

Multi-level governance of public investment 2017

Table 1. Facts and figures related to direct public investment

2014	General Government	Subnational governments
USD billion	1.9	0.5
USD per capita	1425	355
% of GDP	5.1%	1.3%
% of public expenditure	13.3%	13.8%
% of total public direct investment	100%	24.9%

Source: OECD (2016), *Subnational governments in OECD countries: Key data*, 2016 edition (brochure).

Figure 1. Trends in direct public investment in Estonia (2004–14)

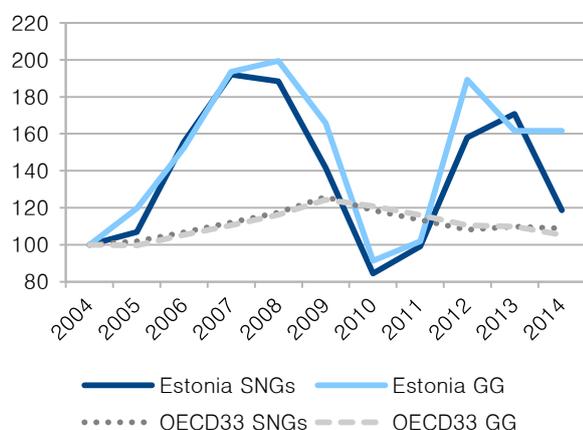
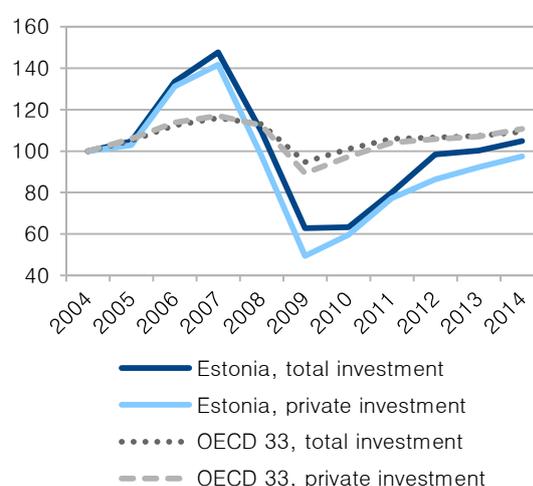


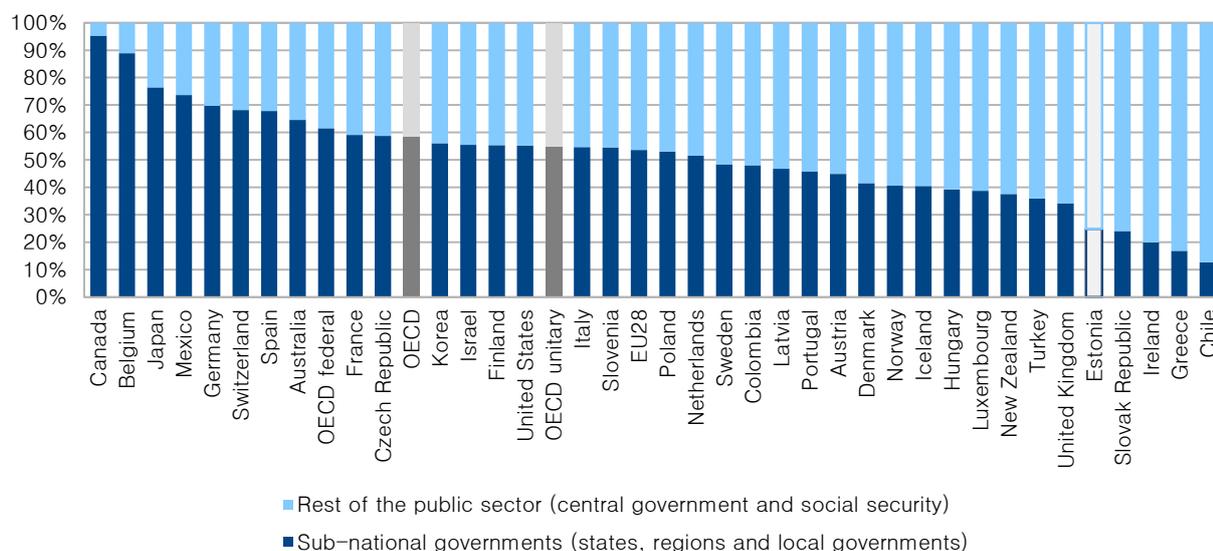
Figure 2. Trends in total and private direct investment in Estonia (2004–14)



Source: OECD National Accounts. In real terms, base 100 in 2004.

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Figure 3. Subnational public direct investment in OECD countries, 2014 (as a share of public direct investment)

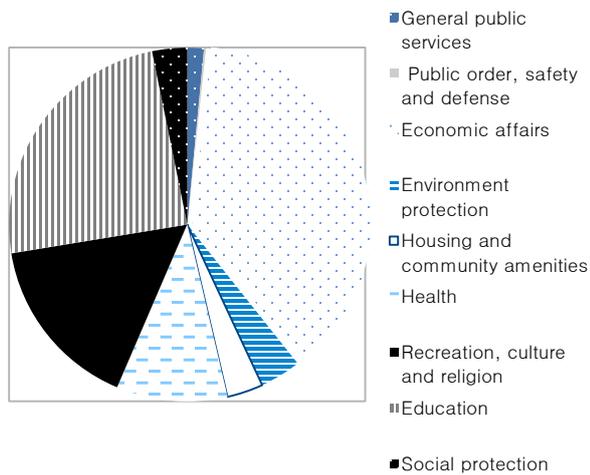


Source: OECD National Accounts.

Note: Data for Mexico: 2013 instead of 2014; Chile: 2012 instead of 2014; Turkey instead of 2014.

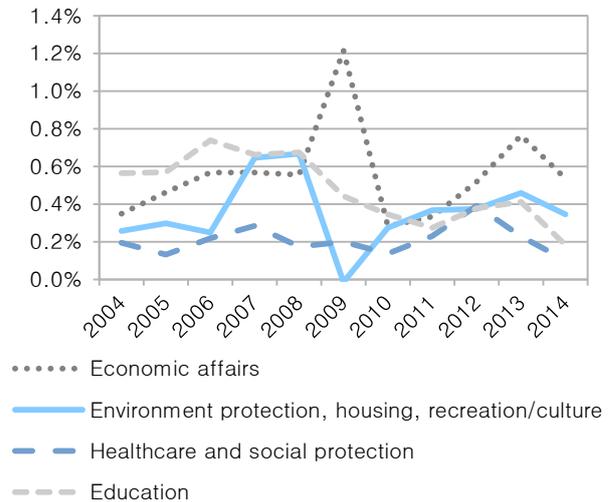
Most of subnational investments in Estonia are dedicated to economic affairs (mostly local roads and public transportation but also to development projects in tourism, business infrastructure, etc.). Municipalities are responsible in particular of sewer maintenance, the maintenance of local public roads, and local public transport. Other major categories of investment spending include education and recreation, culture and religion. In contrast, SNGs invest very little in social protection, housing or general public services (Figure 4 and 5).

Figure 4. Breakout of subnational direct investment in Estonia by economic function (% of total direct investment, average 2008–14)



Source: OECD National Accounts.

Figure 5. Trends in subnational direct investment by economic function (as a % of GDP)

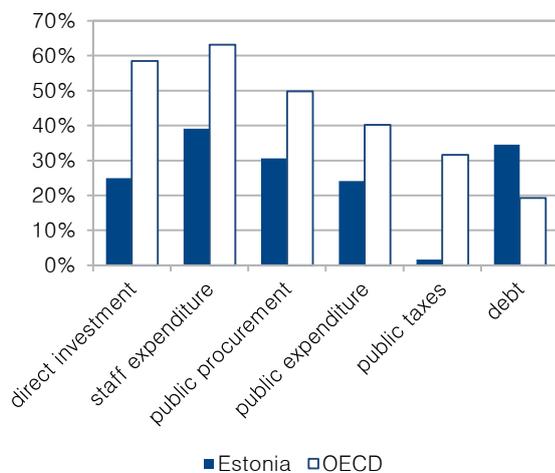


Source: OECD National Accounts.

Note: Do not take into account negative values, general services are not taken into account for the breakdown of investment by function Estonia.

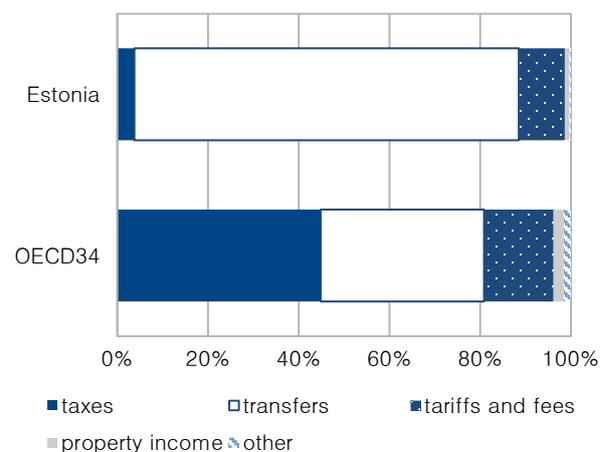
Estonia is a relatively centralised country. The share of subnational expenditure is lower than the OECD average for most large categories of spending (total expenditure, investments, staff expenditure, public procurement). Despite this lower SNG spending, the share of subnational debt is much higher than the OECD average (Figure 6). Subnational governments have a very small share of revenues from taxes (Figure 7), and rely almost exclusively on transfers from the central government for their financing.

Figure 6. The role of subnational governments in public finance in Estonia, 2014



Source: OECD National Accounts.

Figure 7. Indicators of subnational fiscal revenues in Estonia, 2014



Source: OECD National Accounts.

Examples of good practices or recent developments for effective public investment

Coherent planning:

The Estonia 2030+ National Spatial Plan is a national strategy for spatial development over the whole national territory. The Estonia 2030 Vision helps to articulate planning, and ensure the integrity and coherence of all development documents. It was drafted by the Planning Department of the Estonian Ministry of the Interior, with contributions from county and local governments, experts, and other interested parties. The drafting process was updated through the plan's website, and several public events were held during its conception. It aims at defining policies and trends for sustainable spatial development at the national level. The Plan is co-ordinated with sectoral and regional developments and policy measures, as well as several other plans for employment and growth, territorial development, etc. Its main objective is to combine compact urban spaces with the sparse, low-density characteristics of the countries' settlements, by focusing on polycentric strategies relying on short commuting distances. A lot of the planning implementation is delegated to municipalities, which also requires mechanisms for horizontal coordination at the regional level.

Improved horizontal co-ordination:

Estonian municipalities have voluntarily merged since 1996, more than 70 local governments have merged into 30 new local government units. Most of the mergers took place in 2005 and 2013. There were 7 mergers of 18 local government units before 2013 local elections, 6 mergers of 22 local government units in 2013 and one merger in 2014 of 3 local government units making it total of 213 local government units in Estonia beginning of 2015.

Currently there is an ongoing local government reform process in which municipalities with less than 5000 inhabitants are obliged to merge. Government adopted local government reform act in June 2016. According to the law local government reform will be enforced with local government elections in autumn 2017. The purpose of administrative reform is to have local governments that would be able to offer better public services to people, to guarantee the growth of the regions' competitiveness and to fulfill independently the tasks assigned to them by law.

Local Government reform act set minimum criteria for mergers– 5000 inhabitants, which enables to guarantee professional capacity of managing basic public services and potential (number of residents in service area) to provide public services. It is encouraged to form local governments bigger than 11 000 inhabitants with additional merger grant (500 000€) to guarantee the strategic competence of municipalities.

Local government reform was also aimed at the improved horizontal co-ordination on regional level. Municipalities receive some new tasks for the joint implementation after the reform – development activities including developing entrepreneurial environment of the county and organizing public transportation (via regional transport centers formed by municipalities and the Road Office). Inter-municipal co-operation via municipal associations will be more flexible (several county associations can form regional association instead) and new form of co-operation will be added in the legislation for implementing tasks of public authority (e.g. supervision).

There will be additional changes on regional level as there is an ongoing process of reorganizing county governments, final changes in regional management have not decided yet, discussions will continue in November 2016.

Vertical co-ordination:

Using conditionalities (e.g. matching and/or reporting requirements, environmental and other horizontal impact assessment, involvement and co-ordination with municipalities, etc.) for regional

development policy has helped Estonia's central government better understand local conditions. By systematic assessments of the likely impact of investments particularly in cases of grant schemes the incidence of "bad" investments is reduced.

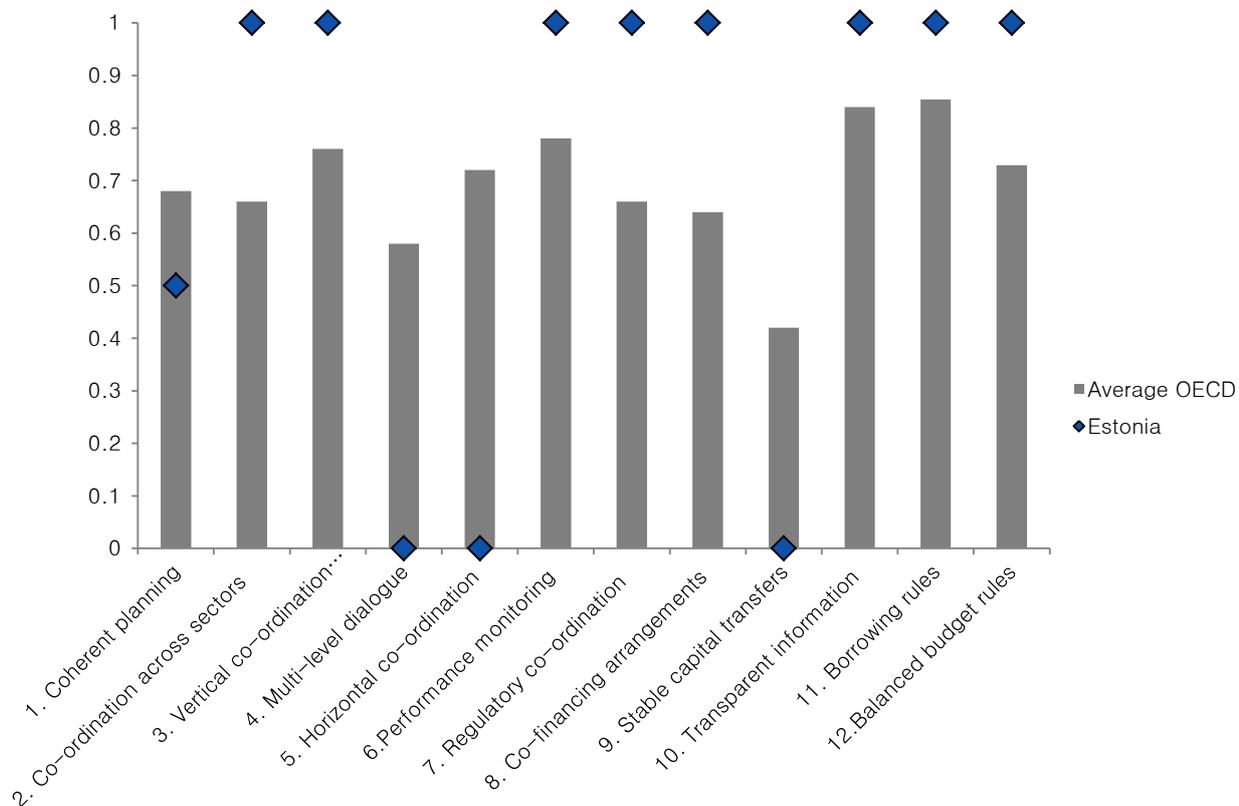
National network of urban development specialists is an informal multilevel governance and collaboration platform, involving the representatives from central government body responsible for regional and urban development policy (Ministry of Finance), the Association of Estonian Cities and officials from city administrations of 20 Estonian largest cities being in charge of urban development and planning. The network performs as a multilevel consultancy platform mostly in form of joint seminars and written consultations on various policy issues of urban development at local, national and EU/international level

Assessment of subnational capacities:

Estonia carried out in 2013 and later specific studies examining local governance capacity. These studies incorporated indices to measure institutional capacity, financial capacity and capacity to provide public services at the local government level.

Preliminary indicators of MLG of public investment for regional development

Figure 8. Indicators for the co-ordination of public investment for regional development



Note: See Annex 1 for more detail on the indicators.

Source: OECD (2016b), Answers to the Regional Outlook Survey and OECD (2016c).

ANNEX 1

Indicators for the co-ordination of public investment for regional development

1. Coherent planning across levels of government

The country has regional development policies/strategies to support regional development and local investments.

- a No explicit national policies to support regional development
- b Explicit national policies to support regional development in all or parts of the country X
- c Explicit national regional development policies completed by regional investment strategies aligned with it

2. Co-ordination across sectors in the national planning process

The country has mechanisms to co-ordinate across sectors national policies and investment priorities for regional development

- a No mechanism
- b At least inter-ministerial committee and/or cross-ministerial plan
- c Inter-ministerial committee and/or plan + other mechanisms X

3. Vertical co-ordination instruments

The country has mechanisms to ensure co-ordination across levels of governments (regional development agencies, national representatives in subnational governments, and contracts or agreements)

- a None of these
- b At least one of these mechanisms
- c At least one of these mechanisms involving many sectors X

4. Multi-level dialogue to define investment priorities for regional development

The country conducts regular dialogue(s) between national and subnational levels on regional development policy including investment priorities

- a No regular dialogue X
- b Formal or ad hoc dialogue
- c The platform has decision-making authority

5. Horizontal co-ordination across jurisdictions

The country has formal horizontal mechanisms/incentives between subnational governments to co-ordinate public investment

- a No mechanisms
 - b Formal horizontal co-ordination mechanisms at the municipal level
 - c Formal horizontal co-ordination mechanisms at the municipal level and other subnational levels (state, regions) X
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6. Performance monitoring and learning

The country has mechanisms in place to monitor and evaluate regional development policy

- a No mechanisms
- b The country has indicators to monitor the effectiveness of regional development policy
- c The country has conducted evaluations of regional development policy X

7. Regulatory co-ordination across levels of government

The country has mechanisms to co-ordinate regulations across levels of government

- a No intergovernmental co-ordination mechanisms X
- b Formal co-ordination mechanisms between national/federal and state/regional governments
- c Requirement of national government to consult subnational governments prior to issuance of new regulations that concern them

8. Co-financing arrangements across national and subnational levels

There are co-financing arrangements for public investment

- a No co-financing arrangements
- b Co-financing arrangements exist but funds are not tracked
- c Co-financing arrangements exist and funds are tracked X

9. Subnational governments benefit from predictable capital transfers over time

Variations in total capital transfer from one year to the next

- a Large variation: more than 20% X
- b Medium variation: between 10% and 20%
- c Little variation: less than 10%

10. Transparent information across levels of government

Subnational fiscal situation is publicly available

- a Not available for any type of subnational government
- b Available for regions/states/some level of subnational government only (on an individual basis)
- c Available for each subnational government individually X

11. Fiscal stability: rules for subnational governments

There are limits on subnational borrowing

- a No limits on subnational government borrowing
- b Non-binding borrowing constraints
- c Binding borrowing constraints X

12. Safeguarding capital spending at subnational level

Balanced budget rules protect subnational capital spending

- a No balanced budget rule
 - b Balanced budget rule with no exception for capital spending
 - c Balanced budget rule protecting capital spending (type golden-rule) X
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ANNEX 2

Definitions and sources

Definitions:

- **General government (S.13):** includes four sub-sectors: central/federal government and related public entities (S.1311) federated government ("states") and related public entities (S.1312) local government i.e. regional and local governments and related public entities (S.1313) and social security funds (S.1314). Data are consolidated within S.13 as well as within each subsector (neutralisation of financial cross-flows).
- **Subnational government:** is defined here as the sum (non-consolidated) of subsectors S.1312 (federated government) and S.1313 (local government).
- **Direct investment:** includes gross capital formation and acquisitions, less disposals of non-financial non-produced assets. Gross fixed capital formation (or fixed investment) is the main component of investments.

Sources:

OECD (2016a), *Subnational governments in OECD countries: Key data*, 2016 edition (brochure).

OECD (2016b), Regional Outlook Survey.

OECD (2016c), Overview and Preliminary Proposal on Indicators of Co-ordination of Public Investment for Regional Development, Room document discussed in the April 2016 RDPC meeting, unpublished material

OECD (2015a), OECD National Accounts Statistics (database), <http://dx.doi.org/10.1787/na-data-en>..

OECD (2015b) Implementation Toolkit, Effective Public Investment Across Levels of Government <http://www.oecd.org/effective-public-investment-toolkit/>

OECD (2013), Investing Together: Working Effectively across Levels of Government, OECD Publishing.

OECD (2011), OECD Network on Fiscal Relations across Levels of Government Survey on Sub-national Fiscal Rules and Macroeconomic Management, OECD, September 2011, updated in March 2015.

Estonian Ministry of the Interior (2012): National Spatial Plan Estonia 2030+.

Große, Fertner and Groth (2016): *Urban Structure, Energy and Planning: Findings from Three Cities in Sweden, Finland and Estonia*, Urban Planning Vol. 1.

Mizell, L. and D. Allain-Dupré (2013), "Creating Conditions for Effective Public Investment: Sub National Capacities in a Multi-Level Governance Context", OECD Regional Development Working Papers, No. 2013/04.

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