



CENTRE FOR ENTREPRENEURSHIP, SMES, LOCAL DEVELOPMENT AND TOURISM

EFFECTIVE
PUBLIC
INVESTMENT
ACROSS LEVELS
OF GOVERNMENT

PRINCIPLES
FOR ACTION

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This brochure provides implementation guidance for the twelve principles contained in the Recommendation on Effective Public Investment Across Levels of Government that was adopted by the OECD in March 2014.

A Recommendation is an OECD instrument approved by the Council that results in international norms and standards, best practices and policy guidelines. Recommendations are not legally binding, but practice accords them great moral force as representing the political will of Member states.

The Recommendation was developed by the OECD Regional Development Policy Committee (RDPC) and was submitted to an extensive consultation procedure within the OECD and externally.

The full implementation guidance with details for all countries is available on the Toolkit web site:

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

Principles for Action

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

Pillar 1

Co-ordinate across governments and policy areas

Invest using an integrated strategy tailored to different places

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

Co-ordinate horizontally among sub-national governments to invest at the relevant scale

Pillar 2

Strengthen capacities for public investment and promote learning across levels of government

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

Engage with stakeholders throughout the investment cycle

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

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

Focus on results and promote learning from experience

Pillar 3

Ensure sound framework conditions at all levels of government

Develop a fiscal framework adapted to the objectives pursued

Require sound and transparent financial management at all levels of government

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

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

Why the Principles?

Public investment shapes choices about where people live and work, influences the nature and location of private investment, and affects quality of life. When done right, public investment can be a powerful tool to boost growth and provide right infrastructure to leverage private investment. In contrast, poor investment choices or badly managed investment waste resources, erode public trust and may hamper growth opportunities.

In 2013, OECD countries spent close to USD 1.4 trillion in public investment – which represents almost 3% of OECD GDP and 15% of total investment. These overall figures mask huge variation among countries and within them. There is important regional variation both in terms of public investment as a percentage of GDP and public investment per capita.

Public investment is a shared responsibility across levels of government. Whether through shared policy competencies or joint funding arrangements, public investment typically involves different levels of government at some stage of the investment process. It makes its governance particularly complex. Sub-national governments (states, provinces, regions and municipalities) undertook 72% of total public investment in 2012 across the OECD area in terms of volume. Variations across countries are important, as the sub-national share of public investment ranges from 31% in Greece to 91% in Canada (*see figure 1*).

Most of the sub-national public investment goes to areas of critical importance for future economic growth, sustainable development and citizens' well-being. In terms of total investment by sub-national governments across the OECD (*see figure 2*), 37% is allocated to economic affairs (transport, communications, economic development, energy, construction, etc.). 23% of public investment is used for education, which helps determine the quality of the future labour force. A further 11% is dedicated to housing and community amenities (community development, water supply, street lighting, etc.).

Public investment has been under pressure in most OECD countries following fiscal consolidation strategies. Most OECD governments have moved from large-scale stimulus packages in 2008-2009 to fiscal consolidation in more recent years. Since 2010, consolidation strategies and the impact of slow growth on local budgets have reduced the resources for public investment. This trend has put public investment onto a downward path, even as private investment in many countries has continued to contract. Compared to 2007, public investment per capita in 2013 had fallen in 17 out of 33 OECD countries (*see figure 3*).

A definition of public investment

The way public investment is defined and measured across countries varies. In general, it refers to investment on physical infrastructure (e.g. roads, government buildings, etc.) and soft infrastructure (e.g. innovation support, research and development, etc.) with a productive use that extends beyond a year.

Capital expenditure: consists of investments (i.e. gross capital formation and acquisitions, less disposals of non-financial non-produced assets) and capital transfers (i.e. investment grants and subsidies in cash or in kind made by subnational governments to other institutional units). Gross fixed capital formation (or fixed investments) is the main component of investments.

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

FIGURE 1. Sub-national share of country's public investment

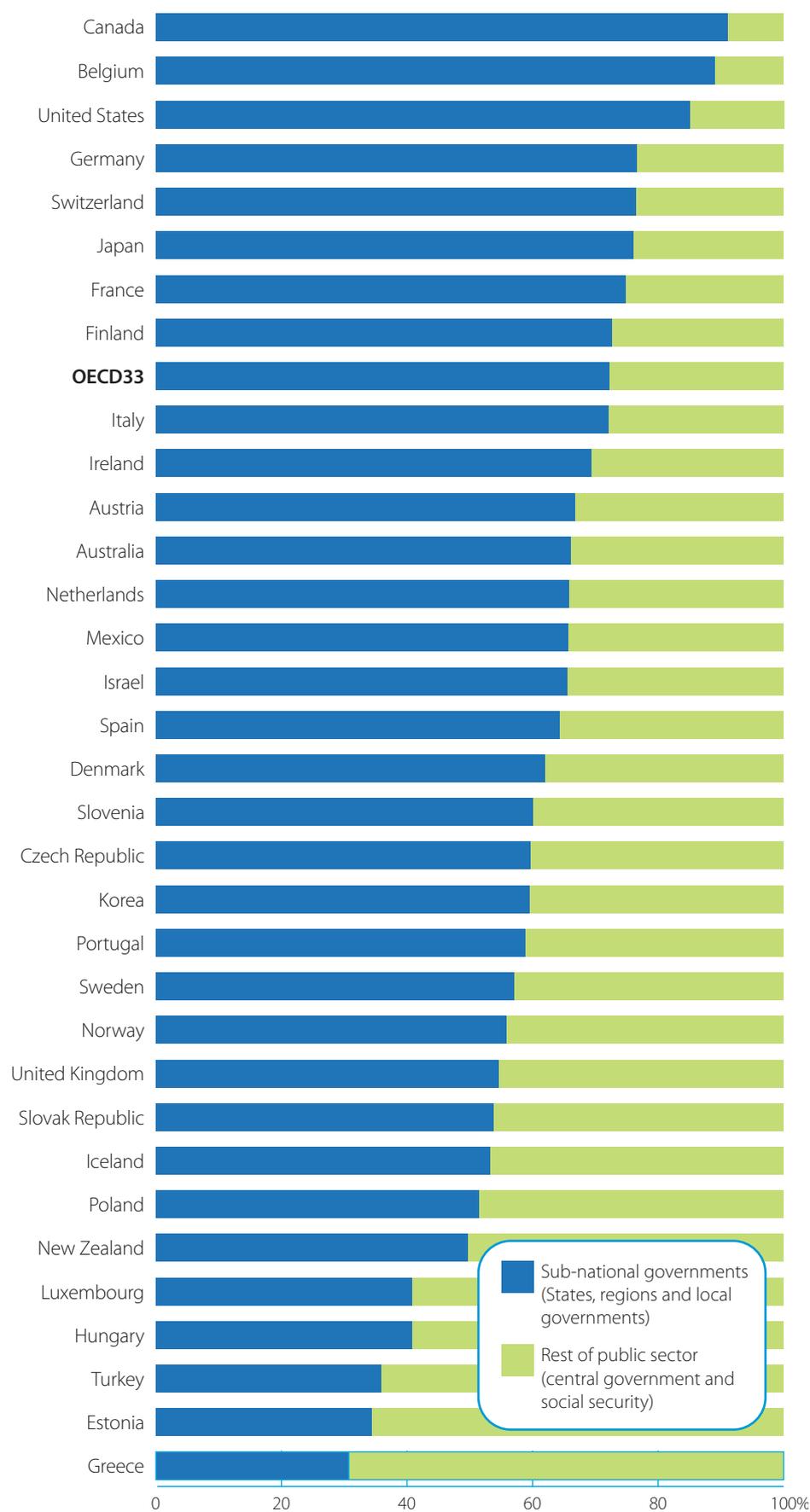
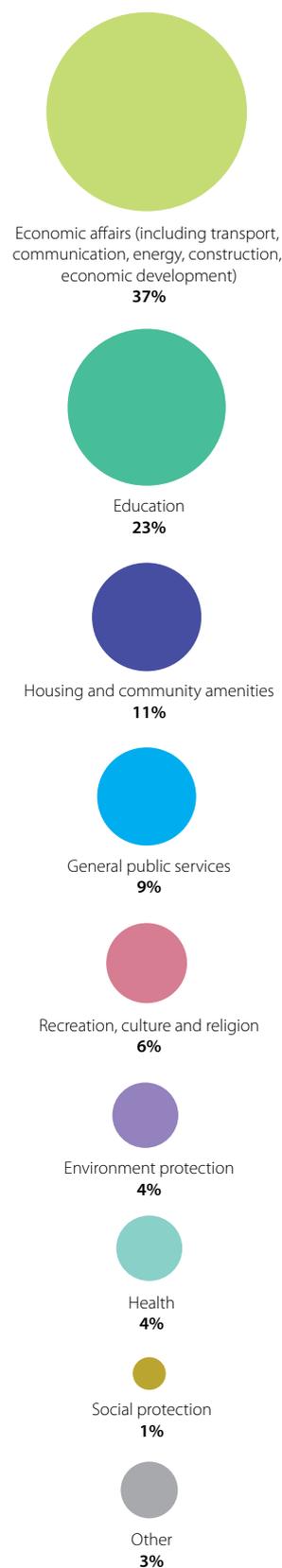


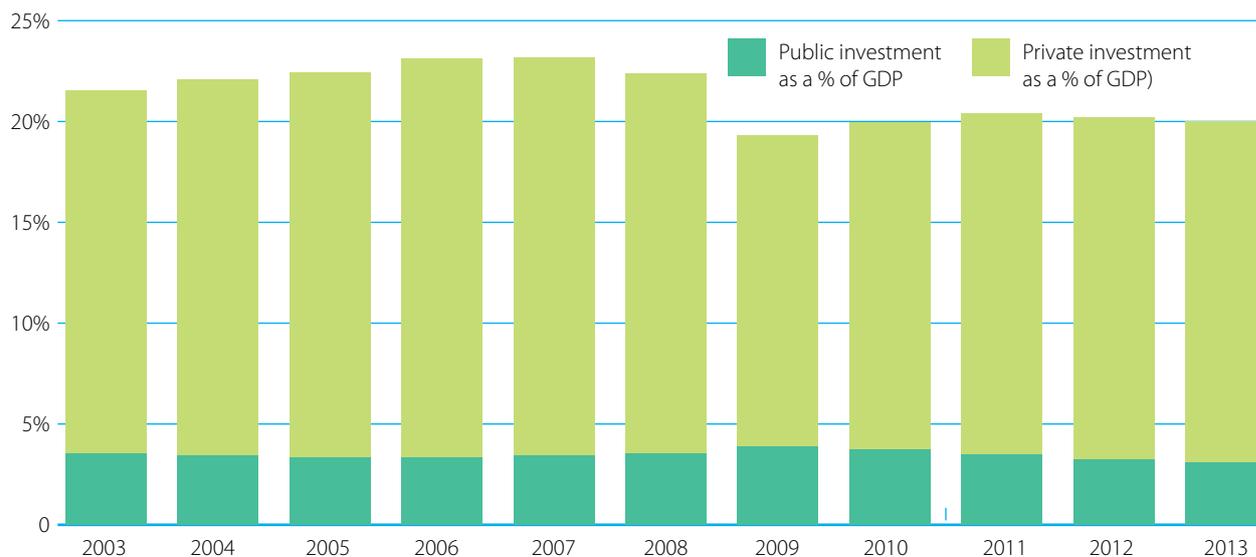
FIGURE 2. Regional and local governments invest in areas critical for growth and well-being



Source: OECD (2013), Regions at a Glance 2013 using data from the OECD National Accounts, SNA 1993

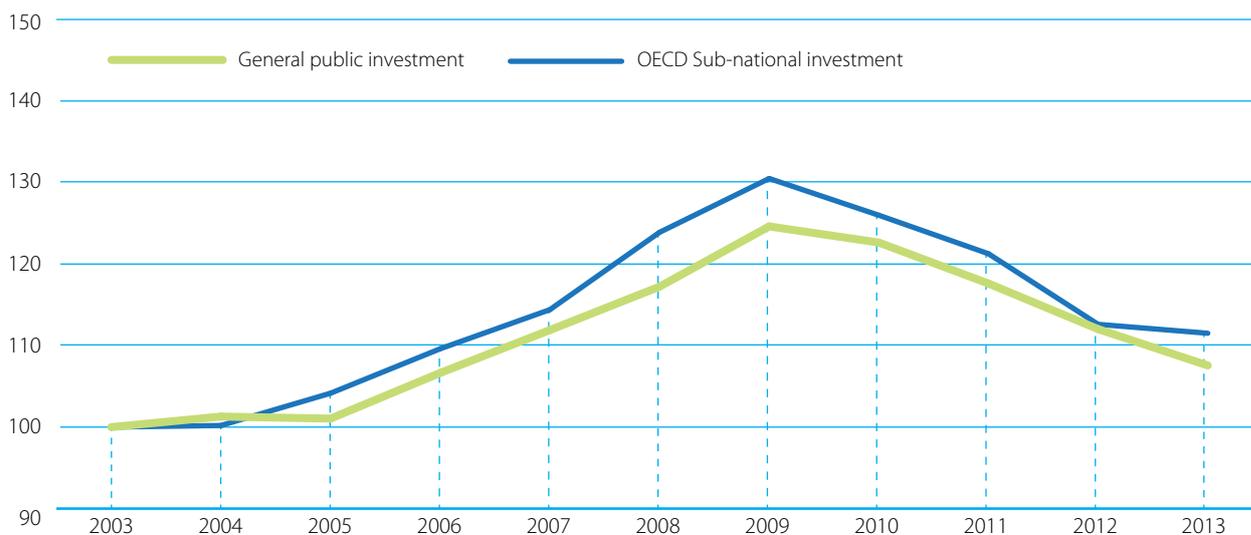
Source: OECD National Accounts (2012)

FIGURE 3. Public vs. private investment as a % of GDP



Notes: No data for Chile, Iceland, Korea, Luxembourg, Turkey; Australia, Estonia, Greece, Ireland, Japan, Korea, Mexico, Switzerland: - 2012 instead of 2013; all countries use SNA 2008 data, except Estonia, Greece and Ireland (SNA 1993).

FIGURE 4. Trends in direct public investment 2003-2013



Notes: No data for Chile, Korea, Turkey; Australia, Japan, Mexico, New Zealand - 2012 instead of 2013; all countries use SNA 2008 data, except Estonia, Greece, Iceland and Ireland (SNA 1993)

Source: OECD calculation based on OECD National Accounts.

While not all OECD countries followed this trend, a sustained contraction in public investment at a time of sluggish growth may have negative long-term consequences for national development and societal well being. In 2013, sub-national direct investment increased in about half of OECD countries (*see figure 4*), in line with past years, without showing a significant overall rebound yet.

Under-investment by sub-national governments contributes to an “infrastructure gap” affecting both developing and developed countries. OECD countries face huge maintenance costs associated with past infrastructure investments (estimated to one percentage point of GDP on a yearly basis in the US for instance). The needs are even greater in the developing world, in particular for new investment. The global challenges in terms of climate change and population growth put strong pressures on the need for renewed infrastructure. The annual cost of adapting to climate change could be in the order of several billions of dollars annually for each infrastructure class (transport, water, energy, etc.).

Given that public budgets across the OECD are likely to remain tight for some time to come, all levels of government will have to do better with less by investing more efficiently. The challenges are much broader than just financing investment. Even when investment funding is available, different levels of government may lack the appropriate governance arrangements to make the best use of it. This was the experience of many OECD countries when they implemented investment recovery packages in 2008-09.

The impact of public investment on growth depends in part on the quality of governance. The quality of governance is correlated to public investment and growth outcomes, notably at the sub-national level (OECD, 2013). Substantial savings can also be made by better managing public investment throughout its life cycle, across levels of government.

Three cross-cutting challenges for managing public investment across levels of government limit efficiency and effectiveness:

- 1. Co-ordination challenges:**
Cross-sectoral, cross-jurisdictional and intergovernmental co-ordination is necessary, but difficult in practice. Moreover, the constellation of actors involved in public investment is large and their interests may not be aligned.
- 2. Sub-national capacity challenges:**
Where the capacities to design and implement investment strategies are weak, policies may fail to achieve their objectives.
- 3. Challenges in framework conditions:**
Good practices in budgeting, procurement and regulatory quality are integral to successful investment, but not always consistent across levels of government.

The purpose of these Principles is to help governments assess the strengths and weaknesses of their public investment capacity across levels of government and set priorities for improvement. It is the first instrument developed by the OECD in the area of regional policy and multi-level governance.

The following pages provide basic guidance to help policy-makers at all levels of government implement the Principles in practice. They include explanations on the rationale for the different principles, examples of concrete actions to take and good practices from countries, as well as indicators to monitor the status of each principle.

Principle 1.

Invest using an integrated strategy tailored to different places

WHY IS IT IMPORTANT?

■ To link investments to the specific needs of each region or locality

Public investment choices should be linked to a development strategy based on an assessment of the potential opportunities for, and impediments to, growth in each region (or locality). Investment strategies should be results-oriented (with clearly defined policy goals), realistic and well-informed (based on evidence that points to the region's ability to make fruitful use of investments), and forward looking (with investments that can position regions for competitiveness and sustainable development in the context of global trends). The investment mix will inevitably vary to reflect the specificities and assets of different places – such as urban and rural locations.

■ To join up related investments across policy sectors

Public investment serves multiple objectives – well beyond growth, linked to inclusive development or environmental objectives, which need to be understood in complementarity from the early stages of the planning process.

Investments in both “hard” and “soft” infrastructure at the regional level are needed to maximise potential for long-term growth. It is important to seek complementarities and reduce conflict among sectoral strategies. For example, investments in housing need to be complemented by the right investment in transport networks. Such complementarities often need to be constructed and combined into integrated strategies.

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

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

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES



European Union

The EU Cohesion Policy 2014-2020 framework introduced two new integrating tools in order to link thematic objectives and the territorial dimension. Community-led Local Development aims in particular at implementing local development strategies, targeting specific area and population coverage. It focusses on specific sub-national areas, relies on a bottom-up approach and encourages co-ordination across levels of government. Integrated Territorial Investments allow Member States to draw up tailored strategies for specific territories through the combination of several Priority Axes and/or Operational Programmes. A major goal of this integrated approach is to reach a better aggregate performance for the same amount of public investment.



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 NSS, 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 (MLIT). Once this is in place sub-national projects can obtain financial and technical support from the central level.

POTENTIAL SOLUTIONS

- Mobilise local and regional knowledge to design public investment strategies (*all levels*)
- Seek complementarities among sector strategies via inter-departmental/ministerial committees and programmes, harmonisation of programme rules or joint investment pools across public agencies/ministries (*all levels*)
- Review policies at an early stage to ensure that the impacts on different types of regions and localities are adequately considered (*all levels*)
- Generate and use spatially-relevant data for investment planning (*all levels*)

PITFALLS TO AVOID

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



Mexico

In Mexico, the National Institute of Statistics and Geography developed an integrated system of geo-referenced data, matching information from different sources and at different geographical scales. Indicators are used to help link budget allocations to socio-economic variables in regions in order to provide simulations of further funding according to policy objectives, such as fighting poverty.



Turkey

Targeting local needs through place-based investment: one of the mechanisms for private sector development adopted for regional and sector-based investments has been to classify regions on a scale of 1 to 6 according to level of development. This is then used as a guideline for investment prioritisation and to match investment activity with regional needs.



New Zealand

All sub-national governments are required to adopt long term plans that set out spending and investment intentions for the coming ten years. The plans are designed to ensure investment decisions by sub-national governments are integrated and linked to each community's desired outcomes.



United States

“Promise Zones” are an effort to revitalise the 20 communities hardest hit by the recession with USD 750 million to provide a tax incentive to secure private investments that will help build homes and create jobs. The programme aligns initiatives from the Departments of: Education, Housing and Urban Development, Commerce, Health and Human Services, Justice, and Agriculture to ensure that federal programmes and resources are focused more strategically in these 20 communities.

| SELF ASSESSMENT TOOL | | |
|---|--|--|
| OBJECTIVES | INDICATORS | |
| To engage in planning for regional development that is tailored, results-oriented, realistic, forward-looking and coherent with national objectives | Coherent planning across levels of government | Mechanisms exist to ensure that sub-national investment plans reflect national and sub-national development goals |
| | Tailored, place-based development plan | There is correspondence between assessment of territorial needs and strengths and planned projects |
| | Clear public investment priorities | There is a clear and authoritative statement of public investment priorities at national and regional levels |
| To co-ordinate across sectors to achieve an integrated place-based approach | Complementary of hard and soft investments | Consideration is given to complementarities between investments in hard and soft infrastructure |
| | Complementarities across sectors | Attention is given to potential complementarities and conflicts among investments by different ministries/departments |
| | Cross-sectoral co-ordination | Formal or informal mechanisms exist to co-ordinate across sectors (and relevant departments/agencies) at the sub-national level |
| To support decisions with adequate data | Forward-looking investment plans | Authorities assess the potential contribution of investments to current competitiveness, sustainable development and regional & national well-being |
| | Data availability and use for investment planning | <ul style="list-style-type: none"> ■ Data are available to support the planning process ■ Data are <i>used</i> to support the territorial and planning process |

Principle 2.

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

WHY IS IT IMPORTANT?

■ To bridge a series of fiscal, information, or policy gaps that may occur across levels of government

Effective public investment across levels of government requires substantial *co-ordination* to bridge a series of information, policy or fiscal gaps that may occur. Collaboration for public investment strategies across jurisdictions and levels of government is difficult, even in situations where the actors involved clearly recognise the need for it. Transaction costs, competitive pressures, resource constraints, differing priorities and fears that the distribution of costs or benefits from co-operation will be one-sided, can all impede efforts to bring governments together.

■ To identify joint investment priorities and minimise the potential for investments to work at cross-purposes

The scale and positive (or negative) spillovers of a public investment may require joint action, either to reduce the cost of the investment or to implement the complementary measures needed to make the most of that investment. While co-ordination on all aspects of public investment is not necessarily feasible, at a minimum, there is an aim to avoid contradictory approaches across levels of government.

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES



Australia

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



Austria

Integrated territorial strategies for public investment, with a deep understanding of the local environment, are key instruments to encourage cross-sectoral co-ordination and multi-year planning. Since 1971, the Austrian Conference on Spatial Planning (ÖROK) has served as a common platform of spatial planning co-ordination. It involves all federal ministries, the *Länder*, and the umbrella associations of municipalities and social partners and also manages EU Structural Funds programmes in Austria.

POTENTIAL SOLUTIONS

- Develop integrated national strategies with clear long-term goals for public investment (*all levels*)
- Use contracts/formalised agreements between levels of government (*national level*)
- Ensure co-financing arrangements between levels of government (*national level*)
- Formalise consultation of sub-national governments in the development of national plans (*national level*)
- Establish platforms for regular inter-governmental dialogue (*national level*)
- Institutionalise the dialogue of national representatives in regions with respective sub-national authorities (*national level*)

PITFALLS TO AVOID

- Under-estimate the co-ordination challenges at stake at all stages of the investment cycle
- Engage in co-ordination with other levels of government too late in the investment decision-making process
- Multiply co-ordination bodies without clear value added in the decision-making process
- Create a proliferation of inter-governmental contracts that are complicated to manage

Its executive body is chaired by the Federal Chancellor, and includes all federal ministers and state governors, the presidents of the Austrian Union of Towns and the Austrian Union of Communities and the presidents of the social and economic partners as advisors. Decisions are consensus based. Thematic committees and working groups, formed by senior officials of the territorial authorities and social and economic partners, were set up at the administrative level to achieve ÖROK's tasks and projects.



Canada

In Canada, there are two main co-ordination instruments: one horizontal and the other vertical. The provinces meet amongst themselves to determine investment priorities, while federal arms of the government are represented in the provinces, via structures such as the regional federal councils or the regional development agencies. Their interests lie not only in representing the central government's priorities in the provinces but also in conveying provincial preferences to the federal authorities. Tri-partite agreements are formal contractual arrangements among federal, provincial, and local authorities for implementing policies.



Finland

As part of the new regional development planning system, growth agreements between state and major cities have been defined. They are concluded between the state and major cities and define key actions for long-standing development of city-regions were created. Thematic scope of these growth agreements lies on competitiveness and resilience.



France

Use of contractual arrangements across levels of government: State-region planning contracts (*Contrat de plan État-région – CPER*) have been in operation since 1982 and are important tools in regional development policy in terms of planning, governance and co-ordination. They are characterised by their broad thematic coverage and cross-sectoral nature, with a territorial approach being applied across diverse policy fields including investment, industrial, environmental and rural issues. The co-decision and co-financing of interventions are seen as an important co-ordination mechanism. Since 2007, State-region planning contracts have the same timeframe as the EU operational programmes, are based on a joint territorial analysis, and have integrated systems for monitoring.



United Kingdom

Since late 2011, urban policy has been centred on a growing number of City Deals in England that are being implemented in waves. City Deals are agreements between government and a city that give the city control to: take charge and responsibility of decisions that affect their area, do what they think is best to help businesses grow, create economic growth and decide how public money should be spent. These deals allow a degree of “tailored” devolution of responsibility to English cities. City Deals require better horizontal (across departments) and vertical (between the centre and the cities) co-ordination, and local capacity.

| SELF ASSESSMENT TOOL | | |
|--|---|---|
| OBJECTIVES | INDICATORS | |
| To co-ordinate across levels of government to ensure information sharing, align priorities and strengthen accountability | Co-ordination bodies across levels of government | There are formal mechanisms/bodies for co-ordination of public investment across levels of government |
| | Cross-sectoral approach | These co-ordination bodies/mechanisms have a multi-sector approach (across multiple ministries/departments) |
| | Mobilisation of co-ordination arrangements | Co-ordination mechanisms are frequently used and produce clear outputs/outcomes |
| | Efficacy of co-ordination platforms | Stakeholders' perception (or empirical data) regarding the efficacy of these different platforms |
| | Contractual agreements/partnerships | Contractual agreements/partnerships across levels of government have been developed to manage joint responsibilities for sub-national public investment |
| | Coverage of contractual agreements | The share of sub-national public investment covered by these agreements is measured |
| | Co-financing arrangements | There are co-financing arrangements for public investment |

Principle 3.

Co-ordinate horizontally among sub-national governments to invest at the relevant scale

WHY IS IT IMPORTANT?

■ To reduce duplication of unsustainable investments due to inter-jurisdictional competition

There are many reasons why sub-national horizontal co-ordination is essential to encourage investment. The small scale of public investment projects in countries with high levels of administrative fragmentation can result in lower returns on that public investment. The fragmentation may also result in an insufficient minimum scale for the investment to even be considered at all.

■ To promote economies of scale

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. Investing at the relevant scale implies to identifying the “functional scale” for the investment under consideration. The functional area is a variable geography that depends on the function, be it for school districts, hospital services or commuter rail. It is likely to be easier to encourage co-ordination around investments in basic infrastructure and service provision (e.g. water, sewage) and more difficult around “strategic” investments where sub-national governments might find themselves competing to secure public facilities, to attract intergovernmental grants, or to attract private investment and qualified persons. Overcoming jurisdictional barriers requires the capacity to see and execute the opportunities, while gathering the necessary political support.

■ To manage positive and negative spillovers among neighbouring regions

There is some quantitative evidence that benefits of public investment in neighbouring regions can be just as important, or more, than direct public investment in that region. For example, a rural region close to an urban region will strongly benefit from improved transportation infrastructure in the urban functional areas.

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES

Denmark

The 2007 local government reform has contributed to reducing the fragmentation of investment strategies, through municipal mergers (reduction in the number of municipalities from 271 to 98 in 2007) and the creation of regions in charge of developing investment strategies.

European Union

At least 5% of ERDF funding will be allocated integrated actions for sustainable urban development where cities, sub-regional or local bodies responsible for implementing sustainable urban strategies shall be responsible for tasks relating , at least, to the selection of operations. Through Integrated Territorial Investments, Members States can combine investments from several Priority Axes for multi-dimensional and cross-sectoral intervention. Targeted areas are “specific urban neighbourhoods with multiple deprivation at the urban, metropolitan, urban rural, or inter-regional levels”. ITIs aim at implementing strategies at an integrated level, and combine funding from several Priority Axes or Operational Programmes, hence increasing flexibility for Member States and simplify financing for integrated actions.

POTENTIAL SOLUTIONS

- Provide relevant incentives to enhance cooperation across jurisdictions through mergers or collaboration such as:
 - establishment of joint authorities (*all levels*);
 - co-ordinated investment strategies (*all levels*);
- Develop adequate governance systems for metropolitan areas (*all levels*);
 - urban rural partnerships (*all levels*); or
 - platforms for cross-jurisdictional dialogue and co-operation (*all levels*), including cross-border mechanisms when adequate

PITFALLS TO AVOID

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



France

The strategic territorial plans called SCOT (*schéma de cohérence territoriale*) set the main orientations of the organization of a group of adjacent communities (*inter-communalité*) for a 10-year period. City plans (*plan local d'urbanisme – PLU*), local urban transport plans, and housing plans must be compatible with SCOT in order to be valid and enforced.



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.



Luxembourg

At the inter-communal level, a number of cities and adjacent municipalities have signed formal agreements or “Conventions” with the Ministry of Spatial Planning. These agreements aim to safeguard more sustainable development by implementing the objectives of the master programme for territorial planning and Luxembourg’s Integrated Concept for Transport and Territorial Development.



Netherlands

The Taskforce cross-border collaboration is a joint initiative of the Netherlands, Germany and Belgium. It covers joint activities in innovation, co-ordination of EU structural funds, infrastructure, and labour markets to improve cross-border labour market matching, co-ordinate mutual recognition of diplomas, develop joint educational facilities, and remove institutional barriers to mortgages of cross-border commuters, among other activities.



Switzerland

Switzerland relies on three major mechanisms to promote co-operation across regions: *i*) cantonal conferences; *ii*) inter-cantonal concordats (agreements); *iii*) cross-border cooperation. The federal government provides up to CHF 500 000 annually over three to six years for innovative multi-jurisdiction projects (over 50 since 2002).

| SELF ASSESSMENT TOOL | | |
|---|--|--|
| OBJECTIVES | INDICATORS | |
| To co-ordinate with other jurisdictions to achieve economies of scale across boundaries | Horizontal co-ordination | Cross-jurisdictional partnerships (inter-municipal; inter-regional) involving investment are possible |
| | Cross-sectoral approach | Cross-jurisdictional partnerships cover more than one sector |
| | Incentives from higher levels of government | Higher levels of government provide incentives for cross-jurisdictional co-ordination |
| | Effectiveness of horizontal co-ordination | The share of investments involving use of cross-jurisdictional co-ordination arrangements at the sub-national level can be estimated by mechanism and/or by sector |
| To plan investment at the right functional level, in particular in metropolitan areas | Use of functional regions | Functional regions are defined, identified, and used in the investment planning process |

Principle 4.

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

WHY IS IT IMPORTANT?

■ To identify social, environmental and economic impacts and ensure value for money

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 not based on sound data, and optimism bias. A majority of OECD countries consider the lack of evidence for the choice of investment mix by sub-national governments to be a problem. Comprehensive, long-term assessments can help clarify goals and reveal information that can be used to refine investment selection. It is important for appraisals to be technically sound to identify social, environmental and economic impacts; and reveal which investment method is likely to yield the best value for money.

The challenge of *ex ante* appraisal is likely to be greatest where it is most needed: where there is considerable uncertainty about the factors affecting returns on investment. Commonly used approaches to economic assessment, such as cost-benefit analysis, are most effective where there is a great deal of information about the project, the context, and the risks involved over the investment cycle. For sophisticated projects, technical requirements may extend beyond standard project appraisal skills and require specific types of expertise (*e.g.* engineering).

■ To explore alternatives to investment and assess long-term operational and maintenance costs in infrastructure investment

Policy makers should consider policy and project complementarities, as well as alternatives to investment and efficient use of existing stocks to reach particular goals. Because infrastructure investment tends to involve large-scale, often irreversible projects, it is crucial to ensure that existing stocks are used efficiently before investing in new capacity. Long-term operational and maintenance costs, which are often under-estimated, should also be fully assessed and planned for early in the investment cycle.

■ To measure different types of risks

While growth objectives are crucial, an exclusive focus on growth may neglect important social or environmental costs or benefits of an investment. Integrating assessment of different types of risks associated with public investment (not only fiscal, such as contingent liabilities, but also financial, political, social and environmental risks), including longer term impacts, are an important part of an appraisal. Such risks and adapted mitigation strategies should be re-evaluated as new information becomes available. There can be risks pertinent to a particular region or locality which should be considered as part of this assessment.

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES

Australia

In the state of Victoria, strong *ex ante* monitoring mechanisms are in place, especially through an innovative High Value/High Risk (HVHR) process used for certain investments. Under the new HVHR introduced 2010, investment projects with a value above a defined threshold or which are deemed to be high risk undergo rigorous scrutiny and approval processes, with increased oversight over various stages of investment development, procurement and delivery. The focus of this new process is to enhance *ex ante* control, improving the business case for major investments. The business case process also includes the development of performance indicators, creating the basis for monitoring infrastructure performance after implementation. *Ex post* evaluation has not been extensively used.

POTENTIAL SOLUTIONS

- Use technically sound appraisals, with more rigorous assessment for larger or risky projects (*all levels*)
- Inform partners about the appraisal results (*all levels*)
- Take advantage of external expertise (*all levels*)
- Use independent assessments of *ex ante* appraisals (*all levels*)
- Circulate guidelines for project appraisal at all levels of government (*all levels*)

PITFALLS TO AVOID

- Succumb to optimism bias in the design/selection of projects
- Focus on the cashflow projections only, neglecting other economic, environmental and social costs or benefits
- Ignore new information that changes the investment approach after a decision has been made
- Under-assess alternatives to investment



European Union

To maximise its added value, the Cohesion Policy 2014-2020 will concentrate financial resources on 11 thematic objectives corresponding to the Europe 2020 priorities. Specific *ex ante* conditions are set for each thematic objective to ensure that cohesion programmes operate in a favourable environment. *Ex ante* conditions relate to three types of framework conditions, *i.e.* regulatory, policy/strategic for co-ordinated implementation, administrative/institutional capacity.



Greece

The 2011 investment law targets projects promoting economic openness, competitiveness, technology upgrading and the reduction of regional inequalities. The law provides for three general and four special categories of investment schemes, corresponding to different investment regimes. The law also entails more rigorous project selection criteria and simpler submission and evaluation procedures than past frameworks. It sets a clear time schedule of six months for the evaluation and approval of projects and provides for a better monitoring of disbursements and the outcomes achieved through specific annual budgets for the total amount of disbursements and other items. All applications of investment proposals are required to include a complete and detailed business plan and an impact assessment study on the Greek economy.



Netherlands

The Ministry of Infrastructure and the Environment has several criteria for selecting infrastructure projects to be co-funded by national government. One of them is the National Market and Capacity Analysis (NMCA). The NMCA investigates infrastructural bottlenecks. It indicates where infrastructure capacity is not expected to be sufficient to reach the goals of National Policy Strategy for Infrastructure and Spatial Planning, taking into account the expected development of mobility.



Korea

Korea established a Public-Private Partnership Unit – the Public and Private Infrastructure Investment Management Centre (PIMAC) – to provide technical support to the Ministry of Land, Transport and Maritime Affairs. When launching a PPP project, the Ministry is responsible for undertaking initial project development, including a feasibility study and value-for-money test. PIMAC aids in executing the feasibility study, formulating the request for proposals, evaluating the proposals submitted, and supporting the negotiation process.

| SELF ASSESSMENT TOOL | | |
|--|---|--|
| OBJECTIVES | INDICATORS | |
| To identify social, environmental and economic impacts, ensure value for money and limit risks | Ex ante appraisals | A large share of public investment is subject to <i>ex ante</i> appraisal |
| | Results of ex ante appraisals | The results of <i>ex ante</i> appraisals are used to prioritise investments |
| | Quality of appraisal process | <i>Ex ante</i> appraisals are conducted by staff with project evaluation skills |
| | Independent review of ex ante appraisals | Share of <i>ex ante</i> appraisals subject to independent review |
| | Guidance for ex ante appraisals | Technical guidelines for <i>ex ante</i> appraisal are available and used at all levels of government |

Principle 5.

Engage with stakeholders throughout the investment cycle

WHY IS IT IMPORTANT?

■ To better meet citizens' needs and enhance trust in government

Public investment projects, especially if they concern large infrastructure projects, are often highly politicised and susceptible to being undermined by a lack of consensus building. Stakeholder consultation at different levels of government is of key importance to build consensus and ensure transparency as to how the project meets the needs of directly affected citizens and society at large. Public investment information, such as expenditure data, should be exposed to public scrutiny to promote transparency and accountability.

■ To benefit from civil society and citizens' inputs in priority-setting and impact assessment

Public, private and civil society actors all have a stake in and a critical role to play in developing a vision and strategy for the economic future of a region or locality. All levels of government should involve stakeholders in priority-setting and needs assessment at early stages of the investment cycle, and feedback and evaluation at later stages. At a minimum, this involves identifying relevant stakeholders, designing sound consultation processes, communicating processes and results, and managing grievances.

■ To prevent capture by special interest groups

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

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES

Denmark

Since 2007, each of the five regions is required to appoint at least one Regional Growth Forum to guide regional business development strategies and the use of associated regional and EU Structural Funds. By law, the 20-member public-private boards include regional and municipal elected officials, business persons, representatives of the higher education and research community, and trade unions. Members are appointed by the Regional Council upon recommendation by the municipalities and social partners. They meet four to six times a year and are supported by the regional administration.

Germany

The decision to build a new runway at Frankfurt Airport (Germany's largest airport) was accompanied by a mediation process initiated by the state government of Hesse. It had the goal of reconciling concerns about noise and other environmental effects with the economic case for the new runway. The process was initiated prior to the decision to build the runway and included extensive consultations with proponents and opponents of the new runway. Most recommendations made by the mediators were implemented in the planning process. After the mediation process, a regional forum continued to the dialogue between stakeholders until the planning process for the new runway was completed and construction started.

POTENTIAL SOLUTIONS

- Develop and implement a stakeholder engagement plan, tailored to the size of the investment project
- Make investment information publicly available in a timely, visible and simple way
- Ensure engagement procedures are transparent and consistent with the OECD Principles for Transparency and Integrity in Lobbying

PITFALLS TO AVOID

- Disappoint residents if engagement process poorly managed
- Involve stakeholders too late in the investment project
- Involve only a limited set of stakeholders



Netherlands

The Delta Programme is a joint endeavour between the ministry of infrastructure and environment, provinces, municipal councils and regional water authorities, in close co-operation with social organisations and business. It was created in 2010 with two priority goals protect the Netherlands against flooding and ensure freshwater supply over the next 100 years. Stakeholder engagement within this programme has, for example, led to customisation of strategies and the commitment of several at a regional (within the sub programmes) and national level.

The implementation of the Delta Programme consists of a series of short- and long-term flexible projects to be carried out up to 2015 and beyond. Building on multi-stakeholder

dialogue, and technical calculations and assumptions, several “decisions” structure the Delta Programme and provide direction for the measures to be taken in terms of water safety (standards, strategies), freshwater strategy, water levels, protection of the delta, and spatial adaptation.



Slovenia

A 2011 Law reorganised Regional Development Councils and Regional Councils, which are combined to form a Development Region Council in order to rationalise their activities and costs. Membership consists of representatives of municipalities (40%), economic associations – such as chambers of commerce or craft (30%), and NGOs (30%).

| SELF ASSESSMENT TOOL | | |
|--|---|---|
| OBJECTIVES | INDICATORS | |
| To engage public, private and civil society stakeholders throughout the investment cycle | Mechanisms to involve stakeholders | Mechanisms exist to identify and involve stakeholders from design to <i>ex post</i> evaluation |
| | Fair representation of stakeholders | Balanced representation of stakeholders in the investment cycle consultation process is guaranteed (to avoid capture situations) |
| | Early involvement of stakeholders | Stakeholders are involved from the early stages of the investment cycle |
| | Access to information | Stakeholders have easy access to timely and relevant information throughout the investment cycle |
| | Feedback integrated in decision-making process | Stakeholders are involved at different points of the investment cycle and their feedback is integrated into investment decisions and evaluation |

Principle 6.

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

WHY IS IT IMPORTANT?

■ To bridge the infrastructure financing gap

There are important and growing gaps in infrastructure development, in both developing and developed countries. To support a future global population of 9 billion people, the OECD has estimated the global infrastructure gap to be USD 70 trillion by 2030, and that this gap will continue to grow. Neither governments, nor multilateral development banks, can finance large global infrastructure needs on their own, so greater private sector investment is needed (G20, 2014).

■ To benefit from the private sector's expertise and financing

Governments should look to private actors, financing institutions and banks for more than just financing. Their involvement can strengthen capacities of governments and bring expertise through better *ex ante* assessment of projects, improved analysis of the market and credit risks, and identification of cost-effective projects.

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

Careful consideration of private engagement includes 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. Inappropriate financial decisions by sub-national governments to develop PPPs, for example to hide bad financial health off balance sheet, can have significant financial impact over the longer term. PPPs should be treated soundly in the budget process, with proper accounting and disclosure of all costs, guarantees and other contingent liabilities.

■ To enhance new or innovative financing arrangements for sub-national public investment

To address the financing gap, new or innovative financing arrangements such as loans, bonds, specific investment funds, tax arrangements, or market-based mechanisms may be useful to finance infrastructures and green investments. Sub-national governments should use innovative financing instruments with an understanding of the capacities needed, as in some cases they could severely compromise local finances and cause risky dependence *vis-à-vis* financial markets.

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES



Canada

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

POTENTIAL SOLUTIONS

- Create specific agencies for joint borrowing (municipal bond banks) (*sub-national level*)
- Co-ordinate decisions regarding Public Private Partnerships (PPPs) with the budget process
- Mutualise capital funding or guarantee funds to facilitate access to finance (*all levels*)
- Use PPPs with careful attention of potential adverse effects and be consistent with OECD recommendations on the Governance of Public Private Partnerships (*all levels*)
- Base decisions about PPPs on value-for-money compared to traditional procurement (*all levels*)
- Properly account for and disclose all costs, guarantees and other contingent liabilities of PPPs in budget documents (*all levels*)
- Ensure financing arrangements reflect capacities for effective public investment management at sub-national level (in particular small jurisdictions), with bottlenecks identified and clear guidance on steps to address them (*all levels*)

PITFALLS TO AVOID

- Develop sophisticated financial arrangements, with no guidance for sub-national governments
- Use PPP as a way to hide bad financial health off balance sheet
- Mobilise private actors' financing and neglecting the additional expertise they may bring



Germany

The regional development bank in Brandenburg provides support to the regional and local governments. For innovation and R&D investments, for example, although the *Länd's* innovation agency determines the allocation of innovation grants, the ILB manages the application process, especially the financial and technical assessments of the client's application. It also offers support to municipalities in the areas of PPPs and waste/sewage treatment facilities. In the case of waste/sewage treatment, poor investment choices in the past led to financial problems for specialised associations of municipalities. In these instances, the ILB combines consultancy with financing functions when giving grants to help reduce the debts.



France

L'Agence France Locale was created in December 2013 as a result of a new banking legislation dated 26 July 2013. *L'Agence France Locale* is 100% owned by French Local authorities. Its mandate is to raise cost-efficient resources in capital markets by pooling together the funding needs of all member local authorities. It aims to provide French local authorities with alternative funding sources : its target market share is 25%. It will lend 50% maximum of its members' annual borrowing needs (or 100% if the amount requested is below EUR1 million). It is a well-recognised

model which has already proven successful in various Northern European countries (Sweden, Finland, Denmark, Norway), in the Netherlands and which is emerging in the United Kingdom (creation of a Municipal Bond Agency) and New Zealand.



Ireland

In its Public Service Reform Plan 2014-2016, Ireland is proposing Social Impact Investing (SII). SII involves using private capital to fund initiatives addressing social problems, and funding is linked to results. The state agrees to repay the private investor only if the established outcomes are achieved. A pilot project is underway that seeks private sector investment partners in the housing sector in order to provide long-term, sustainable and stable homes for homeless families in the Dublin region.



United Kingdom

The government has shifted focus to functional economic areas by launching the Local Enterprise Partnerships (LEPs). These partnerships between local authorities and businesses decide on local priorities for investment in roads, buildings and facilities.

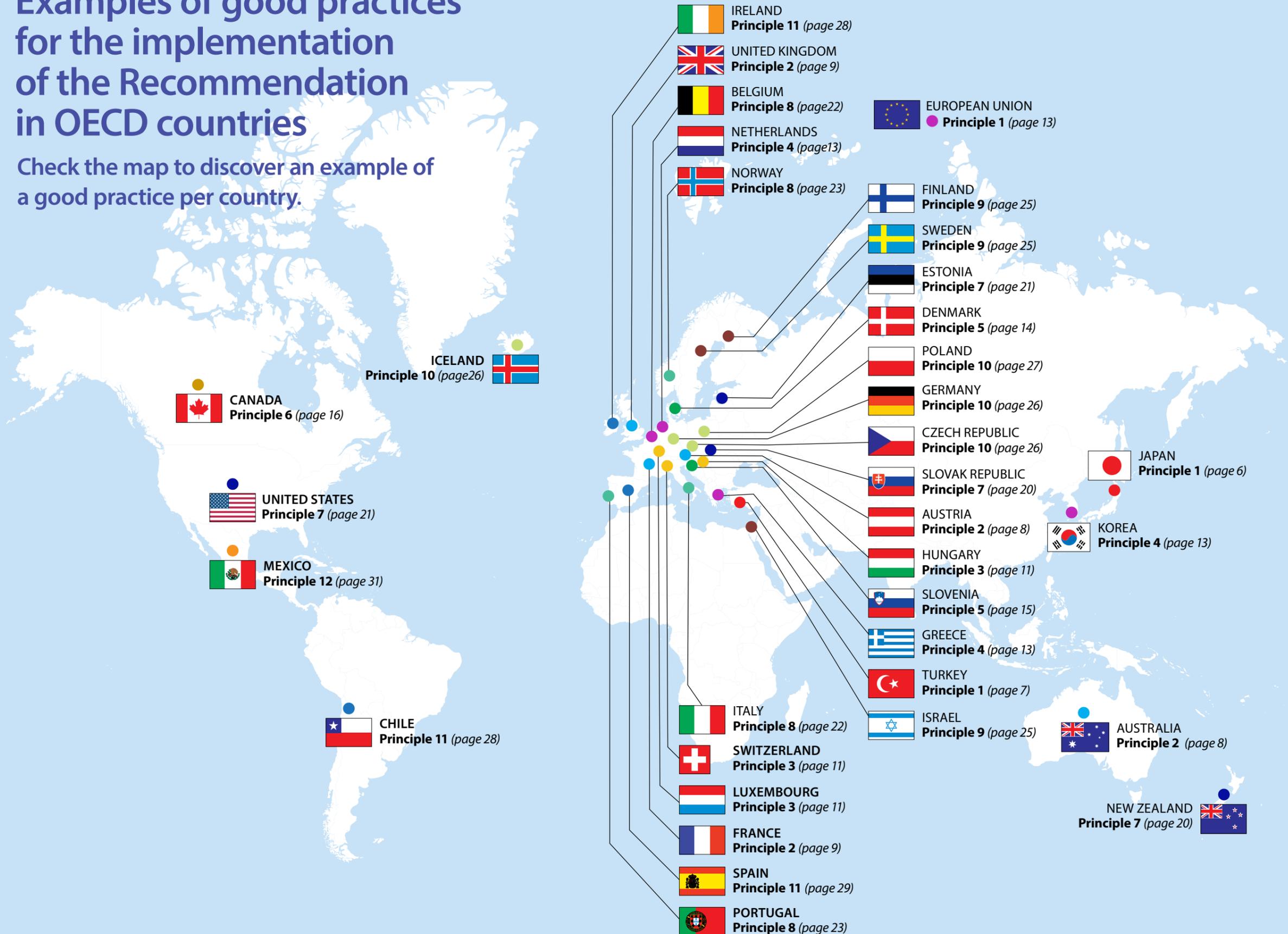
SELF ASSESSMENT TOOL

| OBJECTIVES | INDICATORS | |
|--|---|--|
| To mobilise private sector financing, without compromising long-term financial sustainability of sub-national public investment projects | Sub-national governments have access to technical assistance for PPP | Sub-national governments have access to and use technical assistance for public-private partnerships (<i>e.g.</i> via PPP units, formal training, good practice guidance) |
| | Use of quantifiable indicators | The amount of private financing per unit (<i>e.g.</i> EUR, USD) of public investment is known |
| | Access to information | SNGs have access to information concerning (supra) national funds for investment grants |
| To tap traditional and innovative financing mechanisms for sub-national public investment | Use of innovative financing instruments | The use of new, innovative financing instruments at sub-national levels is accompanied by assessment of their benefits, risks, and sub-national capacities to employ them |

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Mexico

Examples of good practices for the implementation of the Recommendation in OECD countries

Check the map to discover an example of a good practice per country.



Principle 7.

Reinforce the expertise of public officials and institutions involved in public investment, notably at sub-national level

WHY IS IT IMPORTANT?

■ To address the increasingly complex tasks linked to public investment

Sub-national governments are increasingly involved in complex tasks linked to investment across the full life-cycle of projects, not least to address new regulatory constraints linked to the renewal of infrastructure to fight climate change. They also increasingly use more complex financial instruments, which require new competencies and new more networking-type skills not previously held in many sub-national governments.

■ To develop institutional capacity and professional skills for better investment decisions, in particular in small sub-national governments

Large regions, particularly established ones with substantial autonomy and 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 sub-national governments where decentralisation has outpaced corresponding growth in administrative capacity. Such challenges can hit particularly hard rural areas. Attracting needed skills to the public sector is a challenge for many regions where salary scales are uncompetitive with the private sector. Local governments also compete with each other and central governments to attract talent.

■ To enhance sub-national government access to skills and external support

This can be available through other governmental entities or outside of government through universities, technical consultants, quasi-public agencies. This is particularly relevant for sophisticated projects, such a “mega-projects” or projects with network characteristics, technical requirements may extend beyond standard project appraisal skills and require specific types of expertise (*e.g.* engineering).

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES



Australia/New Zealand

The Australian New Zealand School of Government (ANZSOG) is unique for its intergovernmental approach to the promotion of public sector learning across jurisdictions. ANZSOG was established in 2002 through the collaboration of major Australian and New Zealand universities and the Governments of the Australian Commonwealth, States and Territories and of New Zealand. Its focus is on educating public-sector leaders, building new public policy research and management capability, and encouraging public-sector innovation. All students come from the public sector of the participating governments. An interactive learning model creates the opportunity for public-sector managers to compare various approaches being tried by other jurisdictions.

POTENTIAL SOLUTIONS

- Pool expertise across jurisdictions in areas of needed expertise (*e.g.* PPP, procurement, regional development agencies) (*all levels*)
- Use joint e-government platforms to narrow gaps in capacity across regions or localities and facilitate peer learning (*all levels*)
- Identify the most important challenges for sub-national capacity building for investment (*all levels*)
- Accompany decentralisation reforms with policies to strengthen sub-national capacities for investment (*national*)
- Distribute guidance documents in areas such as planning, project appraisal, procurement, or monitoring and evaluation (*all levels*)
- Adopt open, competitive and merit-based hiring for areas of needed technical expertise (*all levels*)

PITFALLS TO AVOID

- Recreate needed expertise in every jurisdiction, regardless of scale and cost effectiveness
- Outsource all competencies resulting in a minimum level of in-house skills
- Experience high turnover of staff in teams involved in public investment

Example of Colombia, in the process of accession to the OECD



Colombia

The Department of National Planning has developed an index of institutional capacity in municipalities, which allows a measurement of the performance of municipalities along four dimensions: effectiveness, efficiency, compliance with legal requirements, and management. Indexes are published on a yearly basis helping to enhance accountability with citizens. The index ranges from 81 points (out of 100) in Bogota to less than 31 points in the department of Vichada and in the Orinoquía Region, bordering Venezuela (with a national average at 63.4 points). Not surprisingly, the lowest scores (below 55 points) are found in the 10 departments where poverty is the highest and in post-conflict areas.



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.



European Union

The EU has strengthened its focus on administrative capacity for the use of funds for 2014-20. EU countries are required to set performance criteria, clearly define responsibility, separate managing and auditing functions, and ensure stability and qualifications of staff. Almost EUR 4.3 billion will be allocated to building additional institutional capacity for public authorities, and increasing the efficiency of public administration and services (an increase of 72% compared to 2007-13).



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.



United States

The U.S. White House Council on Strong Cities, Strong Communities (SC2) is a cross-sector federal government initiative to strengthen the capacity of distressed cities to achieve economic development goals. Launched in 6 pilot cities in 2011, it gathers 19 federal agencies and offers four mechanisms to assist local governments: *i)* Community Solutions Teams composed of employees from federal agencies placed in cities to work directly with city staff; *ii)* a competitive fellowship program for mid-career professionals to serve multi-year terms in city government; *iii)* a competitive grant program to develop a high-quality economic development plans; and *iv)* the SC2 National Resource Network, one-stop access to national experts and federal resources for cities, towns and regions. The SC2 concept was developed through engagement with mayors, members of Congress, foundations, non-profits and other community partners who are committed to addressing the challenges of local governments. SC2 and its partners are working together to co-ordinate federal programs and investments to spark economic growth in distressed areas and create stronger cooperation between community organizations, local leadership, and the federal government. By the Spring of 2014, SC2 was working in over 20 communities and regions across the United States.

SELF ASSESSMENT TOOL

| OBJECTIVES | INDICATORS | |
|---|---|--|
| To develop institutional capacity and professional skills | Identification of skills involved | Human resource management policies demonstrate attention to the professional skills of staff involved in public investment (<i>e.g.</i> hiring is targeted, needs assessments are made, appropriate training is available and used) |
| | Dedicated financial assistance | Dedicating financial assistance is made available for technical training of civil servants involved with public investment; training utilisation rates |
| | Technical guidance | Technical guidance documents are available for actors at all levels of government to clarify approaches to planning, implementation, and evaluation of public investment |
| To identify the most problematic capacity gaps | Assessment of binding capacity constraints | Specific assessments are conducted to assess binding constraints for effective public investment and to identify the needs. |

Principle 8.

Focus on results and promote learning from experience across levels of government

WHY IS IT IMPORTANT?

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

Focusing on results include, but are not limited to, investment strategies with well-defined policy goals, performance budgeting, well-designed tendering procedures and performance monitoring of procurement, technically sound project appraisals, effective investment monitoring systems and high-quality *ex post* evaluation.

- To monitor the implementation progress of projects

Monitoring the implementation progress of projects can be done in terms of *inputs, activities, and outputs*; and evaluation through intermediate and final *outcomes* and their alignment with strategic goals. Outcomes of an investment may take three, five, or more years to be measurable, and thus the monitoring indicators need to be tracked years after the investment is made, and often beyond an election cycle. Indicator systems should balance comprehensiveness and usefulness without unnecessary administrative burden.

- To promote learning from experience and previous mistakes

Learning happens over time, but only if information produced in a first step is used in a subsequent one. Evaluation addresses the goals of investment, assessing if the intended outcomes were achieved and the role played by investment activities. Information that emerges from monitoring and evaluation systems should feed into decisions regarding investment in subsequent investment cycles.

- To allow for some flexibility and reconsideration of initial priorities, to adjust to evolving priorities and context throughout the investment implementation.

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES

Belgium

The Flanders 2020 Pact provides a framework for co-operation and the assessment of progress towards Flanders' strategic priorities and Europe 2020. Through horizontal contractual arrangements at the sub-national level, the Pact emphasises strategic co-operation as well as quantifiable targets and performance monitoring and assessment. Partners in the Pact include the Flemish government, the Social Economic Council of Flanders (representing key social and economic partners), and United Associations (an umbrella organization for civil society organisations).

Italy

Basilicata (Italy) has a Public Investment Evaluation Unit within the Department for Structural Funds responsible for monitoring and evaluating public investments in the region and for checking the consistency of strategic projects with the regional development plan and the annual financial plan. The unit also performs impact evaluations of public investment projects on employment and economic performance. Basilicata's efforts are supported

POTENTIAL SOLUTIONS

- Use monitoring systems to track performance, emphasising progress toward outcomes (*all levels*)
- Develop indicators that are *relevant* (linked to national and regional objectives), *valid* (measure the constructs of interest), *reliable*, and *useful* (provide actionable information for administrators and policy makers) (*all levels*)
- Establish a manageable set of common indicators for sub-national reporting and develop "bench learning" practices among SNGs (*all levels*)
- Require and/or co-finance *ex post* evaluations (*all levels*)
- Incorporate lessons identified into subsequent investment decisions (*all levels*)

PITFALLS TO AVOID

- Require sub-national governments to report back on too many different indicators
- Change too frequently indicators, not allowing subsequent evaluation and effective learning processes
- Gaming indicator systems and thus not achieving the desired outcomes

by the national Public Investment Evaluation Unit in the Ministry of Economic Development, which provides technical support. Regional data on public investments are gathered through a centralised System for Monitoring Public Investments that tracks basic information for each public investment project. The system has been used in five pilot regions since 2007.



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

Increased emphasis is on strategic monitoring under the EU Structural Funds system and under the responsibility Cohesion and Development Agency (a new Agency that stems from the merge of NSRF Observatory and other two financial Institutes that deal with EU funds). At the regional level regional dynamics observation centers are created to perform similar functions. An indicator system is being developed at the national and regional levels. The Composite Index of Regional Development is published by Statistics Portugal on an annual basis since May 2009, with the aim of providing a tool for monitoring regional disparities. It is divided into three components which reflect broader sustainable development concerns: competitiveness, cohesion and environmental quality. In 2015, a new version of the index will be released with a regional breakdown according to the new NUTS level 3 (Commission Regulation (EU) No 868/2014) which are in compliance with the inter-municipal entities as the relevant groups of municipalities for the 2014-2020 programming period.



United States

The US has developed the tool named "Pay for success", which shifts the focus on outcomes by aligning financial incentives with actual success. This tool is currently piloted by cities like Boston or states like California.

| SELF ASSESSMENT TOOL | | |
|--|--|--|
| OBJECTIVES | INDICATORS | |
| To design and use monitoring indicator systems with realistic, performance promoting targets | Performance monitoring in place | A performance monitoring system is used to monitor public investment implementation |
| | Timely reporting | The monitoring systems facilitate credible and timely reporting of expenditure and performance |
| | Output and outcomes | The indicator system incorporates output and outcome (results) indicators |
| | Targets | Part of the indicators are associated with measurable, quantifiable targets |
| To use monitoring and evaluation information to enhance decision making | Performance monitoring information is used in decision-making | Performance information informs decision-making at different stages of the investment cycle |
| To conduct regular and rigorous <i>ex post</i> evaluation | Ex post evaluations | <i>Ex post</i> evaluations are conducted |
| | | Some <i>ex post</i> evaluations are conducted by independent bodies (e.g. research organisations, universities, consultancies) |
| | | Clear guidance documents exist that detail <i>ex post</i> evaluation standards |

Principle 9.

Develop a fiscal framework adapted to the investment objectives pursued

WHY IS IT IMPORTANT?

- To define appropriate intergovernmental fiscal arrangements which determine to a large extent sub-national government financial capacity to invest

Choices regarding sub-national transfers, own revenues and borrowing should reflect good practice, fit a country's institutional context and align with policy objectives. This may allow in certain cases for different fiscal arrangements across different territories in order to better fit with the variety of local situations/capacities.

- To encourage sub-national governments to play an active role in investment and development

Higher levels of government should set enabling conditions for sub-national governments to be able to exploit their own revenue-raising potential to finance investment, to ensure financing for long term operations and maintenance, and to participate in co-financing arrangements.

- To align priorities across levels of government

Co-financing schemes should be more than a way for sub-national governments to secure funds. They can help to ensure the commitment of different actors to the success of a project 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.

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES



In 2008, the Council of Australian Governments agreed to a new Intergovernmental Agreement on Federal Financial Relations. This agreement increased the financial autonomy of the states, moving from input control to the monitoring of outputs, and rationalising the payments made into five broad areas (health, affordable housing, early childhood and schools, vocational education and training, and disability services). Each of these payment areas are funded by a special purpose payment, distributed to the states on an equal per capita basis (there is no need to adapt the amounts to the needs and costs of each state, as this is done by the Commonwealth Grants Commission). For each of these payment areas, a mutually agreed National Agreement clarifies the roles and responsibilities that will guide the Commonwealth and the states in the delivery of services across the relevant sectors and covers the objectives, outcomes, outputs and performance indicators for each SPP. The performance of all governments in achieving mutually agreed outcomes and benchmarks specified in each SPP is then monitored by the independent Council of Australian Governments and publicly reported on an annual basis.

POTENTIAL SOLUTIONS

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

PITFALLS TO AVOID

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



Finland

In the context of the implementation of the EU fiscal compact, the government developed a new steering system for local government finances, to be implemented from 2015. Its aim is to ensure that, in the future, municipalities' responsibilities match the available funding. If they are given new responsibilities, either existing ones are to be cut or more funding is to be provided.



Israel

Israel uses a variety of targeted levies to deal with environmental issues. For example, the landfill levy, introduced in 2007, aims to reflect the external costs of this form of waste disposal and make other forms of waste treatment more competitive. Proceeds from the levy are earmarked to finance waste-related developments. This can include helping local authorities establish municipal waste collection points, run education and information systems,

and build recycling infrastructure. Environmental levies are also applied to water extraction, quarrying and shipping. In the case of the latter two, these are also linked to dedicated funds (for the restoration of quarries and marine pollution prevention, respectively).



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.

| SELF ASSESSMENT TOOL | | |
|--|---|--|
| OBJECTIVES | INDICATORS | |
| To define appropriate intergovernmental fiscal arrangements that help align objectives across levels of government | The intergovernmental fiscal framework is clear | Information is made publicly available on the fiscal situation of sub-national governments |
| | The intergovernmental fiscal framework includes timely indications of transfers between levels of government | There is minimal variance between estimated and actual transfers |

Principle 10.

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

WHY IS IT IMPORTANT?

■ To ensure budgetary and financial accountability at all levels of government

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

■ To enhance transparency with citizens and other stakeholders

Such transparency applies to all levels of government. Budgetary 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.

■ To ensure national fiscal stability

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

PITFALLS TO AVOID

- Exclude contingent liabilities from budget documents, notably at the sub-national level
- Disconnect sub-national public investment *strategies* from the budget procedure

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES



Czech Republic

The Ministry of Finance has recently proposed to set up a Fiscal Council to improve budget preparation, implementation and monitoring, and a Committee for Budgetary Forecasts. The Council is to have 5 members nominated by the president, the senate, the central bank, the Ministry of Finance and local governments, and elected by parliament. The Fiscal Council could play an important role in assessing the budgetary stance of all government levels and recommending corrective actions.



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.



Iceland

The government is required to submit a Fiscal Policy Statement to Parliament for approval at the beginning of its term, which covers both central- and local government and sets out numerical fiscal objectives for the long-term stock of liabilities and the medium-term budget balance. The government is also required each year to present a *Medium-Term Fiscal Strategy* (MTFS) to Parliament for approval. It covers the subsequent five years and lays out fiscal performance targets for central and local government in line with the Fiscal Statement. In preparing the MTFS, it is necessary to reach agreements with local governments on their targets. The MTFS must also include a discussion of fiscal risks.

POTENTIAL SOLUTIONS

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



Ireland

As part of its 2014 local government reform, Ireland plans to introduce a new, independently chaired, National Oversight and Audit Commission for Local Government (NOAC). Its mission will be to provide independent, high-quality examination of local government performance in meeting national, regional and local mandates and in providing value for money in service delivery. The commission will examine financial and general performance, as well as results, reporting the findings and recommendations to elected members. In addition, the reports will be publicly available and provided to the relevant Minister(s), as well as Joint *Oireachtas* (Parliament) Committees. One key objective for the NOAC is to identify and promote best practice on efficiency measures at the local level.



Italy

The *OpenCoesione* 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 any single project carried out to implement 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.



Poland

Poland has recently introduced a new spending rule, covering 90% of general government expenditures. Spending growth will be capped by nominal targets based on a moving average of GDP growth, which will enhance transparency and credibility. It is also based on two corrective debt thresholds at 50 and 55% of GDP. The new spending rule could help to smooth the effects of EU transfers and the related public investment cycle.



Portugal

The revision of local and regional finances laws was passed in September 2013. It establishes a multi-year budget plan, spells out expenditure rules, budget balance and the debt by setting stricter debt limits and finally it gives the State greater fiscal oversight. Since 2012 the State Budget has included a chapter on contingent liabilities in general, which included contingent liabilities from PPPs.



Spain

The Independent Authority for Fiscal Responsibility was established in November 2013 in Spain and it became operational in July 2014. The Authority will monitor and report on compliance of all levels of government including regional and municipal. 11 out of 17 regional governments complied with their deficit targets for 2013. Budgetary reporting at central, regional, and social security levels is now all published monthly on a national accounts basis. Local governments have quarterly budgetary reporting on a national accounts basis.

| SELF ASSESSMENT TOOL | | |
|---|---|--|
| OBJECTIVES | INDICATORS | |
| To ensure budget transparency at all levels of government | Budget transparency | Budget transparency principles apply at all levels of government |
| | Timely information | Budgetary information regarding public investment is publicly available to stakeholders at all levels of government in a timely and user friendly format |
| | Maintenance costs integrated into budgeting | Operations and maintenance costs of infrastructure investment are assessed and integrated into budgeting and planning decisions |
| To ensure sub-national and national fiscal stability | Budget co-ordination across levels of government | Budgetary co-ordination across levels of government in terms of contributions to national fiscal targets |
| To link strategic plans to multi-annual budgets | Multi-year forecasts | Public investment is linked to multi-year budget forecasts, which are reviewed regularly |
| | Medium-term budgeting framework | The medium-term planning and budgeting framework is integrated with the annual budget |
| | Multi year forecasts | Multi-year forecasts for public investment reviewed and updated regularly |

Principle 11.

Promote transparency and strategic use of public procurement

WHY IS IT IMPORTANT?

■ To ensure transparent sub-national procurement systems

On average, general government procurement accounts for 13% of GDP and nearly a third of government expenditures in OECD countries. 55% of procurement is undertaken at sub-national level. It is one of the government activities most vulnerable to waste, fraud and corruption. However, sub-national governments often lack procurement know-how or specialised personnel. Problematic systems can compromise the integrity of the investment process, deter investors and compromise the achievement of policy objectives. Transparency throughout the procurement cycle, professionalisation of the procurement function, and clear accountability and control mechanisms are all required.

■ To enhance the use of procurement by sub-national governments as a strategic tool

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

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES



Chile Compra, Chile's agency for administering public purchases, analyses the data extracted from its electronic platform, including the number of bids, purchases through framework agreements, and non-competitive procedures. This information is then compared to figures from previous years in order to estimate amounts spent, savings and the correct application of standards related to the types of procedures.



In 2009, Ireland established the National Procurement Service (NPS) in order to reform the public procurement function. The principal objective of the NPS is to achieve best value for money in the procurement of supplies and services. It takes a strategic approach to procurement through aggregating purchases across government departments, agencies and the non-commercial state sector in order to reduce the prices paid for goods and services; providing procurement training and advice to the public sector; and promoting simplification and standardization of the tendering process. Based on market analysis, the NPS identified the top 50 categories of procurement expenditure to target for intervention.

POTENTIAL SOLUTIONS

- Provide guidance for sub-national governments for procurement (*national level*)
- Collaborate for procurement (*e.g. purchasing alliances, networks, framework agreements, central purchasing bodies*) (*all levels*)
- Use e-government tools to simplify and harmonise procurement practices (*all levels*)
- Professionalise procurement (*all levels*)
- Use procurement as a strategic tool in sub-national governments to foster green development and support innovation (*sub-national level*)

PITFALLS TO AVOID

- To create procurement functions in every jurisdiction without mutualising the operations
- To frequently change procurement rules, which put sub-national governments in a situation of uncertainty
- To under-estimate training needs for procurement
- To under-use the strategic potential of procurement



Spain

At the regional level, Galicia has developed a web platform for public procurement procedures for all public entities, including municipalities. The goal is to integrate all public entities and private companies in a one-stop shop for public procurement. Collaborative procurement across levels of government as well as at the regional level can also help improve procurement capacity (*e.g.* purchasing alliances, networks, framework agreements and central purchasing bodies).



Portugal

To increase productivity, Portugal has restructured its purchasing function and consolidated purchases to achieve economies of scale. The National Agency for Public Procurement, established in 2007, has managed in recent years to professionalise the procurement function and achieve efficiency gains through the use of aggregation vehicles for the central administration (framework agreements) and investment in a state-of-the-art e-procurement platform. One of the challenges facing the Government is to ensure that similar capacity is developed at the sub-national level. Portugal is increasingly using procurement as a policy lever to pursue policy objectives, such as SME development, innovation, and environmental protection. This is being done, for example, by dividing government contracts into small lots.

| SELF ASSESSMENT TOOL | | |
|---|--|---|
| OBJECTIVES | INDICATORS | |
| To engage in transparent, competitive, procurement processes | Competitive procurement | The share of public tenders for public investment that are competitively awarded is known and publicly available |
| | | The participation rates for tenders is known |
| | | Procurement information from the full procurement cycle is publicly available at the national and sub-national levels of government |
| | | Procurement review and remedy mechanisms are in place at the national and sub-national levels |
| To encourage procurement at the relevant scale and promote the strategic use of procurement | Strategic power | The share of procurement which involves more than one sub-national government is known |
| | | Procurement is used strategically by SNGs to achieve green objectives |
| | | Procurement is used strategically by SNGs to achieve innovation objectives |
| To foster sub-national capacity building for procurement | Sub-national capacities for procurement | There is recognition of procurement officials as a specific profession |
| | | Formal guidance regarding procurement procedures is provided to sub-national governments |
| | | There is a procurement unit that can assist SNGs |
| | | The percentage of total annual contracts awarded go to SMEs in sub-national procurement is known |
| | | The percentage of national/sub-national procurement conducted on-line is known |

Principle 12.

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

WHY IS IT IMPORTANT?

■ To promote a regulatory framework conducive to both public and private investment at the sub-national level

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

■ To enhance the regulatory capacity of sub-national governments

Sub-national capacity for regulatory quality is an integral aspect of effective public investment. Sub-national governments should be able to implement regulation from higher levels of government effectively, as well as to define and implement their own strategy for regulatory management, including the assessment of regulatory impact and reforms needed. Special attention should be given to administrative simplification which could help involve private partners in public investment strategies.

EXAMPLES OF GOOD PRACTICES AND RECENT DEVELOPMENTS IN OECD COUNTRIES



Through the Council of Australian Governments (COAG), governments agreed to revise their Regulatory Impact Assessments (RIA) 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.

POTENTIAL SOLUTIONS

- Co-ordinate regulatory policy across levels of government, *e.g.* via inter-governmental platforms, mutual recognition policies, regulatory harmonisation agreements and regulatory uniformity agreements (*all levels*)
- Review the stock of regulation regularly, assessing costs and benefits of new regulations and taking compliance costs for sub-national governments into account (*national level*)
- Minimise the administrative burden of government formalities for a typical public investment project (*all levels*)
- Foster sub-national capacity for regulatory quality as an integral aspect of effective public investment and implement the OECD 2012 *Recommendation of the Council on Regulatory Policy and Governance*.

PITFALLS TO AVOID

- Constantly changing regulations undermining predictability
- Undermine high quality regulation at one level of government by poor regulatory policies and practices at other levels
- Use regulation that focuses on that single jurisdiction's welfare to the detriment of other jurisdictions (such as race-to-the-bottom forms of competition);
- Ignore innovative regulatory practices set up at the regional or local level that could benefit higher levels of government



Canada

In Canada, a Federal, Provincial and Territorial Working Group on Regulatory Reform acts as a forum to develop government’s capacity to produce quality regulation and encourage regulatory co-operation across jurisdictions. Its work includes developing common regulatory principles, developing a consistent approach to regulatory impact analysis and sharing best practices.



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.



Korea

Evaluate “hidden” regulations: The Ministry of Land, Infrastructure and Transport recently charged municipal authorities with having too many “hidden” local regulations that impeded private investment in construction. The Ministry requested that National Association of Architects take stock of this type of local regulation.



Mexico

Mexico is working to improve regulatory capacity at the sub-national level. 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 sub-national 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.



Spain

In October 2012, Spain’s Council of Ministers launched a process of public administration reform, establishing a Commission for the Reform of the Public Administration (CORA). The focus is administrative streamlining, simplifying legislation and procedures, and avoiding duplication between the state and the Autonomous Communities (ACs). Of the 217 proposals presented in the reform, 118 relate to eliminating duplications at the national level and between the national and 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.

| SELF ASSESSMENT TOOL | | |
|---|---|---|
| OBJECTIVES | INDICATORS | |
| To engage in “better regulation” at sub-national levels, with coherence across levels of government | Co-ordination across levels of government | Formal co-ordination mechanisms between levels of government that impose specific obligations in relation to regulatory practice |
| | Regulatory impact assessment | Regulatory Impact Analysis are used |
| | | A methodology for assessing quality of RIA exists and indications of quality are available |
| | Reduction of stock of regulation | Efforts to reduce the stock of regulation or simplify administrative procedures in relation to public investment are made |
| | Public consultations | Public consultations are conducted in connection with the preparation of new regulations of sufficient duration; accessible, and appropriately targeted |
| Use of e-government tools | Use of e-government tools used to simplify administrative procedures for public investment projects | |

TABLE 1. Indicators to measure the implementation of the OECD Recommendation for Effective Public Investment Across Levels of Government

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

 System is in place and works in a satisfactory way

 System is in place but improvements are needed

 System is not in place or not functioning well

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

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

| PRINCIPLE 3. Co-ordinate horizontally among sub-national governments to invest at the relevant scale | | | | |
|--|---|---|---|---|
| OBJECTIVES | INDICATORS | ✓ | ✓ | ✓ |
| To co-ordinate with other jurisdictions to achieve economies of scale across boundaries | Horizontal co-ordination Cross-jurisdictional partnerships involving investment are possible | | | |
| | Cross-sectoral approach Cross-jurisdictional partnerships cover more than one sector | | | |
| | Incentives from higher levels of government Higher levels of government provide incentives for cross-jurisdictional co-ordination | | | |
| | Effectiveness of horizontal co-ordination The share of investments involving use of cross-jurisdictional co-ordination arrangements at the sub-national level can be measured by mechanism and/or by sector | | | |
| To plan investment at the right functional level, in particular in metropolitan areas | Use of functional regions Functional regions are defined, identified, and used in investment policy | | | |

| PRINCIPLE 4. Assess upfront the long-term impacts and risks of public investment | | | | |
|--|--|---|---|---|
| OBJECTIVES | INDICATORS | ✓ | ✓ | ✓ |
| To identify social, environmental and economic impacts, ensure value for money and limit risks | Ex-ante appraisals A large share of public investment is subject to ex-ante appraisal | | | |
| | Results of ex-ante appraisals The results of <i>ex-ante</i> appraisals are used to prioritise investments | | | |
| To conduct rigorous ex-ante appraisal | Quality of appraisal process <i>Ex-ante</i> appraisals are conducted by staff with project evaluation skills | | | |
| | Independent review of ex-ante appraisals Share of <i>ex-ante</i> appraisals subject to independent review | | | |
| | Guidance for ex-ante appraisals Technical guidelines for <i>ex-ante</i> appraisal are available and used at all levels of government | | | |

| PRINCIPLE 5. Engage with stakeholders throughout the investment cycle | | | | |
|--|--|---|---|---|
| OBJECTIVES | INDICATORS | ✓ | ✓ | ✓ |
| To engage public, private and civil society stakeholders throughout the investment cycle | Mechanisms to involve stakeholders Mechanisms exist to identify and involve stakeholders throughout the investment cycle | | | |
| | Fair representation of stakeholders Fair representation of stakeholders in the investment cycle consultation process is guaranteed (to avoid capture situations) | | | |
| | Early involvement of stakeholders Stakeholders are involved from the early stages of the investment cycle | | | |
| | Access to information Stakeholders have easy access to timely and relevant information throughout the investment cycle | | | |
| | Feedback integrated in decision-making process Stakeholders are involved at different points of the investment cycle and their feedback is integrated into investment decisions and evaluation | | | |

| PRINCIPLE 6. Mobilise private actors and financing institutions to diversify sources of funding and strengthen capacities | | | | |
|--|---|---|---|---|
| OBJECTIVES | INDICATORS | ✓ | ✓ | ✓ |
| To mobilise private sector financing, without compromising long-term financial sustainability of sub-national public investment projects | SNGs have access to technical assistance for PPP Sub-national governments have access to and use technical assistance for public-private partnerships (e.g. via PPP units, formal training, good practice guidance) | | | |
| | Use of quantifiable indicators The amount of private financing per unit (e.g. Euro, USD) of public investment is known | | | |
| | Access to information SNGs have access to information concerning (supra) national funds for investment | | | |
| To tap traditional and innovative financing mechanisms for sub-national public investment | Use of innovative financing instruments The use of new, innovative financing instruments at sub-national levels is accompanied by assessment of their benefits, risks, and sub-national capacities to employ them | | | |

| PRINCIPLE 7. Reinforce the expertise of public officials and institutions involved in public investment, notably at sub-national levels | | | | |
|---|---|---|---|---|
| OBJECTIVES | INDICATORS | ✓ | ✓ | ✓ |
| To develop institutional capacity and professional skills | Specific focus on investment required skills Human resource management policies demonstrate attention to the professional skills of staff involved in public investment (e.g. hiring is targeted, needs assessments are made, appropriate training is available and used) | | | |
| | Dedicated financial assistance Dedicating financial assistance is made available for technical training of civil servants involved with public investment; training utilisation rates | | | |
| | Technical guidance Technical guidance documents are available for actors at all levels of government to clarify approaches to planning, implementation, and evaluation of public investment | | | |
| To identify binding capacity constraints and the proper sequence of reforms | Assessment of binding capacity constraints Specific assessments are conducted to assess binding constraints for effective public investment and identify the needs and the proper sequence of reforms | | | |

| PRINCIPLE 8. Focus on results and promote learning from experience across levels of government | | | | |
|--|---|---|---|---|
| OBJECTIVES | INDICATORS | ✓ | ✓ | ✓ |
| To design and use monitoring indicator systems with realistic, performance promoting targets | Performance monitoring in place A performance monitoring system is used to monitor public investment implementation | | | |
| | Timely reporting The monitoring systems facilitate credible and timely reporting of expenditure and performance | | | |
| | Output and outcomes The indicator system incorporate output and outcome (results) indicators | | | |
| | Targets Part of the indicators are associated with measurable targets | | | |
| To use monitoring and evaluation information to enhance decision making | Performance monitoring information is used in decision-making Performance information contributes to inform decision-making at different stages of the investment cycle | | | |
| To conduct regular and rigorous <i>ex-post</i> evaluation | Ex-post evaluations <ul style="list-style-type: none"> • <i>Ex-post</i> evaluations are regularly conducted. Some <i>ex-post</i> evaluations are conducted by independent bodies (e.g. research organisations, universities, consultancies) • Clear guidance documents exist that detail <i>ex-post</i> evaluation standards | | | |

| PRINCIPLE 9. Develop a fiscal framework adapted to the objectives pursued | | | | |
|---|---|---|---|---|
| OBJECTIVES | INDICATORS | ✓ | ✓ | ✓ |
| To define appropriate inter governmental fiscal arrangements that help align objectives across levels of government | The intergovernmental fiscal framework is clear, with timely indications of transfers between levels of government. | | | |
| | There is minimal variance between estimated and actual transfers. | | | |
| | Information is made publicly available on the fiscal situation of sub-national governments and their comparison | | | |

| PRINCIPLE 10. Require sound and transparent financial management at all levels of government | | | | |
|--|---|---|---|---|
| OBJECTIVES | INDICATORS | ✓ | ✓ | ✓ |
| To ensure budget transparency at all levels of government | Budget transparency Budget transparency principles apply at all levels of government | | | |
| | Timely information Budgetary information regarding public investment is publicly available to stakeholders at all levels of government in a timely and user friendly format | | | |
| | Maintenance costs integrated into budgeting Operations and maintenance costs of infrastructure investment are assessed and integrated into budgeting and planning decisions | | | |
| To ensure sub-national and national fiscal stability | Budget co-ordination across levels of government Budgetary co-ordination across levels of government in terms of contributions to national fiscal targets | | | |
| To link strategic plans to multi-annual budgets | Multi-year forecasts Public investment is linked to multi-year budget forecasts, which are reviewed regularly | | | |
| | Medium term budgeting framework The medium-term planning and budgeting framework is integrated with the annual budget | | | |
| | Multi year forecasts Multi-year forecasts for public investment reviewed and updated regularly | | | |

| PRINCIPLE 11. Promote transparency and strategic use of public procurement at all levels of government | | | | |
|--|---|---|---|---|
| OBJECTIVES | INDICATORS | ✓ | ✓ | ✓ |
| To engage in transparent, competitive, procurement processes | Competitive procurement | | | |
| | • The share of public tenders for public investment that are competitively awarded is known and publicly available | | | |
| | • The participation rates for tenders is known | | | |
| | • Procurement information from the full procurement cycle is publicly available at the national and sub-national levels of government | | | |
| To encourage procurement at the relevant scale | • Procurement review and remedy mechanisms are in place at the national and sub-national levels | | | |
| | Strategic procurement The share of procurement which involves more than one sub-national government is known | | | |
| To promote the strategic use of procurement | • Procurement is used strategically by SNGs to achieve green objectives | | | |
| | • Procurement is used strategically by SNGs to achieve innovation objectives | | | |
| To foster sub-national capacity building for procurement | Sub-national capacities for procurement | | | |
| | • There is recognition of procurement officials as a specific profession | | | |
| | • Formal guidance regarding procurement procedures is provided to sub-national governments | | | |
| | • There is a procurement unit that can assist SNGs | | | |
| | • The percentage of total annual contracts awarded go to SMEs in sub-national procurement is known | | | |
| • The percentage of national/sub-national procurement conducted on-line is known | | | | |

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

MORE GUIDANCE ON THE IMPLEMENTATION AND COUNTRY EXAMPLES ARE ON THE TOOLKIT WEB SITE:

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

CASE STUDIES

The OECD conducts specific case studies on the implementation of the Principles in specific countries or sub-national governments, upon request of government officials

For any question, please contact: Dorothee.allain-dupre@oecd.org

FURTHER READING

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