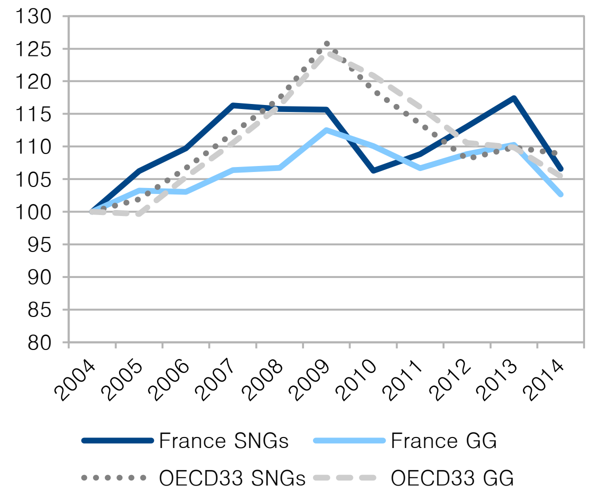
Multi-level governance of public investment 2017

Table 1. **Facts and figures related to direct public investment**

2014	General Government	Subnational governments
USD billion	99.7	58.6
USD per capita	1507	886
% of GDP	3.8%	2.3%
% of public expenditure	6.7%	19.1%
% of total public direct investment	100%	58.8%

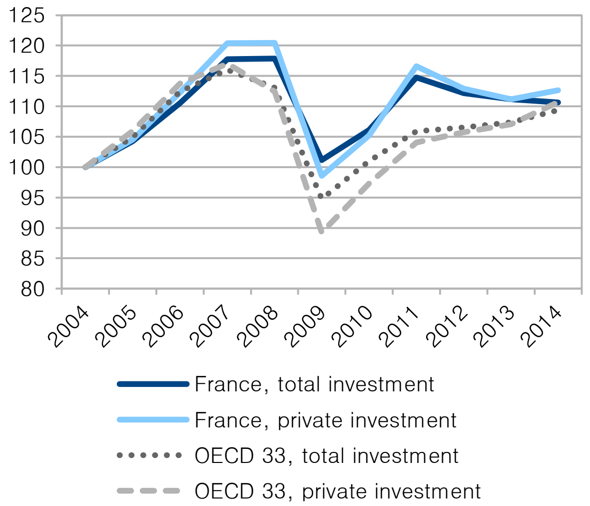
Source: OECD (2016), *Subnational governments in OECD countries: Key data*, 2016 edition (brochure).

Figure 1. **Trends in direct public investment in France (2004-14)**



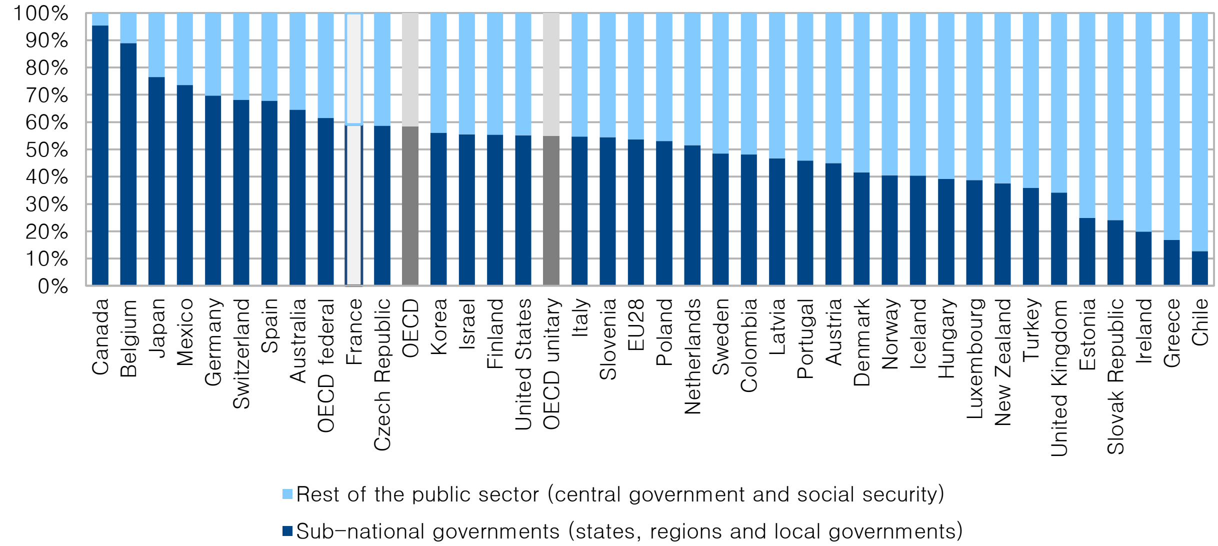
Source: OECD National Accounts. In real terms, base 100 in 2004.

Figure 2. **Trends in total and private direct investment in France (2004-14)**



Source: OECD National Accounts. In real terms, base 100 in 2004.

Figure 3. **Subnational public direct investment in OECD countries, 2014 (as a share of public direct investment)**

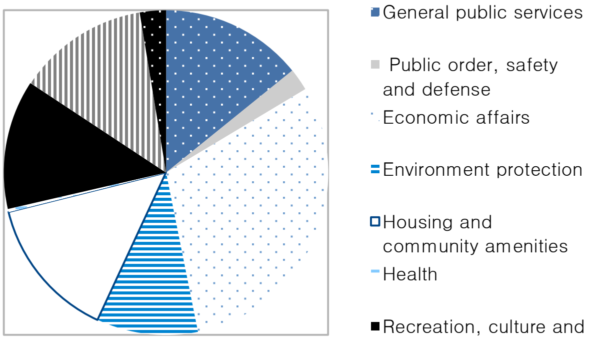


Source: OECD National Accounts

Note: 2013 figures for Mexico, 2012 figures for Chile, 2014 figures for Turkey.

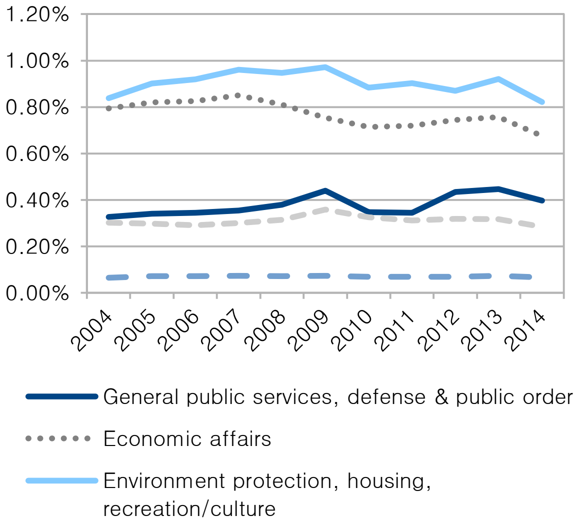
As in most OECD countries, the majority of subnational investments are dedicated to economic affairs (transport, general economic, commercial and labour affairs, industry, agriculture, etc.). However, French subnational governments are also involved in many key spending areas, and hence large shares of their investments are also dedicated to housing, education, recreation/culture/religion, environment protection, etc. In contrast, SNGs invest very little in healthcare or social protection (Figure 4 and 5).

Figure 4. **Breakout of subnational direct investment in France by economic function (% of total direct investment, average 2008–14)**



Source: OECD National Accounts.

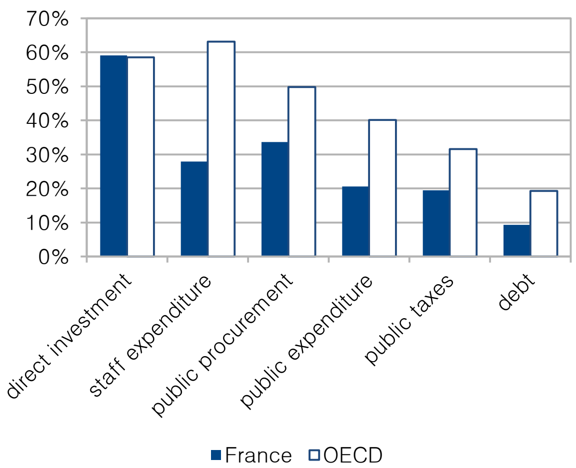
Figure 5. **Trends in subnational direct investment by economic function (as a % of GDP)**



Source: OECD National Accounts.

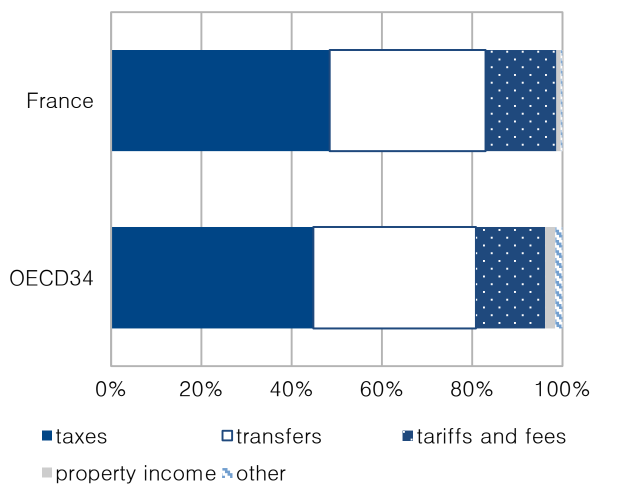
France is a relatively centralised country, and subnational expenditure is lower than the OECD average for most large categories of spending (total expenditure, staff expenditure, public procurement), except investments. The share of SNG debt in total public debt is also way smaller (Figure 6). Although the share of national taxes allocated to SNGs is only around 20%, taxes represent the main source of SNG revenues (Figure 7).

Figure 6. **The role of subnational governments in public finance in France, 2014**



Source: OECD National Accounts.

Figure 7. **Indicators of subnational fiscal revenues in France , 2014**



Source: OECD National Accounts.

Examples of good practices or recent developments for effective public investment

Vertical co-ordination:

State-region planning contracts (*Contrat de plan État-région* – CPER) have been in operation since 1982 and are important tools in regional policy in terms of planning, governance and co-ordination. They are characterised by their broad thematic coverage and cross-sectoral nature, with a territorial approach being applied across diverse policy fields including industrial, environmental, and rural issues. The DATAR functions as the main national partner of the regions in developing and implementing such planning documents. The President of the Regional Council and Prefect as the representative of the central government different ministries make the contract. The co-financing of interventions is seen as an important co-ordination mechanism.

The State-Region contracts 2015-2020 will make available more than 30 billion euros for investments in transport, higher education, digitalisation, factories of the future and ecological transition. Just signed, these new contracts will have to be renegotiated to reflect the new perimeters of the regions and their new executives. In 2016, the French government launched new contracts, the State-*Metropoles* Pacts, which aim at empowering new sub national entities, the *metropoles* ("MAPTAM" law, 2014). They will support urban innovation at the metropolitan scale through financial partnering in some key investments. Their main objective is to consolidate the position of *metropoles* in the institutional landscape in the future

New generation of urban contracts

The City Policy (*Politique de la ville*), the law on city programming and urban cohesion, was adopted in early 2014. The law includes launching a new generation of urban contracts, abolishing "multi-zoning" approaches to avoid dispersion of financial resources, promoting multi-level governance, encouraging the participation of inhabitants and "territorialisation of public policies".

Ensuring co-ordination among communes of various sizes

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

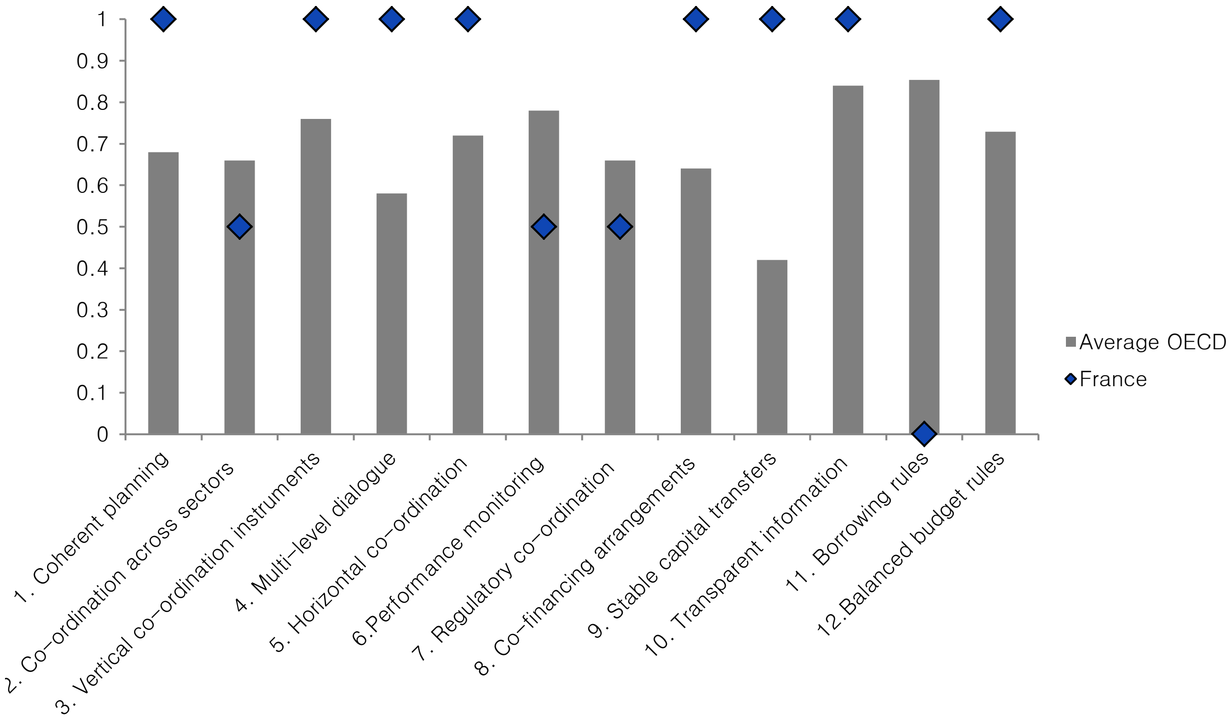
Building inter-municipal plans for co-ordinated medium term development

In France, SCOT set the main orientations of the organisation of a group of adjacent communies (*intercommunalité*) for a 10-year period. City plans (*plan local d'urbanisme – PLU)*, local urban transport plans, and housing plans must be compatible with SCOT in order to be valid and enforced. The SCOT consists of a diagnostic dimension and orientation report as well as a project of development and sustainable development (PADD). The decision to develop a SCOT is made by a resolution by each municipal assembly in the area, with a two-thirds majority in each municipality. The coalition of municipalities is the primary actor, and the national and regional governments, as well as the Prefecture, can also participate. In addition, opinions are heard from the Prefect (representative of the central government at the territorial level, *Préfet*), the Chair of the Regional Assembly (*Président du conseil regional),* the Chair of the Departmental Assembly (*Président du conseil départemental)*, and the municipal mayors (Maires). After public hearings the SCOT is approved by the coalition of municipalities.

Pooling together the funding needs of all member local authorities

Agence France Locale was created in December 2013 as a result of a new banking legislation dated 26 July 2013. Agence France Locale is 100% owned by French Local authorities. Its mandate is to raise cost-efficient resources in capital markets by pooling together the funding needs of all member local authorities. It aims to provide French local authorities with alternative funding sources: its target market share is 25%. It will lend 50% maximum of its members' annual borrowing needs (or 100% if the amount requested is below €1 million). It is a well-recognised model which has already proven successful in various Northern European countries (Sweden, Finland, Denmark, Norway), in the Netherlands and which is currently developing in the United Kingdom (project of creation of a Municipal Bond Agency) and New Zealand (NZ Local Government Funding Agency Ltd, created in 2011).

Figure 8. **Indicators for the co-ordination of public investment for regional development**



Note: See Annex 1 for more detail on the indicators.

Source: OECD (2016b), Answers to the Regional Outlook Survey and OECD (2016c).

ANNEX 1

Indicators for the co-ordination of public investment for regional development

1. Coherent planning across levels of government		
	The country has regional development policies/strategies to support regional development and local investments.	
a	No explicit national policies to support regional development	
b	Explicit national policies to support regional development in all or parts of the country	
c	Explicit national regional development policies completed by regional investment strategies aligned with it	X
2. Co-ordination across sectors in the national planning process		
	The country has mechanisms to co-ordinate across sectors national policies and investment priorities for regional development	
a	No mechanism	
b	At least inter-ministerial committee and/or cross-ministerial plan	X
c	Inter-ministerial committee and/or plan + other mechanisms	
3. Vertical co-ordination instruments		
	The country has mechanisms to ensure co-ordination across levels of governments (regional development agencies, national representatives in subnational governments, and contracts or agreements)	
a	None of these	
b	At least one of these mechanisms	
c	At least one of these mechanisms involving many sectors	X
4. Multi-level dialogue to define investment priorities for regional development		
	The country conducts regular dialogue(s) between national and subnational levels on regional development policy including investment priorities	
a	No regular dialogue	
b	Formal or ad hoc dialogue	
c	The platform has decision-making authority	X
5. Horizontal co-ordination across jurisdictions		
	The country has formal horizontal mechanisms/incentives between subnational governments to co-ordinate public investment	
a	No mechanisms	
b	Formal horizontal co-ordination mechanisms at the municipal level	
c	Formal horizontal co-ordination mechanisms at the municipal level and other subnational levels (state, regions)	X

6. Performance monitoring and learning			
	The country has mechanisms in place to monitor and evaluate regional development policy		
a	No mechanisms		
b	The country has indicators to monitor the effectiveness of regional development policy	X	
c	The country has conducted evaluations of regional development policy		
7. Regulatory co-ordination across levels of government			
	The country has mechanisms to co-ordinate regulations across levels of government		
a	No intergovernmental co-ordination mechanisms		
b	Formal co-ordination mechanisms between national/federal and state/regional governments	X	
c	Requirement of national government to consult subnational governments prior to issuance of new regulations that concern them		
8. Co-financing arrangements across national and subnational levels			
	There are co-financing arrangements for public investment		
a	No co-financing arrangements		
b	Co-financing arrangements exist but funds are not tracked		
c	Co-financing arrangements exist and funds are tracked	X	
9. Subnational governments benefit from predictable capital transfers over time			
	Variations in total capital transfer from one year to the next		
a	Large variation: more than 20%		
b	Medium variation: between 10% and 20%		
c	Little variation: less than 10%	X	
10. Transparent information across levels of government			
	Subnational fiscal situation is publicly available		
a	Not available for any type of subnational government		
b	Available for regions/states/some level of subnational government only (on an individual basis)		
c	Available for each subnational government individually	X	
11. Fiscal stability: rules for subnational governments			
	There are limits on subnational borrowing		
a	No limits on subnational government borrowing	X	
b	Non-binding borrowing constraints		
c	Binding borrowing constraints		
12. Safeguarding capital spending at subnational level			
	Balanced budget rules protect subnational capital spending		
a	No balanced budget rule		
b	Balanced budget rule with no exception for capital spending		
c	Balanced budget rule protecting capital spending (type golden-rule)	X	

ANNEX 2

Definitions and sources

Definitions:

- **General government (S.13):** includes four sub-sectors: central/federal government and related public entities (S.1311) federated government ("states") and related public entities (S.1312) local government i.e. regional and local governments and related public entities (S.1313) and social security funds (S.1314). Data are consolidated within S.13 as well as within each subsector (neutralisation of financial cross-flows).

- **Subnational government**: is defined here as the sum (non-consolidated) of subsectors S.1312 (federated government) and S.1313 (local government).

- **Direct investment**: includes gross capital formation and acquisitions, less disposals of non-financial non-produced assets. Gross fixed capital formation (or fixed investment) is the main component of investments.

Sources:

Ministère de le Ville, de la Jeunesse et des Sports (2014): Le nouveau programme national de renouvellement urbain 2014-2024.

OECD (2016a), *Subnational governments in OECD countries: Key data*, 2016 edition (brochure).

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OECD (2015a), OECD National Accounts Statistics (database), http://dx.doi.org/10.1787/na-data-en.

OECD (2015b) Implementation Toolkit, Effective Public Investment Across Levels of Government http://www.oecd.org/effective-public-investment-toolkit/

OECD (2014), *Regional Outlook. Regions and Cities: Where Policies and People Meet*.

OECD (2011), OECD Network on Fiscal Relations across Levels of Government Survey on Sub-national Fiscal Rules and Macroeconomic Management, OECD, September 2011, updated in March 2015.

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http://www.agence-france-locale.fr/