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Considerations for upcoming decentralisation and devolution

Chapter 4 describes lessons from OECD countries on decentralisation relevant to the current Korean context. It starts by describing 10 OECD guidelines to implement decentralisation. It then focuses on several key dimensions drawing from examples in OECD countries on vertical co-operation, horizontal co-operation, capacity building, public engagement and, finally, on financing across levels of government.

The OECD approach to decentralisation

Over the past decades, many OECD countries have started to increasingly decentralise. Between 1995 and 2016, decentralisation processes have resulted in an increase of subnational spending, as a share of gross domestic product (GDP), as well as the share of total public spending in two-thirds of OECD countries. Despite this trend, it is important to note that decentralisation in and by itself is neither positive nor negative. Rather, its outcomes, in terms of democracy, efficiency, accountability, local and regional development, largely depend on how the decentralisation is designed and executed (OECD, 2019^[1]).

Getting decentralisation right is particularly important in the context of ongoing megatrends, including globalisation, climate and demographic change, and rapid technological advancements. These bear new challenges and opportunities at the subnational level and can exacerbate existing divides between places, as some may benefit from these trends while others may feel increasingly left behind. Dysfunctional decentralisation systems carry the danger of aggravating challenges regions already experience. It is thus critical to find ways to make multi-level governance systems work for regional development and the well-being of people (OECD, 2019^[1]).

Decentralisation is more than simply increasing the power and autonomy of local governments. Rather, it requires a profound reconfiguration of relationships and roles between the levels of government. For instance, central governments need to move from a service delivery role to one that sets the right framework conditions in terms of strategy, co-operation, alignment of policy objectives and monitoring performance. Further, as a complete separation of policy responsibilities and outcomes among levels of government is impossible, decentralisation relationships are characterised by mutual dependence and necessitate new forms or increased co-operation across and among different levels of government.

The OECD has documented the benefits and challenges decentralisation can have for countries. Among the greatest benefits are that programmes can be better matched to local needs, for instance with regards to the quality and efficiency of service delivery. In addition, positive correlations exist between GDP per capita growth and decentralisation, and links between revenue decentralisation and smaller regional disparities have been observed. Thus, decentralisation may help lagging regions to catch up. In Korea's case, well-designed decentralisation may meaningfully contribute to the government's longstanding desire for more balanced national development.

Similarly, the OECD has also shed light on the most common pitfalls with regards to decentralisation processes. Key challenges revolve around a lack of sufficient administrative, technical and strategic capacities at the subnational level, missing resources and fiscal support to local governments to carry out the newly assigned tasks, and the loss of certain economies of scale and fragmentation of public policies (OECD, 2019^[1]). To be able to help countries to make the most of decentralisation, the OECD has identified ten guidelines for implementing decentralisation. These help to anticipate and minimise risks and harness opportunities. The guidelines are presented below in Box 4.1.

Box 4.1. Ten OECD guidelines to implement decentralisation

Guideline 1: Clarify the responsibilities assigned to different government levels

- The way responsibilities are shared should be explicit, mutually understood and clear for all actors. Equally important is clarity in the different functions that are assigned within policy areas.

Guideline 2: Ensure that all responsibilities are sufficiently funded

- Access to finance should be consistent with functional responsibilities.

Guideline 3: Strengthen subnational fiscal autonomy to enhance accountability

- Subnational governments should have a certain degree of autonomy in the design and delivery of their public service responsibilities. Subnational governments need to develop own-source revenues.

Guideline 4: Support subnational capacity building

- Central government should assess capacity challenges in the different regions on a regular basis. Policies to strengthen capacities should be adapted to the various needs of territories.

Guideline 5: Build adequate co-ordination mechanisms across levels of government

- There is a need to establish governance mechanisms to manage joint responsibilities. Creating a culture of co-operation and regular communication is essential for effective multi-level governance. It is also important to avoid multiplying co-ordination mechanisms.

Guideline 6: Support cross-jurisdictional co-operation

- Horizontal co-ordination can be carried out using specific matching grants and by promoting inter-municipal and inter-regional co-operation. Rural-urban partnerships are one form.

Guideline 7: Strengthen innovative and experimental governance, and promote citizens' engagement

- Citizens should be empowered through access to information. Ensure that elected local councils have the ownership and control of citizen participation and engagement initiatives.

Guideline 8: Allow and make the most of asymmetric decentralisation arrangements

- Asymmetric decentralisation should be supported by effective vertical and horizontal co-ordination mechanisms and an effective equalisation system. It should also be based on dialogue, transparency and agreements between all main stakeholders.

Guideline 9: Consistently improve transparency, enhance data collection and strengthen performance monitoring

- National governments should develop performance-monitoring systems for decentralisation and regional development. Monitoring of subnational performance should be based upon a minimum set of standardised indicators.

Guideline 10: Strengthen national regional development policies and equalisation systems and reduce territorial disparities

- The equalisation programme must not be looked at in isolation from the broader fiscal system, especially conditional transfers. Equalisation arrangements need to be carefully designed to promote the development efforts of subnational governments.

Source: OECD (2019^[1]), "Making decentralisation work: A handbook for policy-makers", <https://dx.doi.org/10.1787/dd49116c-en>.

There is increased recognition that regional and rural policies should be adapted to the needs and circumstances (social, economic, cultural, geographic, environmental, etc.) of different regions and rural places. This tailoring requires rural policymaking to extend across a wide range of policy areas, which makes a complete separation of policy responsibilities and outcomes impossible. Successful implementation of rural policy consequently requires new ways of working and organising including mechanisms that effectively engage different levels of governments, people and businesses in order to increase well-being across all types of rural regions. In the process of decentralisation in Korea, the

interdependencies of rural policy, as well as the particular challenges experienced by rural areas, need to be considered throughout the decentralisation process.

Five key areas will be addressed in the following section:

- *Vertical co-ordination:* As rural and regional development policy is cross-cutting by nature, it involves a variety of governmental and non-governmental actors. Ensuring that objectives and priorities are aligned, particularly in areas that support rural and regional development but where responsibilities and/or interests intersect (e.g. economic development, transport, health and education) requires vertical co-ordination mechanisms that foster partnership-based relationships among levels of government and proper assignment of functions to avoid duplication of services or unnecessary administrative costs.
- *Capacity building:* Adequate human and technical capacity is a prerequisite for successful decentralisation. Yet, benefits of decentralisation may accrue only to the already more developed and prosperous regions because of unequal distribution and availability of capacities. Especially rural regions can be disadvantaged in efforts to build capacity due to smaller labour markets, limited attractiveness and career opportunities. Decentralisation processes need to avoid regional disparities increasing and hampering regional development.
- *Horizontal co-ordination:* A lack of horizontal policy co-ordination can easily lead to missed opportunities on investment and policy complementarities at the subnational level. For instance, inefficient service provision may result from too small a scale. Rural and regional development requires aligning different sectoral and political interests through horizontal co-operation.
- *Public engagement:* Crafting effective policies requires decision-makers to listen and respond to the needs of their constituencies. However, with the deepening of globalisation, some rural regions feel that their voices are increasingly overlooked in policymaking. Decentralisation processes offer important opportunities for governments to widen citizen participation in policymaking and represent an important strategy for improving trust in public institutions and policies.
- *Subnational fiscal autonomy and effective public investment:* For decentralisation to be effective, subnational governments must have a degree of autonomy in the design and delivery of their programmes and services, something they cannot have if they are reliant on the central government's fiscal capacity to pay for their activities.

Vertical co-ordination and delegation of tasks

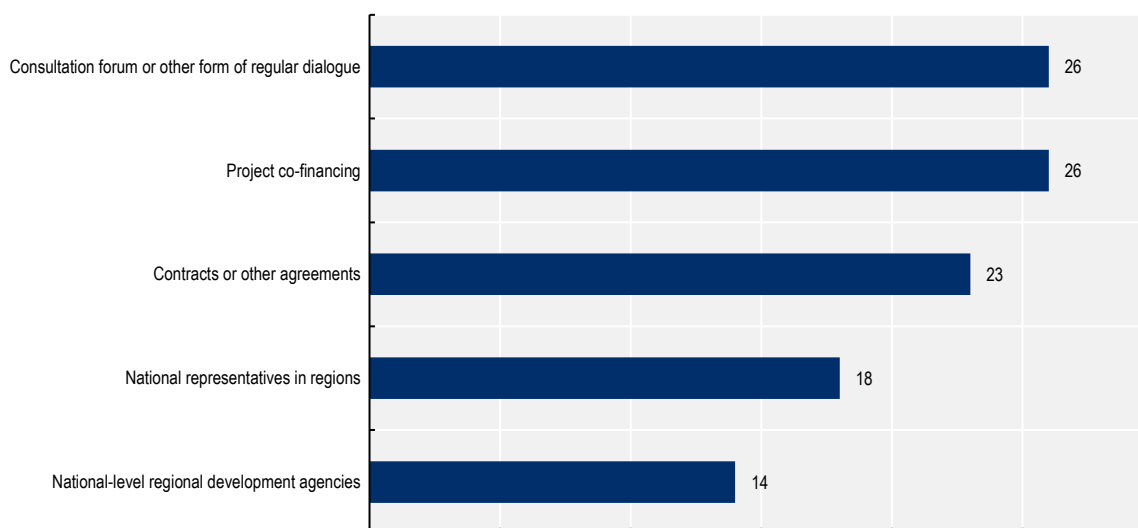
In order to manage the relational outcome of decentralisation policies, executing tasks, overcoming obstacles and/or accomplishing objectives requires co-ordination among government actors and a clear definition of roles of various levels of government. The fact that rural development extends across a wide range of policy areas and involves a variety of actors further heightens the importance of co-ordination and clarity of roles. For instance, when tailoring programmes to specific local needs, these services are often best provided locally but higher-order legislative frameworks and financing may be required for equitable provision. This section looks at ways to structure vertical co-ordination between levels of government and the delegation of a task to enable a clear division of powers.

In a context of shared jurisdiction, i.e. when a function is the joint responsibility of several levels of government, a transparent division of power is crucial for governments to deliver mandates and ensure accountability. If this is not the case, duplication of services increases administrative costs. Clarity in the division of power, however, does not mean that shared responsibilities should be avoided; rather, it means that the way responsibilities are shared should be explicit, mutually understood and clear for all actors, including citizens. To do this best, an intergovernmental consensus for clarity in responsibilities (including sub-functions and major tasks) that is tailored to local circumstances and mutually acceptable and

agreeable to all orders of government should be striven for. In practice, the question is about how to manage shared functions and responsibilities (OECD, 2019^[1]).

Tools for vertical co-ordination (Figure 4.1) include dialogue platforms, fiscal councils, standing commissions and intergovernmental consultation boards, and contractual arrangements for example. The OECD Regional Outlook Survey 2015 showed that consultation fora, project co-financing and contracts are the most common forms of vertical co-ordination (Charbit and Romano, 2017^[2]).

Figure 4.1. Vertical co-ordination instruments in OECD countries



Note: The total number of respondents is 30.

Source: (OECD, 2015^[3]), OECD Regional Outlook Survey 2015.

Consultation fora and other forms of regular dialogue

Consultation fora and other forms of dialogue can be of ad hoc and permanent nature depending on their objective. While ad hoc measures can help to address and resolve problems that are of temporary nature, for instance in moments of crisis, more permanent bodies such as standing commissions and intergovernmental consultation boards can create a culture of regular co-operation and communication. This is often needed for long-term reform success. Italy, for instance, has three separate conferences – state-regions, state and local governments, and state-regions-local governments – serve as the intergovernmental fora. Similarly, Denmark, Finland, Norway and Sweden have regular meetings of central and local governments (through their associations of local governments) to discuss policy and implementation issues (see Box 4.2. for a description of the Swedish system). Further in 2015, Portugal established the Council for Territorial Dialogue chaired by the prime minister and with the representation of central and local governments, in order to facilitate continuing dialogue on important policy and programme issues (OECD, 2019^[1]).

In Korea, the Central and Local Governments Policy Council is a form of permanent forum for dialogue. This council, chaired by the Minister of the Interior and Safety and attended by the heads of central ministries and local governments (e.g. mayors and governors), is convened once a month on a regular basis and ad hoc meetings are held if necessary. At the council, local administrative matters, major policies requiring consultations and suggestions between central and local governments are discussed.

Box 4.2. Forum on Regional Competitiveness in Sweden

The Forum on Regional Competitiveness, created in 2007, has since been strengthened and plays an active role in fostering dialogue across levels of government. Formerly used as a co-ordination mechanism, it has been replaced with the Forum for Sustainable Regional Growth and Attractiveness. This forum is used to promote co-ordination between levels of government and type of government actor (political and civil service), bringing together representatives from ministries and regional bodies. State agencies also participate, depending on the topic for discussion at each meeting. Associated with the forum are networks and working groups that bring together 16 state agencies. The forum meets in plenary sessions four times per year. It is part of the implementation of the National Strategy 2015-20.

The forum has gained in authority and legitimacy and is now considered as an important tool for multi-level governance in Sweden. Although the forum cannot take binding or formal decisions, it is seen as a credible institution to support national and regional level policy development through dialogue and co-operation. The forum focuses on themes related to the National Strategy 2015-20's priorities, for example: regional innovation systems; supporting skills and labour market integration; public services; infrastructure; and transport.

Contracts as a tool for vertical co-ordination and regional development

In-depth research at the regional level carried out by the OECD in 2012 showed that contracts can be complementary tools to both formal (i.e. conditionality) and informal arrangements (i.e. platforms for policy exchange or working groups). Contracts across levels of government represent a practical and flexible option for co-ordination across levels of government, which allow the establishing roles and responsibilities without changing the constitution. Both parties can negotiate and organise the duties, according to needs, territorial circumstances and local specificities. Sometimes, contractual arrangements across levels of government may be the only option for the central government to co-ordinate actions with subnational authorities since adopting other multi-level governance devices would require significant institutional changes, which would take time and may lead to unforeseen/undesirable results (Charbit and Romano, 2017^[2]).

Box 4.3. Background on contracts – Understanding the use of contracts for regional development

Contracts define mutual obligations of parties, which have to agree on: an assignment of rights of decision among the parties (*authority*); a distribution of contributions, including funding, human capital, assets, etc. (*mutual duties*); and mechanisms that guarantee the correct implementation of each party engagement and solve disputes (*enforcement*) (OECD, 2007^[4]).

The engagement of parties through a contract is performed through several steps:

- The consultation initiates the dialogue between central and subnational governments, both contributing to shared policy objectives⁵. The consultation phase aims at establishing priorities and actions, by assessing regional development needs, as well as possible impacts on different categories of stakeholders. Several actors can be involved in the consultation, including private and non-profit sectors and civil society. Although rarely performed, the evaluation of previous contractual experiences can help design the next generation of contracts.

- The negotiation/signature leads to the formal agreement between central and subnational governments. The contract is negotiated between independent authorities, with elected legitimacy to intervene in public functions. They can be represented by “gatekeepers”, governmental actors engaged in the negotiation and implementation phase, such as inter-ministerial bodies, specific ministry or deconcentrated bodies (for the central government) and leaders of regional, provincial and local authorities (for the subnational government).
- The implementation phase involves a number of “operational actors”, such as local, provincial or other subnational institutions, as well as firms, associations, private actors and non-profit organisations. The dialogue between the two parties can be facilitated by an “intermediary agent”, such as: the *Prefect* in France, designated by the central government to represent central ministries in regions; and the National Planning Department (DNP) in Colombia, an administrative body, which, among others tasks, sets priorities, co-ordinates central governments and departments and monitors the implementation of contracts.
- Enforcement and evaluation are two important components of the contracts. Enforcement mechanisms aim to solve possible conflicts and ensure that each party fulfils the commitments. The enforcement can be internal (performed by the parties) or external (e.g. a judge, a group of peers, international agencies, citizens and other stakeholders). The evaluation aims to assess impacts to ultimately learn from success and failures. It is crucial for informing, prioritising and negotiating terms of contracts in the following period. Enforcers and evaluators should guarantee a neutral and independent process (Kaufmann and Kraay, 2008^[5]).

Charbit and Romano’s (2017^[2]) differentiate between three types of contracts:

- *Empowerment contacts* are designed to assist with capacity building among subnational authorities, thereby making it feasible to provide them with greater autonomy in dealing with regional development policies.
- *Delegation contracts* are designed to delegate the implementation of tasks to the subnational government and are therefore a tool in support of vertical co-ordination. Delegation contracts are typically deployed in cases where regional and local actors are deemed to be better positioned to implement national policies at the local level and can improve efficiency in public spending.
- *Policy-sharing contracts* are designed to foster co-operation between central and subnational governments in order to fulfil competencies that are either overlapping or not fully addressed. As such they are also a tool that can support vertical co-ordination. In both cases, a contractual mechanism may favour information sharing and mutual understanding, while reducing transactional costs and generating trust for future endeavours.

In unitary states, contracts, usually in the form of long-term agreements, are often used to empower subnational governments or delegate tasks within the framework of decentralisation policies. In federal states, contracts often agreed for short periods of time, are complementary to existing legal frameworks, setting co-operation on specific tasks (OECD, 2007^[4]). Contracts can adapt to complex situations and to the socio-economic and environmental characteristics of regions (e.g. leading and lagging regions, urban and rural areas, regions endowed with abundant or scarce natural resources).

Contracts for regional development can include equity targets through two approaches:

- Eligibility conditions: Such as in the case of European Union (EU) cohesion funds, which are allocated according to whether a region’s per capita GDP is below/above 75% of the European average.

- Co-funding rate: This can be differentiated according to the wealth of each partner region. In France, the funding share of the central government varies from 39% (Ile-de-France) to more than 63%.

Source: Charbit, C. and O. Romano (2017^[2]), "Governing together: An international review of contracts across levels of government for regional development", <https://doi.org/10.1787/ff7c8ac4-en> (accessed on 16 July 2020); OECD (2007^[4]), *Linking Regions and Central Governments: Contracts for Regional Development*, <http://dx.doi.org/10.1787/9789264008755-en>; Kaufmann, D. and A. Kraay (Kaufmann and Kraay, 2008^[5]), *Governance Indicators: Where Are We, Where Should We Be Going?*, Published by Oxford University Press on behalf of the International Bank for Reconstruction and Development, World BankWorld Bank.

Contracting in Korea – Initial steps in leveraging contracts to support decentralisation

The Korean government has been developing a contract system, where local governments can establish comprehensive multi-year regional development plans and obtain multi-year financial support from the central government based on the central-regional agreement. These are called Regional Development Investment Agreements. The rationale behind the agreements is to enhance the local governments' autonomy and capacity on their own regional development agenda and to break the policy silos among central ministries which dominate regional policies through sectoral approaches.

Following the amendment of the Special Act on Balanced National Development in 2018 to allow preferential fiscal supports to the contract-based local projects from the special account, 11 local governments were selected as pilots. Contracts between the selected project proponents and the central government were finalised in 2019, following a selection process that included feasibility assessments, desk review and presentations given to selected ministries and the Presidential Committee on Balanced National Development. Selection criteria for the projects included synergies with existing projects, a partnership among relevant entities, civic participation, proper performance management, etc. Overall, ten ministries are part of the agreements, either as lead or as supporting ministries.

Principally, submitting entities are intended to be local governments at the municipal level; however, metropolitan governments or those with a similar administrative structure can apply as well. The 11 selected pilot projects are distributed across different regional types based on the OECD typology as follows:

- Two are in *large metropolitan* regions.
- Five of the projects are in *metropolitan TL3* regions with a city with more than 250 000 inhabitants.
- Three are in *non-metropolitan regions with access to a metropolitan region*.
- One region has *access to a small/medium-sized city*.

The majority of projects seek to expand already existing industries such as the maritime industry, tourism, food production and consumption, biotechnology and medicine or technical services, while the remaining projects focus on improving liveability by strengthening regional medical facilities or job matching facilities and recreational services to become more attractive. An overview of the projects can be found in Table 4.1.

In order to meet the goal of improving policy efficiency and regional autonomy, the new agreement system is equipped with powerful tools. Financially, a total of KRW 100 billion has been allocated to cover the cost of projects in the agreements over a period of 3 years. This works out to approximately KRW 9 billion for each of the pilot projects, with 50% cost-sharing from the local government budgets. For projects whose lives may extend beyond the pilot period (for example those projects that will develop a new piece of infrastructure or other fixed assets), local governments will be primarily responsible for their ongoing maintenance and running costs, though central ministries may provide support if necessary. Each regional agreement requires the establishment of an implementation team responsible for the detailed planning, operational management and performance monitoring and assessment. Since local capacity may be

limited in some areas, consulting support by regional policy experts is available. These consulting teams consist of three to five experts from the Korea Research Institute for Human Settlements and a Regional Innovation Committee as well as one recommended by a line ministry. To monitor progress, MOLIT will provide quarterly reviews on the performance indicators set by each region, with the results then reflected in the following year's implementation plan. Initial results from the pilot projects show that they have had a positive impact on local planning and implementation capabilities.

Table 4.1. Eleven pilot projects of the Regional Development Investment Agreement

Name	Title/Objective	Ministries (lead and supporting)	Budget (KRW)	TL3 typology
Busan	Build a business ecosystem for innovative growth of Busan's new maritime industry	Ministry of Trade, Industry and Energy, Ministry of Science and Information and Communication Technology (ICT), Ministry of Oceans and Fisheries, Ministry of Small- and Medium-sized Enterprises (SMEs) and Start-ups	18.2 billion	Regions with a city >1M
Gwangsan-gu (Gwangju)	Improve quality of life by developing air purification technology and developing new industry focusing on the reduction of fine dust	Ministry of Trade, Industry and Energy, Ministry of Science and ICT, Ministry of the Environment, Ministry of SMEs and Start-ups	18.2 billion	Regions with a city >1M
Seoguipo-si (Jeju)	Establish an integrated medical safety net for regional communities	Ministry of Health and Welfare and Ministry of Agriculture, Food and Rural Affairs	18.2 billion	Regions with a city >250K
Gunsan-si (Jeollabuk-do)	"Only One Go Gunsan" Tourism Belt Project to stimulate the tourism industry, e.g. through improved infrastructure	Ministry of Oceans and Fisheries, Ministry of the Interior and Safety, Ministry of Land, Infrastructure and Transport	18.2 billion	Regions with a city >250K
Cheongju-si and Jeungpyeong-gun (Chungcheongbuk-do)	Boost tourism using <i>Chojeong</i> mineral water, renowned for its world-leading quality and developing infrastructure	Ministry of Culture, Sports and Tourism, Ministry of the Environment, Ministry of Land, Infrastructure and Transport	25 billion	Regions with a city >250K
Uiseong-gun (Gyeongsangbuk-do)	Enhance rural vitality by attracting and retaining youth and improving the quality of life of residents in response to population decline	Ministry of Land, Infrastructure and Transport, Ministry of Culture, Sports and Tourism, Ministry of Agriculture, Food and Rural Affairs, Ministry of Health and Welfare	18.2 billion	Regions with a city >250K
Geochang-gun and Hapcheon-gun (Gyeongsangnam-do)	Build a hub of the world's elevator industry	Ministry of the Interior and Safety and Ministry of Trade, Industry and Energy, Ministry of Employment and Labour	24.1 billion	Regions with a city >250K
Sejong	Boost local food production and consumption	Ministry of Agriculture, Food and Rural Affairs, Ministry of Culture, Sports and Tourism, Ministry of the Environment	36.1 billion	Regions near a city >250K
Gangneung-si (Gangwon-do)	Develop an ecosystem for the healthcare industry based on the region's bio and tourism industries	Ministry of Trade, Industry and Energy, Ministry of Culture, Sports and Tourism	18.2 billion	Regions near a city >250K
Hongseong-gun (Chungcheongnam-do)	Build a hub for organic farming including through distribution facilities, ecovillages and processing facilities	Ministry of Agriculture, Food and Rural Affairs, Ministry of Education	18.2 billion	Regions near a city >250K

Name	Title/Objective	Ministries (lead and supporting)	Budget (KRW)	TL3 typology
Wando-gun (Jeollanam-do)	Develop a maritime healing blue zone, combining maritime healing industry with biotechnology and ICT	Ministry of Oceans and Fisheries, Ministry of Health and Welfare/Korea Meteorological Administration	18.2 billion	Regions with/near a city <250K

Note: National budget for each project is KRW 9.1 billion.

Source: OECD (2020^[6]), "Questionnaire", Unpublished, OECD, Paris.

Delegation contracts

With delegation contracts, central governments set objectives and delegate the implementation of specific tasks to a capable subnational government, with the aim of adapting national policies to specific local contexts. Contracts aim to avoid a one-size-fits-all approach and leave scope for adapting policies to territorial characteristics while overcoming institutional fragmentation. Contracts can comprise silo approaches and favour a territorial focus for development, taking into account the specific assets and needs of each region. Delegation contracts are based on the assumption that regional and local actors are better positioned to implement national policies at the local level, owing to their proximity to specific populations or territories targeted by the delegated policies (Charbit and Romano, 2017^[2]).

Delegation contracts are often characterised by cofounding approaches that involve central governments in local spending. Grants act as strong incentives for effective delivery of the outcomes expected by the central government and their earmarked character can help encourage local actors to clearly set *ex ante* goals (i.e. transactional contract). Delegation contracts may, however, face the risk of "strategic" behaviour from subnational authorities, whereby they manipulate the provided means to deliver general interest goods to pursue their own interests. Conversely, there is also the risk that subnational governments would be mere executors of tasks *vis à vis* a specific outcome, thereby limiting the scope for place-based policies. A certain degree of flexibility would enable a learning process and thus allow the development of adequate policies.

Delegation contracts occur when constitutions or legal frameworks allow for subnational governments to fulfil the task to be delegated. It is often supported by financial incentives from the central government:

- The "Devolution Deals" in England (United Kingdom) are cross-government arrangements between central and subnational government, which involve the devolution of powers and resources, previously allocated at the central level, to city regions and metropolitan areas. Since 2014, a total of 12 Devolution Deals have been secured (Local Government Association, 2016^[7]). The Devolution Deals foresee the creation of new governance and administrative arrangements, such as mayors and combined authorities (Sandford, 2016^[8]). Alternative arrangements to the elected mayoral model have also been suggested, such as a reduction in councillor numbers, district council mergers, or the creation of unitary authorities (National Audit Office, 2016^[9]). As part of these Devolution Deals, concerning transport, education, healthcare and services, the government has announced new additional investment funding of GBP 246.5 million a year (National Audit Office, 2016^[9]). The regions, cities or metropolitan areas are required to put in place an extensive programme of evaluation, agreed at the outset with HM Treasury (Local Government Association, 2016^[7]). An independent panel, commissioned by the central government and the local areas, will assess if investment funding meets objectives and contributes to national economic growth. However, the central government does not intend to use macro-indicators for the assessment of the Devolution Deals (National Audit Office, 2016^[9]). According to certain authors, there are some obstacles to an effective devolution of powers, due to the fact that there is a limit to the extent to which subnational priorities can actually be prioritised and addressed; powers assigned to mayors are negotiable and strategy documents are subject to approval and expenditures audited (Bentley and Pugalís, 2016^[10]).

- The Barkly Regional Deal, in the Northern Territory of Australia, is the country's first Regional Deal. Signed on 13 April 2019, the Barkly Regional Deal is an AUD 78.4 million, 10-year commitment between the Australian government, the Northern Territory Government and the Barkly Regional Council to support the productivity and liveability of the Barkly region. The Barkly Regional Deal comprises 28 initiatives identified through an extensive 6-month consultation process with local stakeholders. Taken together, the initiatives are interdependent and respond to three community priority areas: economic development, social development and culture and place-making. These initiatives will strengthen the Barkly region as a great place to live, work, invest and visit. The effectiveness of the Barkly Regional Deal will be measured over the ten-year life of the deal, with a series of reviews scheduled throughout its implementation phase and an independent evaluation also to be undertaken (OECD, 2017^[11]).
- The Sustainable Neighbourhood Contracts (*Contrats de quartiers durables*), in the Brussels-Capital Region, were introduced in 1993 to delegate the renovation and improvement of traditional neighbourhoods to municipalities. Contracts had a seven-year timeline. Projects included the construction of public parks, production of low energy homes, energy savings, waste reduction and air quality initiatives, rationalisation of consumption, and promotion of neighbourhood heritage (OECD, 2014^[12]). Since 1994, these contracts served to build 1 718 homes and renovated 90 sites of public equipment and infrastructure (Minister for the Environment, Energy and Urban Renewal of the Brussels-Capital Region, 2016^[13]). Three contracts were in place in the City of Brussels for the period 2012-16 (Ville de Bruxelles, 2016^[14]).
- In the Netherlands, rural contracts aimed to implement the national goals included in the Agenda for a Living Countryside at the subnational level (OECD, 2013^[15]). Signed in 2006 by the central government and provinces, contracts were based on precise criteria, instruments and sanctions. The national rural policy described exactly how provinces could achieve their goals. Performance targets were agreed between the national government and the provinces during a negotiation process that resulted in a seven-year contract. Targets were then monitored through performance indicators (OECD, 2008^[16]).
- In Québec, Canada, the Rural Pacts establish responsibilities for rural development between the government and elected representatives of the Regional County Municipalities (*Municipalité régionale de comté*, MRCs). The Rural Pacts concern multi-sectoral activities: from education to healthcare and culture. The provincial government decides the general policy directions while local actors design and implement rural measures. These pacts allow for flexibility in defining local assets and resources to be mobilised to promote local growth. The Ministry of Municipal Affairs and Land Occupancy (*Ministère des Affaires municipales, des Régions et de l'Occupation du territoire*, MAMROT) plays an important role in assisting and monitoring commitments made by MRCs (OECD, 2010^[17]). The Rural Policy for 2014-24 foresees greater decentralisation and the use of Pacts Plus, devoted to the implementation of forward-looking projects concerning new domains and innovations in local services (MAMROT, 2013^[18]).

Policy-sharing contracts – The Korean Regional Development Investment Agreement

Since regional development policy is a shared responsibility across levels of government, policy-sharing contracts are the dominant mechanisms used to align national and regional strategies in mature decentralised contexts. Policy-sharing contracts allow common decision-making, dialogue and collective innovation. This favours information sharing, mutual understanding and generates trust across levels of government. Such contracts allow sharing of financial and political risks by unlocking potential support from third parties (e.g. financial institutions) (OECD, 2007^[4]).

Policy-sharing contracts can be implemented when competencies at the subnational level are clearly defined but not yet addressed or in situations where a clear allocation of roles and responsibilities across levels of government for shared tasks is necessary. According to the types of contracts mentioned in

Box 4.3, Korea's Regional Development Investment Agreement can be defined as a policy-sharing contract. In signing the agreements, subnational governments play a leading role in setting goals (creating jobs, bolstering industries, promoting cultural assets and tourism, etc.) and establishing concrete plans while the central government supports them by providing consulting and other assistance. Under the agreement system, subnational governments are given a more active role than before, even equal status with the central government. Moreover, unlike delegation contracts that require separate legal grounds, the agreement system can implement the projects agreed upon between central ministries and subnational authorities solely based on the horizontal contracts with the two parties positioned on an equal footing. The agreement system fits the nature of policy sharing in that details are discussed and adjusted to co-ordinate their interests in the agreement-signing process.

- In Canada, the Vancouver Agreement (VA) involved all three levels of government: the Government of Canada (central level), the Government of British Columbia (intermediate tier) and the city of Vancouver (municipal level). The initial agreement was signed in 2000 and renewed in 2005 until 2010. The Tri-partite Urban Development Agreement aimed to address the challenging economic, social and health conditions in the Downtown Eastside area of the city of Vancouver, establishing roles and responsibilities across the government of Canada, the province and the municipality. The agreement addressed issues such as public security, unemployment and crime, which were not clearly allocated amongst the three levels of the government but generated impacts on all three and citizens. The partnership constructed by the VA was one based on equality of the three participating governments, using unanimity and consensus as to its decision-making rule (OECD, 2007^[4]).
- The City Deals in the Netherlands are signed between central and subnational authorities and stakeholders as part of the Dutch Urban Agenda (*Agenda Stat*). The first City Deal was signed on the subject of the development of a roadmap for the next economy, the second on climate adaptation, and others will follow on sustainable energy, healthy cities and clean technology. The Climate Adaptation City Deal was signed in 2016 between the Ministry of Infrastructure and the Environment, three regional water authorities, five cities (Dordrecht, Gouda, Rotterdam, The Hague and Zwolle) and seven other partners (research centres and companies). The aim is to create a learning environment for climate adaptation at the urban level for the next four years. In particular, it promotes innovative ideas to tackle flood risks, to foster an integrated approach between water and spatial planning, and to enhance co-operation in general.
- In Spain, the Collaboration Contracts (*Convenios de colaboración*) are co-operative agreements between the central government and the autonomous communities (ACs). They are negotiated on a sectoral basis and distributed between the different Spanish ministries. Upon signature, the central government provides earmarked funds. Contracts can be renegotiated between the parties without having to restart the process and they are published in the Official Bulletin of the central government. According to the law, each *convenio* must have a monitoring commission responsible for solving problems of interpretation and ensuring compliance with the terms of the deal. There is a wide range of examples of contracts, ranging from the transactional to the relational: several bilateral agreements have been used in the context of promoting science and technology between national and subnational governments (OECD, 2011^[19]).
- In its process of decentralisation, the French central government has devolved tasks to different types of subnational authorities.¹ Part of this process is the State-Region Planning Contracts or *contrats de plan État-Région* (CPER), also mentioned in the previous section. Key to the development of these contracts is that they served as a “laboratory” to co-ordinate economic development at the regional level. As described above, regions progressively strengthened their role in interacting with sub-regional entities (*départements* and municipalities), through the negotiation of the fourth (2000-06) and fifth (2007-13) generations of CPERs. Through the CPERs, regions invested in new areas of competency, gaining experience before having them allocated by

law. Policy consistency at the regional level also improved. Typically, the fifth generation of CPERs (2007-13) allowed regions to handle matters related to economic development and transport infrastructure, previously in the hands of the state.

Takeaways for Korea

- Clarity in responsibilities (including sub-functions and major tasks) tailored to local circumstances and mutually acceptable and agreeable to all orders of government should be striven for when it comes to decentralisation. This means responsibilities should be explicit, mutually understood and clear for all actors, including citizens.
- Contracts across levels of government represent a practical and flexible option for co-ordination across levels of government, which allow for roles and responsibilities to be established without changing institutions. They can also build trust between parties and enable experimenting between top-down and bottom-up approaches:
 - Delegation contracts allow an efficient implementation of tasks at the local level but require mature decentralisation systems and expertise of the subnational government.
 - To address overlaps in competencies or when these are unclear because of newly arising needs a policy-sharing contract can favour mutual understanding and action. They also allow sharing of financial risks such as in the example for the Regional Development Investment Agreements.
- Consultation fora and other forms of dialogue can be an additional tool to foster co-operation across levels of government. Ad hoc committees have the advantage to address challenges as they arise while standing commissions and intergovernmental consultation boards are important to create a culture of regular co-operation and communication. It is important to avoid multiplying co-ordination mechanisms with no clear roles or large transaction costs.

Capacity building at the regional and local levels

Building sufficient administrative, institutional, strategic and financial management capacities for the subnational level to carry out the designated functions is essential for the success of the decentralisation process. These capacities ensure that subnational governments can undertake the designated responsibilities in an efficient, fair, accountable, incorruptible and responsive manner that create and sustain public value. Moreover, they are especially critical for the development and implementation of regional development strategies that require substantial citizen input and co-ordination across and beyond governments (OECD, 2019^[1]). If decentralisation processes move too fast, subnational administration often lags behind in its ability to plan strategically, procure necessary contracts, invest in infrastructure, oversee service delivery and engage in performance monitoring. From a regional development perspective, lacking capacity can increase regional inequalities if regions with existing competencies are ready to take on new tasks more easily while those that are weaker might be falling further behind.

Especially in rural regions, attention has to be paid to the fact that government capacities might not be the same as in urban contexts or can take longer to build. In a 2015 consultation of subnational governments by the OECD and European Committee of the Regions, more than half of the respondents (56%) stated they lack adequate expertise on infrastructure. These results were particularly apparent in small municipalities and inter-municipal structures (OECD/CoR, 2015^[20]). One of the reasons why small and especially rural municipalities face challenges in building capacities is because rural labour markets are generally smaller and more specialised. Consequently, finding people with the right level of education and job experience can be more difficult or require additional training to ensure that employees are ready to take on the new tasks or provide services of the required standard. In addition, these places might offer

lower salaries and limited opportunities for career development, which makes them less attractive to talent. When devising capacity-building strategies, these local specificities need to be taken into account.

Key capacities to build include:

- *Administrative capacity*, including the ability to deliver high-quality services, decide on staffing needs, co-ordinate or co-deliver policies and programmes with other governments and stakeholders, carry out prudent fiscal and financial management and audit and evaluate own services.
- *Institutional capacity*, including having effective legislative, executive, co-ordination, audit, evaluation and citizen feedback institutions in place.
- *Strategic capacity*, including the ability to set strategic goals for outcomes considering the administrative and institutional capacity to realise those goals within the time frames.
- *Financial management capacity*, including ensuring the effective use of internal and external resources with integrity (OECD, 2019^[1]).

Overall, local capacity building needs careful long-term preparation and commitment from both central and subnational government levels. All levels of government play their part in capacity building. Central governments can offer support in the form of training and financial incentives and subnational levels need to mobilise local leadership, community participation and ownership. Box 4.4 presents two examples of capacity-building efforts in decentralisation contexts from Chile and Colombia. Furthermore, the section below describes empowerment contracts as a tool for capacity building.

Box 4.4. Examples for strengthening the subnational capacity

The Academia de Capacitación Municipal y Regional was introduced in 2007 in Chile to strengthen human resources in municipalities and regional governments through free training. The training is provided via classroom training as well as through semi-attendance and fully online classes. The academy also functions as a technical reference, providing knowledge and skills across varying territorial situations. Over time, it has developed co-operation with academic centres around the country to provide training in different locations. In 2014, the programme was supplemented by a fund that finances technical and professional studies for municipal personnel. Beneficiaries are required to work in their municipality for the same time they have taken to earn the degree.

As part of the Colombian “Strengthening new heads of subnational governments” strategy, the Department for National Planning developed a toolkit called KiTerritorial to support local governments in formulating their regional development plans. The toolkit covers four dimensions:

1. *Diagnosis*: Compiles information and analysis of the main enablers and barriers for the development of the region.
2. *Strategy*: This dimension focuses on identifying and formulating different objectives, indicators and targets
3. *Investment planning*: Identifies financial resources available to carry out programmes defined in the strategy. The first step is to analyse the financial situation of the municipality and the efforts needed to generate own resources and articulate effectively all the existing financing sources.
4. *Monitoring and evaluation*: Consist of reviewing whether a regional development plan is suitable for monitoring and evaluation. Here the municipality should define responsibilities, outputs and outcomes.

5. In addition to the toolkit, the Department of National Planning also *measures the institutional capacity of municipalities* in relation to: effectiveness, efficiency, compliance with legal requirements and management. Indices are published annually, contributing to improving accountability to citizens.

Source: OECD (2016^[21]), *Making the Most of Public Investment in Colombia: Working Effectively across Levels of Government*, <https://dx.doi.org/10.1787/9789264265288-en>; OECD (2017^[22]), *Making Decentralisation Work in Chile: Towards Stronger Municipalities*, <https://dx.doi.org/10.1787/9789264279049-en>.

Empowerment contracts – A tool to build capacities

During the early stages of decentralisation, contracts can help subnational authorities to develop new capacities and gain greater autonomy in dealing with regional development policies. So-called “empowerment contracts” serve as a tool for transferring responsibilities to subnational governments while gradually building capacities for policy implementation. They allow subnational governments (e.g. regions) to acquire in the middle-long run the necessary capacities to develop their own strategy and co-ordinate with lower levels of government (e.g. municipalities) or private actors. Contracts contribute to the building of local capacity by valorising the role of local decision-makers in targeting initiatives and using untapped potential. Central governments can include specific incentives as conditions of their signature, consisting in partnering with private actors, involving neighbouring local governments or adopting specific regulations, etc. (Charbit and Romano, 2017^[21]).

Empowerment contracts may concern all regions lacking in expertise at the early stages of decentralisation or “regionalisation” processes:

- In France, State-Regions Contracts (*contrat de plan État-Région*, CPER) initially aimed at building regional capacities, as part of the regionalisation process. The first generation of contracts was launched in 1984. Contracts resulted from long negotiations between elected regional (and local) authorities and the regional *préfet*, representing the central government and its different ministries at the regional level. In practice, parties agreed upon objectives, implementation and funding of specific tasks. Contracts could also imply financial transfers from central to local governments. In 20 years of implementation, from the first to the fifth generation of State-Region Contracts, regions have gradually replaced the central government in local development planning and regional decision-making has progressively included new fields, larger budgets and new actors (Charbit and Romano, 2017^[21]).
- In Poland, regional contracts have been negotiated and agreed between the central state (the Ministry for Regional Development) and regional governments. They aimed at being a learning device for regional authorities to deal with EU structural funds in a multi-level governance setting. Regions received a budget for investment in a range of policy fields, such as road infrastructure, healthcare, educational facilities, sports infrastructure, and tourist and leisure/cultural facilities (OECD, 2008^[23]; 2013^[15]; 2013^[24]). Later on, regional contracts became “territorial” ones for the implementation of the National Regional Development Strategy for 2010-20. They aim to create synergies between all regional policy instruments having a territorial dimension (OECD, 2014^[12]).
- The Italian Government in 2016 launched the Pacts for the South. A total of 16 pacts have been signed for eight regions (Abruzzo, Apulia, Basilicata, Calabria, Campania, Molise, Sardinia and Sicily), seven metropolitan cities (Bari, Catania, Cagliari, Messina, Naples, Palermo, Reggio Calabria) and for the city of Taranto (Institutional Development Agreement – *Contratto Istituzionale di Sviluppo*, CIS – of Taranto). 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*) has been

created for supporting the proper management of national and European funds (Cohesion Funds 2014-20) and providing technical support. The Agency for Territorial Cohesion is responsible for co-ordinating and monitoring the pact's implementation. Progress should be verified every six months. Sanctions are foreseen, should objectives not be achieved.

- *Contratos Plans* in Colombia are tools for territorial development and help selected lagging areas in improving services (education, healthcare and water sanitation) and infrastructure, such as road connectivity. Interventions are focused on the poorest areas within a *departamento* (equivalent to regions) (OECD, 2014^[25]). These are multi-year binding agreements between the central government and either *departamentos*, provinces or groups of municipalities that have to comply with the National Development Plan. The National Planning Department (DNP) co-ordinates the ministerial work for contract implementation. The *Contrato Plan* requires *departamentos* to co-finance policy intervention. On average, 70% is financed by the national government and 30% by the *departamentos*. To date, seven pilot tests have been carried out in nine *departamentos*. In 2012-13, they were introduced in 17 areas of intervention for an overall population of 6 million people in different parts of the territory (OECD, 2014^[26]).
- The Brazilian “federal pacts” (*Pactos Federativos*) are the result of a negotiation process between states and municipalities. Federal authorities first engage state governors through “road trips” (e.g. *caravana de educação*, *caravana de saúde*) designed to illustrate the objective of the contracts for different sectors, such as healthcare and education. Once the state adheres to the initiative, financial incentives might be available. An example is the Pact for Life (*Pacto pela Vida*) launched in 2008 by the Ministry of Health. It defined 11 priorities concerning healthcare for the elderly, reduction of infant and maternal mortality rates, strengthening basic healthcare, etc. Each objective was associated with specific actions and budgets (OECD, 2013^[27]).
- The current regionalisation reform in Morocco is implementing a contractual approach to enhance capacities of elected regional governments to implement the policies of their competencies. The Ministry of the Interior plays a kind of intermediary role between regions and the different line ministries to help them to agree to delegate more tasks to regions according to the constitution. Priorities for projects to be “contractualised” are related to the regional development plans that regions are committed to producing to indicate their regional development ambition. The instrument of such delegation is the Programme Contract State-Region, with a key challenge: to improve horizontal co-ordination among line ministries which tend to work in silos (OECD, forthcoming^[28]).

Takeaways for Korea

- Capacity development should be tailored to local needs and characteristics of local governments, following a careful assessment of systemic needs. When developing capacities, all four types of capacities need to be considered: i) administrative capacity; ii) institutional capacity; iii) strategic capacity; and iv) financial management capacity. As capacities are developed and might change over time, it is important to ensure ongoing monitoring and adaptation of support. With regard to future decentralisation, consideration may be given towards pursuing an asymmetrical, context-dependent approach that adjusts to territorial capacity, at least in the near term.
- In the past, Korea's central government was largely oriented towards providing technical assistance for regional development. Nowadays, efforts to build capacities are more evident, for instance through expert centres that are part of the Innovation Cities programme and the Regional Development Investment Agreement that has a team of experts, responsible for devising detailed plans, operating and managing them, and monitoring and assessing their progress and performance. Within these programmes, it is important, that they pursue systemic support for the building of capacities. Research has shown that merely delivering assistance to communities, for instance through borrowing and contracting capacities from experts such as higher levels of

government, private sector or other subnational governments, is often not sufficient to ensure long-term development.

- As capacity building takes time, programmes should be designed with a long-term perspective, including sustained resources and commitment to support from all government levels. The creation of special public agencies to support specific aspects of capacity building such as private-public partnerships, financial management and regional development can help to make needed expertise accessible to multiple jurisdictions.
- Empowerment contracts, as per examples above, can be an interesting tool to use in order to build subnational capacities. Empowerment contracts should be set within the context of a central government vision for regional development. The role of the central government would consist of providing relevant guidelines through the existence of a national strategy for regional development; ensuring consistency with regional strategies to support the learning process of subnational governments gradually gaining autonomy in decision-making; properly engaging regions in the priority setting intermediate steps of evaluation and adaptation strategies could help remove unnecessary constraints in contract implementation.

Horizontal co-operation for regional development

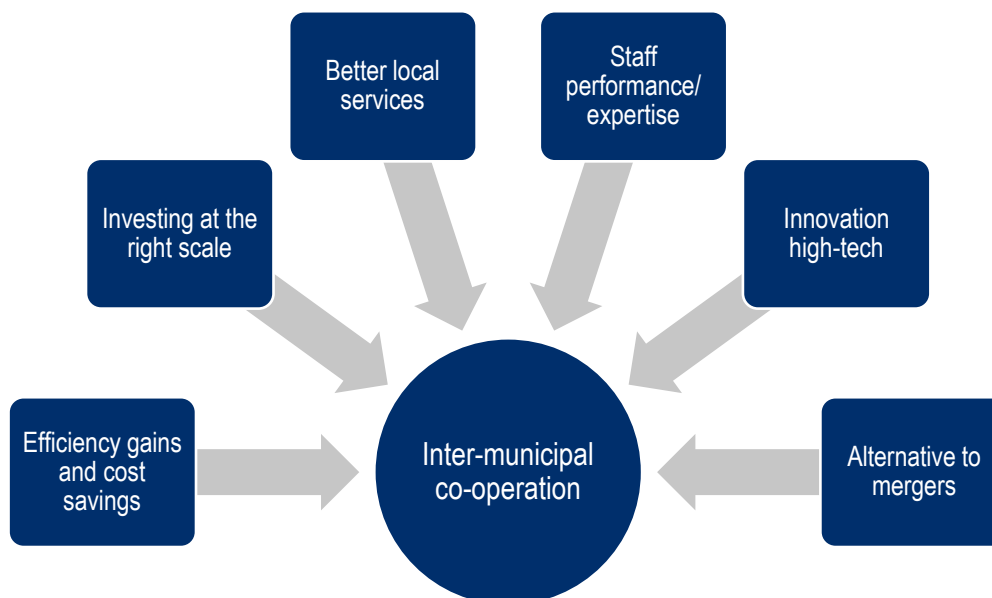
In a decentralisation context, policy co-ordination is a key issue for all levels of government. Horizontal co-ordination amongst regional and local jurisdictions is equally important as horizontal co-ordination at the central government level. Policy interventions that target policy sectors or administrative areas in silos may miss opportunities to unlock synergies and meet broad policy objectives for rural regions and countries. Thus, promoting better co-ordination between different types of regions and stakeholders is fundamental to attain sustainable and effective policy outcomes.

In Korea, intergovernmental co-operation authorities have been established at the local level but little use has been made of them thus far (OECD, 2019^[11]). In the light of pending decentralisation, it may be expected that the need for horizontal co-operation will rise. This section provides an overview of possible ways to foster horizontal co-ordination.

If co-operation is missing, fragmentation occurs and possibilities to make use of economies of scale and other synergies between neighbouring jurisdictions are easily lost. This is particularly apparent when administrative boundaries do not relate to the functional and economic flows across land (Charbit and Michalun, 2009^[29]; OECD, 2017^[22]). For instance, changes in demand for land use that come with economic development including tourism, agriculture or renewable energy, do not start or stop at administrative boundaries. Consequently, investments in infrastructure require close co-ordination amongst subnational government entities. Corresponding co-ordination bodies can also help to align interests and timing when it comes to implementing policies at the horizontal level. A full list of drivers for inter-municipal co-operation can be found in Figure 4.2.

Horizontal-co-ordination bodies are also important for building capacities and sharing good practices and overcoming communication challenges. For instance, co-ordinating bodies can help to represent the interests of the local and regional levels to national-level decision-makers. In Norway, the Association of Local and Regional Authorities plays a role as a national members association for municipalities, counties and public enterprises under municipal or county ownership. There are ongoing contacts between central and local government authorities and the association provides a forum to discuss the framework for the distribution of revenues in relation to the tasks carried out by local governments, the financial situation of local government and efficiency measures (Charbit and Michalun, 2009^[29]).

Figure 4.2. Drivers for inter-municipal co-operation in the OECD



Source: OECD (2019_[11]), "Making decentralisation work: A handbook for policy-makers" <https://dx.doi.org/10.1787/dd49116c-en>.

Today, horizontal co-ordinating bodies and inter-municipal co-operation is widespread and covers a large variety of diverse arrangements and mechanisms. They include co-ordinated investment strategies, trans-border co-operation, platforms for dialogue and co-operation as well as single or multi-purpose co-operative agreements/contracts (e.g. shared services arrangements or shared programmes, as well as supra-municipal authorities with delegated functions (OECD, 2017_[11])). The following examples of horizontal co-ordination are from Finland, Germany, Italy and Sweden.

Inter-municipal co-operative organisations in Sweden

The Swedish municipal federations are legal entities whose tasks and obligations are formally agreed upon by their members. These inter-municipal co-operative organisations are usually run by boards, whose members are not directly elected but instead nominated by the member municipalities. Over the years, inter-municipal collaboration among Swedish municipalities has increased steadily: in 2005, there were 80 municipal federations and, by 2011, the number of federations increased to 110 (Regeringskansliet, 2005_[30]; OECD, 2017_[31]). While recent figures for the number of federations are unavailable, the total spending by municipal federations in 2015 was SEK 16.5 billion, representing about 3% of total municipal spending.

Inter-municipal co-operation is practised in several service areas, the most common being rescue services, education, public transport and energy services. Inter-municipal co-operation is indeed more common among the smallest municipalities or municipalities that are in fiscal stress (Sundell, Gilljam and Lapuente, 2009_[32]); municipalities with populations above-average engage in a municipal federation also, especially for information technology (IT) services.

The biggest example of a voluntary municipal federation is the Kommuninvest, which is currently the main financing institution for subnational governments and the businesses they own. Kommuninvest is a credit company jointly owned by Swedish municipalities and county councils. It was founded in 1991 because many municipalities had difficulty obtaining financing for their investments and had to pay high-interest rates on loans. Kommuninvest's municipal borrowing could be obtained less expensively and it guaranteed access to secure access to capital during periods of financial market stress. Now, approximately 90% of

Sweden's municipalities and county councils/regions are members and it is the largest lender to the subnational government sector.

Another form of inter-municipal collaboration in Sweden is the common committee (*gemensamma nämnd*). In this case, one municipality agrees to take responsibility to produce a certain service or set of services for the inhabitants of a group of municipalities. Unlike the municipal federations, the common committee is not a legal entity and is therefore a less formal co-operation mechanism. The number of common committees has increased rapidly: in 2008, there were about 70 committees and in 2011 the number had more than doubled to 148 committees (OECD, 2017^[31]).

Municipal co-operation in Finland – Business Joensuu

At the beginning of the 21st century, a range of smaller municipalities in North Karelia, Finland, decided to set up a joint development agency to address some pressing challenges in the local market. It includes scarcity of resources, lack of special knowledge to handle the business advisory services and competition between neighbouring municipalities. The municipalities created a functional body, called Josek, organised on the level of the region around Joensuu. In 2018, Josek transformed into Business Joensuu, as two municipalities decided to reduce the services acquired and developed business advisory services in house (keeping the access to project development and facilitation services).

Business Joensuu provides services to start-ups, enables municipal growth and foreign investors interested in the region and supports the internationalisation of local companies. In addition, Business Joensuu produces an operating environment for different industries by creating the best conditions for companies to operate in Joensuu Region.

The service areas of the Business Joensuu include:

- Business growth and development services.
- New businesses, businesses, and internationalisation services.
- Placement and attraction, marketing services.
- Space, community and event services for the science park.

Overall, the company manages 25 programmes focused on different sectors including export capacity in the region (ExportGrowth), the bioeconomy sector (Digital Forest Vitality), business digitalisation (Joensuu Smartcity, digital training) and entrepreneurship (women's entrepreneurship). It is also involved in two active EU programmes supporting the mining sector (REMIX and MIREU).

The services are typically 1-3-year-long customer-oriented development projects. They are initiated by designated industry-responsible experts who are responsible for promoting the business environment of their businesses, starting with the business needs of their companies.

The company is governed by a board of directors that is selected by the following institutions:

- The City Council of Joensuu.
- The University of Eastern Finland.
- Joensuu University Support Foundation.
- The North Karelia Educational Council Group Riveria.
- The private sector.
- National politicians.

Regional growth poles in Brandenburg, Germany

In the early 2000s, the region of Brandenburg in Germany started gradually phasing out subsidies to the regions and moved to a model identifying 15 core regional growth areas as part of their regional development strategy. These “growth poles” received preferential financing but are required to:

- Display endogenous growth potential.
- Design integrated development strategies which are harnessed to the region’s overall development strategy.
- Spread some of their benefits to other territories.

This policy has been an important element, shifting the mentality in the region and resulting in a new spirit of both competitiveness and collaboration. The policy deliberately targeted enough growth poles to create a diverse development pattern, while also inducing other areas in the region to focus on their own growth potential and also becoming growth poles. Through the programme, cities and regions were no longer recipients of support but aimed to strengthen their own efforts and contribute to change. This resulted in increased self-organisation and the creation of synergies between them and potential partners. They also started to make use of their own development potential through co-operation and networking. Overall, the growth poles have been a key element to the region becoming less dependent on subsidies and transfers and more focused on collaborative growth for development.

The Inner Areas National Strategy, Italy

Italy’s Inner Areas National Strategy was launched in 2014 to cope with service delivery and development issues in rural areas of Italy. Inner areas are groups of municipalities characterised by their “inadequate access to essential services”. The classification is measured by inner areas’ access to education, healthcare and transportation. This national policy requires a multi-governance framework for co-operation among central, regional and municipal governments to ensure joint work towards a common national agenda and efficient investment distribution.

In that sense, contracts between levels of government, materialised in the Programme Framework Agreement, represent a long process of collaboration and joint work between local stakeholders, municipal associations, regional and central governments to design a local development plan.

Inner Areas comprise intermediate and remote areas covering almost 60% of the Italian territory, on which approximately 23% of the population live. This includes more than 4 000 municipalities which represent around 53% of all Italian municipalities. Similarly to Korea, these areas of Italy are experiencing a demographic decline, yet are home to many natural and cultural assets and resources.

The Inner Areas National Strategy aims to contribute to Italy’s sustainable development by recovering its marginalised territories and improving its inhabitants’ well-being and quality of life. The strategy seeks to foster territorial cohesion by turning differences into competitive strengths and working to overcome the urban-rural divide. In the longer term, the strategy seeks to reinforce the inner areas’ demographic structure, which is usually characterised by depopulation and ageing (Lucatelli, 2016^[33]).

The national strategy was designed and is implemented in a way to foster participation through an integrated approach to improve access to basic services, and business and employment opportunities. The key features of the approach are the following:

- Operationalised through two interrelated actions: i) improve access to basic services; and ii) local development projects.
- Step-by-step process (one prototype per region is first selected to evaluate the potential success of the strategy and trigger feedback and learning among participants).

- Collaboration and multi-level governance (state, regions, municipalities and inter-municipal partnerships) to foster a participatory approach to local development.
- Multiple funding sources (EAFRD, ERDF and national funds) to support integrated actions (Galeota, 2015^[34]).

Access to services and local development

The first aim the strategy pursues is adjusting the selected inner areas inhabitants' access to essential services. Education, health and transport play a fundamental role as a precondition for development; thus, the provision of these services will restore citizenship rights to marginalised populations. This implies a formal commitment from relevant central and local administrations through their respective ordinary policies and resources together with additional interventions.

The second aim of the strategy is to design and implement local development projects. These projects should increase local job creation that profits from local capital. The area-based projects will concentrate on a number of selected fields or development factors that have been established in the national strategy such as: valorisation of natural and cultural assets, agricultural business and production; renewable energy supply chains and energy saving; handicraft and local knowledge (Dipartimento per le Politiche di Coesione^[35]).

Step-by-step process towards the Programme Framework Agreement

The signature of the Programme Framework Agreement is only the result of a long process of analysis, negotiation and debate among local and national stakeholders. Project areas are selected through a standardised public proceeding that involves desk and field analyses of pre-selected areas.

Regional governments together with the Inner Areas Technical Committee conduct the desk analysis. Pre-selected areas are analysed with respect to a series of demographic and socio-economic parameters (utilised agricultural area, deforestation, hydrological risk, population losses, entrepreneurship, tourism and cultural heritage, quality of education and health services among others). Remote and ultra-remote areas are prioritised for pre-selection; similarly, those areas that show critical values in the demographic, economic, social and environmental indicators. The desk analysis identifies a maximum of five pre-selected areas per region to take part in the strategy.

Then, the selection process is completed with the technical committee's field visit to pre-selected areas where they meet with local authorities and relevant stakeholders (mayors, experts, school managers, consumer associations, etc.) (Dipartimento per le Politiche di Coesione^[35]). During the field visit, the technical committee, in collaboration with the regional and municipal authorities, organises focus groups on local development subjects. The sessions are organised in line with the stated objectives of the strategy (local development, healthcare, education and transport services) and 16 speakers are invited (3 local speakers and 1 expert from the relevant ministry for each session). National authorities share indicators with local communities. Generally speaking, local stakeholders are not used to discussing daily problems through data or indicators and the authorities' analysis of local specificities can become a topic for debate. Debate at this stage fosters a common understanding of long-term development objectives between local and central actors (Barca, 2016^[36]).

Each area has to produce three documents (initial draft of the local development strategy, preliminary strategy, i.e. extended draft and final local strategy) before the complete package of interventions is formally sanctioned through a Programme Framework Agreement (*Accordo di Programma Quadro*) (Faggian, 2017^[37]). The drafting process also involves local communities and encourages local ownership of the development strategy and strengthens the place-based approach. Each draft produced by the local authorities benefits from the comments and feedback from national authorities, thus becoming a collaborative process and represents the joint work among levels of government.

In terms of improving service provision in the inner areas, local strategies usually consider the following:

- *Education*: Reorganising educational facilities by replacing ancient and inefficient structures in individual municipalities with new higher quality facilities in barycentric areas; rethinking the high school system towards the strengthening of technical and vocational education related to local potential; reducing teacher turnover rates in the areas; reorganising the school transport system; and ensuring school networking.
- *Healthcare*: Reorganising healthcare services to ensure rapid emergency response and accessible diagnostic facilities for patients; centralising care services in larger hospitals and ensuring higher quality assistance; improving territorial care networks; promoting doctor associations; and innovating provision of services through “telehealth” services.
- *Mobility*: Reorganising public transport services, avoiding bus/train routes overlap; redesigning transport route options by considering the mobility needs of different users (commuters, students, tourists); encouraging negotiation between specific consumers of mobility (school and hospital managers) for better routing decisions; promoting flexible solutions for off-peak hours and weak mobility consumers (e.g. on-demand minibus service); and supporting on-road cycling, planning new bike lanes and reducing administrative burdens.

The local development part of the strategies tends to focus on three themes common to many rural areas in Italy: tourism, cultural goods/heritage and agriculture and food industry – which in many instances are interrelated. In order to increase tourism productivity in the Italian inner areas, two strategies have been identified: i) investment in tangible assets such as roads, hotels and other tourism facilities; and ii) investment in intangible assets such as education, local skills and network co-ordination (Faggian, 2017^[37]).

The intangible assets are particularly important for the inner areas as the creativity poured into “new forms of tourism” will be crucial to differentiate themselves and successfully compete. These new forms of tourism usually refer to “experiential” or “immersive” tourism that is linked to cultural traditions or local industries, e.g. learning manual activities from local craftsmen, nature, food and drink and cultural-heritage-related tourism. Differentiation is paramount for both mature (e.g. Alta Vatelina) and new (e.g. Basso Sangro-Trigno) tourist destinations. Some inner area strategies explicitly state that they want to create a network (critical mass) among tourism operators (e.g. Alta Irpinia) to promote destinations with a common theme, for example the same food product in several municipalities. These kinds of strategies rely on the interconnection of tourism and food production/agriculture (Faggian, 2017^[37]).

Multi-level governance

The Inner Areas Strategy is a national intervention where partnerships among different levels of government – central, regional and municipal associations – is essential. It encourages the co-ordination of national and local actions by jointly working together towards a common national agenda. The whole process from the selection of the local development projects to their implementation is meant to be based on a participatory approach that builds on heated, open and informed debate between different levels of government.

The central government’s participation in the strategy is organised through the Inner Areas Technical Committee. Its function is to support municipalities in their association process, thus providing essential services at lower management costs. This national-level team tends to be a proactive force that takes part in all the stages of the strategy building on the field. It provides ground information, promotes work methods and often acts as a “destabilising force” *vis-à-vis* the local elite (Barca, 2016^[36]).

Regional government efforts are in charge, together with the central government, of identifying and pre-selecting inner areas able to take part in the strategy through a standardised method based on qualitative and quantitative analysis. They also provide support for the creation of a partnership between

central and local institutional bodies as well as foster understanding of local contexts. In addition, they provide the needed information and draw funding from several axes for the Inner Areas National Strategy.

Responsibility for the implementation of the development project is entrusted to the municipal associations which select a leader among their ranks.

The process for the design of projects within the Inner Areas National Strategy is a bottom-up approach that relies heavily on the active participation of local actors. However, it also combines elements from a top-down approach like the selection of areas, organisation of co-ordination meetings, developing strategies and offering guidance (Faggian, 2017^[37]). The results from this top-down-bottom-up approach are materialised in the form of a Programme Framework Agreement (*Accordo di Programma Quadro*), which is a contract among the municipal association, regional and central governments.

Multiple funding sources

Financial contributions to fund the Inner Areas National Strategy come from the national budget and regional EU structural funds. The resources allocated to enhancing the inner areas' access to services or resources for "rights" (education, healthcare and mobility) come from the national budget, more specifically from the Stability Law. Each one of these areas is allocated approximately EUR 4 million, assigned to experimental actions which are made permanent if they prove successful. The financial resources for "growth" or for local development projects come from regional EU structural funds for 2014-20 and on average are three times as much as national funds (Barca, 2016^[36]; Dipartimento per le Politiche di Coesione, n.d.^[35]).

Challenges to the Inner Areas National Strategy

It is to be acknowledged that the Inner Areas National Strategy is an innovative place-based approach. However, some challenges should be taken into account for its successful implementation and future selection of projects. The weakness of local institutions is a challenge; and certainly, the quality of local institutions is an important element for the success of a project. That is why a purely bottom-up approach is often unsatisfactory and a more balanced top-down/bottom-up approach is needed.

Although the implementation of the strategy has just started in a few areas, evaluation of the progress and results will be essential to understand its strengths and weaknesses. Evaluation should not be overlooked or underfunded. Instead, joint work between academics and policymakers should be encouraged to produce an insightful evaluation of the strategy.

Another challenge the Inner Areas National Strategy will be the integration of migrants. At the moment, 8.3% of the total population of Italy are immigrants and most of them are relatively young (40% under 29 years of age). Between 2011-15, the average yearly increase in the inflow of migrants was 4.9% (OECD, 2018^[38]). This population should be considered in inner areas' development strategies in order to harness their potential contribution to the local economy.

Takeaways for Korea

- Horizontal co-operation allows subnational governments to more efficiently deliver public services and achieve shared priorities by pooling resources and talent. For smaller regions that face the largest capacity constraints, such agreements hold great potential.
- Strong data and measurement are an important factor in both identifying areas where horizontal co-operation may help and in assessing results in a way that bolsters commitment and ongoing participation. The central government has a key role to play in this area.

- Horizontal co-operation agreements need not be restricted to geographically neighbouring jurisdictions but can also incorporate sectoral organisations and other groups with aligned interests, needs and challenges.

Public engagement – How to promote and strengthen it

Participatory governance (at the subnational level) refers to approaches to local public governance that facilitate the participation and engagement of private citizens and other stakeholders (e.g. private for-profit, private non-profit, interest-based or hope/faith-based networks, self-help groups, etc.) in deliberations on public policy choices and the delivery of local public services in partnership or in competition with the formal public sector (OECD, 2019^[11]).

The active engagement of citizens within policymaking is a key ingredient to ensure sustainability and local ownership of rural policies. Greater involvement of local actors in policy design and implementation leads to a more transparent, inclusive, legitimate and accountable policymaking process, which in turn strengthens trust in government and in policy interventions. Research has found the higher the rate of public interest group participation, the higher their reported satisfaction, which can ultimately unlock opportunities of direct and representative democratic practices (OECD, 2017^[39]). Such stakeholder engagement has increasingly gained relevance since new technologies, fiscal consolidation efforts and socio-political changes are pressing governments to become partners rather than providers in policy implementation (OECD, 2020^[40]).

The new Rural Development Policy Framework, *Rural Well-being: Geography of Opportunities*, acknowledges that rural communities are well equipped to identify their local development opportunities. A “bottom-up” approach for rural policy allows rural dwellers to decide and collaborate to implement their own development future. Rural dwellers not only have a better knowledge of local conditions, the participation and involvement of citizens can also address the feeling of not being listened to or being left behind (OECD, 2020^[40]).

Countries and regions have adopted different approaches to improving participatory governance. Examples include open government methods, including open and competitive procurement, performance budgeting, citizen right to know and citizen-centric or participatory governance such as participatory budgeting, social audits and direct democracy provisions (OECD, 2019^[11]). Modalities of engagement can vary from basic one-way communication, the weakest form of engagement, to full coproduction and codelivery of policies (OECD, 2016^[41]). Some successful examples to engage citizens in policy design and implementation at the local level include:

- Participative and open budgeting where citizens can propose projects to be implemented, vote among several proposed projects or prioritise investments. One example of this mechanism occurs in Paris, where the city – since 2014 – gives its citizens the opportunity to decide on the use of 5% of its investment budget (2014-20) and propose projects that are then voted on (OECD, 2016^[42]).
- Co-production of social service delivery. In the water sector, for instance, many utilities rely on governance or advisory boards where stakeholders have a say in strategic orientations, or in which different actors take collective decisions. As an example, the public water utility in Grenoble, France, has engaged with consumer associations regarding setting water tariffs for the last 20 years (OECD, 2016^[42]).
- Many OECD regions have also established fora or policy summits where citizens can propose and define policy priorities and strategies. Some of these platforms combine elected officials, businesses, social partners and other relevant stakeholders (universities), which contribute to promoting regional development strategies and oversee implementation. Finland’s local

governments, for instance, engage citizens through a variety of fora to seek input on service delivery improvements (OECD, 2019^[1]).

Digitalisation and technological advancements also open up opportunities for a new form of citizen engagement in policymaking and implementation. The widespread use of IT, social media and open data allow for new methods to be developed. In rural areas, this might also overcome certain limitations due to long distances, yet the required digital infrastructure and skills need to be in place to allow for good results. For example, in the context of social discontent in France in 2019 (strikes linked to the “Gilets Jaunes” movement), the French government developed a digital platform to collect opinions and recommendations from the population. The platform collected around 1.9 million comments online, which were classified in themes and available to the citizens through open data mechanisms. Another example comes from Colombia, where the Ministry of IT and Communications established the Centre for Digital Public Innovation, aiming to strengthen the public innovation ecosystem to solve complex problems within the public administration (OECD, 2018^[43]). The innovation centre provides training courses to increase government capacity, a laboratory for solutions to public challenges, a knowledge agency for research and a collaboration platform to support community and partnerships.

Yet, there are also drawbacks to broader public participation that need to be considered when setting up these processes. Key pitfalls to avoid include:

- Abuse of power, by masking decision-making as participatory while using public funds to serve the interest of small groups of powerful people, including for participatory budgeting. To avoid this, processes must consider political structures including formal and informal power relations.
- Consultation “fatigue” can occur when citizens are asked to participate as part of a box-ticking exercise that does not take their views into consideration and provides limited control over and insights into outcomes. If citizens do not feel their opinions are actually reflected, they are unlikely to take part in future processes. Hence, consultations need to be meaningful and ensure that participants are openly informed about results (OECD, 2017^[22]).
- Participatory processes should be guided by local councils or other locally elected bodies. As elected bodies, they can voice citizen choices and preferences and provide oversight on behalf of the voters. Approaches that bypass local councils may risk weakening democratic governance and accountability at the local level (OECD, 2019^[1]).

Takeaways for Korea

- To reap the benefits of greater involvement of local actors in policy design and implementation, care must be taken when designing participatory processes, especially in legal and regulatory frameworks, as these can impose costs and may result in pro forma or “box-checking” exercises.
- To provide incentives for participation and to ensure good quality, government grants can be adjusted based on meaningful citizens involvement in outputs. Tournament-based output grants and recognition awards are another tool to encourage citizen engagement from a higher-order government level (OECD, 2019^[1]).
- Digital tools can provide an opportunity to facilitate participatory processes, especially in rural areas. Pilot projects can quickly show advantages and challenges.

Subnational fiscal autonomy and effective public investment

A consequence of decentralisation is that subnational governments grow larger – they acquire new competencies and they spend more to deliver on the enlarged set of tasks that fall within their responsibilities. Consequently, they also need additional resources. To act with autonomy, subnational governments require sources of funding that are own-source, or which are unconditional, else they will be autonomous in name only. If powers are decentralised yet the funding to deliver them remains at the

purview of the central government, then a fiscal imbalance results that limits the potential benefits of the decentralisation strategy; indeed, without fiscal decentralisation, political and administrative decentralisation are meaningless.

Yet the fiscal dimension is very often the weak or even missing link of decentralisation. One of the most frequent challenges, particularly in countries at an early stage of decentralisation, is the misalignment between responsibilities allocated to subnational governments and the resources available to them. Unfunded or underfunded mandates – where subnational governments are responsible for providing services or managing policies but without the requisite resources – are common (OECD, 2019^[1]; OECD, 2017^[44]).

Access to finance should be consistent with functional responsibilities and the division of financing responsibilities should ensure that there are no unfunded or underfunded assignments or mandates. The formulae for determining central government transfers, grants and earmarked funds from the centre to lower levels of government should be transparent and nondiscretionary and should ensure that all the tasks the subnational government has been asked to deliver are sufficiently funded. This funding should go beyond grants and shared tax revenues – to make the most of the potential benefits of decentralisation, subnational governments also need their own-source revenues to have a balanced basket of revenues.

Beyond the fiscal autonomy needed for the day-to-day operations of government and service delivery, investment presents its own challenges. Public investment projects, particularly for infrastructure, often involve funding coming from multiple levels of government and while local governments are often the best-placed to determine what investment is needed, it is often the resources of the national government that are required to pay for them. In addition, many investment projects involve multiple subnational jurisdictions, for example, a rail line that crosses administrative boundaries and so necessitating national co-ordination (OECD, 2013^[45]).

To help countries address the challenges associated with public investment, the OECD developed a set of Principles included in the Council Recommendation on Effective Public Investment across Levels of Government. The purpose of these principles is to help governments at all levels assess the strengths and weaknesses of their public investment capacity using a whole-of-government approach and to set priorities for improvement. The 12 principles are grouped into three pillars, which represent systemic multi-level governance challenges for public investment:

- *Co-ordination challenges:* Cross-sector, cross-jurisdictional and intergovernmental co-ordination are necessary but difficult in practice. Moreover, the constellation of actors involved in public investment is large and their interests may need to be aligned.
- *Capacity challenges:* Where the capacities to design and implement investment strategies are weak, policies may fail to achieve their objectives. Evidence suggests the public investment and growth outcomes are correlated to the quality of government, including at the subnational level.
- *Challenges in framework conditions:* Good practices in budgeting, procurement and regulatory quality are integral to successful investment but not always robust or consistent across levels of government.

The first pillar focuses on co-ordination, which tends to include complex interactions between public and private actors. This complexity can generate gaps and duplication in investment between levels of government.

The second pillar of the principles focuses on core capacities for public investment, notably at the subnational level, and the need to promote policy learning at all levels of government. Co-ordination is a necessary condition but not sufficient to achieve successful public investments. If capacities to design and implement investment strategies are weak, co-ordination mechanisms will not be sufficient to produce good outcomes.

The third pillar of the principles provides a macro perspective on the key framework governance conditions for public investment. Strong framework conditions are prerequisites for good investments. If framework conditions are weak, efforts to strengthen co-ordination and (subnational) capacities may miss part of their targets.

The OECD Recommendation on Effective Public Investment Across Levels of Government highlight the key role of the central government, setting the general legal framework to enable sound relations, vertically among the different levels of government and horizontally among the different national sectoral policies and among the different regions or municipalities.

This legal framework should target inter-regional disparities and regulate fair and effective fiscal relations among the different levels of government. Central governments may help local governments carry out their new mandates by offering technical support, co-ordinating the creation of economies of scale in the production of some local public goods and services and, perhaps most importantly, monitoring and evaluating the performance of subnational governments.

Takeaways for Korea

- The government of Korea is decentralising both an array of tasks and new fiscal capacity to its subnational governments, with a shift in fiscal authority from 8:2 to 7:3. While it has been decided, that there will be compensation for the cost of delivering these tasks (for at least three years), the transfer cost has not been finally assessed as this report is written. The Special Committee on Assessing Transfer Costs will be formed in the second half of 2020 to assess the cost of delivering the transferred tasks. The government will also develop measures to provide the necessary budget to cover the costs. This will be crucial to ensure there are no unfunded or underfunded assignments or mandates. To ensure meaningful autonomy, the decentralisation of tasks must be accompanied by the fiscal authority that goes beyond additional grants or shared taxes. Subnational governments must develop their own-source revenues and; over time; achieve a balanced basket of revenue sources that provides them predictability and the capacity to mitigate shocks.
- A key element going forward will be how to more effectively engage the private sector and other non-governmental actors throughout the policy and investment cycle. This will help to build continuity in policies, and capability at a subnational level.
- Sound co-ordination of investment between levels of government and across subnational governments will become more important as decentralisation progresses. Korea's new policy on developing contracts across levels of government can help with co-ordinating more integrated public investments.

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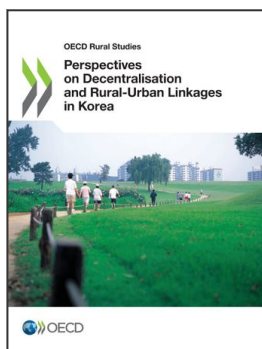
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Note

¹ These three types constitute:

1. *Regions (régions)* – Large subnational authorities with an average population of 2.5 million inhabitants. Each region is governed by an elected regional council (*conseil régional*). The central government is represented by a regional prefect in parallel to the elected regional council.
2. *Departments (départements)*: They are the mid-sized subnational authorities. The average population of a department is approximately 300 000 inhabitants, ranging from 2.1 million (Paris) to 73 500 (Lozère). The department is run by a council (*conseil général*) consisting of elected officials. In similar fashion to the regions, the central government is represented by the prefect and by deconcentrated ministerial services. Both regions and departments have responsibilities regarding: economic development; roads and large-scale infrastructure; social services, solidary and housing; and education and culture. More specifically, the region’s responsibilities can be described as follows: regional planning, co-ordinating economic development, vocational training, and high schools.
3. *Municipalities (communes)*: These are the lowest level of subnational authorities. There are 36 500 municipalities in France, of which 89% have less than 2 000 inhabitants. Each municipality is governed by an elected municipal council (*conseil municipal*). Municipalities are responsible for urban planning, land use controls and security (municipal police).



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