

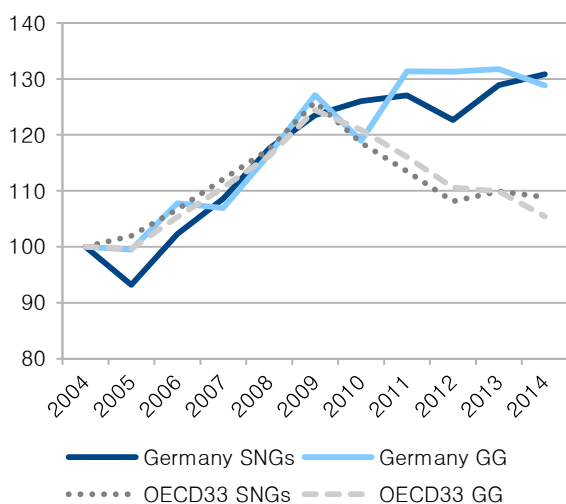
Multi-level Governance of Public Investment 2017

Table 1. Facts and figures related to direct public investment

2014	General Government	Subnational governments
USD billion	79.8	55.6
USD per capita	985	687
% of GDP	2.1%	1.5%
% of public expenditure	4.8%	7.1%
% of total public direct investment	100%	69.7%

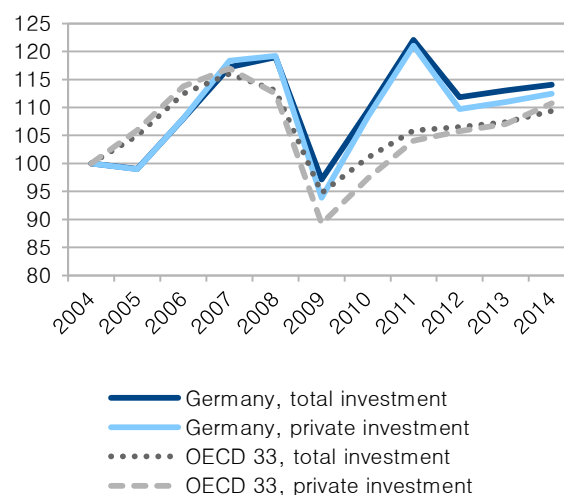
Source: OECD (2016), *Subnational governments in OECD countries: Key data*, 2016 edition (brochure).

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



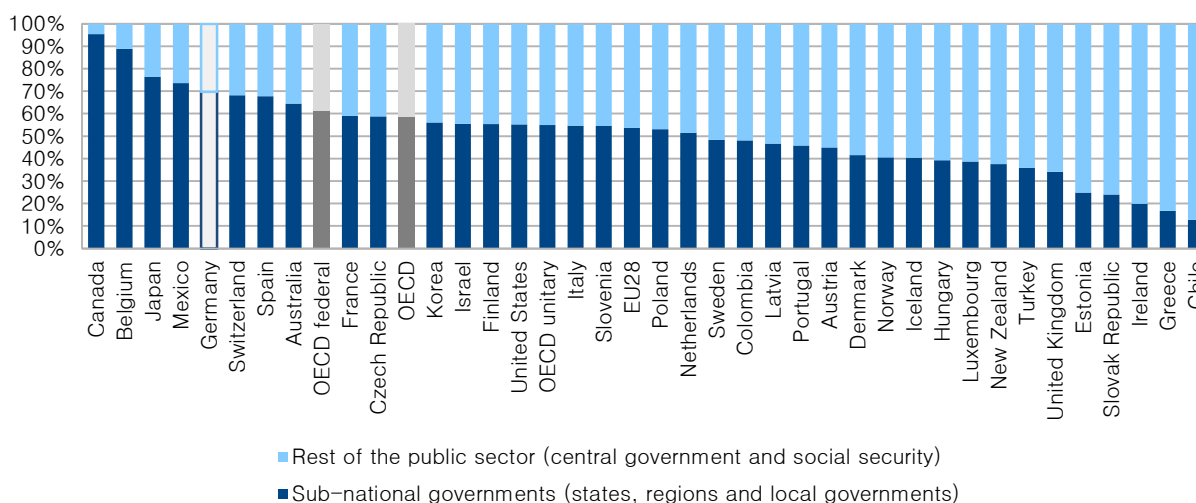
Source: OECD National Accounts. In real terms, base 100 in 2004.

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



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

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

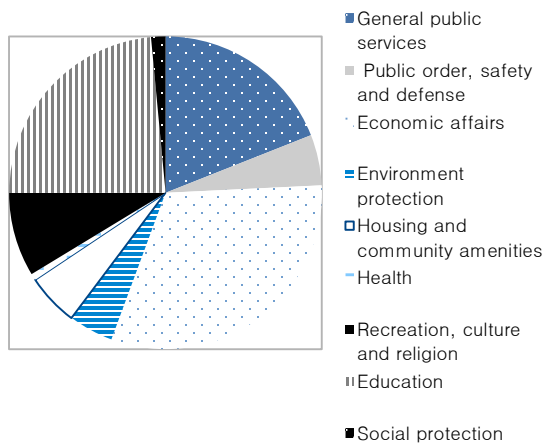


Source: OECD National Accounts.

Note: 2013 figures for Mexico, 2012 figures for Chile, 2014 figures for Turkey.

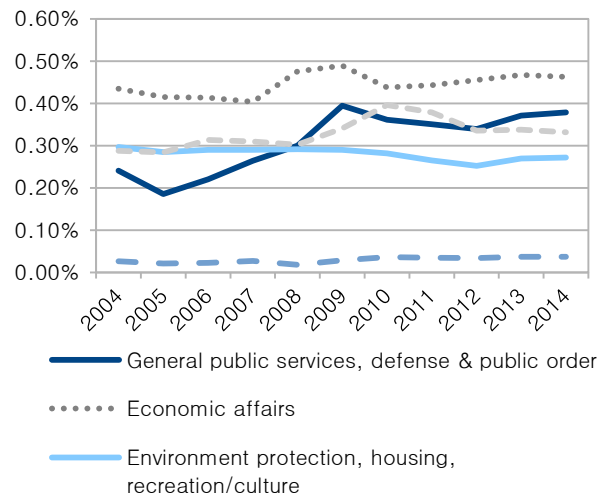
Most of subnational investments in Germany are dedicated to economic affairs (transport, general economic, commercial and labour affairs, industry, agriculture, etc.). Subnational governments are in particular responsible for building and maintaining public roads, public transport, etc. Other major categories of investment spending include education and general public services. In contrast, SNGs invest very little in healthcare or social protection or environment protection (Figure 4 and 5).

Figure 4. Breakout of subnational direct investment in Germany by economic function (% of total direct investment, average 2008–2014)



Source: OECD National Accounts.

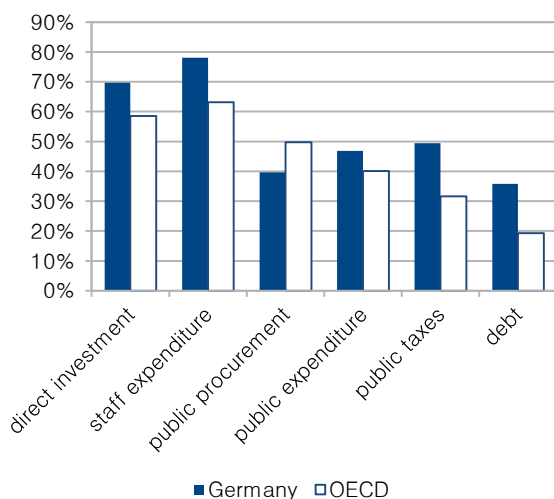
Figure 5. Trends in subnational direct investment by economic function (as a % of GDP)



Source: OECD National Accounts.

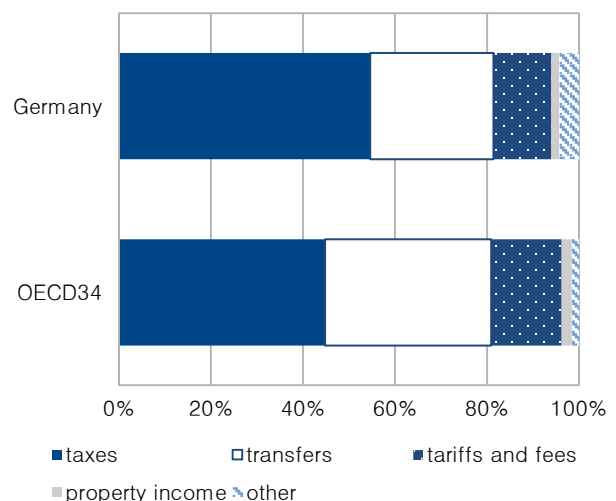
As in most federations, subnational expenditure is higher than the OECD average for most large categories of spending (total expenditure, investments, staff expenditure), except public procurement. The share of SNG debt in total public debt is also much higher (Figure 6). Subnational governments also have a much larger share of revenues from taxes (Figure 7), and rely less on transfers from the central government.

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



Source: OECD National Accounts.

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



Source: OECD National Accounts.

Examples of good practices or recent developments for effective public investment

Stakeholder engagement

The National Development Policy is jointly established by the German Congress of Municipal Authorities, the Association of Towns and Municipalities and the Conference of the Building Ministers of the States. It also relies strongly on citizens' participation, and a large committee representing several social groups is in charge of policy advice and implementation. It aims at advancing legislation (in particular for urban planning), carry out and co-ordinate research projects, finance urban development projects, etc. The financing part in particular is equally divided between the federal government, the states, and local authorities. It includes projects in urban restructuring, the preservation of urban monuments, etc.

The decision to build a new runway at Frankfurt Airport (Germany's largest airport) was accompanied by a so-called 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 end of 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.

Multi-level dialogue

The Joint Task for the Improvement of Regional Economic Structure (GRW) was created in 1969. The basic aim of the GRW is to reduce the regional disadvantages faced by structurally weak regions and thus to facilitate their participation in broader economic development processes and to reduce overall developmental disparities. Further, regional policy is seen to contribute to Germany's growth and employment policy and to enhance its effectiveness, particularly by enhancing aggregate economic growth in structurally weak regions as well as by facilitating structural change through the creation of permanent jobs. The GRW Framework also emphasises that German regional policy has medium- to long-term aims and focuses on the supply side of the economy.

The GRW is a joint federal-Land co-ordination framework which is used mainly to set a commonly agreed framework for regional economic development policy and to finance direct aid to business and business-oriented infrastructure. Key attributes of the GRW are: a transparent indicator-based system for assessing regional problems; a consensus-based co-ordination framework which allows equal problems to be treated equally; a systematic rules-based approach to awarding or granting aid; facility for co-ordinating EU and national regional policy interests; and the ability to provide a co-ordinating framework for other policy fields with spatial effects. The GRW is jointly financed by federal and Land authorities.

Horizontal co-operation

Municipal mergers enhance economies of scale of investment projects. Municipal mergers are a competence of the *Länder*. The Land of Saxony-Anhalt reduced the number of municipalities from 814 to 220 in 2010 and 2011. Mergers took also place in Brandenburg in 2003. Beforehand, several *Länder* carried out municipal merger programmes in the 1960s and 1970s. In Baden-Württemberg, the number of municipalities dropped from 3 379 to 1 110 between 1968 and 1975. In Bavaria, from roughly 7 000 to around 2 000 between 1972 and 1978; in Hesse, from 2 642 to 421 between 1972 and 1977; in North Rhine-Westphalia, from 2 365 to 396 between 1967 and 1975; and in Saarland, from 345 to 50 in 1974.

Financing subnational public investment

The savings banks' status is a public entity under the jurisdiction of local governments (municipalities or associations of municipalities). They are typically required to contribute to the economic, social and cultural objectives of their municipalities. They are not profit-maximising but are required to seek profits to strengthen their capital base and be able to expand. Remaining profits are disbursed for social and cultural activities according to rules set out by the *Länder*. The savings banks are organised

in a “bottom-up” fashion, with the savings banks governing their regional associations. The savings banks are sectorally diversified but locally specialised. The local focus appears to have brought economic benefits. It has helped to keep broad coverage of the population with basic financial services, and has fostered access to loan finance for small and medium-sized businesses. Thereby, it appears to have encouraged regional economic development in relatively poorly developed regions. The savings banks may also raise welfare by a more long-term orientation, allowing profits and losses to be smoothed over a longer time period. A higher share of their lending is long-term than in the commercial banks. Savings banks appear to be at least as efficient as commercial banks (Kötter, 2006; German Council of Economic Experts, 2008; Altunbaş et al., 2001).

The regional development bank in Brandenburg (Investitionsbank des Landes Brandenburg – ILB) provides support to the regional and local governments. For innovation and R&D investments, for example, although the Land’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 and financing functions when giving grants to help reduce the debts.

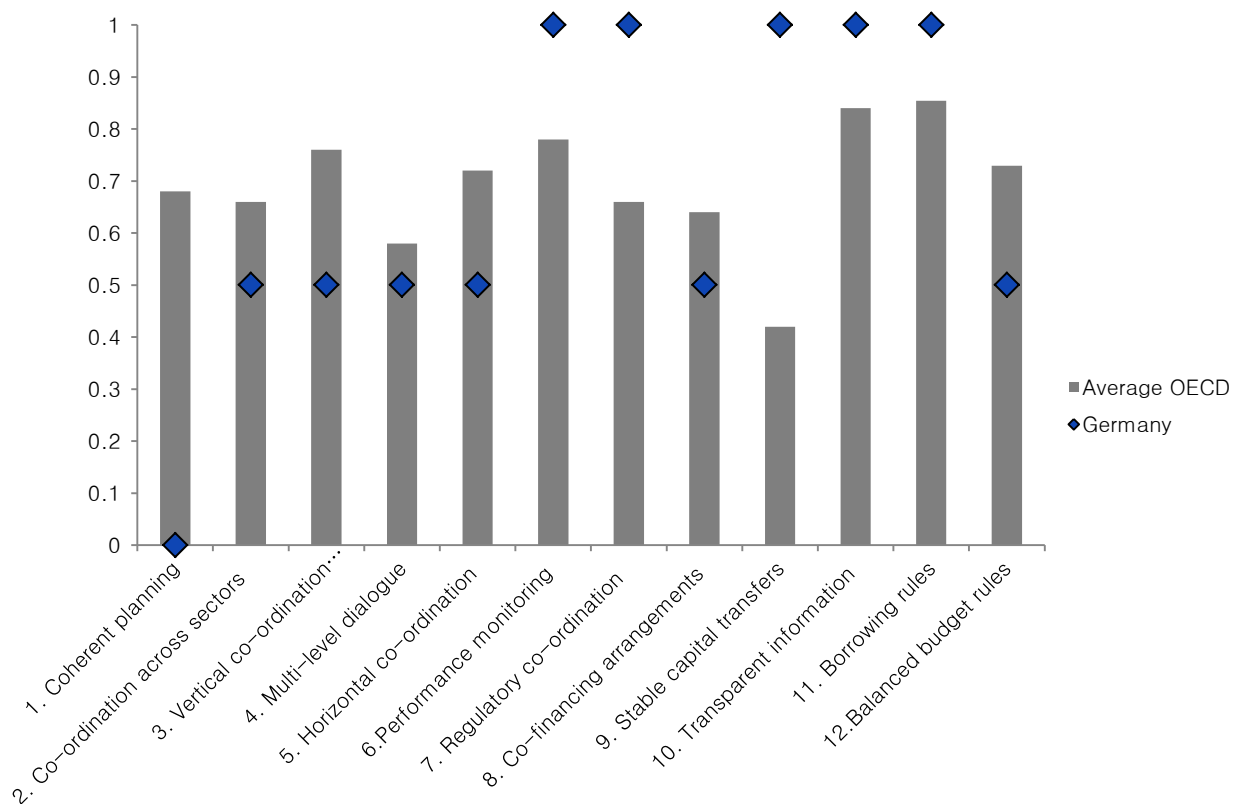
Subnational fiscal stability

As part of a larger reform of its federal structure, the German government created a Stability Council that consists of the Minister of Finance, the Minister of Economy and the finance ministers of all the *Länder*. To avoid future budgetary crises, the Stability Council is responsible for regularly monitoring the budgets of the federal government and the governments of the *Länder* and function as an early warning system. If a budget risks falling into distress, the responsible government develops a consolidation plan with the Stability Council.

The Centre of Excellence for Sustainable Procurement, within the Procurement Office of the Federal Ministry of the Interior, supports public contracting authorities at the federal, *Länder* and municipality level in taking sustainability criteria into consideration in procurement projects. The KNB website (central portal for sustainable procurement) was launched by the Chancellor on 13 May 2013.

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 X
- b Explicit national policies to support regional development in all or parts of the country
- c Explicit national regional development policies complemented 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 X
- c Inter-ministerial committee and/or plan + other mechanisms

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 X
- c At least one of these mechanisms involving many sectors

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
- b Formal or ad hoc dialogue X
- 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 X
- c Formal horizontal co-ordination mechanisms at the municipal level and other subnational levels (state, regions)

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
- 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 X

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 X
- c Co-financing arrangements exist and funds are tracked

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

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 X
 - c Balanced budget rule protecting capital spending (type golden-rule)
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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.

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