level agencies for the relatively short term (up to ten years ahead). For the long term (2050 and beyond), the Delta programme, in co-ordination with the relevant agencies, determines the direction and framework (financial and normative) and puts it into legislation. Public investment choices take these frameworks into account to mitigate risks associated with flooding.

5. Engage with stakeholders throughout the investment cycle. 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, and feedback and evaluation at later stages. At a minimum, this involves identifying relevant stakeholders, designing sound consultation processes, communicating processes and results, and managing grievances. Moreover, public investment information, such as expenditure data, should be exposed to public scrutiny to promote transparency and accountability.

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

Box 5. **Example: Engaging stakeholders**

Denmark: In 2007, 14 counties were restructured into 5 regions, and 271 municipalities reduced to 98. As part of the process, each region needed to appoint at least one Regional Growth Forum to guide regional business development strategies and the use of regional and EU Structural Funds. The 20-member public-private boards include regional and municipal elected officials, business persons, representatives of the higher education and research community, and trade unions.

6. Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities. The private sector can be a key partner in public investment. Governments should look to private actors, financing institutions and banks for more than just financing. Their involvement can strengthen capacities of governments and bring expertise through better *ex ante* assessment of projects, improved analysis of the market and credit risks, and identification of cost-effective projects. Careful consideration of private engagement includes informed consideration of public-private partnerships (PPPs) at sub-national levels of government. Decisions regarding PPPs should be co-ordinated with the budget process and based on their potential value-for-money (VFM). PPPs should not be a way for governments to bypass spending ceilings and fiscal rules. They must be treated soundly in the budget process, with proper accounting and disclosure of all costs, guarantees and other contingent liabilities.

Box 6. **Example: Creating capacity for PPPs**

Canada: The federal government encourages PPPs through PPP Canada, which incorporates, among other measures, over CAD 1 billion “P3 Canada Fund”, offering funding for PPP projects undertaken by provinces, territories and local governments. The P3 Canada Fund was created to improve the delivery of public infrastructure and provide better value, timeliness and accountability by increasing the effective use of P3. PPP Canada does not procure investments but rather works to build capacities for PPPs at different levels of government through guidance and incentives to develop high-quality projects.

7. Reinforce the expertise of public officials and institutions involved in public investment. Governments should reinforce the capacities of public officials and institutions dealing with public investment. Capacity building includes recruiting well-qualified staff and training those involved with public investment, as well as ensuring institutions have sufficient capacity in areas such as, but not limited to, financial resources, mechanisms for collaborating across sectors and levels of government, stakeholder engagement, regulatory quality, etc. Due attention should be given to sub-national capacity, where sufficient resources, professional skills or institutional quality may be lacking. The greater the sub-national governments' authority throughout the investment cycle, the better developed their capacities must be. Importantly, not all capacities can be strengthened at the same time. It is therefore valuable to identify binding constraints and the proper sequence of reforms.

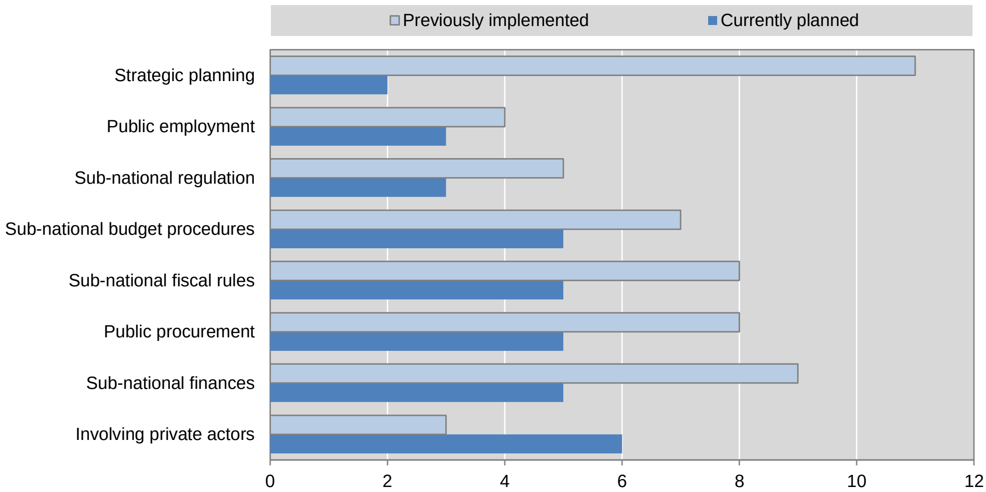
Box 7. **Example: Supporting institutional and individual capacity**

The United States White House Council on Strong Cities, Strong Communities is an initiative to strengthen the capacity of distressed cities to achieve economic development goals. Launched with 6 pilot cities in 2011, it brings together 19 federal agencies and offers 4 approaches to assisting local governments: 1) community solutions teams composed of employees from federal agencies placed in cities to work with city staff; 2) a competitive fellowship programme for mid-career professionals to serve multi-year terms in city government; 3) a competitive grant programme to develop high-quality economic development plans; and 4) the SC2 National Resource Network, a one-stop access to national experts and federal resources for cities, towns and regions.

8. Focus on results and promote learning from experience. Governments at all levels should focus on investment outcome goals and pursue them throughout the investment cycle. Mechanisms to do so include, but are not limited to, investment strategies with well-defined policy goals, performance budgeting, well-designed tendering procedures and performance monitoring of procurement, technically sound project appraisals, effective investment monitoring systems and high-quality *ex post* evaluation.

Figure 4. **National policies can enhance sub-national capacities**

Share of national governments reporting a related policy (2012)



Note: 20 countries surveyed.

Source: OECD Questionnaire on the Multi-level Governance of Public Investment, 2012.

Monitoring and evaluation support a results-oriented culture. These tools are important for strengthening accountability and for bridging information gaps that inevitably emerge between levels of government. Monitoring can include inputs, outputs and even outcomes. Indicator systems should balance comprehensiveness, usefulness and administrative burden. Evaluation addresses the goals of investment, assessing if the intended outcomes were achieved and the role played by investment activities. Information that emerges from monitoring and evaluation systems should feed into decisions regarding investment in subsequent investment cycles.

Box 8. Example: Encouraging performance

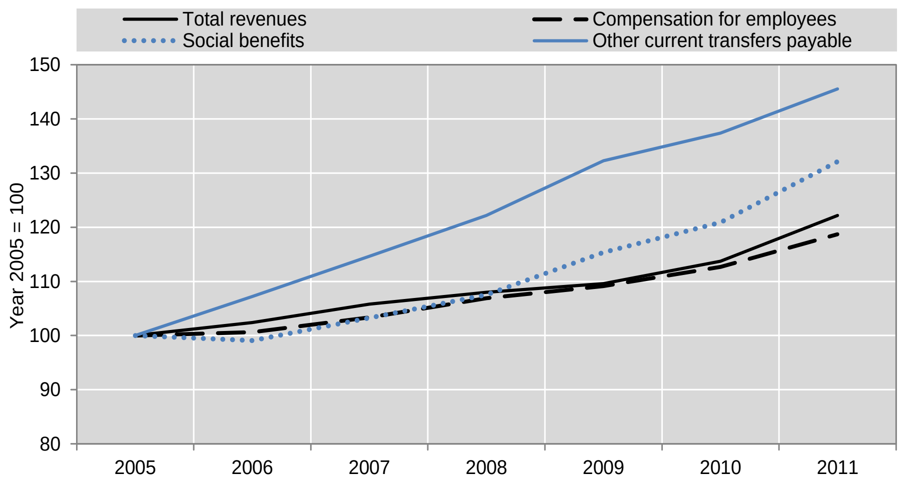
Basilicata (Italy) has a Public Investment Evaluation Unit within the Department for Structural Funds responsible for monitoring and evaluating public investments in the region and for checking the consistency of strategic projects with the regional development plan and the annual financial plan. The unit also performs impact evaluations of public investment projects on employment and economic performance. Basilicata's efforts are supported by the national Public Investment Evaluation Unit in the Ministry of Economic Development, which provides technical support. Regional data on public investments are gathered through a centralised System for Monitoring Public Investments that tracks basic information for each public investment project. The system has been used in five pilot regions since 2007.

9. Develop a fiscal framework adapted to the investment objectives pursued. Intergovernmental fiscal arrangements determine to a large extent sub-national government financial capacity to invest. While these arrangements differ among countries, all countries should pursue a fiscal framework adapted to the objectives pursued. Choices regarding sub-national transfers, own revenues and borrowing should reflect good practice, fit a country's institutional context and align with policy objectives. Higher levels of government should set enabling conditions for sub-national governments to be able to exploit their own revenue-raising potential to finance investment, to ensure financing for long-term operations and maintenance, and to participate in co-financing arrangements.

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

10. Require sound and transparent financial management at all levels of government. Proper costing and budgeting serve to prioritise and execute investment programmes effectively. Robust financial controls bolster accountability. Governments should therefore adopt good practices in favour of 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.

Figure 5. **The recent deterioration in sub-national government financing capacity chiefly reflects spending pressures arising in the aftermath of the crisis**



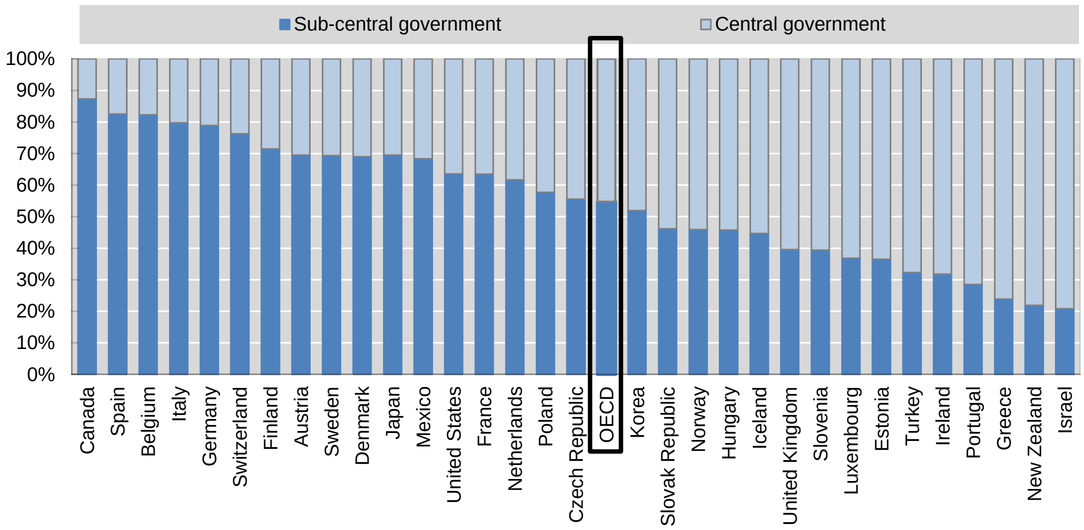
Source: Calculations based on OECD National Accounts.

11. Promote transparency and strategic use of public procurement at all levels of government. On average, general government procurement accounts for 13% of GDP and nearly a third of government expenditures in OECD countries, 55% of which is undertaken at sub-national level. It is also the government activity most vulnerable to waste, fraud and corruption. However, sub-national 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. 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, innovation or SME development.

Box 9. **Example: Strengthening procurement**

Galicia (Spain) launched a shared web platform for managing its public procurement system available to all public entities in the region (around half are already involved). Public tenders are published on this platform, where companies can register for pre-approval and access past successful tender applications. Increased transparency and competition is visible through an increase in tender applicants as well as a reduction in contracting costs for municipalities.

Figure 6. **Share of general government procurement by level of government (2011) (excluding social security funds)**



Note: The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Source: OECD National Accounts in OECD (2013), *Government at a Glance 2013*, OECD Publishing, Paris.

12. Strive for quality and consistency in regulatory systems across levels of government. Divergent, overlapping, contradictory or constantly changing regulations are counterproductive. They can impose costs, particularly for sub-national governments, reduce efficiency and deter investors. An important step to strengthen coherence is for governments to evaluate the regulatory framework when establishing investment priorities and programmes. This can reveal potential obstacles to the efficient use of public funds. In addition, mechanisms should exist to co-ordinate regulatory policy across levels of government. Importantly, sub-national governments should possess capacity for regulatory quality. They 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. Higher levels of government can help to foster this capacity.

Table 2. **Examples of good practices by Principle**

Invest using an integrated strategy tailored to different places	• Link public investment to assessment of regional (or local) characteristics and growth factors • Seek complementarities among sector strategies (e.g. 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 territorial issues are adequately considered • Generate and use spatially-relevant data for investment planning
Adopt effective co-ordination instruments across national and sub-national governments	Consider: • National territorial representatives • Nationally-funded regional development agencies • Contracts/formalised agreements between levels of government • National strategies with clear goals for public investment • Co-financing arrangements between levels of government • Formal consultation of sub-national governments • Platforms for regular inter-governmental dialogue
Co-ordinate among sub-national governments to invest at the relevant scale	• Consider flexible co-ordination arrangements such as: 1) establishment of joint authorities; 2) co-ordinated investment strategies; 3) polycentric co-operation in urban areas; 4) urban-rural partnerships; or 5) platforms for cross-jurisdictional dialogue and co-operation
Assess upfront the long-term impacts and risks of public investment	• Use technically sound appraisals, with more rigorous assessment for larger or risky projects • Take advantage of expertise in organisations with independence experience and a good reputation for technical analysis • Use independent assessments of *ex ante* appraisals • Circulate guidelines for project appraisal at all levels of government
Engage stakeholders throughout the investment cycle	• Develop and implement a stakeholder engagement plan • Make investment information publicly available in a timely and visible way • Ensure engagement procedures are transparent and consistent with the OECD Principles for Transparency and Integrity in Lobbying
Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities	• 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, with bottlenecks identified and clear guidance on steps to address them
Reinforce the expertise of public officials and institutions involved in public investment	• Distribute guidance documents in areas such as planning, project appraisal, procurement, or monitoring and evaluation • Promote open, competitive hiring and merit-based promotion as well as policies such as special pay scales for areas of needed technical expertise • Create special public agencies accessible to multiple jurisdictions in areas of needed expertise (e.g. PPP units, regional development agencies) • Use common e-government platforms to narrow gaps in capacity across regions or localities and facilitate bench learning
Focus on results and promote learning from experience	• Use monitoring systems to track performance, emphasising progress toward outcomes • Establish a manageable set of common indicators for sub-national reporting • Require and/or co-finance *ex post* evaluations • Incorporate lessons identified into subsequent investment decisions • Use a range of instruments to encourage results
Develop a fiscal framework adapted to the investment objectives pursued	• Link the use of earmarked and matching intergovernmental grants to positive spillovers and/or the need to align investment priorities across levels of government • 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
Require sound and transparent financial management at all levels of government	• Co-ordinate public investment decisions with medium-term budget forecasts • Assess and plan for operations and maintenance costs of infrastructure investment • Disclose costs and contingent liabilities for PPPs in budget documents • Make information regarding public investment expenditures transparent and publicly available
Promote transparency and strategic use of public procurement at all levels of government	• 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
Strive for quality and consistency in regulatory systems across levels of government	• 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 the stock of regulation regularly, assessing costs and benefits of new regulations and taking compliance costs for sub-national governments into account

Moving forward: Next steps

√ **Following the Ministerial meeting, the TDPC will transmit the Principles to the OECD Council in early 2014 for approval as an OECD Recommendation.** 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 moral force as representing the political will of member countries. They are subsequently monitored every three years by respective OECD committees.

√ **The Principles for Effective Public Investment are intended to apply to OECD member countries and also to provide useful guidelines for Partners (i.e. non-member countries)** seeking to address challenges and identify good practices related to the multi-level governance of public investment. They apply to national, regional and local governments and address dimensions that are relevant for other stakeholders of public investment.

√ **To help countries and sub-national governments implement the OECD Principles, an implementation toolkit will be developed in 2014.** It will provide a set of good practices for the different Principles and suggestions of indicators that can be used to monitor the status of each Principle.

For further reading

OECD (2013), "Draft OECD Recommendation on Principles for Effective Public Investment – A Shared Responsibility Across Levels of Government", OECD, Paris, www.oecd.org/gov/regional-policy/oecd-principles-on-effective-public-investment.htm.

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Building Sustainable Cities of All Sizes: A National Urban Policy Framework

Why do cities matter for economic progress, well-being and environmental sustainability?

What happens in cities is critical to national economic, social and environmental performance. Cities are home to roughly two-thirds of the OECD's population and account for an even larger share of output. They are hubs for job creation, innovation and growth. Yet they are also places where governments face acute policy challenges, including concentrations of poverty and unemployment, infrastructure bottlenecks, high levels of pollution and difficulties in the provision of key services. If governments "get cities right", they can create conditions for a better life for most of their citizens and facilitate the achievement of national goals with respect to growth, inclusion and environmental sustainability.

Why do governments need to think about cross-cutting urban policy frameworks?

Many policies with huge implications for cities are never really seen through an "urban lens". Although a very wide range of national policies can have a profound effect on urban development, national governments rarely review this impact systematically. Achieving policy coherence for urban development may require governments not only to enhance communication among those charged with explicitly "urban" dossiers, but also to consider a wider range of sectoral policies than they have tended to see as "urban". This should facilitate greater coherence across national sectoral policies and contribute to greater coherence between national and city-level initiatives, thereby strengthening the impact of both.

Towards a framework for national urban policies

A diagnostic framework is needed to assess the scope and coherence of national urban policies. The framework envisaged is *not* very prescriptive: given the diversity of conditions across the OECD and beyond, it is appropriate to formulate it as a diagnostic tool rather than a set of specific recommendations. It encompasses two analytically distinct, albeit partially overlapping, types of policies:

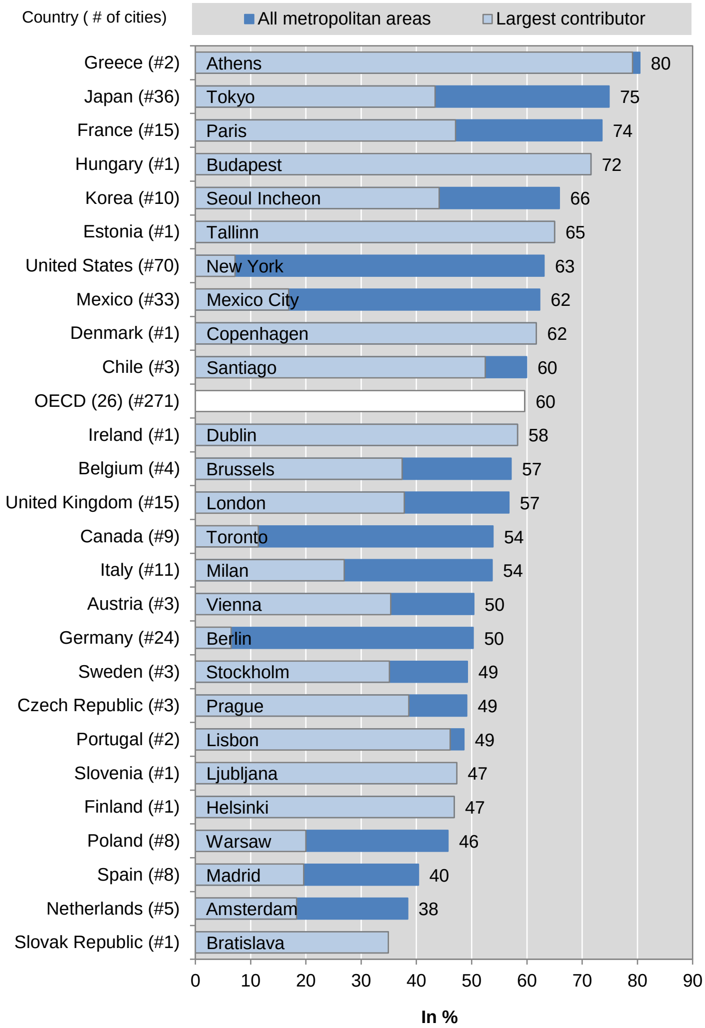
- policies where a degree of national government involvement is necessary (e.g. environmental policies or national transport infrastructure planning) and
- policy domains that could, in principle, be left entirely to cities or other sub-national governments but in which national governments in virtually all countries do intervene, usually for reasons of efficiency and/or equity (e.g. housing).

Why do cities matter for economic progress, well-being and environmental sustainability?

Cities of all sizes are critical to economic progress. Across the globe, cities are motors of growth. Overall, they are characterised by higher levels of productivity and income and, across the OECD, productivity and wages increase with city size. While in some countries the largest cities make the biggest contribution to aggregate growth, the contribution of small and medium-sized cities is very significant. Large cities have enormous potential for job creation, innovation and green growth, as do dynamic medium-sized cities. Cities are the hubs and gateways in global networks, such as trade or transport.

Cities strongly – and positively – affect the prosperity and well-being of nearby rural places. Productive and prosperous metropolises can contribute to productivity growth in less advanced places and play a key role in advancing the productivity frontier. Smaller cities serve as market towns and centres of service provision for surrounding rural areas. Moreover, non-urban regions close to cities (especially to large cities) tend to be more prosperous and have experienced higher economic growth in recent decades than regions that are more remote from urban centres.

Figure 1. **In 2000-10, large metros contributed over half of all growth across the OECD area**

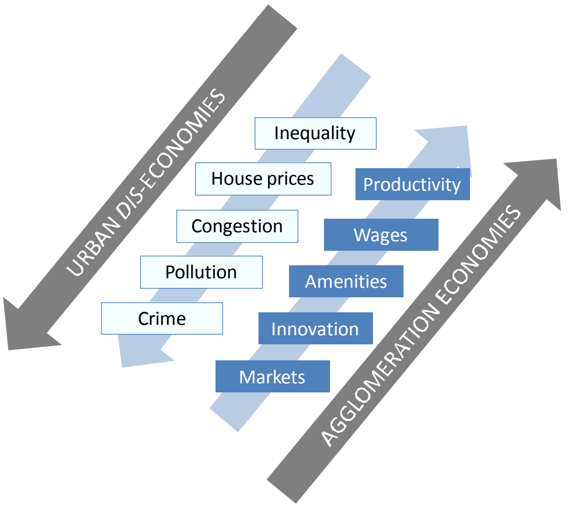


Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris.

Not only the size of cities, but also the structure of the urban system matters for growth. Countries with more polycentric urban systems (i.e. those with a number of large cities instead of concentration in one or two megacities) are found to have higher per capita GDP. With a larger number of major metropolitan areas, a greater part of the national territory may benefit from proximity to a major city. Moreover, the presence of several big cities may reduce the likelihood that a shock in any one place could seriously damage national performance. Analyses at regional level, though, point to the benefits of concentration – at smaller geographic scales, a more dispersed urban structure seems to be associated with poorer growth. This suggests that polycentrism is more important for larger countries, while small countries may benefit from concentration, as a more dispersed settlement pattern may make it hard for them to achieve critical mass.

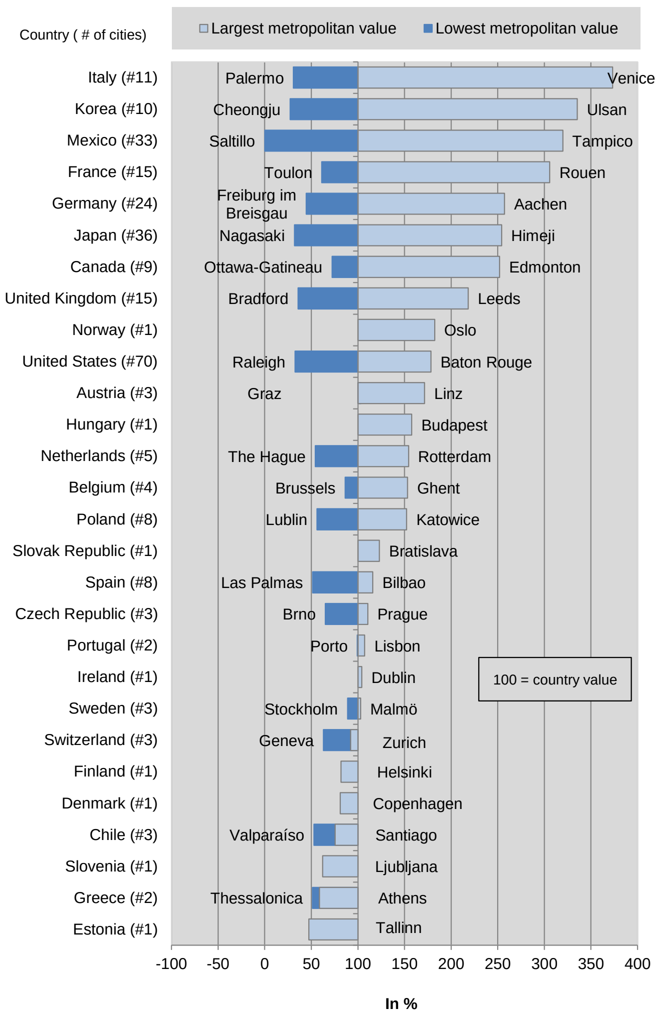
The impact of city size on well-being and social outcomes is less clear-cut. While productivity, wages and the availability of many important amenities generally increase with city size, so do pollution, housing prices, congestion, inequality and crime. These negative effects of agglomeration can, however, be substantially mitigated by national and city-level policies that ensure access to jobs and employment, equal opportunities in education, decent housing, adequate healthcare, efficient transport and safe neighbourhoods.

Figure 2. **Forces of attraction and repulsion shape flows in and out of urban areas**



Cities pose challenges to greener growth, but they are also a critical part of the solution. Globally, they account for 60-80% of energy use and greenhouse gas emissions. This partly reflects sheer concentration of population, but many major cities also tend to generate higher emissions in per capita terms. This does not mean that *urbanisation* is the problem. These emissions are largely generated by activities that are not specifically urban in character (e.g. manufacturing, airports). And in some cases, urban form can actually contribute to *lower* emissions. For example, CO_2 emissions from transport tend to be greater in sparsely settled areas than in denser ones. Moreover, there is a great deal that cities can do – and that many are doing – to *reduce their environmental footprint.*

Figure 3. **Many OECD metros emit above-average greenhouse gas emissions per capita**



Source: OECD (2013), *OECD Regions at a Glance 2013*, OECD Publishing, Paris.

Cities have enormous opportunities to contribute to national and international green growth objectives. When urban policies are added to the climate policy mix, the overall cost of reducing carbon emissions goes *down*. This is especially true of policies to improve land-use planning, increase energy efficiency and reduce the need for motorised travel. Many cities are well placed to foster green innovation and the growth of green-tech sectors.

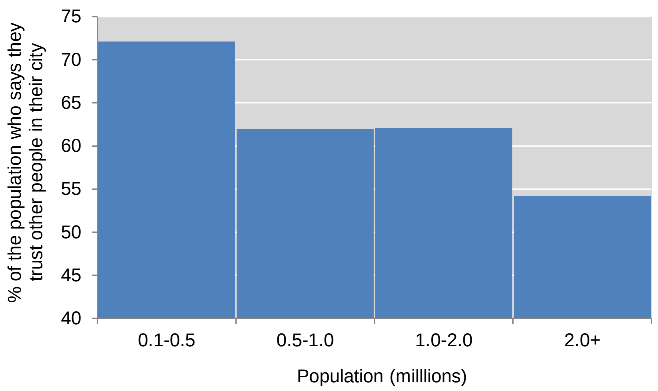
Unfortunately, urban sprawl is on the rise. In the majority of OECD metropolitan areas, growth on the urban periphery exceeds growth in the urban core. While urban expansion is a normal response to economic development and

population growth, uncontrolled expansion characterised by low density, segregated land use and insufficient infrastructure is in many cities counteracting the potential environmental benefits of urbanisation. Even many high-density cities fail to realise the environmental benefits of compact development, owing to fragmented markets, transport bottlenecks and spatial segregation of activities.

Cities are becoming increasingly unequal. Wage and income inequality in cities tends to be greater than in non-urban places, and this gap is growing. Inequality in cities has been rising faster than overall inequality across regions and countries in recent decades. Moreover, in many countries there appears to be a positive relationship between city size and inequality: larger cities tend to be richer but also more unequal. This holds true even after controlling for things like industrial structure and the skill composition of the workforce. Such a development gives particular cause for concern when seen against the backdrop of demographic trends towards greater concentration of population and activity in larger cities.

> There appears to be a positive relationship between city size and inequality in most countries: larger cities tend to be richer but more unequal.

Figure 4. **Trust tends to be lower in large cities**



Source: OECD calculations based on Eurostat Urban Audit Perception Survey, EU only, 2012.

The factors underlying greater inequality disproportionately affect particular groups and make it harder for them to improve their life conditions. Vulnerable groups in large cities are often concentrated due to spatial sorting and accessibility/ mobility issues. This, in turn, may contribute to the observed negative relationship between citizen trust and city size. The causes of rising inequality in cities are by no means unique to them: many of the factors that underlie rising inequality overall are simply more pronounced in cities. Skill distributions, for example, tend to be more dispersed in cities, and many cities are specialised in sectors where wage dispersion is relatively large. Others specialise in non-market services or construction where growth in the past three years was slowest. However, there is also evidence that inadequate urban policies and planning – particularly when they result in major disparities in service quality and delivery – can exacerbate spatial segregation and inequalities within cities, making it harder for vulnerable groups to improve their lives.

These issues are all connected to the quality of life in cities. Of course, policies fostering economic growth, environmental sustainability and inclusion can also contribute to urban quality of life. Yet the reverse is also true: steps to improve liveability, by, for example, encouraging the supply of good-quality mixed-income housing, creating attractive urban amenities and public spaces, or adapting cities to population ageing, can enhance liveability while also contributing to these other socio-economic goals.

Why do governments need to think about cross-cutting urban policy frameworks?

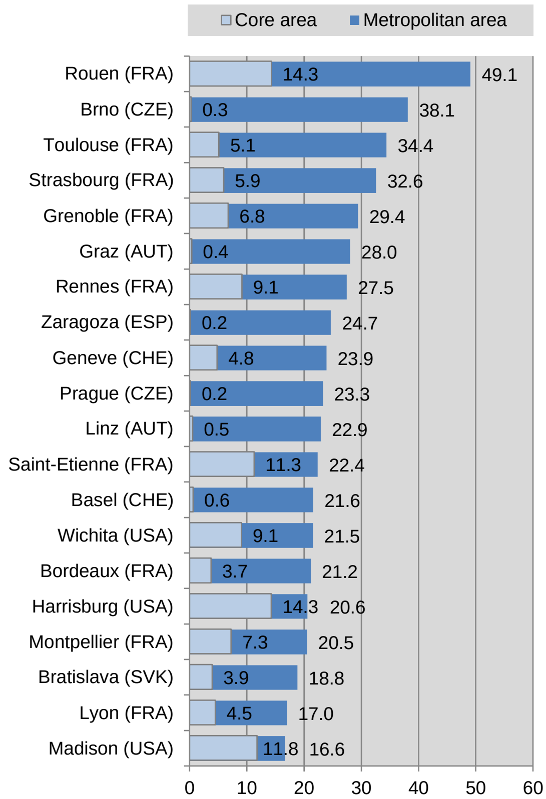
Many OECD cities struggle to realise their potential as generators of prosperity, innovation and well-being. While major cities tend to be large contributors to growth, many OECD cities continue to underperform national economies. During the dozen years up to the global crisis, 15 of the worst performing OECD regions in terms of growth were predominantly urban, with a combined population of over 16 million; they included such important urban areas as Grande Porto (Portugal), Hainaut (Belgium), Hyogo (Japan) and Berlin (Germany). For policy makers, the performance of these and similar regions must be seen as both a huge challenge and tremendous untapped opportunity: enhancing the dynamism of such urban centres could, on its own, have a palpable effect on the aggregate performance of the countries concerned and might also generate positive spillovers for neighbouring regions. Even more successful metros face growing congestion, increasing social disparities and environmental challenges. Many have yet to regain economic dynamism in the wake of the crisis. Cities are reforming and innovating at an unprecedented pace to respond to these challenges, but their efforts are often undermined by a lack of coherence between national and city-level policies.

Policy coherence across levels of government is essential if cities are to function well, and requires national leadership. Density of opportunities for contact and exchange creates tremendous potential for the employment of diverse talents and great fertility for innovation. However, it also implies greater need for policy coherence, particularly in periods of dynamic change. The actions of households and firms, as well as the interactions among different strands of public policy, typically have larger positive or negative spillover effects in cities than in less dense places. In cities, governments at all levels need to address the inter-related problems of economic growth, environmental sustainability and social inclusion in a coherent, integrated way. Well-designed national policy frameworks can help countries and cities achieve this end:

- **To a great extent, national governments establish the ground rules for cities.** National (and, in some federal systems, state/provincial) legislation typically defines cities' responsibilities, powers and, crucially, revenue sources. Attention to the basic legislative framework for cities is essential but it is too often overlooked. Fiscal frameworks, in particular, may create powerful incentives for city leaders that contradict other national policy priorities, e.g. when the tax system makes greenfield development more attractive to cities than infill.

Figure 5. **Administrative fragmentation is not only a problem for large metropolitan regions: Many smaller cities are also highly fragmented**

Metro areas with the highest territorial fragmentation (Number of local municipalities per 1 000 inhabitants)



Source: OECD Metropolitan Database.

- **Much national urban policy focuses on problems rather than potential.** National governments intervene in almost all the policy domains that affect cities, but explicit "urban policies" are often narrowly framed at national level. They are frequently conceived in response to specific urban problems, such as social exclusion, infrastructure bottlenecks or a deliberate desire to steer settlement patterns across the national territory. As a result, policies often target only what are deemed to be particularly "problematic" cities or neighbourhoods. The broader needs of cities are often poorly understood, as are the effects on urban places of national policies that governments may not consider to be "urban policy".
- **Inter-municipal co-ordination typically requires support from higher levels of government.** There has been increasing attention in recent years to the benefits of governing cities as functional economies rather than administrative units. The greater Chicago tri-state area in the United States, for example, is home to no fewer than 1 700 governmental authorities of various kinds. Even relatively modest-sized urban agglomerations are often quite fragmented. The evidence suggests that leadership from higher levels of government is often required to bring about the cross-jurisdictional co-operation among municipalities that is needed in complex metropolitan areas.

Identifying and promoting links between economic, environmental and social goals is both possible and crucial to building cities that work. Sustainability must be pursued in all its three dimensions – economic, social and environmental:

Figure 6. **Sustainable development requires a search for policy complementarities**

	Efficiency	Equity	Environmental sustainability
Economic policies	**Sustained growth**	Economic reforms may increase equity	Green growth policies can improve sustainability
Social policies	Social cohesion can increase efficiency (e.g. trust, security, knowledge)	**Social cohesion**	Inequality can be reduced without environmental harm (e.g. replace fuel subsidies with transfers)
Environmental policies	Green growth policies can boost innovation and efficient resource use	Environmental degradation tends to hit disadvantaged groups more	**Environmental sustainability**

Source: OECD (2011), *OECD Regional Outlook*, OECD Publishing, Paris.

- **Public transport solutions** can deepen labour markets and reduce commuting time and costs for workers (productivity and well-being), reduce greenhouse gas emissions (environmental sustainability), and increase access to jobs, education, healthcare and recreation (social sustainability) – all of which serve to enhance liveability.
- **Smarter infrastructure** can reduce business costs and speed up transactions (productivity), reduce transport-related carbon emissions (environmental sustainability) and widen access to educational, social and cultural opportunities (inclusion and liveability).
- Enhancing a city's **innovation potential** (higher productivity) may require it to improve environmental quality (sustainability) and local amenities (liveability) so as to attract and retain individuals with very high levels of human capital.

Domestic governance is almost entirely multi-level. Although many policy domains were exclusively under national jurisdictions in the past, nowadays almost all fields of domestic policy are areas of shared responsibility. This implies that capacity issues and vertical co-ordination challenges are pervasive. Policies affecting cities are certainly no exception:

- **Neither cities nor national governments alone can address competitiveness challenges.** In a globalised world, the largest cities compete across international frontiers for trade, investment and skilled labour. Yet most labour markets are local. Responses to labour-market challenges thus require significant local input, even where programmes are national in scope. Effective co-ordination of labour-market policies among national and urban-level governments is therefore important. Similarly, aspects of skills development and infrastructure provision that affect the economic attractiveness of cities can only be addressed via co-ordinated action across levels of government.

- **Environmental policy requires a multi-level approach.** While economy-wide measures (e.g. carbon pricing) are critical to the response to climate change and other environmental threats, policies affecting urban form and infrastructure, as well as service provision (e.g. public transport), can reduce the cost of addressing environmental challenges. Yet what cities can and cannot do to tackle environmental problems depends greatly on national policy frameworks; where policies are not aligned, city-level initiatives can achieve poor, or even perverse, results.
- **Inclusive growth requires both economy-wide and place-based measures.** Many cities host large concentrations of people who suffer from various forms of exclusion. Social exclusion is not only about income inequality but also about *barriers to opportunity that affect specific groups*. It is a multi-dimensional phenomenon requiring a multi-dimensional response. Much of the policy response may indeed need to be national (i.e. economy-wide) in scope. However, there is a clear spatial dimension to exclusion, suggesting that place-based initiatives also need to be part of the solution, particularly as regards skills, housing, access to services and jobs, and internal mobility.

Achieving policy co-ordination and realising potential synergies among different strands of policy also require a holistic view of the range of policy instruments deployed – in other words, the right policy mix. These instruments range from moral suasion, educational campaigns, voluntary schemes and codes of practice ("soft" instruments), to taxes, fees and market-based mechanisms, direct regulation, technology promotion and public investment in the provision of key infrastructure and services. The right policy mix is not merely a condition for *effectiveness*; it is also, in many contexts, a condition for *acceptance*, determining the extent to which different actors bear the cost of a policy. For instance, even if a problem, such as greenhouse gas emissions, can be addressed by a range of urban policy instruments, *the choice of instruments often implies distributional consequences, determined by the extent to which different actors bear the costs of a policy*.

Nevertheless, different strands of policy often work at cross-purposes with one another. For example, property tax systems in much of the OECD still favour single-family homes over multi-occupancy dwellings or owner-occupied housing over rental accommodation. The preference for single-family units constitutes stimulus to sprawl, while privileging home ownership tends to reduce labour-market efficiency. Both are questionable on equity grounds. Yet such tax arrangements coexist with national and city-level policies intended to curb sprawl, improve labour-market efficiency and reduce inter-personal inequalities. Similarly, efforts to reduce congestion in many places – and thus to enhance efficiency, environmental quality and urban liveability – meet resistance because transport and land-use policies are not integrated. Local authorities in many cities see parking as a critical revenue source and are threatened by policies that aim to restrict the flow of traffic or reduce the availability of city-centre parking.

As a result, cross-cutting policy challenges tend to be addressed by fragmented, narrowly sectoral responses. For instance, transport planners have often treated reduced travel times as the key metric of success – confusing "accessibility" with "mobility". This results in transport-oriented solutions (e.g. increasing road capacity), even when changes in land-use planning (e.g. mixed-use development or relocation of some facilities and services) might generate better outcomes over the long term. The transport-driven approach, in turn, often contributes to sprawl and growing congestion. Paradoxically, it can also increase the segmentation of the urban space: large transport arteries can link distant places while simultaneously impeding transversal flows between places that are closer together. In a similar fashion, public intervention in housing markets has often had unintended and undesirable effects on labour markets, chiefly by reducing labour mobility; this is true of policies to promote home ownership as well as many social housing policies.

Achieving real co-ordination across sectoral policies is a challenge for most national governments, given the complex array of institutions involved. A review of OECD member countries in mid-2013 found that the average government had 6.7 ministries or national-level departments or agencies with explicit urban policy functions; many had 8 or more. Not surprisingly in view of this, 20 countries had clearly designated "lead" ministries for urban policies and 14 had some sort of national-level co-ordinating body for urban issues, though the remits, composition and powers of such bodies varied widely. However, there was some overlap between these groups: 11 countries had both co-ordinating organs *and* lead ministries, but a further 11 had neither.

Towards a framework for national urban policies

A growing number of OECD countries are adopting national frameworks, visions or strategies for cities. This reflects increasing awareness of the need for policy co-ordination for cities. While 18 countries still had no overall framework in place in mid-2013, a number were in preparation and others were encompassed by broader regional or territorial development strategies. Moreover, many of the national-level co-ordinating bodies referred to above have been created in the last few years, a further indication of governments' desire for a more integrated, coherent approach to urban policies. The breadth of these initiatives varies widely: many focus heavily on social policy, but a growing number are increasingly transversal in scope.

Designing and adapting national urban policy frameworks to improve co-ordination and policy coherence requires:

- identifying policies that have a particularly strong effect on urban development, even if they are not explicitly designated as "urban"

- analysing the interactions between these policies with a view to avoiding incoherence and, where possible, identifying potential synergies among them.

An urban policy review should consider five broad issues: money, place, connections, people and institutions. These issues should nonetheless be considered as they relate to one another in urban areas, rather than as policy "silos" to be managed in isolation. Two of the five – money and institutions – are effectively transversal, influencing all of the others. The other three concern the central issues around which sectoral policies must cohere. While most questions will be relevant to all countries, the relative importance of different issues is likely to vary considerably, depending on, among other factors, a country's pace of urbanisation, constitutional framework, settlement patterns and level of economic development.

Figure 7. **The five broad issues of urban policy reviews**

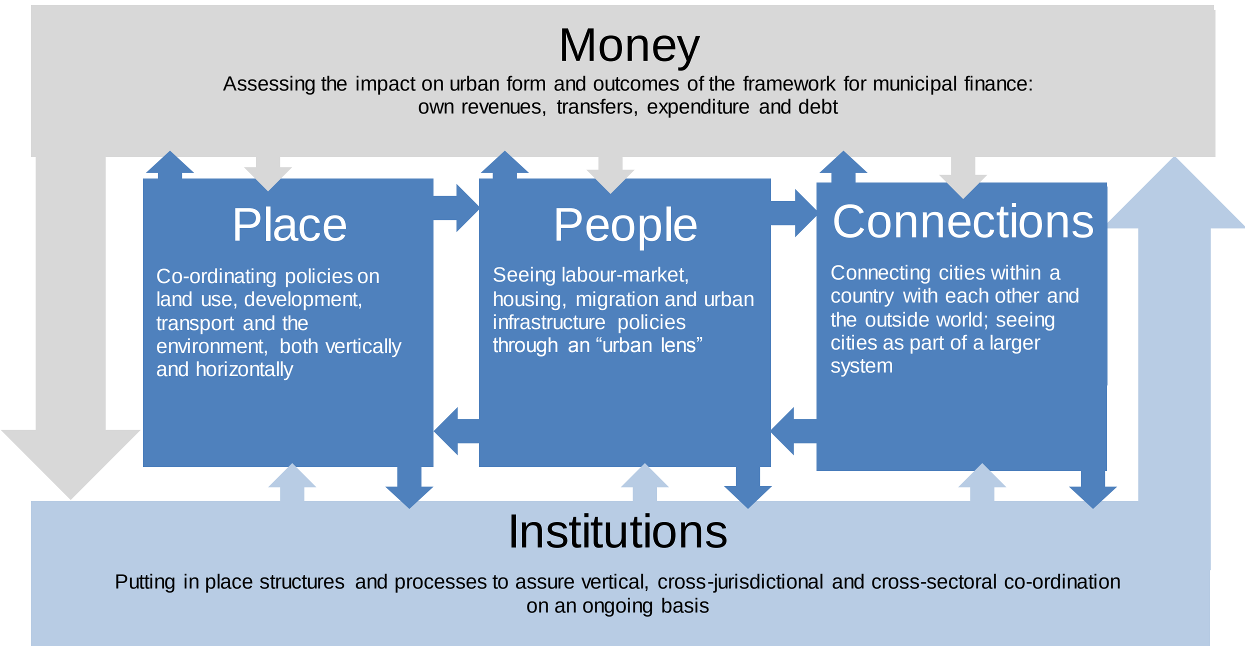


Table 1 presents **a simplified version of such a diagnostic tool**, setting out the main questions that it could encompass.

Table 1. **The five broad issues of urban policy reviews**

Money	**Municipal finance systems must be designed with a balance of efficiency, equity and environmental goals in mind.** While most governments do not include the tax system as a key element of their urban strategies, a review of urban policies should begin with an analysis of four facets of the fiscal framework as it affects cities: own revenue, expenditure, transfers and debt. • Do revenue-raising mechanisms encourage cities to pursue economic development in a sustainable way? Do they create incentives that contradict other important policy goals? And do they link the costs and benefits of development effectively? • Do municipalities have the capacity and the incentive to manage spending efficiently? • Are municipal revenue sources sufficient to avoid over-reliance on transfers from above? Do fiscal equalisation systems and other transfers strengthen incentives for cities to enhance their own revenue bases and improve expenditure management? • Do rules governing municipal borrowing avoid moral hazard (e.g. expectation of bailouts) while leaving cities scope to borrow where necessary for needed investments? • Do fiscal rules encourage inter-municipal collaboration or complicate it?
Place	**Urban form matters.** How cities develop spatially and how people and goods move through urban areas help determine whether the economic benefits of agglomeration outweigh the costs. Spatial planning decisions also affect citizens' quality of life directly, including ease of access to jobs, key services and amenities. Moreover, urban attractiveness, amenities and setting contribute to a city's distinct character, which can affect both the quality of life for residents and its economic prospects. This is an area where the need to govern cities as functional rather than administrative entities is especially acute, since un-coordinated land-use decisions by adjoining municipalities can lead to very bad outcomes. The assessment of national policies affecting the spatial dimension of urban development should focus on the coherence of different aspects of spatial policy and the flexibility of policy instruments: • Do national legislative regimes affecting land use in cities encourage or impede the integration of economic and spatial development strategies? Do they support dynamic, inclusive strategic urban planning in place of a focus on periodic city master plans? • Does national legislation affecting land use foster inter-municipal co-operation and/or governance arrangements that correspond to functional needs as opposed to administrative boundaries? • What mechanisms ensure that municipal development priorities do not undermine outcomes across an urban area? Are planning processes at different scales coherent with one another? • What scope is there for using economic, as opposed to planning, instruments (congestion or parking charges, development fees, etc.) to shape the urban space?
Connections	**Because cities do not exist in isolation, connectivity at all scales is increasingly important to the performance of national urban systems.** Some national governments concerned with the impact that urban areas can have on national growth have considered fostering systems of cities to boost development potential by establishing stronger links between cities of varying sizes, particularly through transport. National decisions about major infrastructure networks can have a tremendous impact on cities' competitiveness and growth potential. To make the most of cities' growth potential, it is important to facilitate transport links among metropolitan areas and between metros and smaller urban centres. Governments may set targets for cities to fulfil different roles, (e.g. "Innovation Cities", "Enterprise Cities", "Eco-Towns") or increases linkages between metropolitan areas and smaller cities in a greater region (e.g. proposals for the Seine valley axis between Paris and Le Havre). Among the key questions to consider are the following: • What arrangements exist to co-ordinate the planning and management of national, regional and local infrastructure developments? Are cities' incentives aligned with the need to reduce the reliance on automobile transport? • How do national policies for air, land and sea transport shape the economic prospects of individual cities and the development relationships among cities? How are investments in transport co-ordinated across modes, especially where different levels of government may play different roles from one mode to another? • How easy is it for people and goods to travel from one metropolitan area to another? From metropolitan areas to smaller urban areas? Within metropolitan areas? • Are environmental and transport planning integrated? Do cities have the flexibility and capacity to integrate land-use and transport planning (e.g. via financial instruments like developer fees)?

People

A wide range of national policies are aimed directly at improving the economic prospects, well-being and opportunities of people. Many of these have significant implications for cities, not simply because most of the intended beneficiaries live in urban areas but also because national policies often impose additional, sometimes unforeseen, burdens on cities (e.g. immigration). This is not to suggest that national governments should necessarily cede such responsibilities to regions and cities. Rather it implies that a lively dialogue across levels of government is needed and that national governments should be sensitive to the local implications – intended or not – of their policies. In other cases, national policies may simply need local adaptation to achieve maximum impact (e.g. active labour-market policies). In a number of spheres, the key issue for governments to consider is this balance between national standards and local adaptations:

- *Labour markets.* What national policies exist to foster a co-ordinated approach to workforce development within an urban area? How can national labour policies effectively address concentrations of under- and unemployment in cities? What should be the division of responsibilities between levels of government in the design and implementation of active labour-market policies?
- *Housing.* How are national-level housing policies co-ordinated with local economic development and social policies? Do national policies support mixed-use development? To what extent do national affordable housing targets take into account municipalities' spatial, economic development and infrastructure plans? How are national housing interventions co-ordinated with national policies in other fields, particularly transport and labour markets? Do tax or regulatory policies create a bias towards (or against) home ownership rather than home rental? Or towards single-family houses rather than multi-family dwellings?
- *Demographic change*. Does a national strategy for integrating immigrant populations into the economy exist? If so, are urban areas identified as having a specific role in the strategy? Do national government transfers for social programmes take into account the share and diversity of an urban area's immigrant population? How strong is the urban dimension of policies aimed at addressing population ageing (e.g. attention to infrastructure needs and access to healthcare services for an ageing population)?

Institutions

Institutions can facilitate or hinder achievement of the kind of policy co-ordination cities need. Understanding the impact of national policies on urban development requires an understanding of the institutions that can enable greater coherence between national economic, social and environmental objectives and urban-level policies. Given that urban policies affect multiple sectors and multiple levels of government, both horizontal and vertical co-ordination is needed. Horizontal co-ordination at the national level among ministries responsible for urban-relevant policies can range from informal co-ordinating bodies to formal agencies with regulatory authority. At the local level, horizontal co-ordination takes the form of interactions among municipalities in the same functional urban area, and can also range from informal, voluntary arrangements to elected authorities with regulatory powers. Vertical co-ordination among the levels of government requires mechanisms for managing relationships between the national and municipal levels, the regional and municipal levels, and the national and regional levels.

- *Horizontal co-ordination at national level.* Is there a national vision or strategy for urban policies? How is progress monitored and which institution is responsible? What national institutions exist to co-ordinate policies that affect urban development? What authority do they have (e.g. advisory, executive)? Does one agency have authority for co-ordinating the urban-relevant policies of other agencies? What mechanisms/institutions exist to co-ordinate public investment in cities across different national sectors? Across levels of government? What mechanisms exist for co-ordinating activities of multiple national ministries operating at the urban level?
- *Inter-municipal co-ordination.* Which national policies encourage co-operation/networking among cities and reduce the incentives for them to engage in unproductive forms of competition? Are there any national policy barriers to inter-municipal co-ordination? Are there national guidelines for inter-municipal co-ordination on service delivery or infrastructure expansion and maintenance? Does national policy allow or encourage inter-municipal contracts for service provision? Do transfers from higher levels of government include conditions that incentivise inter-municipal co-ordination?
- *Vertical co-ordination*. How are urban and regional policy priorities co-ordinated? What level of autonomy do sub-national actors have over urban administration and management? Does the national government designate metropolitan or regional-scale authorities to manage national funds and policy implementation? Does the national government require co-ordination between municipalities and a regional or metropolitan-level agency on the development of certain plans or the implementation of certain policies?

For further reading

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An integrated approach to economic development

Why promote rural-urban linkages?

What are the different governance approaches to rural-urban partnerships?

Which strategies build effective and sustainable rural-urban partnerships?

Creating Rural-Urban Parnerships: Improving Quality of Life

The current practice of distinct rural and urban policies often fails to achieve an integrated approach to regional economic development. As a consequence, policies may result in little awareness of urban-rural relationships and may introduce barriers to collaboration between urban and rural actors to achieve common objectives.

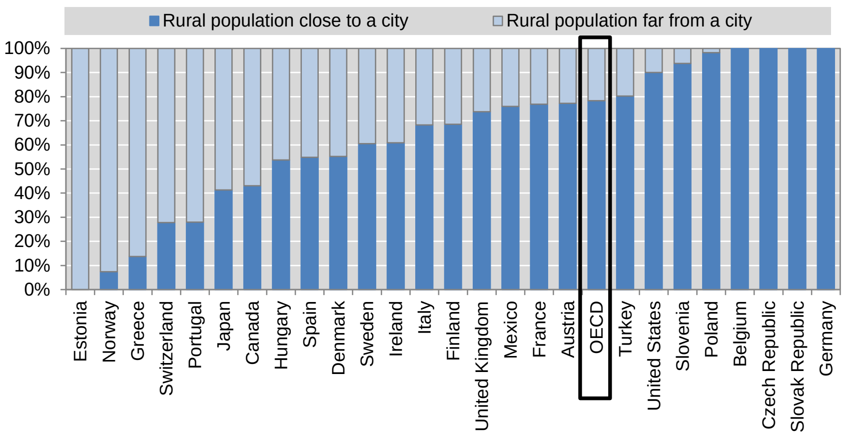
Urban and rural areas are deeply interconnected and, if well-managed, these connections can benefit both places. In the OECD, the share of rural population living close to a city is almost 80% (Figure 1). Rural regions close to cities show on average higher growth rates of population and GDP.

The interdependence between urban and rural areas depends on a complex set of linkages, including demographic, labour market, consumption and environmental ties. Each linkage encompasses a different geography, which should be considered when governing urban-rural interactions. Policy makers are in need of instruments to manage these interactions and to exploit the complementarities of urban and rural places for stronger economic development.

A rural-urban partnership is a flexible tool to manage rural-urban interactions, tailored to the needs of a particular place. As local and regional administrative boundaries often do not reflect the realities of these linkages, rural-urban partnerships are arrangements to respond to them. These partnerships help mobilise a large number of stakeholders belonging to the public and private sectors, as well as civil society, in order to achieve one or more common development objectives.

Figure 1. **Most rural residents live near a city**

Share of rural residents by region type (2012)



Note: Countries excluded are those for which the extended classification of regions was not available or because were no Territorial Level 3 regions classified as "rural".

Source: *OECD Regional Database*.

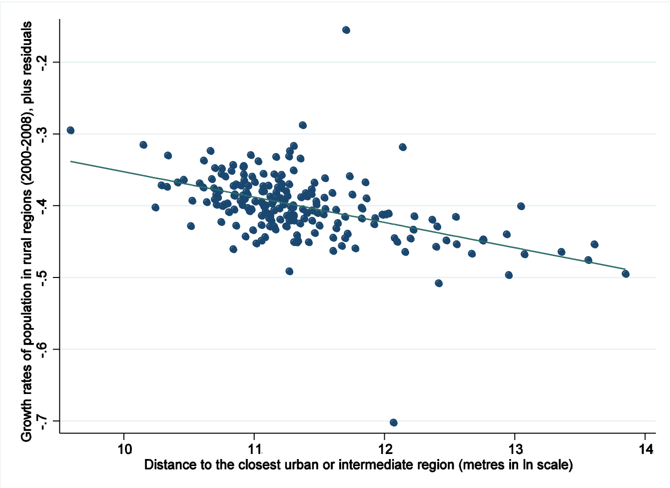
Stronger rural-urban interactions can enhance regional development

Stronger connections between urban and rural areas facilitate better access to jobs, amenities and different types of services. In the OECD, proximity to urban centres is associated with higher growth rates in terms of both population and GDP (Figures 2-3).

Urban and rural areas can provide resources that are relevant for the development of both areas, since they are complementary. However, these resources must be recognised or made explicit to cultivate interest in co-operation. Rural areas are diversified economies, with a sectoral specialisation often similar to that of many urban areas. However, they are on average endowed with a higher availability of land for businesses and residents, natural resources and amenities. They also represent a reservoir of entrepreneurial capital, given the high share of small and medium enterprises and self-employed workforce. In addition, rural areas provide ecosystem services – e.g. related to water, waste, air quality and biodiversity – which are crucial for the development and quality of life in the whole territory and that keep it attractive. Conversely, urban areas provide access to larger and thicker markets, advanced business services, urban amenities, public services (e.g. education, healthcare, and consumption), as well as skills, infrastructure and capacity of administration.

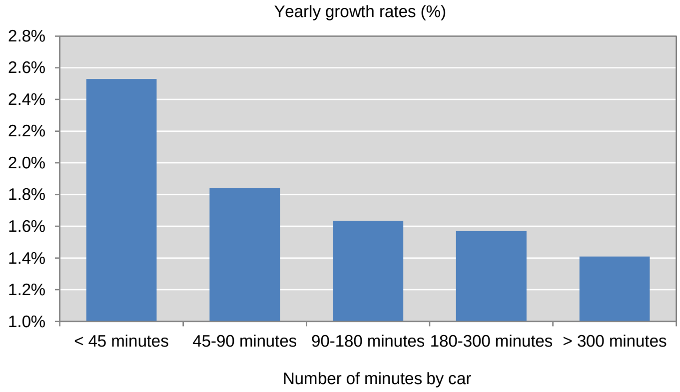
Figure 2. **The growth of rural regions can be explained by the proximity to urban or intermediate regions**

Population growth in rural regions and distance to the closest urban or intermediate region



Source: OECD (2013), *Rural-Urban Partnerships. An Integrated Approach to Economic Development*, OECD Publishing, Paris.

Figure 3.**Large metro regions support GDP growth in surrounding rural areas**



Source: OECD Regional Database.

Rural-urban partnerships can help achieve different development objectives

Many reasons exist for urban and rural stakeholders to co-operate. A list of key purposes of rural-urban partnerships is presented in Table 1, based on several international examples. Depending on the specific purpose of the partnership, the type of actors involved in rural-urban co-operation (e.g. private versus public) changes. For example, a partnership that aims to market a region and its economic activities will have firms as key actors, while in partnerships to manage land use and preserve landscape, public actors are likely to have a greater importance.

Rural-urban partnerships can be identified as single-purpose versus multiple-purpose in scope. Single-purpose partnerships often adopt a sectoral approach, meaning that partners co-operate on a specific issue, such as, for example, management of water resources, conservation of the environment or other services. On the other hand, a multiple-purpose partnership has a wider scope of activity, in which a specific entity manages initiatives on several issues, using an integrated approach and a more holistic vision of the territory. There is no optimal scope for rural-urban co-operation, but multi-purpose partnerships have the potential to yield greater benefits. For example, a partnership aimed at boosting regional competitiveness that also co-operates on environmental policy and land planning should potentially be able to manage the complementarities between different policy objectives.

As a result of promoting linkages, there are a range of benefits that can be derived. These benefits can be framed using basic economic concepts. While they apply to other forms of collaboration beyond rural-urban partnerships, there are some commonly found specific benefits in international examples. The benefits that can be achieved through rural-urban co-operation can be classified in five categories.

Table 1. **Common purpose for partnerships**

Category	Focus of co-operation
Economic development	Territorial promotion
	Supply chain
	Urban agriculture
Natural assets management	Management of water sources
	Biodiversity
	Land-use management
	Landscape and environmental preservation
Service provision	Transport
	Healthcare, social care, education
	Waste disposal
Political relevance/ access to funds	Political relevance/visibility
	Advocacy for funding

Box 1. **What is a rural-urban partnership?**

A rural-urban partnership is defined here as the mechanism of co-operation that manages urban-rural relationships to reach common goals. Depending on the purposes of the partnership, the actors involved will vary from public sector or private sector only, to a mix of public, private and other actors. As employed here, the concept of rural-urban partnership has distinct features, involving a collaboration with:

- an awareness of the interdependency of rural and urban areas in a given space (functional region)
- a membership mix that includes the relevant rural and urban representatives
- a framework for action or objectives that represents mutual interests (urban and rural)
- initiatives aimed at yielding collective benefits to urban and rural partners
- an organisational form that is fit for purpose to help realise the partnership's objectives.

- ***Production of public goods*. Territories may need to supply some services or infrastructure – but also "softer" factors such as a strategic vision or a regional brand.** This requires the participation of a certain number of partners, either local governments only or a partnership involving also the private sector. Examples include joint efforts to market an entire region and its products or promoting a better integrated food supply chain, by connecting rural firms to larger markets.

- ***Accounting for negative externalities*. Many decisions taken by local authorities produce effects that can easily cross local administrative boundaries.** For example, land-use policy carried out at city level can be ineffective if not co-ordinated with surrounding rural municipalities, encouraging inefficient sprawl, loss of landscape and loss of services provided by agriculture and related activities. Rural-urban partnership can help co-ordinate land use, housing, transport and even taxation in order to account for externalities among close-by local government units.

- ***Greater economies of scale*, in order to provide better and cheaper goods and services.** Neighbouring local authorities often work together to reap the benefits of economies of scale, which are crucial for the economic viability of services. For example, several local government units in urban and rural areas can group their actions for the provision of different public services, including education and healthcare, through an intense use of ICT.

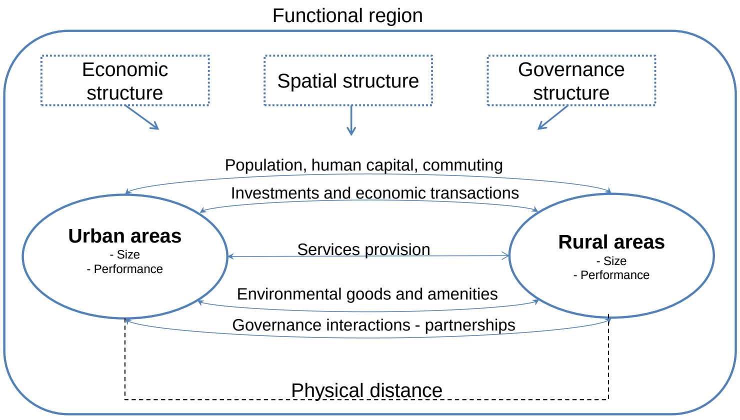
- ***Overcoming co-ordination failures*. Interdependent urban and rural areas need co-ordination in policy making.** A common economic development strategy at a scale that accounts for urban and rural interdependence helps setting common priorities, matching investment decisions and building a common vision for development. Rural-urban partnerships are used to gather information and produce collective knowledge to inform policy.

- ***Capacity building*. Co-operation brings about exchange of information as well as of experiences on how to solve specific problems.** Stronger local capacities sometimes emerge only as an unintended result of co-operation rather than a driver. This facilitates a process of learning among the partners, especially the smaller ones, which end up improving local capacity to provide efficiently environmental services and other public goods. There are examples where co-operation among local authorities helped smaller rural areas to manage conflicts for land use between farming and housing activities, thanks to skills and capacity provided and shared together with larger municipalities.

Rural-urban partnerships cover different geographies

Rural-urban interactions are complex and include a wide range of relationships (Figure 4). As a consequence, the relevant scale for developing a partnership will depend on the type of relationships to be promoted and managed that identify a functional region. A functional area for rural-urban linkages is defined here as a geographical space with strong socio-economic, cultural or environmental relationships that generally cover the territory of contiguous and interdependent administrative units (e.g. municipalities). It follows that rural-urban partnership must target

Figure 4. **Urban-rural relationships involve interactions that determine a functional region**



functional regions that include both urban and rural territories, even if in differing proportions. Flexibility in the geography for governing these interactions is an important factor to achieve effective results. Functional regions can trigger a change in the way policies are designed and implemented, better integrating and adapting them to the local needs. Several international examples highlight the different types of places and the varying geographies of those partnerships (Table 2).

Table 2. **Examples of different rural-urban partnership geographies**

Example	Type of geography of the partnership
Nuremberg, Germany	Functional region. A cluster of 33 districts, it encompasses 4 different functional metropolitan areas.
Forlì-Cesena, Italy	Administrative region (province) as a framework, but high flexibility, beyond provincial boundaries.
Rennes, France	Functional region with administrative acknowledgement. A formally recognised association of 37 municipalities with legal powers, smaller than a labour market area.
Prague, Czech Republic	Informal co-operation between Prague and municipalities located in the Central Bohemia region.
Geelong, Australia	Functional region. It includes five municipalities, identifying a territory slightly larger than a labour market area.
Lexington (Kentucky), United States	Functional region of several counties, encompassing a territory whose smallest possible boundary is that identified by the Lexington Metropolitan Statistical Area.
Central Finland	Functional region including several contiguous rural municipalities.
West Pomerania, Poland	Functional region whose boundaries are identified by the regional government.
Beira Interior Sul, Portugal	Functional region including a city and surrounding rural areas.
Extremadura, Spain	Functional region (*comarcas*). Cluster of municipalities defined by common cultural, geographical and historical elements.
North Brabant, Netherlands	Functional/administrative. It is a set of five non-contiguous cities located within the same province.

Source: OECD (2013), *Rural-Urban Partnerships: An Integrated Approach to Economic Development*, OECD Publishing.

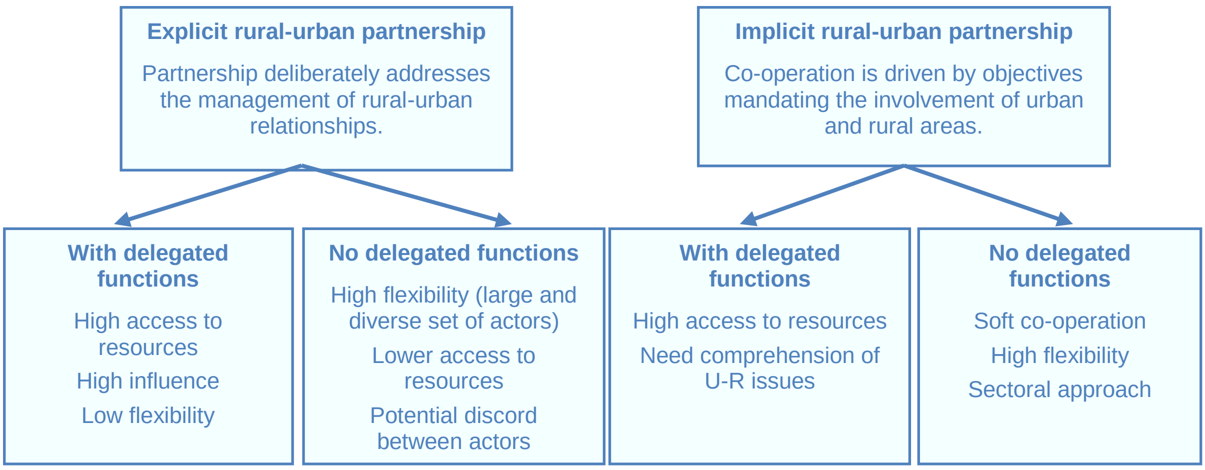
Box 2. **Steps to promote rural-urban linkages**

- ✓ **Rural-urban co-operation can be easier where differences in size and economic conditions among urban and rural territories are small and where proximity is high.** In places with low population density, declining economic or demographic conditions and large distances between actors, co-operation can be more difficult. This can create a misalignment of interests between urban and rural stakeholders.
- ✓ **When partners are able to work at the appropriate scale, the opportunities to benefit from co-operation increase.** Co-operation at the scale of functional regions between urban and rural stakeholders should deal with potential overlaps with other existing levels of government.
- ✓ **There can be a trade-off between legitimacy and efficiency.** Rural-urban partnerships may be challenged by a limited direct political representation, which can put their legitimacy in question. More specifically, the more formal the recognition given to the partnership and to its competences, the greater the need to provide it with adequate legitimacy and political accountability.
- ✓ **Transaction costs can represent barriers to partnerships.** Transaction costs are the costs directly associated with the additional administrative burden that co-operation entails. No matter which form of governance is adopted to manage urban-rural relationships – from the creation of a new formal body to the most informal co-operation – these costs may discourage the formation of the partnership. Starting with a focus on few clear objectives can help co-ordination, reduce dispersion of resources and facilitate the recognition of the partnership's outcomes.
- ✓ **Information on functional regions and the monitoring of achievements can facilitate the partnership.** Co-operation at the level of functional interdependencies should be based on detailed and updated quantitative information on socio-economic conditions in urban and rural areas and on the flows of goods and information between them. It is crucial to set precise goals of co-operation that can be assessed, at least partially, through objective measures. This also involves facilitating a greater availability of socio-economic data at small spatial levels, so that they can be aggregated to build information on functional regions.

What are the different governance approaches to rural-urban partnerships?

There are four ways to classify rural-urban collaborations based on the partnership type and level of delegated authority (Figure 5). The partnership can be "explicit" or "implicit". The "explicit" rural-urban partnerships deliberately set out to cultivate a rural-urban partnership or manage rural-urban relationships. This "intent" is reflected in the objectives of the partnership agreement. In contrast, the "implicit" group shows no such stated objective. In these cases, the collaboration that emerges is driven by other local development objectives mandating the involvement of urban and rural areas. On the other hand, delegation of authority means that the partnerships have more formal recognition, as they have been entrusted with the responsibility to act. The choice will depend on the specific country's institutional and cultural context.

Figure 5. **The four governance approaches to rural-urban partnerships**



Explicit rural-urban partnership approach with delegated functions

This approach consists of creating a supra-municipal authority that can be either directly or indirectly elected. This allows it to directly manage rural and urban issues and present a unified voice on behalf of the region. It is able to effectively incorporate and then work with smaller peri-urban and rural municipalities towards the realisation of an overall vision for the region. Such partnerships may even develop their own-source tax revenue to ensure a stable source of financing. Nonetheless, there can be some drawbacks, such as the high costs for setting up and operating the inter-municipal body, less local autonomy and rigid geographical boundaries.

Box 3. **Example: Rennes Métropole**

The French *Communautés d'agglomération*, the inter-communal structure of Rennes Métropole (RM), is an example of a relatively "hard" metropolitan governance model. Its governance structure is reshaped to fit or approximate the functional economic area. The Rennes case illustrates a partnership that enjoys a stable source of financing derived from its own-source tax revenue and strong implementation tools (*Schéma de cohérence territorial*, SCoT). Municipalities delegate to the RM important competences in several domains, including part of the local taxation.

Explicit rural-urban partnership approach without delegated functions

The second model is an explicit rural-urban partnership without delegated functions. This rural-urban governance model calls for a softer governance approach made up of partnerships that reflect "minimal" government restructuring. These entities are a step down from the creation of a new layer of government, but a step up from *ad hoc* arrangements, as there are partnership structures in place with the responsibility of managing the different relationships and projects proposed. This model offers more flexibility to structure a rural-urban partnership. It also has the potential to directly manage rural and urban issues, speak with one voice and manage a wide range of functions. However, it can go a step further, as it offers wider scope to involve a large spectrum of actors: citizens, academia and the business community. With this approach, it is important to take steps to build trust and strengthen connections. This is particularly true where no tradition of co-operation between urban and rural actors exists and rural members fear being dominated by urban members. These types of partnership may be recognised as having the competence for specific issues, such as spatial planning.

Box 4. **Example: Nuremberg Metropolitan Region**

The partnership is a voluntary municipal alliance legally defined as a "statutory body *sui generis* under public law". It was formally set up in 2005 under an agreement between 60 politicians and various stakeholders. It grew out of a combination of top-down and bottom-up processes. The principle of "one voice, one vote" has helped build trust and overcome partners' suspicions of the big city, since the rural counties outnumber the cities and could have dominated the partnership.

Implicit rural-urban partnership approach with delegated functions

This approach does not have the explicit aim of setting up a partnership to build a bridge between urban and rural areas. Instead it aims to manage more general issues, many of which connect rural to urban areas. This model illustrates the challenges faced by a governance tier trying to manage existing partnerships or induce partnerships between local authorities in a functional space. Depending on the circumstances, either "soft" or "hard" encouragement by a governance level may be needed to steer rural-urban partnerships. Certain circumstances (specifically, the existence of clear tensions between rural and urban towns, the size of the towns and the distance) help determine when there should be an explicit versus implicit approach to rural-urban partnership.

Box 5. **Example: Forlì-Cesena, Italy**

The case of Forlì offers a scenario with a high level of decentralisation (region to province); strong horizontal and vertical co-operation (between the regional ministry and the province); a high degree of collaboration (with multiple partnerships, largely bottom-up); and a geographical area with small towns that are well connected to their rural areas. The partnership role played by the provincial government is a much "softer" one. It facilitates and co-ordinates, guiding the rural-urban relationships in the territory.

Implicit rural-urban partnership without delegated functions

The implicit partnership without delegated functions is a soft, non-binding approach where co-operation is more bottom-up, occurs on an *ad hoc* basis and acts as a co-ordination mechanism for policy decisions. Co-ordination agreements for different purposes can have different administrative borders adapted to the specific characteristics of the activity or service provided. These solutions seem to work for single purposes but may be weaker in addressing

more structural and territorial challenges. It illustrates the effect of the obstacles to partnership. However, this model represents a crucial starting point. It facilitates the building phase, if one is needed, for trust and shaping the institutional and culture of the territory for more nuanced relationships. Among the drawbacks is less scope to ensure that the *ad hoc* initiatives are linked to regional, rural and urban strategies. Operating outside the institutional structure increases the risk of being ignored or going unsupported. This approach is used when there are barriers in place limiting engagement in a more robust rural-urban alliance, e.g. low interest in partnership with urban areas, low interest in partnering with rural areas and partnership and institution fatigue.

Box 6. **Example: Lexington, Kentucky, United States**

In the metropolitan region of Lexington, Kentucky, the main cities in Madison, Montgomery and Franklin counties plus the chambers of commerce in these cities, have established the Bluegrass Alliance. The Bluegrass Alliance is a rural-urban partnership to jointly market and support economic development in the region. The key feature of the partnership is its bottom-up, private-sector origin. The Bluegrass Alliance operates outside the political arena, because there is no political consensus for collaboration, but it has the tacit support of local governments. The Bluegrass Alliance shows that rural-urban collaboration in a network of linked local jurisdictions can succeed. However, it appears as a minimalist response to the potential of collaboration.

Box 7. **Steps to enable the governance of rural-urban partnerships**

- ✓ **Identify mutual benefits**. Co-operation can be aimed at recognising and compensating the actual contribution that both rural and urban stakeholders provide to the region's development. In addition, an equality of opportunities in rural and urban areas – e.g. in terms of quality of life and access to basic services – can motivate the formation of a partnership.
- ✓ **Set a cohesive governance structure**. Partners in rural-urban partnerships are not necessarily equal in terms of size, economic conditions and political weight. Each administrative unit may be reluctant to lose part of its functions to co-ordinate with other units. Developing a habit of working together and a culture of co-operation through multiple initiatives can help the formation and the stability of the partnership. In a cohesive governance, smaller structures and less politically influential actors should be given appropriate weight in the partnership's decision making. This can increase trust between partners and facilitate co-operation.
- ✓ **Consider financial sustainability.** Applying a functional approach to policy making may imply additional activities, structures and costs that discourage the formation of the partnership. Similarly, when co-operation is facilitated through financial incentives, a major challenge is to maintain the co-operation once the incentives decrease or disappear.

Which strategies build effective and sustainable rural-urban partnerships?

Policy makers should consider five main recommendations for building effective and sustainable rural-urban partnerships. National, regional and local authorities each have a role to play (Table 3).

Matching the appropriate scale

1. Promote a better understanding of socio-economic conditions in urban and rural areas and foster better integration between them. National and sub-national governments, through the production and use of data at the appropriate scale, can help the assessment of the socio-economic and environmental processes at work in urban and rural areas. This can increase awareness of territorial opportunities and challenges, and help identify the potential for co-operation. Territorial integration should be encouraged, by ensuring access to services, jobs and amenities in functionally integrated urban and rural areas.

2. Address territorial challenges at a scale that accounts for functional linkages between urban and rural areas. Governments should set up a framework to help urban and rural stakeholders co-operate across administrative boundaries and policy domains. One way is to encourage urban and rural actors to identify development strategy or projects around functional geographies, which should be flexible and embrace different potential urban-rural interactions. Using common planning instruments that allow urban and rural areas to jointly manage common challenges and opportunities should be encouraged.

Including the relevant public and private stakeholders

3. Encourage the integration of urban and rural policies by working towards a common national agenda. National urban and rural policies rarely contemplate any interaction between urban and rural territory. Likewise, the allocation of resources to contiguous urban and rural territories is often carried out without the acknowledgement of their *de facto* interdependencies. National government should encourage better integration across policy sectors, such as between agricultural and regional development policy. This can foster a dialogue between rural and urban actors that otherwise might work in isolation. Moving towards a common national agenda for urban and rural policy can help better manage urban and rural integration and take advantage of complementarities. Also, each government level should participate in and support the working parties and forums that are engaged in policy debates about rural-urban partnership. One way to do this is through better alignment of national and regional strategies on urban and rural development with locally devised projects and plans.

4. Promote an environment that supports rural-urban partnerships. Facilitating dialogue and co-operation between actors in functionally integrated urban and rural areas can be done by promoting inclusive governance approaches that overcome the challenges of mismatched size, resources, capacity and political power. Legal and regulatory policies that encourage rural-urban partnership should be introduced. One way of achieving this is by giving territories (local authorities) greater flexibility to find the most suitable form of co-operation for their particular needs. Another way is developing trust, by encouraging co-operation around “win-win” issues.

Learning to be more effective

5. Clarify the partnership objectives and related measures to improve learning and facilitate the participation of key urban and rural actors. Monitoring and evaluation should be based on a few clear indicators, defined and agreed upon in advance, that account for short-, medium- and long-term change. Being able to measure success in early stages on the basis of accepted indicators can support co-operative approaches in the future. Identifying difficulties early allows partnerships

to be more effective, because they can more easily revise existing arrangements. National government can set the criteria, while regional government can engage and help the partnership in the operational phase. The extent of monitoring activities should be related to the scope and the objectives of the partnership. Smaller projects require less intensive monitoring.

Table 3. **A strategy to build effective and sustainable rural-urban partnerships**

Strategy pillar	Recommendation	National	Regional	Local
1. Greater understanding of rural and urban conditions and linkages and better integration	Understand the different potential and challenges of urban and rural areas, through the use of robust evidence (production of data at the appropriate spatial level).	✔	✔	
	Encourage greater integration between urban and rural areas through better access to services, jobs and amenities.	✔	✔	
	Use the rural-urban governance framework to help identify the different types of partnerships in the territory and to better target support.		✔	✔
2. Address rural-urban challenges with a functional approach	Look beyond city-centred labour markets and embrace a wider set of rural-urban interactions.	✔	✔	
	Encourage territories to identify their strategies around functional geographies where urban-rural interactions extend beyond administrative boundaries.	✔	✔	
	Promote the use of flexible planning tools able to encompass a space of functional relationships between urban and rural areas.	✔		
3. Encourage the integration of urban and rural policies by working towards a common national agenda	Promote the use of common policy instruments to address potential conflicts and trade-offs between urban and rural agendas.	✔		
	Encourage the participation of different government levels in rural-urban partnership, to achieve better policy integration.	✔	✔	✔
	Ensure alignment between regional strategies and plans devised locally to facilitate wider stakeholder involvement.		✔	✔
4. Promote an enabling environment for rural-urban partnerships	Develop trust and a shared vision of the territory by promoting pilot projects on easy "win-win" issues, education initiatives and dialogue facilitators.		✔	✔
	Ensure that the legal and political framework does not prevent the formation of rural-urban partnership.	✔		
	Encourage co-operation between rural and urban actors through appropriate incentives (e.g. platform for dialogue, financial incentives, etc.).	✔		
	Encourage the involvement of the relevant urban and rural stakeholders by promoting a fair partitioning of voting rights within the partnership.			✔
5. Clarify the partnership objectives and related measures to improve learning and facilitate the participation of key urban and rural actors	Set clear and realistic objectives, tailored to the specificities of each place, to motivate urban and rural actors.			✔
	Set the criteria for the use of effective monitoring without discouraging urban-rural co-operation (e.g. using a small number of indicators; tailoring the evaluation to the scale and scope of the rural-urban partnership; promoting open data).	✔		
	Facilitate the exchange of good practices and knowledge acquired though the rural-urban partnership.	✔	✔	
	Assist rural-urban partnership to assess its results and provide information and knowledge about the territory.	✔	✔	

For further reading

OECD (2013), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, Paris, http://dx.doi.org/10.1787/9789264197022-en.

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Enhancing Competitiveness: Better Governance for Metropolitan Areas by Getting Cities Right

Why is metropolitan governance still high on the agenda?

The metropolitan governance of two strategic sectors: Transport and spatial planning

Towards more effective metropolitan governance reforms

The question of how to better govern changing cities often daunts policy makers tasked with delivering economic prosperity and quality public services. The process of urbanisation continues in OECD countries, albeit at a slower pace. As cities expand, their population, built-up area and socio-economic flows often spread from the core city towards suburbs and beyond. By nature, such rapidly changing socio-economic flows do not necessarily fit into long-established administrative boundaries.

If municipalities pursue investment choices in isolation, they may *individually* achieve their short-term targets – but *collectively* miss the point of growing or remaining globally competitive in the medium to long term. The lack of co-ordination may generate a cost not only for municipalities, but also for the larger urban area, and ultimately for the country. The search for metropolitan governance mechanisms that would help align policy objectives, reap economies of scale and enhance prosperity in metropolitan areas is still high on the agenda – and its success often depends on the support of the central government. The need for more effective metropolitan governance is all the more salient in the context of recent crises and long-term pressure on public finances.

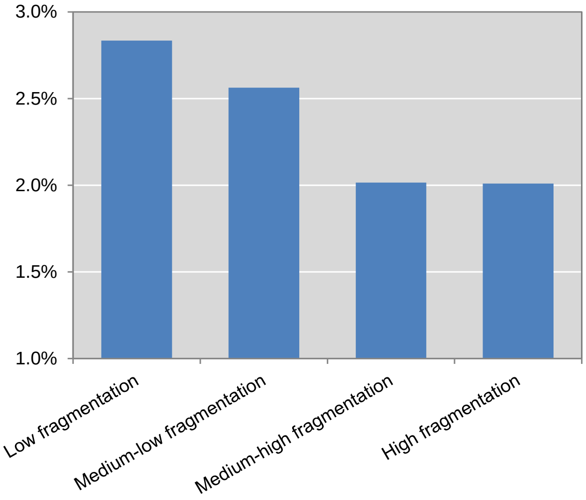
Why is metropolitan governance still high on the agenda?

Whilst cities grow, the number and the scope of actors involved in urban policy continue to grow with them and raise co-ordination challenges. On average, the number of municipalities comprised in the metropolitan area – and thus the number of local policy makers defending their own vested interests – tends to increase with the population size of metropolitan areas. For example, it rises to around 1 400 in Paris, and to 540 plus over a 1 000 more special purpose governments in Chicago.

Evidence suggests that administrative fragmentation can hamper growth in metropolitan areas if left unattended. OECD analysis shows that less fragmented metropolitan areas are not only more productive, but also experienced stronger economic growth than more fragmented ones in the same country over the past decade (Figure 1). At the same time, as cities grow, they may lose trust from citizens. According to a recent survey, the level of citizen trust in people in their neighbourhood, in people in their city and in their city government declines with city size (Figure 2).

Figure 1. **The more fragmented, the lower the growth**

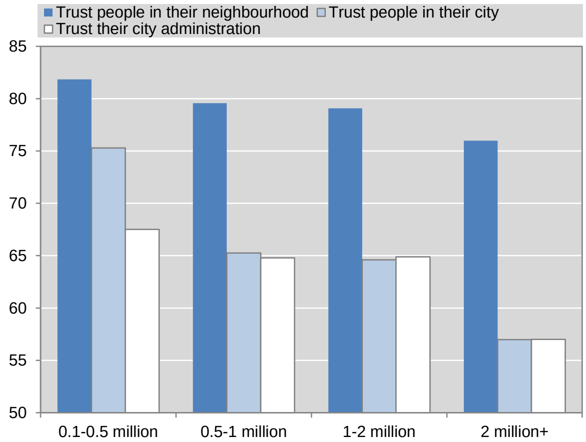
Relative degree of administrative fragmentation and average annual GDP growth (1999-2010)



Source: OECD Metropolitan Governance Survey.

Figure 2. **The larger the city, the lower the trust**

% of citizens who trust people in their neighbourhood, people in their city and their city government, by population size (EU)

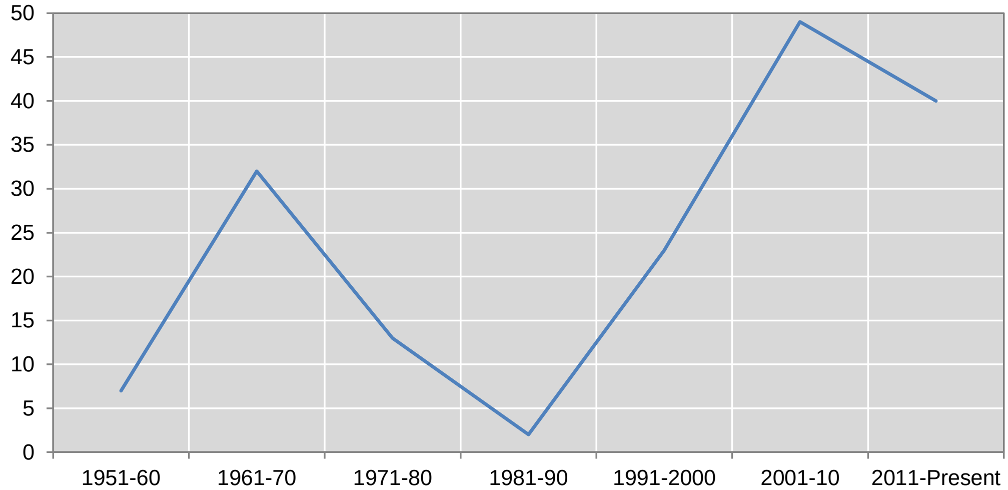


Source: OECD calculations based on Eurostat's Urban Audit – Perception Survey 2012.

Metropolitan governance arrangements are a way to overcome the mismatch between functional and administrative boundaries. While some governments have the ambition to increase efficiency by retrofitting administrative boundaries around a renewed urban shape (*e.g.* via municipal mergers), many schemes allow existing municipalities to partner for one or more purposes, within a more or less institutionalised framework. Metropolitan governance bodies – broadly defined as bodies organising responsibilities among public authorities in metropolitan areas (including voluntary associations of municipalities, with few or no legal powers) – are extremely common in OECD countries. According to OECD research covering over 200 metropolitan areas with more than 500 000 inhabitants, more than two-thirds have a metropolitan governance body. There has been renewed momentum for the creation of metropolitan governance bodies (or in the reform of existing ones) since the 1990s (Figure 3). Very few countries have no metropolitan governance body at all, but rarely are all metropolitan areas in a country covered by a metropolitan governance body.

Figure 3. **A renewed interest in metropolitan governance**

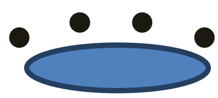
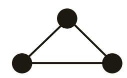
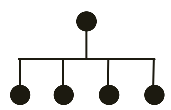
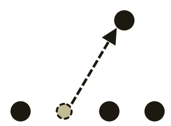
Average number of metropolitan governance bodies created or reformed in OECD countries per decade



Source: OECD Metropolitan Governance Survey.

Four basic models of metropolitan governance are currently in place in OECD countries. The typology below shows how *municipalities* – often the administrative level closest to citizens and the most comparable unit in cross-country analysis – organise themselves (or are sometimes organised by upper levels of government) (Table 1). The categories of the typology are not mutually exclusive: two or more metropolitan arrangements sometimes coexist in the same country, and occasionally within the same region. Some instances can also encompass rural-urban partnerships within metropolitan areas.[1]

Table 1. **Typology of metropolitan governance arrangements in OECD countries**

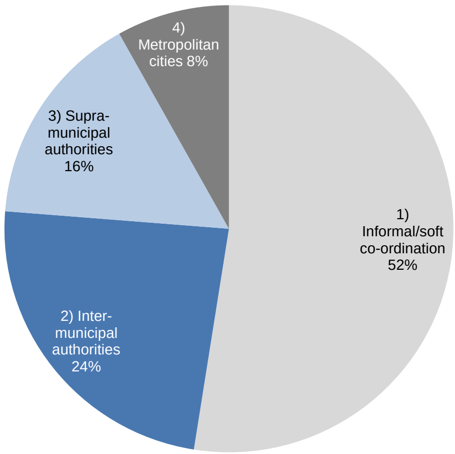
1) Informal/soft co-ordination. Often found in instances of polycentric urban development, lightly institutionalised platforms for information sharing and consultation are relatively easy both to implement and to undo. They typically lack enforcement tools and their relationship with citizens and other levels of government tends to remain minimal.	
2) Inter-municipal authorities. When established for a *single purpose*, such authorities aim at sharing costs and responsibilities across member municipalities – sometimes with the participation of other levels of government and sectoral organisations. *Multi-purpose* authorities embrace a defined range of key policies for urban development such as land use, transport and infrastructure.	
3) Supra-municipal authorities. An additional layer above municipalities can be introduced either by creating a directly elected metropolitan government, or with the upper governments setting down a non-elected metropolitan structure. The extent of municipal involvement and financial capacity often determine the effectiveness of a supra-municipal authority.	
4) Special status of "metropolitan cities". Cities that exceed a legally defined population threshold can be upgraded into a special status as "metropolitan cities", which puts them on the same footing as the next upper level of government and gives them broader competencies.	

1. For more information, see OECD (2013), *Rural-Urban Partnerships: An Integrated Approach to Economic Development*, OECD Publications, Paris.

Among the metropolitan areas with a metropolitan governance body, more than half are using informal/soft co-ordination arrangements, whereas roughly one quarter have introduced inter-municipal joint authorities (Figure 4). Supra-municipal authorities account for 16% of the cases, and "metropolitan cities" are the rarest arrangement with only 8%. Unsurprisingly, the population size of a metropolitan area and its choice of governance arrangement also tend to be linked: the larger the metropolitan area, the more "stringent" its metropolitan governance (Figure 5).

Figure 4. **More than half of metropolitan areas are engaged in informal/soft co-ordination**

Breakdown of metropolitan areas by type of governance arrangement



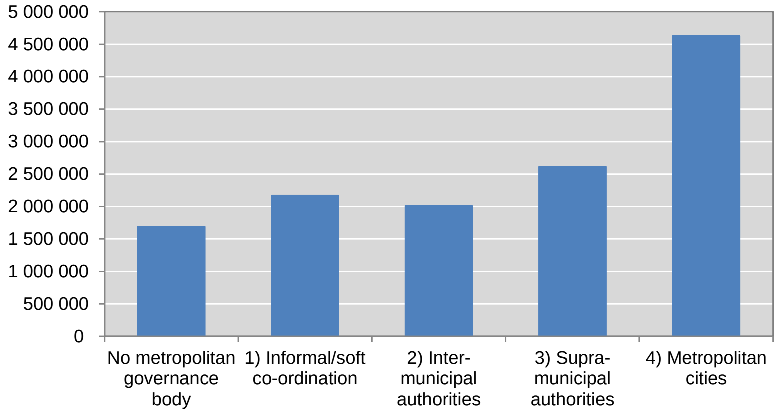
Source: OECD Metropolitan Governance Survey.

Identifying the most relevant arrangement for individual metropolitan areas remains a matter of political and social choice, conditioned by factors that vary from one country to another, and sometimes across metropolitan areas within the same country. Nevertheless, each type of arrangement carries its own set of strengths and challenges to be traded off amongst one another. When selecting a type of arrangement, governments are likely to make a more informed choice if they assess its overall impact in the specific national and metropolitan context – and particularly how fit they are to meet the challenges at hand:

- the challenge to *co-ordinate*, both horizontally between municipalities and across policy sectors, and vertically with upper levels of government and supranational institutions
- the challenge to *act* institutionally and financially, in terms of staff, budget, and power
- the challenge to be perceived as legitimate and to generate *trust* among citizens and NGOs, other levels of government, the private sector, etc.

Figure 5. **The larger the metropolitan area, the more "stringent" its governance**

Average population in OECD metropolitan areas by type of governance arrangement



Source: OECD Metropolitan Governance Survey.

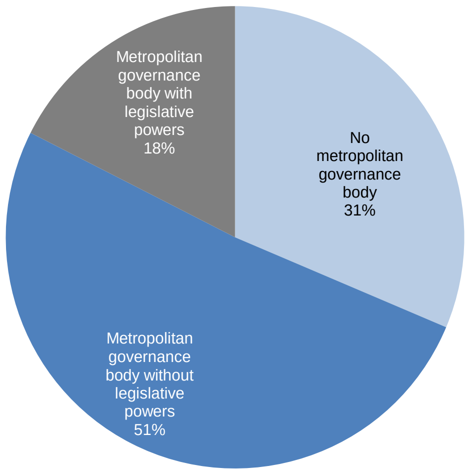
In practice, measuring the capacity of a metropolitan governance body to meet the three challenges (co-ordination, action and trust) is a thorny task. Without aiming to be exhaustive, recent OECD analysis provides the following insights.

1) Co-ordination: The existence of a metropolitan authority is not, in itself, a guarantee of policy co-ordination

Experience from OECD metropolitan areas shows that the creation of a metropolitan authority should not be considered an end in itself, but a starting point to build stronger partnerships for more integrated development. In the case of Puebla-Tlaxcala (Mexico), a supra-municipal authority that was born from a legal agreement between two states to serve a metropolitan purpose (Metropolitan Council) and endowed with federal financial resources (Metropolitan Fund) still struggles to address metropolitan-wide issues. The projects that the Metropolitan Council supports remain aligned with administrative state boundaries, with little to no involvement from municipalities and no strategic criteria for allocating funding besides population size. Moreover, even the most stringent type of metropolitan authority still needs to co-ordinate with surrounding municipalities. In the case of Daejeon (Korea), which was upgraded to the status of a "metropolitan city" in 1995, transport and land-use issues still call for close collaboration with neighbouring municipalities. Effective metropolitan governance requires a culture of co-ordination that goes beyond purely institutional reforms, looks both inward (member municipalities) and outward (neighbouring municipalities) in a flexible manner, and adjusts working practices continuously to changing needs over time.

Figure 6. **Fewer than one out of five of OECD metropolitan areas have a governance body that can impose laws or regulations**

Share of OECD metropolitan areas with and without a metropolitan governance body



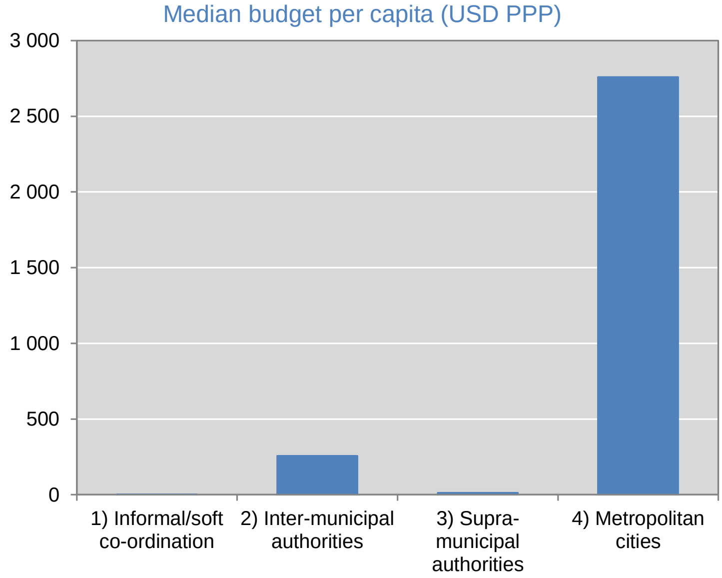
Source: OECD Metropolitan Governance Survey.

2) Action: The budgets and staff of metropolitan governance bodies reflect strong variation in their powers

Metropolitan governance bodies vary greatly in terms of powers. For example, less than one out of five OECD metropolitan areas has a governance body that can impose laws or regulations (Figure 6). These bodies tend to be supra-municipal bodies or metropolitan cities.

Faced with complex fiscal challenges, metropolitan areas also often struggle to translate co-ordination into concrete fiscal modalities. Even when a metropolitan governance body has been created with a clearly defined mandate for co-ordination, it may remain underfunded and/or understaffed. This explains the dominance of the "softest" types of metropolitan governance bodies, which involve only minimal disruption in existing institutions and financing. Informal/soft co-ordination bodies, and supra-municipal authorities albeit with large variation among them, typically have annual budgets of around USD 10 per capita or less (Figure 7). Inter-municipal bodies usually have budgets of intermediary size, in the order of a couple of USD 100 per capita. All three categories are dwarfed by the budgets of metropolitan cities, which usually have more functions, such as economic development. Staff numbers roughly follow budgets, with somewhat greater variation.

Figure 7. **Budgets of metropolitan governance bodies vary significantly**



Source: OECD Metropolitan Governance Survey.

3) Trust: Restoring trust is a major concern in large metropolitan areas

Even carefully designed metropolitan governance reforms sometimes fail to gain the trust of residents, who do not recognise the newly created body or lose out in the reform and thus oppose it. Economic efficiency arguments in favour of greater metropolitan integration may then run against criticisms about the lack of political accountability and weak popular legitimacy of metropolitan governance bodies, and more generally about the "democratic deficit" that these bodies bring about. In reality, the majority of metropolitan governance bodies analysed by the OECD include an indirect form of citizen representation. About 65% of them are composed of elected local government officials (e.g. mayors of municipalities). Nonetheless, only 10% of metropolitan governance bodies are directly elected themselves, and they typically correspond to the most formalised types of governance such as supra-municipal authorities or metropolitan cities.

Beyond purely electoral considerations, metropolitan governance bodies are increasingly challenged to embrace non-governmental actors who can voice the needs of an economically, socially and culturally more diverse population. However, only 9% of metropolitan governance bodies analysed by the OECD include representatives of the private sector or other interest groups. Moreover, these bodies tend to have the fewest responsibilities compared to bodies that do not include civil society representation. Feeding citizens' concerns and preferences into decision-making processes at an earlier stage and through more systematic consultation mechanisms could contribute to improving trust in metropolitan authorities.

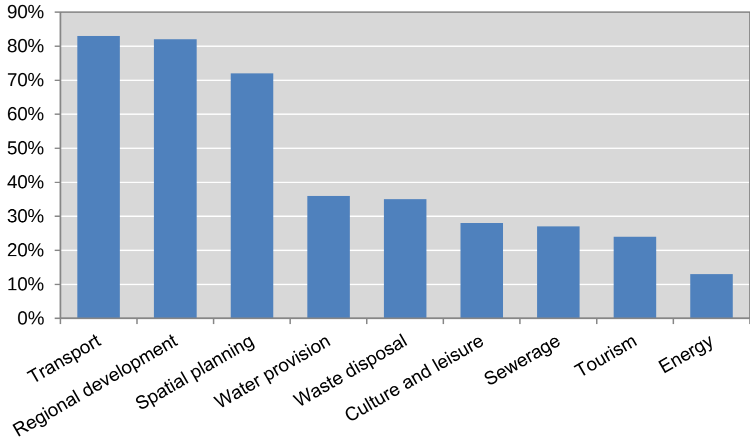
The metropolitan governance of two strategic sectors: transport and spatial planning

A majority of metropolitan governance bodies work on spatial planning, transport and regional development. However, considerable diversity persists in their legal status, composition, power, budget and staff – hence in their impact on policy design and implementation. OECD analysis shows that over 80% of metropolitan governance bodies work on transport and regional development, and over 70% on spatial planning (Figure 8). More than 55% of metropolitan governance bodies are active in all three fields at the same time. This is likely because in these fields the demand from residents is higher, externalities are most obvious, and municipalities can co-operate more easily.

OECD research shows that overall, around 60% of analysed metropolitan areas have a specific transport authority. Metropolitan areas that have public transport authorities report levels of air pollution that are approximately 9% lower than in those without one. Citizens are also more satisfied with the public transport system in metropolitan areas with a public transport authority (Figure 9).

Figure 8. **Transport, regional development and spatial planning are the core responsibilities of metropolitan governance bodies**

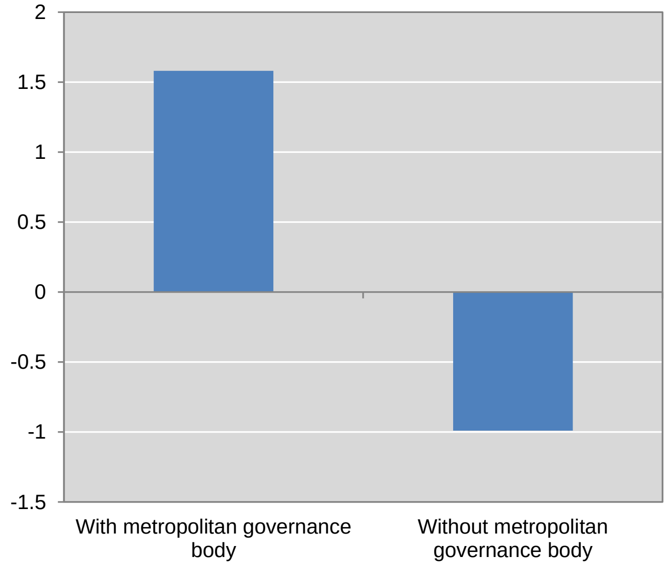
Share of metropolitan governance bodies active in a policy field



Source: OECD Metropolitan Governance Survey.

Figure 9. **Citizens in areas with a transport authority are more satisfied with public transport**

Share of citizens satisfied with the public transport system in OECD metropolitan areas (EU)

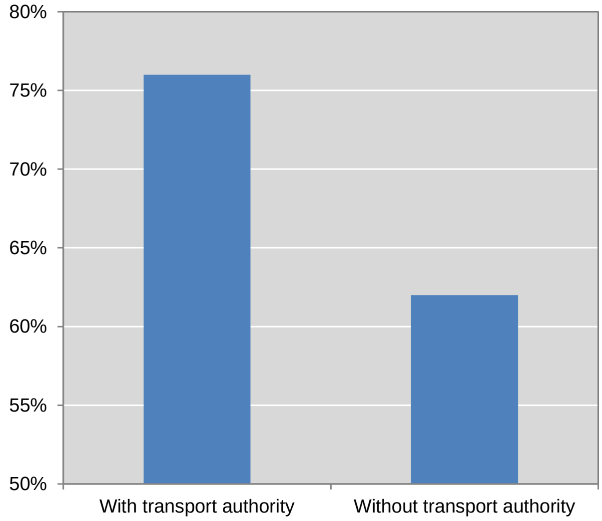


Source: OECD calculations based on Eurostat's Urban Audit – Perception Survey 2009.

Spatial planning is also one of the most common fields of work for metropolitan governance bodies. How municipalities allocate land to key activities has a direct influence on economic interdependencies and quality of life. A lack of inter-municipal co-ordination in spatial planning may lead to duplicating investments and wasting tight public resources. Areas with a metropolitan governance body have experienced a relative decline in urban sprawl, whereas those without one have undergone an increase in sprawl (Figure 10).

Figure 10. **Areas with a metropolitan governance body have sprawled less**

% change in population density of built-up areas of metropolitan areas, 2000-06 (latest available year)



Source: OECD Metropolitan Governance Survey.

Integrating spatial planning and transport policies remains a challenge in metropolitan areas. The governance of transport and land-use policies can be mired by a series of gaps that take particular prominence in metropolitan areas:

- ***Administrative fragmentation and knowledge fragmentation.*** Municipalities sometimes do not find out about the plans of neighbouring municipalities until it has become complex and politically costly to negotiate adjustments.

- ***Individual municipal decisions versus metropolitan impact.*** The mere sum of individual municipal decisions in spatial planning and transport rarely shapes up into a coherent metropolitan development plan. Failures in co-ordinating individual municipalities' spatial planning and transport policies generate substantial costs at the metropolitan scale in terms of congestion, duplication of investment, and under- or mis-exploitation of space.

- ***Value-added of a metropolitan strategic vision.*** Co-ordination efforts by a metropolitan governance body sometimes boil down to stitching together individual plans on an *ex post* basis without adding more value than smoothing out the most glaring inconsistencies. This is likely to maintain the *status quo* in the behaviour of municipalities that want to decide their own futures individually.

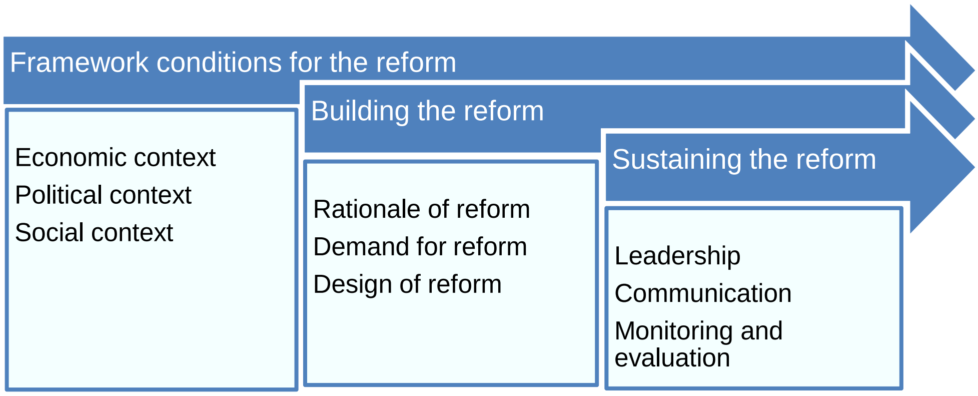
- ***Private sector versus public sector leadership.*** Land development is often largely driven by the private sector as the market indicates land-use preferences, and the influence of public regulations on market choices may sometimes remain fairly marginal. Transport systems provide a usually more directly accessible tool for public authorities to shape urban development. The disconnect between privately led land development and publicly provided transport infrastructure is even more evident at the metropolitan level, and calls for more effective co-ordination mechanisms.

- ***Diverging time horizons.*** Land-use decisions may sometimes be implemented at a faster pace, whereas large-scale transport projects are typically carried out over a medium- to long-term period, and are often hard to reverse. The benefits of strategic integration between transport and land use are frequently not visible until ten or more years have elapsed, in contrast with political mandates that are likely to require short-term gains in terms of job creation and obvious improvement.

Towards more effective metropolitan governance reforms

Metropolitan governance reform is likely to remain high on the policy agenda. Metropolitan governance reform is not only a highly complex and often long process, but as metropolitan areas continue to evolve, even once well-functioning governance structures may eventually need to be adapted. Drawing from the OECD "Making Reform Happen" framework, Figure 11 seeks to flag key questions of strategic interest for policy makers who are contemplating metropolitan governance reforms. Issues that governments can more likely seize as levers of change are presented in three groups following the cycle of reform: *framework conditions* (related to the economic, fiscal, political and social context that shapes the enabling environment for metropolitan governance reforms); *building the reform* (linked to the rationale of the reform, the demand for it and its design); and *managing and sustaining the reform* (to implement it and ensure its usefulness over time).

Figure 11. **Key issues for metropolitan governance reforms**



A risk commonly encountered is that governments may attempt to replicate a specific type of metropolitan governance arrangement that is considered successful in one place, but which may not be entirely transferable elsewhere given the considerable variety of institutional contexts. However, lessons on the *process* that was adopted to implement the metropolitan reform can guide policy makers who are engaged in a similar path of reform – even where the ultimate objective is a different arrangement. Observations from OECD experience suggest the following guidelines for effective processes of metropolitan governance reform (Table 2).

Table 2. **Effective metropolitan governance reforms: Lessons from OECD countries**

Identify a common cause for collaboration and build on (as well as communicate) successful collaboration outcomes. Starting with small-scale and concrete projects can sometimes help rally forces and progressively lead to setting a "big picture", as success breeds success and trust.	*In Barcelona, three sectoral inter-municipal authorities (transport, environment and planning) were created in 1987. After participating in the elaboration of a metropolitan strategic plan with the municipality of Barcelona in 1999, a metropolitan authority of Barcelona was set up in 2011.*
Develop metropolitan leadership and/or ownership. A relevant personality and/or institution often plays a pivotal role in steering change and creating and maintaining momentum for reform. The reform needs a strong advocate as the engine of the process. Such clear demand for reform may stem from different constituencies.	*In France, impetus towards governance reforms in the three largest metropolitan areas has been largely (albeit not exclusively) driven by the central government in Paris; local governments in Lyon (municipalities and département); and the private sector as well as the central government in Marseille.*
Empower and engage stakeholders at an early stage, and ensure accountability and transparency. Those who are the ultimate recipients of governance/policy (and have the continuity that political bodies do not), such as citizens, businesses and universities, need to be brought on board at the very beginning of the process. Policy makers, citizens and relevant parties require clear information both on short-term and long-term gains/losses.	*The Montreal Metropolitan Community created a mixed committee of elected officials and citizens to jointly organise a biennial set of debates among elected officials and civil society to discuss the implementation of the strategic metropolitan plan 2031. The first series of debates took place in February and March 2013.*
Strengthen the evidence base and track progress. Solid background research and scrutiny from unbiased experts can help create and sustain credibility for the reform. Strong, reliable instruments for monitoring and evaluation contribute to fostering continuous improvement.	*In Canada, the Greater Toronto CivicAction Alliance convened all three levels of government with business, labour, academic and non-profit sectors since its diagnostic report "Enough Talk: An Action Plan for the Toronto Region" (2003). It convenes a Greater Toronto Summit every four years to drive collective action on pressing issues such as transport, energy and socio-economic inclusion.*
Provide (or secure) sources of financing. Metropolitan public finance is often the nexus of political resistance as governments are torn between the search for fiscal autonomy and dissuasive taxation. Securing an appropriate stream of financial resources helps to avoid unfunded mandates and often determines effective collaboration. In addition to traditional fiscal tools (e.g. own taxes, grants and transfers, fees), strategic partnerships with the business and financial community can be instrumental in gathering additional resources for public investment.	*Former Mayor of London Ken Livingstone built a close relationship with the London Chamber of Commerce and Industry, the local branch of the Confederation of Business Industry, and London First – he then invited them to sit on the newly created London Business Board (2000) and convened them frequently.*
Balance clear time frames and flexibility. Providing visibility on the short and long term will allow actors to anticipate next steps of the process while leaving room for trial and error as well as midway adjustments.	*In Sweden, governance reforms have first been tested in a few pilot regions (Västra Götaland around Gothenburg, and Skåne around Malmö) with a multiannual timeline and evaluation mechanisms, before extending the possibility to other interested regions.*

For further reading

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