

## Challenges for infrastructure investment at subnational level

The OECD and the EU Committee of the Regions conducted a survey in 2015 to assess the challenges linked to infrastructure investment at the local level across Europe. The results of the consultation show that governance challenges for infrastructure investment are prominent at the subnational level, essentially at the planning stage, and that all levels of government should do more to strengthen the capacities of subnational governments (SNGs) to conduct proper investment strategies. Some of the key findings are summarised below.

In the EU, 44% of the SNGs surveyed reported a decrease in their investment spending since 2010: 12% by less than 10% and 32% by more than 10% (Figure 3.18). Foregone investments concern new investment as well as operations and maintenance. These cuts in public investment are more frequently 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 medium-sized municipalities have increased their spending by more than 10% since 2010 (Figure 3.19). Smaller investment projects may be a possible consequence of this trend.

More than half (53%) of the SNGs surveyed reported a decrease in grants from the central government. Subnational taxes have proven quite stable in a majority of SNGs since 2010. Furthermore, 39% of SNGs reported a reduction or stabilization in borrowing to finance investment over the past 5 years and only 12% reported an increase. Only 4% of SNGs have increased the use of bond financing. This also reflects the fact that bond financing by SNGs is not permitted in many EU countries, in particular for municipalities (Figure 3.20).

Of the SNGs surveyed, 49% have no opinion on the private sector financing of infrastructure (Figure 3.20). This may reflect a lack of awareness regarding private financing options. Indeed, 23% have decreased their use of private sector financing since 2010. Only a minority of cities and regions (7%) report increasing private sources of financing since 2010, essentially metropolitan areas and regions. Larger SNGs may have the extensive technical and legal capacities required to engage in public private partnerships, while most SNGs below a certain size do not have those capacities. Problematic legal and regulatory environment for public private partnerships is another major challenge, as reported by 35% of SNGs.

Almost all SNGs reported gaps in public investment spending. The perceived financing gaps reflect the competencies allocated to various levels of government. Three-quarters of SNGs reported having experienced investment funding gaps for financing roads, and this rate is up to 85% for small municipalities (Figure 3.21). Almost half of SNGs reported gaps in financing educational infrastructure and 40% have difficulties in financing infrastructures for economic development, recreation and culture.

Challenges for SNG investment go beyond financing and include different aspects of the investment cycle, from the planning stage to implementation.

Three main challenges appear prominent according to the responses to the OECD-CoR survey.

For the vast majority of respondents (90%), the most important difficulties for infrastructure investment are linked to excessive administrative procedures, red tape, and lengthy procurement procedures (Figure 3.22).

A second type of challenge, more directly connected with the responsibility of SNGs, is 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 (Figure 3.22).

Finally, lack or weak use of monitoring and results from evaluation are recognised as important challenges for at least 65% of respondents, more prominently by large SNGs (regions, large municipalities). In addition, 66% of SNGs 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 (Figure 3.22).

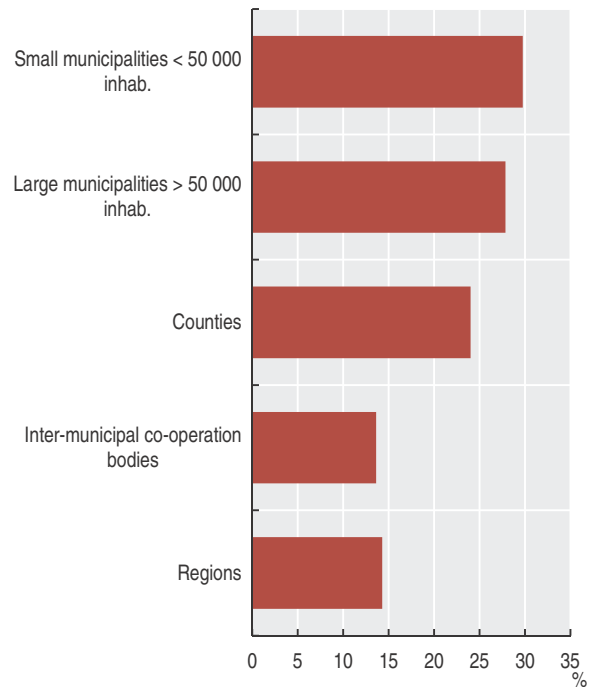
A significant number of SNGs have introduced practices to improve the governance of infrastructure investment in recent years (Figure 3.23). Improved medium-term planning for infrastructure investment is seen as key to improving the governance of investment by a majority of SNGs (67%). Increased external support for designing projects and improved co-operation with neighbouring local governments to favour economies of scale are equally seen as positive practices, which have helped the management of infrastructure investment by two-thirds of SNGs surveyed. It should be noted that the simplification of procurement procedures is seen by 20% of the respondents as a practice that has significantly helped the management of infrastructure investment (Figure 3.23).

**3.18. Change in public investment spending in the city/region since 2010**



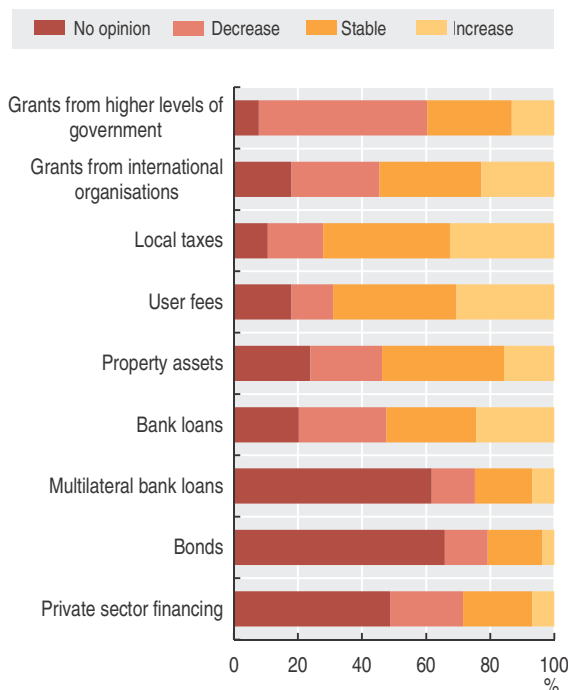
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**3.19. Type of SNG with an increase in public investment spending by more than 10% since 2010**



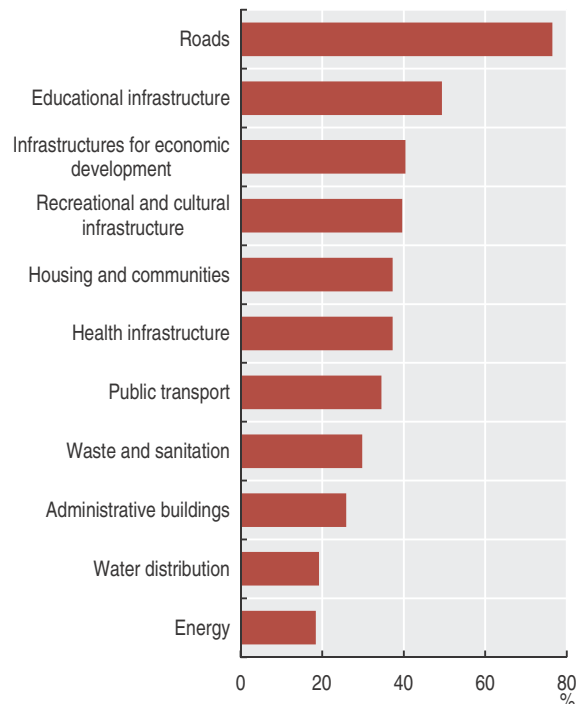
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**3.20. Change in sources of infrastructure investment funding in the city/region since 2010**



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**3.21. Sectors most affected by funding gaps in the city/region in the past 5 years**



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#### Definition

The consultation was conducted by the OECD and the EU Committee of the Regions between 31 March and 15 July 2015 in all the official EU languages.

The survey targeted representatives of subnational governments (regions/ provinces/ landers, counties, municipalities) in charge of investment planning/ financing/monitoring and implementation.

Although the survey does not systematically cover all SNGs in Europe, it provides a picture of challenges encountered by SNGs. In total, there were 296 respondents, 255 of which are SNGs in 27 EU Member States (Luxembourg did not participate in the survey). They represent all categories of SNGs: regions, provinces (25%); intermediary entities (e.g. county, department) (10%); small municipalities i.e. under 50 000 inhabitants (33%); medium municipalities i.e. between 50 000 and 500 000 inhabitants (22%); large municipalities with more than 500 000 inhabitants (2%); and inter-municipal co-operation bodies (8%).

40 additional respondents participated in the survey representing universities, local public enterprises or local agencies with a mixed (public-private) ownership structure.

#### Source

OECD-COR Survey (2015) – Policy highlights Infrastructure planning and investment across levels of government: Current challenges and possible solutions”, [www.oecd.org/effective-public-investment-toolkit/oecd-eu-survey.htm](http://www.oecd.org/effective-public-investment-toolkit/oecd-eu-survey.htm).

#### Further information

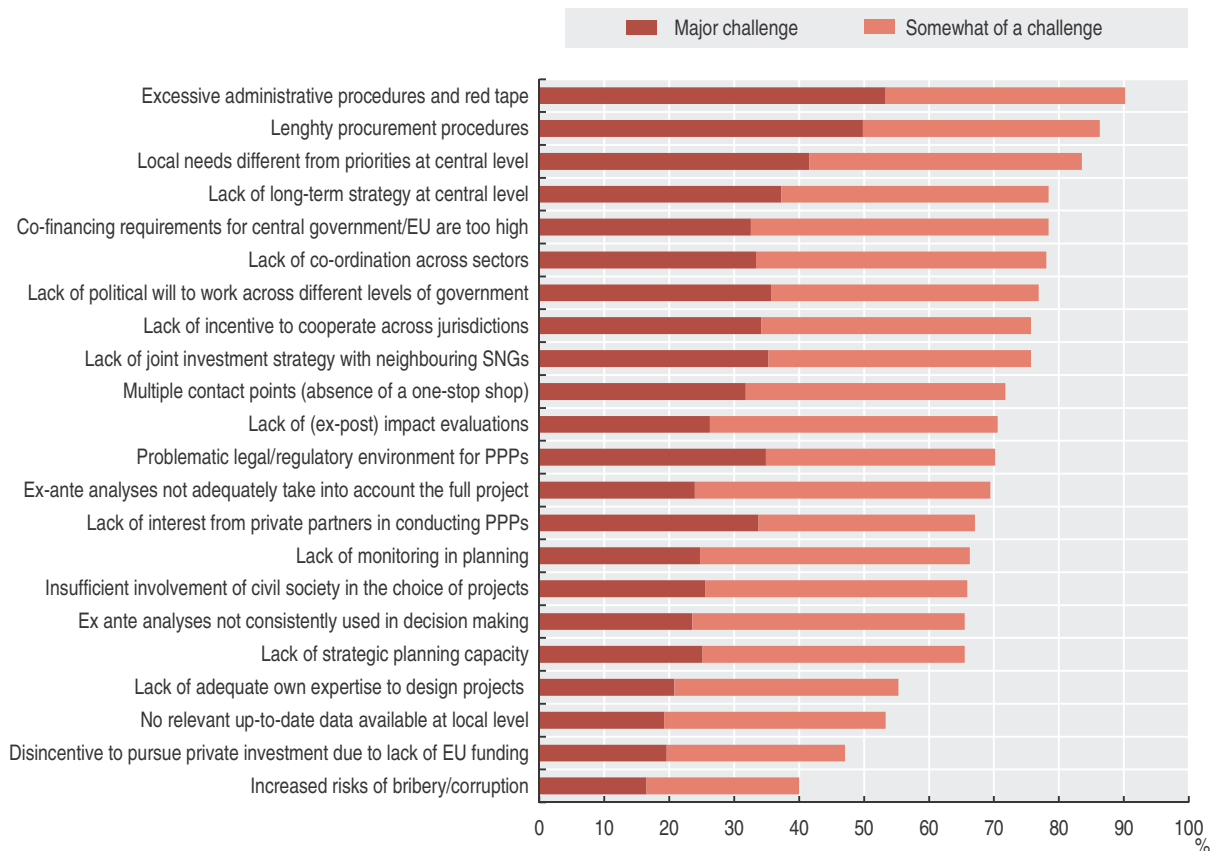
OECD (2015), “Recommendation on Effective Public Investment Across Levels of Government – Implementation Toolkit (brochure)”, [www.oecd.org/effective-public-investment-toolkit/oecd-eu-survey.htm](http://www.oecd.org/effective-public-investment-toolkit/oecd-eu-survey.htm).

OECD (2013), *Investing Together: Working Effectively across Levels of Government*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264197022-en>.

### 3. SUBNATIONAL GOVERNMENT FINANCE FOR REGIONAL DEVELOPMENT

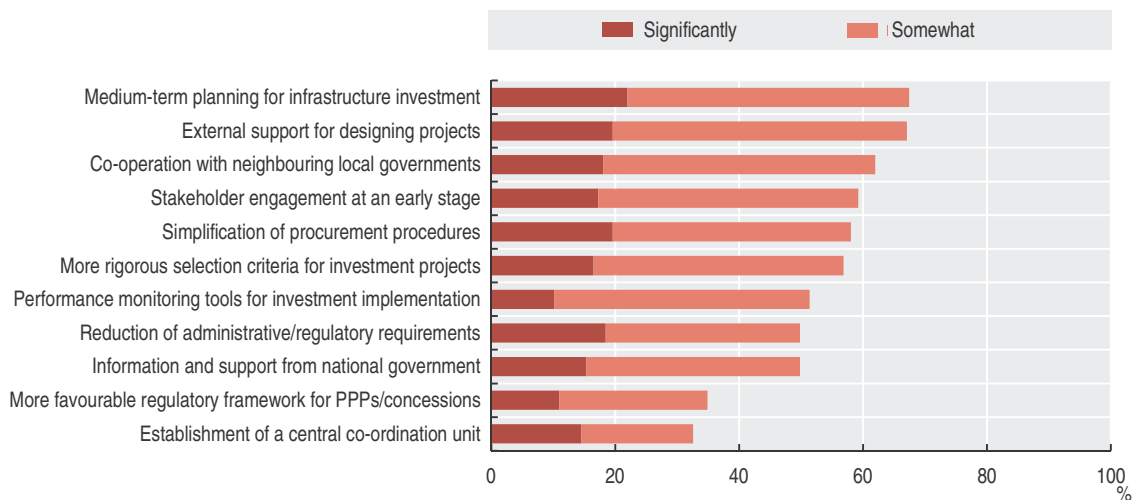
#### Challenges for infrastructure investment at subnational level

##### 3.22. What are the main challenges with respect to strategic planning and implementation of infrastructure investment in your city/ region?

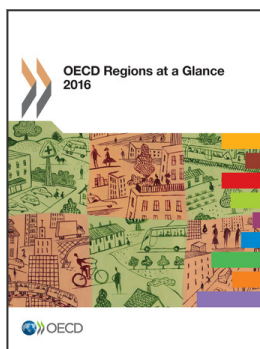


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##### 3.23. Which practices have helped the management of infrastructure investment in your city/region?



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