Chapter 4

Multi-level governance in Colombia

This chapter highlights the importance of effective and efficient multi-level governance to enhance national development outcomes for citizens and businesses. The chapter highlights the history of Colombia's approach to multi-level governance, noting the commitment of the central government to decentralisation through the political and fiscal empowerment of sub-national authorities since 1991. The chapter suggests that Colombia build on its successes in this area by focussing on ways to link national and regional strategy-setting and implementation more explicitly in the pursuit of development outcomes, and by building capacity sub-nationally to ensure vertical coherence so that all levels of government can contribute effectively and efficiently to addressing regional disparities and persistent poverty.

Introduction

The OECD uses the term "Multi-level Governance" (MLG[1]) to characterise the relationships between public actors at different administrative levels, also referred to as "intergovernmental relationships". MLG refers to the explicit or implicit sharing of policy-making authority, responsibility, development and implementation at different administrative and territorial levels. Therefore, MLG focuses on interactions:

- Across different ministries and/or public agencies at the central-government level (upper horizontally);
- Between different orders of government at the local, regional, provincial/state, national and supranational levels (vertically), and
- Across different actors at the sub national level (lower horizontally).
- This definition excludes interaction between public and private entities, including citizens and businesses.

The concept of MLG was introduced to describe the governance mechanism within the European Union in the 1990s (Marks, 1996). It helped describe the EU as a series of multi-purpose governments with several actors and level participating in the process of governing rather than a clearly ordered vertical mechanism (Skelcher, et al. 2005). The initial MLG framework, based on formal interaction between established actors, has evolved to take into account less formalised relationships and conditions in which there is a relative absence of rules and regulations. This approach values networks and social-capital endowment within territories and within policy sectors (Hooghe, Marks, 2003).

Empirical evidence and OECD analysis demonstrate that multilevel governance arrangements are country-specific. There is no single optimal level of decentralisation, neither by public-policy sector nor for the whole public administration, since sharing and applying competencies remain strongly context-dependent and depend on many internal and external factors including the overall economic performance of the given country. However, international good practices and experiences developed and implemented in OECD countries can provide guidance and can save time, resources, and public funds related to process of finding a good level of decentralisation of state responsibilities.

This chapter illustrates multilevel governance in Colombia, assesses its main challenges, and provides policy advice based on international good practice. Indeed Colombia has stressed the importance of deepening collaboration between levels of government as it proceeds with the implementation of its decentralisation agenda. The analysis in this chapter takes this agenda into account and seeks to bolster the government's efforts in this area with advice based on practice that has worked in OECD countries. This chapter also discusses specific issues related to human-resource management and e-government from a territorial perspective. Finally, Annex 4.A1 at the end of this chapter presents the case study of the municipality of Barranquilla, the findings of which inform some of the advice presented here.

The government of Colombia has identified as a governance priority its aim to improve and fully exploit the advantages of citizens' participation in policy making as part of its efforts to enhance citizen engagement and public consultation, pillars of the Open Government Partnership (OGP) in which Colombia is an active member. Part of Colombia's Action Plan under the OGP is to focus on open-government reforms at the local level using a number of instruments to encourage civil society to play an active role in the construction of an open and participatory government. Mechanisms adopted by Colombia at the local level include "Visible Audits" and the Prosperity Agreements[2] to improve citizen-centred services at the local level.

The policy rationale behind decentralisation in Colombia[3]

This section provides background information on the decentralisation process in Colombia and on the main steps to achieve it, and is divided into three parts. The first part discusses the key impact of the 1991 Constitution on decentralisation; the second section presents the various positions that influenced the constitutional debate in the country. The last part discusses whether there exists an optimal level of decentralisation that can help countries deliver better public policy more efficiently and effectively.

Different drivers of decentralisation in Colombia

The Constitution of Colombia states that the central government is to devolve powers to sub-national governments and ensure that they have the resources required to implement their new mandates. The 1991 Constitution represents both an achievement and a starting point for the country:

- It ended a long-standing debate about the need to allocate more power and responsibilities to sub-national governments to improve accessibility to key public services across the country and promote greater income equality.
- It constituted the starting point of a trial-and-error process through which the central government has tried to co-ordinate fiscal discipline, economic sustainability and regional development with the process of democratisation across the country.
- It increased the number of relevant players – including territorial entities – within the national governance framework. This arrangement increased political transaction costs in several policy sectors, forcing government entities at all levels to improve co-ordination and co-operation.

Over the past thirty years Colombia has gone through waves of devolution and re-centralisation in an attempt to find a balance between fiscal sustainability and more inclusive and shared governance. This evolution was also influenced by international considerations:

- By the early 1990s, Colombia was able to attract FDI since its economic performance was seen as positive. FDI was then used to finance public debt, including that of sub-national entities.
- However, during the international crisis of the late 1990s and because of the persistence of severe domestic security issues, FDI slowed to a trickle. The government could no longer afford the unlimited costs of decentralisation as promised in the Constitution.

Colombia's national government has traditionally been centralist to offset the country's natural geographic fragmentation while containing the centrifugal forces of interest groups, extra-democratic insurgencies and regionally-based ethno-cultural minorities (see Chapter 1). Strong economic and political constituencies have traditionally dominated national political discourse. Some have sought to operate within the legitimate political system, like teachers and producers of coffee and sugar, while others have taken up arms to challenge the political system, from guerrilla and paramilitary movements to the drug cartels (see Chapter 1). What is specific to Colombia's political history, however, is that the traditional, legitimate interests within the system have been successful in making demands on the government and obtaining results using the implicit (or explicit) threat to rally regional (or illegitimate) forces to their cause. Indeed Colombia enacted reforms to pursue decentralisation, or to reduce regional fiscal autonomy to generate resources to deliver central-government programmes to address inequality and regional disparities, as much as a response to pressure groups operating outside the legal political framework as to the agenda of legitimate interest groups exerting democratic pressure on the government (IDB, 2010).

Decentralisation started in Colombia with the 1968 deconcentration of national revenues to sub-national administrative units, with revenue-sharing set by formula and essentially earmarked for specific sectors (Bird, 1984). Then, political debate shaping devolution in the country crystallised into two major – and sometimes opposing – narratives (Leyva, 2011):

- The first narrative – which could be called the "political" view in favour of decentralisation – emerged in the early 1980s as a reaction to the social unrest that was to define the period (see Chapter 1). As Maldonado (2005) suggests, the objectives articulated in this narrative focused on improving local democracy, local participation and the quality and coverage of public services. This was given effect through the measures that were included in Act 01 of 1986 and in all subsequent reforms prior to 1995. It was this narrative that informed the 1991 Constitution, which introduced direct elections for the office of governor (mayors had been elected since 1981 – see Chapter 1), and called for the expansion of the amounts of revenues assigned to departments by broadening the base of the existing revenue-sharing system. Law 60 of 1993 enhanced the *situado fiscal* formula (see next section). The Constitution and Law 60 thus committed the national government to expand revenue-sharing with territorial governments until it reached approximately half of total state revenues – projected in 1993 to occur by 2002.
- The second narrative – which could be defined as the "sceptical" view of decentralisation – emerged in the mid-1990s in reaction to the loss of fiscal discipline caused by the initial fiscal-sharing formulas enacted to give effect to the 1991 Constitution's prescriptions in this area. Transferring power and resources to sub-national authorities without technical assistance, capacity-development and proper performance-monitoring and evaluation caused public spending at the sub-national level to skyrocket. Accordingly, this narrative posited that high levels of decentralisation clearly lead to mismanagement – and rampant corruption at the local level since local agents were being left free to pursue their own agendas without any meaningful degree of fiscal accountability.

The paradox is that both the "political" and the "sceptical" narratives generated the same governance issue: sub-national governments and other governance actors were left bereft of political responsibility. Indeed Castro (2007, p. 115) argues that the vast majority of policy initiatives implementing decentralisation only had "fiscal and/or administrative content and impact", while merely a few focused on political reforms. According to Castro (ibid.) these reforms failed to stimulate the emergence of a new sub-national social and political leadership able to govern decentralisation: the rules governing political participation and elections remained unchanged during this reform period thereby generating dysfunctions in sub-national governance (ibid.), since the traditional local groups in charge were suddenly awash in vast amounts of new fiscal resources which they had no meaningful capacity to manage in a way that achieved development outcomes effectively and efficiently and for which they remained unaccountable.

The proponents of the "political" narrative, in their efforts to support the broadening of the democratic process, tried to articulate and implement a comprehensive approach that sought to regulate all possible relationships between the central and sub-national governments. This ambitious objective explains why it took Colombia 20 years to enact its organic territorial law (the 2011 Organic Law on Territorial Organisation – LOOT in its Spanish acronym), which is derived from the 1991 Constitution and regulates the devolution of powers to territorial entities (this is not to suggest, however, that the central government did not regulate intergovernmental relations prior to implementing this piece of legislation – to the contrary it had passed several pieces of legislation over the period between 1991 and 2011, including the successive pieces of legislation regulating fiscal relations between levels of government mentioned above and described in further detail in the next sections).

With the LOOT, the central government implemented a specific type of devolution: sub-national entities implement decisions and strategies designed at the central level while working to promote their own region's development. This approach was, at least initially, devoid of any transfer of policy-making or strategy-setting responsibility (or capacity) to sub-national authorities. And since the central level cannot take informed decisions all the time about the specific needs of all communities in the country, and since local governance and administrative capacity was not enhanced to meet the new political, social and economic demands that flow from the influx of new fiscal resources, local public and private actors have had to fend for themselves to generate endogenous policy responses to their regions' development needs. The case-study of Barranquilla (in Annex 4.A1 at the end of this chapter) illustrates this issue well.

Informal networks of political and economic actors have shaped multilevel governance in Colombia over the last two decades in reaction to the shortcomings of the various approaches to decentralisation and the norms and institutions they produced. Although the hierarchical inter-governmental order is clearly defined in law, in practice, it functions differently, based on a complex power-grid in which information-brokers, contracts, relations and social capital have created their own procedures where no clear multi-level framework for effective decision-making exists. In the beginning, this situation caused challenges related to corruption and accountability on the part of sub-national entities. Then, to compensate for these sub-national institutional deficiencies, the Presidency of the Republic had to intervene to address the malfunctioning of the system. The President has in effect become a "multilevel governor" (Leyva, 2011) – a facilitator of relations between levels of governments. In attempting to combine the two decentralisation narratives, the Presidency of the Republic has now created its synthesis in the National Development Plan (NDP), which is both the political agenda of the President and the regional socioeconomic development strategy for the years in which the President is in office.

In sum, although a unitary state, Colombia has become one of the more decentralised countries in Latin America. The 1991 Constitution framed the implementation of several laws intended to enforce political, fiscal and administrative decentralisation. The Constitution introduced direct elections of departmental authorities (mayors were already elected) as well as local councils and assemblies. This severed the previous links between the President and governors. At the same time, sub-national authorities were given responsibility for delivering important programming and services to their residents in such areas as education, health-care, drinking water, sanitation and sewage, and public infrastructure. The Constitution thus provided sub-national governments with renewed fiscal capacity, including the right to borrow funds and to receive inter-governmental transfers, with the aim of enhancing their financial autonomy vis-à-vis the centre.

Today, the country is facing new demands for urban development and the government is engaged in enhancing institutional arrangements at the sub-national level. In this context, a set of laws (the National Development Plan, the LOOT, the new Districts and Municipal governments' legal regime, as well as the Public-Private Agreements' law) provides sub-national authorities with new tools to enhance their institutional ability to face new challenges. Local authorities will now be able to perform their tasks through such associative mechanisms as regions, metropolitan areas and public associations, among others (see section on associative tools, below). These mechanisms provide them with the option to reduce fiscal costs and enhance the quality of public-service provision through the inclusion of the private sector in investing in local public infrastructure and services.

Is there an "optimal" level of – and approach to – decentralisation?

As a general rule it is easy to demonstrate that there is no single optimal level of decentralisation, either by public-policy field or for the entire range of public-policy interventions. Rather, an *efficient* level of decentralisation depends on key co-ordination and capacity issues related to managing relationships based on the mutual interests of different levels of government. Moreover, how competencies are shared is strongly country-specific, and each country determines its own mix of decentralisation and centralisation that suits its specific conditions.[4]

In any given political unit, citizens both participate in and are subject to public decisions taken by many different levels of government. In most countries, the responsibility to provide goods to citizens is partially decentralised, with some goods and services provided and funded at the local level, while other goods are provided at the central level or even at an international level such as the European Union. In the United States, for instance, education is mostly funded at the local level from property taxes, while spending on national parks or inter-state highways is mostly decided at the federal level.

An extensive theoretical literature provides normative analysis based on trade-offs among different combinations of costs and benefits such as local-preference diversity, economies of scale, public-good or budgetary spill-overs across districts, political-agent considerations, and risk-sharing between districts. The usual approach in this literature is to derive "normative" statements from comparing welfare-delivery in the polar cases of full centralisation and full decentralisation (Hatfield, Padró i Miquel, 2008). In reality, forces for decentralisation and centralisation are in a sort of unstable equilibrium that generates different combinations of the two approaches at different times; this equilibrium tends to be determined by the extent to which the specific approach leads to policy outcomes as measured in terms of total welfare for all.

There are several dimensions in the rationale for decentralisation that should be taken into account (Charbit, 2011). For instance, it is not always clear whether decentralisation has an impact on economic growth and the reduction of spatial inequality. Positive impact also depends on the institutional capacity of the territorial bodies to which power is devolved. However territorial institutional capacity can be increased along with the allocation of more responsibility to territorial bodies (Box 4.1).

The important components in the rationale for decentralisation are fiscal and political. Governments have used decentralisation as a means to improve public-spending effectiveness based on the idea that sub-national governments have better information on local spending needs and preferences, and are better positioned to deliver public goods to their citizens as a result. Politically, decentralisation is rooted in democracy and the need to respond to the needs of citizens at the local level. This is coupled with the notion that political competition

Box 4.1. **Decentralisation and growth**

Opposing theoretical views have provoked a great deal of interest in the links between decentralisation and economic performance. However, the many empirical studies conducted over the past two decades have not significantly reduced the uncertainties associated with decentralisation and its economic impacts. Economists who favour decentralisation often assume that it leads to better resource allocation and a more productive, and possibly smaller, public sector (Oates, 1972, 1999; Shah, 1998). Their logic is that locally determined policies are better able to take account of local conditions for the provision of public goods, such as infrastructure, health and education. Others assume that decentralisation will produce healthy competition among different levels of government, which in turn will promote lower tax rates and the efficient delivery of public goods and services (Brennan and Buchanan, 1980). Yet others have argued that decentralisation may also give local governments incentives to innovate in the production and supply of public goods and services (Vasquez and McNab, 2003, cited in Thornton, 2007). Some theories point out that the arguments that link decentralisation and economic growth are often based on the assumption that the decentralised units have sufficient institutional skills to carry out the delegated responsibilities, but that this is not always the case. These theories do not reject the potential benefits of decentralisation, but focus on the capacities of sub-national governments to execute the devolved responsibilities. In this regard, some research reveals the potential reinforcement of territorial disparities as a result of decentralisation owing to pre-existing inequalities, especially when decentralisation is not accompanied by allocation of funds and institutional and technical support to match the new responsibilities (Rodriguez-Pose and Gill, 2004).

Economists who are more sceptical about the economic benefits of decentralisation argue that it creates many difficulties for managing macroeconomic policy, especially in terms of ensuring fiscal co-ordination and implementing stabilisation policies (e.g. Prud'homme, 1995; Tanzi, 1996). More specifically, several studies question the desirability of transferring responsibility for revenue and expenditure functions to local levels because a tax assigned to local governments might be more efficiently managed centrally. A second worry is that sub-national governments would have an incentive to spend excessively on public consumption rather than on public investment, which would lead to suboptimal levels of expenditure.

among local officials rises with decentralisation, and that the impact of decentralisation on both democracy and competition leads to increased political accountability and transparency as well as to better overall results since resources – both human and financial – will shift to places which can best serve their needs.

Yet, counter-arguments against decentralising also exist with respect to these components. Fiscally, sub-national governments may not show prudence or sufficient ability to manage their financial affairs; politically, corruption might be reinforced (even if World Bank papers tend to show the opposite (Shah, 2006)); administratively, sub-national levels may lack the capacity to discharge their responsibilities properly. Additionally, there are practical limits to the "allocative model" of decentralisation which supposedly leads to an optimal size and number of local authorities. These limits include practical impediments to resources mobility, imperfect information and the impact of an uncertain external environment on regional performance. In any country, decentralisation entails risks related to achieving effective and efficient multilevel governance, including:

- A potential race to the bottom, e.g. for redistributive systems such as social welfare, or environmental targets, because of potentially damaging inter-local or inter-regional competition to attract investment though tax cuts or, say, the limited implementation of standards;

- A failure to exploit region-wide economies of scale due to excessive multiplication of administrative overhead (e.g. to increase public employment and expenditures) which usually leads to duplication of tasks.
- Difficulty in meeting national macroeconomic goals such as fiscal discipline and equalisation. Sub-national governments may pursue different fiscal policies than those being implemented by national governments.
- High transaction costs, particularly with respect to achieving coherence across policy sectors when these are provided by multiple units in different levels of government. This complexity can slow reform and/or lead hinder implementation (e.g. simplifying an inefficient tax system).

Centralised and decentralised approaches can work relatively well, or relatively poorly, depending on a country's historical, cultural and political context, as well as on its ability to exploit inherent strengths and minimise potential weaknesses. In addition, the performance of decentralised public policies is strongly related to the effectiveness of co-ordination between different levels of government. However, assuming that certain pre-requisites are met, such as initial good conditions for local democracy and information-sharing among public authorities, decentralisation has positive outcomes; for example:

- Public-service and investment priorities that reflect local preferences and provide well-tailored responses to problems thanks to strong, in-depth local knowledge on the part of policy-makers.
- Progress in good practices from a process of policy innovation, thanks to competition and comparison between local governments in the provision of services and investment activities.
- Political achievements: reinforcement of local democracy through citizens' participation, effective political counterweight to the central government, preservation of local identity by giving specific groups a degree of self-rule while maintaining the effective unity of the country.

Monitoring performance to improve multilevel governance

In general, a first step to assess the performance of decentralisation (or centralisation) arrangements is to identify clearly who is in charge of what, in terms of design, regulation, budget and implementation in the policy sector that government wishes to improve. Triviality in this "institutional mapping" approach is merely apparent: many actors will be seen at first glance to be overlapping in their functions with others, while being dependent on others' decisions and being influenced by the use of one administrative tool or another. Overlapping *per se* is not a concern if co-ordination among stakeholders in public-policy delivery is effective. If not, various co-ordination "gaps" can explain some failure in efficiently managing public policies.

The mapping of responsibilities against powers is particularly important when a government is addressing emerging issues. For instance:

- A given government could be confronted by new environmental concerns or by an evolution in demography that needs a specific policy response. These new issues can generate an overlapping of competencies: two different ministries may be in charge of existing issues that are interrelated within the new one.

- Alternatively, the new issue ends up not being addressed by any part of government at any level: i.e. a policy "vacuum" occurs due to the absence of clear responsibilities. Again the question of capacity and co-ordination with other stakeholders will be crucial to address the issue.

The OECD has identified a series of common challenges – or "gaps" – that countries face when implementing multilevel-governance arrangements to design and deliver public policies. These seven dominant gaps lie in the areas of information, delivery capacity, financial resources, policy design, administrative capacity, incoherence in policy objectives, and accountability (Box 4.2) (Charbit, 2011). The "gap approach" argues that it is essentially through greater coherence in public action that public-policy outcomes such as efficiency, equity and sustainability can be achieved. That said co-ordination does not come without costs. However, since levels of government cannot avoid carrying out their responsibilities regarding the provision of public services, at issue is the identification of obstacles to – and solutions for – improving it.

Box 4.2. **The seven gaps in multi-level governance**

The OECD approach of co-ordination and capacity "gaps" has to be considered as a diagnosis tool for identifying the main difficulties in implementing effective policies in decentralised contexts. It can also serve to assess the instruments used by governments to face them. The series of "gaps" does not just concern the current dimension of the interdependence among public actors; it also engages their dynamic relationship and risk for future difficulties if the interaction between levels of government is not fructuous. In particular, the seven gaps are the following:

- The information gap is characterised by information asymmetries between levels of government when designing, implementing and delivering public policies. Sometimes the information gap results from strategic behaviours of public actors who may prefer to not reveal too clearly their strengths and weaknesses, especially if allocation of responsibility is associated to conditional granting. However, it is often the case that the very information about territorial specificities is not perceived by the central decision maker as well as sub national actors may be ignorant about capital objectives and strategies.
- The capacity challenge arises when there is a lack of human, knowledge or infrastructural resources available to carry out tasks, regardless to the level of government (even if, in general, SNGs are more considered as suffering from such difficulty than central government).
- The fiscal gap is represented by the difference between sub national revenues and the required expenditures for SNGs to meet their responsibilities and implement appropriate development strategies. In a more dynamic perspective, fiscal difficulties also include mismatch between budget practices and policy needs: in the absence of multi-annual budget practices for example, SNGs may face uncertainty in engaging appropriate spending, and the absence of flexibility in spending which is very beneficial in uncertain environment. A too strict earmarking of grants may also impede appropriate fungibility of resources and limit sub national ability to deliver adapted policies.
- The policy challenge results when line ministries take purely vertical approach to be territorially implemented, while SNGs are best placed to customise complementarities between policy fields and concretise cross-sectoral approaches. Limited co-ordination among line ministries may provoke heavy administrative burden, different timing and agenda in managing correlated actions, etc. It can even lead to strong inconsistencies and readability concerns when objectives of sectoral policy-makers are contradictory.

Box 4.2. **The seven gaps in multi-level governance** *(continued)*

- The administrative gap occurs when the administrative scale for policy making, in terms of spending as well as strategic planning, is not in line with functional relevant areas. A very common case concerns municipal fragmentation which can lead jurisdictions to set ineffective public action by not benefitting from economies of scale. Some specific policies also request very specific, and often naturally fixed, boundaries.
- The objective gap refers to different rationalities from national and sub national policymakers which create obstacles for adopting convergent strategies. A common example deals with political parties' belonging, which may lead to opposed approaches. In such a case divergences across levels of government can be "politically" used for cornering the debate instead of serving a common good. Even without any difference in political "colour" from the central government, a Mayor may prefer serving his/her local constituencies, instead of aligning decisions to national broader objectives which may be perceived as contradictory.
- The accountability challenge results from the difficulty to ensure the transparency of practices across different constituencies and levels of government. It also concerns possible integrity challenges of policy-makers involved in the management of public investment.

Source : Charbit, C. (2011), *Governance of Public Policies in Decentralised Contexts: The Multi-level Approach*, OECD Regional Development Working Papers, 2011/04, OECD Publishing, Paris.

Multi-level governance in Colombia

This section is divided into three parts. The first part illustrates how responsibility to deliver public policy is distributed across sectors and between levels of government in Colombia. The role of control authorities is also presented here. The second part assesses decentralisation efforts by examining how sub-national levels are funded. The third part examines the impact on decentralisation and MLG of the key fiscal reforms Colombia put in place over the last twenty years, the national planning system, and the new General System of Royalties.

Organisational and legal framework

Colombia is a unitary state with a multi-level governance structure containing three political orders of government: the central level, departments, and municipalities (see Chapter 1). The Presidency controls the activity of central-government ministers. Department governors and mayors are elected by local residents and are independent from the President of the Republic. Governors and mayors have the legal mandate of co-ordinating the goals of the National Development Plan with those in their local plans; their incentive to engage in this co-ordination is potential access to national resources. The Presidency of the Republic controls the activity of central-government ministers and department governors, who are elected by local residents but who report directly to the President of the Republic. Governors, in turn, co-ordinate the activity of mayors (also directly elected) within their department. Assemblies are elected at all three levels. The national Parliament is based on the Senate, whose representatives are elected at the national level, and the Chamber of Representatives, whose representatives are elected at the territorial level: each department is allocated a certain number of representatives by the Constitution based on the demographic size of the department. Roles and responsibilities of the national government and the sub-national levels are defined by the 1991 Constitution – and by the LOOT.

The 1991 Constitution increased the number of relevant players – including territorial entities – within the national governance framework, which thus gained representation in the National Chamber of Representatives (Cárdenas, et al. 2006). The Constitution strengthened the checks and balances of the political system in an effort to endow political institutions with greater legitimacy after decades of limited participation and low representation (see Chapter 1). In particular, it reduced the capacity of the President of the Republic to act as the sole agenda-setter, while Congress and the Constitutional Court gained relative power.

This new arrangement increased political transaction costs in several policy sectors, forcing government entities, at all levels, to improve co-ordination and co-operation. In addition, the new Constitution covers many specific, previously non-constitutional aspects of policy, thus reducing the body of policy issues formerly delegated to the technocracy. This is particularly the case for fiscal policy, where key components of public expenditures, such as pensions, fiscal transfers for education and health, and public sector wages, have been "hard-wired" into the Constitution (Cárdenas, et al. 2006).

The Constitution also decentralised power – it empowered the territorial levels by ensuring that they are governed by their own authorities and they administer their resources and raise taxes necessary for their operations and their citizens' contribution to national revenues. Some of these territorial entities, such as departments, municipalities, and metropolitan areas exist already, while others are only mentioned in the Constitution – for instance, administrative or planning regions, which can result from the merger of two or more adjacent departments. The Constitution does not provide details about the division of responsibility between the central government and territorial entities. Box 4.3 presents the responsibilities of national and sub-national authorities.

Box 4.3. **Allocation of responsibilities across levels of government in Colombia**

- The 1991 Constitution defines Colombia as a Unitary Republic. Decisions about the distribution of functions and resources between levels of government and about the distribution of political power are taken at the national level (Maldonado, 2005).
- Colombia has three subnational levels of government comprised by departments, districts, and municipalities. The Constitution refers to these as *territorial entities* and Article 287 establishes that they have autonomy for the management of their interests within the Constitution and the law. Their rights include:
  - To govern themselves under their own authority.
  - To exercise the jurisdictions appropriate to them.
  - To administer their resources and establish the taxes necessary for their operation.
  - To participate in national revenues.

Box 4.3. Allocation of responsibilities across levels of government in Colombia *(continued)*

- The functions of each level of government can be summarised as follows:
  - The central government legislates on all matters and has functional responsibilities in such areas as national defence, security, foreign affairs, macroeconomic administration, transport infrastructure, mining and energy, foreign trade, planning and regulation on social sectors.
  - The Departments are responsible for planning and promoting the economic and social development of their territory. They exercise administrative functions, co-ordinate with the municipalities, intermediate between the central government and municipalities. They deliver public services determined by the Constitution and the law (see examples below).
  - Districts and municipalities provide those public services determined by the law, build infrastructure required for local progress, ensure the development of their territory, and promote civil participation, social and cultural development of their population (see examples below).
- Territorial entities elaborate and adopt in a co-ordinated manner development plans with the national government. The distribution of legal functions between levels of government is carried through two main normative proceedings. First, through the enactment of general laws for the distribution of functions and resources that regulates transfers from the central government to the territorial entities. Second, through sector-based laws that regulate the different sectors of the public administration; these include education, health, public services, transport infrastructure, and disaster prevention, among others (Maldonado, 2005). Each of these specifies the functions and their corresponding resources are distributed between levels of government.

Education		
Department	Certified Municipalities (62)	Non-certified Municipalities (1039)
• Direct, plan and deliver the service in municipalities that are not certified. • Administer the staff in the municipalities that are not certified (selection, appointment and transfer). • Provide technical assistance.	• Direct, plan and deliver the service. • Maintain and broaden coverage. • Administer the staff (selection, appointment, and transfer). • Provide technical assistance to educational institutions.	• Administer the resources of educational quality.

Health		
Department	Certified Districts and Municipalities (442)	Non-certified Municipalities (1039)
• Public health actions. • Provide services for the uninsured poor population. • Direct the hospital network.	• Administer the subsidised scheme. • Public health actions. • Provide services for the uninsured poor population.	• Administer the subsidised scheme. • Public health actions.

Water and basic sanitation	
Department	Certified Districts and Municipalities
• Co-ordinate and co-finance departmental water schemes.	• Responsible for service delivery (contract with operators). • Infrastructure. • Scheme for subsidies.

Source : National Planning Department of Colombia (1991), 1991 Constitution, Bogotá.

The LOOT specifies legal arrangements and forms of territorial co-operation enabling land use, planning and territorial development across the country. It creates a governance framework in which different levels of government and different territorial entities can interact and co-operate. The LOOT defines the rules for decentralisation derived from the Constitution by providing a specific stable legal and policy framework without creating new government levels; in so doing, it strengthens the central government's ability to co-ordinate the implementation of decentralisation across the country. The LOOT also sets out rules for a series of associative territorial arrangements, thus expanding the forms of territorial organisation already identified in the Constitution. These include legal frameworks for:

- Administrative and Planning Regions;
- Management and Planning Regions;
- Associations of Departments;
- Special constituencies' associations;
- Administrative and Planning Provinces;
- Associations between Municipalities; and
- Areas for Territorial Development.

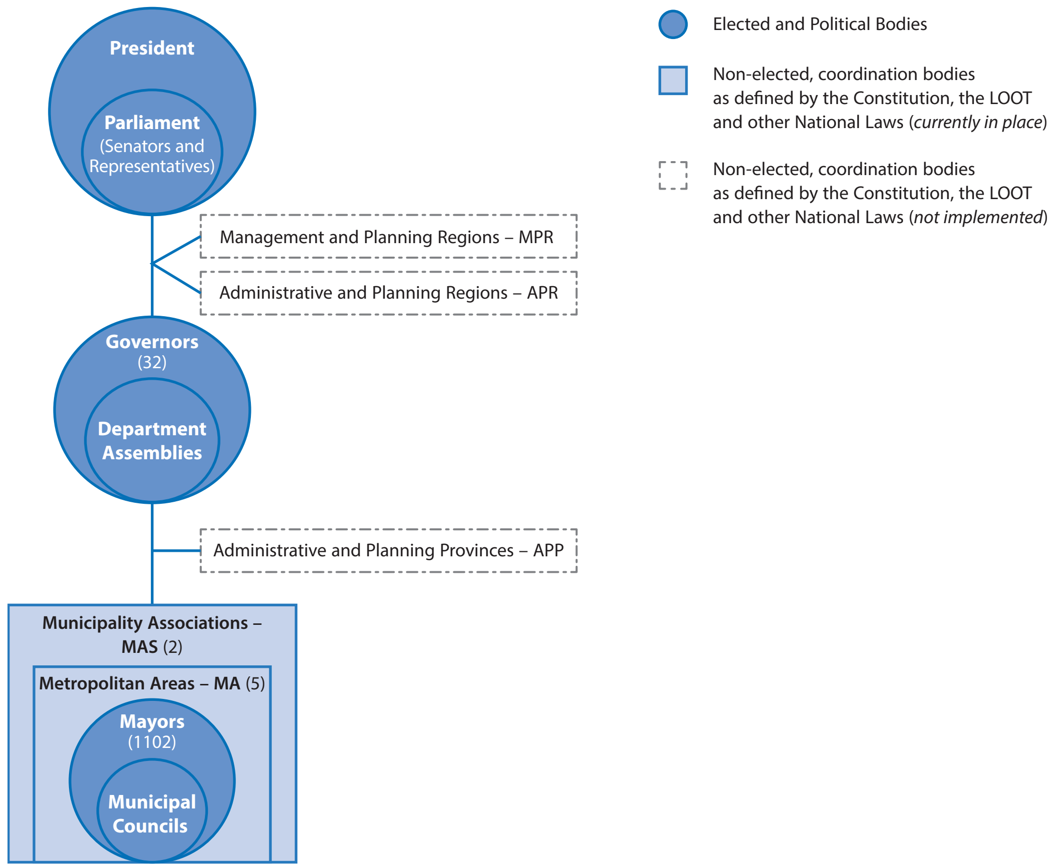
A parallel set of rules to enhance territorial co-operation is embedded in the current Law of Metropolitan Areas – *Ley de Áreas Metropolitanas*. The main objective is to "… dictate organic norms to provide Metropolitan Areas with a political, fiscal and administrative regime, which serves as an instrument of management to accomplish their goals and functions, while being respectful of the autonomy recognised in the Constitution and the Law". Additionally, this legislation empowers metropolitan areas to set and implement an action plan for their metropolitan development and a strategic plan for managing their metropolitan territory.[5] Figure 4.1 summarises the different entities – already in place, or mentioned in the Constitution or the LOOT but yet to be created – which frame the multilevel governance framework in Colombia.

Control bodies within the multilevel governance framework

Control institutions (see Chapter 3) represent another pillar of Colombia's multilevel governance. The 1991 Constitution established a multidimensional system of judicial and fiscal control over the decisions and actions of Colombia's public authorities at all levels. Control institutions comprise government and non-government public officials who work alongside one another. For example, the public inspector-general works closely with the government's comptroller-general whose job is to ensure governmental fiscal probity. An independent Ombudsman deals with complaints against the administration and functions as the national human-rights institution.

The 1991 Constitution also established independent audit and financial oversight institutions at the sub-national level (see Chapter 3). The territorial control system is "mirror-similar": territorial entities replicate almost completely at the local level their national counterparts' functions. Sub-national Comptroller's Offices are financed by sub-national governments to guarantee their independence from the central level. The Comptroller is selected by the judicial branch (from a shortlist of candidates) and elected by the assembly of the sub-national entity – department or municipality – in which the office is located. The local Comptroller's Office can start control procedures on their own

Figure 4.1. **National and territorial government bodies in Colombia**



initiative or following a citizen's complaint. They can also transfer relevant information to the Attorney General. Finally the Attorney-General's Office has representatives (*Personeros*) active at the department and municipal levels. *Personeros* monitor the action of local authorities and have the power to sanction their actions.

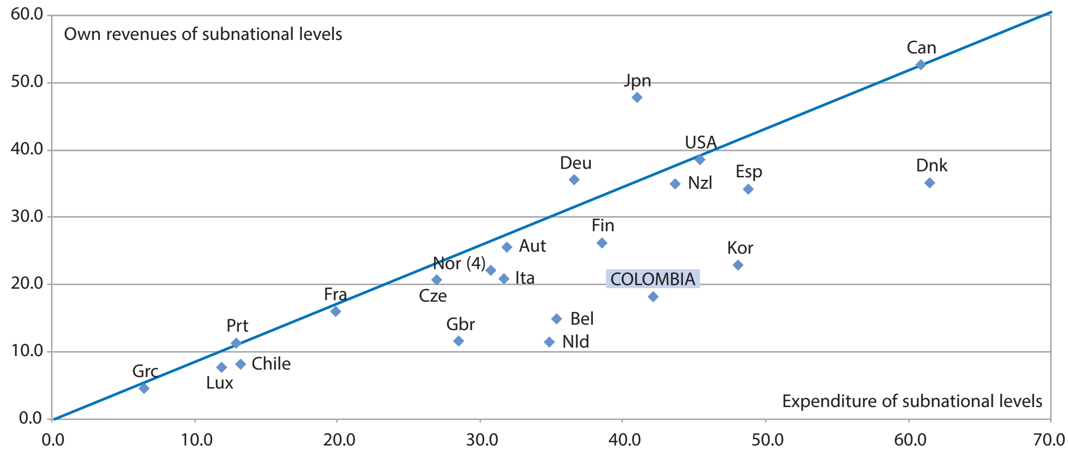
Overall, control bodies at the central and local levels have strong powers and responsibilities. They monitor the activities of public authorities and the allocation and use of public funds. They are also in charge of verifying the outcomes of public policies and assessing that policy interventions deliver expected results. Control bodies can remove elected officials; they co-operate with the Office of the Attorney General to prosecute them.

Funding of sub-national governments: limited earned tax-revenue and significant transfers

Sub-national governments are funded by the central government, and they collect their own revenues through local taxes. Colombia's levels of fiscal decentralisation track those of several OECD countries (Figure 4.2). Colombia's fiscal decentralisation process has paralleled an increase in the revenues of sub-national governments, which fall under three categories: direct transfers for programming from the central level; capital investment provided by the central government under the framework of the National Development Plan; funds to support investments that flow to sub-national governments from the royalties generated by the extraction of natural resources in Colombia.

Figure 4.2. **Fiscal decentralisation in OECD countries and Colombia**

Share of subnational governments in general revenues and expenditure in 2005 (expressed in percentage)



Source: Colombian Government (2013), PGR Background Report (unpublished working paper) and OECD data

Colombia's Constitution provides departments and municipalities with the power to collect their own taxes. Departments, in particular, collect excise taxes from cigarettes and tobacco, from gasoline and diesel, and from an alcoholic beverage tax. Municipalities have a broader tax base which includes taxes on business activities and on property. Table 4.1 illustrates how departments are suffering of a progressive contraction of their tax base, due to a general reduction in the consumption of the items they depend on, while municipalities have been able to marginal increase their tax revenues. Compared to the OECD average, Colombia has a bimodal distribution of tax revenues: the central level has higher tax revenues than an average OECD country; departments are largely below the OECD average; municipalities have higher tax revenues than the average OECD municipality (Table 4.1).[6]

Direct transfers from the centre

The aim of direct transfers is to promote equity of access by citizens regardless of where they reside in the country to key public services in healthcare and education. The General System of Transfers (*Sistema General de Participaciones*) is regulated by the 1991 Constitution. It is based on an important and increasing component of automatic transfers funded from the VAT and income taxes. The concurrence of these sources allows for a financing model that supports the decentralisation of the fiscal sphere and the territorial decentralisation in its political and administrative aspects. As a result of combining territorial financing sources, between 1985 and 2010, decentralised public expenditures – more specifically by municipal governments – grew significantly as a percentage of GDP and as a proportion of total spending by the three levels of government.

Increasing direct transfers to sub-national governments, however, also generated significant challenges to the overall fiscal sustainability of the country. For instance, rapid increases in government expenditures, mostly by autonomous sub-national entities, coupled with the acute recession at the end of the 1990s, severely challenged the fiscal stability of the country. In 2002, the debt-to-GDP ratio reached the unsustainable level of 52% (Bird, et al., 2005). Short-term tax increases did not restore Colombia's fiscal balance. Hence, the national government had to undertake radical reforms to put the country on a more sustainable fiscal footing while respecting its Constitutional mandate to implement fiscal decentralisation.

Table 4.1. **Attribution of tax revenues to sub-sectors of general government as percentage of total tax revenue**

	Central government			State or Regional government			Local government			Social Security Funds		
	1995	2000	2009	1995	2000	2009	1995	2000	2009	1995	2000	2009
Federal countries												
Argentina	59.0	66.4	63.9	17.5	17.8	14.7				23.4	15.8	21.5
Brazil	45.0	48.1	46.0	26.3	24.9	23.4	3.7	3.4	3.9	24.9	23.6	26.6
Mexico	80.1	80.7	79.6	2.1	2.0	2.4	1.1	0.8	1.3	16.6	16.5	16.7
Venezuela	94.6	94.6	93.3							5.4	5.4	6.7
OECD[b c]	53.8	56.6	53.6	15.9	15.4	16.4	7.7	6.9	8.0	22.9	21.1	22.3
Regional countries												
Colombia[d]	61.5	66.7	73.7	5.8	5.0	2.9	9.0	11.3	11.7	23.7	16.9	11.7
OECD[e]	50.9	49.4	27.7	4.8	7.7	23.7	8.5	9.1	9.4	35.8	33.8	39.2
Unitary countries												
Chile	89.9	87.8	86.3				6.5	7.9	7.5	3.6	4.4	6.2
Costa Rica	66.2	65.3	64.3					2.1	3.0	33.8	32.6	32.7
Dominican Republic	99.3	99.0	99.5							0.7	1.0	0.5
El Salvador	85.9	83.6	87.9							14.1	16.4	12.1
Guatemala	83.8	83.6	83.3				0.6	0.9	1.5	15.6	15.5	15.2
Peru	88.2	87.9	85.2						4.2	11.8	12.1	10.6
Uruguay	60.8	63.2	75.7							39.2	36.8	24.3
OECD[b f]	66.6	66.8	63.5				10.7	11.0	12.1	23.1	22.2	24.6

Notes: a. The figures exclude local government revenues for Argentina, Costa Rica (up to 1997), Dominican Republic, El Salvador, Peru (up to 2004), Uruguay and Venezuela as the data are not available.

b. Chile and Mexico are also part of the OECD group.

c. Represents the unweighted average for OECD federal member countries.

d. Colombia is constitutionally a unitary country with high autonomy of its territorial entities.

e. Represents Spain, which is constitutionally a non-federal country with a highly decentralised political structure.

f. Represents the unweighted average for OECD unitary countries.

Source: OECD (2012b), *Revenue Statistics*, OECD Publishing, Paris.

Key fiscal reforms in Colombia

Rationalisation and control of government spending, in particular by sub-national levels, have been the main targets of Colombia's fiscal reforms over the last 15 years. In fact, the only type of reform that helped to control expenditures and the growing deficit was the reform to decentralisation that limited increases to regional transfers. Following the introduction of the 1991 Constitution, sub-national entities increased dramatically their expenses and had to borrow and constantly increasing amount of funds from the private sector. This required the central government to enact a fiscal responsibility law (FRL) to address the imbalances created by sub-national expenditures. Colombia already had various laws constraining sub-national borrowing; it had to pass an explicit FRL in 2003 to obtain more institutional backing to pursue its national fiscal-balance strategies. The FRL adds to the *ex-ante* constraints on sub-national governments, although it does not contain strong enforcement provisions, and it sets up some transparency and accountability procedures for encouraging fiscal prudence at the national level.

The process that led to the FRL began in the 1980s and is intertwined with the decentralisation process Colombia has been implementing over the last three decades. In the late 1980s and 1990s the trend toward political decentralisation was accompanied by more freedom for sub-national domestic borrowing. There was no effective *ex-ante* controls on cash advances from banks, and sub-national debt with the banking sector rose from 2.6% of GDP in 1991 to 4.6% in 1997. To increase the central government's control over sub-national debt, the so-called Traffic Light Law of 1997 introduced a rating system for territorial governments, based on indicators of liquidity (interest payment/operational savings) and solvency (debt/current revenue) (IDB, 2002). Highly indebted local governments were prohibited from borrowing (thus given a red light), and intermediate cases (given a yellow light) were required to obtain permission from the central Ministry of Finance. However, some governments with a red-light rating obtained new financing without the permission of the Ministry of Finance.[7] Rather than moving from yellow to green, as hoped, departments often moved from yellow to red.

The importance of bank lending as a source of financing for sub-national governments in Colombia turned bank regulation into an alternative way to control sub-national borrowing. The Financial Superintendence of Colombia thus altered its requirements regarding provisions against non-performing territorial loans.[8] After sub-national governments' borrowing from banks expanded in 1993-94, the Superintendence required that all sub-national loans with over a year maturity be classified as risky. However, these regulations were relaxed in 1996, leading to two years of high borrowing by sub-national governments.

In a new attempt to implement fiscal rules to stabilise sub-national finances, Colombia passed Law 617 in 2000, which functioned in many ways as a FRL for sub-national entities. This law introduced several constrains on sub-national capacity to acquire debt. In particular:

- Primary current expenditure could not exceed non-earmarked current revenues, and could not exceed a fixed percentage, depending on the state or municipality category; governments must make across-the-board cuts whenever effective non-earmarked current revenues are lower than budgeted;
- State and municipal administrations are not allowed to make transfers to their public entities;
- Strict limits apply to the creation of new municipalities, and municipalities proven non-viable have to merge with others;
- When sub-national governments do not comply with the limits imposed by the Law, they have to adopt a fiscal-rescue programme to regain viability within two years;
- To promote transparency, there is an extensive list of characteristics and requirements for the election of governors, majors, congressmen and their relatives.

In 2001, the central government modified the Constitution to rationalise the system of transfers to sub-national governments. The Legislative Act 012 of 2001 modified Articles 356 and 357 of the Constitution and created the general system of transfers (*Sistema General de Participaciones*), which replaced the old *situado fiscal*, the educational compensation fund (FEC) and the municipal transfers system. It also de-linked regional transfers from the central government's current income. Moreover, the central government (through Law 715 of 2001) improved the criteria to allocate funds to education and health services at the regional level. For example, transfers are now assigned to departments and municipalities according to the number of enrolled students, instead of as a result of the previous set of complicated rules for the *situado fiscal* and the old FEC, which based the transfer formula on the value of total wages for education in each territorial entity (IDB, 2002).

This led to the passage in June 2003 of a proper FRL, which applied to the national as well as the sub-national governments. The FRL spelled out a process for setting budget targets at sub-national levels and linking them to target ranges for debt and deficits. The FRL introduced an obligation to publish quarterly fiscal results, define deficits on the basis of cash revenue and accrual of spending obligations, and define debt to include floating debt. The FRL set a target to eliminate *reservas presupuestales* in two years. The other part of floating debt, *cuentas por pagar*, was counted as regular debt and controlled by the fiscal/financial plan. To help with fiscal discipline at all levels, the FRL prohibited the national government from lending to sub-national governments or guaranteeing their debt if they were in violation of Law 617 of 2000 (which set limits to municipal expenditure based on the demographic size of the municipality) or Law 357 of 1997 (the "Traffic-Light Law"), or if the sub-national government was in arrears on any debt service to the national government. Indeed, a sub-national government in this situation was no longer able to borrow (legally) from anyone.

To discourage tying fiscal policy to the electoral cycle, the 2003 FRL also prohibited any governments from committing future spending (*vigencias futuras*) or increasing personnel spending in an election year. For sub-national governments there were additional constraints on deficits: the Law eliminated the "yellow-light" category in the Traffic-Light Law (thus placing tight fiscal restraints immediately on sub-national governments showing signs of problems), and required that departments and large municipalities obtain satisfactory credit ratings from international rating agencies before they could borrow.

In general, the FRL and the other rules to enhance controls on sub-national expenditure have been quite successful. Since 2001, these rules have led to a significant reduction in transfer/GDP ratios, contributed to a levelling of public expenditures/GDP ratios. This reduced the central government's deficits, and made possible aggregate surpluses in sub-national balance-sheets in years marked by positive economic performance.

There is, however, a series of challenges related to fiscal sustainability and sub-national governments' fiscal behaviour that Colombia still has to address. Measures implemented by the Colombian government since the early 2000s simply mark a return to a principal-agent model in MLG arrangements. The central government (the principal) designs policies, and local governments (the agent) execute them. Greater fiscal discipline is assured, but efficiency suffers without accountability and autonomy at the local level (IDB, 2002). Sub-national government have little or no incentives to increase their own revenues, i.e. their own fiscal foundation (OECD, 2013).

Investment to promote regional growth: the National Development Plan

Sub-national governments also receive funds within the framework of Colombia's four-year National Development Plan (NDP), as mandated by the Constitution (see Chapter 2). The NDP sets the overarching goals and objectives for growth and improvement in the country and articulates the planning to be implemented to meet them. The NDP codifies the strategic policies formulated by the President in security and defence, the economy, environmental management, and citizens' participation. The NDP is the formal, legal instrument by which policy objectives are identified for pursuit by Government, which allows for the subsequent evaluation of the government's performance in achieving them. As discussed in Chapter 2, the National Planning Department, as the leading planning body in the government, guides the design of the Plan by co-ordinating input from the National Council of the Plan, which includes representatives of sub-national governments, ethnic minorities and civil society, the National Council for Economic and Social Policy (CONPES), and selected constituencies from sub-national governments and civil society.

The current NDP – *Prosperidad para Todos* – co-ordinates a total forecasted investment of USD 317 billion (60% from public funds and 40% from leveraged private investment) for the period 2010-14. Since unemployment, inequality and regional disparities remain key development challenges across the country with several regions, especially in remote areas, lagging in terms of GDP per capita and accessibility to basic public services (OECD, 2013) the NDP aims to generate job opportunities through significant investments in innovation and human capital formation across the country. Positive trends are also influenced by the success of Colombia's Consolidation Plan (formerly, Plan Colombia), whose aim is to stabilise regions where guerrilla organisations had an important presence (Box 4.4).

Box 4.4. **Colombia's National Consolidation Plan**

- The The National Policy on Consolidation and on Land Reconstruction and its National Consolidation Plan (NCP) are the backbone of Colombian regional development and reform programmes. The NCP's whole-of-government approach aims to strengthen legitimacy, governance and state presence in specific areas of the territory to create conditions for economic and social development of areas that have been affected by decades of violence and of illegal crops.
- The NCP is designed to expand state presence into vulnerable areas where poverty, absence of rule of law, illegal armed group activity, drug trafficking and cultivation, recognised ethnic territory disputes, and human rights violations are most pronounced. The NCP seeks to deploy comprehensive, gradual and co-ordinated actions of the State under three Pillars in order to:
    - **Retrieve or set irreversibly institutional and legal control of the territory**, by articulating a comprehensive and co-ordinated presence of the state to ensure full enjoyment of fundamental rights for citizens, taking into account, management and regulation of the territory. This line includes programmes that work towards strengthening the capacity of institutions to administer justice thus providing public goods and services
    - **Ensure public participation, promote local governance**, so that communities and citizens take ownership of the NPC and participate responsibly and actively in decision-making, monitoring and social control of what is going to be invested in their regions, thus patronising the community and contributing in the reconstruction of the territory. In the same way, it works on the implementation of strategies for strengthening local governments, in order to generate endogenous development capabilities.
    - **Achieve economic, social and institutional integration of targeted regions**, by supporting infrastructure projects that will enable connectivity and mobility (roads, electricity, communications and information technology, radio, etc.), and provide basic education, health, water and sanitation, recreation, as well as the presence of financial and technical supporting institutions to promote regional development.

Box 4.4. **Colombia's National Consolidation Plan** *(continued)*

- The model being pursued is called "Integrated Action" or "Consolidation." Several small, historically ungoverned regions of the country have been chosen as targets for a phased, co-ordinated "hold and build" effort. A new committee in Colombia's central government, the Center for Coordination of Integrated Action (CCAI), co-ordinates military efforts to establish security conditions in these territories, and then civilian efforts to introduce the rest of the government and the services it provides.
- The desired end state is that violent, lawless zones become integrated into national civic and economic life, with their inhabitants becoming full citizens, supporting the state and abandoning illegal activity. In some zones, the Consolidation experience has operated long enough to make evaluation possible. Some aspects of this experience appear to be working well: drug production is reduced, and security, particularly in town centres, has improved. Other aspects, however, pose risks that threaten the success of the entire Consolidation effort. These issues include "militarisation," lack of civilian agencies' co-ordination and participation, local corruption, human rights abuse, and land tenure, among others.

Source : Based on http://bogota.usembassy.gov/plancolombia.html with input from the DNP.

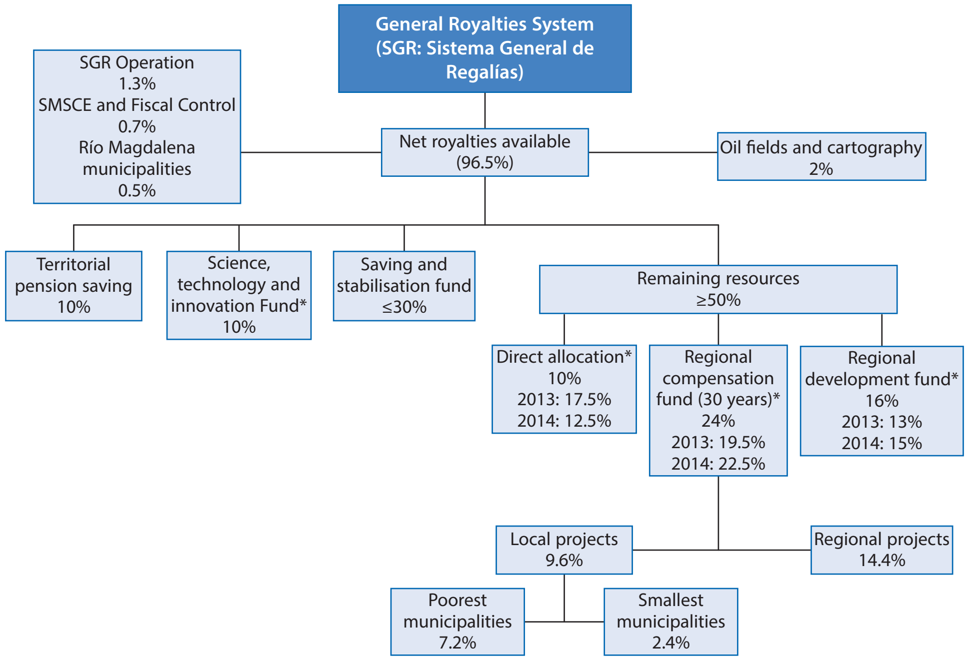
Public funds to sub-national governments from the General System of Royalty Payments

Colombia's booming natural-resource extraction and processing industries provide the country with increasing resources generated from the royalties paid by their companies. After significant changes to the national royalty payment system, these funds are now allocated to sub-national entities throughout the country for basic infrastructure, job creation and regional economic development. In particular, the new General System of Royalty Payments promotes regional development and competitiveness; it is also an important instrument that co-ordinates departmental and municipal interventions within common regional frameworks. A large share is also set aside, to reduce public debt in local entities and to protect investments against decreases in the exploitation of natural resources.

The new General Royalty System (SGR in its Spanish acronym) was significantly altered in 2012. The aim of these reforms was to allocate more effectively royalty funds generated by the extractive industries across the country (see Figure 4.3). Before the reform, 17% of the population of Colombia benefitted from 80% of the resources generated by royalties (almost 1.4% of GDP in 2011) (Colombia Background Report, 2012). Sub-national governments in resource-based regions used to invest these resources in projects that were only partially responding to local needs for infrastructure and development. The reform allocates revenues from royalties to all departments and lagging municipalities throughout Colombia. Resource-based communities will receive a fixed share of locally-generated royalties (20% once the reform is fully implemented). The SGR allocates royalties across six main funds (Figure 4.3):

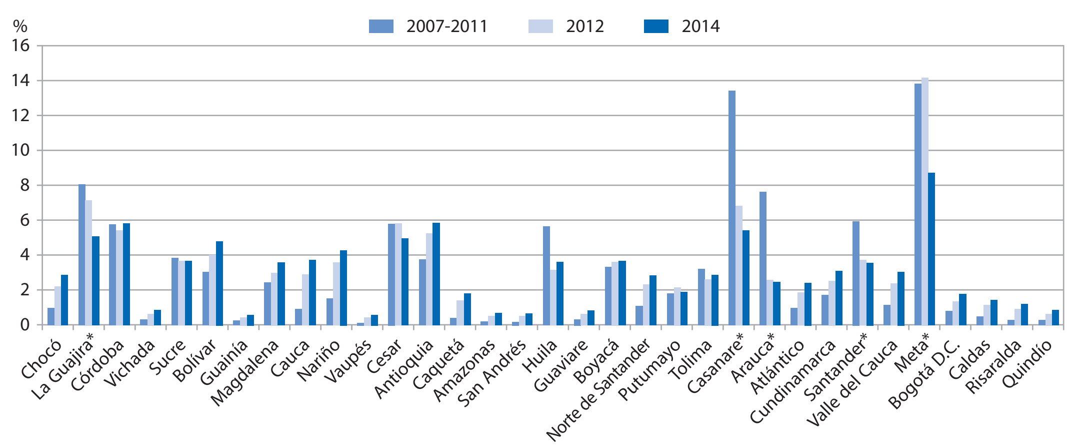
- 10% finance the territorial pension savings fund (*FONPET*), managed by the Ministry of Finance, which covers pensions for sub-national public employees;
- 10% are allocated to the science, innovation and technology fund managed by *Colciencias* (the Department of Science, Technology and Innovation). Regional universities are included in the selection process;

Figure 4.3. **The New General Royalty System**



Source: OECD (2013), *Economic Surveys: Colombia*, OECD Publishing, Paris.

Figure 4.4. **Share of total royalties allocated to individual regions before and after the reform**



Source: Colombian Government (2013), *PGR Background Report* (unpublished working paper).

Note: Departments are ordered by an indicator combining Unmet Basic Needs (UBN) and population, Chocó having the highest value of this indicator. * denotes the departments receiving the largest amount of direct royalties from commodity production in 2007-11 (i.e. Meta, Casanare, La Guajira, Santander and Arauca).

- Up to 30% are allocated to the sub-national Savings and Stabilisation Fund (managed by the Central Bank of Colombia). In the first year, 25% is allocated to this Fund and in subsequent years the amount saved is to grow at half the rate of increase in expected royalty revenues;
- The remaining 50% of royalty-revenues are divided into direct allocations to producing regions, the Regional Compensation Fund and the Regional Development Fund. The main purpose of the two last funds is to improve regional productivity, with most of the resources to be spent on infrastructure projects (OECD, 2013):
  - Of the remaining 50% of royalty-revenues, direct allocations to producing regions will decline from 50% in 2012 to 20% after 2014. The funds thus saved will be redirected to the Regional Compensation and Development funds;
  - The Regional Compensation Fund, to last 30 years, will receive 48% of the remaining royalties after 2014 and will invest in local infrastructure and economic development projects in the poorest regions and municipalities (more than two departments have to be involved);
  - At the end of the 30th year, the resources from the Regional Compensation Fund will migrate to the Regional Development Fund. In the meantime, the Regional Development Fund will receive 32% of remaining royalty-revenues after 2014. The money is not earmarked for specific spending items. This fund will operate indefinitely.

All sub-national entities receiving funds under the SGR are to frame their investment projects within a development strategy. In particular, funds to promote regional development are allocated to finance investment projects presented by municipalities, departments, and other territorial entities to their OCADs (*Órganos Colegiados de Administración y Decisión*), public-sector management bodies that cover large geographical regions. Colombia's six regional OCADs (*Región Caribe, Región Centro-Oriente, Región Eje Cafetero, Región Pacifico, Región Centro-Sur-Amazonía, Región del Llano*)[9] are responsible for defining, evaluating, making viable, prioritising, approving and designating the executor of investment projects presented by territorial governments within the SGR framework. The governance of OCADs includes representatives of municipalities, and departments. The Senate and the Chamber of Representatives, and the representatives from indigenous communities and other minorities also participate in the OCAD but cannot vote on decisions. In the case where an OCAD rejects the an investment project presented by a sub-national entity, the funds allocated to that entity are held in escrow, at the disposal of the sub-national government, which has to re-design a new project. Unspent funds from previous years are allowed to accumulate.

Tools for intergovernmental policy co-ordination in Colombia

This section describes the tools used to promote vertical and horizontal co-ordination in Colombia. The first part focuses on tools to co-ordinate vertically, and is divided into two subsections:

- The first sub-section focuses on the NDP and the National System of Royalties as broad co-operation instruments to align development policy agendas.
- The second sub-section describes a new tool adopted by the national government: contracts (*Contratos-Plan*, in Spanish) between the central government and subnational entities.

The second part of the section illustrates tools to underpin policy co-ordination horizontally between sub-national entities, and discusses the main tools that Colombia has introduced (through the NDP and the LOOT) to promote the creation of shared regional-development strategies. In general, policy co-ordination between single-sector policies or between different levels of government is a key issue for OECD and non-OECD countries, which have adapted a broad range of solutions (Box 4.5).

Box 4.5. **Mechanisms for national multi-sector regional-development policy co-ordination in OECD countries**

- **Co-ordinating structures such as interministerial committees and commissions.** This is one of the simplest systems for horizontal governance, since it is based on the existing government structure. Examples include the Ministerial Committee for Regional Policy in Denmark, the Presidential Committee on Regional Development in Korea, and the Cabinet Subcommittee on Rural and Regional Policy in Norway.
- **Fully fledged ministries with broad responsibilities and powers that encompass traditionally separate sectors.** Some positive implications of the concentration of different responsibilities within the same authority include a more open and coherent perspective, a concentration of expertise and the possibility of a more integrated approach. Specific ministries for regional development were created in Chile, the Czech Republic, Poland, Slovenia and the Slovak Republic.
- **Strategic planning and programming, including agreements, frameworks and instruments.** The formulation and implementation of national regional policy programmes and/or spatial planning can provide the framework for greater central co-ordination and is widely used across OECD countries. Planning and programming have been recognised as policy tools for regional competitiveness policies. In many countries, spatial planning is gradually moving from land-use regulation frameworks towards long-term strategic documents, focusing on the co-ordination of diverse issues and interests across sectors as well as between levels of government. It often incorporates monitoring, feedback and revision mechanisms. Examples include the National Strategic Reference Framework in EU countries, the National Spatial Strategy in Japan, and the Comprehensive National Territorial Plan in Korea.
- **Special units or agencies that provide planning and advisory support to facilitate policy coherence across sectors at the central level.** High-level "special units" have been created in several countries to ensure consistency among sectors. The closer such units or co-ordinators are to a chief executive, the greater the incentives are for co-operation across sectoral ministries. Examples include the French interministerial Delegation for Spatial Planning and Regional Action (Délégation à l'Aménagement du Territoire et à l'Action Régionale, or DATAR), which is linked to the Office of the Prime Minister and the Austrian Conference on Spatial Planning under the auspices of the Federal Chancellery. Special units under sectoral ministries include, for example, the National and Regional Planning Bureau of the Ministry of Land, Infrastructure, Transport and Tourism in Japan and the Spatial Economic Policy Directorate of the Ministry of Economic Affairs in the Netherlands.
- **Regional ministers.** Ministers must take into consideration the territorial aspects of the programmes and policies of their portfolios. For example, Canada appoints "regional ministers" who have regional responsibilities and represent the interests of their respective regions. Ministers combine their regular (sectoral) portfolio duties with their regional political roles. France and the Netherlands have appointed a minister who represents the interest of the leading region in the country, i.e. the state secretary for the development of the Ile de France and the minister for Randstad.

Box 4.5. **Mechanisms for national multi-sector regional-development policy co-ordination in OECD countries** *(continued)*

- **Territorial proofing mechanisms.** Territorial proofing is a mechanism that monitors government policies to prevent them from having a negative impact on certain types of territories. Ideally, proofing should be implemented in the early stages of designing policy. In addition to the rural proofing system of the United Kingdom and Canada, Korea and Sweden recently introduced a rural proofing mechanism. In Sweden, the rural development strategy was developed in 2009, and every ministry was tasked with looking at its own policy area and putting a rural perspective on it. In Finland, the Ministry of Employment and Economy has required sectoral policy makers to clarify their regional strategies and has assessed regional impacts (regional proofing) since 2004. Ten key sector ministries must define regional development plans in their field of responsibility, which fit into the Regional Development Act guidelines defined by law and the nine regional development targets adopted by the government in 2004.
- **Combining financing and/or creating a consistent and comprehensive budget.** The budgeting system is also a powerful tool for integrated policy making. Integrating financial tools and programmes can improve transparency and synergy across sectors and facilitate accountability and performance monitoring. Mexico grouped together ministerial budgets for rural policies into an official rural budget under the Special Concerted Rural Development Programme. Korea transformed many specific-purpose national grants into general grants, and established the Regional Development Special Account. A block grant was then adopted to give local municipalities the authority to autonomously design projects.

Source: OECD (2010), *Regional Policy in OECD Countries*, pp. 25-27, OECD Publishing, Paris; and: OECD (2010c), *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, OECD Publishing, Paris.

Co-ordinating national and sub-national development agendas

One of Colombia's main governance challenges in pursuing its development strategy is the alignment of national and sub-national policy agendas. There are several mechanisms and tools that – while respecting territorial-government autonomy – align the policy and investment agendas of sub-national entities with those of the national government:

- The NDP articulates a broad framework to co-ordinate capital investment across levels of government. Each local government, department and municipality has to produce a development plan to implement the agenda promoted by the elected mayor. A large part of these sub-national development plans is in line with the policy interventions of the NDP and accomplish its strategy across the country.[10]
- In the same vein, the General System of Royalty Payments offers an example in which investment decisions of departments and municipalities are co-ordinated by bodies (the OCADs mentioned above) in which the central government plays an important role.

Within this framework, the government of Colombia is now taking co-operation with sub-national level a step further with the introduction of contracts that promote *ad hoc* co-operation: the central level and a given sub-national entity can become allies in the delivery of a given policy or a given service to a specific region or local community.

Vertical contractual arrangements in Colombia: Contratos-Plan *and* Acuerdos para la Prosperidad

The *contratos-plan* tool (referred to here-after as contracts) promotes co-ordination between the central government and one or more sub-national entities. The aim of these contracts is to implement and finance strategic development projects, mentioned in the NDP, in given territories, which implicate more than one sub-national entity. Contracts are based on the principles of co-ordination, subsidiarity and concurrency defined by the National Development Plan 2012-14, and more generally by the Colombian Constitution. Contracts list projects, programmes and public policies based on national and sub-national priorities such as peace consolidation, gender equity and sustained economic growth.[11]

Contracts have so far been signed between the National Planning Department and local governments, but can also be signed by municipalities and departments without the participation of the central government. The National Planning Department has the responsibility to provide sub-national entities with technical assistance to help implement the agreed contract. The contracts programme also promotes co-operation between the different sub-national governments involved in its implementation. For example, contracts create territorial associations to co-ordinate capacity, capabilities and resources of the sub-national governments to consolidate a shared vision of the development of a given territory.

These contracts are thus a tool to carry out objectives under the National Development Plan: they seek to align national and regional development agendas, and to monitor and evaluate results. Co-operation between the central government and sub-national entities starts by assessing the characteristics and the growth potential of a given territory. Based on this assessment, the central government and the sub-national entities participating in the contract harmonise their development strategies. This co-ordination arrangement is formal and based on contractual guidelines lasting four years, the same period as the National Development Plan. Contracts are public and are the subject of consultations with the local business community and citizens. Contracts also clarify policy objectives and allocated funds, thus simplifying monitoring and evaluation of policy interventions. Monitoring and evaluation activities are done by SINERGIA (see Chapter 3).

An informal co-ordination process also supports the implementation of these contracts. The alignment of the National Development Plan with Territorial Development Plans depends on the capacity to create support at the local level for the general policy goals identified in the National Plan. This informal process is important to ensure that the development policy objectives identified in the contract are realistic and supported by local constituencies (business communities, citizen associations, etc.). The success of these informal co-ordination processes depends on the political capital of sub-national governments: their capacity to involve key local actors and gain their support.[12]

Agreements for Prosperity (*Acuerdos para la Prosperidad* – APP) are co-ordination institutions which derive from the Communal Councils, established by the previous Government.[13] The aim of APP is to facilitate co-ordination between central and sub-national governments. The main focus of APPs is citizens' participation to promote transparency and efficiency in policy-making and implementation. APPs support regional development by promoting dialogue among key stakeholders (the central government, sub-national entities and local stakeholders) on a specific policy issue that is central to the development strategy of a given territory. The Presidential Regional Office is in charge of the defining the topic of the APP, and has also the responsibility of monitoring the process assuring that national and regional counterparts respect their commitments. One of the most relevant characteristics of the APP is that the President of the Republic participates directly in public debates on developing the APP together with the regional community, the sub-national government(s) and other stakeholders that have a vested interest in the specific issue being addressed in the APP. APPs have also only recently been implemented so information about their actual performance is still limited.

Depending on the central topic in the APP, a different Ministry is responsible to lead the exercise. So, for instance, if the focus of the APP is agriculture, the Ministry involved in the APP will be the Ministry of Agriculture. If the focus is on education, the ministry in charge of leading the APP preparations will be the Ministry of Education, and so on.

Horizontal tools supporting coordination between sub-national levels

Colombia's territorial governance structures are based on departments and municipalities. Each of these levels is required to design and implement a territorial development plan that is linked to the NDP. However, in some cases, policy challenges require co-ordinated action between different departments or municipalities to be more effective. The necessity of horizontal co-operation among territorial entities was initially recognised in the 1991 Constitution, which lists several possibilities to promote policy co-ordination at the local level. The current legal framework embeds these instruments within a broader framework and adds new instruments to promote territorial partnerships among sub-national entities. Some of these co-ordination tools have already been taken up, while some others have yet to be implemented. These tools include:

- **Associations of municipalities**: voluntary association between two or more municipalities from one or more departments. Their aim is to improve service delivery, infrastructure, and more generally promote efficiency and effectiveness in municipal administration. Associations are organised as legal administrative entities that are independent and manage their own resources. They enjoy the same legal benefits provided to municipalities (Law 136/94).
- **Metropolitan Areas**: based on two or more neighbouring municipalities which are part of the same functional region (i.e. they share the same labour market and have a common transportation infrastructure). Metropolitan areas are legal entities that are independent and manage their own resources. The governance body leading the metropolitan area is the Metropolitan Board, which comprises the mayors of the partner municipalities, the governor of the department in which the metropolitan area is located, a representative of the Local Assembly or Municipal Council (Consejo municipal) of the core or main municipality, and a representative from the other the local Assemblies. Metropolitan areas are usually organised around a core municipality (Law 136/94). There are five Metropolitan Areas in Colombia: Valle de Aburrá (Medellín, Bello, Barbosa, Copacabana, La Estrella, Girardota, Itagüí, Caldas y Sabaneta); Bucaramanga (Bucaramanga, Floridablanca, Piedecuesta y Girón); Barranquilla (Barranquilla, Soledad, Puerto Colombia, Malambo y Galapa); Cúcuta (Cúcuta, Villa del Rosario, El Zulia, San Cayetano y Los Patios); Centro Occidente (Pereira, Dosquebradas y La Virginia). Metropolitan areas are a common co-ordination tool in OECD countries (Box 4.6).
- **Administrative and Planning Provinces**: formed by two or more municipalities within a single department. Administrative and Planning Provinces are created by the central level to provide public services, to carry out specific tasks related to local infrastructure development and more generally to support more integrated sustainable development (Article 16 from the LOOT).

- **Administrative and Planning Regions**: an association between two or more departments, with legal status and managing its own resources, working for the socioeconomic development of a specific territory that straddles departmental boundaries (Article 319 of the Constitution).
- **Management and Planning Regions**: a mechanism through which sub-national governments (or the central government) can provide assistance to other sub-national entities whose capacity to deliver key services is significantly challenged (Article 19 from the LOOT). Management and planning regions are based on the three key principles of regulating public co-ordination in Colombia: complementarity, concurrence, and subsidiarity (Box 4.7).

Box 4.6. **Types of metropolitan governance in OECD countries**

Many cities have placed greater emphasis on voluntary instruments for co-ordination and co-operation. The discussion of how to manage metropolitan areas better revolves principally around a spectrum of models that range from relatively “heavy” to relatively “light” in terms of the scope of the reform they imply.

- At the relatively heavy end are functional models whereby governance structures are reshaped to fit or to approximate the functional economic area of the metropolitan area. Examples include the creation of a metropolitan government and the amalgamation of municipalities.
- At mid-position are a wide range of co-operative arrangements through inter-municipal joint authorities, most often on a voluntary basis, such as sectoral or multi-sectoral agencies whose main functions generally include transport, urban planning or economic development (sometimes on ad hoc basis).
- At the light end are informal co-ordination bodies such as platforms, associations or strategic planning partnerships, often relying on existing networks of relevant actors, without necessarily following the logic of territorial boundaries.

Source : Colombian Government (2013), PGR Background Report (unpublished working paper).

Box 4.7. **On complementarity, concurrence and subsidiarity**

Coordination: calls for the systematic, coherent, efficient and harmonic organisation of the state bodies throughout the sub-national levels, in order to achieve the objectives of the State.

Concurrence: demands the joint participation of the different subnational levels in the scenario in which the territorial bodies are incapable to provide key public services.

Subsidiarity: Demands the central state bodies to take on or support the competences and functions of the subnational entities, in case they are lack of administrative, institutional and financial capacity in order to develop them.

Source : Colombian Government (2013), PGR Background Report (unpublished working paper).

Other co-ordination arrangements governing territorial association that are minor or have yet to be implemented include:

- Associations of departments;
- Association of special constituencies;
- Association of metropolitan areas; and
- Associations between municipalities;
- Areas for Territorial Development, identified in the National Development Plan; and
- Agencies for Local Economic Development, created to boost equitable economic and social development based on a locality's endogenous potential. There are approximately eleven of these Agencies active at the department level.

The government of Colombia has also adopted instruments that promote co-ordination between sub-national entities while not requiring the creation of new institutional arrangements. The two main tools are:

- **Territorial Pacts**. Sub-national authorities (municipalities and departments) belonging to a same territory can work together to shape a common vision for the economic development of their region. One of the most emblematic examples of this type of arrangement is the one signed by Bogotá and the 116 municipalities constituting the department of Cundinamarca. The partnership created a Regional Planning Board with the task of producing a shared vision for the region, which will be used as the main framework for policy interventions, notably in regional transportation infrastructure.
- **Territorial Alliances**. Sub-national entities can create a territorial alliance to find solutions to a common challenge. A good example of this type of arrangement is the Alliance Pro-Development for the eco-region of La Mojana (*Alianza Pro-Desarrollo para la Ecoregión de La Mojana*), which co-ordinates the actions of all sub-national governments within the region with that of the central government.

Linking regional and national performance: Achieving development outcomes more effectively

This section discusses possible improvements to the current functioning of multilevel governance in Colombia, and is divided into two parts:

- The first focuses on the need to clarify the rationale underpinning decentralisation in Colombia, and to use decentralisation as a tool to align investment agendas at the national and regional level through a set of specific policy interventions ("put decentralisation to work"). This can be done by providing territorial entities with technical assistance and capacity-building support; promote transparency and integrity at the local level to improve institutional trust; and reduce the disconnect between operation costs and capital investment, which impinges upon the capacity to engage in the production of advanced public goods at all level of government.
- The second part of the section focuses on the need to improve knowledge concerning the needs of territorial communities and the performance of regional policy. This can be done by improving evidence-based policy-making capacity, as well as transforming territorial entities into active agents in monitoring and evaluating regional policy.

Clarifying the rationale for decentralisation in Colombia: Putting decentralisation to work

Once amongst the most centralised countries in Latin America, Colombia has adopted a system of "diffused" democracy in which sub-national governments play a key role in delivering policy to citizens. The decentralisation process, however, has swung between extreme positions: total autonomy for sub-national governments – which caused territorial entities to reach an unsustainable level of indebtedness – and more cautious arrangements in which the regional autonomy has been framed by a set of strict fiscal rules to guarantee the country's fiscal stability (see previous sections).

This dynamic renders the role territorial entities could play within the national governance framework unclear. For instance, current arrangements reduce the capacity of sub-national entities to support the central government in delivering its policies, and impinge upon the capacity of territorial governments to tailor policy interventions to meet the needs of their own residents. In particular, under current arrangements sub-national levels depend mostly on transfers from the central level; they thus spend money for which they are not accountable. This reduces the incentive for local authorities to ensure (and make public) value-for-money expenditure performance.

Supporting capacity-building at the sub-national level through the NDP

Sub-national governments can be peers and allies in the delivery of centrally-designed public policies, instead of being perceived as potential threats to national fiscal stability. To achieve this result, the central government could capitalise on past and current efforts to support territorial bodies in areas such as spatial planning and public finance/budgeting, and invest more in capacity-building at the local level:[14]

- The NDP could play a key role in supporting sub-national capacity building. Capacity-building could be defined as a mainstream objective within the NDP and specific funds could be allocated to engage in technical assistance and capacity-building in territorial bodies.
- These activities could become very important, since the central government, through the NDP and the General Royalty System, is asking more and more territorial communities to identify development opportunities in their regions. This has also an impact on human resource management, as sub-national levels should have the capacity to deal with the new tasks (see section on HRM at the end of this chapter).
- To support this, Colombia could consider adapting international good practice in this area – for instance in Canada, where the government of Québec strongly supports capacity-building in its rural areas facing economic decline, or in the European Union, where its structural funds provide Europe's lagging regions with specific funds for capacity-building and technical assistance (Box 4.8).[15] This could be particularly effective to support the implementation of the new Royalty System.

Box 4.8. Capacity-building and technical assistance: Experience in Canada and the European Union

- **Canada (Québec)**. Resource-based rural communities in Québec suffered from international competition and/or reduction of the resources they were depending on. The provincial government of Québec assisted them with a 7-year plan (*Politique Nationale de la Ruralité*) that provided them with community developers and facilitators (rural agents) helping them to identify new opportunities for economic development and also to restore community and place attachment. Several of these communities were able to identify new economic niches in which investing to create job opportunities for the local population, thus buffering the demographic decline.
- **European Union**. The EU supports regional development through Structural Funds. The main aim of these funds is to promote productivity gains in lagging-behind regions; in order to avoid that investment converges only into Europe's main growth poles. Each structural fund (i.e. European Social Fund, European Regional Development Fund, etc.) is activated by an Operational Programme that regions have to present and discuss with the EU. In addition, there are specific Operational Programmes supporting governance improvements and providing technical assistance to lagging-behind regions to help them designing their development strategy and also implementing it. For instance, in the case of Italy, the technical assistance plan aims to improve the technical and political competences of the administration and implementing bodies. Technical assistance supports the alignment of national and EU Regional Policy programming and look to enhance the efficiency of public administrations involved in Regional Policy planning, implementation, monitoring and evaluation. The main beneficiaries are be the regional, central and local administrations acting as Managing Authorities and implementing bodies for regional and national Operational Programmes.

Source : OECD (2010), *Regional Policy Inforegio*, http://ec.europa.eu/regional_policy/country/prordn/details_new.cfm?gv_PAY=IT&gv_reg=642&gv_PGM=1163&gv_defL=7&LAN=7 (accessed on February 2013).

Promoting transparency and integrity for territorial entities

Another key challenge for Colombia is promoting transparency and integrity in territorial entities. Colombia currently ranks 94th of 176 in the Corruption Perceptions Index of 2012, tied with Benin, Djibouti, Greece, India, Moldova, Mongolia, and Senegal (Transparency International, 2012[16]). Colombia has made efforts to fight corruption and is in the process of ratifying the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Still corruption remains an issue and perceptions of corruption affect the ease of doing business.

Corruption affects sub-national governments in particular. In 2011 about 500 mayors (out of 1 102 municipalities) were punished by the Inspector General and more than 90% of them have been suspended from office. Furthermore, indicators show that the risk of corruption is high in some of the key institutions dealing with infrastructure and innovation. This suggests the need for better information systems as well as more transparency and accountability. These institutions include regional authorities in charge of granting environmental permits (*Corporaciones Autónomas Regionales*, CAR), port managers, and the institution in charge of financing research and development, *Colciencias* (ITN, 2010). For example, CARs lack technical and administrative capacity, are allegedly influenced by political pressure and use procedures which fail to comply with basic legal and oversight requirements (Blackman *et al*., 2006). Furthermore, the institutional set-up granting environmental permits for mining activities creates backlogs and delays, as more than five entities are involved. Increasing the monitoring of CARs and making the appointment of CAR managers less dependent on the political cycle could be considered.

Transparency and integrity lie at the core of good multilevel governance (OECD, 2012). It is thus necessary that sub-national governments embed a culture of integrity in public service in line with the "OECD Principles for Managing Ethics in the Public Service". In this context, sub-national governments should seek to prevent conflict of interest by identifying and managing such conflicts, in accordance with the "OECD Guidelines for Managing Conflict of Interest in the Public Sector". They should also reduce the potential for capture by lobby interests in relation to investment decisions, in line with the "OECD Principles for Transparency and Integrity in Lobbying" (Box 4.9).

Box 4.9. **Guidelines for managing conflict-of-interest and principles for transparency and integrity in lobbying**

Through guidelines and principles the OECD assist the international community to improve the quality of legislation and rules in sectors that are of international interest (guidelines for multinational enterprises, guidelines for protection of privacy, principles for corporate governance, etc.).

The **OECD Guidelines for Managing Conflict of Interest in the Public Service** supported the debate, reviews and the update of conflict-of-interest policy and practice in member and non-member countries. Within this process, two thirds of OECD countries reviewed their conflict-of-interest policy and practice and identified weaknesses, particularly the lack of clarity and awareness, put forward proposals for tightening restrictions and simplifying rules, strengthening implementation and enforcement mechanisms and also mapped out risks and identified emerging challenges such as dealing with appearance of conflict of interest. Reviews focused mostly on adequacy of existing legal rules and codes and occasionally on specific instruments. Some reviews put the spotlight on specific measures and mechanisms, including control mechanisms, for example in Belgium, Mexico and Greece; and financial disclosure systems, for example in Hungary, Spain and the United States. Proactive reviews were conducted internally by the administration and exceptionally externally. Over three quarters of OECD countries updated conflict-of-interest policy and practice to improve legal frameworks and make existing arrangements more effective. The Guidelines also supported dialogue with non-Member countries in the framework of a global partnership and reached out to the private sector.

The OECD set 10 **Principles for Transparency and Integrity in Lobbying**. Decision makers may use all available regulatory and policy options to select measures, guidelines or rules that meet public expectations for transparency and integrity. The Principles are primarily directed at decision makers in the executive and legislative branches. They are relevant to both national and sub-national level. Lobbying, the oral or written communication with a public official to influence legislation, policy or administrative decisions, often focuses on the legislative branch at the national and sub-national levels. However, it also takes place in the executive branch, for example, to influence the adoption of regulations or the design of projects and contracts. Consequently, the term public officials include civil and public servants, employees and holders of public office in the executive and legislative branches, whether elected or appointed. The ten principles are listed below.

1. Countries should provide a level playing field by granting all stakeholders fair and equitable access to the development and implementation of public policies.
2. Rules and guidelines on lobbying should address the governance concerns related to lobbying practices, and respect the socio-political and administrative contexts.

Box 4.9. **Guidelines for managing conflict-of-interest and principles for transparency and integrity in lobbying** *(continued)*

3. Rules and guidelines on lobbying should be consistent with the wider policy and regulatory frameworks.
4. Countries should clearly define the terms "lobbying" and "lobbyist" when they consider or develop rules and guidelines on lobbying.
5. Countries should provide an adequate degree of transparency to ensure that public officials, citizens and businesses can obtain sufficient information on lobbying activities.
6. Countries should enable stakeholders – including civil society organisations, businesses, the media and the general public – to scrutinise lobbying activities.
7. Countries should foster a culture of integrity in public organisations and decision making by providing clear rules and guidelines of conduct for public officials.
8. Lobbyists should comply with standards of professionalism and transparency; they share responsibility for fostering a culture of transparency and integrity in lobbying.
9. Countries should involve key actors in implementing a coherent spectrum of strategies and practices to achieve compliance.
10. Countries should review the functioning of their rules and guidelines related to lobbying on a periodic basis and make necessary adjustments in light of experience.

Source: OECD (2007), *OECD Guidelines for Managing Conflict of Interest in the Public Service*, OECD Publishing, Paris, www.keepeek.com/Digital-Asset-Management/oecd/governance/lobbyists-governments-and-public-trust-volume-1_9789264073371-en.

Procurement is a strategic function of government which represents huge financial flows and has direct impact on economic and social development at the sub-national level (this is explored in detail in Annex B to this Review). Public procurement by general government and state-owned utilities represented over 17% of GDP in the OECD in 2008.[17] A large share is carried out by sub-national governments, responsible for more than half of all public-procurement expenditures. It is also one of the government activities most vulnerable to waste, fraud and corruption.[18] A survey conducted in 16 OECD countries demonstrated that almost half of the sample (7 out of 16) reported that fraud in public procurement is a challenge.[19] Capital-intensive public works tend to be particularly prone to corruption and abuse in many countries because they involve industries with a limited number of potential participants, a limited number of licenses and detailed specifications for the participants.[20] The more complex or infrequent the investment, the greater is the difficulty in monitoring procurement (OECD, 2012).

Weak capacity and corrupt practices at sub-national levels can reduce trust, deter external investment, increase borrowing and investment costs, and potentially compromise quality. Lack of capacity to manage public procurement can be more challenging in small regions/municipalities, which may lack officials trained to manage procurement issues, or where decentralisation has outpaced capacity for developing internal control systems. Procurement systems should be transparent throughout the procurement cycle; competitive, with measures taken to enhance integrity if exceptions to competitive processes are made; and monitored to ensure that funds are used as intended and complaints can be registered and addressed. To support more effective and transparent procurement, sub-national governments could consider adopting the *OECD Principles for Enhancing Integrity in Public Procurement* and the *OECD Principles for Fighting Bid Rigging in Public Procurement.*

A key challenge for sub-national governments is implementing procurement rules developed at the national level. Instability of the legal framework for procurement can generate additional costs for public and private actors. Another challenge is the compliance-based approach imposed by the central level, which may lead to inconsistent or disproportionate sanctions as well as create a risk-averse climate and mistrust. Many OECD regions have highlighted what they view to be excessive administrative procedures, problematic time constraints and overly restrictive bid specifications. Good practice includes co-operation with the business and non-profit sectors to solicit feedback in the development of procurement standards and their application, as well as ensuring awareness of the consequences of non-compliance.[21] Sweden and Spain (Galicia) provide useful examples about good practices that a country can implement to guarantee transparency and integrity (Box 4.10).

Box 4.10. **Good practice in promoting transparency and integrity at the sub-national level**

- **Sweden:** The Open Comparison project aims to encourage comparison and increase transparency on the cost of local public services. Around 200 municipalities (out of 290) participate in networks of five to ten municipalities to develop new methods for comparing costs and quality of public services.
- **Spain (Galicia):** Galicia launched a shared web platform for managing its public procurement system available to all public entities in the region (around half already involved). Public tenders are published on this platform, where companies can register (3500 thus far) for pre-approval and access past successful tender applications. Bid submission online is in a pilot stage. Increased transparency and competition is visible through an increase in tender applicants as well as a reduction in contracting costs for municipalities.

Source: OECD (2012a), *The Case of Future OECD Principles of Public Investment Across Levels of Government*, 28th session of the Territorial Development policy Committee, OECD, Paris.

Improving the effectiveness of public investment for regional development

Significant regional disparities still persist despite the significant resources Colombia invests to promote regional development:

- Direct transfers represent the largest stream of funds from the central level to sub-national entities (see previous sections). These funds cover operating costs for public administration at all levels; and are earmarked to sub-national entities to guarantee that each citizen in Colombia has access to a basic basket of key public services of comparable quality. When the sub-national government is not able to deliver such a basket of public services, the central level steps in to provide citizens with the public goods.
- Capital investment represents the second stream of funds from the central level to territorial governments. Capital investment is framed by the National Development Plan, which also co-ordinates funds provided by the General Royalty System.

This system presents several challenges:

- A first challenge is generated by the split between operating cost (transfers, local taxes, etc) and capital investment (transfers, royalties, National Investment Budget investments, among others). The current split between the National Planning Department (which manages capital investments) and the Ministry of Finance (which manages operating expenditures) challenges Colombia's capacity to connect capital investment to operating costs effectively, efficiently and coherently over time. Capital investment in infrastructure also increases operating costs. In fact, building a school in a given region does not guarantee better accessibility to education for the local population if there are not enough teachers and the associated services required to support it, such as transportation services or health care.

- The second challenge stems from the first, and relates to underestimating total operating costs over time due to pursuing a sector-specific "silo" approach to regional development. A risk in the current system is that territorial entities keep producing basic single-sector public goods that may have a limited impact on operating costs – but end up having a marginal impact on economic development. Recent research conducted by the OECD (2012) on factors affecting regional performance demonstrates the need to implement *integrated* policy packages to support territorial development. In fact, the focus on a single factor, say on transportation infrastructure in poor and remote regions, can generate unexpected distortions in their economy (Box 4.11).

  Moreover, regions at a different level of development need a different basket of public goods to advance along their growth path. The need to co-ordinate operating cost and capital investment increases with the complexity of public goods public authorities have to deliver to support development. Producing roads, for instance, generates limited operating costs. But, once a region has a sufficient endowment of transportation infrastructure, policy should move to the production of other – more complex – public goods such as education or health care, which have an impact on operating costs. Accordingly, in Colombia transfers from the central government to sub-national levels should not happen without corresponding operational funding. This will require strengthening co-operation and co-ordination between DNP and the Ministry of Finance (*Hacienda*), and involving the DAFP to ensure that sub-national authorities can count on an adequate administrative capacity to carry out their mandates and raise new revenues to do so.

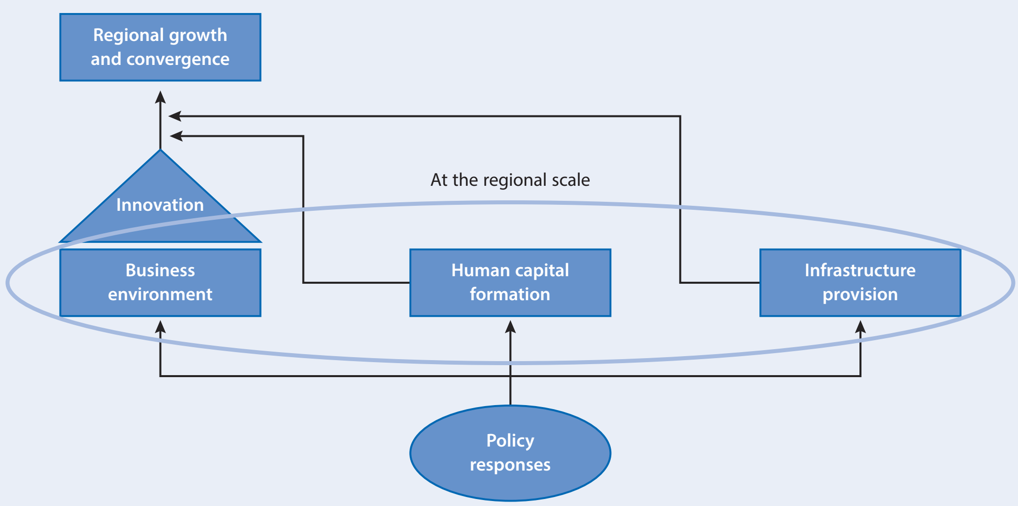
- A third challenge relates to the NDP and, in particular, to the process that underpins it. In fact, the strategy-development process is at least as important, if not more so, than the strategy itself. From the point of view of municipalities and departments the NDP is a menu of policy interventions that they adapt to their specific context and local assets in order to access the resources on regular offer from the National Investment Budget. This requires considerable effort on the part of territorial entities which, in many cases, have limited capacity to implement them effectively. The overall result of this system can be summarised in four points:

  - First, local development plans appear similar, prioritising the same types of investments in basic infrastructure an in public goods that involve a minimum level of complexity, notwithstanding sometimes profound differences between localities.

Box 4.11. **The policy headache: Isolated single-sector action may cause unintended outcomes**

OECD studies suggest that constructing or upgrading of transportation infrastructure can have a positive influence on a region's economic development, but that economic growth is not automatic. Growth effects are likely to appear only when positive externalities exist in the region. Faster transport connections can exploit potential positive externalities that exist in various markets – typically unexhausted economies of scale, scope, agglomeration, density or network – and consequently improve (labour) productivity, enhance output, reduce production costs and promote more efficient use of resources. If such latent economies do not exist, however, improvements in accessibility could lead to changes in existing transport flows and spatial patterns without having long-term effects on growth.

If regional policy concentrates only on providing capital in the form of infrastructure, a lagging region may end up losing economic resources (the "leaking by linking" phenomenon). By reducing interregional transport costs, firms continue to find it cheaper to concentrate in the core regions, to reap the benefits of agglomeration economies and thick markets and to ship the goods to the periphery. For example, improved motorways in eastern Poland will enable goods to reach foreign markets faster and at lower cost, but competition from other parts of Europe will also increase for local firms (OECD, 2008a). Regional development policy therefore requires a multi-dimensional approach.



Source: OECD (2010c), *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, OECD Publishing, Paris.

- Second, it is often difficult to make a clear link between policy interventions and policy outcomes. While control bodies active at the national and local level can audit local spending, it is very challenging for them to evaluate the impact of a policy in terms of its outcomes. In fact, policy evaluation is not their task and they are not equipped (either politically or in terms of human resources) to engage in this task.
- Third, the planning system does not always identify priorities that are *realistic and well-informed*: based on clear evidence that points to the region's ability to make fruitful use of the investment (i.e. absorption capacity). The priority is on

the need to spend all the resources allocated by the NDP within the specified time-frame.

- Finally, the four-year NDP, although guarantees a certain degree of continuity in the national development strategy, is not *forward-looking* beyond its time horizon, and has limited capacity to position regions in the context of global trends. For instance, a specific study realised by the OECD and involving 20 member countries demonstrated that the large majority of them (18 countries) consider the lack of a long-term view to be a key challenge for sub-national governments.[22] This issue is also discussed in Chapter 2.

A fourth challenge relates to the efficient use of the SGR funds themselves. Although the 2011 and 2012 reforms have the potential to raise productivity, spur regional growth and reduce income inequality, close attention will need to be paid to the degree to which royalty-transfers are actually achieving the policy outcomes envisaged by the reforms. For instance, earmarking a share of the royalties to the science, innovation and technology fund may indeed spur innovation-driven growth; however, it may also hinder a more effective allocation of resources since other spending areas may have higher social rates of return, at least in the short term. The allocation of public funds to specific investment projects may also hinder effective spending in the absence of close co-ordination among projects approved for each department or municipality. In addition, the economic impact of spending royalty revenues largely depends on regional institutional capacity (Olivera and Perry, 2009).

The government could therefore consider the following to optimise the effective use of royalties:[23]

- The central government could focus on sub-national capacity-building by earmarking operational funding within the programme envelopes to provide assistance in the form of training as well as information and communication technologies to municipalities and departments to identify worthwhile projects and advise on their implementation.
- Monitoring and *ex-post* evaluation of projects could be strengthened. Although resources in the National Planning Department devoted to monitoring projects have been increased, more may be needed given the mounting number of projects and the high level of specialisation required. Care should be taken, however, that administrative costs do not become excessive.
- The share of royalties transferred to each region could include an incentive mechanism in which regions would receive more funds the faster they progress in achieving key indicators such as unmet basic needs, student performance or kilometres of paved roads.

Sound strategic development therefore requires both skills and resources that can be encouraged and supported by both national and sub-national governments. Different public, private and civil society stakeholders should inform investment priorities. Box 4.12 displays some good practices concerning development strategies in OECD countries.

Colombia's current solution is for the central authorities to increase dramatically their control over spending by sub-national authorities – a sub-optimal solution – rather than to replace transfers to sub-national entities with earned-revenue expenditure capacity for which these authorities would be publicly accountable, or to institute some form of policy "conditionality" and a public-accountability framework in exchange for the transfers. Either scenario would constitute a better solution for ensuring value-for-money expenditures that can survive public scrutiny.

Box 4.12. **OECD Good Practice on Inclusive Governance in Public Investment for Regional Development**

- **European Union:** There is a new requirement for a "smart specialisation" strategy as an *ex ante* condition for regions to access EU Structural Funds for innovation, with an emphasis on the process of strategy development to prioritise relevant choices.
- **United States:** The US Department of Labour WIRED Initiative highlights skills in creating effective regional economic development strategies, based on a planning process with a diverse set of stakeholders and levels of government. Grants support strategy development through data tools to inform the strategy, capacity building support and connections to programmes and investments at nine other federal agencies.
- **France**: DATAR (French inter-ministerial delegation to promote regional attractiveness and development) developed a good practice guide and worked with regions to develop regional innovation strategies given that existing regional strategies were too similar and not sufficiently tailored.
- **European Union:** The first wave of the LEADER programme was a bottom-up, community-based process to identify and execute projects in rural areas to promote their development. The success of the first round was attributable to the catalytic effect of the small amounts of money associated with the programme and the information-revealing nature of the process to select development projects.

Source: OECD (2012a), *The Case of Future OECD Principles of Public Investment Across Levels of Government*, 28th session of the Territorial Development policy Committee, OECD, Paris.

The current planning system may be a legacy of a past in which Colombia was a relatively simpler economy with a few primary and secondary sectors (e.g. coffee, agriculture and mining). However, now that Colombia is home to a complex economy with several high-performing clusters and multiple formalised international economic and trade relationships, planning becomes a more challenging, as the government itself knows. Clearly, producing a comprehensive plan every four years has generated several advantages:

- The DNP, for example, constitutes one of the better public-sector organisations in the country in terms of capacity, reliability and on-the-ground presence through its regional offices and local officials across the country.
- Colombia – despite its inequalities – is winning its fight against extreme poverty. And it is thanks to its national development planning that Colombia can continue to this fight against extreme disparities. The central government has been able to improve youth well-being throughout the country by implementing an integrated policy called *De Cero a Siempre* (From Birth to Forever) to assure children have access to key public services (Box 4.13).

Yet the importance of the point made above regarding the need to embed four-year plans within medium-term (say, ten-year) and long-term (say, thirty-year) vision statements for the country's national development cannot be underestimated. Over time, as Colombia achieves four-year development policy objectives more easily, and as its economy becomes increasingly intertwined with those of its neighbours and partners across the globe, defining ten and thirty year development objectives along with the plans to achieve them will become more important than ever to sustain prosperity for the country and its citizens into the future, while ensuring a suitable degree of planning continuity and performance-measurement and assessment capacity beyond a planning horizon defined by the national electoral cycle (see Chapter 2).

Box 4.13. **Implementing national policy at local level: The example of *De Cero a Siempre* (From Birth to Forever)**

De Cero a Siempre is an example of the way the central level addresses capacity issues at the local level in poor areas, when delivering key policy interventions, such as support to children and youth. *De Cero a Siempre* was launched in 2007 as part of a broad policy framework to improve the conditions of Children and Youth in Colombia. It has three main objectives:

- The first is to assure that all children in Colombia have access to health care, education, and proper nutrition.
- The second is to reduce duplication of policy interventions, co-ordinate actions at different levels of government and improve efficiency to promote policy sustainability in the long run.
- The last is to centralise information about the performance of policy interventions to allow monitoring and evaluation. Monitoring is based on information provided by the local governments that have to follow national guidelines in selecting relevant indicators, evaluate the performance of the institutions in charge of the implementation of the policy.

De Cero a Siempre is managed at the central level by the *Instituto Colombiano Bienestar Familiar* (Colombian Institute for Family Welfare). ICBF's capacity to co-ordinate such a large-scale policy is an example of the progress Colombian institutions have made in dealing with policy delivering. ICBF collects detailed information about policy performance and about the conditions of kids all over the country. It provides local governments with technical assistance and capacity building activities, and – if needed – can directly deliver policy interventions to children.

De Cero a Siempre is a good example illustrating the functioning of the National Development Plan of Colombia. The central government has developed a good capacity to deal with complex and multidimensional policy issues, such as youth well-being. It delivers policy despite the absence of capacity at the sub-national level able to link regional communities with national policy strategies effectively. The presence of effective sub-national authorities would reduce the burden on the central government, and would probably improve the overall performance of the policy allowing for a level of tailoring of policy interventions that at the moment is not possible due to the high costs this would entail.

Source : Comisión Intersectorial de Primera Infancia (2012), *Atención Integral: Prosperidad para la Primera Infancia*, www.deceroasiempre.gov.co/QuienesSomos/Documents/Cartilla-Atencion-Integral-prosperidad-para-primera-.infancia.pdf.

Building knowledge on regional needs and performance

Like most OECD countries, Colombia faces the challenge of transforming a large quantity of information about socioeconomic trends into knowledge about policy impacts and their relationship with policy outcomes. Over the last 20 years Colombia has engaged in the creation of an advanced system of whole-of-government monitoring and evaluation: SINERGIA (see Chapter 3). As already discussed SINERGIA organises a large set of indicators to monitor and evaluate policy interventions, including most recently SINERGIA TERRITORIAL, the tool's set of regional performance indicators. An assessment of SINERGIA done by the World Bank (2009[24]), recognised the value of the system, but identified some key challenges:

- The assessment identified the need to improve the use of SINERGIA throughout the policy cycle (in which policies are formulated, then implemented and ultimately evaluated to determine their effects and inform policy design), which will involve institutional bodies such as the Presidency, key Ministries and Departments.

- In addition, SINERGIA, although representing a good example of a monitoring and evaluation system, remains isolated from the policy process and especially from the planning process, in spite of its management being located within the National Planning Department.

The institutional isolation of SINERGIA depends on different factors:

- First, government bodies are still familiarising themselves with it.
- Second, as with other whole-of-government evaluation systems, SINERGIA suffers from "indicator-inflation". It is supposed to monitor such a large number of government activities (central government activities and all priority NDP programmes) that transforming information into knowledge becomes a real challenge[25] (see Chapter 3).
- Third, the NDP itself focuses more on spending than on achieving policy outcomes, hence the set of indicators provided by SINERGIA does not fulfil the short-term needs of the Department of the Plan and other public bodies involved in implementing the NDP (Chapter 3).
- Last, the monitoring and evaluation system in Colombia suffers from relatively weak consultation between the central and territorial levels. There are few formalised tables that allow sub-national governments to participate actively in national policy-making. In the CONPES, for instance, only members of the central government have the right to vote on the decisions of Council.

A multilevel governance approach could help Colombia integrate SINERGIA into the policy cycle. For instance, to improve the use of SINERGIA, SINERGIA TERRITORIAL and of the evaluation system in general, territorial entities could become key on-going partners in monitoring and evaluation activities, and in policy-making. Organising national statistics within a territorial framework could provide sub-national governments with intelligible information about their needs and their performance. Based on this, (some) sub-national governments might also engage in creating *ad hoc* indicators for use in the monitoring and evaluation system. Issues concerning the creation of territorial indicators and a set of regional performance indicators are discussed below.

Embedding national statistics within a spatial framework

Many of the key development challenges Colombia faces have a strong territorial feature. Poverty and unemployment, for instance, tend to concentrate in space. This is equally true at the regional level – in lagging departments – and at the sub-regional level – within municipalities, metropolitan areas and sparsely populated areas. Following the experience of OECD countries, Colombia could organise this information within a spatial framework. The NDP is already producing key national information using performance statistics produced by DANE, the Colombian National statistical agency. Labour statistics already provide information about local trends; they could be improved by including information on the territorial organisation of labour and commuting flows. This data could be used to start a functional classification of Colombia's territory and its regions, capable of differentiating between urban and rural areas, for example. This, in turn, could foster better policy design for densely and sparsely populated areas (Box 4.14 provides information about how the OECD defines Functional Urban Areas; a similar methodology also exists for sparsely populated – rural – areas).

Box 4.14. **Functional Urban Areas (FUAs) in the OECD Metropolitan Database**

With over half the world's population now living in urban areas, defining an urban area is critical in order to reflect the reality of where people live and work, as well as the connections between cities and surrounding areas. A common definition of urban areas increases international comparability of the economic, social and environmental performances of cities, adding to what can be learned from the countries' definition already in use.

Against this background, the OECD in collaboration with the EU (Eurostat and EC-DG Regio) has developed a harmonised definition of urban areas as "functional economic units", thus overcoming previous limitations linked to administrative boundaries. According to this definition, an urban area comprises highly densely populated municipalities (the smallest administrative units for which national commuting data are available in non-European countries and LAU2 municipalities in Eurostat terminology), referred as urban core, as well as any adjacent municipality that have high degree of social and economic integration with the urban core, measured by commuting to work.

The methodology is applied to 29 OECD countries and 1 175 urban areas of different size are identified. On the basis of this methodology, the OECD metropolitan database includes a set of annual variables related to 268 OECD functional urban areas with 500 000 population and more. It is publicly available at http://measuringurban.oecd.org/.

Several steps are involved in defining OECD Functional Urban Areas.

STEP 1. Identification of core municipalities through gridded population data:

In the first step of the procedure, the gridded population data are used to define urbanised areas or "urban high-density clusters" over the national territory, ignoring administrative borders since urban cores are defined through gridded population data. The population grid data (1 km^2) for European countries comes from the Corine Land Cover dataset, produced by the Joint Research Centre for the European Environmental Agency (EEA). For all the non European countries, gridded population data comes from the Landscan project developed by Oak Ridge National Laboratory.

An urban core consists of a high-density cluster of contiguous grid cells of 1 km^2 with a density of at least 1 500 inhabitants per km^2 and the filled gaps. A lower threshold of 1 000 people for km^2 is applied to Canada and the United States, where several metropolitan areas develop in a less compact manner. Small clusters (hosting less than 50 000 people in Europe, US, Chile and Canada, 100 000 people in Japan, Korea and in Mexico) are dropped.

A municipality is defined as being part of a urban core if at least 50% of the population of the municipality lives within the urban cluster.

STEP 2. Connecting non-contiguous cores belonging to the same functional urban area

The urban cores defined in STEP 1 are found to be good approximations of contiguous, highly built-up surfaces. However, not all the urban areas in the OECD are characterised by contiguity in built-up development. Many of them are developing in a polycentric way, hosting high densely inhabited cores that are physically separated, but economically integrated. An important innovation of this methodology identifies which urban areas have such a polycentric structure. This is done by simply looking at the relationships among the urban cores, using the information contained in the commuting data. Two urban cores are considered integrated, and thus part of the same polycentric metropolitan area, if more than 15% of the residence population of any of the cores commutes to work in the other core. This step allows a correction for possible discontinuities in population density within the same urban centre (e.g. natural surfaces larger than 1 km^2 splitting one city in two parts).

Box 4.14. **Functional Urban Areas (FUAs) in the OECD Metropolitan Database** *(continued)*

STEP 3. The identification of the urban hinterlands

Once the densely inhabited municipalities are aggregated to form urban cores, and polycentric metro areas with tied cores are identified, the final step of the methodology consists in delineating the hinterland of the metro areas. The "hinterland" can be defined as the "worker catchment area" of the urban labour market, outside the densely inhabited core. The size of the hinterland, relative to the size of the core, gives clear indications of the influence of cities over surrounding areas. Urban hinterlands are defined as all municipalities with at least 15% of their employed residents working in a certain urban core. Municipalities surrounded by a single functional urban area are included and non-contiguous municipalities are dropped. Data on commuting referred to circa 2000 year and are being updated on the base of the most recent data from 2011 Censuses.

Source: OECD (2011a), *Regions at a Glance*, OECD Publishing, Paris.

Creating indicators on regional performance

Currently, the National Planning Department (DNP) uses a number of financial and performance indicators for subnational governments. Considering the heterogeneity of municipalities and departments across the country, these indicators are useful to characterise Colombia's local development. They support public interventions and technical assistance by evaluating the subnational government's developmental conditions, identifying potential improvements and allocating resources based on equity criteria that can reduce existing gaps. They are used to produce information of interest to citizens, promote accountability, and support Control Agencies (like the *Procuraduría* and the *Contraloría*) in their audit role.

The main indicator is the "Integral Performance Index (IPI)", a composite index which measures local government capacities in public administration. The index measures four components:

- The percentage of compliance with the goals of municipal development plan (efficacy),
- The efficiency of municipalities in enrollment and educational quality, subsidised membership in vaccination and expanded immunisation and household water quality,
- Compliance with budget execution requirements defined in Law 715 of 2001 and
- Administrative and fiscal capacity.

The IPI and its components are published in national circulation media. They support decision-making related to technical assistance on financial matters, allocation of subsidies, contribute to transparency, identify good management practices and generally rate the performance of subnational authorities. The IPI is used to support improvements in local goods and services.

A clear understanding of regional trends and the capacity of policy to deliver results for territorial communities can facilitate the task of streamlining the current large set of performance indicators into more focused and useful set linked to measuring performance against the achievement of multi-year strategic policy outcomes. Indeed as a large part of

Colombia's public expenditure occurs at the local level, improving the quality of indicators on regional performance would be a rational decision. Colombia could consider at least two factors in deciding whether to involve territorial governments actively in the definition of regional performance indicators (OECD, 2008[26]):

- First, a predominately top-down approach to the design and use of indicators by the central government – as the one currently in use in Colombia – can be perceived as an *ex-post* substitute for *ex-ante* control of sub-central public services. Intergovernmental collaboration is essential for addressing tensions caused by the nature of this control over sub-national institutions to produce relevant and useful information. It could also help reduce the perception on the part of sub-national institutions that they are not accountable within the system.
- Second, a way to involve sub-national governments in the design and implementation of the indicator system is through the introduction of incentives. Incentives are in fact inevitable. The choice is whether, and to what extent, the system will rely on implicit or explicit incentives to achieve objectives. Both are a function of system-design and should be given careful consideration, particularly because incentives affect in positive and negative ways both the information relayed by sub-central authorities and their behaviour in this activity (Box 4.15).

Box 4.15. **Incentives to sub-national entities to promote performance indicators**

Implicit incentives arise because reporting performance data is not neutral. The strength of these implicit incentives will depend on how the information is used and by whom. For example, systems can be designed to produce competition through public ranking of performance. For sub-central governments comparatively poorer performance in this context – along the dimensions of cost, efficiency, quality, etc. – raises a variety of risks not least when households "vote with their feet." Invoked in this way, reputation effects can be used to generate external pressure for accountability and reform. Alternatively, the central government may choose not to rank sub-central authorities, but rather to make data available for comparisons and rely on intrinsically motivated public servants to identify and learn from good practices. There will be little disincentive to reveal information if the risks to sub-central authorities and the burden associated with providing it are low. Risks are low if the use of information has a net positive (or zero) consequence for sub-national authorities and if this use is predictable. By contrast, as risks to sub-central authorities increase, the incentive to reveal information declines and the incentive to alter behaviours to avoid risk (in perverse and legitimate ways) increases.

In contrast to reliance on implicit incentives, countries can attach explicit rewards and sanctions to indicators to stimulate effort by sub-national actors where specific performance objectives are to be met. These incentives are traditionally of two types: financial and administrative. Financial incentives refer to the availability of funds based on performance. Administrative incentives are changes to central rules and regulations that affect sub-national authorities, such as a relaxation (or tightening) of budgetary rules, decreased (or increased) oversight, etc.

Source : Mizell, L. (2008), *Promoting Perfomance: Using Indicators to Enhance the Effectiveness of Sub Central Spending*, OECD Network on Fiscal Relations Across Levels of Government, Working paper No. 5.

Multi-level governance as a whole can benefit from the use of sound indicators. Indicators can reduce information asymmetries between levels of government and constitute a way to share good practices, help the central government transfer knowledge across sub-national authorities, and encourage better policy performance. Indeed the use of performance indicators may improve policy performance in several areas (OECD, 2008):

- Improving specific strategies: Information can reveal strengths and weaknesses in a regional economy and thus increase the likelihood that policy objectives can be met.
- Monitoring policy implementation: Once specific policies are implemented, information from indicators can monitor input utilisation and the achievement of milestones.
- Increasing accountability: Information systems can enhance accountability by offering information about the characteristics and results of what has been done.
- Creating knowledge and improving policy choices: Comparative performance data can generate implicit incentives by encouraging stakeholders to improve their performance and efficiency and search for better strategies.
- Creating a common framework for dialogue, by sharing common references and objectives and contributing to a common learning process.

The effective implementation of performance indicators poses some challenges. Information does not automatically improve policy performance. It is important to select appropriate indicators and to validate and distribute the information. At the same time, the capacity to use information in an effective and timely way has to be developed. Finally, weak local capacity can limit the benefits of performance-measurement and reduce the usefulness of the system. This makes stakeholder-training and the acquisition of the necessary technologies at the local level especially important. The experience of Italy, which faces challenges related to the socioeconomic performance of its southern regions, could inform Colombia in shaping its own performance indicators (Box 4.16).

Box 4.16. **Italy's new performance reserve system 2007-13**

Following the end of the 2000-06 EU performance reserve experience, the Italian authorities adopted a new performance reserve system for 2007-13 with distinctively new contours. The new approach draws on lessons from the previous experience, such as focusing on a more limited number of objectives to obtain greater visibility and adopting final objectives that are easily understandable by the public to avoid formal compliance and strengthen the accountability of local administrations. The major difference between the former and the current systems lies in the transition from a performance assessment of process and output indicators to one based on outcome and equity indicators.

The mechanism is enclosed within the National Strategic Framework, the document that provides the basis for implementing Italian regional policies (both national and European Structural Funds) for the period 2007-13. The system of indicators focuses on a set of objectives considered to be strategic for regional development. Four "essential" collective services have been identified, which are decisive in determining a citizens' quality of life and business' propensity to invest. These services, with their associated strategic goal are listed in the table below.

Box 4.16. **Italy's New Performance Reserve System 2007-13** *(continued)*

Objectives, indicators, and targets in the new performance reserve for 2007-13

Objective	Indicator	Baseline (%)	Target in 2013 (%)
Education: Improve students' competence, reduce drop-outs and broaden populations's learning opportunities	% of early school leavers	26	10
	% of students with poor competencies in reading	35	20
	% of students with poor competencies in maths	48	21
Child and elderly care: Increase the availability of child and elderly care to favour women's participation in the labour market	% of municipalities with child care services	21	35
	% of children (age 0-3) in child care	4	12
	% of elderly people with home assistance benefits	1.66	33.5
Urban waste management: Protect and improve the quality of the environment, in relation to urban waste management	Amount of urban waste disposed in refuse tips	395 kg per capita	230 kg per capita
	% of recycled urban waste	9	40
	% of composted waste	3	20
Water service: Protect and improve the quality of the environment, in relation to integrated water service	% of water distributed	63	75
	% of population served by waste water treatment plants	56	64

Source: Ministero dello Sviluppo Economico, Dipartimento per le Politiche di Sviluppo [Ministry for Economic Development, Department for Development Policies] (n.d.), *Measurable Objectives for Essential Services*, www.dps.tesoro.it/obiettivi_servizio/eng/ml.asp (October 2008).

Eleven quantifiable indicators are associated with the four strategic goals. They are all outcome or equity indicators except one that is an output indicator (concerning child care). Targets have been set for the eight regions of the Mezzogiorno and the Ministry of Public Education. The minimum achievement levels are the same for the eight regions as they are considered to be the minimum acceptable service standards. The total amount of the reserve is around EUR 3 billion. Two deadlines exist, one in 2009 to compare progress with the baseline, and the other in 2013 to assess if the minimal thresholds have been reached. As in the past, the objectives, indicators and targets have been selected on the basis of in-depth consultations between the central government and the regions and the involvement of a technical group (Ministero dello Sviluppo Economico, 2007c).

The main difference between the past and present mechanism is that objectives are no longer intermediate ones (e.g. to monitor the institutional set up) but rather correspond to final outcomes (delivery of final services). The explicit consideration of final objectives is considered to be an improvement with respect to the previous performance reserve. This is expected to focus attention on results in public services provision and quality essential for development. In addition, the achievement of these objectives is subject to good interactions taking place between several institutional actors. The attempt is therefore being made to explicitly and more thoroughly involve the different stakeholders concerned and assess collective performance. Regions are left free to choose how best to reach the targets. They must adopt an action plan detailing their adopted strategy.

Source: OECD (2009), *Governing Regional Development Policy: The Use of Performance Indicators Systems,* OECD Publishing, Paris.

Sub-national capacity issues: HRM and e-government from a MLG perspective

This section discusses strategic Human Resource Management, and e-government from a multilevel governance perspective. HRM and e-government at the sub-national level, as already discussed above, are key to improving integrity and transparency in the public sector as well as being a strategic driver for job creation and economic growth regionally and nationally. They are also tools to attract and stimulate private investment and to facilitate the co-ordination between private and public investment.

Addressing disparities in Human Resource Management capacity at the sub-national level

In Colombia, as in OECD countries, building sufficient capacity and professionalism in local administrations is central to ensuring that they are able to meet their responsibilities and contribute to national economic growth. Sub-national governments promote economic growth within their own geographic areas, and compete for employment-generating investments. They also compete for mobile, qualified and skilled labour, and want to offer as attractive living conditions as possible for these persons and their families. The increasing mobility of both capital and labour intensifies this competition. Sub-national governments also compete with the national government for labour for public employment, at the same time as all governments compete for talent with private enterprises and non-profit organisations. The functions and services provided by sub-national governments may affect such variables as growth and employment within their own territory, but sub-national governments cannot normally be held accountable for how these affect national developments, except by their own electors.

Colombia's sub-national governments appear to be facing, to a large extent, similar challenges and opportunities to enhance the capacity and capability of their internal workforce. The main reason is that sub-national governments use the same employment arrangements as the national government. In Colombia, over 40% of the public workforce is distributed across sub-national governments and over 50% of the workforce is located in the national government, which reflects a relatively high degree of centralisation (See Figure A.3 in Annex A on HRM). In comparison, the majority of OECD countries have more employees at the sub-national level than at central level of government.

In Colombia, the main obstacle to enhancing local-government capability to design and implement medium and long-term policies is the weak institutional capacity and organisation in many of its *departamentos* and *municipios*. In general, like the national government, Colombian sub-national governments need to improve their recruitment systems. Guarantees for an objective, neutral and merit-based recruitment process, although enshrined in the legal framework, need to be reinforced. Sub-national governments need to develop the capacity to conduct strategic workforce planning to ensure local organisations' continued effective performance. Greater flexibility in managing the workforce at the local level is required. Sub-national governments need to develop competency-management systems so that they can ensure that they have a well selected, trained and evaluated public workforce.

Training of local public employees is of key importance in developing capacity in sub-national governments. At the moment, there is no evidence of a training strategy that links training of individuals to organisational objectives and there does not seem to be sufficient investment in training on the part of local authorities. Efforts by the Higher School of Public Administration (ESAP) and the Administrative Department of the Civil Service

(DAFP) to design and implement a training policy for local governments are commendable and should be continued and strengthened. According to the information published by these two entities, among the main difficulties to implement a Training Institutional Plan (*Plan Institucional de Capacitación*) by local authorities are:

- The development of learning projects;
- The formulation of their Institutional Plan; and
- Diagnosing training needs correctly.

To a large extent, this is caused by low interest on the part of local senior officials, lack of staff to manage the training programmes; and complex procedures. According to the ESAP and the DAFP, 90% of the territorial entities diagnose training needs in a traditional manner through the direct request of the employee or his/her supervisor.

In addition, across sub-national governments, the culture of performance management appears to be weaker than in the national government. In sub-national governments:

- Performance-management needs to be reformed to enhance its credibility through clear and transparent rules so that it can respond effectively to the needs of government and show that there are consequences for "good" and "poor" performance.
- Better management capacity needs to be developed by improving the management of their senior managers.
- Clarifying the political-administrative interface and strengthening the recruitment process for senior managers could be a first step towards developing a professional civil service at local level.
- Changes in the compensation system are needed to offer better remunerations and attract talent.
- It is also of key importance to improve capacity for HRM at local level. HR departments seem to be focus on administration but they do not have strategic role in developing human capital, and there is no evidence that HR staff have the knowledge and experience to engage in strategic HRM.

Multi-level government also means multi-level human resource management. Since national and sub-national governments share basically the same employment arrangements, as they do in most OECD countries, progress in reforming the HRM system in the national government will boost improvements in the sub-national levels. Therefore, the proposals made in the HRM section of this Review can also apply, to a large extent, to sub-national governments. However, some particular considerations for sub-national governments can be made:

- Building on the experience of the "central database", **Colombia could encourage local governments to build reliable sources of information for HR decision-making.** Not all sub-national governments have the capacity to have access to timely and reliable information regarding the number of employees and what they can do (competences). As a result, sub-national governments do not have the necessary tools and information for conducting strategic workforce planning and informed HR decision-making. The Administrative Department for the Civil Service (DAFP) could assist sub-national governments in building HR information systems to have a better track of public employees. Colombia may wish to study the experience of Chile in this respect. The Chilean Under Secretariat for Regional Development (Subdere) has created a National System of Municipal Information (www.sinim.cl). This is currently the most comprehensive source of information about the management of the 345 municipalities in Chile as it includes data on budget, human resources, and services that have been transferred to municipal administration.

- Professionalisation of the local public workforce could be considered as an investment for capacity-building. The experience of OECD countries suggests that there is no single model for the professionalisation of sub-national administrations, each local government must establish the model that best corresponds to its needs. However, one first step for sub-national governments would be to develop a methodological and conceptual framework for the development and formation of public servants. The Training Institutional Plans constitute the obvious document for this purpose, but the ESAP and the DAFP could additionally issue guidelines to advise local authorities in their design and implementation of their own methodologies and training planning needs. In order to boost professionalisation in sub-national governments, it is also necessary to promote training and certification of public servants under a competency approach. In order to improve the training of public employees Colombian authorities could consider the following actions:
    - include the issue of training local public employees in all strategic development documents of the national and local governments;
    - sign collaboration agreements with the local technical institutes and universities for the training of staff aimed at certifying competencies;
    - develop systems to assess training through performance indicators;
    - develop a registry of training providers for government where compulsory requirements must be stated;
    - assess the training services provided by external providers; and
    - develop professionalisation plans per post and public servant aimed at professional development within one of the different specialities of the local public administration.
- In some countries, sub-national governments are creating bodies focused on the professionalisation of the workforce. Their main advantage is that they act as certifying agencies of public employees' competencies and as centres for training. For example, Colombia may wish to study the experience of the Professionalisation Institutes (*Institutos de Profesionalización Estatal*) that some Mexican states, like Chiapas and Nuevo León, have created as an underpinning of professionalization efforts. In addition, the DAFP and the ESAP could intensify their efforts in co-operation with local HR departments to raise awareness among local political leaders and senior managers on the importance of training and professionalisation of local public employees. Experience suggests that without an attitudinal change on their part, efforts to improve HRM have little opportunities to succeed. Sharing of good practices and success experiences through seminars and forums of discussion may be a way to achieve this objective.
- It is necessary to share best HRM practice, experience and know-how with sub-national governments to encourage the development of merit-based HR policies in their administrations. The national government could be assumed to have residual responsibilities even if and when the relevant functions are the responsibility of sub-national governments. In this sense, professionalisation of the public workforce

should be seen as a shared responsibility among all levels of governments. One prerequisite for transferring responsibilities and competences to sub-national governments is therefore obviously that they are capable of handling them. For this purpose, consultations between national and sub-national governments are critical. One of the major trends in management arrangements across OECD countries is the increased dominance for dialogues and consultations, and of formal and informal agreements. Based on its particular historical, political and administrative context, Colombia could develop communication channels so as to facilitate and institutionalise dialogue and consultation between national and sub-national governments, not only on HRM but also on other public management issues. But it is equally important, as Mexico's experience suggests (Box 4.17), having

Box 4.17. **Consultation between national and sub-national governments**

Belgium has probably the most advanced and therefore complicated system for consultations between the levels of government. This reflects Belgium's constitutional arrangements with no primacy for the federal level, and the high level of conflicts between the different federated entities. The collaboration between the levels of government has been institutionalised by creating a Consultation Committee and Inter-ministerial Conferences. The first is composed of members from each government and treats ad hoc cases; the latter is used to for the preparation and development of joint policies for a certain policy field. There are also Collaboration Protocols for situations when competencies are shared and when the proper execution of competencies necessitates cross-government collaboration.

In **Chile**, the Undersecretariat for Regional Development consults with the National Association of Regional Councillors and the Association of Chilean Municipalities on matters of a more political nature, such as the transfer of responsibilities and the dynamics of regional government. A National System of Municipal Information provides a comprehensive source of information about the management of the country's 345 municipalities and includes data on budgets, human resources and services that have been transferred to municipal administration as well as a number of management indicators.

In **Mexico**, the National Professionalisation Forums (*Foros Nacionales de Profesionalización*) organised by the National Institute for Federalism and Municipal Development (*Instituto Nacional para el Federalismo y el Desarrollo Municipal*), which started in 2001, is a place where participants discuss technical issues regarding the professionalisation of municipal public servants and the implementation of a career service in municipal governments. In these forums participants have the opportunity to exchange experiences, and proposals. The forum organises regular national meetings, regional and/or local workshops, and fosters co-operation between local governments via electronic means, etc. Moreover, the National Conference of Municipalities of Mexico (*Conferencia Nacional de Municipios de México*) is another channel of lesson-drawing and to put forward proposals for improving public management. It is integrated by municipalities from the three main political forces in the country.

In **Spain** the Basic Statute of the Public Employee imposes compulsory co-operation between public administrations at the three government levels. The main co-operation body is the Sectoral Conference, which groups representatives from the State, the Autonomous Communities, Ceuta and Melilla, and the Spanish Federation of Municipalities and Provinces and works with the highest representatives from each area. Below the Conference, there are other bodies that work from a technical approach. These bodies reach their agreements on public administration issues by consensus.

Source: OECD (2008), *Challenges of human resource management for multi-level government*, OECD Publishing, Paris; and OECD (2013b), *Metropolitan Review of Puebla-Tlaxcala, Mexico*, OECD Publishing, Paris, (forthcoming).

communication channels across sub-national governments so that they drawn lessons from each other, exchange information, and develop common visions and strategies to mutual and common challenges. A benefit from these mechanisms would be the articulation of national and local efforts and initiatives aimed at the formation, actualisation, training and specialisation of local public employees.

- **Colombia could strengthen HR departments in sub-national administrations to make the HR function more strategic.** Officials in charge of the management of human resources in local and municipal governments require training on different aspects of HRM. However, it is of critical importance to improve their skills and competences on formulating and implementing training policies. These areas should be part of the discussions on budget and HR needs and therefore of the works on improving public management and administration. Their role should move from mainly operational (payroll and administration) to a more strategic one (planning the strategies to meet current and future skills and competences needs).

E-government for local service delivery and engagement

As is customary in a number of OECD countries, e-government responsibilities are not specifically defined at the local level but are integrated within general commitments on service delivery. The national government is the primary locus of strategy-making, addressing both national and local challenges, notably through the National Development Plan. As a component of this Plan, the Government Online strategy, as initially defined in the decree 1151 from 2008, sets out objectives and implementation timelines for the national as well as the territorial levels. Although the Colombian government recognises the need to bridge national online-government objectives with the particularities of local conditions in the territories, in practice this can prove difficult to achieve as challenges to the use of ICTs vary across the regions.

The Ministry of Information Technology and Communications co-ordinates the implementation of the Government Online strategy. This appears challenging at the local levels. While the national level has led the promotion of ICT use through a top-down oriented approach, it has only partially ensured the implementation through the use of incentives and specific mandatory obligations. Insufficient incentives to ensure coherent and fully co-ordinated implementation mirrors general challenges to the co-ordination of central-local transfers (see Annex C). Using central-local transfer to ensure the co-ordinated implementation of ICTs could be further developed. The creation of better political and economic incentives for local authorities to engage in online – or mobile – service delivery might be one way of increasing the value-added of the online service delivery. Colombia could also consider how improving the quality and use of local data on progress on impact and outcomes could strengthen local engagement. A number of good initiatives have already been established to nurture central-local dialogue (see Annex C). Colombia could consider further improving such dialogue by establishing more formalised forums for engaging local government, or their organisations and representatives, to ensure co-ordination and alignment of the public sector use of ICTs. Such efforts could build on the newly established National Commission for Digital and State Information among others.

Within the overall framework of central-local transfers, particular conditions apply for ICTs. Some sources are particularly relevant, aside from the authorities own funding and the national funding by the Ministry of Information Technology and Communications: the DNP managed funds for regional development and the general royalty system's commitment of 10% of royalty revenues to a science, innovation and ICT fund. The first is managed by the DNP which sets rules for financing projects with an ICT component, including also the six regional Bodies for Administration and Decision making, the OCADs, and the Colciencias with regards to the latter. This implies that the numerous sources of funding needs to be closely co-ordinated as they are essential for directing funds for investments and use of ICTs at the local levels.

The Colombian government is currently considering how to create a more agile and effective procedure, supporting at the same time local impact and national alignment within the government. Further to evaluating and revising this procedure, Colombia could consider:

- Improving the effectiveness of its investments by ensuring a more impact-oriented assessment of projects with an ICT component across different sources of funding. Focusing systematically on impact can help reduce investments with little value or practical use.

Box 4.18. **YourSAy: Active engagement of citizens in strategic policy-making in South Australia**

In 2010 the South Australian government used the reviewing of the state's Strategic Plan for development to launch a broader approach to engage local communities and citizens in one of the largest community consultation programmes in Australia, called "YourSAy". The use of internet technologies and social media played a pivotal role enabling this. While "YourSAy" was conceived as an experiment, the government now considers the close interaction with its communities an indispensable part of the policy making process.

Back in 2010 the discussions – led by an appointed Community Engagement Board – targeted a representative selection of 10 000 people. Today more than 12 000 people are part of the online community, getting closer to 1% of the state's population. The online community establishes and organises new ways of interacting with the government – engaging by making it a social experience. The project has furthermore engaged local champions or "ambassadors" in different areas, such as health, culture or the environment through webcasted video conversations in order to increase attention to the Strategic Plan.

The team behind the consultation process initially engaged into deeply understanding the people they were seeking to engage in order to understand how to encourage them to participate. The key element was to demonstrate that the plan was relevant to people and important in shaping their future life. The capacity to match the different segments' ways of communicating was one essential part. However, reaching out to "new people", not previously engaged, is about more than splitting them up in segments. The leading staff must have a capacity to analyse the input, conduct project management and create a culture of good communication and service delivery.

The online engagement proved to be instrumental – for example, through hosting an online conversation with the Minister of Education, the government received a significant deal of valuable and new feedback to improve their policies as well as the Strategic Plan. And web dialogue on different social media sites, such as Facebook, continued independently after the organised consultations were concluded. Although still largely unexplored, the government of South Australia seems to have drawn some first important lessons for how to advance engagement through social media.

Source : South Australia's Strategic Plan Audit Committee (2012), *South Australia's Strategic Plan, Progress report 2012,* http://saplan.org.au/yoursay and www.futuregov.asia/articles/2012/dec/27/social-media-takes-centre-stage-south-australia/.

- In the context of managing the different national funds, Colombia could consider how to further use central-local transfers as a lever to ensure the implementation of ICT policies and decisions taken by the National Commission for Digital and State Information.
- Enhancing the existing dialogue with and within the local levels of government. Several examples exist within the OECD to prove the value of ICTs as a way to engage citizens in strategic investment/development decisions. It is the case of Australia, where the government is effectively using the Internet to engage in large-scale citizens' consultations (Box 4.18).

Notes

1. OECD, 2011; Marks, 1996; Skelcher et al., 2005; Hoohge and Marks, 2003.
2. Ministerio de Relaciones Exteriores, 2011.
3. Mostly based on http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=35165909.
4. Decentralisation refers to the transfer of competences from the central level to elected authorities at the sub-national level and is different from deconcentration, which refers to non-elected central government units in regions providing national public services at the territorial level.
5. Note that in Barranquilla (see Annex 4.A1 at the end of this Chapter), the metropolitan area does not produce a development plan, but uses those of the District Municipality and the Department.
6. Data on subnational governments' expenditure in Colombia compared to OECD average will be also available.
7. "Out of 21 departments that required permission for new loans in 1997, 10 received new credit without permission from the Ministry […] In order to be able to violate the law, departments presented defective financial information, and the financial institutions made superficial analysis of it. In addition, the Ministry of Finance gave its authorization in cases where it should have denied it." (Echevarria et al., 2000, p. 9).
8. Financial Superintendence of Colombia is a technical body under the Ministry of Finance, with legal, administrative and financial autonomy and its own funding. Its role is to preserve public confidence and financial stability, maintaining the integrity, efficiency and transparency of the stock market and other financial assets and ensure respect for consumer rights and the proper financial service.
9. OCADs have been created at the national, department and municipal levels. OCADs are responsible in their jurisdiction for defining, assessing, prioritising, approving and appointing the executors of projects that will be financed with the royalties. OCADs are an example of multilevel co-ordination between different tiers of government as they include delegates from the national government, departments and municipalities, depending on their geographic jurisdiction. 1102 OCAD are in charge for defining the use of royalties at the departmental and municipal level. There are 8 OCAD for the royalties managed by the CARS.
10. The planning process at the local level mirrors the national one. Candidates to the position of governor or mayor present a general policy agenda. If elected, this agenda is transformed in a policy document that has to be approved by the departmental/municipal assemblies. Local

development plans are much simpler of the NDP. For an example of a local development plan see that of Barranquilla (www.barranquilla.gov.co/documentos/Plandesarrollo2008-2011.pdf), a city in the north of the country, whose case is discussed in Annex 4.A1 at the end of this chapter.

11. Contract Plans (*Contratos Plan*) in Colombia are an instrument of territorial-development planning using a voluntary agreement between different levels of government. This instrument has allowed for the articulation of a shared vision for a region's development between national and sub-national actors around strategic priorities. Accordingly, a pilot process has been developed which puts the instrument into effect in priority regions based on low socioeconomic conditions. Six pilot-plans, known as Strategic Agreements for Development Planning, have been established in the Atrato, Great Darien, Boyacá, Nariño, Tolima, Cauca and Arauca regions. These focus on financing investment projects of local and regional impact in 185 municipalities and 8 departments. They have allowed the optimisation and targeting of more than COP 6 billion between different levels of government to invest in regional and territorial development projects affecting a population over 3.7 million people (according to estimations made by DANE).

12. Despite being formally independent and autonomous in their policy decisions, sub-national governments are constrained within a clearly-defined policy framework articulated in the National Development Plan. This is an effect of the high level of indebtedness sub-national governments generated in the past decade – which caused a strong financial crisis in Colombia – but also of the national government's aim to affirm its authority all over the country. However, contracts are also a form to revive the political action of sub-national entities, which is critical that the investment strategies of the central government and of a given sub-national authority will be not only formally aligned (through the contract), but substantially co-ordinated by the act of will of an entire local community.

13. The Communal Councils were a national government programme, whose aim was to create opportunities for interaction and dialogue between citizens, sub-national authorities, and the national Government, to work together in solving problems, needs and concerns of citizens, and to encourage transparency, participatory democracy and strengthen institutional trust.

14. The central government began providing sub-national authorities with technical assistance in the 1990s. Actions were tailored to the needs of municipalities (*Programa de Desarrollo Institucional*) and departments (*Programa Mejor Gestion de los Departamentos*). Also, specific interventions targeted areas where illegal activities were more concentrated (*Laboratorios de Paz* and the *Programa Nacional de Consolidacion Territorial*). Although positive results were achieved, overall impact has been unequal across the country. This is due mostly to a lack of co-ordination of technical assistance. To overcome these issues, the 2010-14 National Development Plan in co-operation with the World Bank has launched a new and more integrated approach to promote institutional capital that is active both at the national level and at the sub-national level. The new approach aims to tailor interventions according to the different needs of local and department authorities, and it will directly support some 300 local authorities.

15. The Structural Funds and the Cohesion Fund are financial tools set up to implement the regional policy of the European Union. They aim to reduce regional disparities in terms of income, wealth and opportunities. Europe's poorer regions receive most of the support, but all European regions are eligible for funding under the policy's various funds and programmes. The current Regional Policy framework is set for a period of seven years, from 2007 to 2013. The Structural Funds are made up of the European Regional Development Fund (ERDF) and the European Social Fund (ESF). Together with the Common Agricultural Policy (CAP), the Structural Funds and the Cohesion Fund make up the great bulk of EU funding, and the majority of total EU spending.

16. Transparency International, 2012.

17. OECD, 2011b. The report *Government at a Glance* is based on data from the OECD National Accounts Statistics and Eurostat. Data for Australia are based on a combination of Government Finance Statistics and National Accounts data provided by the Australian Bureau of Statistics.

18. OECD, 2009.

19. Peer responses to the OECD Secretariat to the *OECD Questionnaire on the Multi-level Governance of Public Investment* of 2012.

20. OECD, 2007.

21. OECD, 2008.

22. Peer responses to the *OECD Secretariat to the OECD Questionnaire on the Multi-level Governance of Public Investment* of 2012.

23. OECD, 2013a.

24. Fernando Castro, 2009.

25. SINERGIA started with more than 900 indicators, which were reduced to 700 and then to a pool of 300, which remains a very large number anyway (World Bank, 2007).

26. www.oecd.org/ctp/fiscalfederalismnetwork/40832141.pdf.

Annex 4.A1

The case-study of Barranquilla

Introduction

This annex briefly illustrates the case of Barranquilla, a district municipality within a metropolitan area located in the north of the country, in the *Atlántico* Department. Although information collected in a single regional case-study cannot be sufficient to assess from a territorial perspective the general state of Colombia's multilevel governance, the experience of Barranquilla does provide some insights about the action of local governments within current governance arrangements. For instance:

- It provides an opportunity to assess the functioning of multilevel governance from a first-hand perspective on what local actors perceive as opportunities and challenges in the current multi-level governance mechanism.
- It provides information on the capacity of a local community to design and implement a development strategy that reflects the National Development Plan's main targets.
- It may suggest to the national level possible ways to balance fiscal sustainability with actions to promote regional development and the reduction of income inequality across the country.

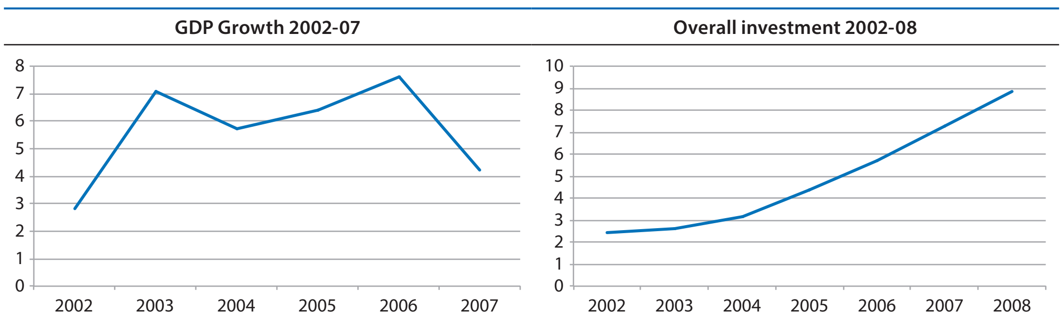
The annex is structured as follows. A first section provides information about the main socioeconomic trends in Barranquilla. The second assesses the multilevel governance framework at work in Barranquilla: it assesses the local dynamics related to decentralisation from the local perspective and illustrates some good policy practices. A final section focuses on lessons learned from the case study.

Main socioeconomic trends in Barranquilla

The District City of Barranquilla (Barranquilla, hereafter) has a total population of approximately 1.1 million inhabitants (2010) and is the core of a metropolitan area of 1.9 million, the fourth largest in Colombia. The Department has a total population of approximately 2.3 million (2010). Barranquilla is an industrial city with an important logistics platform in the form of a port. It is one of Colombia's maritime gateways; its positive economic performance is dependent on Colombia's commodities boom and sustained international consumption of the country's natural resources. The city is in the process of reclaiming the importance it had at the beginnings of last century during which it was known as Colombia's Golden Gate. Barranquilla was among the most liberal and safe places in Colombia and suffered of little levels of violence even in the most difficult years the country faced in the Nineties.

The region's economy and demography are on an upward trend. Barranquilla produced more than 4.2% of the national GDP in 2010 (Municipality of Barranquilla, 2013).[1] Figure 4.A1.1 illustrates the good trends in terms of the city's GDP growth. The international crisis had a relatively small impact on the local economy, and key stakeholders told the OECD delegation that current performance might return to the levels achieved before the crisis. The increase in overall investment (*usos del sector financiero*) is another illustration of the good performance of the local economy: total investment grew from 2.4 to almost 9 trillion pesos. The unemployment rate decreased from 16% in 2002 to 11% in 2008 and to 8% in 2012, while the local population increased by 4.4% between 2005 and 2008 (from 1.77 to 1.84 million). The city's population is also very young with an average age of 31 (one of the lowest among metropolitan regions in Colombia, and only slightly higher than the national average of approx. 30).

Figure 4.A1.1. **GDP Growth and overall investment in Barranquilla**



Source: DANE (2008), *Informe de Coyuntura Económica Regional Departamento de Atlántico, Convenio Interadministrativo No. 111*, www.dane.gov.co/files/icer/2008/atlantico_icer_II_sem_08.pdf.

The city's industrial mix is based on manufacturing, logistics and construction. In particular, the city owes its good economic performance to local manufacturing specialised in several sectors, including chemistry, mechanics, and food, which involve a large number of SMEs. This manufacturing pole generates increasing flows of imports and exports. These positively affect the local port which has become another driver of regional growth.

Barranquilla's port has become an important national logistic platform servicing Colombia and neighbouring countries. Movements in the port, for instance, grew from 4.5 million in 2005 to 7.5 million in 2011, after declining between 2008 and 2010 due to the international crisis. The construction sector was pushed by demographic growth and demand for housing; according to information collected in a study mission – it registered a 37% increase between 2011 and 2012.

Despite this good performance, the city still faces key challenges related to its poverty rate, which is still very high – at 36% compared to the national average of 34% – and goes hand in hand with large income inequalities, the scarce delivery of basic public services, lack of skills in both the local labour pool and in its own municipal workforce, and significant challenges to the region's environmental sustainability.

Despite positive economic trends, Barranquilla still grapples with significant inequality:

- A large number of inhabitants perceive themselves as poor. This is due to large inequalities in income distribution; these inequalities, which had remained static over a long time, are now beginning to be affected by the positive economic performance of the city. The GINI index of Barranquilla has been stable at approximately 0.53 between 2002 and 2008, and dropped to 0.46 in 2012 (Table 4.A1.1).[2]

- Poverty is spatially concentrated in specific neighbourhoods with a split between the poor areas in the south of the city and the more affluent areas in the north. This spatial pattern is also reflected in differences in the accessibility of key services such as sewage, drinking water, health care, education and so on.
- Concerning skills and human capital, Barranquilla reflects a national trend with a structural lack of qualified workforce. For example, the city displays an average schooling of just 8.3 years (Fundesarrollo, 2002) – the OECD average is 12. Lack of qualified workers could impinge upon the sustainability of the positive economic trends over the medium term.
- Last, the quality of the environment has suffered from unplanned growth over the past decades, which has reduced the overall quality of the environment; in particular, the urban community is completely cut off from the Magdalena River, the metropolitan area's natural border along the northeast of the city.

Table 4.A1.1. **GINI index in Barranquilla**

2002-08

2002	2003	2004	2008	2011	2012
53%	52%	53%	52.60%	47.20%	46.40%

Source: Information provided by the Departamento Administrativo Nacional de Estadística (DANE).

Barranquilla: Decentralisation at work

In Barranquilla, good economic performance and good governance are intertwined. While the influence of positive national trends is certainly strong, Barranquilla has been able to capitalise on local opportunity and implement key innovations in the relationship between local political power, the local business community and civil society. Improvements in local governance in Barranquilla can be illustrated by the trends in local fiscal revenues. In 2012, the city collected COP 1.6 *billiones*[3] (approx USD 900 million) which is three times more than what Barranquilla collected in 2008. Key representatives of the municipality of Barranquilla, including the mayor, consider the capacity to increase local revenues as a pre-condition to sustaining local positive trends. In fact, increased local tax revenues generated a capital of trust that the local government could use to attract more transfers from the centre and receive funds from the banks. In particular, since 2008, the municipality has engaged in a massive plan to reduce its operating costs. A number of public municipal companies were closed and workers were either fired or absorbed by the municipality. The municipality, in co-operation with banks, restructured and rationalised the local debt. It also ended a contract with a private company that had been charged of collecting local taxes (at significant cost to the local taxpayer). These structural changes allowed the municipality to increase local investment from USD 292 in 2007 to USD 796 in 2012. The current debt of the District City amounts to UDS 135 million.

The impact of decentralisation on local governance and economic performance[4]

The recent positive performance of Barranquilla is intertwined with positive national trend, yet owes also to decentralisation. Decentralisation allowed for more active citizens' participation and, in particular, for the direct involvement of the business community in the management of the City. To better understand the role decentralisation played

Table 4.A1.2. **Fiscal situation in Barranquilla, in USD**

	Concept	2009	2010	Var %
1	**Total income**	**1 032 046**	**1 184 132**	**14.7%**
1.1	Current	466 516	533 749	14.4%
1.1.1	Fiscal	408 616	467 970	14.5%
1.1.2	Non-fiscal	51 394	58 326	13.5%
1.2	Transfers	488 588	551 200	12.8%
1.2.1	National	482 081	543 748	12.8%
1.2.2	Others	6 507	7 453	14.5%
1.3	Capital	83 449	106 636	27.8%
2	**Total expenditure**	**1 074 143**	**1 295 460**	**20.6%**
2.1	Currents	136 261	136 801	0.4%
2.1.1	Operatives	122 919	126 530	2.9%
2.1.2	Debt interests	13 342	10 272	23.0%
3	Investment	937 883	1 158 659	23.5%
4	**Balance (1-2)**	**(42 097)**	**(111 328)**	**164.5%**
5	**Primary balance (4+2.1.2)**	**(28 755)**	**(101 056)**	**251.4%**
6	**Financing**	**157 903**	**126 212**	**-20.1%**
6.1	Net credit	100 000	28 084	-71.9%
6.2	Balance	51 903	98 128	69.5%
7	**Debt balance**	**296 155**	**324 905**	**9.7%**

Source: Colombian Government (2013), *PGR Background Report* (unpublished working paper).

in Barranquilla, the period since 1991 – when decentralisation was introduced by the Constitution – should be divided into two parts:

- After 1991, when the new Constitution enhanced local autonomy and obligated the central level to support local action with direct transfers, the lack of capacity in Barranquilla caused a dramatic increase of indebtedness. According to local stakeholders, the period up to 2007 was characterised by a net reduction of the availability and quality of public goods and by an increasing isolation of public authorities from the business community and civil society. The reduction in the quality of public goods affected regional competitiveness (i.e. declining conditions of the port and transportation infrastructure) and overall well-being. Declining framework conditions convinced the local business community to get directly involved in the control over public goods and in the definition of possible policy solutions to local challenges. Local investors took control of the port and privatised other infrastructure. They created a university (*Universidad del Norte*) to train human capital. They also created a think-tank in which managers from the private sector and experts in public policy could interact to create and diffuse information about the main challenges facing Barranquilla and possible solutions to them.
- As a result, in 2008, the residents of Barranquilla supported the election of a mayor belonging to Barranquilla's business community. The mayor had been the director of the local think tank and was supported by a team of young managers coming from the private sector. The capacity building actions put in place by Baranquilla's business community provided the new mayor with sufficient capacity and institutional support to introduce a series of radical reforms that immediately

enhanced the efficiency and effectiveness of the city. Although he had to leave office in 2012 – mayors can only be elected for a single four-year term – his successor was one of his closest collaborators, having previously played an active role in the local think-tank – and this guaranteed continuity to the reform process.

So, what is the overall impact of decentralisation on Barranquilla? To answer this question one should consider this u-shaped development trajectory of Barranquilla. This trajectory illustrates that autonomy to local governments was probably allocated too quickly, causing a large cost and a net decline of local public goods, but then, decentralisation fostered for the direct involvement of key local civil-society constituencies in building civic life, with a net benefit for the capacity of the municipality to plan its own development. These constituencies are now defining with the City a new development path for Barranquilla. Their direct knowledge about local opportunities and challenges allows the city government to design a development strategy that – while reflecting the priorities in the NDP – taps into the local strengths and assets and responds to local needs. The new institutional context and the stronger link with the central government have transformed Barranquilla into a laboratory where the all levels of government can engage in experimenting new policy solutions and new governance arrangements to support development and the reduction of inequalities.

Designing and implementing Barranquilla's development plan

The local development plan – *Barranquilla Florece para Todos* – covers three years (2012-15) and focuses on three main actions: promoting equity by providing people with better access to health care, education and housing; improving security by refurbishing public spaces in the poor areas of the city; and promoting competitiveness with a focus on the port. The local plan promotes visibility of local policy interventions and their transparency with the central level and citizens – who are given the opportunity to present proposals to be included in the plan. The monitoring and evaluation of the local plan is done in co-operation with SINERGIA, the evaluation body within the National Planning Department. The local development plan is in line with the NDP and with the Department Plan (*Atlántico Mas Social* 2012-2015). Some of the policy interventions currently implemented in Barranquilla are noteworthy:

1. Universidad a tu Barrio

This project tackles two main issues: first, reducing the cost to access college degrees and vocational training; and lack of technical skills in the city. In Colombia, a large number of students cannot afford to go to college due to tuition costs and transportation costs. For this reason the municipality promoted a system of diffused tertiary education and signed agreements with 10 universities to offer 72 academic programmes in 25 sites across the District City. This policy, called "University in your neighbourhood" started in 2012 and has already enrolled 4 500 students. The local government's goal is to reach 10 thousand in 2013.

Classes focus on key sectors for the local economy: technology programmes in shipping and port management, software development for tourism operation, health care (nursing). Students receive a small stipend to cover basic needs and have access to a 0%-interest loan that they can reimburse when working. The district municipality and universities takes over 50% of the overall costs. There are some basic requirements for accessing the programme:

- First, students must reside in the District City (local stakeholders told the OECD delegation that they received a large number of requests to participate in the programme for students living in the Department or even from other departments, but they could not accept these requests as the cost would have been prohibitive).

- Second, students applying to the programme must have a degree from a public school ranked by the national evaluation system.

The project was inspired by a national programme focussing on education in rural areas. Local public authorities told the OECD delegation that they believed that a programme initially designed for sparsely populated areas could be effective in poor parts of a metropolitan area.[5] *Universidad a tu barrio* is a good example to illustrate how important is to have a proactive local government that has the capacity to identify good policies within the national framework (NDP) and adapt them into interventions that meet local needs. It has been so successful, in fact, that officials from several other urban communities have beaten a path to the door of the Barranquilla leadership to discuss how best to transpose the Barranquilla programme into their communities.

2. Barrio a la Obra

The aim of this project is to improve the quality of the road network in Barranquilla and of the overall built environment. The project was launched by the previous mayor with the aim to pave roads and sidewalks in deprived areas of Barranquilla. The poor conditions of the city road network did not allow the municipality to fulfil all requests. Accordingly the municipality decided to ask citizens to contribute to the financial effort by paying for the construction of sidewalks. Small portions of new paved roads were funded in several poor neighbourhoods which benefited from a net improvement of the overall build environment. So far, the third phase of the programme, begun in 2012 and still in place, produced 252 square meters of paved roads, equivalent to 42 miles of track with a total investment of COP 60 trillion. Citizens participated with an investment of approximately COP 100 million per linear kilometre.[6] So far the programme received a total of 1200 applications from communities to pave their neighbourhood. Communities are selected based on a chronological order of their application and on their actual capacity to cover all the costs related to the parts they are required to produce.

Barrio a la obra is an interesting policy experience and can be considered as a good practice for several reasons. While it is common in the OECD to see communities engaging in the co-production of public services, it is very rare that such services relate to transport infrastructure. The programme requires that the community organise the financial resources (savings and debts) and co-ordinate the production of sidewalks while the public sector paves the roads. According to local stakeholders, the local community develops a strong sense of ownership of the infrastructure and also controls that the quality of the outcome is good and responds to their expectations. The presence of paved roads and sidewalk has a tremendous impact on the build environment, both in functional terms (less affluent people can access to better transportation means and to public transportation) and aesthetics.

3. Feria Biba

This programme aims to deliver basic administrative services to poor neighbourhoods, where citizens suffer reduced mobility (lack of infrastructure and public transportation). The municipality organises a "Fair" in a given community bringing there its employees. Local citizens can interact directly with them asking information about services they may be eligible for (support to education, health care, etc.). Citizens have also the possibility to ask for documents such as identity cards, and other kind of certificates.

By reducing the (physical) distance between the municipality and citizens, *Feria Biba* promotes the creation of social capital in the city. There is a direct empowerment of communities through the delivery of clear information about their rights and the possible ways in which they can access support provided by public policy. Better-informed communities are more resilient and more knowledgeable about their rights and opportunities. In turn, this condition facilitates the implementation of public policies as this builds trust in public institutions – citizens may be keen to co-produce parts of the public goods delivered by the interventions.

Challenges remain

Despite these positive trends, the local government still faces key challenges in ensuring a sustainable development path.[7] A first local challenge relates to the capacity to adjust the national development agenda to local needs. So far, the district municipality has been successful as there are clear needs in defined parts of the city and the policy outcomes are easy to measure: i.e. km of paved roads, number of students enrolled in tertiary education, number of citizens informed about the availability of given public goods. In other words, information is easily available both about the needs and the outcomes. In this context, monitoring and evaluation is straightforward, and co-operation with the local branches of *superintendencia* (watchdogs and fiscal control bodies) very easy. This system, however, is performing well when there are basic needs to be satisfied through basic policy interventions. The situation is different when the local government is required to produce public goods that are complex, respond to multiple and multi-faceted needs from different stakeholders simultaneously, and is difficult to evaluate in terms of outcomes and outputs. This is a condition that challenges all level of government in Colombia, not only the district municipality.

The public sector, for instance, is unable to deliver a strategy to support the competitiveness of the port, which is the key driver of the regional economy. The port experienced a long period of decline. When the port benefited from the improved economic performance of the country, the local business community invested directly in the port, which was privatised. This gave a new perspective to the port, which could become one of the main industrial ports in Colombia, and even an international hub for Latin America according to some specialised research (Rotterdam Marine Group, 2012[8]). However, poor co-ordination within the public sector impinges upon the development perspectives of the port. The formal structure of the public involvement in the Port of Barranquilla is laid down in a number of port-related laws. These laws allocate responsibilities for most of the essential port functions among different agencies. This non-transparent situation results in a paralysis with respect to new developments. Specialised research on the port (Rotterdam Marine Group, 2012) demonstrated that non-transparent formal structures result in inactivity. A significant number of activities that are essential for a proper execution of the port functions are not being covered. This situation certainly hampers the further development of the Port of Barranquilla and may not only lead to sub-optimal and inefficient operations but also to potentially dangerous situations for users (cargoes) and for environmental sustainability.

A solution could be the creation of a co-ordinating authority for the port, but this conflicts with the national approach to governance. The district municipality, the department and other public authorities active in the area could create a co-ordinating body (a port authority) following the example of other port regions.[9] This would require a flexible regulatory system that can adjust to local conditions and deliver good governance. This, however, is challenging to achieve in a system like the Colombian one which is based on the strict formalisation by law of responsibility and competences, and that has such a strong focus on formal control by *superindendencias* which reduce the scope for experimentation and innovative governance solutions between public authorities.

Lessons learned in Barranquilla

In Barranquilla there are at least two policy lessons that could benefit the central government:

- First, the good performance of the national economy represents an opportunity to improve governance at the regional level. This window of opportunity should not be lost. Other regions, as Barranquilla, could possess a good level of capacity and could be involved in specific pilot-projects to improve equity and competitiveness at the local level. The recently designed mechanisms for institutional co-operation such as contracts and alliances could be used with these potential partners.
- Second, the case of Barranquilla demonstrates the positive aspects of the national planning system as well as its limits. For instance, the NDP requires that each level of government develops its own plan at the local level within the framework of the national strategy. By doing this, local government have access to a menu of possible policy interventions that can be activated in their community. The NDP, through SINERGIA, provides local government with performance indicators and also with a clear methodology to assess the results of the policy they are implementing. The existence of this policy framework is important, as mayors or governors have limited time to implement a development strategy due to the fact that they are in charge for a single four-year term.[10]

The planning system is not flawless, however. Actors involved in the design and implementation of policy have to follow a fast pace. As assessed above the NDP has to be prepared in less than 10 months. This may reduce the scope for innovation within the menu of policy interventions. Local stakeholders have a very short time to contribute to the national planning process and have to produce very defined and clear requests. So the system may tend to reject complexity and focus its efforts on issues that are relatively easy to tackle and that can produce visible and intelligible policy outcomes. This is reflected by the difficulties Barranquilla is encountering in delivering its policy to support regional competitiveness and in particular developing the port.

Although the single case of Barranquilla cannot be used to assess the performance of the current multilevel governance framework in Colombia, it provides some useful insights that could be taken into account in the next NDP and, more generally, in the decentralisation process:

- The quality of local policy makers is a key issue. In Barranquilla, civil society engaged in a long process to produce such capacity and generate broad public political consensus. This allowed the city to start a forward-looking and coherent development strategy, which built trust and stimulated local private investment.
- Local political constituencies are key partners for the delivery of the national development strategy and have the capacity to pool information about local challenges and opportunities and adapt the NDP system to meet local needs accordingly. On this basis, it could be worth engaging in some pilot projects to

verify whether it would be possible to introduce in the NDP some “wiggle-room” that allows for the design and implementation of complex projects that deliver advanced public goods whose production requires more than four years and whose evaluation also requires a long-term series of observations and analysis.

- This could be done through consultation processes working in parallel with the NDP process and following a diverse principle in which national and local public actors have the same power to influence key national development policy decisions (i.e. with local representatives on CONPES having the right to vote on NDP content…).

Notes to Annex 4A.1

1. Data refers to the Atlántico Department.
2. The trend in the local GINI coefficient is mirrored in plummeting local poverty rates. According to data provided by Barranquilla authorities, in 2011, 34.7% of the local population was poor (i.e. below the national poverty line). This proportion dropped to 30.4% in 2012 (compared to a national average of 32.7 in the same year).
3. Trillions.
4. Information has been collected in meetings with local stakeholders, during an OECD study mission in Barranquilla in February 2013.
5. According to local stakeholders, the national programme for rural areas is performing below the expectations due to the scarce demand for tertiary education in these regions.
6. The previous two rounds of the programme had paved 125 kilometres of reads and invested a total of COB 145 trillion.
7. There are some key challenges that are “exogenous” to the system. Public authorities, both at the national and local level, are not necessarily able to control them. For instance, there is, of course, a strict link with the performance of Colombia in terms of economic growth and democratisation. If the country keeps on doing so well in terms of GDP growth, Barranquilla will be facilitated in its action to promote a more inclusive community. Likewise, the success of the President’s strategy to bring peace and democracy all over the country, would probably allow for an improved role for sub-national levels in the delivery of the national development agenda. But these are “exogenous variables” that the district municipality cannot influence.
8. Master plan for the development of the port.
9. OECD, 2013.
10. Discussing the national rule of limiting the mandate of local elected representatives to 4 years goes beyond the scope of this research and would require a better understanding of Colombia’s territorial governance. The strict limit, however, could impinge upon the possibility of having a long term forward looking strategy for regional development. In Barranquilla, for instance, this issue was dealt with by creating a think tank preparing a strategy and having two key people of this organisation elected one after the other. This solution, however, requires a considerable effort and could not be actionable in all regions.

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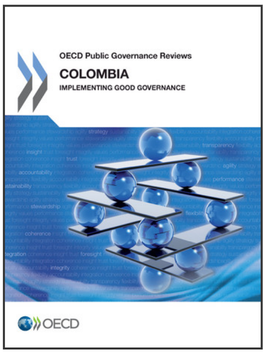

Please cite this chapter as:

OECD (2013), “Multi-level governance in Colombia”, in *Colombia: Implementing Good Governance*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/9789264202177-7-en