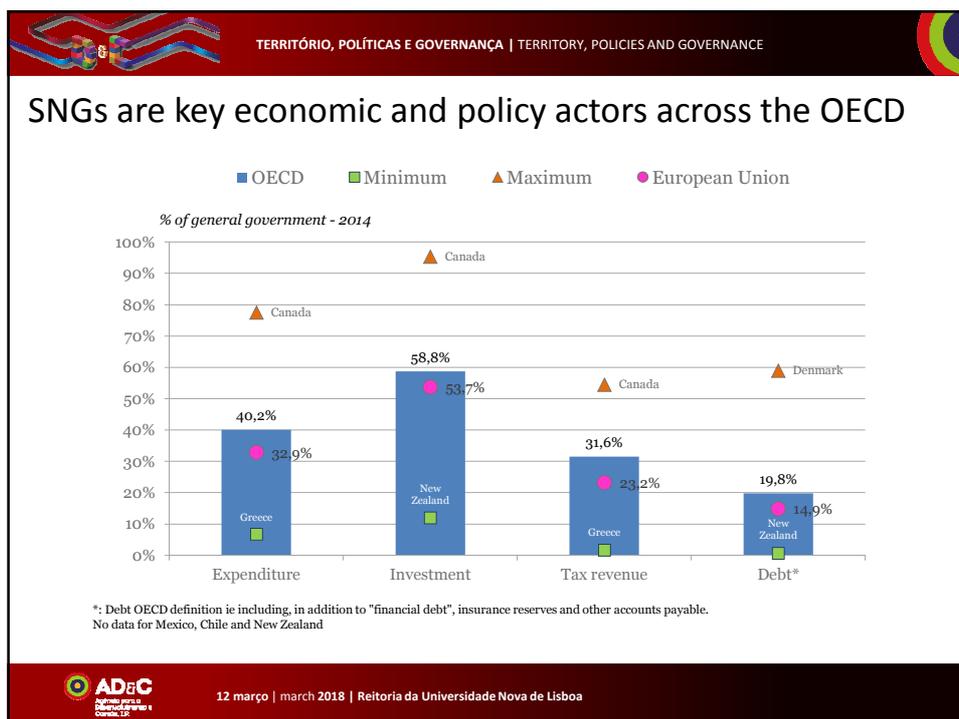




DEVELOPMENT & COHESION
DESENVOLVIMENTO & COESÃO

Multi-Level Governance Gaps and the Contractual Response

Claire Charbit
Territorial Dialogues and Migration
OECD, Centre for Entrepreneurship, SMEs, Regions and Cities



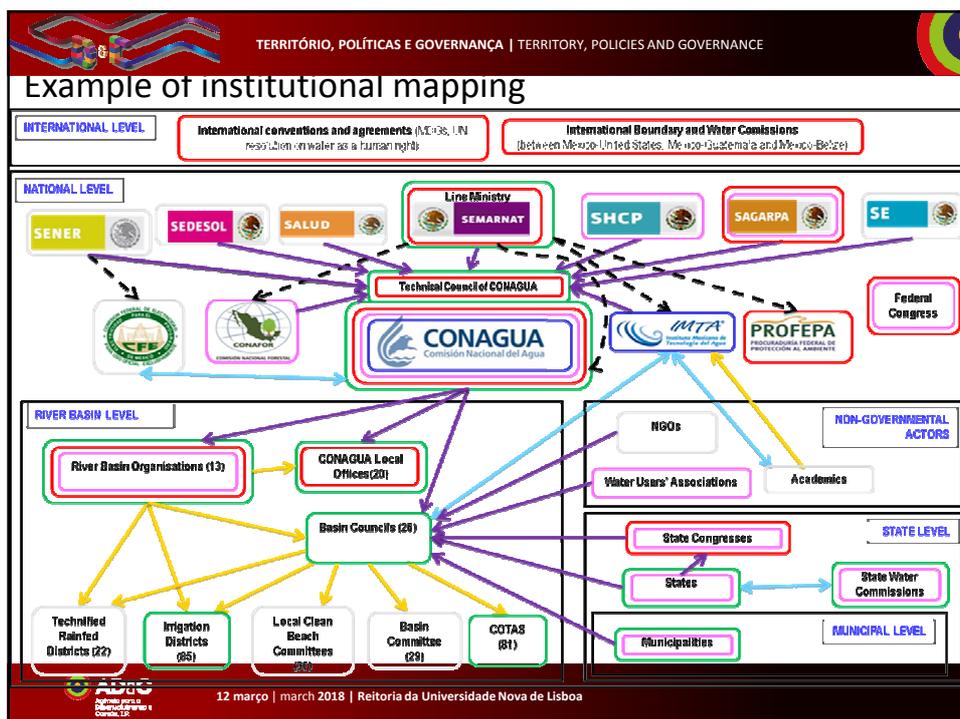
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Constitution is a "Master incomplete contract"

→ need to address "mutual dependency" challenges

- Sub national responsibilities in spending have increased but there is still a *strong dependency on central governments for resources*
- The absence of convergence of GDP among regions (and increased urbanisation/metropolitan development) calls for central government interventions: *equalisation and customisation*
- More responsibilities to sub national governments together with greater control and performance monitoring on standards for local public services and on performance of local delivery (*ex ante conditionalities and ex post assessment*)

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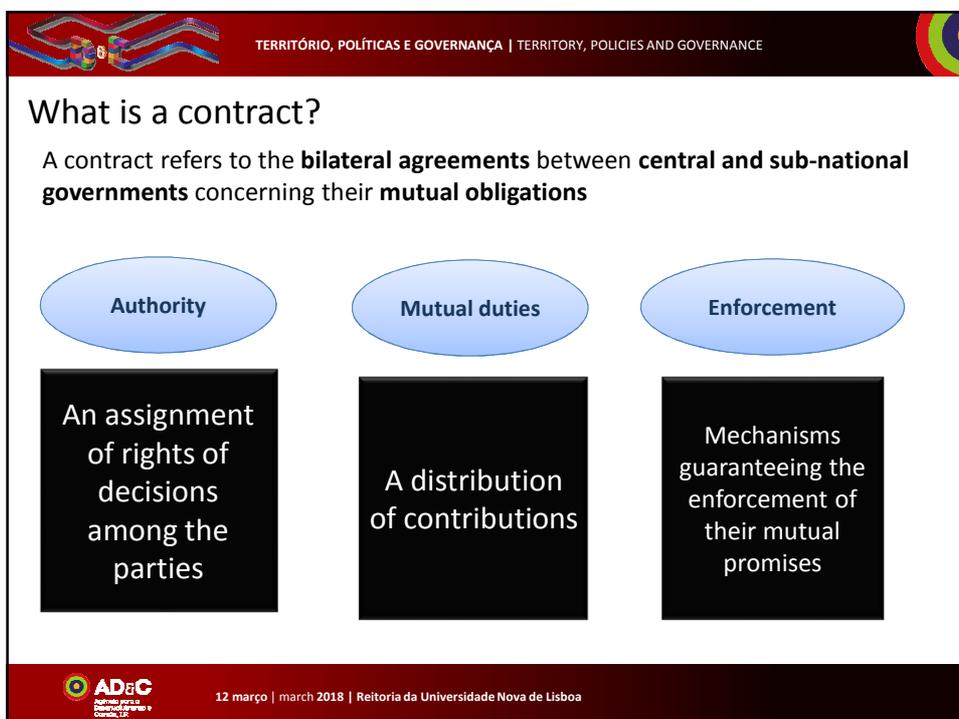
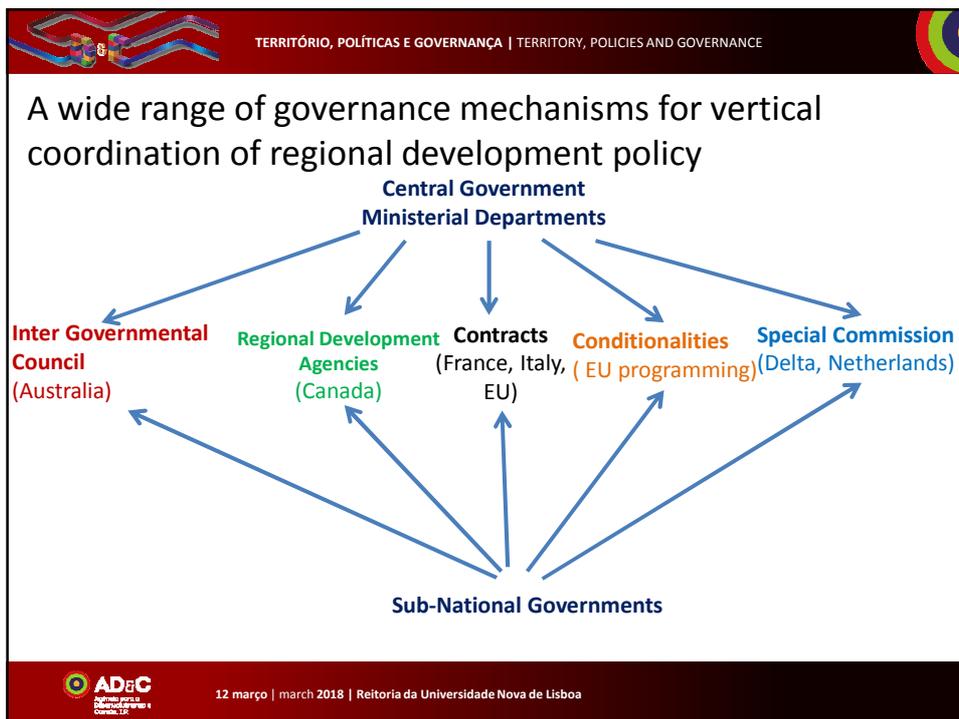
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Multi-level governance gaps

Information gap	Asymmetries of information (quantity, quality, type) between different stakeholders, either voluntary or not => Need for instruments for revealing & sharing information
Policy gap	Sectoral fragmentation across ministries and agencies => Need for mechanisms to create multidimensional/systemic approaches, and to exercise political leadership and commitment.
Capacity gap	Insufficient scientific, technical, infrastructural capacity of local actors => Need for instruments to build capacity
Administrative gap	"Mismatch" between functional areas and administrative boundaries => Need for instruments for reaching "effective size"
Funding gap	Unstable or insufficient revenues undermining effective implementation of responsibilities at subnational level or for crossing policies => Need for shared financing mechanisms
Objective gap	Different rationalities creating obstacles for adopting convergent targets => Need for instruments to align objectives
Accountability gap	Difficulty to ensure the transparency and integrity of practices across the different constituencies => Need for institutional quality instruments

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Contracting between Levels of Government: Specificities and Consequences

Specificities	Consequences
No regulation by competition	Limited variety of contractual choices
Lock-in is given, not created by the contract	Contract for unavoidable co-operation more than optimisation of a transaction
Vertical integration is not an option	Assessment cannot be really used to opt for exit ...however it allows for learning and efficiency seeking


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Examples of Vertical co-ordination instruments in OECD countries

Country	Contract
Australia	City Deals
Belgium	Sustainable Neighbourhood Contracts
Canada	Tri-partite agreements
Colombia	Contratos Plans
France	State-region planning contracts
Italy	Institutional Contracts and Pacts for the South
Netherlands	City Deals
Poland	Territorial Contracts
Slovenia	Agreements on Development of Regions
Spain	Convenios
Sweden	Regional Growth Agreements
United Kingdom	Devolution Deals

- **23** out of 30 OECD surveyed countries use contracts as vertical co-ordination instrument
- Used in **unitary** and **federal** countries
- **Mono**-sectoral and **multi**-sectoral
- **Rural/ Urban** areas


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Transactional and Relational Contracts

	Transactional	Relational
Information availability	Upfront	Over time
Complexity of the issue	Generally mono-sectoral	Generally multi-sectoral
Enforcement	External	Often bilateral/ Third party
Challenges	Risks	Uncertainty

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Three main objectives for contracts across levels of government

The diagram illustrates the flow from government levels to contract objectives and outcomes. On the left, a vertical axis shows 'CENTRAL GOVERNMENT' at the top and 'SUBNATIONAL GOVERNMENT' at the bottom, connected by a double-headed arrow. A central blue oval labeled 'CONTRACTS' is positioned between these levels. Three arrows point from the 'CONTRACTS' oval to three objective boxes: 'EMPOWERMENT', 'DELEGATION', and 'POLICY-SHARING'. To the right of each objective box is a corresponding 'EXAMPLES OF OUTCOMES' box: 'Capacity building' for Empowerment, 'Efficiency in public spending' for Delegation, and 'Collective learning' for Policy-Sharing.

	OBJECTIVE	EXAMPLES OF OUTCOMES
EMPOWERMENT		Capacity building
DELEGATION		Efficiency in public spending
POLICY-SHARING		Collective learning

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Empowerment

Objective	Transferring responsibilities to subnational government/ capacity building
When to use it	Early stages of decentralisation/ lagging regions
SNG's capacities	Low and/or not at the right scale
Type of contract	Relational with transactional elements

1st generation CPERs in France, Contratos Plans in Colombia, Pacts in Italy, regional Contracts in Poland

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Delegation

Objective	CG delegates tasks or a policy to the SNGs
When to use it	E.g. In the context of national strategy for efficiency gains
SNG's capacities	Enough to replace the CG for certain tasks
Type of contract	Transactional or mixed

Sustainable Neighbourhood contracts in Brussels Capital Region, Rural contracts in Canada, Devolution Deal in the UK

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Policy-Sharing

Objective	Fulfil competences that are overlapping or not fully addressed.
When to use it	To address new domains, emerging issues or CG-SNGs inter-dependencies
SNG's capacities	High
Type of contract	Relational

New generation of CPERs in France, Tri-partite urban development agreement in Canada, City Deals in The Netherlands

Comelin, LP

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Evaluating Contracts

Why?

- Measure impacts
- Evaluate the validity of the contract as a co-ordination tool
- Use information for the next generation of contract

How?

- Independent evaluator
- Performance indicators

Caveats

- Street light effects of indicators
- Long term horizon
- Causal links

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Towards new enforcement mechanisms for more effective contracts across levels of government?

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Recent development of the contractual theory: Making contracts more flexible

- Integrate **uncertainty** into the analysis
- Preserve a common **interpretation** of the contract with time
- **Renegotiation** vs. short term contracts
- **Third parties** are key conditions for the existence of contract

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