

Multi-level governance of public investment 2017

Table 1. Facts and figures related to direct public investment

2014	General Government	Subnational Governments
USD billion	48.1	26.4
USD per capita	791	434
% of GDP	2.2%	1.2%
% of public expenditure	4.4%	8.3%
% of total public direct investment	100%	54.9%

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

Figure 1. Trends in direct public investment in Italy (2004–2014)

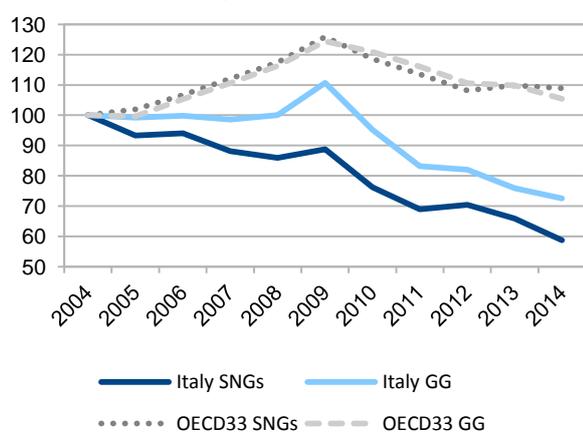
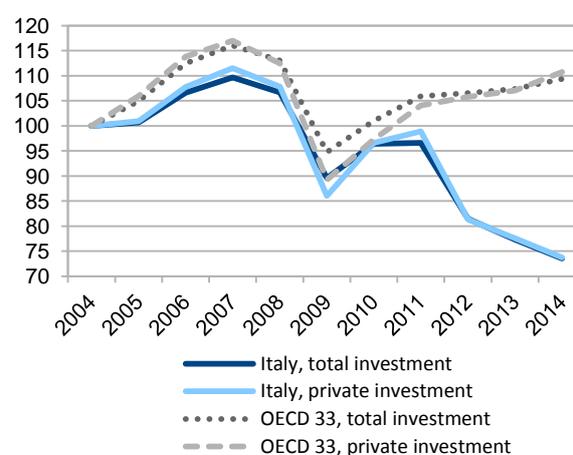


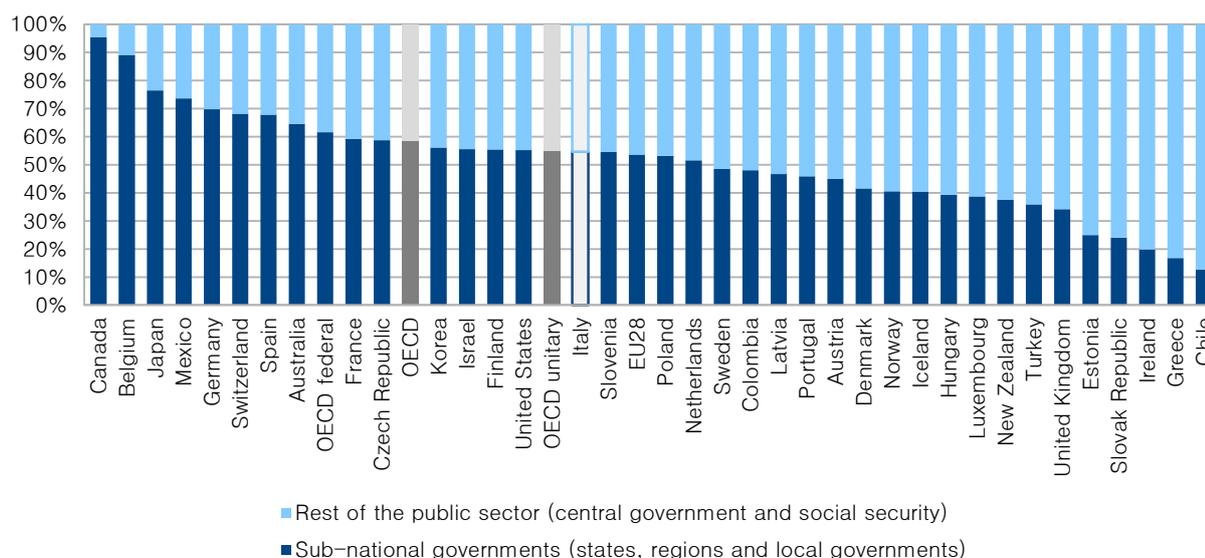
Figure 2. Trends in total and private direct investment in Italy (2004–2014)



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)



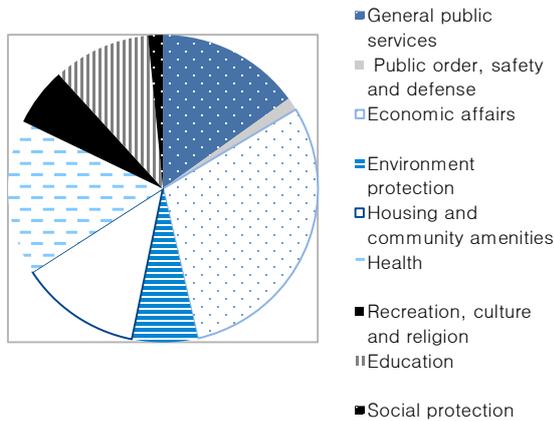
Source: OECD National Accounts

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

Most of subnational investments in Italy are dedicated to economic affairs (transport, general economic, commercial and labour affairs, industry, agriculture, etc.). Local governments are in

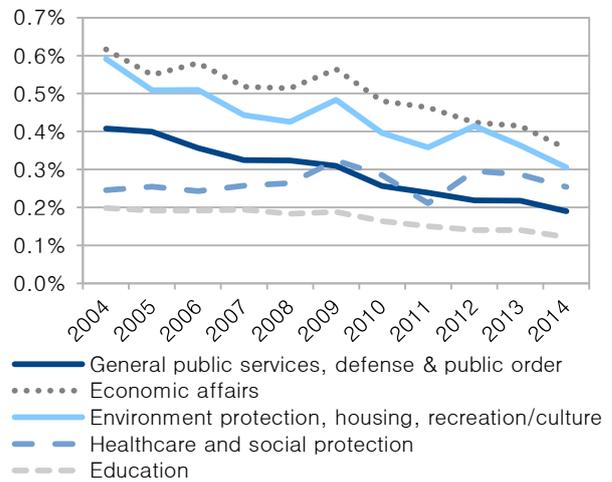
particular responsible for public transportation and local road maintenance. Other major categories of investment spending include healthcare, general public services, housing, etc. In contrast, SNGs invest very little in social protection (Figure 4). Following the public finance crisis in Italy, investments at the SNG level have declined drastically over the last years (Figure 5).

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



Source: OECD National Accounts.

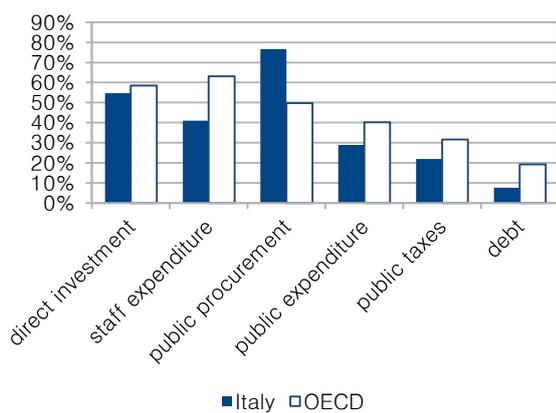
Figure 5. Trends in subnational direct investment by economic function (as a % of GDP)



Source: OECD National Accounts.

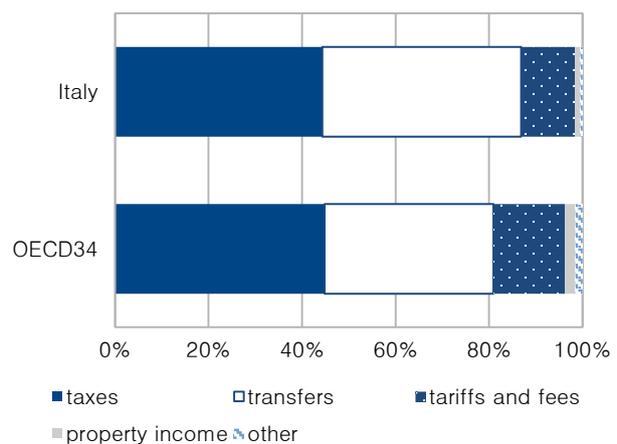
The share of subnational expenditure in Italy is lower than the OECD average for most large categories of spending (total expenditure, investments, staff expenditure), except public procurement. The share of SNG debt in total public debt is also way smaller (Figure 6). Subnational governments have a close-to-average share of taxes in their revenue mix (Figure 7), but rely more strongly on transfers from the central government.

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



Source: OECD National Accounts.

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



Source: OECD National Accounts.

Examples of good practices or recent developments for effective public investment

Cross-sectoral co-ordination

The Inter-ministerial Committee for Economic Planning (CIPE), a political decision-making body headed by the Prime Minister, ensures overall co-ordination of the national investment strategy and coherence between regional and national policy priorities. Political dialogue and vertical co-ordination between the regional and national governments is ensured through the State-Region Conference, a permanent negotiating arena between central and regional authorities. Created in 1997, this conference brings together Italy's regions at least twice a year and plays a key role in influencing the national political debate and decision-making processes on issues of regional importance.

In 2012, the Prime Minister created an Inter-Ministerial Committee for Urban Policy that addresses three main issues. First, the committee addresses the sometimes conflicting relationship between institutional boundaries and planning activities in order to increase effectiveness in policy making. Second, it addresses the phenomenon of urban sprawl, territorial congestion and the need for efficient infrastructure. Third, it looks at the maintenance and strategic management of the process of recovery and renewal of the housing stock.

Vertical co-ordination

Italy has a strong tradition of contractual agreements to commit national and regional public administrations to a common framework of interventions. The Territorial Pacts are tools for territorial development, mostly applied in Southern Italy. Recently, the Italian Government launched the Pacts for the South (2016). A total of 16 Pacts have been signed for the 8 regions (Abruzzo, Molise, Campania, Basilicata, Apulia, Calabria, Sicily, and Sardinia), the 7 metropolitan cities (Naples, Bari, Reggio Calabria, Messina, Catania, Palermo, Cagliari) and for the City of Taranto (Institutional Development Agreement – Contratto Istituzionale di Sviluppo, CIS – of Taranto). The contracts aim to achieve economic growth, employment and environmental sustainability goals. The Pacts for the South define priorities, actions for implementation and responsibilities of parties. A steering committee (Cabina di regia) of the State-Regional Development and Cohesion Fund has been created for supporting the proper management of national and European Cohesion Funds 2014-2020, through the Pacts and provide technical support to the Regions. The Agency for Territorial Cohesion is responsible of coordination and monitoring of the Pact implementation. Progress should be verified every six months, in order to make changes in the interventions, if needed. Sanctions are foreseen in case objectives are not achieved.

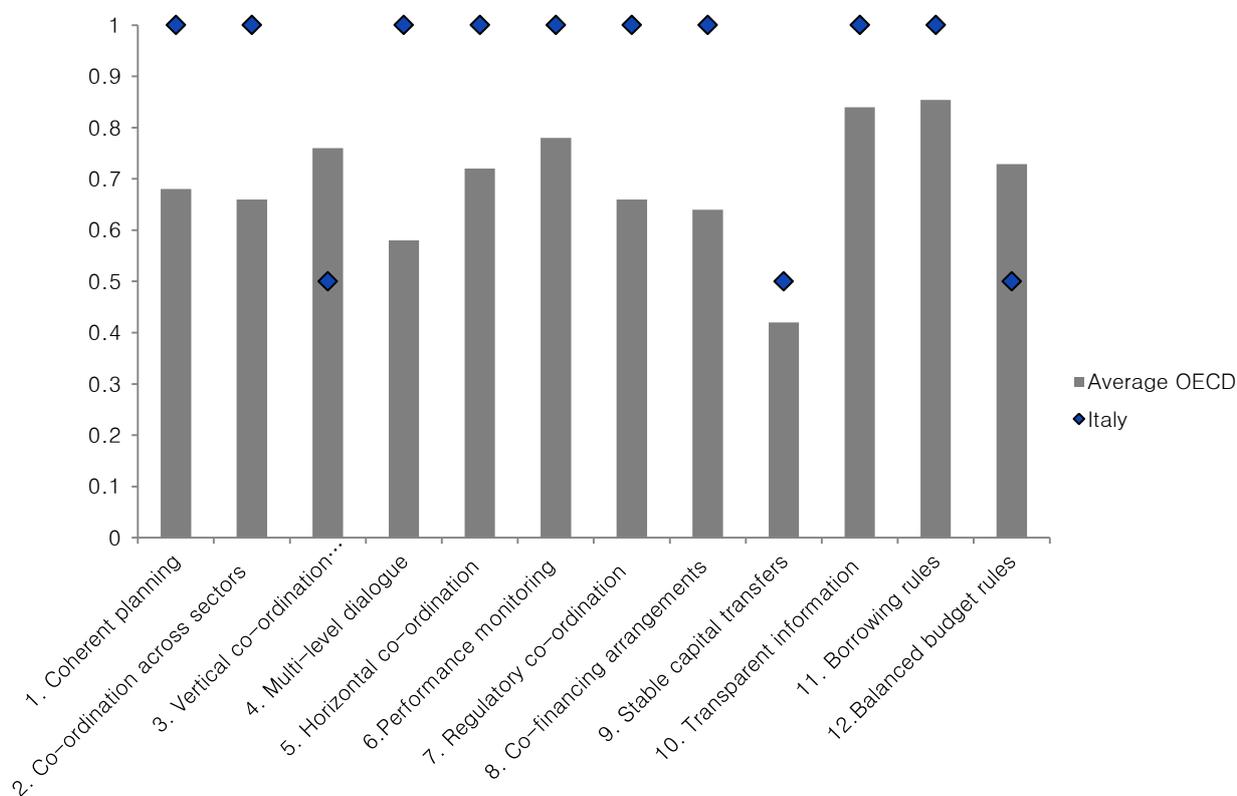
Performance monitoring

In addition to the use of traditional conditionalities, Italy is piloting an innovative mechanism (Obiettivi di servizio) to transfer part of central government funds to regions. This more flexible performance-based conditionality allocates resources to the most performing regions and incentivizes a more results-oriented attitude towards sub-national authorities. Under this new system, a part of central government transfers (EUR 3 billion for 2007/2013) is assigned to regions according to their performance towards quantified targets by 2013.

Italy has chosen to include indicators in European-level policies such as the National Strategic Reference Frameworks (NSRF) or some Operational Programmes. About 80 indicators are used for the NSRF, with 15 including explicit targets. These indicators were selected by regional decision-makers, in collaboration with experts from the National Statistical Office and Central Agencies. Indicators have also been used in the Italian National Operational Programme for Metropolitan Cities.

Preliminary indicators of MLG of public investment for regional development

Figure 8. Indicators for the coordination 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 coordination 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
- c Explicit national regional development policies completed by regional investment strategies aligned with it X

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 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
- c The platform has decision-making authority X

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

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
- 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%
- b Medium variation: between 10% and 20% X
- 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 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:** 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:

Ministry of Economic Development (2008): Indicators and regional development policies. The Italian position and current practice.

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

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