

EFFECTIVE MULTI-LEVEL PUBLIC INVESTMENT

OECD PRINCIPLES IN ACTION



OECD Multi-level Governance Studies

Effective Multi-level Public Investment

OECD Principles in Action



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Foreword

Approximately USD 95 trillion in public and private investments are needed in energy, transport, water and telecommunications infrastructure at the global level between 2016 and 2030 in order to sustain growth. In many OECD countries, however, a significant investment gap remains to be filled. While in emerging and developing countries public investment has started to recover after years of decline, in advanced economies it has steadily declined from 5% of GDP in the 1970s to approximately 3% GDP in 2017 and public investment rates in most of these countries are still significantly below 6-8% of GDP. The impact of megatrends – globalisation, demographic and social changes, climate change, urbanisation, and digitalisation – widens the investment gap.

Subnational governments play a pivotal role in filling this gap. Regions, cities and local governments invest in areas critical for sustainable development and citizens' well-being, such as transport, energy, broadband, education, health, housing, water and sanitation. In 2018, the share of subnational investment in total public investment accounted for around 57% on average in OECD Member countries. A territorial and multi-level governance approach to investment allow countries maximising investment's returns for regional development as the impact of public investment depends, to a significant extent, on how governments manage it. The right investments, effectively prioritised, targeted to local needs, co-ordinated across sectors and implemented efficiently over their lifecycle, and well-governed and managed, are essential for effective regional development policies..

On 12 March 2014, the OECD Council adopted the *Recommendation of the Council on Effective Public Investment across Levels of Government*, which includes 12 Principles for Action to guide national and subnational governments in the adoption of adequate and strategic multi-level governance tools for improving public investment efficiency in a complex and changing policy environment. The Regional Development Policy Committee (RDPC), instructed by the Council, permanently monitors the implementation of this Recommendation and constantly updates the online toolkit (<https://www.oecd.org/effective-public-investment-toolkit/>). This report, finalised in 2019, is the latest monitoring exercise and involved the 39 OECD Member Countries and Adherents to the Recommendation. It identifies key trends regarding the implementation of the 12 Principles, highlights the latest good practices implemented by countries and identifies the key issues where there is still room for improvement. This report contributes to the OECD Programme of Work and Budget (PWB) under Output Area 4.3.4 Territorial Development Policies. This report was approved by the Regional Development Policy Committee for declassification and publication on 15 February 2019. Its conclusions were approved by the OECD Council on 6 March 2019.

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Acronyms and abbreviations

APDN	Agency for the Promotion and Development of the North (Portail de l'Agence de Développement du Nord, Morocco)
BBG	Federal Procurement Agency (Bundesbeschaffung, Austria)
CCDP	Co-ordinating Committee for Development Policy (Poland)
CoR	Committee of the Regions
DNP	National Planning Department (Departamento Nacional de Planeación, Colombia)
EIB	European Investment Bank
EPCI	Public Establishment for Inter-municipal Cooperation (Les établissements publics de coopération intercommunale, France)
ESO	Efficient, Reliable and Open (Slovak Republic)
EU	European Union
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISDR	Regional Development Composite Index (Portugal)
ITI	Integrated Territorial Investment
KNI	Key National Indicators
LEP	Local Enterprise Partnerships (United Kingdom)
MIRT	Multi-Year Programme for Infrastructure, Spatial Planning and Transport (The Netherlands)
MLGI	Multi-level Governance Indicators
NRP	New Regional Policy (Switzerland)
PGPA Act	Public Governance, Performance and Accountability Act (Australia)
PPP	Public-Private Partnership

RDA	Regional Development Australia
RDA	Regional Development Agency (Turkey)
RDPC	Regional Development Policy Committee
SNG-WOFI	World Observatory on Subnational Governance Finance and Investment
UCLG	United Cities and Local Governments

Executive Summary

Current investment levels are not sufficient to address the needs, especially for infrastructure. In the OECD, it is estimated that the current gross fixed investment spending needs to be raised by approximately 12% to ensure that the productive net capital stock grows at the pre-2008 pace (OECD, 2018^[1]). Megatrends – in particular urbanisation, climate change, demographic pressures, and digitalisation – will increase the demand for more and better public investment, while also exert impact on national and subnational public finance.

Subnational governments play a pivotal role in filling these gaps as they invest in areas critical for growth and well-being. Most public investment responsibilities are shared between the central government, intermediate levels and municipalities. In 2016, the share of subnational investment in total public investment accounted for around 57% on average in OECD Member countries and 40% at a global level. Furthermore, infrastructure investments, regardless of which level of government is ultimately responsible, almost invariably have large local impacts. This calls for appropriate co-ordination and alignment of objectives and strategies.

In 2014, the OECD developed the *Recommendation on Effective Public Investment across Levels of Government* with 12 Principles for Action. This is the first OECD instrument in the area of regional policy and multi-level governance. The OECD has been continuously monitoring and taking stock of countries' practices in implementing this Recommendation. Several relevant surveys have been conducted in 2015, 2016 and 2018. An online Implementation toolkit <https://www.oecd.org/effective-public-investment-toolkit/> has been created presenting all the findings and analyses. Some other relevant surveys have also been carried out during the last years, notably the 2015 and 2016.

This report illustrates the overall progresses and key challenges in implementing public investment across levels of government. Since 2014, many countries have adopted integrated investment strategies and coordination mechanisms for multi-level public investments, as well as policies to strengthen national and subnational capabilities and know-how to implement public investments, as well as the implementation of monitoring and evaluation methods, among others.

Despite these advances, there remains room for improvement in key areas of public investment. For example, only few countries have implemented mechanisms to assess, upfront, the long-term impact of public investment. Further developments in this area will be necessary to minimise detrimental social and environmental impacts that infrastructure investment may have in the future. At the same time, while countries are increasingly involving the private sector in the definition of investment priorities at the national level, subnational governments need to strengthen their efforts in this respect. Governments also need to further involve the private sector to design and finance investment projects especially at the subnational level.

Increasing vertical and horizontal co-ordination of public investment policies

- **Most countries have adopted integrated investment strategies with a territorial dimension, but cross-sectoral co-ordination for investment planning represents a significant challenge at the subnational level.** This represents an important step forward for some countries, particularly non-European ones. They have also developed or strengthened at least one mechanism to better co-ordinated public investment strategies across sectors (e.g. inter-ministerial committees, *ad hoc* cross-sectoral co-ordination platforms, etc.), which is crucial to ensure policy coherence. However, countries need to better ensure active cross-sectoral co-ordination at the subnational level, especially in large regions and cities. European subnational governments, for example, identifying the lack of co-ordination across sectors as one of the top challenges faced by them in infrastructure investment.
- **Various tools have been mobilised to co-ordinate public investments among levels of government. Meanwhile, inter-governmental dialogue platforms could be promoted beyond consultation use.** Since 2014, the majority of countries have taken action to align regional development strategies with their national frameworks. In this same spirit, co-financing arrangements are also mobilised as a means to better co-ordinate public investment priorities, financing, and management. Platforms for regular inter-governmental dialogue are also becoming popular. However, dialogue between national and subnational governments can still be improved, as the majority of these platforms are in place only for consultative purposes and lack decision-making authority.
- **Legal frameworks and policies supporting co-operation across jurisdictions have been enhanced, but their degree of implementation varies strongly among countries.** Inter-municipal co-operation is widespread and firmly rooted in OECD Member countries, yet the prevalence of horizontal co-ordination particularly for infrastructure investment varies significantly. While in Italy, for example, 87% of the municipalities consult with other governments, in France only 19% of municipalities co-ordinate their investment with networks of like-minded municipalities. Co-operation has been particularly encouraged at the metropolitan level. The number of metropolitan governance authorities of all types – from soft inter-municipal co-operation, to more structured and integrated forms, up to mergers – has increased considerably during the last years.

Public investment capacities at the national and subnational levels need to be strengthened

- **Ex-ante assessment of the long-term impact and risks of public investment is one of the weakest aspects of government capacity to make proper public investment decisions.** In the 2018 OECD survey, less than half of responding countries use *ex-ante* economic evaluation tools. These evaluations are particularly challenging for small subnational governments that often lack the technical expertise and human resources required. There is, therefore, room for higher-level governments or agencies to support local governments' technical and institutional capacities for project appraisal and selection.
- **Stakeholder involvement throughout the public investment cycle has improved at all levels.** National governments have taken significant strides to integrate the private sector perspective when defining public investment priorities. Large number of OECD countries have established consultation processes for infrastructure projects at all stages of the investment cycle at the national government. Still, special attention needs to be put on involving non-governmental organisations (NGO) and the civil society when it comes to choosing infrastructure projects. At the local level, especially in large cities, there is evidence of increasing efforts to engage civil society in the decision-making process, such as participatory budgeting at the local level. Active, two-way

dialogue with concrete results can help build trust between governments at all levels and their citizens and stakeholders.

- **Subnational governments make little use of external financing options for public investment.** Municipalities and local governments – in particular the smaller ones – are often limited by their capacity to use innovative financial tools, manage complex public procurement procedures, combine different streams of financing and funding, and by the lack of appropriate skills to design and manage Public-Private Partnership. In general, subnational governments' access to external financing is often limited to the credit market (loans), constraining their access to capital markets (bonds).
- **The lack of appropriate skills and expertise to plan, manage and evaluate public investment is a main barrier for effective public investments.** This is particularly true at the subnational level: in the European Union, two thirds of subnational governments report that the capacity to design adequate infrastructure strategies is lacking in their city or region.
- **Some mechanisms exist to promote results-oriented investment strategies but the real use of monitoring and evaluation results in the decision-making process remains limited.** According to the 2018 OECD survey, almost two thirds of responding countries have established an indicator system to monitor and evaluate their investment, with a large majority using performance budgeting. Notably, more than half of respondents have an independent institution that carries out *ex-post* evaluations, a practice that contributes to build credibility and trust. Better performance could be achieved if monitoring and evaluation results were properly used. Meanwhile, financial rewards and penalties are rarely used in practice and the most common response to poor performance is still a nil response. This is particularly true at the subnational level. Greater transparency of information on public investment can enhance credibility and trust and could be a powerful tool to strengthen relations between governments and citizens.

Ensuring sound framework conditions to make the most of public investments remains challenging

- **Many countries facing deteriorating fiscal situations are now undertaking fiscal reforms.** The fiscal consolidation that followed the crisis had the potential to trigger subnational reforms aimed at increasing efficiency, tightening fiscal discipline, and modifying central grants and equalisation mechanisms. As part of decentralisation reforms, countries have adjusted their fiscal frameworks – notably their systems of inter-governmental grants (general and earmarked) and the proportion of shared and own-source taxation. Countries have also introduced reforms to their equalisation mechanisms and budgeting frameworks, including fiscal rules.
- **Governments have made important advances in increasing budgeting transparency, but need to place more effort in taking a multi-year approach to investment by connecting planning and budgeting frameworks.** Most countries have ensured public accessibility to budget documents and data, including through web portals, tablet apps and other communication tools such as “citizens’ budgets”. Recently, several countries have also established new “transparency portals”, designed to provide citizens and businesses with comprehensive information on public accounts, financial management practices, and a range of benefits offered by national and subnational governments. However, in the absence of a multi-year budget, national and subnational governments can lack the capacity to prioritise their investment programmes, which can lead to chronic underfunding of individual investment projects.
- **Governments are increasingly adopting measures to make public procurement more efficient.** When the appropriate skills and technical knowledge are missing, lengthy procurement procedures are a major challenge for infrastructure investment at the subnational level. In the OECD 2018 survey, more than half of countries have adopted policies to make procurement more

accessible and transparent through the simplification of procedures or the use of strategic procurement. Moreover, a number of countries are currently planning to implement reforms linked to their public procurement policies.

- **An increasing number of countries are recognising the need to minimise the administrative burden associated with public investment projects.** Excessive administrative procedures and red tape is a significant concern for public investment at the subnational level. Currently, a minority of respondents from the 2018 OECD survey have adopted measures to simplify the administrative framework supporting the management of investment funds. Nevertheless, it seems that governments are increasingly recognising the need to minimise the administrative burden of government formalities.

1 Public investment across levels of governments: Key insights

. This chapter assesses international trends of national and subnational public investment, with a particular focus on the global investment gap and the crucial role that subnational governments play in filling in this gap. The chapter also highlights that public investment outcomes and its impact on regional development depends on how governments at all levels manage it. The chapter also details the background and rationale of the monitoring exercise and the research methodology used.

Assessing trends of public investment

Public investment has been under downward pressure ever since the 2008 economic crisis. Meanwhile, needs of investment to support economic growth and achieve sustainable development – especially infrastructure investment – keep increasing, leaving significant investment gaps for national, regional and local governments. The pressure for public investment became even higher in the advent of the challenges brought by megatrends, such as ageing, climate change, technological innovation, etc.

Enhancing the quality and effectiveness of public investment is thus a pressing task for governments at all levels. The right infrastructure investments, well prioritised, targeted to local needs, co-ordinated across sectors and implemented efficiently over their lifecycle, are essential for effective regional development policies. On the contrary, when scarce resources are spent on weak projects, or when projects lead to environmental degradation, infrastructure investments can undermine territorial development and reduce trust in government.

A significant global investment gap remains, especially for infrastructure

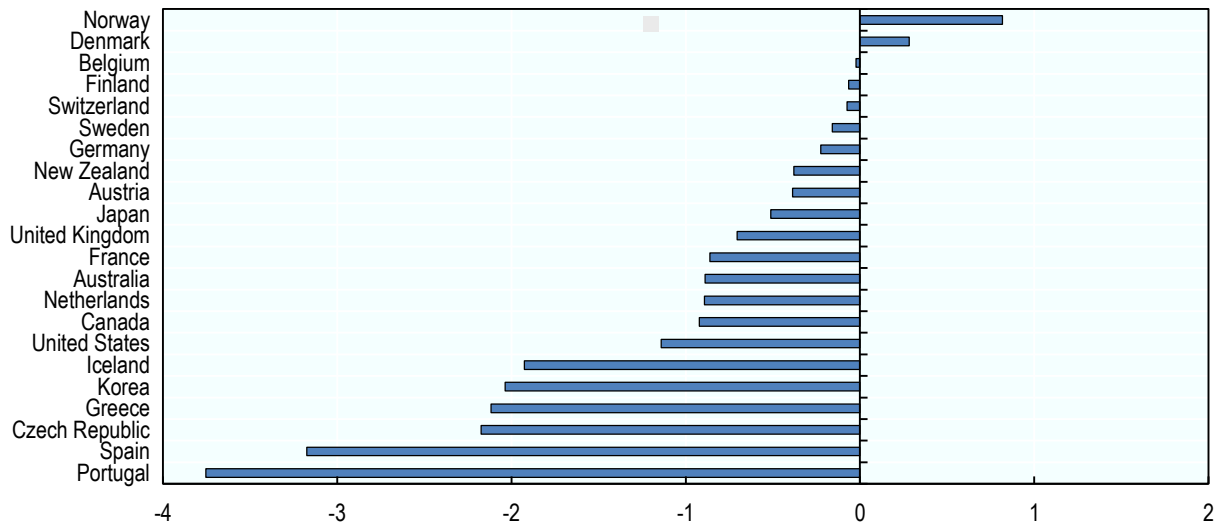
Since the 1970s, public investment in advanced countries has steadily declined from 5% of gross domestic product (GDP) in the 1970s to approximately 3% GDP in 2017, remaining at a lower level compared to emerging and developing countries (OECD, 2018^[2]; IMF, 2015^[3]). This long-term downward trend might be explained by the fact that many OECD countries focus on the maintenance of existing and well-developed infrastructure, reflecting an investment shift from traditional areas of physical investment to intangible and knowledge-based investment (Allain-Dupré, Hulbert and Vincent, 2017^[4]). By contrast, after years of decline in emerging and developing countries, public investment as a share of GDP has started to recover. Nevertheless, public investment rates in most developing countries are still significantly below 6-8% of GDP, with the exception of China and a few others (Brookings Institution, New Climate Economy, and Grantham Research Institute, 2015^[5])¹. Many middle-income countries, such as Brazil, India, Russia and South Africa, still have low-quality infrastructure, which constrains their future economic growth.

The 2008 global crisis put strong pressure on global investment rates and total public and private investment today remains lower than the 2008 pre-crisis levels (IMF, 2018^[6]; OECD, 2018^[1]). Public investment in OECD countries has been strongly affected by fiscal consolidation strategies and austerity packages that followed the crisis, as it was mainly used as an adjustment variable (OECD, 2011^[7]; 2013^[8]). This drop in public investment has been particularly large in European Union (EU) countries. In Portugal and Spain, for example, public investment levels in 2016 were almost half of those in 2008 (Figure 1.1).

¹ This rise has been driven by China, whose public investment accounted for 60% of public investment in developing and emerging countries in 2014 (OECD, 2017^[16]).

Figure 1.1. Many governments have reduced public investment since the crisis

Change in the government investment-to-GDP ratio between 2016 and the 2008-10 peak, in percentage (%)

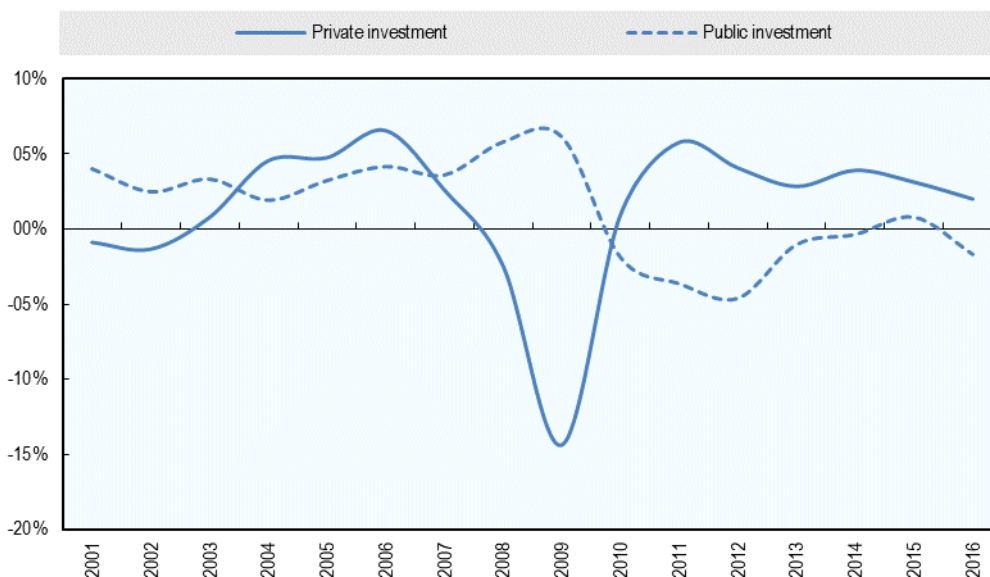


Source: (OECD, 2017^[9]).

The global financial crisis has also had a strong impact on private investment (Figure 1.2). Corporate investment declined much more rapidly than output during the 2008 crisis and has struggled to recover since then, especially following the intensification of the crisis in Europe in 2011. This decline has depressed productivity growth and has had strong impact on infrastructure investment (OECD, 2018^[10]; OECD, 2017^[11]).

Figure 1.2. Annual changes in public and private investment

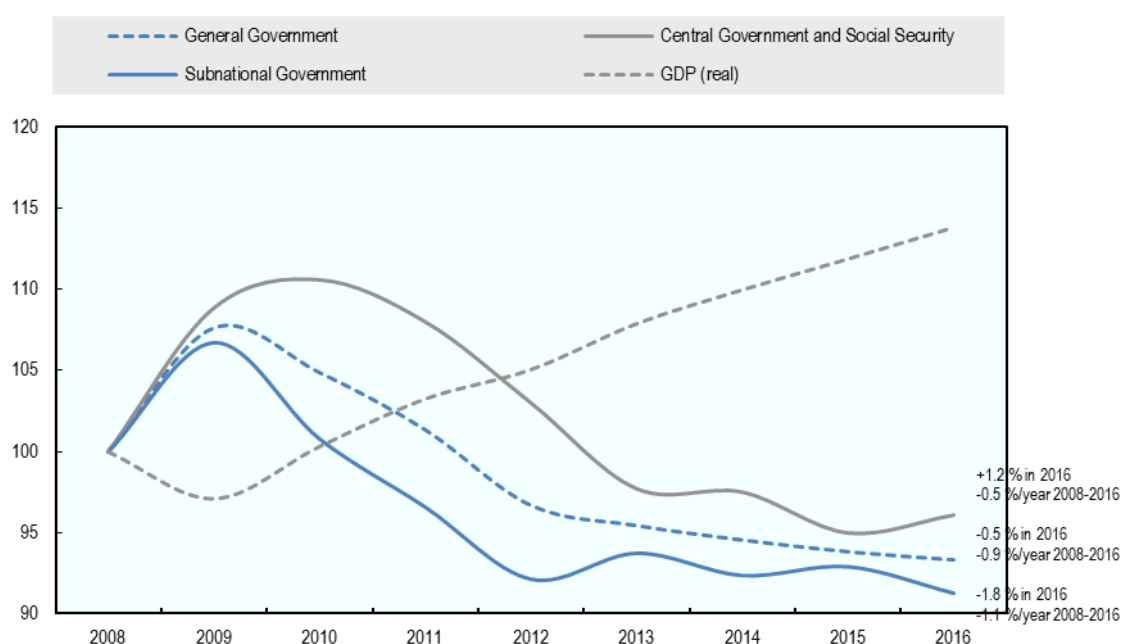
Gross fixed capital formation in real terms in the OECD 33 (2001- 2016)



Note: Private investment is obtained as gross fixed capital formation of the total economy minus general government gross fixed capital formation (appropriation account). Iceland, Lithuania and Turkey not included.
Source: OECD calculations based on OECD national accounts.

At the subnational level, investment has also declined in many OECD Member countries and remains below its pre-crisis levels. Overall, subnational investment in OECD Member countries decreased by 1.1% per year in real terms in the 2008-2016 period (Figure 1.3). The decline in subnational investment has been particularly marked in the European Union where the drop was 3.1% per year on average from 2008 to 2016. It fell significantly in Greece, Iceland, Latvia, Portugal and Spain, and especially in Ireland (OECD, 2018_[12]).

Figure 1.3. Public investment from 2008 to 2016 by levels of government in the OECD



Note: Australia and Chile: estimates from International Monetary Fund government statistics.
Source: OECD calculations based on (OECD, 2018_[13]).

Public investment varies greatly within countries – regional variation in terms of public investment as a percentage of regional GDP can range from less than 2% to up to 15% in certain regions (OECD, 2014_[14]). The decline in subnational investment also affected regions within countries differently. For example, in Spain, in 2016, subnational investment of the autonomous communities accounted for 45% of its 2008 level: in Castilla-La Mancha, the capital expenditure accounted for less than a third of its 2008 level; in contrast, the Basque country managed to keep its investment at 63% of its 2008 level (Allain-Dupré, Hulbert and Vincent, 2017_[4]).

For OECD Member countries, the current gross fixed investment spending needs to be raised around 12% to ensure the productive net capital stock can grow at the same pace as before the financial crisis (OECD, 2018_[11]). This suggests that a significant investment gap remains in many OECD Member countries. The Global Infrastructure Hub estimates, for example, that the United States has the largest infrastructure investment gap (i.e. the difference between investment needs and current trends in investment) – USD 3.8 trillion, among the 50 countries analysed (GIH, 2017_[15]).

At the same time, there are some positive signs regarding future private investment. Global GDP growth has picked up since mid-2016, with a rebound in industrial production, global trade and investment. Still, even with the observed capital upgrading, a much stronger recovery in investment and expansion in the capital stock is needed to sustain the acceleration of activity, in particular to face new global challenges (OECD, 2017^[11]).

More and better public investment at all levels is crucial to support growth, sustainable development and well-being

In order to keep pace with profound economic and demographic changes across the globe, approximately USD 95 trillion in public and private investment will be needed in energy, transport, water and telecommunications infrastructure at global level between 2016 and 2030, equalling around USD 6.3 trillion per year in the next 15 years. When taking into account climate concerns, i.e. to achieve the 2°C 66% scenario², Paris Agreement commitments, and the Sustainable Development Goals (SDGs), an additional annual investment USD 300 billion will be needed (OECD, 2017^[16]).

While around two-third of this infrastructure investment will be required in emerging and developing economies – as rapid rates of urbanisation and population growth call for an expansion of transport and electricity infrastructure- developed economies also have substantial infrastructure investment needs in maintenance and operation as well as in upgrading the existing infrastructure. For example, the European Investment Bank (EIB) estimates that Europe needs to invest 3.6% of its GDP in economic and social infrastructure in order to improve the quality of public infrastructure, recover its economy and be set on a path of sustained growth (EIB, 2013^[17]). Beyond maintenance and replacement, OECD Member countries also need to build new and sustainable infrastructure in transport, housing, energy, water supply, sanitation and waste management, notably to meet the objectives of the Paris Agreement.

The current deficiencies in infrastructure can hamper productivity and socio-economic opportunities for regions and countries, as well as their resilience in the face of demographic and climate changes. In Japan, for example, it is estimated that by 2022, 40% of roads and bridges (length more than 2 meters) will age more than 50 years (Ministry of Finance of Japan, 2015^[18]). In the United States, almost one in 10 bridges are structurally deficient and the average age of those deficient bridges is 67 years (ARTBA, 2018^[19]). The U.S. Department of Transportation (2015^[20]) estimates that it could cost as much as USD 1 trillion just to bring the country's current highways and transit systems up to date. 43% of EU municipalities surveyed in 2017 by the EIB expect their investment to focus on repair and maintenance instead of modernisation and capacity expansion in the next five years (2017-2022) (EIB, 2017^[21]).

Investment needs in human capital development and skills upgrading, as well as in the social sector (education, life-long learning, healthcare, long-term care, etc.) are also significant. For example, the European Commission estimates that the EU has an investment gap of EUR 100-150 billion per year in social infrastructure (European Commission, 2018^[22]). The EIB estimates that Europe needs to invest 3.6% of GDP, including in social infrastructure, if Europe's economy is to continue recovering and be set on a path of sustained growth (EIB, 2013^[17]).

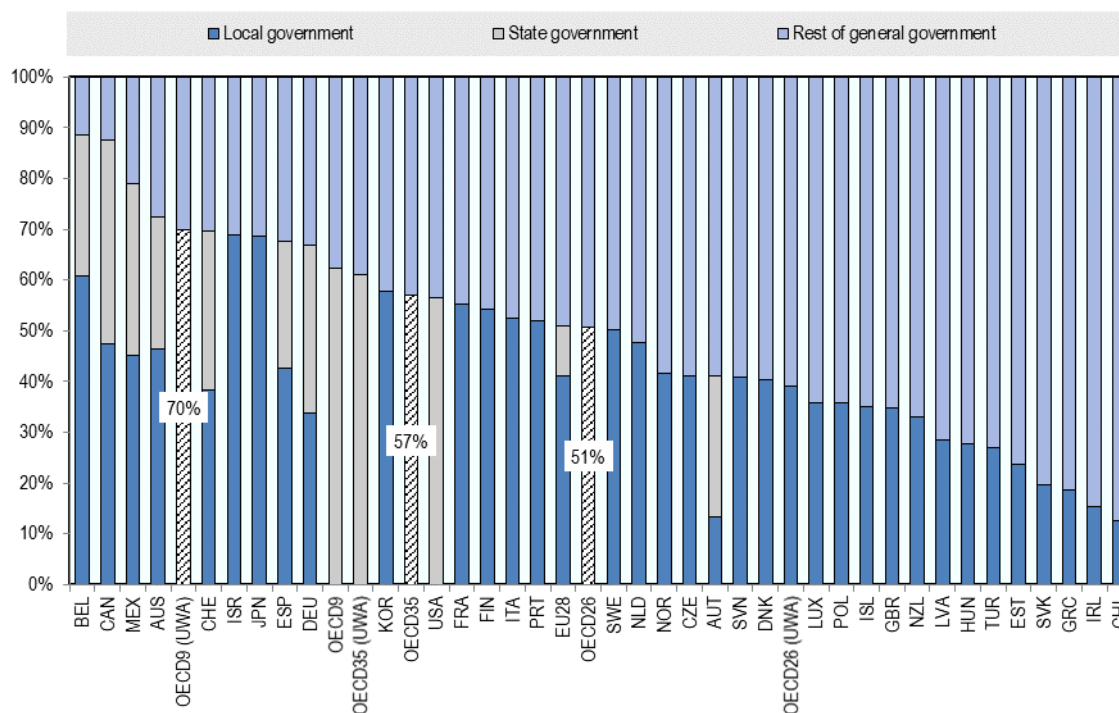
Subnational governments are key to fill the investment gap

Subnational governments play a pivotal role in filling these gaps as they invest in areas critical for growth and well-being. In 2016, the share of subnational investment in total public investment accounted for

² A scenario with 66% probability of holding global warming below 2°C suggested by the International Energy Agency.

around 57% on average in OECD Member countries (OECD, 2018^[21]) and 40% at a global level (OECD-UCLG, 2016^[23]). Combining investment by federated states and local governments, this ratio tends to be higher in federal countries (70% on average for the nine OECD federal countries) than in unitary countries (51% on average for the 26 unitary countries). Subnational investment exceeds 70% of public investment in Australia and Mexico, and more than 85% in Belgium and Canada. At the other end of the spectrum, the role of subnational government in public investment is particularly low in Greece, Ireland and especially Chile where the local share is 13% (Figure 1.4)

Figure 1.4. Public investment by levels of government (%), 2016



Note: OECD 9 and OECD 26 refer to average for OECD federal countries for OECD unitary countries.

Source: (OECD-UCLG, 2016^[23]).

Almost 40% of subnational investment focuses on economic affairs (transport, communications, economic development, energy, construction, etc.) and 21% on education. In 2015, construction and improvement of public buildings represented nearly 10% of subnational investment, while the fourth priority area was housing and community amenities (potable water supply, street lighting, etc.), followed by environmental infrastructure (waste, sewerage, air pollution, noise, protection of biodiversity and landscape, parks and green spaces, etc.) and healthcare.

In some areas, such as education, housing and community amenities and environmental protection, subnational governments are responsible for most of the public spending and investment. For example, a recent OECD pilot study shows that subnational governments in the 30 countries sampled, were on average responsible for 55% of public spending and 64% (unweighted) of public investment for environment and climate-related projects and services, over the 2000-2016 period (OECD, 2018^[24]).

Most of the challenges in meeting the infrastructure needs and implementing the global agendas on climate, urban policy and Sustainable Development Goals are linked to public goods, such as water provision, sanitation, health, education, air quality, civil security, natural disasters management, and social protection, etc. (OECD, 2017^[16]). In this respect, more and better public investment is needed at the

national and subnational levels. Public investment needs to go in hand with private efforts to fill in the gaps. If well-managed, public investment can act as a catalyst to attract private investment. This requires addressing the binding constraints which may limit investment, and improving public investment frameworks across levels of government to achieve high return on investment, as the outcomes of public investment depend to a large extent on how such investment is managed.

Regional development policy outcomes depend on the way public investment is managed

When well-managed, public investment can support growth. A growing body of work points to the positive effects of public investment on growth, and recent OECD research shows that countries with higher levels of public investment increase their productivity faster than countries with lower levels of public investment (Fournier, 2016^[25]). In the long-run, increasing the share of public investment in primary government spending by one percentage point could increase the long-term GDP level by about 5% (Fournier, 2016^[25]; OECD, 2013^[8]).

The impact of public investment and regional development policy depends, to a significant extent, on how governments manage it. Some estimates show that improving the management of public investment, could lead to substantial savings and enhanced productivity (OECD, 2013^[8]; IMF, 2015^[26]; Mckinsey Global Institute, 2016^[27]; Mckinsey Global Institute, 2013^[28]). Evidence suggests that the institutional quality and governance processes affect the expected returns to public investment and also influence the capacity for public investment to leverage private investment, rather than crowd out such investment directly (OECD, 2018^[10]).

The International Monetary Fund (IMF), for example, through the Public Investment Index assessment, points out that around 30% of the potential gains from public investment are lost due to inefficiencies in public investment processes (IMF, 2015^[3]). In the EU, evidence shows that, the quality of governments is determinant for both, economic growth and the efficiency of Structural and Cohesion Funds expenditure. The estimates show that investments that target regions and quality of government simultaneously make a difference for regional economic growth. It also shows that beyond a certain threshold of investments in cohesion and regional development, the quality of the regional government becomes a vital factor in determining the extent to which a region grows. In this sense, the most efficient way to achieve greater economic and social cohesion is by improving the quality of government; otherwise, improvements in economic growth would require massive amounts of additional investment (Rodríguez-Pose and Garcilazo, 2015^[29]).

The adequate multi-level governance arrangements allow countries to maximise investment returns for regional development. Some critical issues are the need to have a strategic plan for public investments and that these investments are co-ordinated vertically across levels of government and horizontally across sectors and jurisdictions. Other critical issues are linked to the appropriate level of capacities as well as sound framework conditions to invest effectively.

Project background: Monitoring the implementation of the Recommendation

To address these recurrent challenges that are observed in all contexts, the Regional Development Policy Committee (RDPC) of the OECD developed in 2014 the *Recommendation of the Council on Effective Public Investment across Levels of Government* (hereinafter “the Recommendation”) (Box 1.1).

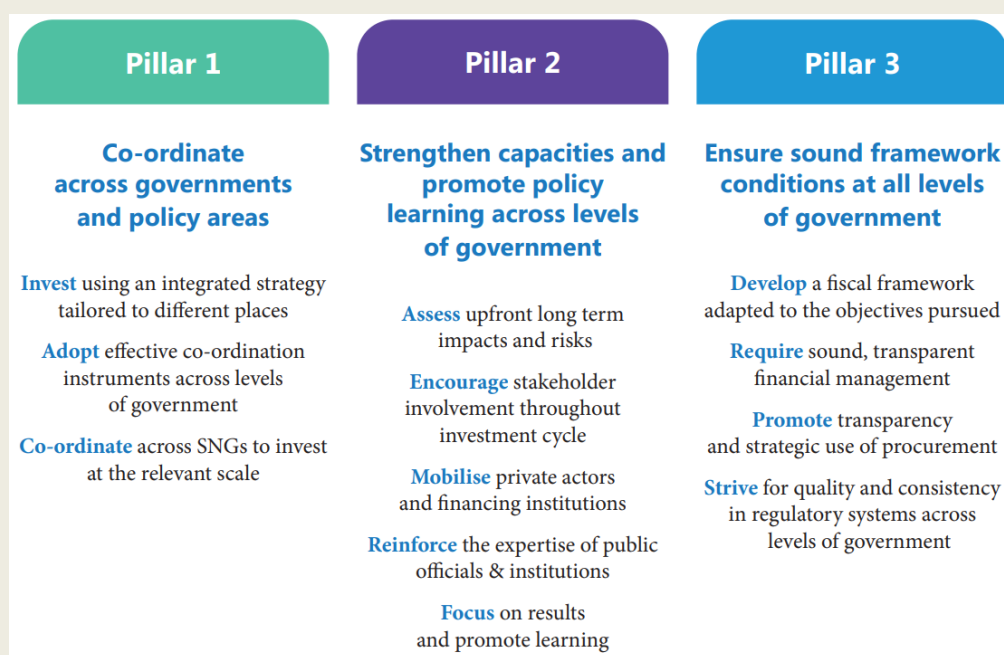
Box 1.1. OECD Recommendation on Effective Public Investment across Levels of Government

The Recommendation is the first OECD instrument in the area of regional policy and multi-level governance. Up until its publication in 2014, the subnational dimension of public investment had been lacking in the analysis on overall public investment efficiency, both in the academic literature and in the work conducted by multi-lateral organisations. Much of the analysis on this topic focused on the national framework conditions for effective public investment, and on specific sectors.

The Recommendation aims to help countries assess the strengths and weakness of their public investment governance capacity for regional development across all levels of governments. It serves as a guide to set priorities for improving the co-ordination mechanisms and capacities of subnational governments in the management of public investment.

For this, the Recommendation sets out 12 Principles (Figure 1.5) grouped in three pillars of policy recommendations that represent three systematic challenges to efficiently managing public investment at both national and subnational levels: i) co-ordination challenges; ii) capacity challenges; iii) challenges in framework conditions.

Figure 1.5. Principles for Action for effective public investment across levels of government



To date, 36 OECD Members have adhered to the Recommendation, as well as three non-Member countries: Brazil, Colombia and Morocco. Ukraine has formally expressed its interest in adhering to the Recommendation and Peru has also expressed its interest in adhering. Discussions to engage more non-Members are underway.

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

Methodology

The online Implementation Toolkit is one of the key tools used to collect information for this report. This Toolkit is one of the first instruments developed to monitor and guide countries in the implementation of OECD standards. This toolkit is a reference for countries to take out the most of the Recommendation. It offers a complete and comprehensive database of good practices, self-assessment indicators and guidance to implement the principles that is regularly updated. The toolkit contains four sets of information:

- Generic guidance for each of the Principles and questions for self-assessment;
- Examples of good practices for each Principle, at the national and subnational levels;
- Suggestions of indicators that can be used to monitor the status of each Principle across levels of government;
- Country profiles (of OECD Member and non-Member Adherents) with regularly updated data on subnational public investment, examples of good practices developed by each country and the status on the Multi-level Governance Indicators (MLGI) (Box 1.2).

Box 1.2. Multi-Level Governance Indicators

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

The multi-level governance indicators can help to identify different group of countries sharing similar or different strengths and challenges, facilitating with this peer learning and experiences exchange. They can also help to monitor efforts done by countries to strengthen its multi-level governance frameworks.

The set of twelve indicators were identified in connection with some of the key issues addressed in the OECD Recommendation on Effective Public Investment across Levels of Government (notably pillars 1 and 3). The indicators are grouped in sets (6 indicators for each set) as shown in Figure 1.6.

Figure 1.6. Multi-level Governance Indicators

Pillar A. Co-ordination institutions and instruments between levels of government for public investment	Pillar B. Framework conditions for effective public investment across levels of government
<ol style="list-style-type: none"> 1. Coherent planning across levels of government 2. Co-ordination across sectors in the national planning process 3. Vertical co-ordination Instruments 4. Multi-level dialogue to define investment priorities 5. Horizontal co-ordination across jurisdictions 6. Performance monitoring and learning 	<ol style="list-style-type: none"> 7. Regulatory co-ordination across levels of governments 8. Co-financing arrangements across national and subnational levels 9. Previsible capital transfer over time 10. Transparent fiscal information at the SN level 11. Borrowing rules for SNGs 12. Capital spending at the SN level

Source: OECD (2017), Implementation of the OECD Recommendation on Effective Public Investment across levels of Government”, Unpublished material, presented at the 37th session of the Regional Development Policy Committee, OECD Paris

To inform this report and update the online Toolkit, the OECD conducted a specific questionnaire to assess the implementation of the 12 Principles by different countries that have adhered to this Recommendation officially. The questionnaire was sent to 37³ countries in June 2018, with 27⁴ responses received by January 2019. The questionnaires were sent to the responsible line ministries or public departments, such as Ministry of Housing and Urban Development, Ministry of Regional Development, Ministry of Investment and Economic Development, Ministry of Infrastructure, Ministry of Interior, Ministry of Finance, and State Secretariat for Economic Affairs, among others.

This Report also builds upon the Regional Outlook Survey of 2015, which has an entire section dedicated to collect information on the multi-level governance of public investments and regional policy. The information collected in the Regional Outlook survey was also the main source of information used to build the Multi-level Governance Indicators.

This monitoring report also takes stock of two surveys carried out during 2015 and 2016 conducted together with the Committee of Regions which results are summarised in two reports. These surveys provide us with insights on the challenges associated with infrastructure investment from the planning, financing and implementation perspectives at the subnational level. These surveys provide with key information as they gather first hand responses from policy makers working at the subnational level.

This Monitoring Report also benefits from information gathered in other surveys and instruments highly relevant to the Recommendation, including: a) the Regulatory Indicators survey conducted in the second semester of 2014 and the [Public Procurement Survey](#) in 2016, both by the OECD Directorate for Public Governance and Territorial Development; b) the survey on [institutional mechanisms for policy coherence](#) conducted by the OECD in 2017; as well as c) the [EIB Group Survey on Investment and Investment Finance: Municipality infrastructure Investment Activities](#). The EIB survey was carried out among 555 municipalities across the EU between May and August 2017. The results are weighted by the urban population of each country.

³ The questionnaire was sent to 35 OECD Members (the questionnaire was not sent to Lithuania as it was not officially an OECD Member by the time the questionnaire was distributed), Colombia and Morocco.

⁴ Countries that have responded include: Austria, Australia, Belgium, Canada, Chile, Colombia, Czech Republic, Denmark, Estonia, Finland, Germany, Hungary, Israel, Italy, Korea, Latvia, Luxembourg, Mexico, Morocco, Netherlands, Poland, Portugal, Slovak Republic, Sweden, Switzerland, Turkey, and United Kingdom.

2

Reinforced co-ordination of public investment across levels of government

This chapter assesses how countries are implementing the first Pillar of the OECD Recommendation on Effective Public Investment across levels of government, which focuses on co-ordination of public investment across sectors or line ministries, between national and subnational governments, and across jurisdictions. It first provides the rationale of why co-ordination matters and then takes stock of countries' policy tools and mechanisms in promoting and strengthening co-ordination. The chapter highlights that countries are increasingly adopting integrated investment strategies and mechanisms to co-ordinate investments across levels of governments.

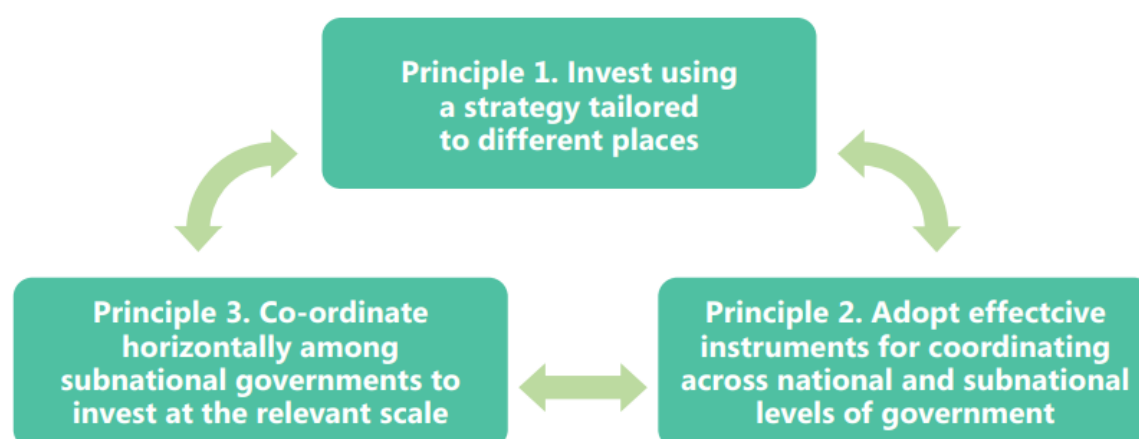
Introduction: coordination matters

Policy-makers from different sectors and levels of governments tend to work in silos. Transaction costs and often some competition for funds can be important barriers for co-ordination to happen. It is not surprising that, for example, among the 15 dimensions of institutional quality for efficient public investment management defined by the International Monetary Fund (IMF), central-local co-ordination is the one where advanced economies tend to fare the worst (IMF, 2015^[3]). In the same line, a lack of co-ordination across sectors, levels of government and jurisdictions is marked as a top challenge by three quarters of subnational governments across the European Union (EU), with direct impacts on the effectiveness of strategic planning for investment (OECD-CoR, 2015^[30]). It is crucial that policy-makers balance intrinsic and extrinsic co-ordination costs with the long-term benefits that consistent and regular co-operation could bring (OECD, 2018^[10]).

Coordination is also necessary to avoid overlaps and unclear assignment of responsibilities in a large spectrum of policy areas. The lack of clarity in the assignment of responsibilities is one of the most important challenges of multi-level governance. Many important functions of governments are shared across different levels or between the deconcentrated and autonomous authorities in the same territory. The unclear allocation of responsibilities and functions is particularly notable for policy areas such as infrastructure (transport), education, spatial planning, health or labour market policy, which often involve multiple tiers of governments. Such unclear assignment poses major obstacles in ensuring overall efficiency of public investments and local political accountability (Allain-Dupré, 2018 forthcoming^[31]). This is why cities, regions, territories, and national governments must work together to ensure synergies with programs and policies, especially in financing.

This section analyses coordination for public investment in governments from three perspectives: across sectors or line ministries; between national and subnational governments; and among regions, territories, or cities (Figure 2.1).

Figure 2.1. OECD Principles for effective co-ordination across levels of government and policy areas



Source: (OECD, 2014^[32])

A majority of countries have adopted integrated investment strategies and implemented mechanisms to co-ordinate public investments among levels of governments. Different tools have been adopted to co-ordinate public investments among levels of government, notably co-financing arrangements or platforms

for regular inter-governmental dialogue. Legal frameworks and policies supporting co-operation across jurisdictions have been enhanced, but their degree of implementation varies strongly among countries. The number of metropolitan governance authorities of all types – from soft inter-municipal co-operation, to more structured and integrated forms, up to mergers – has increased considerably during the last years.

Invest using an integrated strategy tailored to different places

Public investment choices should be linked to a development strategy based on assessment of regional or local characteristics, competitive advantages, growth, innovation, and job creation potential, and considerations of equity and environmental sustainability. Governments should *i)* design and implement investment strategies tailored to the place the investments aim to serve; *ii)* seek complementarities and reduce conflicts among sectoral strategies; and *iii)* encourage the production of data at the relevant sub-national scale to inform investment strategies and produce evidence for decision-making.

Integrated strategy for place-based investment

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

Place-based investment can better respond to the specific needs of each region or locality and fully exploit their potential by assessing regional assets and advantages as well as the main barriers for development to occur. The investment mix will inevitably vary, for example, in urban or rural context, or mixed locations. To design place-based strategies, subnational actors play a key role in identifying local needs and explore synergies across investment priorities, as they may have more first-hand knowledge on policy complementarities and trade-offs of the region than central governments.

It is by adopting a territorial approach that public investments may effectively take advantage of the opportunities offered by new and multidimensional trends, namely globalisation, demographic and social changes, resource scarcity, climate change, urbanisation, and digitalisation. These multidimensional challenges require contextualised and integrated actions to align policy objectives at all levels of government and sectors. A place-based investment strategy can also significantly help countries to attenuate the impacts of the megatrends on territorial inequalities. While regions with the highest capacities might be better equipped to benefit from technological change and innovation in infrastructure and public service delivery, this may deepen existing high territorial disparities, certainly in OECD Member countries and even more so in developing economies (OECD, 2018_[12]). At the same time, territorial investment strategies may allow, for example, considering externalities brought by increasing urbanisation: on the one hand, positive agglomeration effects, and on the other, negative externalities related to urbanisation (OECD, Forthcoming_[33]).

Implementing a place-based approach for investment is demanding from a governance point of view, since co-ordination across sectors, different levels of governments or jurisdictions to achieve complementarities or invest at the relevant scale do not occur spontaneously. Institutions involved are often reluctant, if not unable, to co-ordinate their interventions to meet the specific needs of certain territories. Even highly decentralised federations often have policy processes in which vertical interactions are deeply sectoral.

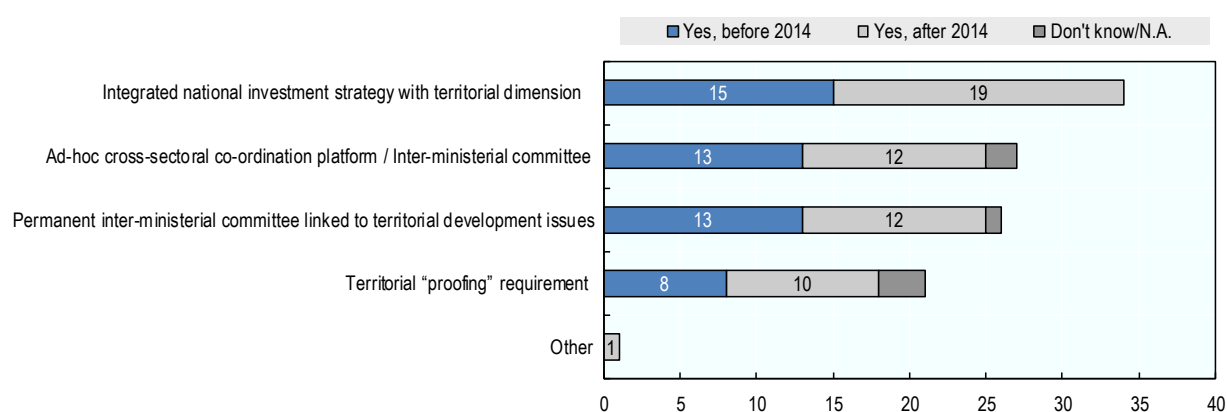
Reinforcing the integrated approach at the subnational level

In recent years, countries have embraced the need to design development and investment strategies with a territorial approach. The 2018 Monitoring Survey reveals that 19 out of 27 countries have developed an

integrated national investment strategy after 2014 with a territorial dimension (Figure 2.2). This represents an important step forward for several countries, in particular for non-European ones. Indeed, the majority that declared having such a strategy before 2014 were European countries. This is not surprising as the territorial approach is at the core of the 2014-2020 Cohesion Policy, which aims at supporting the overall harmonious development of European regions and cities through place-based regional development strategies.

Figure 2.2. Cross-sectoral coordination

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



Note: Total country respondents: 27.

Source: OECD 2018 Monitoring Survey

After the issuance of the Recommendation, non-European countries such as Colombia, Korea, or Mexico have adopted an integrated approach in their regional development strategies. European countries have also strengthened the territorial dimension in their investment and national development planning. Switzerland, for instance, incorporated the Multiannual Programme 2016-2023 of the New Regional Policy into their national economic promotion strategic document for 2016-2019. This is also the case of the Czech Republic or Italy, which have developed investment plans incorporating the needs and priorities of subnational governments (Box 2.1).

Box 2.1. Examples of place-based approaches to investment strategies

Canada

The Canadian Regional Development Agencies are also working to strengthen the level of co-ordination across levels of government and with other stakeholders in their respective regions, with each Regional Development Agency developing a Regional Growth Strategy (RGS). These leverage an all-of-government approach (federal/provincial/territorial) towards achieving long-term prosperity by collaborating on targeted, evidence-based actions around a common vision.

The development and ongoing delivery of the RGSs has involved a high level of engagement with stakeholders. For example in May 2018, Canada Economic Development for Quebec Regions conducted a series of roundtables to validate the priorities and targeted actions of their Federal Strategy on Innovation and Growth for the Quebec Regions, and in September 2018, Western Economic Diversification Canada launched a broad consultation process to support the development of a Western Canada Growth Strategy. This consultation will involve businesses, academia, Indigenous peoples, communities and other organisations as well as different levels of government.

Czech Republic

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

Italy

Italy's Strategy for Inner Areas is an integrated strategy tailored to different places with the aim of reducing demographic decline and land abandonment in many rural areas, by improving the quality of essential services – education, health and mobility – and promoting the opportunities for economic activity and jobs. The Strategy has been pursued by the national government through the following main actions:

- Identifying in each project-area an alliance of municipalities willing and capable of working together towards a long-term strategy, also by unifying the management of functions relevant to the common strategy.
- Promoting in each project area a result-oriented strategy concerning both essential services and economic activity, through a participatory approach based on an informed and open debate among citizens and relevant competent actors, and the production of data and indicators.
- Defining a set of integrated projects and their expected outcomes, through enhanced co-ordination across sectoral administrations (the Inter-Ministerial Committee with representatives of the Ministry of Education, Health, Agriculture and the Department for Cohesion Policy) and subnational levels of government, so as to align objectives, adapt sectoral policies to territorial specific needs and match different sources of financing.

Japan

Japan's National Spatial Strategy outlines the principles for integrated territorial development and infrastructure development. It is the guiding strategy for national and regional level plans in these areas. The Act promotes co-ordination in cross-sectoral projects within the regional plans of the National Spatial Strategy, and establishes that sub-national governments formulate their Infrastructure

Development Plan for Regional Revitalisation in line with the Basic Policy of the Ministry of Land, Infrastructure and Tourism. Once this is in place sub-national projects can obtain financial and technical support from the central level.

United Kingdom

The United Kingdom's Industrial Strategy White Paper launched in November 2017 provides a framework for building on the strengths of different places to promote economic growth. The White Paper highlights a number of ways in which government policies can influence the prospects of different places through spending decisions to support regeneration and growth, not only on strategic infrastructure but also transport, housing, higher education at national and subnational levels.

A key feature of the White Paper is the introduction of Local Industrial Strategies to improve regional and subnational productivity. These involve the national government working in partnership with places to develop Local Industrial Strategies, which will be developed locally and agreed with Government.

Source: OECD 2018 Monitoring Survey

Several countries have also developed or strengthened at least one mechanism as means to better co-ordinating public investment strategies across. In the 2018 Monitoring Survey, 20 Respondents, for example, have put in place a permanent inter-ministerial committee on territorial development issues at the national level either before or after 2014, while nineteen Respondents declare having implemented and *ad-hoc* cross-sectoral co-ordination platform. This is also in part the result of the implementation of the Cohesion Policy for EU countries. For example:

- The special Inter-ministerial Co-ordination Committee for European Affairs in Hungary is a committee consisting of senior ministry officials tasked with co-ordinating EU-related issues. Another new economic committee has also been established in 2016, which helps increase the coherence of economic policies (Sustainable Governance Indicators Network, 2017^[34]).
- The Cross-Sectoral Co-ordination Centre in Latvia helped integrate the goals and actions of the National Development Plan 2014-2020 into the EU fund planning documents and sector planning documents. It also carried out research to assess the coherence and interface between the strategic documents and the links between the national, regional, and local-government level planning systems (CSCC Latvia, 2012^[35]).
- The Netherlands has implemented the Dutch Multi-Year Programme for Infrastructure, Spatial Planning and Transport (MIRT) Consultation Committee, which makes agreements on MIRT tracks: the collective perspective of the national and regional governments regarding the development of an area or major body of water, and the ensuing ambitions and projects.
- Poland has established the Co-ordinating Committee for Development Policy (CCDP) as a permanent inter-ministerial committee linked to regional development issues through sub-committees (e.g. sub-committee for rural areas development, sub-committee for territorial dimension). The CCDP carries out analysis and drafts documents to facilitate the implementation of country's Strategy for Responsible Development with a strong territorial dimension.
- The Territorial Co-ordination Council in Portugal is the political body to promote consultation and concertation between the Government and the different political institutions, at regional and local levels. Portugal has also recreated the High Council for Public works as a technical advisory body for the Central Governments on infrastructure investments in which are represented, among other entities, the Metropolitan Areas, the Territorial Coordination Council, and the Municipalities National Associations.

Yet, cross-sectoral co-ordination for investment planning remains a significant challenge at the subnational level, as most countries have developed inter-sectoral development strategies mainly at the national level. Indeed, lack of co-ordination across sectors is among the top six challenges identified by subnational governments in the EU with nearly 80% of them declaring it is a major or somewhat of a challenge. It is especially the case for large regions and cities (OECD-CoR, 2015^[30]).

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

Co-ordination is necessary to identify investment opportunities and bottlenecks, to manage joint policy competencies, to minimise the potential for investments to work at cross-purposes, to ensure adequate resources and capacity to undertake investment, and to create trust among actors at different levels of government. Several tools can be used when coherence of investment across levels of government is required, such as co-financing arrangements, contracts between levels of government, formal consultation processes, national agencies or representatives working with sub-national areas, or other forms of regular inter-governmental dialogue.

Vertical coordination for higher efficiency and effectiveness of investment

Co-ordination of decision making across national and subnational governments is necessary to align objectives between the central and lower levels of government. It also helps in bridging a series of information, financing, and capacity gaps that impede an efficient use of investment resources. When decisions are taken in silos it is more likely to invest in projects that may work at cross-purposes or put resources in projects that do not necessarily respond effectively to local needs. It is through joint actions that investment can be done at the relevant scale internalising positive or negative spillovers and implementing the complementary measures needed to make the most of that investment.

While policy makers recognise the advantages that vertical co-ordination would bring, it is in general difficult to put into practice. Transaction costs, competitive pressures, resource constraints, differing priorities and fears that the distribution of costs or benefits from co-operation will be one-sided, can all impede efforts to bring governments together. Indeed, national and subnational governments often recognise that co-ordination represent a major challenge for them. According to the 2015 survey in 255 EU regions and cities carried out by the OECD and the Committee of Regions (CoR), the lack of political will to work across different levels of government was among the top seven challenges identified by OECD Member countries. Most subnational governments (84%) tend to perceive that local/regional needs are different from those prioritised by the central level (OECD-CoR, 2015^[30]). Similarly, nearly 70% of EU municipalities see co-ordination between regional and national priorities as an obstacle to implement their infrastructure investment. Less than half municipalities in the EU reported that they co-ordinate their investment activities with the metropolitan authorities or the regions where they are located (EIB, 2017^[21]).

To address the multidimensional challenges of climate change, social cohesion, inclusive growth, and others, the effective implementation of investment require concrete actions to align policy objectives at all levels of government. It also requires alignment across different sectors, such as transport, housing, water and energy, and across different policy areas such as land-use planning, innovation, labour market and skills, entrepreneurship, or social inclusion. Strong co-ordination is needed to promote the contributions from and benefits to all people, places and firms. Moreover, for climate investments, central-local co-ordination is crucial as actions that have strong and global impact on climate change occur at the local level within specific contexts. Actions taken by cities and national governments need to be complementary.

Governments, through dialogue and evidence-sharing, gain insight into which actions work best, where to implement them and under what conditions. However, the sole creation of co-ordination platforms in the

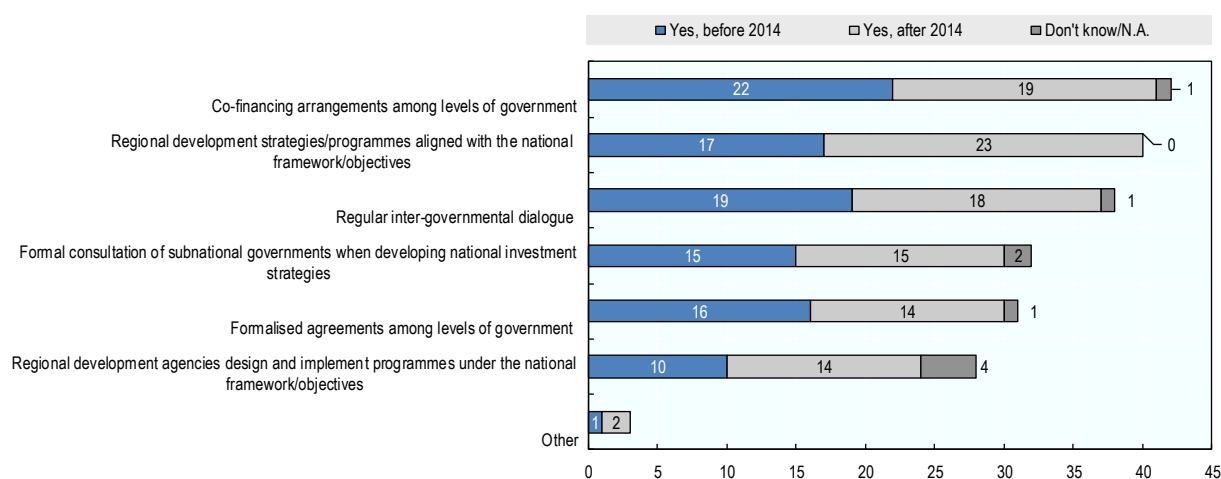
form of permanent inter-governmental and cross-sectoral national fora that facilitate structured dialogue do not necessarily ensure an effective co-ordination of objectives and actions. Transparency of the rules and its consequences, simplicity of the information shared, credibility, and transversal engagement are important ingredients to encourage all parties to engage in a fruitful dialogue (OECD, 2018^[10]).

Diverse mechanisms for multi-level coordination

Governments have developed a broad set of mechanisms to help bridge information, capacity, fiscal, administrative or policy gaps across national and subnational governments. These mechanisms can range from “binding” to “soft” instruments. They include for example financial incentives to support cooperation among levels of governments, co-financing mechanisms, joint investment strategies, the use of conditionalities when assigning funds, platforms of dialogue, or specific instruments such as contractual arrangements.

The 2018 Monitoring Survey reveals that responding countries have increasingly aligned regional development strategies with national objectives: since 2014, 23 out of 27 have taken actions to align regional development strategies with the national framework. This was the case for 17 countries before 2014 (Figure 2.3).

Figure 2.3. Vertical coordination across tiers of government



Note: Total respondents: 27.

Source: OECD 2018 Monitoring Survey

Co-financing arrangements as well as platforms for regular inter-governmental dialogue are two of the most popular governance instruments used by governments to co-ordinate interests vertically. A majority of countries, in particular the federal ones, have developed inter-governmental councils to better organise the relations across levels of government bringing together members of the executive branch of subnational governments or agencies (Box 2.2).

Box 2.2. Platforms to co-ordinate investments across levels of government

Austria

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

Australia

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

Belgium (Flanders)

In Flanders, the overall co-ordination of all the EU funds will be done at a yearly high-level co-ordination meeting organised by the Flemish government bringing together the management committees of the different funds. For the Integrated Territorial Investments in particular, in Limburg, the provincial committee of Limburg including all the partners of the Limburg Taskforce will be involved. In Kempen and West-Vlaanderen, there will be the Flemish Agency Enterprise and the Flemish Ministry on Spatial Planning with the involvement of the relevant management committees.

Luxembourg

Conventions of State-municipal territorial cooperation promote inter-municipal and multilevel cooperation to foster sustainable regional development, promote integrated planning and address specific development issues. Conventions facilitate the vertical cooperation between the State and municipalities with the aim of implementing the objectives established in territorial strategies, such as the Master Programme for Spatial Planning, the Integrated Transport and Spatial Planning Concept and the Global Strategy for Sustainable Mobility. Membership is voluntary and there are no explicit statistical, geographical or morphological criteria for joining. The membership of a municipality is solely based on functional criteria: all municipalities in a convention area have a shared understanding of common challenges and opportunities.

Sweden

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

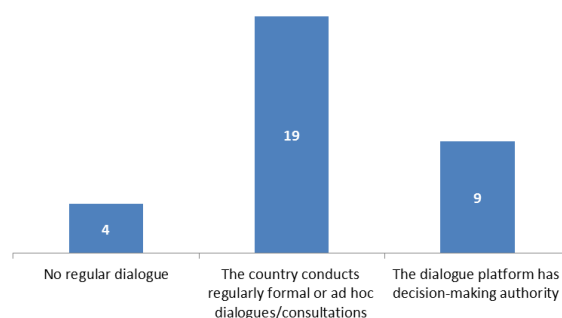
Source: OECD 2018 Monitoring Survey, (Austrian Conference on Spatial Planning, 2016^[36]; CEMR, 2014^[37]).

Yet, as the OECD-Multi-level Governance Indicators (MLGI) showed in 2016, these platforms are established mainly for consultation purposes and their decision-making authority remains limited; only in nine cases the dialogue platform had decision-making authority (Figure 2.4). When a dialogue is convened on a regular basis, co-ordination across levels of government is likely to be more successful. A dialogue

platform or consultation forum that activates this dialogue needs to produce outcomes that are sufficiently clear for all actors involved to implement without difficulty. When the platform has decision-making authority, co-ordination across levels of governments can be further ensured.

Figure 2.4. Vertical dialogue for investment priorities for regional development

Does your country conduct regular dialogue(s) between national and subnational levels on regional development policy including investment priorities?



Note: Total number of countries: 32

Source: OECD (2017), unpublished, Multi-level Governance Indicators

While less popular, some countries ensure co-ordination across levels of government through regional development agencies that design and implement programmes following national directions. This is the case of Canada, for example, where the federal government is represented in the provinces via structures such as regional federal councils and regional development agencies, whose interests lie not only in representing the federal government's priorities in the provinces, but also in conveying provincial preferences to the federal authorities. The result is tripartite agreements (i.e. formal contractual arrangements among federal, provincial, and local authorities) that support the implementation of infrastructure policies (Allain-Dupré, Hulbert and Vincent, 2017^[4]). In other cases, countries promote vertical co-ordination for specific sector or investment programme. For example, Greece established a working group gathering the Ministry of Environment and Energy, municipalities and municipal water management companies to foster co-operation for wastewater treatment projects that are co-financed with EU funds. An additional Wastewater Technical Secretariat was also set up in 2018 to strengthen the country's co-operation with the European Commission in this domain.

Still, from the subnational perspective, co-ordination with the national level is strongly challenging. For example, 84% of EU subnational governments perceive the fact that local/regional needs are different from those given priority at central level as a challenge. This is particularly marked in the case of large subnational governments, namely regions, departments and metropolitan areas with more than 500 000 inhabitants. Subnational governments also perceive political barriers for this co-ordination to happen: 77% of subnational governments report the lack of political will or administrative culture to work across different levels of government (OECD-CoR, 2015^[30]).

Coordinate horizontally among subnational government to invest at the relevant scale

Horizontal coordination for enhancing efficiency and creating synergies

Horizontal co-ordination is essential to increase efficiency through economies of scale and to enhance synergies among policies of neighbouring (or otherwise linked) sub-national governments. Modes of coordination include contracts, platforms for dialogue and co-operation, specific public investment partnerships, joint authorities, or regional or municipal mergers. Countries are recommended to provide incentives and/or seek opportunities for co-ordination among regional and/or local governments to match public investment with the relevant geographical area.

Co-operation is necessary across regions, cities and local governments to invest and deliver services at the relevant scale. It also facilitates greater investment efficiency through economies of scale and enhances synergies among policies of neighbouring (or otherwise linked) subnational governments. This is typically the case for physical infrastructure investment where the most efficient scale often exceeds the administrative boundaries of individual regions or localities.

Horizontal co-ordination is challenging for countries where subnational governments are strongly fragmented. This is especially relevant in countries like the Czech Republic, France, or the Slovak Republic which have on average less than 2 000 inhabitants per municipality compared to 9 600 inhabitants on average in the OECD in 2016 (OECD, 2018^[2]). The existence of many and small local governments was particularly challenging for the implementation of national investment stimulus packages in 2008-09 where national funding was atomised in thousands of small projects.

Co-ordination of investment and development policies is particularly relevant at the metropolitan scale where less fragmented governance structure can favour growth and productivity. For a given population size, a metropolitan area with twice the number of municipalities is associated with around 6% lower productivity, an effect that is mitigated by almost half when a governance body at the metropolitan level exists (Ahrend et al., 2014^[38]). Enhancing the co-operation and co-ordination for investments in public infrastructure or services at the metropolitan scale can also improve the quality of life and international competitiveness of large cities (OECD, 2015^[39]).

In a time when attracting private financing for investment is crucial, horizontal co-ordination to reach an efficient scale and viability for investment is primordial. It is by this means that projects, in particular infrastructure ones, can become more attractive for private involvement, for example, in the form of Public Private Partnership (PPP).

Cross-municipality coordination for infrastructure investment remaining a major challenge

Several OECD Member countries have recently enacted regulations to encourage horizontal collaboration to partially solve municipal fragmentation for public investment and service delivery (OECD, 2017^[40]). Countries have used different degrees of co-operation, from “light” single or multi-purpose co-operative agreements to “strong” integrations in the form of supra-municipal authorities with delegated functions and even taxation powers. For instance in France, public establishments for inter-communal co-operation (EPCI à *fiscalité propre*) have their own sources of tax revenue (OECD, 2017^[40]). Some governments also introduced new types of contracts and partnership agreements to encourage inter-municipal cooperation such as Poland (territorial contracts), Portugal (multi-level contracts) and Japan (partnership agreements) (OECD, 2017^[40]).

However, co-ordinating infrastructure investments projects across municipalities seems to be still a major challenge at the local level. Co-ordination across neighbouring local governments implies important administrative, financial and political costs that may discourage such co-ordination to happen. The European Investment Bank (EIB) 2017 shows that less than half of EU municipalities consult with other bodies when it comes to the planning and implementation of infrastructure projects. The degree to which this is true varies, however, across countries; with as many as 87% of Italian municipalities consulting with

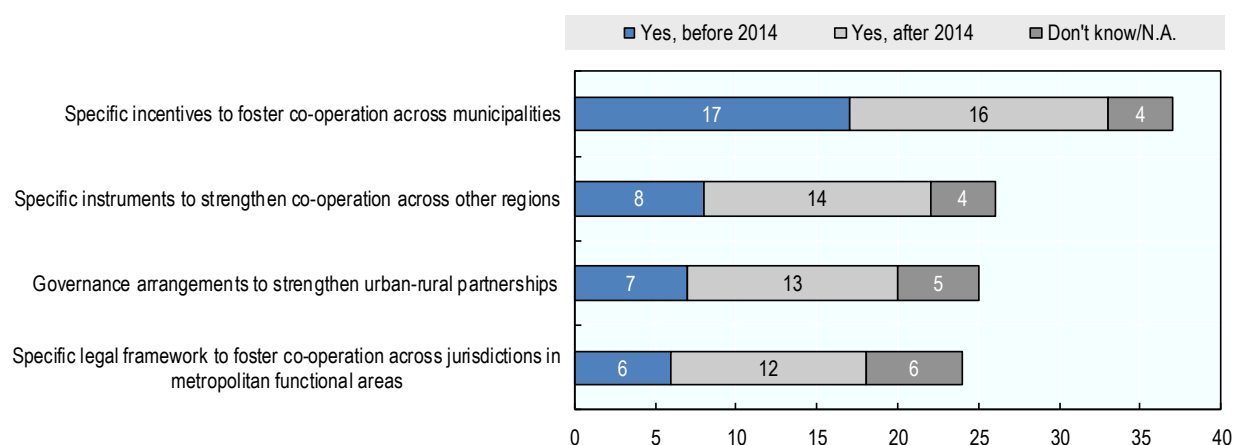
the region in which they are located; and as few as 19% of French municipalities coordinating their investment activities with networks of like-minded municipalities (EIB, 2017^[21]).

The 2015 OECD-CoR survey also shows that horizontal co-ordination is challenging, particularly for large subnational governments. More than three quarters of surveyed subnational governments report horizontal co-ordination challenges with other jurisdictions. For 34%, the lack of incentives to co-operate across jurisdictions is a major challenge. Seventy-five percent of subnational governments also report a lack of joint investment strategy with neighbouring cities/regions (OECD-CoR, 2015^[30]).

Countries may choose from different governance instruments the one that better suits its purpose within their country context. In most cases, these instruments are designed basically on a voluntary basis. As such, countries generally use incentives – either financial or non-financial – to enhance inter-municipal co-operation and networking, information sharing, and sometimes to help in the creation of joint authority entities. As the 2018 Monitoring Survey reveals, after 2014, 16 out of 27 countries have put in place specific incentives to foster co-operation across municipalities (Figure 2.5).

Figure 2.5. Horizontal coordination for public investment for regional development

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



Note: total respondents: 27.

Source: OECD 2018 Monitoring Survey.

These incentives are frequently financial: special grants for inter-municipal co-operation, special tax regimes, additional funds for joint public investment proposals (Estonia, Norway), bonus grants for municipalities that generate savings through co-operation (Spain), among others (Box 2.3). In other cases, some governments have opted to provide consulting and technical assistance, promoting information sharing or providing specific guidelines on how to manage collaboration, such as Canada, Norway and the United States (OECD, 2017^[41]).

Box 2.3. Incentivising horizontal co-ordination in OECD countries

European Union

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

France

France 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 cooperation” (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.

Hungary

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

Slovenia

In 2005, amendments to the Financing of Municipalities Act provided financial incentives for joint municipal administration by offering national co-financing arrangements: 50% of the joint management bodies’ staff costs are reimbursed by the central government to the municipality during the next fiscal period. The result has been an increase in municipal participation in such entities from nine joint management bodies in 2005 to 42, exploding to 177 municipalities today. The most frequently performed tasks are inspection (waste management, roads, space, etc.), municipal warden service,) physical planning and internal audit.

Spain

The region of Galicia in Spain has many small municipalities with limited institutional capacity and spread out geographically, which increases the cost of providing public services. The regional government has taken steps to encourage economies of scale. First, it has improved the flexibility of and provided financial incentives for voluntary (“soft”) inter-municipal co-ordination arrangements. Investment projects that involve several municipalities get priority for regional funds. “Soft” inter-municipal agreements tend to be popular in the water sector. Local co-operation is also being encouraged in the urban mobility plan for public transport, involving the seven largest cities in the region. The regional government also imposed a “hard” co-ordination arrangement. Specifically, it created the Metropolitan Area of Vigo, an association of 14 municipalities. Although the metropolitan area was defined by the regional government, it was based on a history of “light co-operation” among 12 municipalities (out of 14). Voluntary municipal mergers may be encouraged in the future.

Turkey

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

The transformation process still continues. Metropolitan reforms contain many key provisions that enable metropolitan municipality regimes to formulate policies and take decisive action that support linkages across a city's administrative boundaries and in line with its economic footprint. For instance, the Law enabled metropolitan municipalities to undertake their own higher scale territorial planning (1:50 000 scale) that provides a strategic framework to plan city development. Urban transport planning and investment functions were also consolidated at the metropolitan municipality level, enabling planners to ensure access and mobility across a metropolitan municipality's entire footprint.

Source: (OECD, 2017^[40]); (OECD, 2014^[32])

Notably, governments are increasingly fostering co-operation across regions (e.g. provinces or states) for public investment. If before 2014, only eight countries had reported that such type of co-operation, since the issuance of the Recommendation, 14 countries have implemented cross-regional co-ordination. For example, the United Kingdom as part of the Government's Industrial Strategy has established pan-regional initiatives to support growth and regeneration and 'ensure all parts of the country benefit from sustainable economic growth. These initiatives aim at building on the strengths and opportunities of linked city regions and rural areas.

Co-operation has been particularly encouraged at the metropolitan level. The number of metropolitan governance authorities of all types (soft inter-municipal co-operation, more structured and integrated forms, mergers) has increased considerably during the last years (OECD, 2017^[40]). In the 2018 Monitoring Survey, 12 out of 27 countries declare having developed a specific legal framework to foster co-operation across jurisdictions in metropolitan functional areas after 2014 (see Figure 2.5 above). This has been the case, for example, in France and Italy (2014), Poland (2015), England (2016), and Chile (2018). In England, the "Cities and Local Government Devolution Act 2016" allows for greater devolution of powers to combined authorities and introduces directly-elected mayors. In Poland, the law on metropolitan communities entered into force in January 2016 (OECD, 2017^[40]). In Chile, a law recently approved provides the regional level with the competencies to manage metropolitan areas (OECD, 2017^[41]).

To overcome municipal fragmentation, OECD Member countries have also resorted to municipal mergers. The recent global crisis acted as a catalyst to reactivate or introduce municipal amalgamation policies, such as in Estonia (2015-18), Ireland (2014), Luxembourg (2015-17), Norway (2014-17), Turkey (2012-2014), France (2015 Law on "new municipalities"), and Italy (Law 56/2014). Some federal countries have also implemented mergers under the leadership of federated states (e.g. New South Wales and South Australia, Styria in Austria, Flanders in Belgium, Manitoba or New Brunswick in Canada (OECD, 2017^[40]).

Since 2014, co-operation between rural and urban localities have also been increasingly encouraged: if before 2014 only seven responding countries had a governance arrangement to encourage rural-urban partnerships, 13 Respondents declared having developed or strengthened them after 2014.

Horizontal co-ordination has also been used by governments to attract private financing. The Pennsylvania Department of Transportation, for example, aggregated the construction and maintenance of a few hundred of small bridges into a single PPP project under its old bridges rehabilitation program. The average cost of the individual bridges is as low as approximately USD 2 million, which would not make for a viable single PPP project (GIH, 2018^[42]). In the United Kingdom, the Partnerships for Church of England Schools

was created to bundle several small schools with a new built capital cost of around GBP 2 million into “geographically coherent” groups in order to facilitate the procurement of the private partner (World Bank Group, 2015^[43]).

3 Strengthening capacities to invest more efficiently

This chapter highlights the potential capacity challenges that governments at all levels face across the whole investment cycle as Recognised by the second pillar of the OECD *Recommendation on Effective Public Investment across levels of Government*. Insufficient capacities for implementing public investment – be it regarding impact assessment, stakeholder engagement, private sector mobilisation, or monitoring and evaluation – present significant bottlenecks for subnational governments across the world. The chapter highlights that while stakeholder involvement has improved in recent years, key capacity challenges regarding skills and expertise, external financing or monitoring and evaluations practices remain. .

Introduction: capacity building as an enabler throughout the investment cycle

The low level of capacities to design and implement the right investment-mix, in particular at the subnational level, is probably one of the most important bottlenecks for effective public investment. Defining, structuring, implementing, operating and monitoring public investment requires a very diverse set of capacities. Investment projects may fail or engender significant waste or corruption in the absence of adequate or sufficient capacities at all levels. This is particularly true for infrastructure investment for which the adequate capacities may help in ensuring value-for-money, mobilising private sector resources, and improving the operation and maintenance of infrastructure in the long-term. The lack of technical capacities, which is often attributable to an overlap or duplication of responsibilities and administrative burden among others, affects the ability of governments to boost regional growth, address inequalities and improve social and environmental conditions (OECD, 2018^[10]).

Capacity building for subnational public investment goes beyond a narrow approach restricted to human resources management or workforce improvement activities. Capacities refer to the institutional arrangements, technical capabilities, economic resources and policy practices that affect public investment. They should be an enabler to achieve important goals at different stages of the investment cycle. Capacity building is also a “learning-by-doing” process in which national and subnational can acquire the needed capacities on a daily basis through practice (OECD, 2018^[10]). To build the capacities needed, the “learning-by-doing process” needs to go hand in hand with differentiated and targeted capacity building activities and technical assistance.

Capacity challenges not only vary across OECD countries, but most importantly, within countries. Thus, tailored approaches are needed to enhance the appropriate governance capacities of all levels of governments. Indeed, improving governance capacities should be a priority for all countries, for all levels of government and for all types of regions, not only lagging ones. Even in economically well performing regions, there may still be scope for strengthening capacities (OECD, 2013^[8]).

The 2015 OECD-Committee of Regions (CoR) survey shows that the capacity challenge is prominent, even in most advanced countries. Two-thirds of subnational governments surveyed reported that the capacity to design long-term public investment strategies was lacking in their locality. At the same time, 56% of subnational governments mentioned that the lack of adequate own expertise to design projects represents an important bottleneck for infrastructure investments (OECD-CoR, 2015^[30]).

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

Use comprehensive, long-term assessments for investment selection. *Ex-ante* assessments should be used to both clarify goals and reveal information. Appraisals should be technically sound, help to identify social, environmental and economic impacts, and investigate which investment method is likely to yield the best value for money. Policy makers should also consider policy and project complementarities, as well as alternatives to investment and efficient use of existing capital stocks to reach particular goals. Long-term operational and maintenance costs should be clearly assessed from the early stages of the investment decision.

Assess different types of risks and uncertainty associated with public investment, including long-term impacts, at an early stage of the investment cycle as part of an appraisal. This includes fiscal risks, such as contingent liabilities, as well as political, social, and environmental risks. Such risks and adapted mitigation strategies should be re-evaluated as new information becomes available.

Minimise the risk of investing in “white elephants”

In a large number of cases, the root of the problem for the management of public investment is insufficient or weak planning: poor selection of projects, weak project appraisals which are often not based on sound data, as well as optimism bias (OECD, 2014^[32]). The risk of investing in “white elephants” would be minimised if sound and rigorous *ex ante* evaluations take place. It is by assessing upfront the investments to be taken that it is possible to ensure the value for money of an infrastructure project and avoid investments that result in excess capacity (e.g. underused highways, ports, or airports), or projects that require unaffordable operation and maintenance costs or never get completed.

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

In some cases, *ex ante* appraisals need to be conducted at the central level. Regions, cities or local governments do not always have the necessary information, the institutional capacity or the technical know-how to undertake this complex task. This is true for example, when a calculation of environmental costs and benefits is needed. Local governments also may lack the information and knowledge to carry out risk analysis, such as on exogenous macroeconomic developments or political factors. At the same time, for some cases, technical requirements may extend beyond standard project appraisal skills and may require specific types of expertise which can be found at the central level or external agencies. Furthermore, usually *ex ante* appraisals are more needed when there is considerable uncertainty about the factors affecting returns on investment. In this scenario, commonly used approaches to economic assessment such as cost-benefit analysis may fall short.

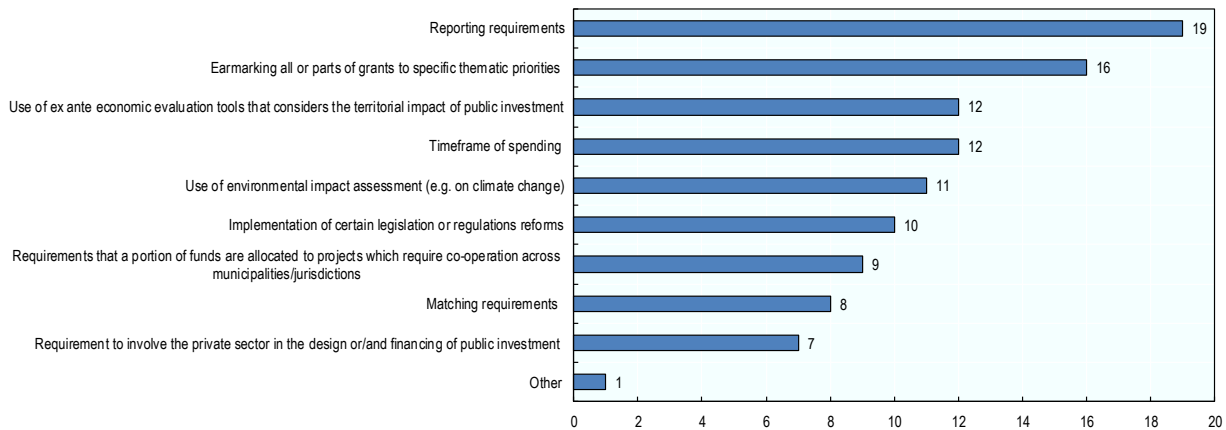
If *ex ante* assessments are to be done by a national or external agency, subnational governments need to be consulted in the process. They are the best situated to identify complementary investments and local impacts that investments could bring. They can also provide valuable insights to better identify alternatives to the investment and efficient use of existing capital stocks to reach the goals previously defined.

Limited use of ex ante evaluations at all levels of government

Ex ante appraisals are strongly challenging for both, the national and the subnational levels. According to the 2018 Monitoring Survey, only 12 out of 27 countries use *ex ante* economic evaluation tools (cost-benefit, cost effectiveness, or multi-criteria analyses) that considers the territorial impact of public investment (Figure 3.1).

Figure 3.1. Mechanisms for strengthening public investment performance

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



Note: total number of respondents: 27

Source: OECD 2018 Monitoring Survey.

This is in line with the results of the 2016 OECD Survey of Infrastructure Governance which shows that only in five countries there is a formal process for ensuring absolute value-for-money for all infrastructure projects; nine countries use such processes for projects above a certain value, and others on *ad hoc* basis (five), or only for public-private partnerships (Mexico) (OECD, 2017_[44]). However, the Survey of Infrastructure Governance also shows that for a majority of countries (21 out of 26), the Central Budget Authority plays a key gatekeeping role in approving infrastructure projects. This means that in most countries if approval by the Budget Authority is not obtained, the project cannot proceed. Survey results show that the criteria used by the Central Budget Authority for the approval of infrastructure projects and assuring their affordability focus on the projects affordability for both the national budget and users, value-for-money, and to a lesser extent on the presence of mandated documentation for all projects (OECD, 2017_[44]).

At the subnational level, the real use of *ex ante* evaluations remains limited. For example, the European Investment Bank (EIB) Group Survey on Investment and Investment Finance shows that around 50-60% of European Union (EU) municipalities carry out independent *ex ante* assessments of infrastructure project quality, either on the budgetary implication, environmental and social impact, and/or whether the project fits into the urban development strategy. However, only about 60% of these municipalities take the results of their assessments into account for decision-making (EIB, 2017_[21]). This is in line with the 2015 OECD-Committee of Regions (CoR) Survey that shows that two thirds of EU subnational governments believe that *ex-ante* analyses are performed, but that their results are not consistently used in decision-making. Furthermore, nearly 70% of subnational governments in the EU consider that the full life cycle of infrastructure investment is not taken into proper account when designing a project. This is especially the case for large cities and regions but less the case for small municipalities (OECD-CoR, 2015_[30]).

There is, therefore, considerable scope for higher-level governments or agencies to play a role by investing in strengthening institutions and local government capacities for project appraisal and selection (Ter-Minassian, 2017_[45]). In addition to guidance and clarification on standards and methodologies, national governments can provide technical assistance and financial resources for subnational governments to identify the social, environmental and economic impact of regional and local infrastructure projects. Supporting local governments on *ex-ante* appraisals can help them allocate investment to infrastructure projects that will most contribute to local development.

Some countries such as Denmark, Norway, and the United Kingdom incorporated the subnational dimension in their project appraisal mechanisms for major investment projects at the national level or sectoral level to different extents (Box 3.1).

Box 3.1. Improving appraisal practices

Canada

Recognizing that public programs and investments have differential impacts across the population depending not only on where people live but also upon their gender, ethnicity, and many other factors, Canada has progressively deployed increasingly sophisticated forms of assessment, analysis, training and tools to improve the inclusivity and overall performance of federal programming through the Gender-Based Analysis Plus (GBA+). While the naming of these initiatives focuses on gender inclusion, in practice they include a broad definition of inclusivity that includes consideration for differential impacts across regions.

To help inform these analyses, the government is engaging with traditionally underrepresented groups at all levels to help identify the barriers they face and develop solutions. Training is provided to federal staff to support their work in this area. To strengthen available data/statistics in support of evidence-based policy development, Budget 2018 provided funding to create a Centre for Gender, Diversity and Inclusion statistics within Statistics Canada. Budget 2018 also introduced a Gender Results Framework, a whole-of-government tool to track Canada's performance and help define what is needed to achieve greater equality.

Italy

According to Italian law central administration must follow a new planning procedure for infrastructure public spending. Its purpose is to ensure more efficient and effective infrastructure spending to boost the economy and improve productivity. This new national planning process is expected to be more effective because: it explicitly includes economic project appraisal; the process is made transparent and verifiable; the output is one or more project merit lists; the decision-making criteria (both quantitative and qualitative) are explicit. Expenditure Departments must prepare sectorial appraisal guidelines to define standard procedures for project appraisal in different investment sectors (mobility, energy, water management, etc.). The Programming, Evaluation and Analysis Unit is responsible to give methodological support to public administration at all levels, to define national standards for economic and financial project appraisal and spread best practice among the National Evaluation System.

Ireland

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

Portugal

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

United Kingdom

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

Source: (European Commission, 2017^[46]; HM Treasury, 2014^[47]; HM Treasury, 2018^[48])

Engage with stakeholders throughout the investment cycle

Engage with public, private sector and civil society stakeholders in the design and implementation of public investment strategies to enhance social and economic value, and to ensure accountability. All levels of government should involve stakeholders in needs assessment and the design of an investment strategy at an early stage of the investment cycle, and, at later stages, in feedback and evaluation. Information on public investment plans, expenditures, and results should be exposed to some level of public scrutiny to promote transparency and accountability.

Seek a balance when incorporating stakeholders’ views, taking steps to prevent disproportionate influence by special interest groups. Consultation processes at all levels of government should be inclusive, open and transparent, as well as promote transparency and integrity in lobbying.

Stakeholder engagement: a two-way virtuous cycle for better investment outcomes

Governments need to shift from top-down and sectoral decision-making toward working in partnership with citizens, local communities, and private actors. It is through a fruitful dialogue with relevant stakeholders that investment projects can gain legitimacy by aligning objectives and putting in the table needs and expectations of different relevant actors. By involving stakeholders in the decision-making process governments at all levels can generate ownership, trust and a sense of fairness. This, in turn, encourages stakeholder engagement. In the end, if conditions are met and the quality of the relationship is good, early stakeholder engagement can be a two-way virtuous circle enabling better policy and investments outputs and outcomes in the long term (OECD, 2018^[10]).

All levels of government should involve stakeholders in the design of an investment strategy, and, at later stages, in feedback and evaluation. Well-managed consultation may help to limit corruption, capture, and mismanagement, in particular for big and complex infrastructure projects (OECD, 2017^[44]). Stakeholder involvement may also improve legitimacy, strengthen trust in government, and cultivate support and adherence for specific investment projects (OECD, 2014^[32]) (OECD, 2017^[44]). It gives policy makers a chance to “test” how people will react to a proposal and adjust it if necessary and it can help legitimise government decisions and policies (Holmes, 2011^[49]; OECD, 2017^[41]). Involving stakeholders can also help in improving the quality of the projects by better assessing investment needs and the environmental and social sustainability of the project. Governments can use participation as a means not only to understand public opinion, but also to challenge it, helping better inform and shape preferences.

For the engagement of stakeholders to be meaningful and successful, there are certain conditions that should be accomplished. It is important, for example, that governments are honest and transparent on the purpose of the process and whether it is for information or consultation. Governments should avoid consulting on issues that are not negotiable and report back to citizens on how their contribution has been integrated. The way in which stakeholder engagement is ensured needs to be flexible and adapted to the type of project under consultation. In order to make the relationship fruitful and trustworthy, information

shared need to be clear and understandable to the general public. Practices can include identification of and outreach to stakeholder groups, public information exchange, consultation processes, and accessible public reporting of investment plans, implementation progress, and results.

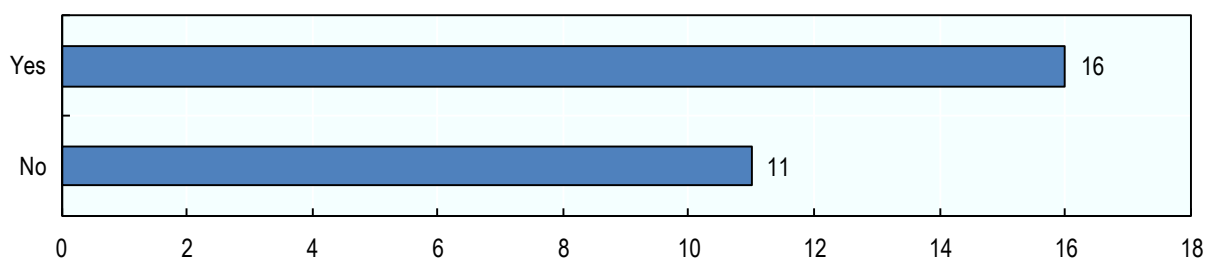
Increasing involvement with the private sector

Stakeholder involvement from early stages to design public investment strategies or projects together with national or subnational governments is still limited among countries. Indeed, only 7 out of 27 countries surveyed in 2018 declare having specific requirements to involve the private sector in the design or/and financing of public investment. It is the less popular mechanism used by governments to encourage the effective performance of public investment (Figure 3.1 above).

However, national and subnational governments seem to be increasingly implementing mechanisms to involve the private sector in defining priorities for public investment. More than half of the respondents to the 2018 Monitoring Survey declare that they have established mechanisms to engage private sector representatives – often Chambers of Commerce, in identifying priorities for public investment (Figure 3.2).

Figure 3.2. Private sector engagement

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



Note: total number of respondents: 27

Source: OECD 2018 Monitoring Survey.

For example, Australia conducts the Regional Jobs and Investment Packages in ten locally led pilot regions enabling each region to determine local priorities and growth industries to drive economic growth in their region and create jobs. Portugal is designing the *Estratégia 2030* through conferences and seminars made across the country involving both sectoral and regional stakeholders. Poland has also made important efforts to bring stakeholders into the decision-making process through the Regional Social Dialog Councils (Box 3.2). In the United States, local and regional transportation planning include public engagement plans that outline the entire process for involving stakeholders. Other countries such as Austria, Czech Republic, Colombia, Denmark, Germany, Italy, Latvia, Mexico, the United Kingdom, among others, have also institutionalised mechanisms to consult the private sector on investment priorities.

Box 3.2. Involving stakeholders in public investment decisions

Australia

The Regional Jobs and Investment Packages supports the Australian Government's commitment to stimulate economic growth in Australian regions. It is intended to drive economic growth and create jobs in ten pilot regions by investing in projects that will diversify regional economies, stimulate long term growth, deliver sustainable employment and enable applicants to enter new markets and sectors. The ten pilots are led by local governments enabling each region to determine local priorities and growth industries to drive economic growth in their region and create jobs.

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

Korea

The 2030 Seoul Plan is an integrated plan for urban development in the Seoul Metropolitan City area over 2010-2030. The Plan, which focuses on priorities that include green infrastructure, housing and transportation, as well as several social issues, ensure citizen engagement at each step of planning. Citizens, experts, and other interested parties were involved in formulation of the 2030 Seoul Plan, the process of which was carried on in an open, transparent manner. In order to have public consensus, the Seoul Plan involved the citizens from the very beginning of planning so as to come up with the appropriate vision and tasks to perform. The public worked with administrators and experts in developing the plans for key issues. The "2030 Seoul Plan Development Committee" was founded to establish the plan within a collaborative network and framework of citizens, experts, administrators, and other interested parties. The committee was comprised of the Seoul Plan Citizens' Group that shapes the vision, and of sub-committees that help develop the plans for key issues.

Latvia

Latvia has developed a Regional development coordination council which involves private sector representatives -representatives from Employers' Confederation of Latvia and Latvian Chamber of Commerce and Industry.

Netherlands

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

Poland

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

United Kingdom

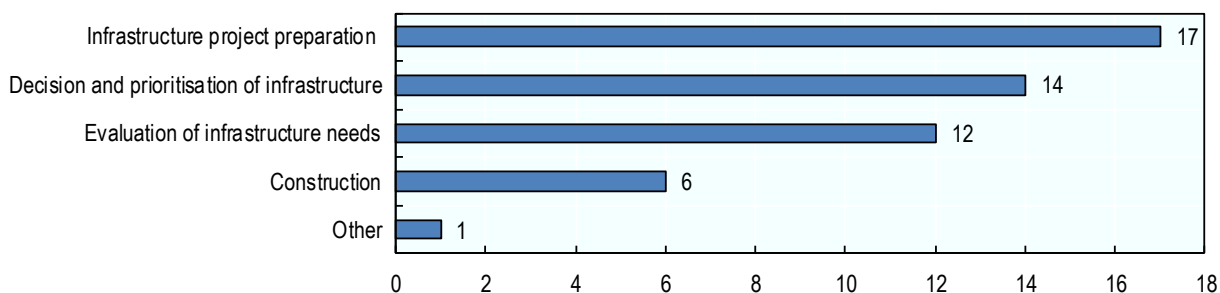
The private sector is represented on Local Enterprise Partnerships (LEP) that are voluntary partnerships between local authorities and business across a functional economic area. They have a private sector chair and involve local authorities and the voluntary and community sector. A national LEP assurance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

Source: 2018 Monitoring Survey; (Seoul Solution, n.d.^[50])

In the same line, a large number of OECD Member countries have in place, at the national level, consultation process for infrastructure projects at all stages. The 2016 OECD Survey of Infrastructure Governance reveals that in 20 countries there are mandatory consultancy processes that mainly take places during the infrastructure project preparation phase (see Figure 3.3). In more than half of the countries, consultation is also mandatory for the evaluation of infrastructural needs and for the decision process of prioritising infrastructure projects. During the construction phase, mandatory consultation is less common. The feedback of these consultation processes are for example used for environmental impact studies (decision and prioritisation of infrastructure), to incorporate results from public hearings into the infrastructure preparation period, as well as analysis and evaluation throughout the project (OECD, 2017^[44]).

Figure 3.3. Consultation processes at different stages of infrastructure investment

At which stages of development do consultation processes take place?



Note: Total respondents: 21 (Countries with mandatory consultation processes), (Others: not specified)

Source: OECD (2016), OECD Survey of Infrastructure Governance, OECD (2016) Getting Infrastructure right

In contrast, at the subnational level, stakeholder engagement represents an important challenge. In the 2016 OECD-CoR survey, 65% of subnational governments reported insufficient or inadequate involvement of civil society, citizens or non-governmental organisations (NGOs) in the choice of infrastructure projects as challenges which can lead to acceptability and support problems (OECD-CoR, 2015^[30]). However, at the local level – especially in cities – stakeholder engagement for project prioritisation seems to be gaining ground. Proof of this is an increasing of participatory budgeting at the local level that get citizens involved in municipality's budgetary allocation and its investment priorities. Cities like Madrid – with 15% of municipal budget in the hand of citizens, Cologne, Lisbon, Paris, among others, are examples of this trend. In the Metro Vancouver Regional District in Canada, 21 municipalities are responsible for engaging with

their citizens and encouraging participation in decision-making. Stakeholder advisory groups, citizen assemblies, open houses, workshops with residents, and surveys are some of the main channels for obtaining citizen feedback on investment projects or urban (re)development projects (Metro Vancouver, 2018^[51]). This type of participatory practices may contribute to improving information flows between government and citizens. It also enhances accountability as it stimulates frequent citizen's checks on policy makers and politicians (OECD, 2018^[52]).

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

Match private financing arrangements to investment needs and government capacity, particularly at the sub-national level, through careful analysis of the pros and cons of different private participation arrangements and what they entail in terms of risk and government financial and administrative capacity. Decisions regarding Public Private Partnerships (PPPs) should be co-ordinated with the budget process and their potential value-for-money should be compared to that of traditional procurement.

ii) Involve private actors and financing institutions in public investment to offer more than just financing. Involving private actors and financing institutions in the investment should be a way to strengthen the capacity of government at different levels and bring expertise to projects through better *ex-ante* assessment, improved analysis of the market and credit risks, and achieving economies of scale and cost-effectiveness. Governments should mobilise innovative financing instruments or mechanisms, but do so with a clear understanding of the capacities such approaches require.

Involving private actors in public investment as a way to strengthen capacities

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

Involving private actors and financing institutions in investment projects is also a way to strengthen the capacity of government at different levels and bring expertise to projects through better *ex-ante* assessment and improved analysis of the market and credit risks. It may also allow achieving economies of scale and cost-effectiveness. The private sector may also contribute to important cost savings through innovations in project design and technological and managerial efficiencies (OECD, Forthcoming^[33]).

Subnational borrowing might help countries meeting increasing investment and infrastructure needs. Still, national governments are often reluctant to allow subnational borrowing as the expected efficiency and equity benefits of borrowing do not necessarily outweigh the associated macroeconomic risks. However, national governments can regulate subnational borrowing by introducing effective borrowing controls in the form of administrative or regulatory rules to preserve fiscal discipline. A 2016 study by the Asian Development Bank Institute shows that in the last two decades, while less countries prohibit subnational borrowing, central governments are increasingly using a combination of *ex-ante* and *ex-post* regulations (Martinez-Vazquez and Vulovic, 2016^[53]).

PPPs at the subnational level are in particular a key tool to narrow the investment gap, especially when they face important borrowing constraints. As contracts that bundle design, financing, construction, and operational elements, well-designed PPPs have the potential to offer governments greater value for money than traditional procurement (OECD, Forthcoming^[33]). By bundling the responsibility for the initial capital

investment with future maintenance and operating costs, PPPs provide incentives for the firm to minimise costs over the project's lifetime, including by potentially keeping a check on “white elephant” projects

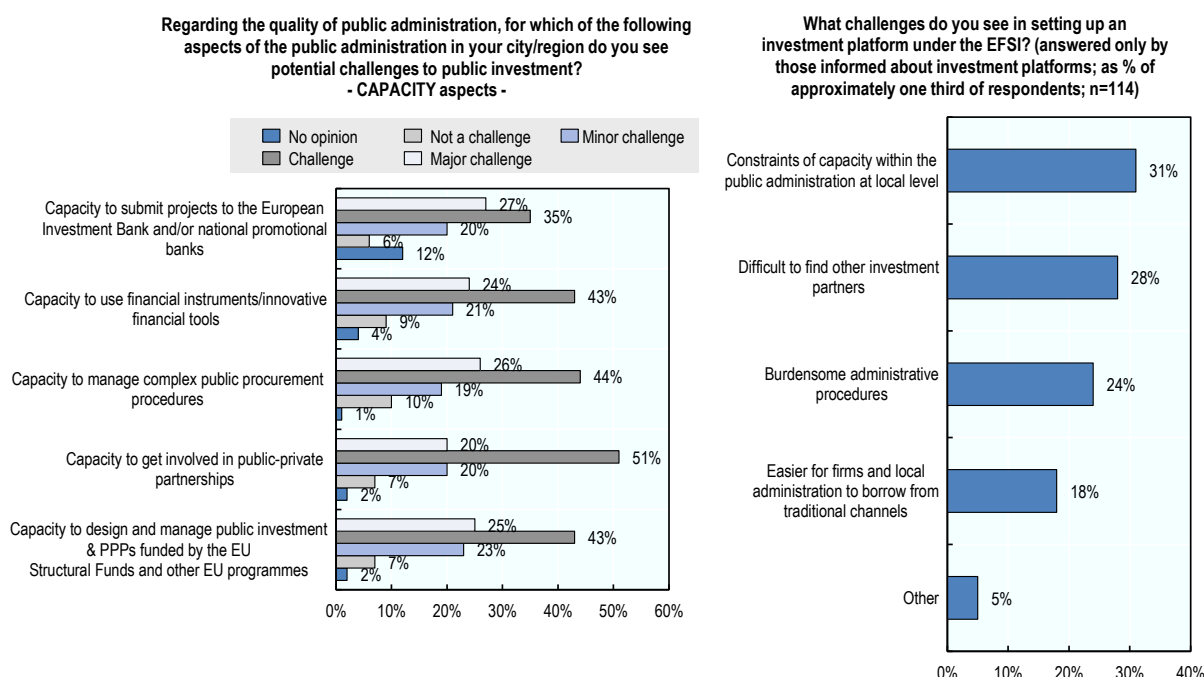
As recommended by the *Recommendation of the Council on Principles for Public Governance of Public Private Partnerships*, it is essential to “carefully investigate which investment method is likely to yield most value for money. Key risk factors and characteristics of specific projects should be evaluated by conducting a procurement option pre-test. A procurement option pre-test should enable the government to decide on whether it is prudent to investigate a Public-Private Partnerships option further” (OECD, 2018^[54]; OECD, 2014^[55]).

One of the most important bottlenecks: making the most of private financing

The limited capacities to make the most of private financing for investment projects is one of the most important bottlenecks faced by subnational governments to invest. Between 2010 and 2015, 23% of subnational governments in the EU knew a decrease of private sector financing (OECD-CoR, 2016^[56]). During the same period, private sources to finance infrastructure investments at the subnational level increased in a small minority of subnational governments (7%) (OECD-CoR, 2016^[56]).

Cities and local governments – in particular the smaller ones – are often limited by their capacity to use innovative financial tools, to manage complex public procurement procedures, to combine different streams of financing and funding and by the existence (or lack thereof) of appropriate skills to design and manage PPPs (Figure 3.4). Limited private financing by subnational governments may also be explained by a lack of awareness of the variety of financial mechanisms available, and a lack of co-ordination across subnational governments to pool financial resources to engage in innovative financing mechanisms (Allain-Dupré, Hulbert and Vincent, 2017^[4]).

Figure 3.4. Capacity constraints for financing investment



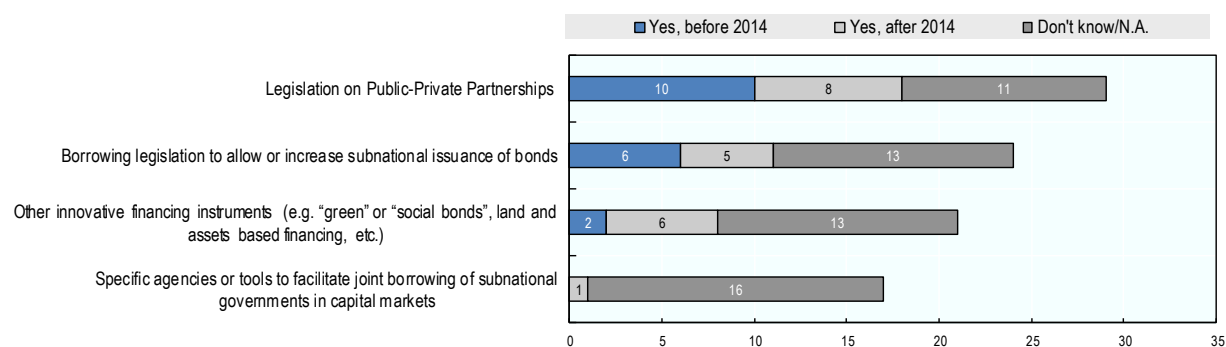
Source: Committee of the Regions (2016), “Results of the CoR online consultation on obstacles to investments at local and regional level”, Secretariat of the Commission for Economic Policy (ECON), Unit C2, <http://cor.europa.eu/en/events/Documents/ECON/results-survey-obstacles.pdf>.

The issuance of bonds, PPPs, joint borrowing in capital markets (e.g. via inter-municipal borrowing agencies), or other innovative financing instruments such as green bonds and social bonds, remain very limited at the subnational level. Beyond capacity constraints, subnational governments face multiple obstacles when it comes to external financing. Complex regulatory frameworks for example, may limit the use of borrowing by subnational governments. Generally, cities may also have lower credit ratings than national governments. Only 4% of the 500 largest cities in developing countries are considered creditworthy in international financial markets and only 20% in local markets (World Bank, 2013^[57]). Creditworthiness can be affected by the inability to collect revenue, which limits a city's capacity to borrow and enter into partnerships with the private sector. The private sector may also be reluctant to invest in certain regions, especially in lagging ones, due to the less attractive investment return or relatively high investment uncertainties and risks.

While in the OECD subnational governments are often allowed to borrow, access to financing is primarily limited to the credit market (loans), not extending to the capital markets (bonds). In general, bond financing is only widespread in federal countries, mostly for state governments, notably in the United States or Canada. Yet, bond financing at the local level is developing in some unitary countries such as Japan, Korea, New Zealand and Norway (OECD-UCLG, 2016^[23]). Indeed, the 2018 Monitoring Survey shows that only six Adherents have borrowing legislation to allow or increase the subnational issuance of bonds and only one country (Mexico) has established a specific tool to facilitate joint borrowing of subnational governments (Figure 3.5). In the EU, only 4% of subnational governments have increased the use of bonds by 2015 – essentially some German *Länder* and a few metropolitan areas (OECD-CoR, 2015^[30]).

Figure 3.5. Mobilisation of private actors and financing institutions

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



Note: Total number of respondents: 27.

Source: OECD 2018 Monitoring Survey.

It has to be highlighted that there is an important knowledge gap on these issues. As can be seen in Figure 3.5 above, the majority of respondents did not know if any of the mechanisms to mobilise private actors or financing institutions was in place in their country. This was indeed, the question with more "don't know" or blanks answers of the 2018 Monitoring Survey.

To meet the investments needs brought by megatrends, borrowing frameworks can be adapted to allow borrowing in the credit and capital markets for environmentally- and socially-related subnational investments. The access to green bonds to fund projects that have positive environmental and/or climate benefits or social bonds to finance socially responsible investment are gaining space in subnational investments. The first green bonds for cities were issued in 2013 and since then, 180 bonds in 13 countries have been issued. While cities and regions in the United States lead the ranking, some

cities in Europe and Asia are also issuing these type of bonds (Climate Bonds Initiative, 2017^[58]). Cities and regions in Australia, Canada, Germany, Ireland, the Netherlands, Portugal, or Korea are also developing and delivering social impact bonds (OECD, 2016^[59]).

While the average value of PPPs is generally higher at the national level, the numbers of PPPs are often greatest at the subnational level (OECD, 2018^[54]). Subnational governments in France, for example, granted 79% of the *contrat de partenariat* between 2005 and 2011 (EPEC, 2012^[60]). In Germany, subnational PPPs constitute approximately 80% of total PPP investment. In Canada, nearly all PPPs are contracted subnationally (OECD, 2018^[54]). Nevertheless, the value of individual subnational PPP contracts tends to be smaller than national ones. For example, in France, the average contract value for local government *contrats de partenariat* as of 2011 was approximately EUR 28 million versus approximately EUR 315 million for national ones (OECD, 2018^[54]).

Relative to the infrastructure demand and the persistent financing gaps, subnational governments might need greater support to be able to engage into PPPs, especially small subnational governments which do not necessarily have the appropriate capabilities. Indeed, the number of countries that have particular legislation on subnational PPPs is still low: only 8 out of 27 Respondents have developed such legislation since 2014. National governments need to further support subnational authorities to engage in PPPs as their role in filling the gap of investment becomes increasingly relevant.

Small scale projects that appeal to local governments may not be appropriate for the PPP approach. They do not necessarily represent value for money nor are they commercially viable. The promotion of PPP projects at the subnational level should be directed primarily at the larger jurisdictions and regions that already have the general fiscal and institutional capacities required, and also towards priority infrastructure sectors. Addressing the infrastructure challenges that arise in smaller jurisdictions or remote regions requires sustained public investment at different levels in order to ensure inclusive and balanced development in the country.

Subnational governments are often limited by their capacity to establish PPPs. To overcome this capacity gap, some Adherents have established PPP units at the subnational level. This is, for example, the case of Australia where each state and territory has appointed a lead government agency to implement PPP policies, or Germany where some federal states have also established their own dedicated PPP units to support government organisations procure and manage PPP projects (Box 3.3). The Canadian government assists subnational governments in their management of PPP projects through its PPP Canada agency, which provides both technical expertise and support and, in some cases, co-financing. Yet, this practice is still limited across the OECD. According to the OECD Survey of Infrastructure Governance, only seven out of 24 OECD members surveyed have established a national PPP unit or infrastructure unit in the Central Government with the mandate to strengthen the capacities of subnational governments for PPPs and general infrastructure projects (OECD, 2017^[44]).

Box 3.3. Mobilising private funding at the subnational level: PPPs and green bonds

Canada

The Budget 2017 established the Canada Infrastructure Bank, a new federal crown corporation that uses federal support to attract private sector and institutional investment in new revenue-generating infrastructure projects. The Bank plans to invest CAD 35 billion over the next 10 years and its funding may be accessed by all levels of government – federal, provincial, territorial, municipal and Indigenous governments – and the private sector. Projects supported by the Bank are decided by an independent board of directors drawn in large part from the private sector.

Germany

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

Korea

In 2015, Seoul launched the *Energy Welfare Public-Private Partnership Programme* to target vulnerable low-income families who would become even more at risk of energy poverty with the acceleration of climate change. The programme aims to increase the energy independence of energy-poor households by providing at-risk communities with home energy upgrades, including energy efficiency improvements, decentralised rooftop solar panels, and LED lights and mini-photovoltaic cells. It also supports disadvantaged job seekers through training and employment as energy consultants to assess energy performance of low-income households.

The programme operates with an innovative and sustainable financing method to ensure its long-term sustainability. This includes public funding from the city government for energy-efficiency building retrofits for low-income households, as well as the training of energy consultants. The programme also receives private funding from the *Energy Welfare Civic Fund*, into which citizens and businesses can make monetary and in-kind contributions. Contributions can come from savings earned through the *Eco-mileage programme* or the innovative “virtual power plant,” through which 17 municipal buildings and 16 universities save electricity consumption during peak hours and donate profits towards the Fund

Mexico

Mexico City became a pioneer in Latin American by issuing the first municipal green bond in 2016 for USD 50 million. A second “sustainability” bond was issued for USD 105 million, which focused on green and social investments. The city prioritises water infrastructure, energy efficiency, and public transport projects in its issuance of green bond projects. In terms of water infrastructure, the city aims to upgrade and repair pipes to address water leakage, inadequate piping, and increase drinking water access. In the districts of Iztapalapa and Tláhuac, which have both received green bond infrastructure investments, over one-third of the population lives in poverty. The city is also investing in potable water wells and wastewater management. Flooding has also been lifted up as a particular issue for poor populations, as well as lack of access to clean drinking water.

Poland

In frame of activities pointed in PPP Policy the Ministry of Investment and Economic Development supports public entities by providing complex advisory services for chosen PPP planned projects. This support has a wide range from advisory services provided by internal experts to funding of legal,

financial and technical external experts from leading international companies. The aim is not only to assist the precise investment to be launched under the PPP formula, but also to prepare on this basis a standard documentation and the best practices for future similar cases.

The Ministry of Investment and Economic Development is preparing guidelines for concerning the preparation of PPP projects, tender procedure, and contract clauses templates. The aim is to publish and disseminate it in order to help the public entities in such activities. The Ministry is also offering a large scope of education possibilities for public entities such as seminars, workshops, conferences, - study visits etc. concerning PPP – especially focused on project preparation and tendering.

United Kingdom

From the outset of the Private Finance Initiative programme, the United Kingdom has been active in trying to build and reinforce public sector capacity to effectively engage with the private sector. Its primary strategy has been to establish PPP units and other institutional structures to strengthen government capacity for PPPs, reinforce project scrutiny and to provide financial resources to local governments to access technical support.

The use of standardised contract documents has helped the United Kingdom to attenuate some of the risks presented by the complexity of PPP contracts and the administrative capacity constraints of the public sector.

Source: OECD 2018 Monitoring Survey; (OECD, 2018^[61]; OECD, 2016^[62]).

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

Bolster the capacity of both officials and institutions associated with public investment. Due attention should be paid to effective human resources management, as well as to cultivating knowledge (identifying, sharing and applying good practices) and relationships (refining mechanisms for vertical co-ordination, strengthening co-operation among sub-national governments, and developing linkages to sources of expertise). Capacity at the subnational level deserves particular attention; in some cases financial resources, professional skills, or institutional quality may be lacking. Not all capacities can be strengthened at the same time. It is therefore valuable to identify binding constraints and the proper sequence of reforms.

Bridging the capacity gaps at the subnational level

In order to design and implement effective public investment strategies, governments at all levels need substantial professional and technical skills among public sector employees and organisations. Beyond the technical capabilities, policy-makers also need skills to consult, negotiate and co-ordinate with different levels of government as well as with nongovernmental partners (OECD, 2013^[8]). Moreover, to face the new mega challenges, public workers will need to develop new competencies and more networking-type skills in order to use complex and innovative financing sources for public investment.

Reinforcing skills of public servants at the subnational level is crucial to address territorial inequalities. The capacity of local governments to undertake investment projects varies greatly within countries and the capacity gap between rural localities and large metropolitan areas can be substantial. Large regions, particularly the more autonomous and with significant numbers of staff, can tap a diverse range of professional skills. The same is not necessarily true for small regions, municipalities, newly created regions, or where decentralisation reforms have outpaced improvements in administrative capacity (OECD, 2013^[8]).

The mobilisation of private actors and the need to resort to different funding mechanisms require a set of particular skills at the national and subnational levels. The technical demands associated with launching and sustaining a successful PPP for example, are substantial (OECD, 2018^[54]). Not only must administrators understand the pros and cons of PPPs, and evaluate if and how to integrate their use into development plans, but they must have or be able to access the technical skills to evaluate and work with potential private partners, assess and assign risk, design a contract, and monitor (and respond to) project implementation (OECD, 2018^[54]).

To ensure that public officials have the needed skills, subnational governments need to monitor the quality of their workforce, strengthen human resources management policies to encourage acquisition and retention of professional skills, and seek technical assistance where workforce gaps exist. However, this may be particularly challenging for subnational governments that already face a skill gap which struggle with attracting and retaining the talent they seek. Still, to bridge the gap, subnational governments can have access to skills outside the government through universities, regional development agencies, or technical consultants. Horizontal co-operation among subnational governments is also a way to bridge the capacity gap by peer collaboration and learning.

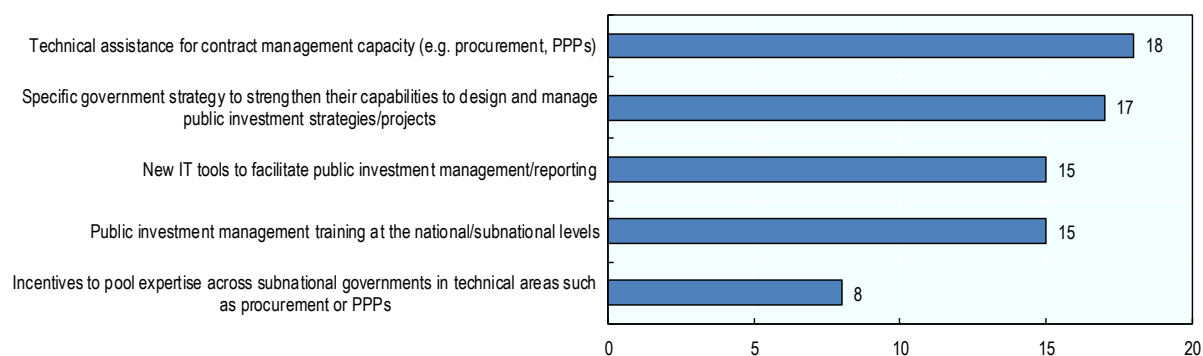
Capacity building from central and subnational governments

The lack of appropriate skills at the national and subnational level is also one of the main barriers for public investment. This is particularly true at the subnational level. In the EU, for example, two thirds of subnational governments (65%) report that capacity to design adequate infrastructure strategies is lacking in their city/region. More than half of subnational governments (56%) report a lack of adequate own expertise on infrastructure (OECD-CoR, 2015^[30]).

To face this, a majority of Adherents have in place some mechanism to strengthen technical skills of policy-makers dealing with public investment at the national level. The 2018 Monitoring survey reveals that 17 out of 26 countries, for example, have put in place technical assistance for contract management; a similar proportion of responding Adherents have developed a specific strategy to strengthen national and subnational capabilities to design and manage public investment projects (Figure 3.6). Chile, for example, has a special department — the Academy of Regional and Municipal Capacity Building (*Academia de Capacitación Municipal y Regional*) to provide continuous training for regional and municipal public officials. Another example is Colombia that has also intensified its efforts to increase technical assistance to subnational governments through a Program for Strengthening of Institutional Capacity for Territorial Governments (Box 3.4 below).

Figure 3.6. Reinforcing skills for public officials and institutions on public investment

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



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

In the context of digitalisation, some Adherents have also adopted new information technology tools or joint e-government platforms to narrow the gaps in capacity across regions or localities and facilitate peer learning (Figure 3.6 above). For example, KiTerritorial is a web-based toolkit developed by the Department of National Planning in Colombia, which offers specific instruments to support local leaders in the formulation of their territorial development plans. In Australia, an online mapping tool is developed by the Australia government to assist applicants of the Regional Growth Fund to determine the benefit location and coverage of their projects. In the EU, the new TAIEX-REGIO PEER 2 PEER programme is designed by the Commission to facilitate knowledge and expertise exchange among public institutions that manage EU across different regions and countries. All exchange cases and expert presentations are shared online and accessible by all regional and national authorities. Fewer countries have resorted to co-operation across subnational governments as a mean to pool expertise in technical areas.

However, the responsibilities for capacity building at the national level are often unclear. The 2016 Survey of Infrastructure Governance shows that technical support is carried out by an average of 2.5 institutions per country. While capacity building is mostly assigned to the Line Ministries and the Central Infrastructure Unit, it is unclear which institutions is responsible for this task in many countries, with either no institution assigned or between five and seven institutions being responsible for it (OECD, 2017^[44]).

To build effectively the long-term capacities of subnational government's staff and elected representatives, countries need to strengthen its efforts in a permanent and comprehensive training and technical assistance system. The multiplicity of tools and methodologies proposed by the central government, which are often not articulated, can constrain local governments instead of alleviating their tasks. To address this, Colombia, for example, is creating a new unit aiming to strengthen territorial institutional capacity which is in charge of articulating the offer of the National Planning Department (*Departamento Nacional de Planeación*, DNP) towards subnational governments (Box 3.4).

Box 3.4. Capacity building at the subnational level

Chile

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

Colombia

In 2017, the National Planning Department (DNP) created a new unit aiming to strengthen territorial institutional capacity and articulating the offer of the DNP towards subnational governments. For this, the DNP is developing several tools:

- Design and implementation of the planning and public investment network to build capacities and reinforce a vertical and horizontal dialogue between the national government and subnational governments. The network also compiles basic information and orientations on each of the project investment cycle.
- Identification, systematisation, dissemination and exchange of good practices on public investment management.
- Compilation and design of the portfolio offer of the DNP regarding planning and public investment management.
- Technical assistance for capacity building in subnational governments.

Estonia

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

Latvia

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

Morocco

In Morocco, the Agency for the Promotion and Development of the North (APDN) plays a role of liaison between the various public and private operators, according to a partnership approach that promotes the participatory approach and the involvement of the ministerial departments, local authorities, private investors, non-governmental organizations and foreign donors. Today, the APDN offers operational expertise in setting up and managing development programs and projects for its partners. This approach involves strong professions at the service of developing its wide scope of intervention:

mobilizing funds for vulnerable populations; listening to local initiatives and supporting local capacity building; stimulating civil society; consolidate interventions of development actors in integrated programs; among others.

Slovak Republic

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

Source: (OECD, 2017^[41]); OECD 2018 Monitoring Survey

Focus on results and promote learning from experience

Clarify the outcomes to be achieved through public investment and pursue mechanisms to achieve them. Those mechanisms can include results-oriented investment strategies with clearly defined policy goals, well-designed tendering procedures, effective monitoring systems, high-quality ex post evaluation, regular reflection on and upgrading of investment choices, active exchange of information and on-going and mutual learning among actors involved in public investment.

Results-oriented public investment strategy

Governments need to develop a results-oriented public investment strategy that focuses on the performance of investments through the entire cycle. Evaluation and monitoring criteria need to be defined in the early stages of the policy design to allocate the resources needed and produce the appropriate data for this purpose (OECD, 2018^[10]). This is especially true today, as governments need to be more agile in their response to the megatrends and their associated risks and impacts.

Focusing on performance through monitoring and evaluation mechanisms, including a clear indicators system, allow improving the efficiency and effectiveness of public investment at different stages of the investment cycle. It does so by linking policy objectives and outcomes and revealing information throughout the investment cycle that should feed into decisions regarding investment in subsequent stages. Yet, setting evaluation standards and using their results in future interventions is not always easy. Beyond the capacity needs it involves, policy monitoring and evaluation imply additional costs that need to be balanced with the need to pursue effectiveness (OECD, 2018^[10]).

A performance approach for multi-level public investment need to deal with fragile delivery and accountability chains:

- First, accountability is difficult as the outcomes of public investment are typically measured and accounted for over a number of years. In contrast, financial allocations and output targets are fixed for a shorter period (usually one year), and it is difficult to make informed judgements as to the eventual effectiveness of the investment. Moreover, it is often difficult to distinguish the role of a given output or set of outputs in contributing to the achievement of the desired outcomes (Beazley, 2017^[63]).
- Second, encouraging performance is difficult when multiple actors from different institutions and levels of governments intervene in public investment decisions and execution. This is particularly

challenging as the resource-allocating authority may be at one or more removes from the delivery agent (Beazley, 2017^[63]).

Being at the core of performance strategies, an indicator system can create implicit incentives, in addition to any explicit incentives that may be identified (Beazley, 2017^[63]). The strength of these incentives will depend on how the information is used, and by whom. For example, governments may encourage performance through the release of reports comparing different regions, agencies, service providers, etc. These comparisons can have a powerful effect when reviewed by the relevant authorities or by the population at large. Governments can also attach explicit rewards and sanctions to stimulate effort by regional policy actors where specific performance objectives are to be met. When designing the indicator system it is important to have in mind that:

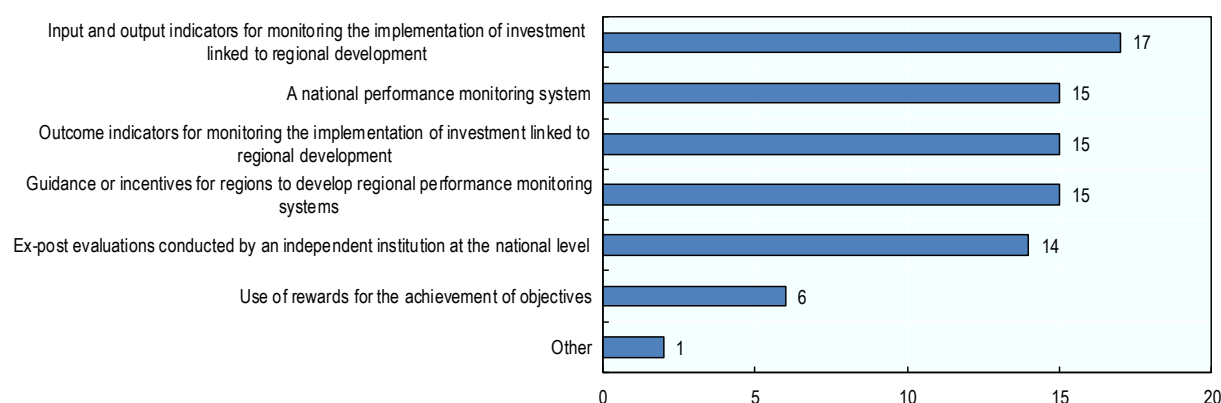
- To manage accountability chains, the relationship between inputs, outputs, and outcomes needs to be defined at the beginning and has to be clear, known, and measurable;
- A limited number of indicators can better capture performance that is under the control of the actor in the timeframe being measured (OECD, 2018^[10]);
- An excessive attention to output indicators can encourage governments to ‘game’ the system by focusing solely on the achievement of those indicators; thus leading to an indicator-driven policy-making;
- Evaluation needs to be carried out in a consistent time frame as the impacts are often only visible in the long term.

Most countries promote a results-oriented investment strategy

A number of OECD Member countries have put in place some mechanisms to promote a results-oriented investment strategy. As per the 2018 Monitoring Survey, 17 out of 27 countries have developed input and output indicators to monitor investment’s implementation and 15 have some form of outcome indicators. These indicators are often part of a national performance monitoring system. Indeed, governments often use input, output and outcome indicators as complementary measures framed by a national performance monitoring system (Figure 3.7).

Figure 3.7. Results-oriented investment strategy

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



Note: Total Respondents: 27.

Source: OECD 2018 Monitoring Survey.

A majority of governments have implemented mechanisms to ensure that monitoring and evaluation strategies are effective. For example, 14 Respondents have an independent institution at the national level that carries out ex-post evaluations. This might bring more benefits in terms of credibility, trust, and enforcement and may limit the path dependency of certain programmes that prevent them from being wound down and eliminated, even though they are negatively evaluated (OECD, 2018_[10]). A similar number of responding Adherents have also provided guidance or specific incentives for regions to develop their own performance systems (Figure 3.7 above).

These results are in line with those of the 2016 Survey of Performance Budget, which shows that most countries have developed national performance frameworks, i.e. frameworks which seek to clarify the intended results and impacts of public spending, broadening the focus of budgeting beyond financial accountability to results-based accountability. As the Performance Budget Survey reveals, 26 countries confirm the adoption of performance budgeting and two thirds of these are compulsory for line ministries and agencies (OECD, 2016_[64]). These performance frameworks provide in its majority general guidelines and definitions (24 countries) as well as standard templates for reporting performance information (19 countries). Still, 12 countries have developed a standard Information and Communication Technology (ICT) tool for reporting performance information and only eight countries have developed a standard set of performance indicators or targets (OECD, 2016_[64]).

In line with the results of the 2018 Monitoring Survey, a number of OECD Member countries have explicitly designed their performance budgeting system within an overarching framework of higher level strategic goals and more intermediate, operational targets – a key national indicators (KNIs) system (Beazley, 2017_[63]). KNIs are in place to encourage all levels of government's policy actions and provide a roadmap for joined-up delivery (Beazley, 2017_[63]). Around a third of OECD Member countries use key national indicators and two-thirds of these indicators are internationally comparable. About half indicators are aligned with the United Nations Sustainable Development Goals and 45% are aligned with the Europe 2020 objectives (OECD, 2016_[64]).

Still, the way in which central and subnational governments use the information coming from performance evaluations of public programmes and investments represents an important challenge. While the information may be used by governments to reallocate resources, often this is not the case. Evidence shows that financial rewards and penalties are rarely used in practice and the most common response to poor performance is still a nil response (OECD, 2016_[64]). At the subnational level, more than two thirds of EU municipalities consider that a monitoring system exists, but that the monitoring is pursued as an administrative exercise and not used as a tool for planning and decision-making. For a majority of respondents (71%), the lack of (ex-post) impact evaluations is a challenge and for 32%, it is a major problem. It is more a problem for regions and large municipalities, and less for small municipalities (only 19% of them) (OECD-CoR, 2015_[30]).

To encourage performance through by peer comparison and accountability, governments have taken actions to disseminate the monitoring and evaluation results making them available and comparable between entities and subnational governments. It has been the case of Italy for example, which has experimented with the dissemination of results at subnational level with the objective of encouraging local policy makers to abide by their commitment to targets (Beazley, 2017_[63]). Other countries such as Ireland or the United States have also implemented policies in this line (Box 3.5)

Box 3.5. Encouraging performance of public investment

Ireland

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

Norway

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

Portugal

Portugal has developed the Regional Development Composite Index (ISDR) to monitor regional development and inform in a simple manner both citizens and policymakers about the progress achieved with regard to development. The ISDR relies on a conceptual framework that benefits from a broad view of development that encompasses competitiveness, cohesion and environmental quality. The ISDR was first released in 2009, as an experimental exercise based on a partnership with a national agency for development planning. The ISDR is issued on an annual basis since 2010 by the Portuguese National Statistical System and was considered as an *ex ante* conditionality for the 2014-2020 Portuguese Partnership Agreement, due to its use by national and regional authorities. The local finance law (Law no. 73/2013, September 3rd) assigned ISDR with a new function in terms of policy decision-making by rendering central government grants to associations of municipalities (geographically consistent with the NUTS 3 regions) dependable on the regional performance as captured by ISDR.

Turkey

Turkey has developed regional development agencies (RDAs) to co-ordinate across national and subnational levels of government. Constituted in 26 NUTS II Regions, RDAs have designed "Results Oriented Programs" since 2017. These medium-term programmes include measurable outcome and output targets in line with the Regional Plans, based on qualified analytics, prepared in collaboration with the relevant institutions, including sub-programs, projects and activities aimed at achieving development results in a specific sector or theme in order to achieve strategically defined development objectives.

United States

In an effort to improve the focus on outcomes and to strengthen accountability for performance of the agencies of the federal government, the Government Performance and Results Act requires agencies

to identify a small number of priority goals. A performance report is submitted annually to Congress and made publicly available on line.

Source: (Beazley, 2017^[63]), 2018 Monitoring Survey.

Disseminating monitoring and evaluation results can also enhance credibility and trust and could be a powerful tool to strengthen relations between governments and citizens. For this, transparency in the use of information is crucial. Chile's National Investment System, for example, enjoys a high degree of transparency. The various methodologies and processes for undertaking social evaluations are published on a specialised website, as are the social prices used in those evaluations. An online Integrated Project Database provides information relating to the status and costs of all public investments, thereby enabling civil society, the private sector and the general public to monitor investments across sectors in different regions (OECD, 2017^[65]). This system, which combines rigorous processes, independent review and a high degree of transparency, has contributed to the relatively high quality and efficiency of Chile's infrastructure investments over the past 20 years (OECD, 2017^[65]).

Similarly, countries also use digitalisation tools to facilitate monitoring and evaluation processes. Norway established the electronic reporting system, KOSTRA, for municipalities and counties to publish input and output indicators on local public services and finances. KOSTRA also provides online publication of municipal priorities, productivity and needs. The "Pay for Success" tool in the US helps shift the focus to the outcomes of public investment by aligning financial incentives with actual success (OECD, 2014^[32]).

Behavioural insights provide a promising avenue for further progress on incentives structures. Advances in behavioural psychology have led to deeper understanding of what motivates individuals and organisations to use information and to respond in various conditions, and this line of research has proved productive in framing policy-related discussions (Beazley, 2017^[63]).

4 Ensuring sound framework conditions for public investments remains a strong challenge across countries

This chapter focuses on the framework conditions that need to be in place for effective public investments, as recognised by the third pillar of the OECD *Recommendation on Effective Public Investment across levels of Government*. The chapter highlights that governments at all levels are advancing in budget transparency and public procurement practices among others. Still, stronger efforts are needed to develop a multi-year approach to investment and minimise administrative burden.

Introduction: framework conditions for public investment

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

Develop a fiscal framework adapted to the objectives pursued

Employ a fiscal framework adapted to the different investment policy objectives pursued. Intergovernmental earmarked grants and co-financing (matching) arrangements are appropriate when projects generate positive spillovers, when economies of scale are needed, when risk sharing or temporary co-operation is sought, when it is necessary to align priorities across levels of government and when capacities of sub-national governments need to be bolstered. Co-financing can also increase the commitment of different stakeholders to the success of a project as well as encourage resource pooling across sub-national governments.

Set enabling conditions for sub-national governments to be able to exploit their own revenue raising potential, not only to finance investment, but to allow for participation in co-financing arrangements and to address long-term operations and maintenance costs.

Appropriate intergovernmental fiscal arrangements to help address megatrends

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

As main drivers of public investment, subnational governments need to play an active role in exploiting their own revenue-raising potential to finance investment, to ensure financing for long-term operations and maintenance, and to participate in co-financing arrangements. Indeed, subnational investments are in its majority financed by subnational own resources: in European Union (EU) municipalities, more than 50% of investment finance comes from own resources. At the same time, 58% of municipalities declare that tight budgets represent a main barrier for infrastructure investment (EIB, 2017^[21]).

To respond to the pressing megatrends, a robust budgetary framework should be in place to meet the diversity of local needs and its potential associated challenges. For example, ageing population and the upward trend in health- and long-term care spending put a strong pressure on public funds at the national and subnational level. OECD analysis shows that without reforms to contain health- and long-term care costs, total expenditure in these areas is projected to increase by 7.7 percentage points of gross domestic product (GDP) between 2010 and 2060, on average, across OECD countries (de la Maisonneuve and Oliveira Martins, 2014^[66]). This has a direct impact at the subnational level as subnational expenditure and investment accounts for 18% and 5% of the total spending and investment respectively (OECD, 2018^[2]). To face this, subnational governments may need more ability to raise own-revenues and enjoy more flexibility in managing them.

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

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

Governments should also better connect planning and budgeting frameworks, to have a multi-year approach to investment. Public investment plans need to be accurately costed, including the operating and maintenance costs – which are often underestimated since the planning and budgeting stages. The absence of discipline around costing and budgeting undermines a government's capacity to prioritise its investment programme, and can lead to chronic underfunding of individual investment projects. Fitting public investment plans into a medium-term budget framework helps provide visibility regarding resource availability and predictability, particularly for long-term projects which may need to survive changes of government. Multi-year budgeting requires inter alia, stable, predictable revenue streams and expenditure obligations, which may depend on the national budget system. In the EU the seven-year programming cycle of Structural and Cohesion funds has been a major incentive for EU regions to move to more multi-year budgeting (OECD, 2013^[8]).

Fiscal reforms after 2008 crisis

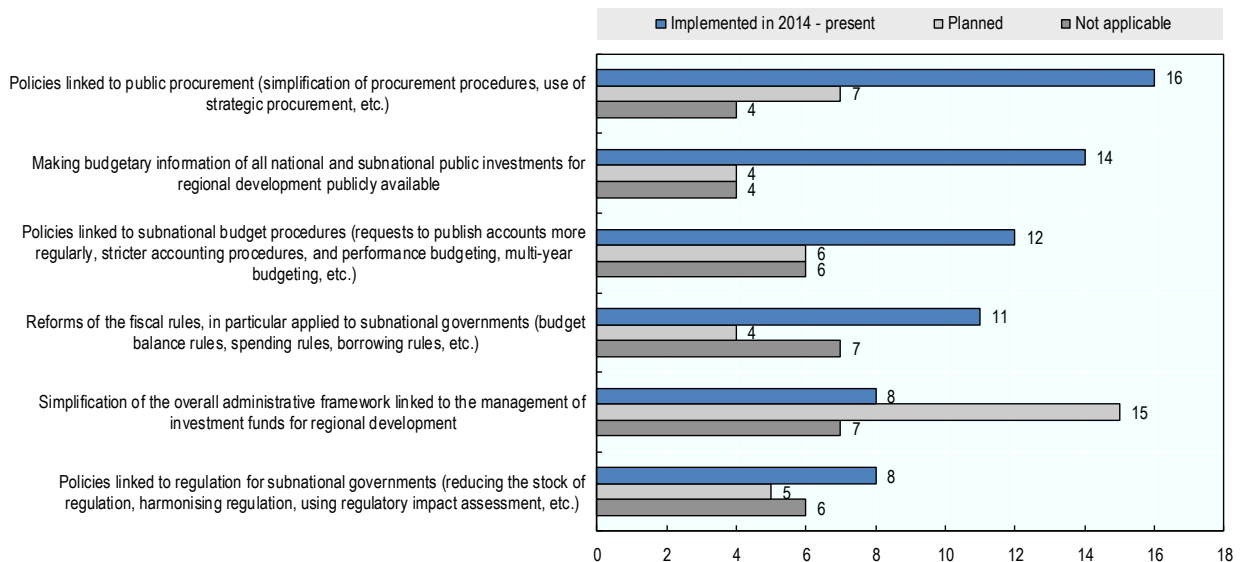
In recent years, OECD Member countries that have implemented decentralisation reforms have done so together with local finance reforms. These reforms redefine the system of inter-governmental grants (general and earmarked) and the relation of shared and own-source taxation. They have also touched upon equalisation mechanisms and budgeting frameworks, including fiscal rules (budget balance and debt) (OECD, 2017^[40]).

The crisis had strong and different impacts on fiscal reforms across countries. Some countries decided to freeze local finance reforms, as was the case in Finland or the United Kingdom. Other countries accelerated the implementation of fiscal reforms, especially those that faced strong recessions. The Czech Republic, for example, passed in 2013 and 2015 amendments to the 2000 Local Finance Act, increasing the shares of municipalities and regions in national taxes. Several OECD Member countries, like France, Italy, Ireland, Netherlands, Spain, Portugal and the United Kingdom, also saw the crises as the opportunity to introduce reforms to the property taxes (OECD, 2017^[40]).

Following the crisis, many OECD countries have also tightened their fiscal rules at all levels of government. Finland for example, reinforced the macro steering of the local finance system, ensuring in particular the matching between revenue and expenses (OECD, 2017^[40]). In line with this, the 2018 monitoring Survey shows that, since 2014, 11 out of 26 countries have reformed the fiscal rules applied to subnational governments and three Respondents are planning to do so in the coming years (Box 4.1).

Figure 4.1. Framework conditions for public investment

Please indicate the policies that have been implemented to enhance framework conditions since 2014 and those that may be currently planned



Note: Total respondents: 27.

Source: OECD 2018 Monitoring Survey.

Many countries facing deteriorating fiscal situations are moving back to their reform agenda. Fiscal consolidation that followed the crisis has indeed the potential to trigger reforms aiming at increasing subnational governments' efficiency, tightening fiscal discipline, and modifying central grants and equalisation mechanisms. In addition, countries are also implementing reforms to address the fiscal pressures brought by an ageing population and its associated health costs (OECD, 2017^[40]).

The recent study on multi-level governance reforms (OECD, 2017^[40]) shows that several countries are also reforming central governments' transfers to subnational governments (Box 4.1). These reforms often modified horizontal or vertical equalisation mechanisms in order to address, among other, territorial inequalities. For example:

- In Estonia, the local government reform initiated in 2014 includes a revision of the local financing system and considers more leeway for municipalities in designing their own tax revenues and a reform of the equalisation system.
- In Finland, the latest reform to matching grants was introduced in 2014, to simplify the system and make it more transparent.
- France is currently reforming the main general purpose grant for municipalities and inter-municipal co-operation bodies with the aim of reaching a greater level of simplicity, transparency and equity.

Box 4.1. Reinforcing budget balance at the subnational level

Belgium

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

Iceland

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

Sweden

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

Finland

In the context of the implementation of the EU fiscal compact, the government developed a new steering system for local government finances, which took effect from 2015. As part of the General Government Fiscal Plan relating to local government finances, the central government limits the growth of local government expenditure arising from central government measures. In particular, the purpose is to make sure that all new assignments to municipalities are fully funded, either with increased transfers or with reducing previous assignments, or both. The aim is to strengthen the co-ordination and predictability of public finances.

Source: (OECD, 2015^[67])

Require sound and transparent financial management at all levels of government

Adopt good practices for budgeting and financial accountability such as accurately costing public investment plans, reflecting them in budget strategies and allocation processes, fitting them into a medium-term budget framework and duly considering long-term operating and maintenance costs. This includes proper budgetary treatment of Public-Private Partnerships (PPPs), local public enterprises, and any associated contingent liabilities.

Good practices in financial management are a core element of a sound approach to public investment. Proper costing and budgeting play a crucial role in a government's capacity to prioritise and execute its investment programme effectively. Robust financial controls enhance accountability. Governments should

therefore ensure effective and transparent financial management for public investment at all levels by deploying good practices for budgeting and financial accountability. Public investment plans should be accurately costed for the intended investment period, should be reflected in governments' budget strategies and allocation processes, and should fit into a medium term budget framework. Long-term operating and maintenance costs of public investment, which are often under-estimated, should also be duly considered during the planning and budgeting stages (OECD, 2014^[55]).

Budgeting transparency throughout the investment cycle provides visibility to investments, clarifies recurrent budgetary implications, and strengthens public accountability. Governments should make budgetary information regarding public investments publicly available to citizens and other stakeholders in a timely and user-friendly format. Transparency with respect to local public enterprises, often recorded in separate budgets, is a critical element for a clear picture of sub-national finances (OECD, 2014^[55]).

Transparent financial management at subnational governments

National governments have done important efforts in increasing budgeting transparency. Most countries have ensured accessibility to budget documents and data, including through web portals, tablet apps and "citizens' budgets" (OECD, 2015^[67]). In the process of developing subnational governments responsibility and accountability, several countries have also recently established new "transparency portals", designed to provide citizens and businesses with comprehensive information on public accounts, financial management practices, and a range of benefits offered by national and subnational governments (OECD, 2017^[40]). In the 2018 Monitoring Survey, 14 Respondents declared that since 2014, they have made budgetary information of all national and subnational public investments publicly available (Figure 4.1 above). For example:

- Estonia is currently developing a joint performance based state budgeting system to integrate performance based and financial management. The system develops a single integral digital platform for accounting and financial analysis to all public authorities that is publicly accessible via a web-based tool developed for querying, monitoring and analysing public expenditures at all levels of government.
- In Poland, monthly data - concerning the central government sub-sector and social security funds sub-sector, quarterly data (with a one-quarter delay) - concerning the local government sub-sector, and data concerning contingent liabilities of the general government of potentially material impact on the budgetary situation.

Box 4.2. Mechanisms for ensuring transparent financial management

Germany

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

Italy

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

Morocco

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

Switzerland

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

Source: OECD 2018 Monitoring Survey.

The results of the 2015 OECD-Committee of Regions (CoR) survey show that, in order to improve the effectiveness of infrastructure investments, it is a priority to better connect planning and budgeting frameworks to have a multi-year approach to investment. Subnational governments also highlight that it is a main priority to consider the full life cycle of infrastructure investment when designing the project and assess operations and maintenance costs of infrastructure investment and plan for future financing (OECD-CoR, 2015^[30]).

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

Maximise transparency at all stages of the procurement cycle, promote the professionalisation of the procurement function, and establish clear accountability and control mechanisms. Procurement systems should be transparent, competitive, and monitored to ensure funds are used as intended, and effective at registering and addressing complaints. Governments should invest in ensuring adequate capacity, in particular at the sub-national level, by employing and training procurement professionals, using collaborative procurement mechanisms, and employing e-procurement tools.

Use procurement to ensure effective public service delivery while pursuing strategic objectives at different levels of government. To do so, the objectives of procurement should be clearly articulated and prioritised. These may be traditional value for money in the sense of price and quality, as well as wider governmental objectives such as sustainable development, innovation, and the development of small and medium enterprises.

Procurement is critical for public investment

Procurement is critical for public investment, and at the same time, one of government's activity most vulnerable to waste, fraud and corruption (OECD, 2013^[8]). Corruption in public procurement can occur both at the national and subnational levels. While decentralisation may narrow the scope for corruption as public officials might be more accountable to citizens, there can also be fewer obstacles to corruption at the subnational level due to less developed auditing functions or limited legal expertise or even greater closeness between public officials and business representatives (OECD, 2016^[68]). Improving the quality and reliability of public procurement systems can foster major savings – even a 1% efficiency gain could save around EUR 20 billion per year in the EU (European Commission, n.d.^[69]).

Subnational governments play a significant role in public procurement through the purchase of goods and services for intermediate consumption and the commissioning of public works. In 2016, subnational governments accounted for almost 50% of public procurement in the OECD, almost 62% in federal countries and 38% in unitary countries. Among public procurement, intermediate consumption expenditure and gross fixed capital formation represented respectively 21% and 11% of subnational government spending. (OECD, 2018^[12]).

Bad procurement practices can appear at all the stages of the investment cycle. To limit them, national and subnational governments need to assess the risks they can face at each stage. During the planning and selection process, for example, the decisions over the investments that will be pursued can be “captured” by particular private interests. During the implementation, corrupt procurement processes and poorly selected or poorly designed financing arrangements can also present important risks for public investment. If monitoring systems are not well designed and accountable, the evaluation can also be compromised by gaming and other strategic behaviours. Electoral cycles can also influence political support for and the timing of public investments. There can be a mismatch between the electoral and investment cycle, with politicians eager to showcase short-term success (OECD, 2013^[8]).

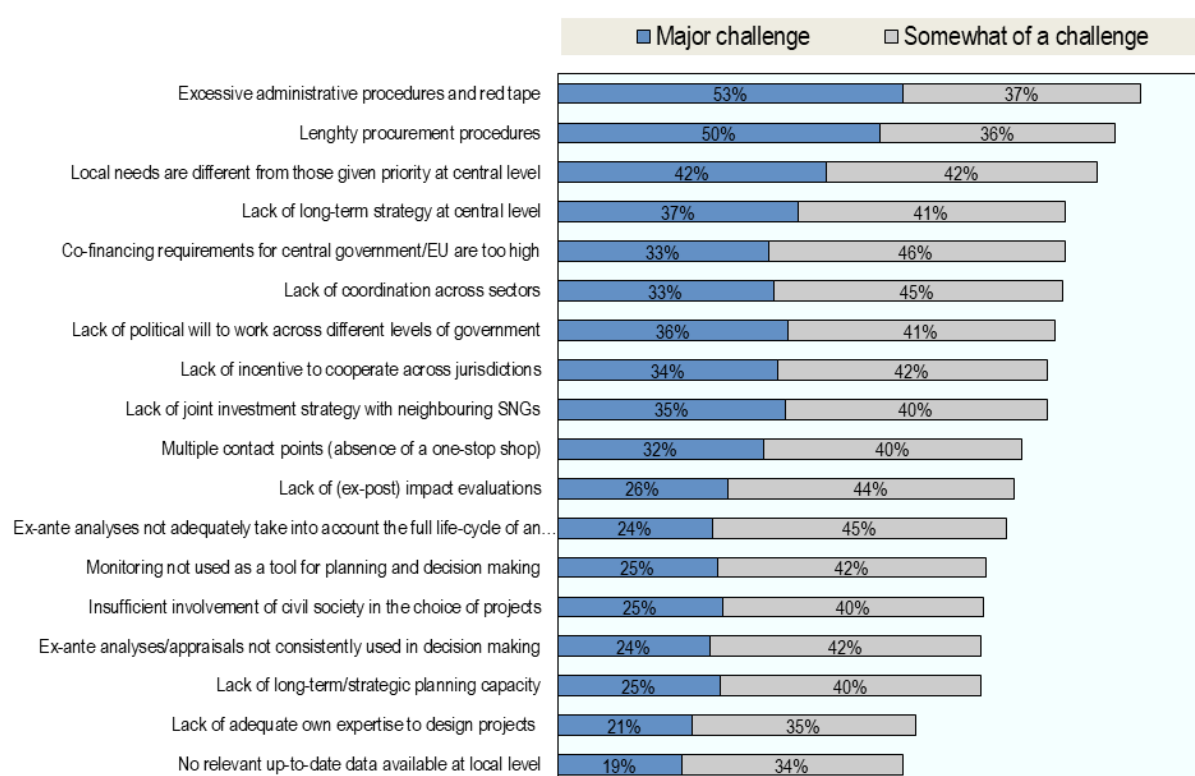
Subnational governments often have limited institutional capacity and knowledge about good practices in public procurement and lack procurement know-how or specialised personnel to deal with procurement procedures. This can engender significant challenges for subnational authorities as bad or corrupt practices on public procurement may reduce trusts in government by their constituency, may deter external investment, increase the costs of borrowing and investment, potentially compromise quality, and disruption utilisation of funds (OECD, 2013^[8]). Transparency throughout the procurement cycle, professionalisation of the procurement function, and clear accountability and control mechanisms are all required.

Subnational governments can take a series of measures to strengthen public procurement. First, they can review regularly their practices putting special attention in specific risks and “red flags”. They can also develop a risk register, which summarises 1) important risks, their triggers, and their consequences that may arise at different stages of the investment cycle, 2) the seriousness of the risks, and 3) mitigation strategies that SNGs can take. SNGs should also ensure mechanisms exist to manage conflict of interest (OECD, 2013^[8]).

Ensuring transparent, competitive, and accountable public procurement

Procurement processes represent an important challenge for investments at the national and subnational levels. For regions and local governments, procurement processes are particularly difficult when the appropriate skills and technical knowledge are not present. In the OECD-CoR survey a vast majority of subnational governments –almost 90% of them- consider that lengthy procurement procedures are a major challenge for infrastructure investment (Figure 4.2).

Figure 4.2. Challenges in strategic planning and implementation of infrastructure investment



Source: (OECD-CoR, 2015^[30])

In order to minimise the bottlenecks that can arise when public procurement is not transparent, competitive, accountable, among others, since 2014, 15 out of 26 countries have adopted policies to make procurement more accessible and transparent through the simplification of procurement procedures or the use of strategic procurement, among others. Moreover, a number of Adherents – Colombia, Czech Republic, Denmark, Italy, Poland, Slovak Republic, and Turkey – are currently planning to implement reforms linked to public procurement policies. Some examples of recent reforms in countries include:

- Estonia has recently adopted a new Public Procurement Act that lowers the public construction procurement threshold, raises the threshold of a simplified procurement and creates a basis for transition to paper-free organizing of public procurements.
- Sweden recently founded the National Agency for Public Procurement that has the overall responsibility for developing and supporting the procurement carried out by the contracting authorities and entities. Their task is to work for an effective and socially and environmentally sustainable public procurement to the benefit of the society and the participants in the markets. They provide support to contracting authorities, entities and suppliers.

Box 4.3. Better public procurement and simplification

Australia

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

Austria

In Austria, the Federal Chancellery was the primary responsible for public procurement policy, and is thus in charge of drafting legislation, implementing EU directives, providing guidance, and performing monitoring and control functions. The Federal Procurement Agency (Bundesbeschaffung, BBG) is another essential player in Austria's public procurement system, acting as both central purchasing body and the body responsible for e-procurement. It manages contracts for approximately 270,000 products and services available not only to central federal bodies, for whom the use of BBG is mandatory, but also to federal states, municipalities, and public-owned bodies such as universities and healthcare services.

In addition to the BBG, municipalities are increasingly taking advantage of their ability to form limited liability companies to do joint procurement. More and more municipalities work in the procurement area in the form of inter-municipal cooperation to support centralised procurement management at the local level. The BBG provides all employees of the public sector (federal, state, local and public-owned companies) with a dense program of training and information sessions on public procurement, as well as e-learning courses. It covers for instance basics on procurement law, introduction to procurement processes, electronic purchase, and thematic subjects such as procurement for healthcare services.

Greece

For the implementation of procurement procedures in municipalities in Greece, each one has a dedicated Department of Finance and a Procurement Office. They are in charge of the implementation and coordination of the public procurement procedures, according to the "Procurement Regulation of Local Authorities".

Israel

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

Italy

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

Source: The 2018 Monitoring Survey; (European Commission, n.d.^[70]; Centrale Unica di Committenza, 2017^[71]; PwC, 2016^[72])

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

Pursue high quality and coherent regulation across levels of government by evaluating the regulatory framework when establishing investment priorities and programmes. Use co-ordination mechanisms to develop coherent regulation across sectors and levels of government, ensure consistency in application, and avoid duplication. National governments should regularly review the stock of regulation and assess costs and benefits of new regulations, taking into account the costs of compliance for subnational governments. All levels of government should be aware of and seek to minimise the administrative burden of government formalities for a typical public investment project.

Throughout the investment cycle, public officials need to deal with a myriad of institutions and regulations. At different stages of investments, public officials may be subject to overlapping, duplicated or contradictory regulations across levels of government, low quality regulation and uneven enforcement, and an increasing stock and flux of regulation, which makes compliance difficult and costly. Streamlining and co-ordinating regulations may help saving costs that do not only affect subnational governments but might also discourage private investors. For example, in the U.S. recent analysis estimate that businesses and subnational governments may save up to USD 28 billion over five years by streamlining, revising and eliminating many existing rules (OECD, 2018^[73]).

A wide array of detailed and cumbersome legal instruments might affect the effectiveness of public investment, especially if no mechanisms to solve multi-level discrepancies is in place. The *Recommendation of the OECD Council on Regulatory Policy and Governance* (OECD, 2012^[74]) states that countries should “promote regulatory coherence through co-ordination mechanisms between the supranational, the national and subnational levels of government. As an important component of co-ordination, better communication between levels of governments may help to prevent conflicts and duplication of regulation”. Also, co-ordination can provide a platform to share experiences and innovate regarding good regulatory practices at the subnational level and help increase expertise and deal with common problems. Besides regulatory coherence across levels of government, it is crucial to reduce regulatory costs and barriers at the local level, which can limit competition and impede investment and business growth. This is why the 2012 *Recommendation of the OECD Council on Regulatory Policy and Governance* also invites governments to “foster the development of regulatory management capacity and performance at sub national levels of government.”

When rules are simpler, governments at all levels might have greater flexibility to adapt projects to specific local circumstances and development needs. Subnational governments have a role to play to reduce regulatory burden and ensure greater regulatory coherence. Subnational governments can, for example, make an early review and evaluation of the existing regulations before the issuance of a new one through an ex ante assessment of the costs and benefits of regulation. This can be done using tools such as Regulatory Impact Assessment, regulatory checklists, small business impact assessments, or deliberative committees. Subnational governments can also establish formal consultation processes such as informal inquiries, circulation of regulatory proposals for public comment, public notice and comment, hearings, and advisory bodies (García Villarreal, 2010^[75]). Administrative simplification could also help involving private partners in public investment strategies.

Promote regulatory coherence through co-ordination mechanisms across all levels

The regulatory framework across levels of governments has to be consistent and stable with no divergent, overlapping or contradictory regulations. While establishing investment plans, local governments should analyse regulations in vigour to identify potential obstacles to efficient investment.

Mechanisms to coordinate regulatory policies across levels of government can help achieve a coherent regulatory framework. Such mechanisms may include intergovernmental platforms for dialogue, mutual recognition policies among governments, regulatory harmonisation agreements, and strict regulatory uniformity agreements.

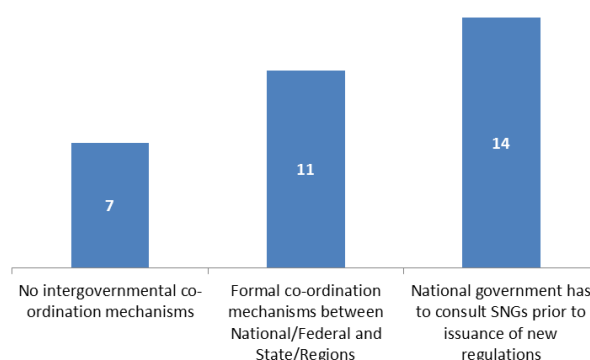
The excessive administrative procedures and red tape is a striking concern that has been largely reported and appears as a central challenge for public investment at the subnational level (Figure 4.2) (OECD-CoR, 2015^[30]). Seventy-two percent report the existence of multiple contact points for infrastructure administrative procedures as a problem (absence of a one-stop shop). Red tape and regulatory constraints are mentioned by all types of subnational governments (OECD-CoR, 2015^[30]).

In the same line, the EIB identify that one of the main barriers to infrastructure investments for EU municipalities is the length of approval process: 48% of municipalities name the time it takes for infrastructure projects to be approved as a major obstacle to their infrastructure investment activities. Political and regulatory instability is another important obstacle; particularly for municipalities in Italy, Spain, and the United Kingdom.

In 2017, the Multi-level governance indicators identified that only 11 out of 32 countries had formal co-ordination mechanisms between National/Federal and State/Regional Governments to co-ordinate regulations across levels of government. In less than half of the sampled countries national governments have to consult subnational entities prior to issuance of new regulations that concern them (Figure 4.3).

Figure 4.3. Regulatory coordination across levels of government

Does the country have mechanisms to co-ordinate regulations across levels of government?



Source: OECD, (2017), Implementation of the OECD Recommendation on Effective Public Investment across levels of Government”, Unpublished material, presented at the 37th session of the Regional Development Policy Committee, OECD Paris.

In the same line, the 2018 Monitoring Survey shows that only 8 out of 26 countries have adopted measures to simplify the overall administrative framework to better manage investment funds. Similarly, the implementation of policies aiming at reducing the stock of regulations or the harmonisation of regulations across levels of government remains a big challenge for responding Adherents as only 7 out of 26 have implemented policies in this line since 2014.

However, it seems that governments are increasingly recognising the need to minimise the administrative burden of public formalities for public investment projects. In the Monitoring Survey fifteen Adherents declare that they are planning to adopt policies for the simplification of regulatory processes. Some Adherents have recently advanced in this way (Box 4.4). For example, Norway has improved its standard procedure for developing regulations by updating the Instructions for Official Studies and Reports in 2016. The Instructions encourage better coordination between national and subnational governments for all laws, and the use of inclusive mechanisms such as videoconferences or social media to ensure inputs from all parties affected (OECD, 2018^[73]).

Box 4.4. Improving regulatory capacity of subnational governments

Australia

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

Denmark

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

European Union

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

France

France initiated a policy of administrative simplification and reduction of regulatory burdens. The circular from the Prime Minister of 17 July 2013 has introduced a “freezing” of applicable regulatory standards to local governments, businesses and the public (individuals, associations). Moreover, communities are closely associated with the work of simplifying the texts of general application under the aegis of the Secretary of State for State Reform and Simplification. The objective is to reduce the annual net cost of new standards for local authorities to zero by the year 2017.

Mexico

In Mexico, 20 out of 31 states and the Federal District have issued regulatory reform laws; eight states have laws on economic development containing a section on regulatory improvement; ten of the 32 subnational units have a commission in charge of advocating and implementing better regulation; 20 have a unit within a ministry, and two have another body fulfilling this role. In addition, e-government tools are widely employed by states and municipalities to enhance regulatory transparency and simplify formalities.

Furthermore, the new General Law of Better Regulation issued in May 2018 establishes the National System of Better Regulation, specifying the duties and responsibilities of autonomous bodies and state and municipal governments. The Law requires subnational governments to adopt key tools such as Regulatory Impact Assessment

Spain

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

Source: OECD 2018 Monitoring survey; (OECD, 2018^[73]; European Commission, 2019^[76])

Simplifying procedures is crucial to increase the effectiveness of public investment and regional policies, in particular where capacities are low. An excessive amount of legislation and guidance or the proliferation of multiple conditions coupled with weak capacities may lead to inefficient public investments. Moreover, administrative burden combined with unequal capacities within countries, risk deepening pre-existing inequalities (OECD, 2018^[10]).

Annex A. Summary of country reforms

Table A.1. Selected examples of reforms/initiatives by country since 2014 by Pillar

Country	Pillar 1	Pillar 2	Pillar 3
Australia	<ul style="list-style-type: none"> The Regional Jobs and Investment Packages program enables stakeholders in 10 pilot regions to determine local priorities and growth industries in their region. Committees of the Regional Development Agencies network was consolidated in 2017 to be consistent with the agreements in different regions, and the coverage of the network was extended to some external territories of regions. 	<ul style="list-style-type: none"> A mapping tool is developed to assist applicants of the Regional Growth Fund to determine the project or benefit location. The Community Investments Stream of the Building Better Regions Fund are eligible for government bodies for strategic planning, regional leadership and capability strengthening activities. New performance measures were established in 2017 to ensure that the outcomes of Regional Development Australia Committee activities are properly monitored and measured. 	
Canada	<ul style="list-style-type: none"> Each Regional Development Agency develops a Regional Growth Strategy (RGS) to leverage an all-of-government approach (federal/provincial/territorial) towards achieving long-term prosperity. Two RGS have been launched so far. 	<ul style="list-style-type: none"> In 2016 the Government issued a notice to all departments (including the RDAs), with direction to devote a fixed percentage of program funds to experimenting with new approaches and measuring impact to install a culture of measurement, evaluation and innovation in program and policy design and delivery. Budget 2017 was the first to examine budget policy from a gender perspective. The development process for all federal programs and services must now include a GBA+ analysis. To help with the GBA+ analyses, the government is engaging with traditionally underrepresented groups at all levels to help identify the barriers they face and develop solutions. Training is provided to federal staff to support their work in this area. Budget 2018 provided funding to create a Centre for Gender, Diversity and Inclusion statistics within Statistics Canada. Budget 2018 also introduced a Gender Results Framework, a whole-of-government tool to track Canada's performance and help define what is needed to achieve greater equality. Budget 2017 established the Canada Infrastructure Bank, a new 	<ul style="list-style-type: none"> Innovation Solutions Canada is a new strategic procurement initiative first announced in Budget 2017 to support the scale up and growth of Canada's innovators and entrepreneurs by having the federal government act as a first customer. The RDAs will replace their existing suites of innovation & business support programming with two new programming streams that are both nationally consistent and regionally tailored. The roles and responsibilities of each federal entity will also be clarified in Budget 2018 to eliminate duplication and streamline client service.

		federal crown corporation that uses federal support to attract private sector and institutional investment in new revenue-generating infrastructure projects.	
Colombia	<ul style="list-style-type: none"> The National Program of Differentiated Competencies Delegation: Delegation of competences in cadastre to several municipalities and Metropolitan areas. The planning and public investment network is being developed to build capacities and reinforce the dialogue between the national government and subnational governments. 	<ul style="list-style-type: none"> A multipurpose cadastre was introduced to help develop the land information to promote the land planning oriented to the land use potentials. The national government designed and implemented a strategy called “new local authorities” in which more than 400 people gave advice and support regarding the formulation of the territorial development plans A new unit in the National Planning Department was created in 2017 to facilitate identification, systematization, dissemination and exchange of good practices on public investment management and provide technical assistance for capacity building in subnational governments. The DNP offers the courses to provide elements on the conceptual basis of the theory of projects focused on public employees, and guidance on filling out the appropriate formats that are part of the methodology designed by the DNP for the identification, preparation and evaluation of public investment projects. 	<ul style="list-style-type: none"> An online interactive webpage is developed to present detailed information of public investment projects in all regions
Czech Republic	<ul style="list-style-type: none"> The National Permanent Conference was adopted since 2015 as a high-level communication platform with ministries and regions. A network of 13 Regional Permanent Conferences was also established. Regional authorities in this network hold regular meetings and collect data on local investment plans and needs. These results then produce inputs for the National Permanent Conference and the National Investment Plan that comes into effect in 2019. 	<ul style="list-style-type: none"> The National and Regional Permanent Conferences brings together one-table representatives of regional, urban and local governance, as well as economic and social partners and representatives of civil society. 	<ul style="list-style-type: none"> For the National Investment Plan 2019, the government will gather local needs through regional authorities to create a long-term fiscal framework. In 2015, the National Electronic Tool (NEN) was launched. It is a complex electronic tool for administration, public procurement and concessions in all categories. NEN supports all range of computerization from register of public procurement to fully electronic procedures.
Estonia	<ul style="list-style-type: none"> The local government reform process was carried out by the end of 2017, resulting the significant reduction of the number of local municipalities, either through the amalgamations initiated voluntarily or by the national government. 	<ul style="list-style-type: none"> Special county development organizations were established in most of counties to elaborate integrated county/regional development strategies and monitor their implementation process, e.g. the impacts and results. 	<ul style="list-style-type: none"> Estonia is in a course of developing joint performance based state budgeting (PBB) system to incorporate performance based and financial management and to generate a single integral digital platform for accounting and financial analysis to all public authorities E-procurement system developed and put into operation around 2014.
Germany		<ul style="list-style-type: none"> Workshops on possibilities for ex-post evaluation of grants for investments in infrastructure. 	
Israel	<ul style="list-style-type: none"> Since 2017, six Permanent Geographical Committees of Inquiry have been established to 	<ul style="list-style-type: none"> The Ministry of Interior plans to issue an external tender for developing a mechanism to promote a results-oriented public investment strategy 	

	<p>assess policies through a territorial lens, including providing recommendations on unification of local authorities, changing jurisdictions, and designing distribution of income among local authorities.</p> <ul style="list-style-type: none"> • Between since 2013, 10 regional clusters of local authorities were created through a project led by the Ministry of Interior (5 were created in 2018), which encourages inter-municipality co-operation. The Ministry also assimilated a new status for the "Cluster-Type Municipal Association of Local Authorities" in legislation. 	<p>to support regional development of the Clusters.</p> <ul style="list-style-type: none"> • As part of the recent amendment to the Municipal Association Law, Clusters were given the option to conduct joint tenders, for the Cluster to contract with the winner of the regional tenders. 	
Italy	<ul style="list-style-type: none"> • The Strategy for high-speed broadband is implemented through an EU co-financed "large project" with the pooling of national and regional funds with a general framework agreement and bilateral contracts signed by the Ministry of Economic Development with each individual regional government. • The Strategy for Inner Areas identifies in each project-area and alliance of municipalities willing and capable of working together towards a long-term strategy, also by unifying the management of functions relevant to the common strategy; Municipalities included in each project area set up appropriate forms of co-operation and service partnerships. 	<ul style="list-style-type: none"> • The Ministry of Transport has adopted its own evaluation guidelines in 2017 and experimental application to assess projects in urban mass transport systems. The Minister of Transport has recently enhanced a special unit (Struttura Tecnica di Missione) to apply economic analysis techniques in reviewing major transport investments in order to select a pipeline of national strategic projects. • Italy's Strategy for Inner Areas promotes in each project-area the design of a results-oriented strategy through a participatory approach based on an informed and open debate among citizens and relevant competent actors. • Italy's Plans for Administrative Reinforcement New innovative instruments to help address concerns about administrative capacity have been introduced in 2014-20 programming cycle for public administrations involved in the management ESI Fund Programmes. • Italy is using the "performance framework", based on financial and output indicators, as an opportunity to strengthen the national monitoring system, as data will be used to assess and rewards achievements 	
Luxembourg	<ul style="list-style-type: none"> • With the new Law in April 2018 on Spatial Planning, the membership of a municipality in certain spatial planning programmes is solely based on functional criteria, i.e. municipalities do not need to be territorially contiguous for participating the programmes. 		
Mexico			<ul style="list-style-type: none"> • Mexico is working to improve regulatory capacity at the subnational level. Twenty out of 32 states and the Mexico City have issued regulatory reform laws.
Morocco	<ul style="list-style-type: none"> • The steering committee and inter-ministerial monitoring of sector strategies and programs are 	<ul style="list-style-type: none"> • Morocco implemented a reform in 2015 to increase the resources available for financing infrastructure by mobilising private investment. 	<ul style="list-style-type: none"> • The development of a Project Database using a dedicated information system and a mapping of

	<p>being set up; the inter-ministerial investment committees under the chairmanship of the head of government have been established.</p> <ul style="list-style-type: none"> • The new inter-ministerial commission for the coordination and evaluation of public policies was set up in 2018 by the government. • The local development companies (sociétés de développement local, SDL) for inter-communal co-operation and groupings of local authorities have been set up. 	<p>The law on Public Private Partnerships is currently being amended with a view to broadening its scope to include local authorities and their groupings.</p>	<p>public investment projects.</p> <ul style="list-style-type: none"> • The monthly bulletin of the local finance statistics presents the execution of the budgets of the territorial collectives notably: the distribution of investment expenditure by type of local authority and by region • The new organic laws relating to local authorities drew a new simplified administrative framework to advance regionalisation.
Netherlands	<ul style="list-style-type: none"> • The Dutch Multi-Year Programme for Infrastructure, Spatial Planning and Transport • The National Urban Agenda develops a principle focusing on strengthening the urban network by exploiting complementarities across the entire polycentric urban network of the Netherlands. 	<ul style="list-style-type: none"> • Many urban regions have been set up 'Economic Boards', a triple-helix co-operation between subnational governments, knowledge institutes and the private sector. • The Dutch government launched a call for ambitions and position papers on how to boost growth, innovation and quality of life in Dutch cities, and a major National Urban Agenda Conference brought together more than 500 stakeholders in 2015, to help develop the National Urban Agenda • Regional Envelop – one of the criteria of applying for this financial vehicle is that the investment needs to be a public-private co-operation or triple helix cooperation (public, private and societal organisations). • Invest-NL, a state-owned enterprise under private law, will be established in the coming years. This will provide leverage in the form of increased financing from institutional investors and European funds and programmes. 	
Poland	<ul style="list-style-type: none"> • Renewed Territorial Contract is a strategic project to reinforce the co-operation and the integrated approach to development across levels of governments • The new National Strategy for Regional Development imposes the obligatory co-operation between the municipalities expressed in the common local strategy and implementation plans as a condition to receive financing. 	<ul style="list-style-type: none"> • The Polish Council of Ministers adopted the "The Government Policy for the Development of Public-Private Partnerships in 2017. The "PPP test" will be obligatory for large projects that planned to be implemented in the traditional formula, to see whether this formula will bring greater benefits than the PPP formula 	<ul style="list-style-type: none"> • Starting from 2014, data of the central government and the local government are subject to publication on the Ministry of Finance website (monthly and quarterly).
Portugal	<ul style="list-style-type: none"> • "Valorizar" is a program of economic valorization of territories, which aims to support local-based entrepreneurship in the interior of the country. • The SI2E – Incentive System for Entrepreneurship and Employment was launched in the context of Portugal 2020 support with the main objective of promoting entrepreneurship and job creation. 	<ul style="list-style-type: none"> • The Capacitar - Local Economic and Social Development Program presents a set of training and exchange opportunities between local authorities on regional development projects took place until 2016. • Since 2016, different initiatives of local and regional actors on capacity building • Financial support to projects of Integration and Sharing of Services or Competencies of Municipalities 	<ul style="list-style-type: none"> • Indicator systems for the evaluation and monitoring of Portugal 2020 (outcome and context indicators) • The Regional Development Composite Index to monitor regional development and inform citizens and policymakers

	<ul style="list-style-type: none"> • The PACTOS (Development and Territorial Cohesion Covenants) are contracts between the Inter-municipal Communities and Central Government, through Managing authorities of Operational Programmes • Programme for financial support to projects of Integration and Sharing of Services or Competencies of Municipalities. • New law as of august 2018 considers the transfer of competences to local authorities and inter-municipal entities 	<ul style="list-style-type: none"> • Technical and financial cooperation mechanism between central government and municipalities: development of municipal structuring investments, by providing financial and technical support, through the formalization of contracts between central government and municipalities. 	
Sweden	<ul style="list-style-type: none"> • National forum for Regional Growth and Attractiveness 2014-2020 • A governmental bill was handed over to the parliament in 2018 proposing a new regulation, which gives municipalities and county councils general possibilities for contractual co-operation, simplifying the possibilities for municipal co-operation and external delegation. 	<ul style="list-style-type: none"> • The Swedish law about Partnership for EU structural funds has been updated in 2014, stating that the partnership should compose of elected representatives of municipalities, county councils, organisation on the labour market, NGOs, etc. 	<ul style="list-style-type: none"> • The government has developed a template with the actors responsible for Regional Growth Policy in the Counties for their yearly follow up and reports about the annual decisions about terms and conditions for assignments and funding for the regions. • A new National Agency for Public Procurement was founded in 2015 to provide support to contracting authorities, entities and suppliers. • The Swedish Agency for Economic and Regional Growth has gotten an assignment to develop a tool for Rural Proofing in 2018. • In June 2017, the Government concluded an extended agreement with the Swedish Association of Local Authorities and Regions (SKL) on cooperation for simpler tourism industry with the help of new national digital solutions.
Switzerland		<ul style="list-style-type: none"> • In the context of the 2016+ Agglomeration Policy, an Agglomeration Technical and Political Group has been created to identify interesting issues related to agglomeration policy, centralising information and exchanges on policy implementation, preparing the conferences and discussions, etc. 	<ul style="list-style-type: none"> • Since 2016, all New Regional Policy projects are gradually put online; a large selection of projects dating from previous periods is also available. • Introduction of Efficiency Models as Integral Parts of Program Agreements between Confederation and Cantons
Turkey	<ul style="list-style-type: none"> • Growth Pole Support Program priorities considering local conditions and needs of the growth poles. Projects prepared by public institutions and organizations, development agencies, foundations, universities, municipalities and local government units, etc., are supported. 	<ul style="list-style-type: none"> • RDAs have been started to design “Results Oriented Programs” since 2017 which include measurable outcome and output targets. 	

<p>United Kingdom</p>	<ul style="list-style-type: none"> • The Local Growth Fund provides funding to support the 39 Local Enterprise Partnership Strategic Economic Plans, involving cross-departmental co-ordination for project selection. • In response to Brexit, the Government is committed to establishing a UK Shared Prosperity Fund to reduce inequalities between communities • Since 2014 there has been an increasing focus on developing Devolution Deals which build on existing City Deals but also cover areas outside the main metropolitan areas and include urban and rural communities. 		<ul style="list-style-type: none"> • The Crown Commercial Service provides frameworks for public procurement that are compliant with EU rules and can be used by all public sector bodies to undertake competitive tendering exercises that avoid the need for a fully blown EU procurement exercise. • A national LEP assurance framework which guides local decision making to support accountability, transparency and value for money was issued in 2016
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Source: Source: OECD 2018 Survey.

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