COORDINATION OF INFRASTRUCTURE INVESTMENT ACROSS LEVELS OF GOVERNMENT

Claire Charbit & Cathérine Gamper

OECD Public Governance and Territorial Development Directorate

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Outline

• Motivation
• Discussion: identification of coordination gaps and existing solutions
  – Vertical coordination mechanisms
  – Horizontal coordination mechanisms
  – Conditionality and intergovernmental contracts
• Conclusions/Policy Options
MOTIVATION
Motivation

- Average increasing trend in decentralisation over past 10-15 years
  - Steadily rising SNG share of PI
  - 60% of health, 40% of health, 30% of economic affairs and 20% of social protection spent on SN level

- Numbers
  - generally higher SNG shares in federal countries
  - though some federal countries SNG share decreased, and in some unitary ones increased
• Independent of institutional context infrastructure investment hardly carried out at one level of government only:
  – Funding, determining priorities, planning, implementation is often carried out by different levels of government for the same project or program
  – Policy making authority progressively more distributed across levels of government (both to SNGs and supra-national bodies)
  – private sector’s role has increased
  – Civil society’s role increased
• Not only vertical, but also horizontal interactions between different government levels has to be managed:
  – Infrastructure management also requires horizontal interaction as projects reach beyond administrative borders (positive and negative external spillover effects)
## Identification of coordination gaps

<table>
<thead>
<tr>
<th>Coordination gap</th>
<th>Description =&gt; potential remedy</th>
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<tbody>
<tr>
<td><strong>A. Intergovernmental relations for programming infrastructure investments (vertical-horizontal coordination)</strong></td>
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<tr>
<td>Overall Planning and Investment Strategies</td>
<td>different rationales across policy making levels create obstacles for adopting convergent targets. policy coherence problems and contradictory objectives across investment strategies =&gt; <strong>Need for instruments to align objectives</strong>;</td>
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<tr>
<td>Multi-Sector relevant planning and policies</td>
<td>line ministries do not align their policies (i) in a cross-sectoral fashion, or (ii) vertically, =&gt; <strong>Need for multidimensional/systemic approaches and make these credible through political leadership and commitment.</strong></td>
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<td>Funding</td>
<td>Unstable or insufficient funding, or misaligned conditionalities attached to transfers undermining effective execution of each level’s competencies =&gt; <strong>Need incentives for partnership</strong> through multi-annual budgeting.</td>
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<td>Administrative and Public Services</td>
<td>administrative boundaries for infrastructure decisions do not correspond to socio-economic geographic area sharing infrastructure and its externalities =&gt; <strong>Need for instruments to encourage collaboration between jurisdictions and assignment of responsibilities for reaching “effective size”</strong></td>
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<td><strong>B. At the level of the management of the individual investment project</strong></td>
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<td>Regulation: public-private</td>
<td>difficulties in clear selection and appraisal criteria to involve private sector in a determined investment project =&gt; <strong>develop a “unified framework” for evaluation of public and private involvement</strong>;</td>
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<td>Responsibilities over the project cycle</td>
<td>difficulties in ensuring separate or sufficient accountability over specific steps in the project cycle can lead to integrity challenges for policy makers =&gt; <strong>Need for institutional quality instruments; instruments to strengthen the integrity framework; continuity in sub national public administration; instruments to enhance citizens’ involvement</strong></td>
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<td>Capacity</td>
<td>limited human, knowledge or institutional resources available to carry out tasks =&gt; <strong>Need for instruments to build local capacity; earmarking co-financing as a way to induce capacity while avoiding micro management, performance assessment</strong></td>
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Source: adapted from Charbit and Michalun (2009); Charbit (2011)
Objectives and Methodology

• Objective of present work:
  – systematic identification of coordination mechanisms and challenges
  – systematic assessment of established remedies, i.e. functioning coordination mechanisms

• Work based on:
  – National OECD questionnaire
  – 7 subnational/regional case studies
  – Past OECD territorial reviews
COORDINATION MECHANISMS
Independent of federal, regionalised, unitary form of government—strong need of coordination across levels of government
Vertical coordination mechanisms

• To facilitate mutual policy exchange:
  – National platforms have been created (Germany, Spain, Italy – subnational-central conferences)
  – Council of Australian Governments
  – LAC’s River Basin Organisations (Argentina, Brazil, Costa Rica..)
  – More unitary states have “informal” platforms for policy exchange (e.g. Sweden, Norway)

• Effectiveness of exchange depends on:
  – Coordination of policies across line ministries
  – Subnational levels can’t make up for absence of such coordination at the centre (e.g. Sweden)
Survey results confirm that the center doesn’t know what the subnational level needs...

- Lack of information of sub-national actors on central government investment priorities
- Lack of capacities at sub-national level to implement investment projects
- Regulatory and administrative obstacles to coordinate between central and sub-national levels
- Lack of involvement of private sector/firms
- Insufficient financial resources at sub-national level to co-finance investment
- Lack of engagement by the sub-national levels in the priority setting process for PI
- Lack of information at central level regarding existing sub-national projects/needs

Source: OECD national questionnaire, 2012.
... and the subnational level does not know what the central policy preferences are either.

Absence of mutual policy understanding has led to silo, bottom-up approaches leading to fragmentation (e.g. Peru).

When SNGs need to secure central level funding or implementation support they seem well aware of need to keep informed about central level agendas (e.g. Sweden, Germany).

Co-ordination challenges between central and subnational levels

- Lack of information of regional actors on central government investment priorities
- Regratory and administrative obstacles to co-ordinate between central and regional levels
- Lack of involvement of private sector actors, firms
- Lack of co-ordination across regional governments on the design of investment projects
- Unreasonable co-finance requirements stretching the means of regional administrations
- Lack of understanding by central level on existing regional level initiatives
- Lack of incentive to co-ordinate between central and regional levels

Source: OECD regional questionnaire, 2012.
Great majority of OECD countries has mechanisms encouraging horizontal collaboration

Mechanisms vary:
- Legal requirements (Mexico’s planning law)
- Financial incentives (Switzerland, Italy)
- Soft mechanisms: policy exchange fora

Efficiency as a driver:
- Demographic change, low density areas
- Forced or voluntary municipal mergers (Denmark vs. Finland and Germany)
Horizontal coordination mechanisms

• Challenges:
  – Subnational autonomy (e.g. Mexico)
  – Lack of capacity for horizontal collaboration
  – Competition over central level funding undermines collaboration (e.g. Germany, Switzerland)
  – Regulatory obstacles (e.g. funding from EU)
  – Lack of strategic planning capacity (e.g. Slovenia, Canada)
  – Differences in size, wealth and priorities of neighbouring municipalities
  – Competition fiercest over “indivisible investments” (e.g. schools, hospitals..) potentially determining attractiveness of localities

• Central government needs to ensure:
  – To incentivise collaboration and not competition
  – Facilitate bottom-up collaborative initiatives
Conditionality

- Conditionality: nearly all OECD countries attach it to intergovernmental transfers.
- Most frequently used are:
  - Additivity
  - Use of environmental assessment
  - Timeframe
  - Reporting
  - Matching

- Conditionality can be an effective instrument to...
  - align objectives
  - understand local conditions (e.g. Slovak Republic, Estonia)
  - Enhance systematic assessments of infrastructure impacts (Estonia, Canada) – reducing incidence of “bad” investments

- ....But:
  - Ineffective, when top-down defined
  - An administrative burden and not increase quality of infrastructure

Source: OECD national questionnaire, 2012
Intergovernmental Contracts

- More ambitious, more formal to arrange joint, or delegate, action
- Clarify complex processes and responsibilities for infrastructure provision
- Useful when:
  - Inherent interdependencies among actors
  - Assignment of responsibilities imperfect
- Avoid a one-size-fits-all approach adapting policies to specific subnational infrastructure arrangements
- Address information asymmetries and differences in capacity levels
- Useful in federal and unitary states
CONCLUSIONS AND POLICY OPTIONS
Actors have incentives not to coordinate:
  – Local electorates
  – Competition across municipalities
Actors with fewer resources greater incentive to coordinate with the centre
The centre greater incentive to coordinate with most capable SNGs
Coordination mechanisms discussed here need to be enforceable:
  – Financial incentives
  – Planning and implementation incentives attached to working with the centre
  – Inclusivity: bottom-up involvement in design of coordination mechanisms
  – Contracts should have built-in enforcement mechanisms (such as performance indicators)
  – Rather than sanction, consider reputational and capacity building effects as enforcing elements
To verify whether coordination works, information is needed:

– To align preferences and setting of objectives across levels of governments
– To ensure transparency and accountability
– To increase efficiency and effectiveness of infrastructure provision

Across the OECD: monitoring has become a standard, evaluating policy impacts less so
1. Managing the trade-off between coherence and diversity is only feasible if stakeholders do not opt for “one fits all” type of approaches

2. “Mutualisation” is key, for which implementation may take a great variety of forms

3. Capacity needs exist at local, national and supra national levels

4. Sanction mechanisms have limited impact, reputation effects are stronger...if credible and visible by “third party”!

5. Need for effective governance mechanisms for “functional areas” (metropolitan; urban/rural)
OECD Principles for Public Investment across Levels of Government
14 proposed good practices in 3 pillars

**Framework conditions for effective investment**

1. Invest using place-based and growth-oriented strategies
2. Use long-term and comprehensive appraisals
3. Require sound sub-national financial management
4. Improve quality and integrity of sub-national governments
5. Produce sub-national data and use to improve policy

**Co-ordination across governments**

6. Work across sectors for an integrated approach
7. Promote sub-national cooperation
8. Co-ordinate across levels of government
9. Seek regulatory quality and coherence within and across governments

**Capacities at sub-national level**

10. Mobilise public and private investment
11. Engage public, private and civil society stakeholders
12. Assess, monitor and manage risks
13. Reinforce technical and managerial expertise
14. Use monitoring and evaluation
THANK YOU!

claire.charbit@oecd.org

(catherine.gamper@oecd.org)