EUROPEAN UNION

Committee of the Regions

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BETTER POLICIES FOR BETTER LIVES

Results of the OECD-CoR Consultation of Sub-national Governments

Infrastructure planning and investment across levels of government: current challenges and possible solutions

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Summary[1]

Between March and July 2015, the OECD and the EU Committee of the Regions (CoR) conducted a survey of sub-national governments (SNGs) in the European Union to assess the challenges linked to infrastructure investment. A total of 295 respondents from all EU countries except Luxembourg participated in the survey.

The results of the consultation with SNGs highlight the challenges in both financing and managing infrastructure investment at the sub-national level in the EU. Interestingly, results show that cuts in infrastructure investment are greater in regions and large cities than in small cities. In fact, many small jurisdictions report an increase in investment. Results also show that, despite the need to diversify financing sources due to tight fiscal constraints on public budgets, such diversification remains very limited. For example, only a small minority of SNGs (7%), essentially metropolitan areas and regions, report having increased private sources of financing for infrastructure investment since 2010.

The survey's results show that governance challenges for infrastructure investment are prominent at the sub-national level, essentially at the planning stage. At the core of planning, three quarters of SNGs identified a lack of co-ordination across sectors, levels of government and jurisdictions as a top challenge. Two thirds of SNGs (69%) consider that the full life cycle of infrastructure investment is not sufficiently taken into consideration at the project design phase. This is especially the case for large SNGs (large cities, regions). A large majority of respondents (90%) consider excessive administrative procedures and lengthy procurement to be a challenge. Sixty-six percent consider that a monitoring system exists, but that monitoring is pursued as an administrative exercise and not used as a tool for planning and decision-making. For a majority of respondents (71%), the lack of (ex-post) impact evaluations is also seen as a challenge. It is more a problem for regions and large municipalities, and less so for small municipalities.

The survey's results also highlight that many SNGs are making efforts to strenghten the governance of infrastructure investment at the sub-national level. All types of sub-national governments consider improvements to medium-term planning for infrastructure investment to be the most important contributions to improving the governance of investment. There is potential for increased sharing of good and innovative practices in this field at the national, EU and global level.

[1] This document was prepared on the basis of the results of a survey carried out jointly by the OECD and the CoR between March and July 2015. The survey was translated into 24 languages. The document was prepared under the supervision of Dorothee Allain-Dupre (OECD Secretariat). Margaux Vincent (OECD Secretariat) produced the statistical analysis. Inputs and comments from Bert Kuby, Andrea Forti and Pawel Zamojski from the EU Committee of the Regions are gratefully acknowledged, as well as comments from Joaquim Oliveira Martins, Luiz de Mello, Isabelle Chatry, Claire Charbit, Karen Maguire, Monica Brezzi and William Tompson from the OECD Secretariat.

Background on the consultation

The sample of respondents

The consultation was conducted between 31 March and 15 July 2015 in all the official EU languages. To encourage 'objective' answers, respondents were informed that their answers would remain strictly confidential. The survey targeted representatives of sub-national governments (regions/provinces/Länder, counties/municipalities) in charge of investment planning/financing/monitoring and implementation. In total, 295 respondents from all EU countries except Luxembourg participated in the survey, including 255 sub-national governments (SNGs) in the 27 EU Member States, i.e. administrative regions, counties, and municipalities. Although not constructed with a quota system, the responses for the different countries and categories of SNGs (regions, counties, large municipalities with over 50 000 inhabitants, smaller municipalities with over 50 000 inhabitants) are relatively balanced (see annex I).

Forty additional respondents representing universities, local public enterprises or local agencies with a mixed (public-private) ownership structure participated in the survey (see annex III). To ensure consistency, the results from this sample were analysed separately from the main sample, which focuses exclusively on sub-national governments.

What was the rationale for the consultation?

The consultation aimed at highlighting some of the main financing and governance challenges for infrastructure investment in sub-national governments of the European Union. It also sought to test the degree to which sub-national governments (SNGs) are facing challenges with the implementation of the principles contained in the OECD Recommendation on Effective Public Investment across Levels of Government.

This Recommendation was adopted by the OECD Council in 2014 and sets out 12 principles to help governments assess the strengths and weaknesses of their public investment capacity across levels of government and set priorities for improvement. The implementation toolkit developed for the Recommendation provides more detailed guidance to policy-makers at all levels of government .

The principles set out in the Recommendation were endorsed by the EU Committee of the Regions in a formal opinion in 2014. The CoR also adopted a Charter for Multilevel Governance in 2014[3].

[2] http://www.oecd.org/effective-public-investment-toolkit/

[3] http://portal.cor.europa.eu/mlgcharter

The OECD Principles group 12 recommendations into the 3 pillars representing systemic challenges to multilevel governance of public investment

Pillar	Recommendations
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 policy 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

Rationale for the OECD Recommendation

Whether through shared policy competencies or joint funding arrangements, public investment typically involves different levels of government at some stage in the investment process. It makes its governance particularly complex. In 2013, SNGs were in charge of 59% of public investment in the OECD area and 55% in the European Union.

There is a large variation in investment spending across countries. This ratio tends to be higher in federal countries (Belgium, Canada, the United States, Germany and Switzerland) where it combines investments by states and by local governments. In unitary countries, the role of local government in public investment is therefore less pronounced. However, there are several countries, such as Japan, Israel, Netherlands, France or Korea, where local governments play a crucial role. In these countries, investing is a key function of local government, accounting for more than 25% of their total budget, as compared to the OECD average of 11%.

Most sub-national public investment goes to areas of critical importance to future economic growth, sustainable development and citizens' well-being. In terms of total investment by sub-national governments across the OECD, 37% is allocated to economic affairs (transport, communications, economic development, energy, construction, etc.). Approximately one quarter 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.).

The OECD Recommendation addresses three systemic challenges to managing public investment across levels of government that limit efficiency and effectiveness:

- *Co-ordination challenges*: Cross-sector, 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.
- *Sub-national capacity challenges*: Where the capacities to design and implement investment strategies are weak, policies may fail to achieve their objectives. Evidence suggests that public investment and growth outcomes are correlated to the quality of government, notably at the sub-national level.
- *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.

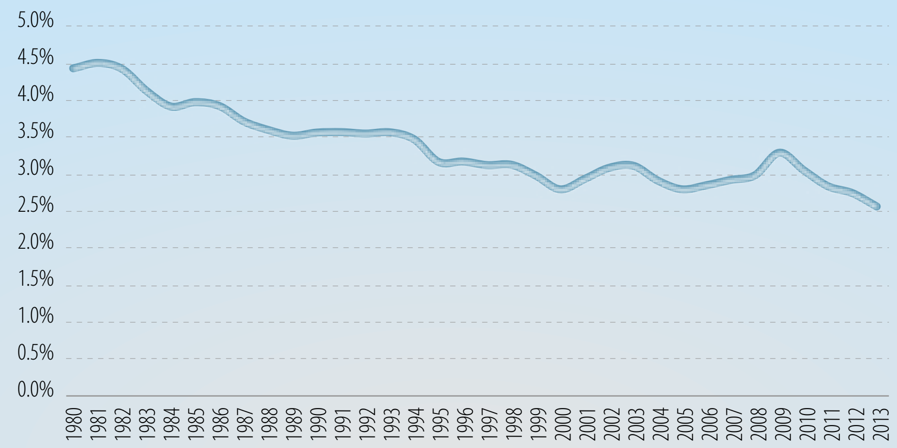
Context: prolonged decline in public investment in the OECD, with large variations across regions

Since the 1970s, public investment gradually declined in OECD countries from 4.5% of GDP in 1980 to 2.5% in 2013, i.e. by around 2% of GDP. This reflects a general decline in hard infrastructure investment, with most OECD countries already possessing well-developed infrastructure with limited scope for new investment. Emphasis is placed on financing maintenance and upgrades, and improving efficiency (OECD, 2008; OECD, 2013). Furthermore, PPPs are often not recorded as public investment. In 2013, on average, public investment represented 16% of total investment in OECD countries.

Sources:
OECD Department of Economics from 1980-1995, OECD National Accounts from 1995-2013 (Data from SNA93)

Note:
since 1995, all OECD countries except Chile, Greece, Iceland, Mexico, Slovenia and Turkey. Australia: 2007 instead of 2008-2013. Canada: 2010 instead of 2011-2013. Israel, Korea and the US: 2011 instead of 2012-2013. New Zealand and Switzerland: 2012 instead of 2013.

Public investment as a share of GDP in OECD countries (1980-2013)

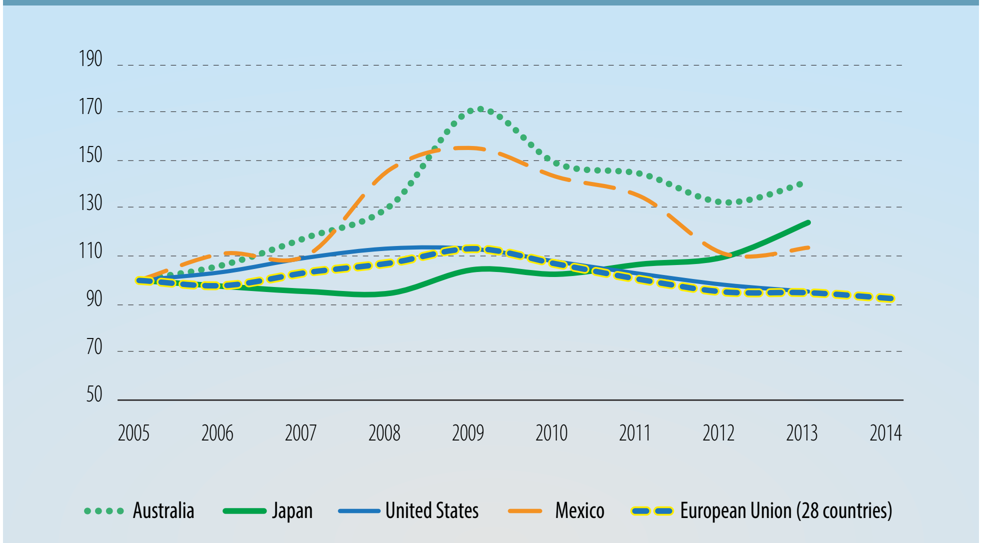


After being relatively stable from the mid-1990s to the mid-2000s, and following the investment stimulus packages of 2008-2009, public investment has decreased after 2010 in many countries, in particular those which have implemented fiscal consolidation plans. In many OECD countries, current expenditures (and in particular social benefits) have grown more rapidly than revenues and have therefore reduced the fiscal space left for investments (OECD, 2014). This is particularly true for sub-national public investment, which represents almost 60% of public investment, and which has been consistently used as an adjustment variable in fiscal consolidation strategies (OECD, 2013). The decrease in investment is thus linked to challenges on the expenditure side rather than on the revenue side.

The decline in sub-national public investment is particularly marked in the EU and persistent in 2014, compared to other regions of the world. In the European Union, public investment conducted by cities and regions fell by more than 20% between 2009 and 2013 (i.e. 5% per year in real terms) and in 2014 many European countries had negative public investment-to-GDP gaps compared to their pre-crisis level (-2.4% of GDP in Ireland, -1.8% of GDP in Spain) (Allain-Dupré et al., forthcoming 2016). While public investment at the central government level seemed to be recovering slightly in the EU in 2014, the decline persisted at the sub-national level.

Given that public budgets across the OECD are likely to remain tight for some time to come, a greater diversification of funding sources is needed, beyond public funding. This is particularly necessary due to the important infrastructure investments needed in the future in Europe and globally. The EU Investment Plan adopted in June 2015 aims at unlocking additional investment of at least EUR 315bn over the next three years, in particular for riskier projects.

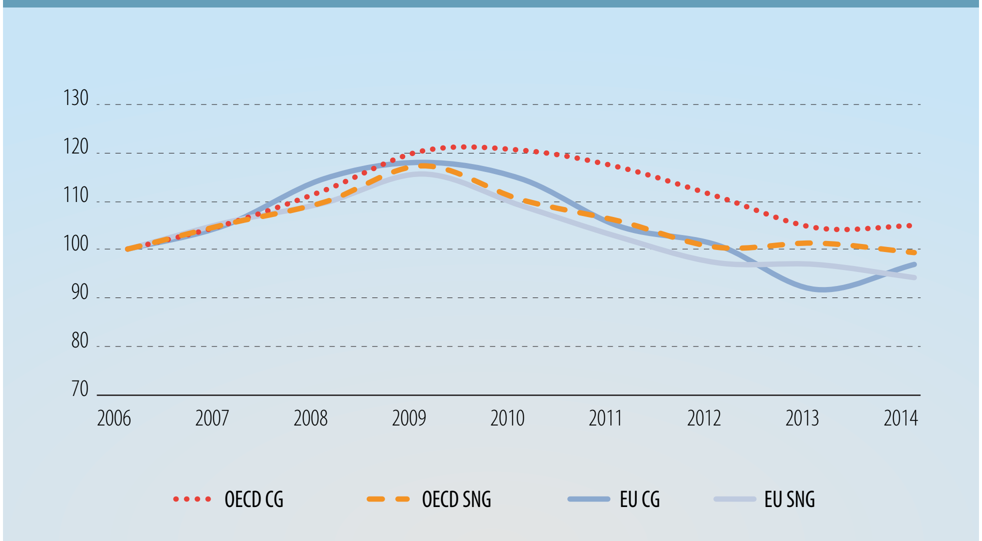
Public investment trends in OECD countries (2005-2014) (Base 100 = 2006)



Note: all OECD countries except Chile, Iceland and Slovenia. Data from SNA08.

Source: OECD National Accounts.

Public investment at the sub-national level in the EU (2005-2014) (Base 100 = 2005)



Source: OECD National Accounts and Eurostat.

The new System of National Accounts 2008 (SNA 08)

National accounts play a key role in macro-economic analysis and evidence based on decision-making. According to the new System of National Accounts 2008 (SNA 08), new expenditures are now included in Gross Fixed Capital Formation (i.e. investment), since they 'produce assets that are themselves used repeatedly, or continuously, in processes of production for more than one year':

- Expenditures on Research and Development (R&D)
- Expenditures on military weapons systems (warships, submarines, military aircraft, tanks, etc.)

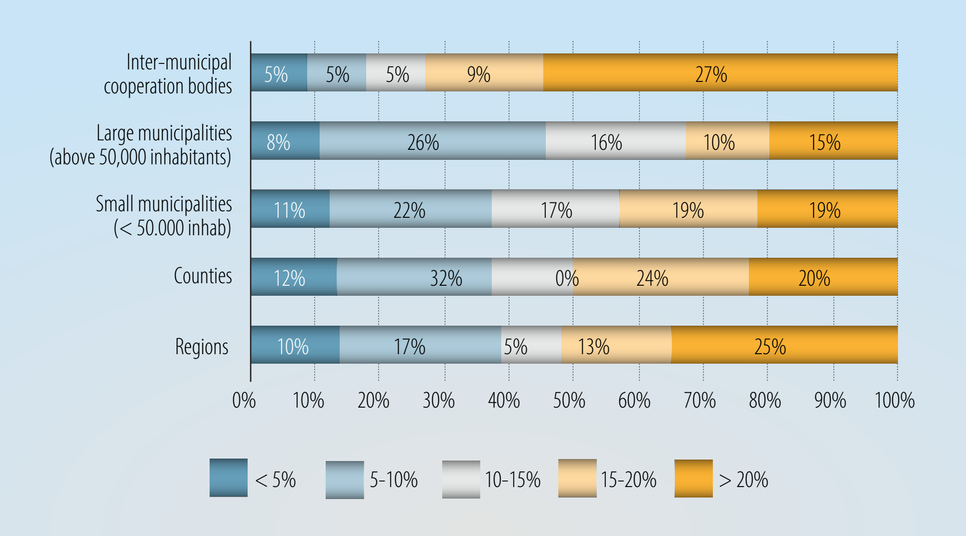
These changes in methodology have a large impact on the level of national GDP and statistics in terms of investment. One of the consequences of the change is that the sub-national share of investment has decreased in most countries since expenditures on R&D and military weapons are largely centralised in OECD countries. By 2014, most OECD countries had applied the new standards to their national accounts, while Turkey was planning to publish its results in 2015 according to the new SNA 08, and Chile and Japan in 2016.

Results of the OECD-CoR survey: financing challenges for infrastructure investment

Large variety in infrastructure spending within countries and types of SNGs

The results of the OECD-CoR survey show that there is a large variation in investment spending across regions and cities at the EU level, and within countries. In one quarter of EU SNGs, investment spending represents more than 20% of total expenditures and in 10% of SNGs it represents less than 5% of expenditures. Within countries, and within categories of SNGs, the variation in investment spending is also high.

Overall estimate of public investment as a proportion of total SNG expenditure

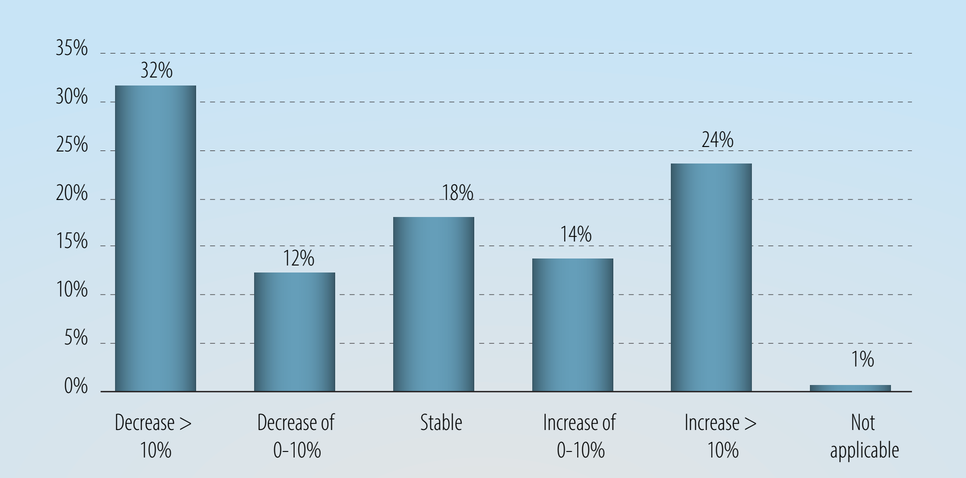


Source: OECD-CoR survey with sub-national governments on infrastructure investment (2015).

Decrease in public investment in large SNGs and increases in small cities

In the EU, 44% sub-national governments surveyed report having decreased their investment spending since 2010 and 24% by more than 10%. These cuts in public investment are mostly reported by large SNGs such as regions, inter-municipal/regional structures and counties. By contrast, 30% of small municipalities (less than 50 000 inhabitants) and 28% of large municipalities have increased their spending by more than 10% since 2010.

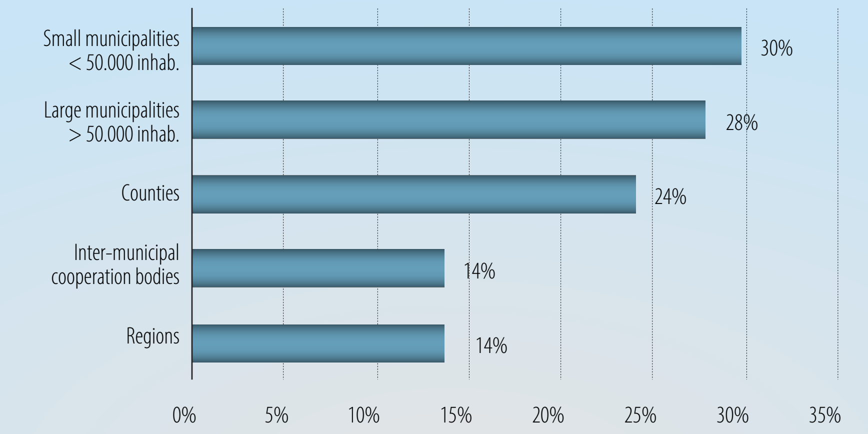
Overall SNG public investment spending trends since 2010



Source: Results of the OECD-CoR survey, 2015

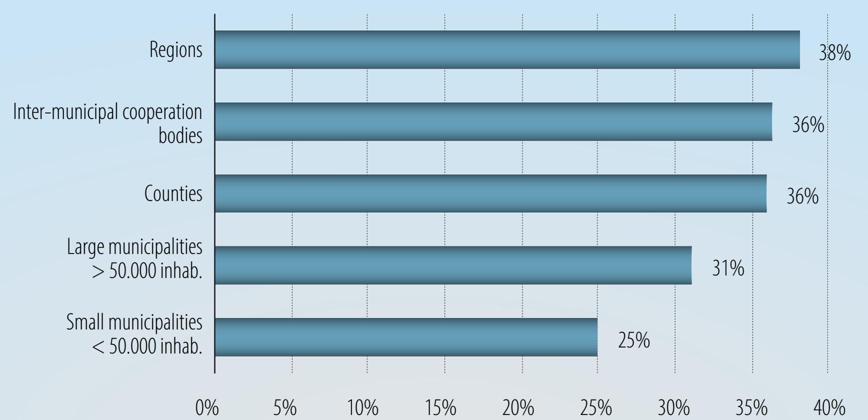
The decrease in investment at the sub-national level has been significant in one third of SNGs, both for new investment and operation and maintenance of existing ones. With a majority of small municipalities increasing investment, this might indicate that budget cuts primarily targeted those with the highest spending on investment, such as regions. It may also show that fragmentation in sub-national investment spending has increased in recent years.

Increase of more than 10% in public investment spending by type of SNGs since 2010



Source:
Results of the OECD-CoR survey, 2015

Decrease of more than 10% in public investment spending by type of SNGs since 2010



Source:
Results of the OECD-CoR survey, 2015

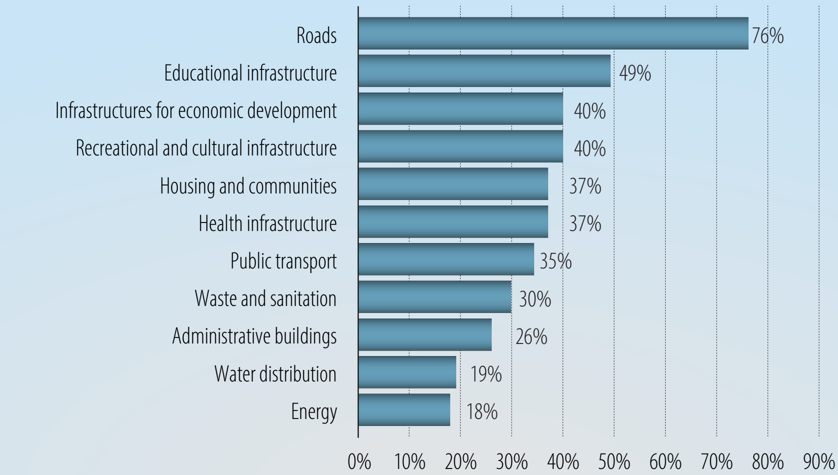
Types of financing gaps vary across SNGs, reflecting competencies allocated to them

Almost all SNGs (96%) report having gaps in public investment spending, both for building new infrastructure (55% of SNGs) and operation and maintenance (41%)[4] . Three quarters of sub-national governments reported investment funding gaps for roads. Almost half of sub-national governments have funding gaps for educational infrastructure. Funding gaps for roads are reported by 85% of small municipalities, whereas funding gaps for education and public transport infrastructure are mostly mentioned by large SNGs (large cities, regions). Forty percent of the sub-national governments surveyed have funding gaps for infrastructure for economic development and recreational and cultural infrastructure. One third of SNGs reported financing gaps for transport, health, housing and community amenities (notably, large cities with over 50 000 inhabitants for housing).

[4] On average, in the EU, around 70% of investment is allocated to the maintenance and operation of existing infrastructure, and only 30% to new investment.

These results reflect the overall allocation of competencies across levels of government, since municipalities are generally responsible for providing and managing basic community services (including local roads), while higher-tier local governments are responsible for supra-municipal tasks such as health, education, regional roads or economic development. Environmental responsibilities (water, waste, roads, urban planning) are very often assigned to the local level.

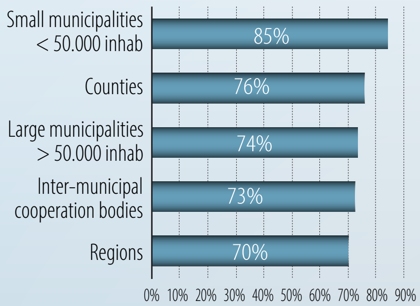
Sectors most affected by SNG funding gaps



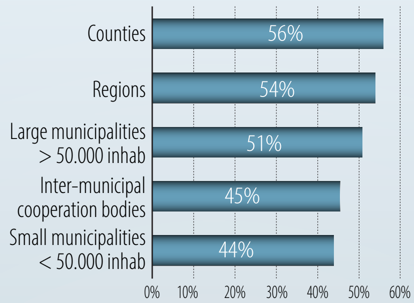
Source:
Results of the OECD-CoR survey, 2015

Sectors most affected by funding gaps by type of SNG

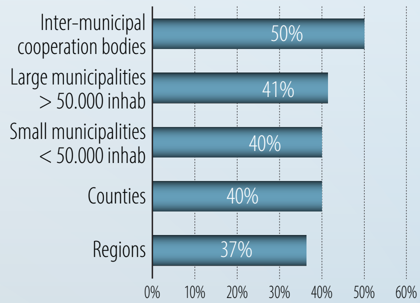
Roads



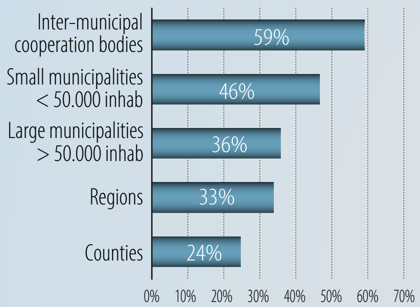
Education



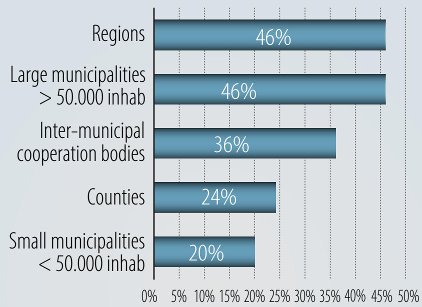
Economic development



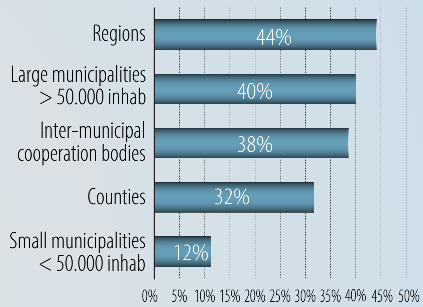
Recreational and cultural infrastructure



Public transport



Housing and community amenities



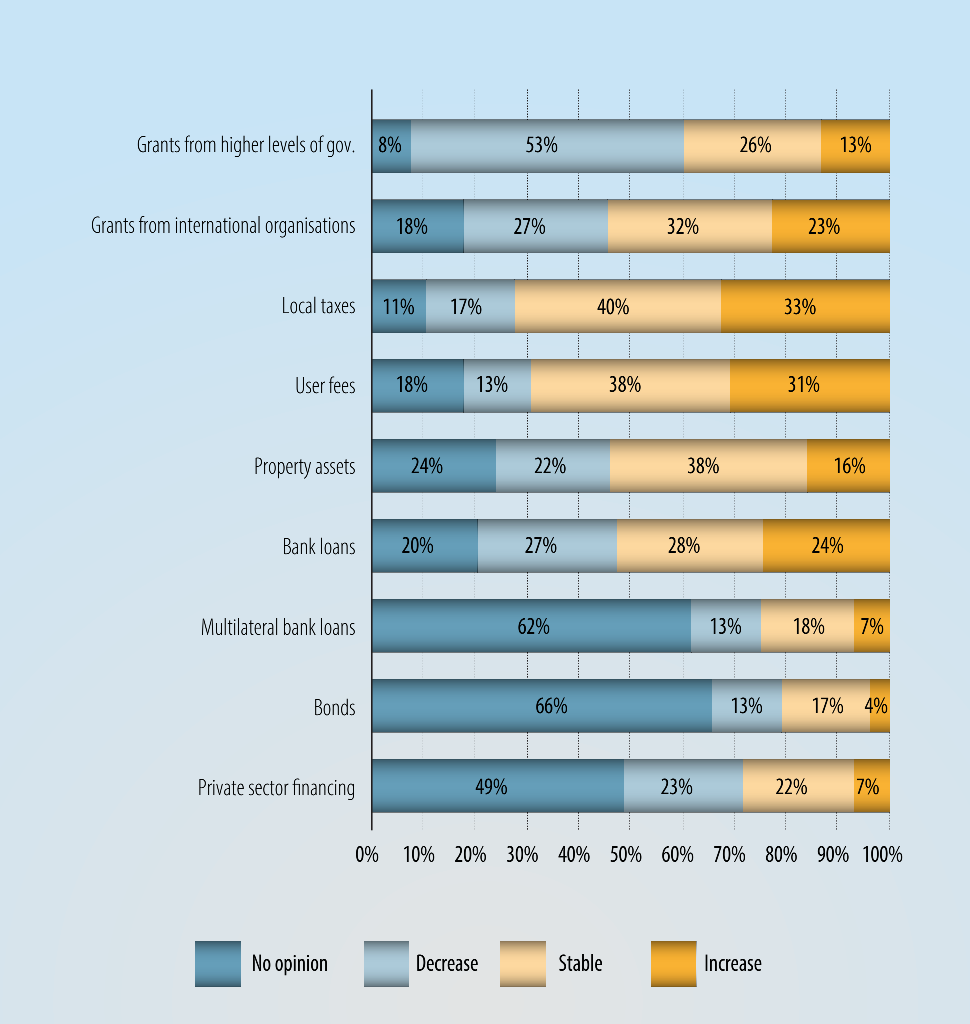
Recourse to external financing remains limited

Decrease in grants for half of respondents

A majority (53%) of SNGs surveyed report a decrease in grants from the central government since 2010. This cut in central transfers is particularly marked for regions (two thirds), and less marked for small municipalities (44%).

The survey results confirm that sub-national taxes have proven quite resilient during the crisis. Since 2010, they have increased in 32% and remained stable in 40% of SNGs. User fees have increased in one third and remained stable in almost 40% of SNGs. Revenues from property assets have tended to remain stable (38% of SNGs) or to decrease (22% of SNGs).

Sources of infrastructure investment funding in your city/region since 2010



Source:
Results of the OECD-CoR survey, 2015

Private sector financing

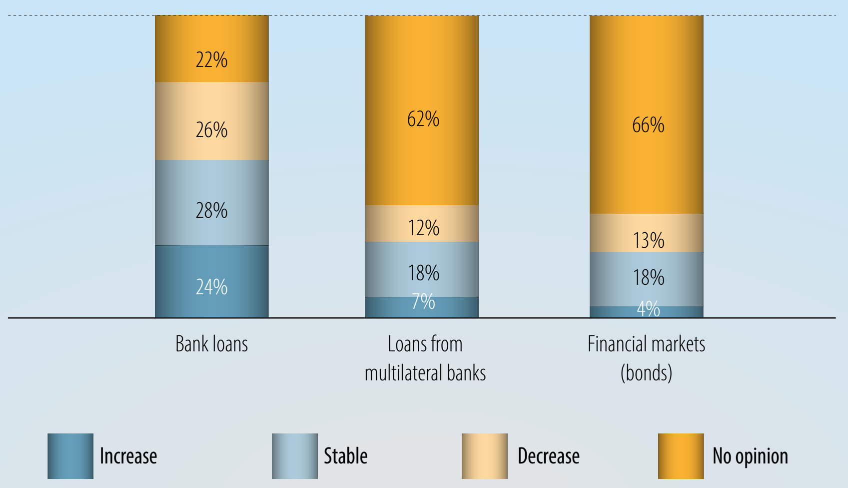
Almost half (49%) of SNGs surveyed have no opinion on the private sector financing of infrastructure, which may reflect a lack of awareness or interest concerning the private financing of investment. Twenty-three percent have decreased private sector financing since 2010. Only a minority of cities and regions (7%) report increasing private sources of financing since 2010.

Borrowing

Although almost 50% of SNGs surveyed do not express an opinion on the issue, there has been a decline in borrowing. On average, 39% of SNGs mention reducing or stabilising all types of borrowing to finance investment over the past five years and only 12% report an increase. This could be due to the fact that many SNGs have reached the deficit-to-revenue debt ratio and can no longer borrow. Traditional bank loans remain the most frequent borrowing solutions (the use of bank loans has increased for 24% of respondents) while loans from multilateral banks have remained relatively stable (18% of SNGs) and decreased in 12% of cases. They have increased only in 7% of the SNGs surveyed.

Only 4% of SNGs have increased the use of bonds – essentially some German Länder and a few metropolitan areas. The vast majority of SNGs (66%) report not having any opinion on this financing mechanism. It should be noted, however, that not all EU countries allow SNGs, especially municipalities, to use bond financing.

Borrowing since 2010



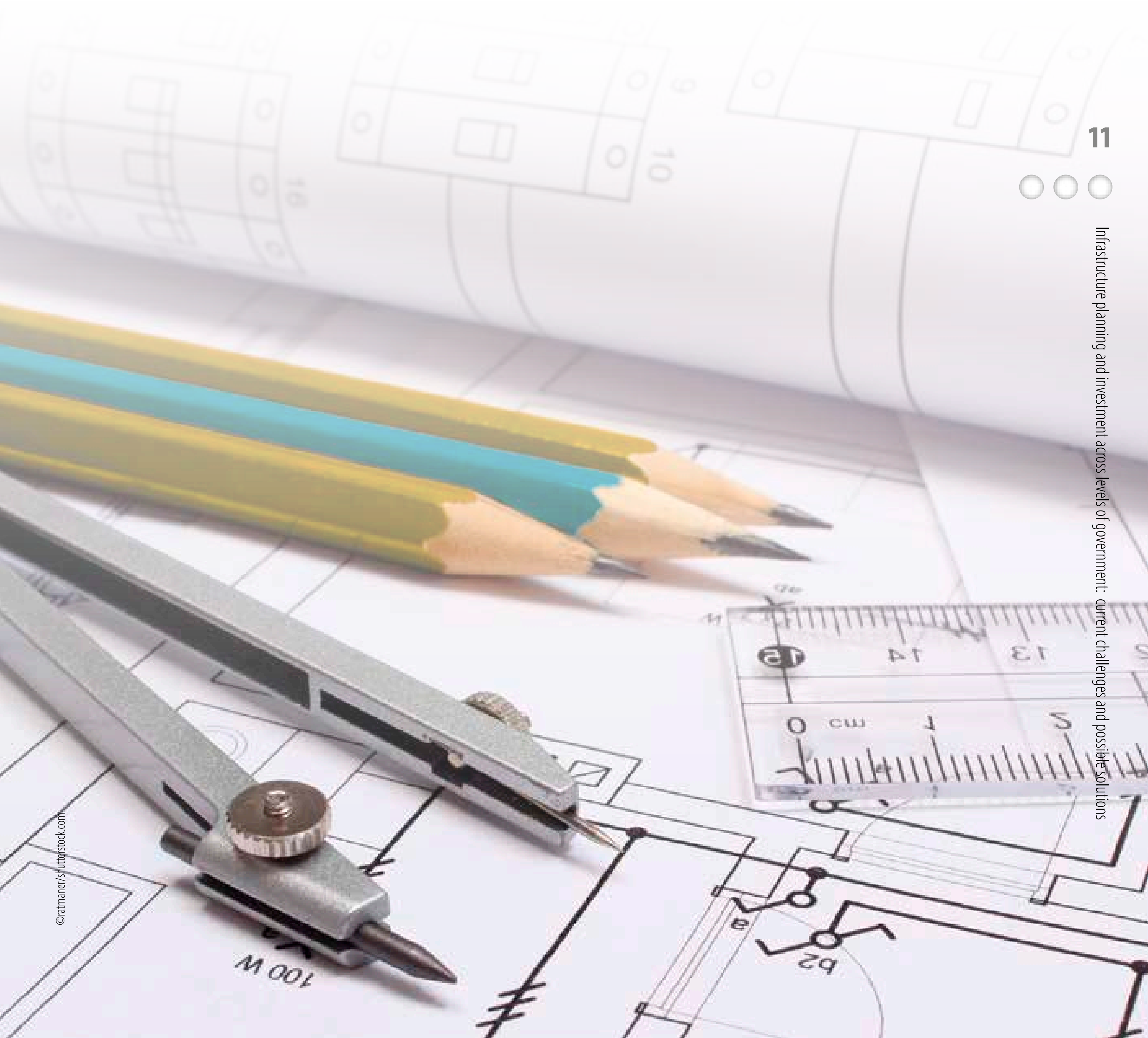
Source: Results of the OECD-CoR survey, 2015

Public Private Partnerships

The use of external financing through Public Private Partnerships (PPPs) has rather decreased over the past five years. Whereas 42% of SNGs have reduced or stabilised the use of PPPs, 30% have never used them and 15% do not have an opinion. However, 15% of SNGs increased the use of PPPs over the past 10-15 years. Most metropolitan areas surveyed and around two thirds of regions use PPPs. It is easier for large jurisdictions to engage in complex PPPs and provide the specific teams or adequate skills to manage them.

This limited diversification of sources in investment funding may indicate several issues, notably a lack of knowledge among SNGs concerning the variety of financial mechanisms available, a lack of co-ordination across SNGs to pool financial resources to form a PPP, or the fact that complex requirements and regulations prevent SNGs with limited staff/capacity to engage in PPPs (highlighted by 70% of respondents).

Disincentives to pursue private investment due to the availability of EU funding are also mentioned by 20% of respondents as a major challenge. Finally, an increased risk of bribery/corruption is cited by 16% as a major challenge that prevents the involvement of private actors in infrastructure investment.



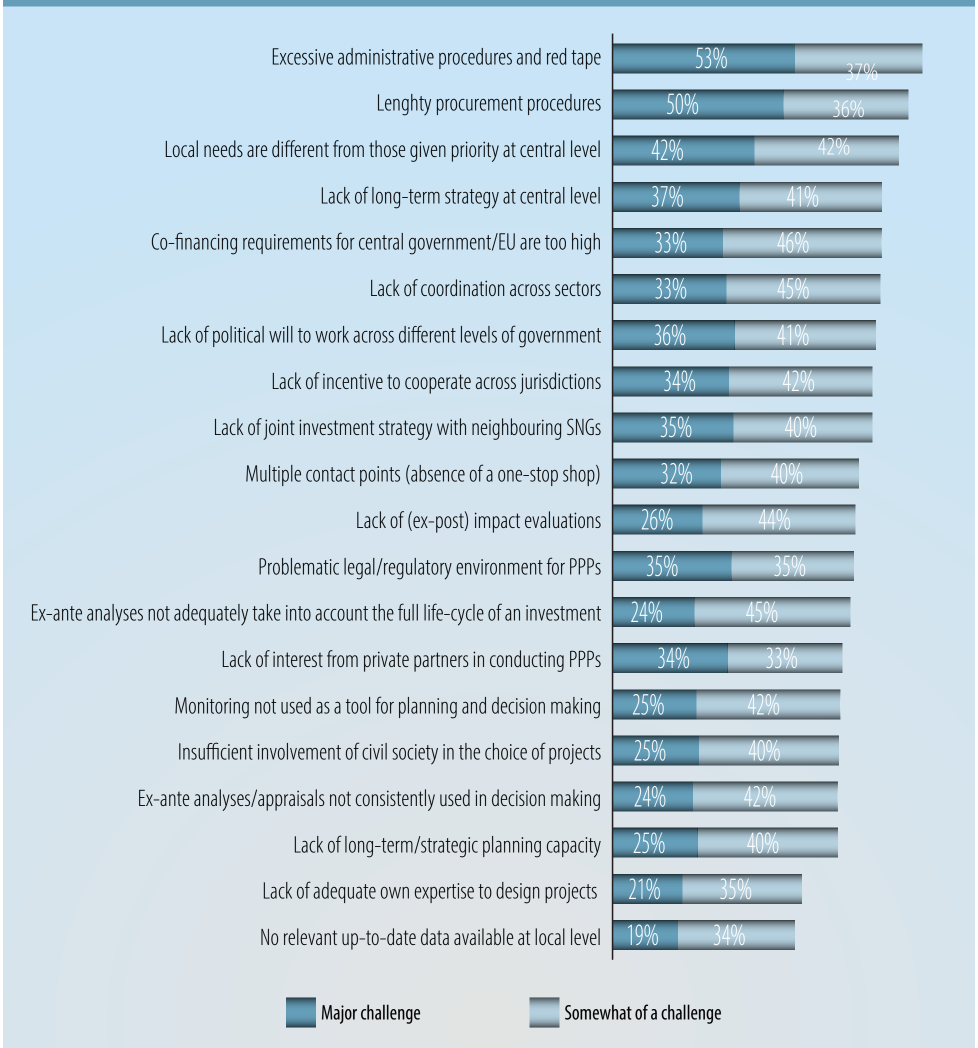
Governance obstacles impede effective sub-national infrastructure investment

The challenges are, however, much broader than just financing investment. In fact, even when investment funding is available, different levels of government may lack the appropriate governance arrangements to make the best use of investment funds. OECD analysis has underscored the fact that public governance is as important to public investment and growth outcomes as financing, at both national and sub-national levels (OECD 2015, OECD 2013a)[5]. Public governance tends to be under-estimated, in particular for sub-national governments, which is the rationale for the OECD Recommendation in this area. The results of the survey confirm the prominence of these governance challenges for SNGs.

Three main governance challenges appear prominent, two of which are more directly the responsibility of SNGs. For a vast majority of respondents (90%), the most important difficulties for infrastructure investment are linked with complex regulatory and procurement frameworks. The second most important types of challenges, more directly connected with the responsibility of SNGs, are connected with strategic planning for infrastructure investment strategies. At the core of planning, a lack of co-ordination across sectors, levels of government and jurisdictions is marked as a top challenge by three quarters of SNGs. The third type of challenges is the weak monitoring and evaluation of sub-national infrastructure strategies.

[5] OECD (2013a), Investing Together: Working Effectively Across Levels of Government, OECD Publishing, Paris.

Main challenges with respect to strategic planning and implementation of infrastructure investment by SNGs



Source: Results of the OECD-CoR survey, 2015

Complex regulatory and procurement frameworks

A large majority of respondents (90%) consider excessive administrative procedures and red tape as a challenge. Eighty-six percent of SNGs consider procurement procedures as lengthy, causing significant delays in infrastructure projects. Seventy-two percent report the existence of multiple contact points for infrastructure administrative procedures as a problem (absence of a one-stop shop). Red tape and regulatory constraints are mentioned by all types of SNGs.

Co-ordination challenges and weak ex-ante appraisals impeded effective strategic planning

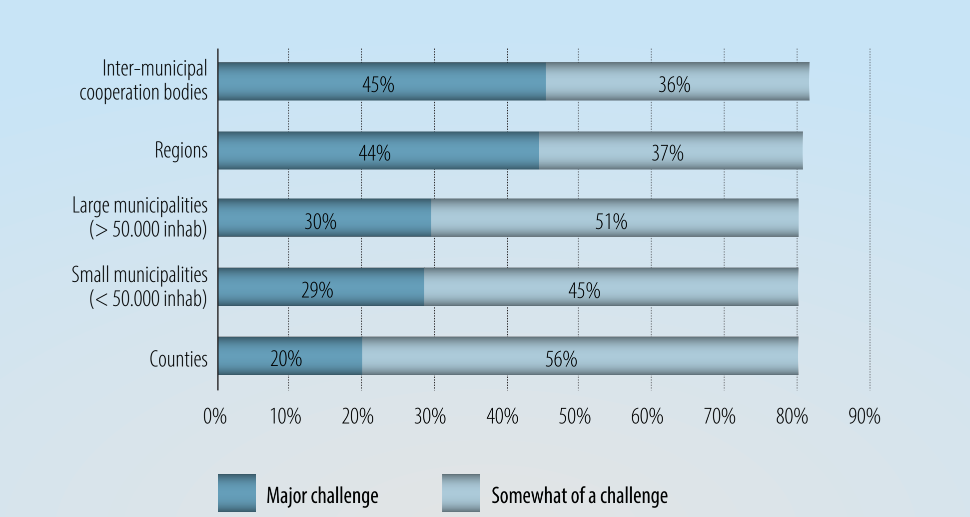
More than three quarters of SNGs report co-ordination challenges

Co-ordination challenges are linked to co-ordination across sectors, levels of government and jurisdictions. More than three quarters of SNGs have reported different types of difficulties in these areas. The lack of co-ordination across sectors (e.g. transport and housing, broadband, water and spatial planning, etc.) to exploit possible complementarities of investment projects appears prominent. Seventy nine percent of SNGs consider this lack of co-ordination across sectors as a major challenge. It is particularly the case for large SNGs (regions, large cities). Seventy-eight percent of respondents saw the lack of long-term infrastructure strategy at the central level as a challenge, and 37% saw it as a major challenge. It is a particular challenge for regions and small municipalities.

Overall challenges in vertical co-ordination with the central government are also prominent. Eighty-four percent of SNGs perceive the fact that local/regional needs are different from those given priority at central level as a challenge. This is particularly marked in the case of large SNGs (regions, departments and metropolitan areas with more than 500 000 inhabitants). Three quarters of SNGs see co-financing requirements from higher levels of government or the EU as too high. This is a particular challenge for small municipalities (under 50 000 inhabitants; for 85% of them co-financing is a challenge). Seventy-seven percent of SNGs also report the lack of political will or administrative culture to work across different levels of government. It is particularly noticeable for inter-municipal structures.

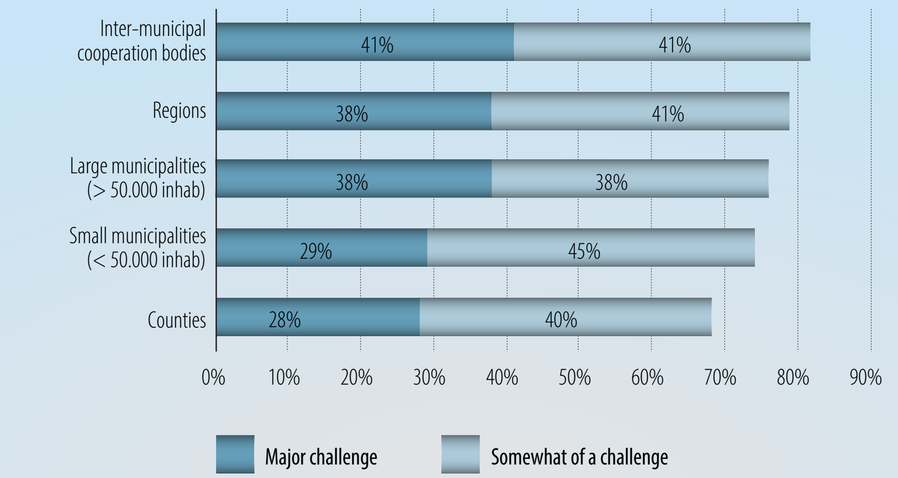
More than three quarters of SNGs report horizontal co-ordination challenges with other jurisdictions. For 34%, the lack of incentives to co-operate across jurisdictions is a major challenge. Seventy-five percent of SNGs also report a lack of joint investment strategy with neighbouring cities/regions. This is particularly an issue for large SNGs (inter-municipal co-operation bodies, regions and large municipalities).

Lack of coordination across sectors to exploit complementaries of investment projects by types of SNGs



Source:
Results of the OECD-CoR survey, 2015

Lack of incentive to co-operate across jurisdictions



Weak ex-ante appraisals

Two thirds of SNGs (65%) report that capacity to design adequate infrastructure strategies is lacking in their city/region. More than half of SNGs (56%) report a lack of adequate own expertise on infrastructure. It is particularly the case for small municipalities and inter-municipal structures.

Two third of respondents (66%) believe that ex-ante appraisals/analyses/tools (such as cost-benefit analyses, environmental impact assessments, territorial impact assessments, etc.)are performed but that their results are not consistently used in decision-making. It is notably the case for regions. Two thirds of SNGs (69%) consider that the full life cycle of infrastructure investment is not taken into proper account when designing the project. This is especially the case for large SNGs (large cities, regions), and less the case for small municipalities.

Sixty five percent of report insufficient or inadequate involvement of civil society/ representatives/citizens/ NGOs in the choice of infrastructure projects as challenges which can lead to acceptability and support problems.

Lack of impact evaluation and monitoring results not used in policy-making

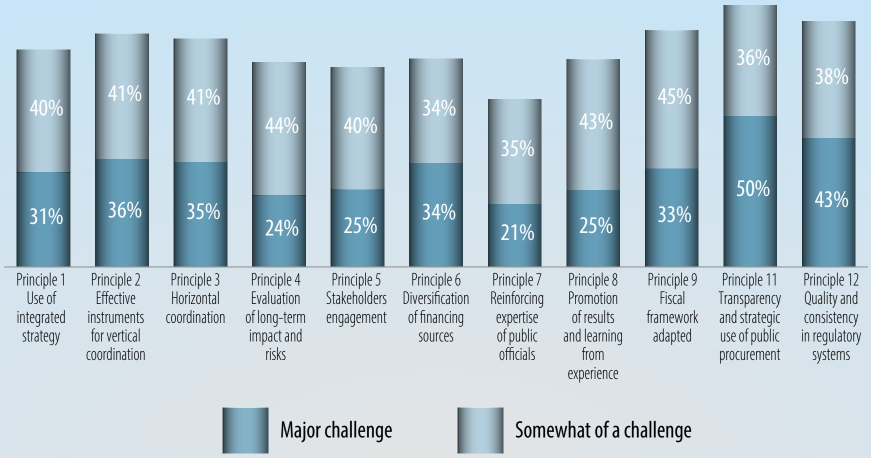
More than two thirds of respondents (66%) consider that a monitoring system exists, but that monitoring is pursued as an administrative exercise and not used as a tool for planning and decision-making.

For a majority of respondents (71%), the lack of (ex-post) impact evaluations is a challenge and for 32%, it is a major problem. It is more a problem for regions and large municipalities, and less for small municipalities (only 19% of them).

Challenges met with the implementation of the OECD Recommendation on Effective Public Investment across Levels of Government

When applying the different challenges to the principles contained in the OECD Recommendation on Effective Public Investment across Levels of Government, one can identify the areas with the greatest implementation challenges. The results of the survey show that a majority of SNGs face challenges in the implementation of the 12 principles. The most problematic areas are principles 11 and 12 on procurement and regulation, as well as principles 1, 2 and 3 on co-ordination challenges across sectors, levels of government and jurisdictions,. However, challenges in terms of monitoring and evaluation, stakeholder engagement, expertise to design projects are als=o considered as important by more than half of SNGs.

Challenges classified according to the OECD - Principles on Effective Public investment across Levels of Government



Source:
OECD-CoR survey 2015

Good practices to improve sub-national governance of infrastructure investment

The results of the survey show that SNGs consider a broad range of solutions or good practices to improve the management of infrastructure investment in their city/region. The practices which have been mentioned most frequently by SNGs as suitable for improving the governance of investment are: i) Improved medium-term planning for infrastructure investment; ii) Increased external support for designing projects and iii) Improved co-operation with neighbouring local governments to favour economies of scale.

Increased stakeholder engagement at an early stage of large infrastructure projects, more rigorous selection criteria for investment projects and the use of performance monitoring tools to assess the implementation of the investment are also seen as practices which have helped more than half of SNGs surveyed.

Finally, improvements in framework conditions, which are often more the responsibility of the national government, are considered as important enabling factors. These include the reduction of administrative/regulatory requirements, improved information and support from the national government (training, comparative data, etc.); and a more favourable regulatory framework for PPPs.

These results show that a majority of SNGs are playing an active role in seeking to improve the overall governance framework for infrastructure investment. They also show that there is potential for greater sharing of innovative practices, both within countries and at the international level.

Improvements in medium-term planning for infrastructure investment are seen by all types of sub-national governments as the most important practices for improving the governance of investment. Greater systematic guidance on good practices for medium-term planning for infrastructure investment should be provided by relevant organisations (associations/platforms of SNGs, national governments, international organisations) to facilitate learning.

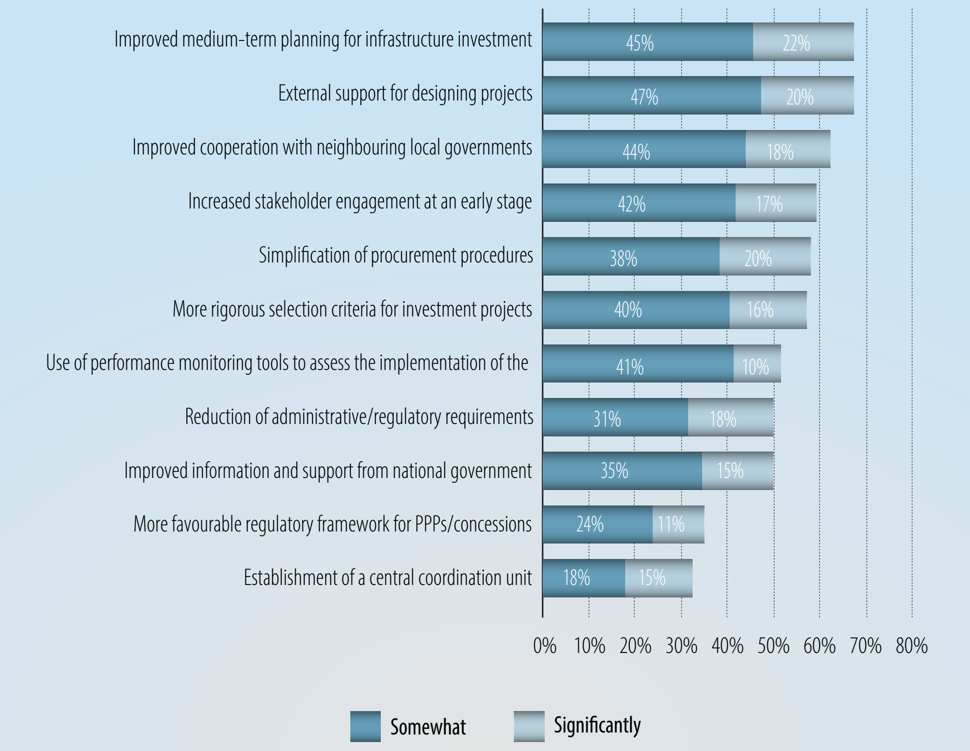
There are variations across SNGs in assessing the practices which have most helped the management of infrastructure investment.

- *Small municipalities* (under 50 000 inhabitants) consider external support for designing infrastructure strategies, improved medium-term planning, and simplification of procurement as the most important practices which have helped the management of infrastructure, along with improved co-operation with neighbouring jurisdictions.

- *Large municipalities* (over 50 000 inhabitants) have a greater focus on improved medium-term planning, as well as increased stakeholder engagement (70% of them). Interestingly, among the practices which are considered to have 'significantly' improved the management of investment, the establishment of a central co-ordination unit for infrastructure planning comes second (21% of respondents). Improved co-operation with neighbouring local governments to favour economies of scale is also mentioned by 20% of respondents as a practice which has helped 'significantly'.

- *Regions* refer more frequently to increased external support for designing infrastructure strategies, improved medium-term planning for infrastructure investment (60%), and more rigorous selection criteria for investment projects as practices that have helped.

Practices that helped the management of infrastructure investment by SNGs



Source:
OECD-CoR survey on sub-national governments (2015) and Eurostat in Allain-Dupré et al, forthcoming 2016

Findings from governance indicators

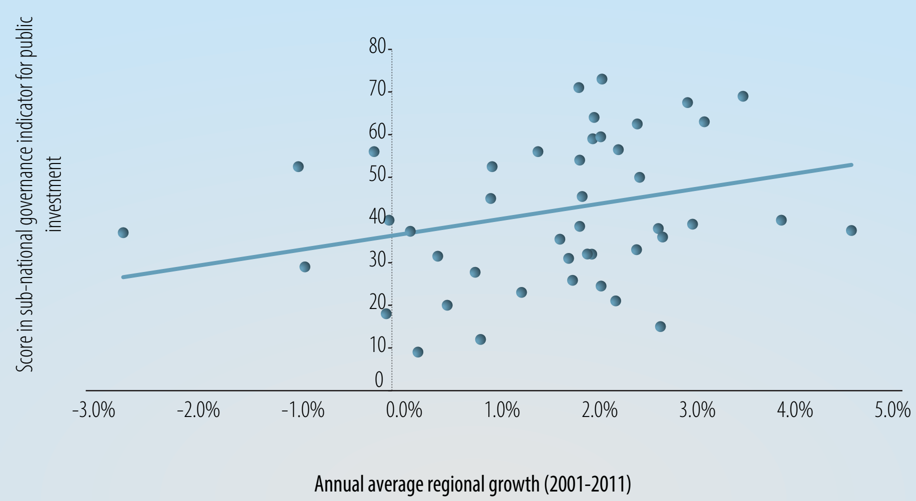
The results of the OECD-CoR survey have allowed for the elaboration of indicators to measure the degree of governance challenges faced by SNGs. They are based on 20 variables related to the governance challenges survey respondents raised, from the design of strategic planning to the implementation and monitoring of infrastructure investment projects . Final scores summing the responses of each respondent are based on a total of 100 points: a high final score is associated with a lower degree of perceived challenges and a more effective governance of infrastructure investment[6].

Final scores summing the responses of respondents range from 6 to 86.5 out of 100. The average score of the 255 SNGs surveyed is 39.3. For the entire European Union, 16% of SNGs surveyed have a very high score, 30% a high score (above average); while 38% have a score below average and 16% a very low score. The variations are also important within the different categories of SNGs. Interestingly, no single category of SNGs emerges as having much better results for governance indicators than others. Variations are also very important across SNGs within countries. For example, in Germany 27% of SNGs have a very high score, 40% a high score, 24% a medium score and 8% a low score.

When correlated with GDP growth (in the period 2001-2011), results show that regions with the highest score in the governance indicator have had a higher growth rate over the period 2001-2011. Correlations also show positive links between the perceived quality of governance and indicators of access to infrastructure and environmental outcomes (air quality). These preliminary results seem to confirm that improving the efficiency of infrastructure investment at the sub-national level may have positive effects which go well beyond improved management and accountability processes, and are connected to overall regional growth and well-being (Allain-Dupré et al, forthcoming 2016).

[6] Results of individual indicators (for each SNG) are not publicly released to respect the confidentiality clause of the survey.

Correlation between governance indicators and regional GDP growth (2001-2011)



Note: The correlation was established only for the regions at NUTS 2 and NUTS 3 level which had participated in the OECD-CoR consultation and for which data on regional GDP growth is available. Thus, the results exclude the sample of municipalities surveyed.

Source: OECD-CoR survey on sub-national governments (2015) and Eurostat in Allain-Dupré et al (forthcoming 2016)

Sub-national governments are key actors in infrastructure investment in the EU and the OECD. The results of the OECD-CoR survey of SNGs confirm that – beyond current financing issues – many challenges are linked to the public governance dimension, in particular challenges linked to reducing administrative burdens, medium-term planning, and co-ordination across levels of government, sectors and jurisdictions. Improved governance of infrastructure investment at the sub-national level and across levels of government is critical to enhance investment outcomes.

The results of the consultation with SNGs also show that many SNGs are making efforts to improve the governance of infrastructure investment at the sub-national level. There is potential for greater sharing of good and innovative practices in this field in order to facilitate learning across SNGs at the national, EU and global level. .

Sub-national and national solutions to foster effective sub-national infrastructure investment should complement each other, since there is mutual dependence between levels of government. Due to the scope of the consultation, the recommendations set out below apply more particularly to the European Union, but they can be extended more widely to OECD countries and beyond.

The survey reveals that for sub-national governments, priority measures to address some of the challenges may be to:

- *focus on improving medium-term strategic planning as a top priority* and better connect planning and budgeting frameworks, to have a multi-year approach to investment;
- *consider the full life cycle of infrastructure investment when designing the project and assess operations and maintenance costs of infrastructure investment and plan for future financing*;
- *design infrastructure strategies targeting local needs based on adequate data and sound risk assessment*;
- *co-ordinate across jurisdictions to design joint investment strategies and invest at the relevant scale*.
- *mutualise capital funding across SNGs to facilitate access to finance*;
- *foster integrated multi-sectoral investment strategies* at the local level to benefit from complementarities across sectors;
- *develop joint and electronic-procurement*, in particular in small municipalities and at the metropolitan level, to simplify procurement procedures;
- *better connect monitoring and evaluation to budgeting and policy-making*;
- *focus on improving capacities and learning from other experiences*. Associations of SNGs may facilitate the sharing of good practices to encourage learning;
- *ensure that financing arrangements reflect capacities for effective public investment management* (in particular in small jurisdictions).

For national and supra-national EU level governments, the survey results confirm that they should focus, as a priority, on the following aspects to promote effective sub-national infrastructure investment:

- provide formal (financial) incentives to foster cross-jurisdictional co-operation at the relevant level;
- encourage the development of Medium-Term Expenditure Frameworks at the sub-national level;
- develop a one stop-shop for infrastructure investment programmes, with a central contact point for local and regional authorities. The contact point/advisory service should provide integrated support covering all funding and financial engineering possibilities.
- build sub-national capacity for infrastructure investment through a differentiated approach targeting different needs in different types of regions;
- strengthen SNG capacity for using complex financial tools such as PPPs, essentially targeting large SNGs – regions and metropolitan areas – rather than all jurisdictions indiscriminately.

More examples of good practices and information on the OECD work on Public Investment across levels of government:

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

References

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Anexes

I. Methods

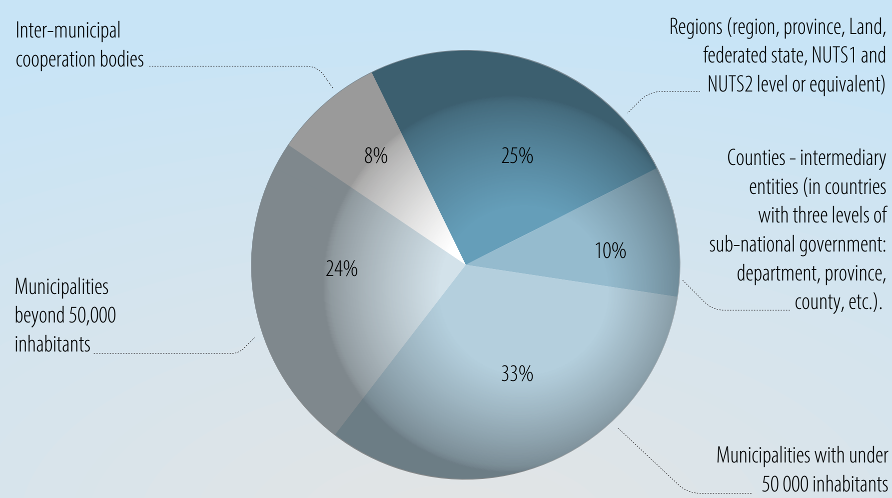
- The consultation was conducted between 31 March and July 15 2015 in all the official EU languages. It was done on the web in a 'tick-the-box' format for users.
- To encourage 'objective' answers from respondents, individual answers to surveys have been kept confidential (with the exception of the open question on good practices on which respondents had to agree to release the response publicly).
- The results of the consultation provide a general picture of the financing and governance challenges for infrastructure investment at the sub-national level. They also help to identify which practices are considered most helpful in remedying to these challenges. All EU countries (except Luxembourg) participated and the responses for the different categories of SNGs (regions, counties, large municipalities, small municipalities) are relatively balanced. The sample of respondents within country does not necessarily allow generalising practices for all SNGs of a given country with confidence, hence averages per country are not provided.

What is the representativeness of the sample?

- The survey targeted representatives of sub-national governments (regions/ provinces/ landers, counties, municipalities) in charge of investment planning/financing/ monitoring & implementation.
- In total, 295 respondents have participated in the survey, from all EU countries except Luxembourg. Out of these 295, 255 are sub-national governments (SNGs) in the 27 EU Member States, i.e. administrative regions, counties, and municipalities.
- 40 additional respondents have participated in the survey representing universities, local public enterprises or local agencies with a mixed (public-private) ownership structure. To ensure consistency, the sample of the main results focuses only on the 255 respondents from sub-national governments. The results from the 40 other respondents from universities/local public enterprises are analysed separately from the main sample (see page 30).
- The number of respondents per country has been relatively consistent, varying from 4 to 20, but for many countries being around 10:
    - *Countries with more than 10 sub-national governments which have responded*: Germany, Spain, Estonia, Romania, Greece, Austria, Poland, Finland and Italy.
    - *Countries with 5-10 respondents*: Hungary, UK, Denmark, Portugal, Croatia, France, Sweden.
    - *Countries with fewer than 5 respondents*: the Netherlands, Ireland, Czech Republic, Cyprus, Slovakia, Lithuania, Latvia, Belgium, Slovenia, Bulgaria and Malta.

The main sample of 255 respondents represents all categories of SNGs in a relatively balanced way: regions, provinces (25%); intermediary entities (e.g. county, department) (10%); municipalities under 50 000 inhabitants (33%); municipalities between 50 and 500 thousand inhabitants (22%) as well as large municipalities with more than 500 000 inhabitants (2%), and inter-municipal co-operation structures (8%).

Breakdown of respondents by category



Source:
Results of the OECD-CoR survey 2015

II. Definitions

- ***Sub-national governments*** (SNGs) means all levels of government below the national one (regional and local). The abbreviation 'SNGs' is used consistently throughout this document.

- ***Local government*** means administrative or political units immediately below the federated states level in federal countries but all sub-national governments in unitary countries.

- ***Regions*** refer to the levels of government immediately below the national level in federal countries (i.e. federated states) and in unitary countries (with two or three tiers of sub-national government).

- ***Public investment***: the way public investment is defined and measured across countries varies. In general, it refers to investment in 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.

  Investment of general government by economic function follows the ten functions defined in the Classification of the Functions of Government (COFOG):

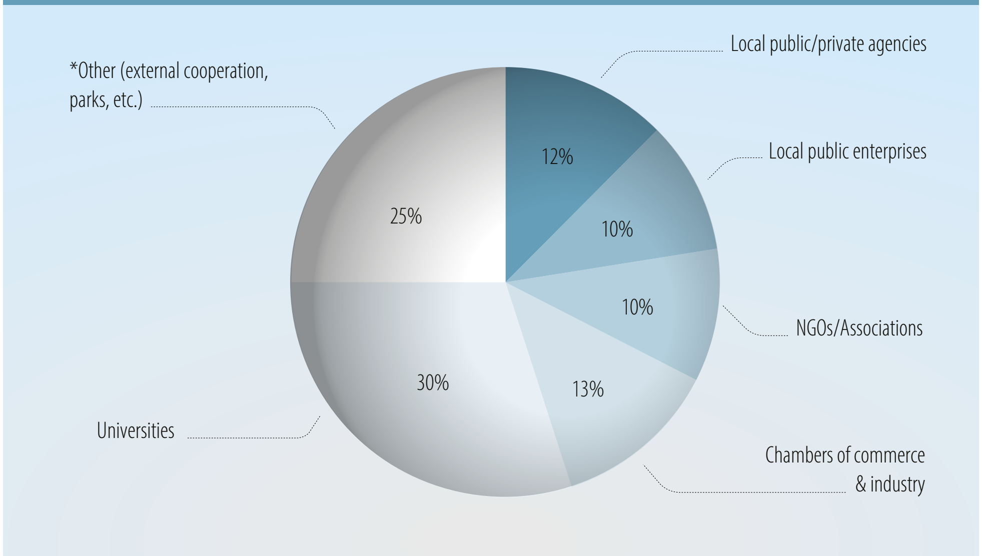
  - General public services,
  - Defence,
  - Public order and safety,
  - Economic affairs,
  - Environmental protection,
  - Housing and community amenities,
  - Health,
  - Recreation, Culture and religion,
  - Education, Social protection.

- ***Public Infrastructure***: represent investments in facilities, structures, networks, systems, plant, property, equipment, or physical assets that provide public goods, or goods that meet a politically mandated, fundamental need that the market is not able to provide on its own (OECD 2015, Governance of Infrastructure). Infrastructure (in all types of sectors) represents a large part of public investment, measured as GFCF, with the exception of research and development and innovation support, as well as weapon systems which are now included in GFCF.

III. Selected results from the sample of 'other respondents': local public enterprises, chambers of commerce, NGOs/associations, universities and technological parks

Along with the 255 local governments, 40 other respondents participated in the survey: they represent local public enterprises, NGOs/associations, chambers of commerce, universities and technological parks. This sample has been analysed separately from the main sample of sub-national governments to ensure consistency in the maim sample of results from SNGs.

Sample of "other respondents"to the survey



Source: Results of the OECD-CoR survey 2015

- Infrastructure investment spending has decreased since 2010 for almost two thirds of respondents in this category. In 43% of them, this decrease is higher than 10%, particularly for chambers of commerce and industry and local public enterprises.

- Grants/transfers have significantly decreased since 2010 - especially grants from higher levels of government which dropped for 60% of respondents in this category. The decrease is also noticeable for bank loans (40% of respondents reported having decreased this source of financing). However, own revenues increased, in particular user fees (58% of respondents) and revenues from property assets. The use of private-sector financing, as well as borrowing from multilateral banks and financial markets (bonds), remain limited. One third of respondents do not have an opinion about these diverse sources of financing.

- Regulatory and administrative constraints are perceived as challenges by a large majority of respondents (80%). Red tape and excessive administrative procedures as well as lengthy procurement procedures are seen as the main challenges.

- In terms of strategic planning, 80% of respondents in this category report having challenges in co-ordination across sectors to design infrastructure strategies. The lack of use of ex-ante appraisals/tools is reported by 70% of them.

- External support for designing projects is reported by more than two-thirds of respondents (68%) in this category as a practice that helps the management of infrastructure investment.

- Twelve universities responded to the survey. More than two thirds of them report a decrease in grants from central government. To compensate for this decrease, universities have increased their own revenues, mainly from user fees (8 universities out of the 12 surveyed mentioned an increase in user fees since 2010).

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Investment across levels of government