OECD Study on Regional Development in Brazil

Claire Charbit
Deputy Head of the Regional Development Policy Division
Directorate for Public Governance and Territorial Development OECD

SEMINÁRIO INTERNACIONAL
POLÍTICA REGIONAL NO CONTEXTO GLOBAL:
SITUAÇÃO ATUAL E PERSPECTIVAS

Brasília, 19th March 2013
OECD Territorial Reviews: A series of case studies of Regional Development Policy for Inclusive Growth

Among 34 member countries and non member:

- **18 National Territorial Reviews** ( +2 in process)
- **22 Metropolitan Reviews** (+1 in process)
- **2 National Urban Policy Reviews** (+1 in process)
- **6 Regional reviews** (+2 in process)
- **5 reviews on regional innovation systems**
- **9+2 National rural Policy Reviews** (+1 in process)

**Conceptual framework:**

1. **Diagnosis and assessment (Chapter 1)**
   - Measure sub-national trends
   - Identify key strengths and bottlenecks for growth

2. **Review of policy instruments (Chapter 2)**
   - Are current policies adequate for addressing strengths and weaknesses?
   - Identify areas of improvement

3. **Multilevel governance (Chapter 3)**
   - Identify implementation issues
   - and mechanisms for bridging governance gaps
Outline

1. Key facts

2. Some policy lessons

3. Key governance challenges

4. Conclusions/recommendations
Despite Brazil’s high levels of concentration in GDP and population, concentration has been decreasing over the past decades.
Despite the recent decline in territorial disparities...

...in catching-up economies inequality is high and it tends to rise due to the presence of growth poles...

Territorial disparities in GDP per capita among TL2) regions, 2010

...in Brazil however it is an exception...

... they still remain high in Brazil
Most unsatisfied needs are concentrated in lagging regions.

1. The Human Development Index (HDI) is a comparative measure of life expectancy, literacy, education and standards of living for countries worldwide. Note: This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.
2. This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Catching up has been driven mainly by advances in resource-intensive regions
Despite Brazil’s faster overall growth ...

Growth in GDP per capita among types of TL3 regions, 1995-2007

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predominantly rural</td>
<td>4.64%</td>
<td>2.31%</td>
</tr>
<tr>
<td>Intermediate</td>
<td>3.14%</td>
<td>1.88%</td>
</tr>
<tr>
<td>Predominantly urban</td>
<td>1.58%</td>
<td>1.93%</td>
</tr>
</tbody>
</table>

...urban regions have performed below their potential, recording a lower rate of growth than the average for OECD urban regions.
Policies that aim to tap the growth potential of all types of regions is an important source of aggregate growth.

This will require a differentiated approach, capable of adapting to the different needs and challenges of regions.

Two thirds of national growth comes from intermediate (32%) and rural regions (37%)...

\[ y = 0.4664x^{1.275} \]
1. Key facts

2. Some policy lessons

3. Key governance challenges

4. Conclusions/recommendations
Isolated sectoral action may have unintended outcomes (example)

- Brain drain
- Human capital formation with labour mobility
- Policy responses
- Persistence of inequality

with labour mobility
A combination of policies is necessary

- Sustainable poverty reduction requires creating local jobs and growth

- Different policies have complementarities: ex infrastructure + economic + social dimensions
  - Need to co-ordinate policies
  - Important to target the relevant scale

- Regional development policy could reinforce the impact of social policies such as *Bolsa Familia*
## Paradigm shift in regional policies

<table>
<thead>
<tr>
<th></th>
<th>Traditional Regional Policies</th>
<th>New Paradigm</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Balancing economic performances by temporary compensating for disparities</td>
<td>Tapping under-utilised regional potential for competitiveness</td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td>Sectoral approach</td>
<td>Integrated development projects</td>
</tr>
<tr>
<td><strong>Tools</strong></td>
<td>Subsidies and state aid</td>
<td>Soft and hard infrastructures</td>
</tr>
<tr>
<td><strong>Actors</strong></td>
<td>Central government</td>
<td>Different levels of government</td>
</tr>
<tr>
<td><strong>Unit of analysis</strong></td>
<td>Administrative regions</td>
<td>Functional regions</td>
</tr>
</tbody>
</table>

- **Building competitive regions by bringing actors together and targeting key local assets**
- **Redistributing from leading to lagging regions**
Resources for regional development are soaring, but target mainly private firms

Public investment and BNDES funds still face difficulties reaching lagging regions.

Regional allocation of PAC investments (2007-10)

- Southern region: 8%
- Southeast region: 60%
- Centre-west region: 7%
- Northeast region: 19%
- Northern region: 7%
- Federal district: 1%

Regional allocation of lending by BNDES in 2010

- Southeast region: 58%
- Southern region: 18%
- Northeast region: 7%
- Centre-west region: 7%
- Northern region: 10%

Source: Relatórios Estaduais. Totals for four years, 2007-10.

1. Key facts

2. Some policy lessons

3. Key governance challenges

4. Conclusions/recommendations
Brazil is among the most decentralised countries both in revenue and spending allocations.
### ‘Mind the Gaps’ : a Tool for a Diagnosis of MLG challenges

<table>
<thead>
<tr>
<th>Gap</th>
<th>Description</th>
<th>Need for Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Administrative gap</strong></td>
<td>“Mismatch” between functional areas and administrative boundaries =&gt;</td>
<td>Need for instruments for reaching “effective size”</td>
</tr>
<tr>
<td><strong>Information gap</strong></td>
<td>Asymmetries of information (quantity, quality, type) between different</td>
<td>Need for instruments for revealing &amp; sharing information</td>
</tr>
<tr>
<td></td>
<td>stakeholders, either voluntary or not =&gt;</td>
<td></td>
</tr>
<tr>
<td><strong>Policy gap</strong></td>
<td>Sectoral fragmentation across ministries and agencies =&gt;</td>
<td>Need for mechanisms to create multidimensional/systemic approaches, and to exercises</td>
</tr>
<tr>
<td><strong>Capacity gap</strong></td>
<td>Insufficient scientific, technical, infrastructural capacity of local actors =&gt;</td>
<td>Need for instruments to build capacity</td>
</tr>
<tr>
<td><strong>Funding gap</strong></td>
<td>Unstable or insufficient revenues undermining effective implementation of</td>
<td>Need for shared financing mechanisms</td>
</tr>
<tr>
<td></td>
<td>responsibilities at subnational level or for crossing policies =&gt;</td>
<td></td>
</tr>
<tr>
<td><strong>Objective gap</strong></td>
<td>Different rationalities creating obstacles for adopting convergent targets =&gt;</td>
<td>Need for instruments to align objectives</td>
</tr>
<tr>
<td><strong>Accountability gap</strong></td>
<td>Difficulty to ensure the transparency and integrity of practices across the</td>
<td>Need for institutional quality instruments</td>
</tr>
<tr>
<td></td>
<td>different constituencies =&gt;</td>
<td></td>
</tr>
</tbody>
</table>
Brazil faces multilevel governance challenges

- Multi-dimensional fragmentation of policies
- Sub national governments financial and political autonomy
- Institutional and administrative capacity at sub national level
- Information asymmetries, monitoring and evaluation
Examples of existing tools for co-ordination

- Co-ordinating institutions
- *Convenios* (agreements) and pacts
- Regional development agencies
- Single Registry, national census, etc.
A wide range of governance mechanisms for vertical coordination of regional development policy

Whatever the type of system – federal, regionalised, unitary – there is a strong need of coordination across levels of government.
Contractual Governance: Some Findings

✓ Contracts among levels of government are **unavoidable** (vertical interdependencies + assignment of responsibilities)

✓ Contracts allow a **customized management** of interdependencies, useful in either unitary or federal contexts

✓ **Evaluation** conditions the appropriateness of the contract

✓ Contracts are tools for **dialogue**, for **clarifying** responsibilities, for **capacity** building

✓ Bilateral commitments must be as « **verifiable** » as possible

✓ The crucial challenges of **enforcement** mechanisms to make commitments credible
Towards a diagnosis of sub national capacity challenges

- Strategic planning
- Cross-sectoral, vertical and cross-jurisdictional co-ordination
- Stakeholder engagement; ex ante appraisal

Planning: Design a portfolio for growth

Throughout: Facilitating achievement of goals

Finance and Budgeting: Ensure adequate resources

Evaluation and Audit: promoting results and learning

Accountability: ensure integrity during implementation

- Monitoring systems
- Ex post performance assessment
- Use of performance information

- Integrity, accountability and risk management
- Regulatory quality
- Professional and technical skills

- Multi-year budgeting
- traditional and innovative financing instruments
- private-sector engagement

Critical Capacities needed at all stages of the investment cycle
1. Sub-national governments (SNGs) are responsible for close to three-quarters of total public investment in the OECD.

2. The quality of government (QoG) at regional level varies within and across countries.

3. QoG is strongly related to sub-national human development indicators at regional level.

4. Better QoG is also associated with better returns to cohesion investments in places with relatively large cohesion expenditure.

5. The strong association between QoG and levels of both income and education reinforces concerns about SNG capacity challenges.

Ingredients for successful commitments, enforced on the ground

- Implementation of effective contract for regional development
- Evaluation
- Third party control
- Capacity building
- From sanction to reputational mechanisms
1. Key facts

2. Some policy lessons

3. Key governance challenges

4. Conclusions/recommendations
Key conditions for effective regional development

- Give to this policy high visibility and long term commitment
- Adopt place-based policies
- Enhance the effectiveness of vertical and horizontal co-ordination mechanisms
- Involve local actors
Recommendations

1. Brazil could develop a place based approach that would achieve higher complementarities between social and other sectoral policies.

2. Brazil is using a lot or regional development funds to remediate the difficult access of private enterprises to financing. Over time, it would be better to use regional funds for their specific purposes of investing in soft and physical investment with regional development targets.
3. Government should contemplate new instruments to make sure that public funds reach lagging regions (capacity building, technical assistance, joint projects, etc.)

4. The OECD supports the move to complementing the Bolsa Familia programme with related programmes for promoting social and economic inclusiveness of the extreme poor

5. There is a proliferation of co-ordinating bodies without much effective co-ordination mechanisms. An institutional streamlining is required with a clear identification of the co-ordination gaps. The resulting institutions should have effective instruments to operate.
Recommendations (3)

6. The status of regional development agencies needs to be clarified, as currently, they do not provide the coordination mechanisms that they are supposed to deliver.

7. Need to simplify and unify the administrative map of Brazil at the intermediary level between municipalities and states.

8. Make use of the information generated by universal programmes such as *Bolsa Família (Indice de Gestão Decentralizada)* or the School Census to better target regional policies.
Recommendations (4)

9. Sustain and enlarge programmes for capacity building at the state and municipal level. In most countries, this is the main bottleneck for the successful implementation of regional development policy. It largely depends on evaluation processes.
Obrigada!

Claire.Charbit@oecd.org