



# INNOVATIVE INFRASTRUCTURE FUNDING AND FINANCING IN REGIONS AND CITIES

Unlocking investment in subnational government infrastructure  
during the COVID-19 recovery, and beyond

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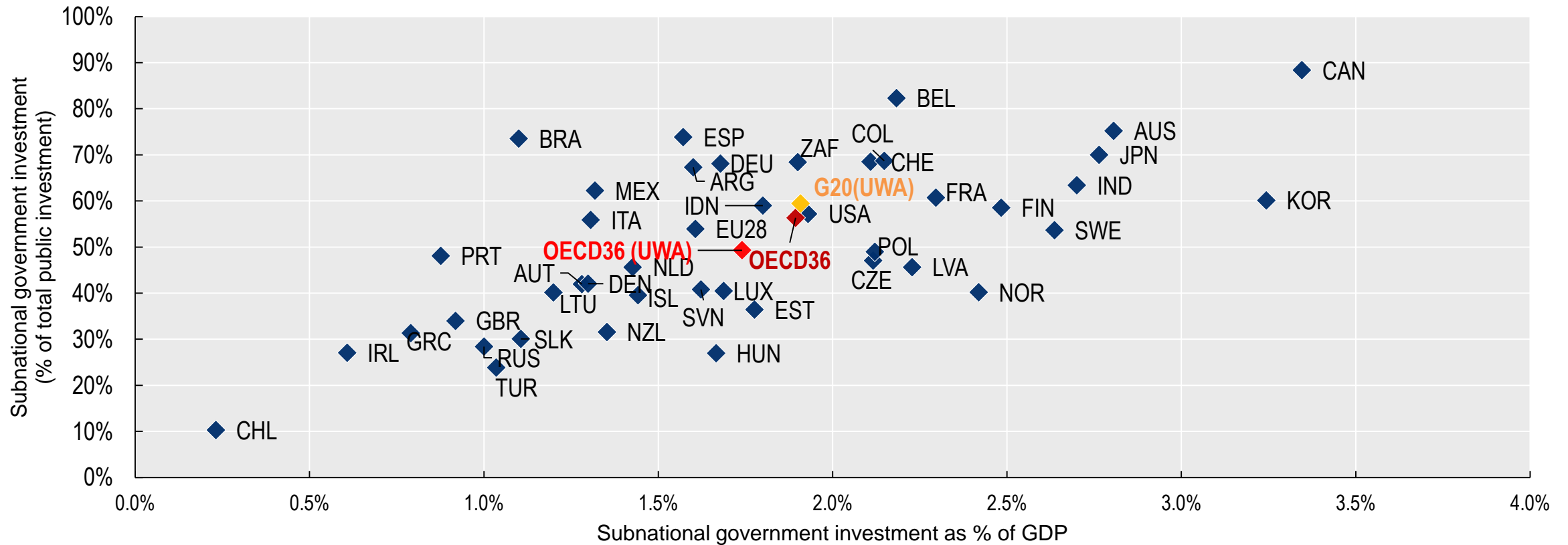
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# Subnational governments are **major infrastructure investors** who have an essential role during the recovery from COVID-19, and beyond

Subnational governments account for **59%** of public investment in G20 countries



Source: OECD (forthcoming), *Innovative infrastructure funding and financing in regions and cities*



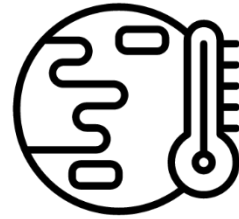
Subnational governments are **local actors** who have an essential role to tackle **global** challenges.



### REGIONAL DISPARITIES and COVID-19

New and revealed spatial inequalities from COVID-19

In G20 countries, peak download speeds for fixed broadband are **40 percentage points slower in rural areas than in cities.**



### CLIMATE CHANGE

Important local actors to address climate change

Subnational governments are **responsible for 64% of climate related investment** (OECD countries)



### DEMOGRAPHIC CHANGE and URBANISATION

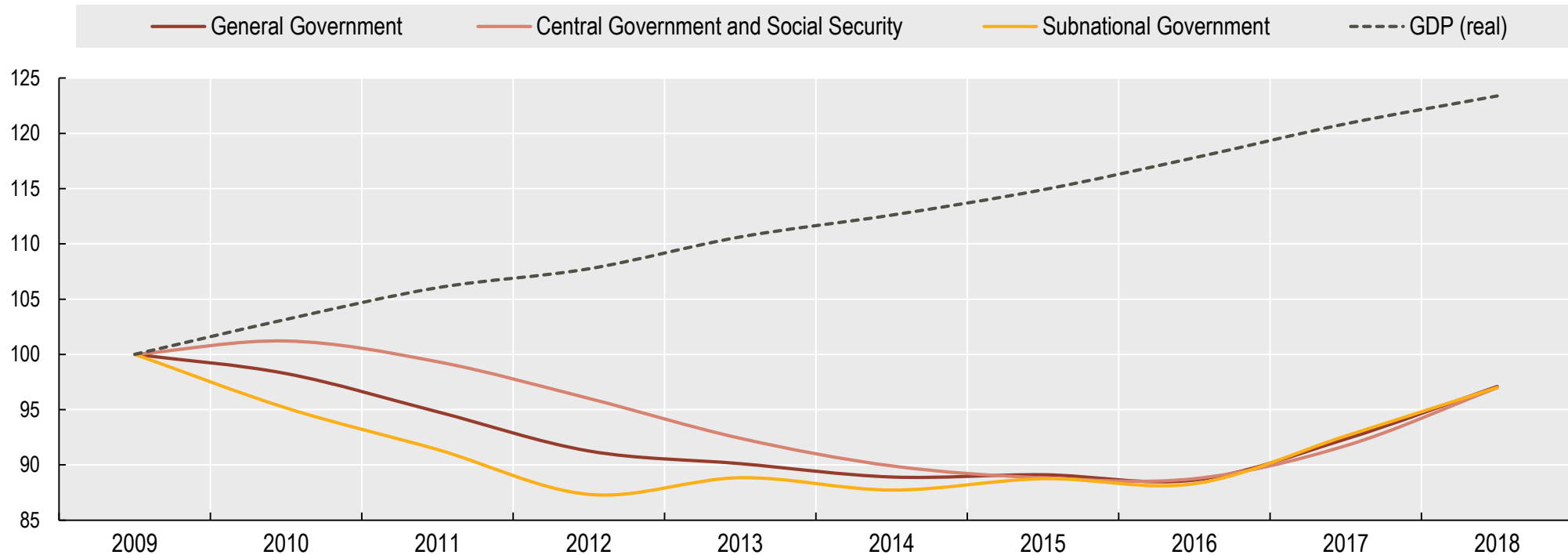
Local infrastructure needs are linked to these megatrends.

The **urban population will increase by 1.5 billion by 2050**, but many regions will shrink, including **57% of OECD regions.**



During the recovery, **lessons should be learnt from the 2008 financial crisis**, including that a drop in fiscal support to subnational governments could reduce public investment and hamper the longer term recovery.

Public investment by subnational governments stayed below 2008 levels for almost a decade.



**Change in public investment from 2009 to 2018 by levels of government in the OECD (in real terms)**

Source: OECD (2020) *Regions and cities at a glance*, <https://doi.org/10.1787/959d5ba0-en>

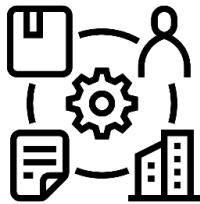


Improvements in the **underlying framework conditions for subnational governments** is a pre condition to mobilise the use of innovative funding and financing, and improve the quality of infrastructure investment

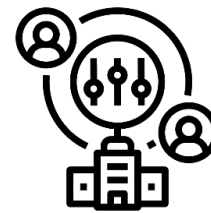
Four key framework conditions to support subnational government infrastructure investment:



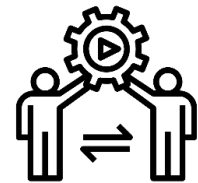
Ensuring subnational governments have **fiscal space** and **financial capacity** for investment, while ensuring fiscal stability



Building subnational government **investment capabilities** to increase access to funding and financing, and ensure quality investment



Establishing enabling **regulatory and legislative frameworks** to permit the use of funding and financing instruments



Enhancing **coordination** across levels of government and **cooperation** among jurisdictions to support investment **at the right scale**



Subnational governments need to **innovate in the use of funding and financing instruments** to unlock infrastructure investment and sufficiently maintain existing infrastructure

Areas for innovation	
Funding	Financing
Better <b>management and use</b> of existing infrastructure	Supporting access to finance through <b>credit enhancement</b>
Harnessing <b>grant and subsidy</b> programmes	Exploring new forms of <b>loans and financial leases</b>
Identifying <b>tax revenue</b> opportunities	Expanding the use of <b>bonds</b>
Adopting <b>user charges and fees</b>	Increasing the impact from <b>equity</b>
Capturing increases in <b>land value</b>	Diversifying the <b>investors</b> in subnational infrastructure
Leveraging income from <b>existing assets</b>	

Funding is always required to repay financing. This means that increasing funding is a key lever to increase subnational government investment and can unlock the use of financing.



There is a need to **continue supporting subnational governments** to undertake sustainable and quality infrastructure investment during the recovery from COVID-19, and beyond.

### 1. Improving framework conditions for subnational government investment:

- [The OECD Recommendation on Effective Public Investment Across Levels of Government](#)
- [The Public Investment Toolkit](#)

### 2. Supporting subnational governments to adopt new funding and financing instruments and overcome barriers to investment:

- *Innovative infrastructure funding and financing in regions and cities* (forthcoming)
- New policy toolkits targeted towards subnational government funding and financing

### 3. Improving data related to subnational public finance and investment:

- [The 2022 OECD-UCLG World Observatory on Subnational Government Finance and Investment \(June 2022\)](#)

### 4. Understanding disparities across regions arising from the COVID-19 crisis:

- [Report on The territorial impact of COVID-19 \(May 2021\)](#)
- [The OECD Regional Recovery Platform \(coming soon\)](#)

