

**PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
TERRITORIAL DEVELOPMENT POLICY COMMITTEE**

Cancels & replaces the same document of 30 November 2011

Making the most of regional policy in fiscal austerity: multi-level governance of public investment, incentives and capacities.

NEXT STEPS AND TOWARDS TDPC/OECD PRINCIPLES

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This note presents the next steps towards the adoption of a TDPC recommendation for Council on Multi-Level Governance of Public Investment and the related project on "Making the most of regional policy in fiscal austerity: multi-level governance of public investment, incentives and capacities".

This room document is submitted to delegates for DISCUSSION.

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MAKING THE MOST OF REGIONAL POLICY IN FISCAL AUSTERITY: MULTI-LEVEL GOVERNANCE OF PUBLIC INVESTMENT, INCENTIVES AND CAPACITIES

NEXT STEPS AND TOWARDS A TDPC/OECD RECOMMENDATION FOR COUNCIL

Background

1. **Restoring growth is a top priority for all policy makers and public investment will play a critical role in doing so – for both countries and regions.** However, public investment is under pressure in the context of the sovereign debt crisis and nearly half of all OECD countries have scaled back public investments in their consolidation plans in 2011. At the local level, public investment is now a target of cuts in many regions and the main adjustment variable in sub-national budgets (OECD, 2011). This has a strong impact nationally, since sub-national governments are responsible for 66% of public investment in OECD countries. Governments are facing deficit and debt levels unheard of since the 1980s (sub-national level) or the 1990s (central level). Bringing debt back to 2007 or 2010 levels by the year 2026 requires sub-national governments in almost all countries to undertake additional consolidation efforts compared to what was done in 2009 (Fiscal Network, 2011).

2. **Confronted with the challenge of supporting growth in such a tight fiscal environment, national and sub-national governments face the imperative of “doing better with less” when it comes to investment.** Yet both national and sub-national actors often lack the appropriate tools and governance arrangements to make the best use of limited investment funds in a given timeframe (OECD, 2011). The challenge lies as much in the implementation as in the design of an appropriate investment mix. In Greece, for example, institutional bottlenecks are considered major explanatory factors in the difficulties the country faces when trying to use EU regional funding effectively and efficiently.

3. **Thus, one important step to restoring growth is to identify and strengthen policies and tools for effective governance of public investment across levels of government.** Better governance has become a priority and a precondition for making better use of scarcer fiscal resources.

Information on the project

4. As a follow up to the preliminary discussion held at the TDPC June 2011 on the proposal to develop OECD/TDPC Principles on Multi-Level Governance of Public Investment, **this note presents the next steps** towards the adoption of a *TDPC recommendation for Council on Multi-Level Governance of Public Investment*. The existing, preliminary guidelines were elaborated on the basis of eight country studies, with a specific focus on stimulus packages. The OECD Territorial Reviews also contribute to the preliminary guidelines.

5. To develop an OECD/TDPC instrument, the Secretariat needs a broader evidence base, looking at **all OECD countries** and updating the information, especially in the context of fiscal consolidation affecting all OECD countries. Some of this evidence will be collected through the project that has recently

started on “*Making the most of regional policy in fiscal austerity: multi-level governance of public investment, incentives and capacities*”.

6. As part of this project and with the elaboration of principles in mind, the Secretariat plans to administer a questionnaire that gathers evidence on the multi-level governance arrangements from a national and a sub-national perspective. Not only will answers to the questionnaire serve the elaboration of future principles, but they will be critical to build a database of information that can be mobilised for a wide range of TDPC reviews and thematic projects.

Purpose of the questionnaire

7. The questionnaire aims at collecting information on the role of central and sub-national government actors in public investment, especially the mechanisms used for cross-sectoral (horizontal) and cross-governmental (vertical) coordination. In addition, the questionnaire seeks to gather information on existing capacities as well as well prevailing challenges in the implementation of public investment policies across levels of government.

8. **The questionnaire is structured in two parts** (see outline in Box 1). Part I aims at collecting information on multi-level governance arrangements for public investment (for territorial development) in a whole-of-government perspective (across sectors and levels of government). Part II complements part I by focusing on one specific sector, to explore multi-level governance arrangements that may be specific to that sector. The choice of relevant sectors will be taken by the respondents, and should focus on sectors of critical importance for regional development (such as transport, environment or innovation). Different parts of the questionnaire may be completed by different respondents/ministries. A two-part questionnaire, with a sectoral section, also makes sense for countries where public investment is quite sectorally oriented. If part 1 is difficult to complete given a country’s context and institutions, the respondent may choose to fill out Part 2 only. The objective of the Secretariat in developing these two parts is to gather information from the largest sample of countries as possible.

9. **The questionnaire will be of significant benefit to the TDPC.** In particular, the questionnaire will help the TDPC:

- gather up-to-date information on the governance of public investment across levels of government, which will be critical for the elaboration of common principles for the multi-level governance of public investment.
- collect critical information for the project on “*Making the most of regional policy in fiscal austerity: multi-level governance of public investment, incentives and capacities*” (to be finalized by end-2012).
- support work on “*Building resilient regions and the return to sustained growth*”. The questionnaire will help gather information from all member countries and partners on key issues listed in the TDPC’s programme of work, particularly: 1) factors that may increase the resilience of regions, facilitating a return to sustained growth, 2) capacities needed at the regional level to implement regional development policies more effectively, and 3) governance mechanisms at different levels of government that can be tapped or strengthened to enhance the effectiveness of growth strategies.
- build a database of information that can be mobilised for a wide range of TDPC reviews and thematic projects, helping to address the evidence gap that arises owing to the dearth of comparable, cross-national data on institutions and policy settings.

- strengthen the role of the TDPC in global relations. The questionnaire will be circulated to observer countries to the TDPC and countries with which we have developed specific relationships.

What are the next steps?

10. The Secretariat is currently finalising the questionnaire and undertaking a pilot survey. The Secretariat welcomes comments that delegates may have on the draft questionnaire. The questionnaire will be sent to all member countries and observers before the Christmas break. It will be sent electronically and there will also be an option to complete the questionnaire on the web. Responses to the questionnaire will be requested by **mid-February 2012**. Results of the questionnaire will be presented in an intermediate report of the ongoing project in June 2012.

11. In parallel, the Secretariat is also developing a specific questionnaire focusing more on sub-national governance capacities that will be addressed to a large sample of administrative regions (mostly at TL2 level) with which the TDPC has been working, or is currently working.

12. Eight regional **case studies** will be prepared to examine multi-level governance of public investment in depth. Case studies will be used to understand how governance factors can determine the effective design and implementation of public investment strategy in regions (unit of analysis: administrative regions, TL2 level). The case studies will supplement the questionnaires – at both the national and regional levels: the questionnaires will allow a more systematic collection of information OECD-wide, on a very large sample of countries and regions, while in-depth case studies will complement this with concrete and detailed evidence.

13. **A final report will be prepared for the TDPC at the end of 2012**, and OECD/TDPC principles on multi-level governance of public investment will be revised and elaborated along the conclusions of this final report. They will then be submitted to the Committee for discussion and approval in the December TDPC meeting.

Key issues for discussion

14. Delegates are invited to give their views on the following issues:

- a. Are the themes covered by the questionnaire sufficiently comprehensive, useful, and informative? What topics not touched in the questionnaire but of interest to delegates should the Secretariat keep in mind as the project unfolds?*
- b. Do delegates have any additional suggestions for the elaboration of OECD/TDPC Principles on multi-level governance of public investment?*

Annex 1. Indicative content of the questionnaire

Part 1. Strategic planning for public investment in the national government: a multi-level governance focus

- A. Cross-sectoral coordination of public investment
Background: public investment under tight fiscal constraint
Key actors/strategies
Requirements and incentives attached to the governance of public investment
Performance Monitoring
- B. Cross-government (vertical and horizontal) coordination of public investment
General mechanisms
Contractual arrangements for regional development
- C. Sub-national capacity (seen from a whole-of-government perspective)

Part 2. Multi-level strategic planning and implementation of public investment: a sectoral focus

- D. Policy setting **Error! Bookmark not defined.**
- E. Vertical (between central and sub-national) coordination of sectoral public investment
- F. Horizontal (among sub-national levels) coordination of sectoral public investment
- G. Sub-national capacity (seen from a sectoral perspective)