

OECD Study on Regional Development in Brazil

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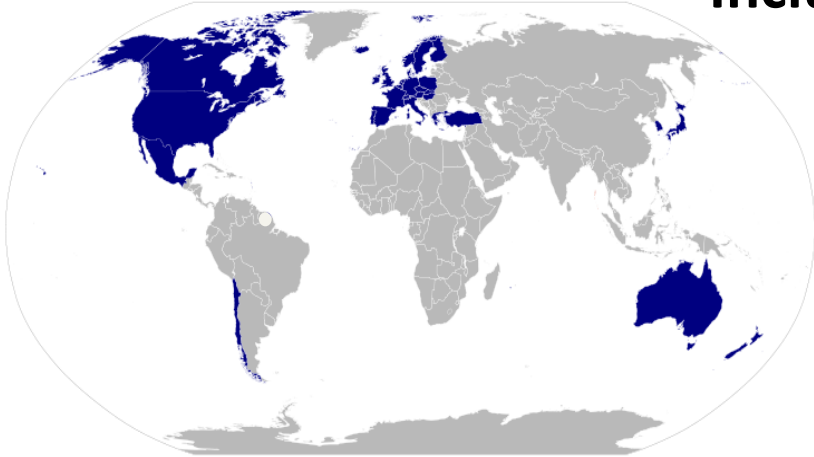
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**SEMINÁRIO INTERNACIONAL
POLÍTICA REGIONAL NO CONTEXTO GLOBAL:
SITUAÇÃO ATUAL E PERSPECTIVAS**

Brasilia, 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 review s 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 weakness?
 - Identify areas of improvement
3. **Multilevel governance (Chapter 3)**
 - Identify implementation issues
 - and mechanisms for bridging governance gaps



Why?



What?



How?



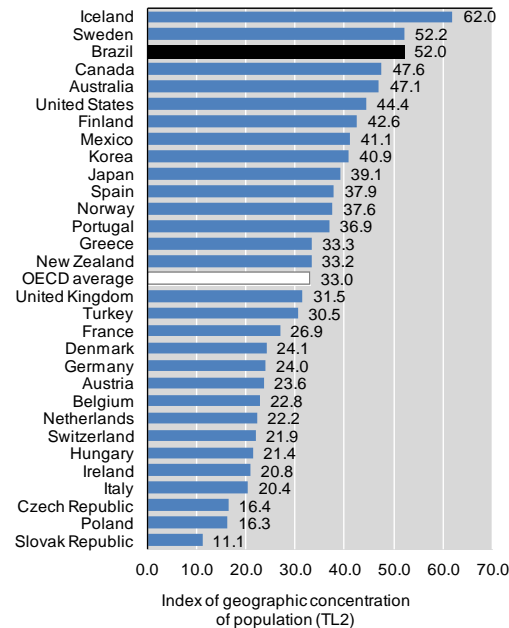
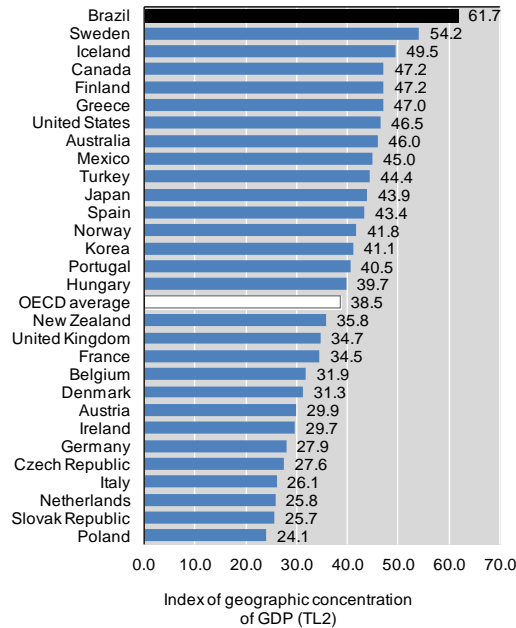
Outline

1. Key facts
2. Some policy lessons
3. Key governance challenges
4. Conclusions/recommendations

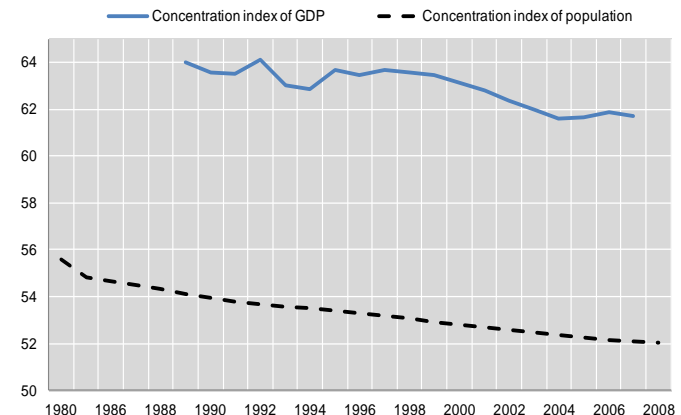


Despite Brazil's high levels of concentration in GDP and population ...

Geographic concentration index of GDP and population (TL2), 2007



... concentration has been decreasing over the past decades



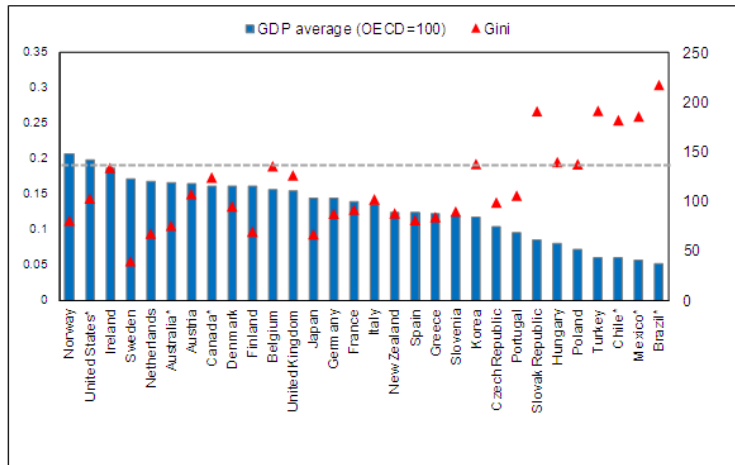


Despite the recent decline in territorial disparities...

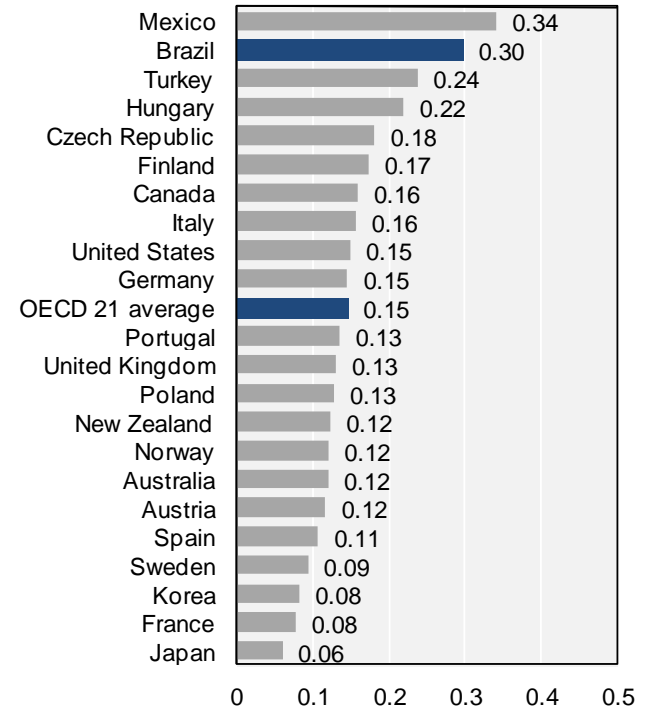
...in catching-up economies inequality is high and it tends to rise due to the presence of growth poles...

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

Territorial disparities in GDP *per capita* within countries and GDP *per capita* levels, (TL3), 2007



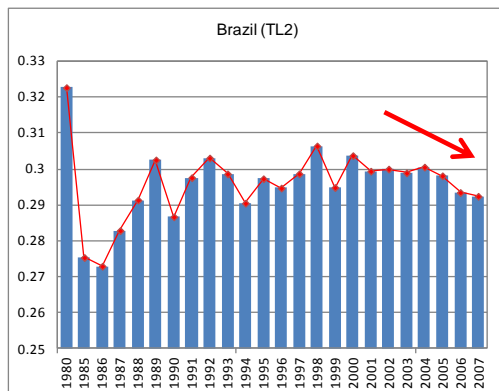
*Note: Australia, Canada, Mexico, the United States and Switzerland are at TL2 given GDP data are not available at TL3



Gini index of GDP per capita (TL2)

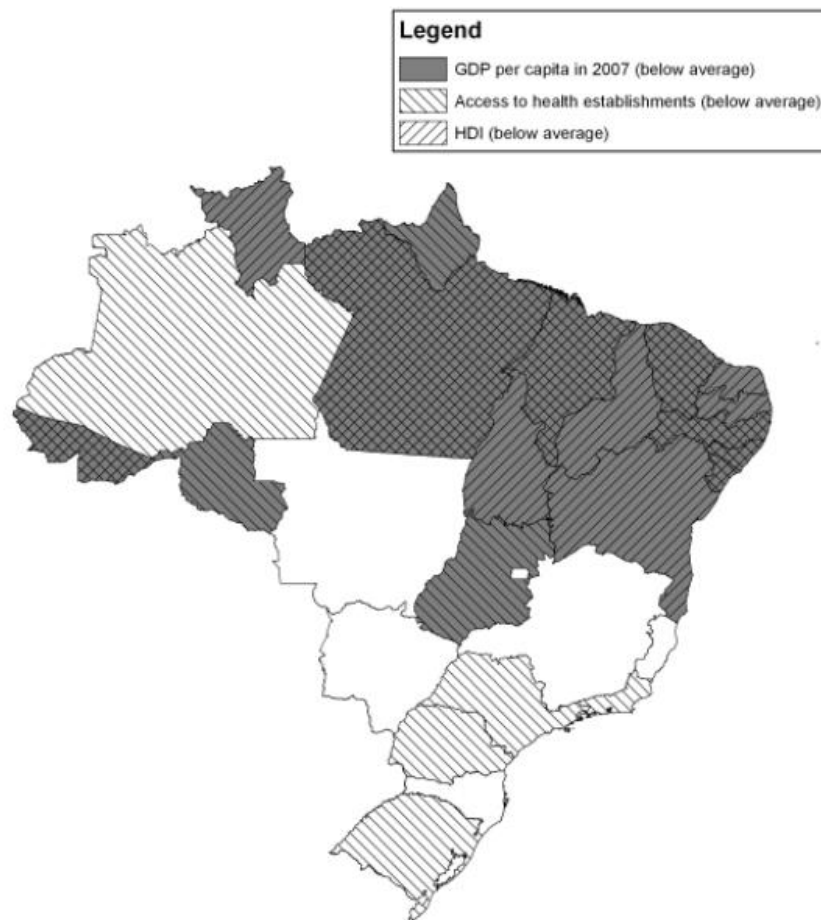
... they still remain high in Brazil

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





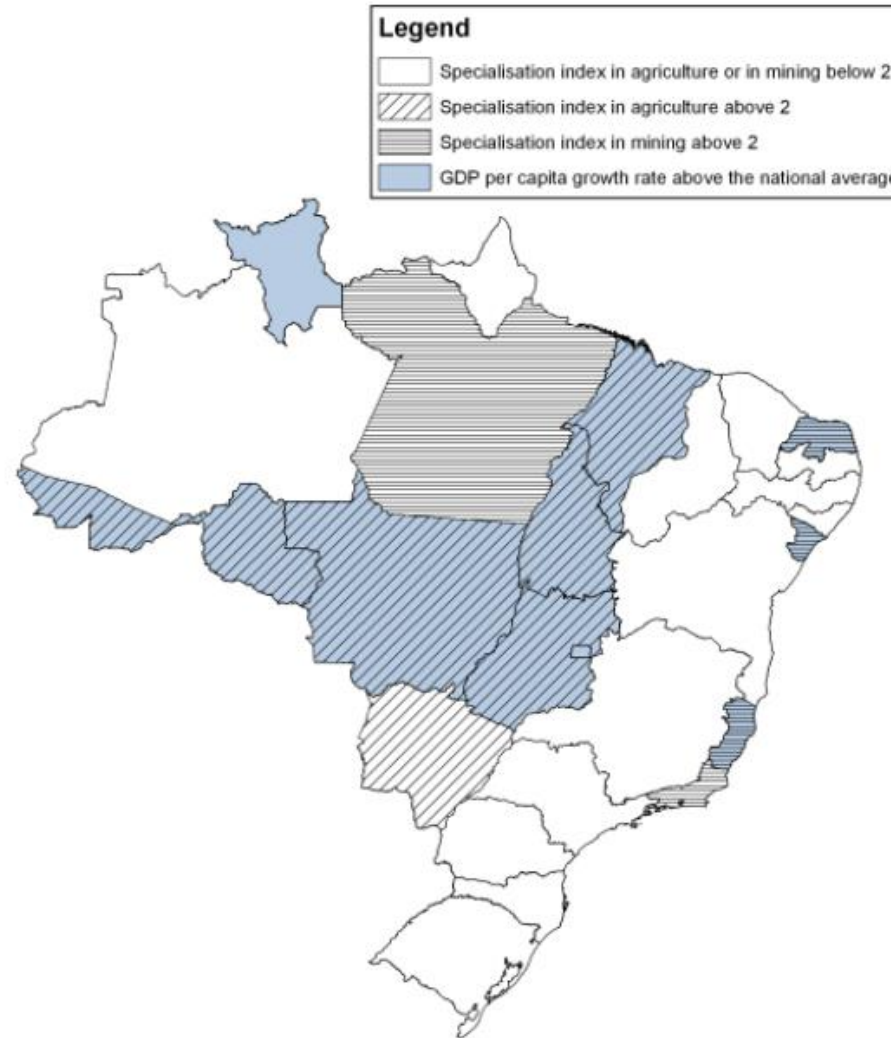
Most unsatisfied needs are concentrated in lagging regions



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.
- Source: Calculations based on data provided by (1) IBGE, (2) Ministério do Planejamento, Orçamento e Gestão. Estados and (3) CEPAL/ PNUD/OIT (2008) Emprego, desenvolvimento humano e trabalho decente: a experiência brasileira recente.



Catching up has been driven mainly by advances in resource-intensive regions





Despite Brazil's faster overall growth ...

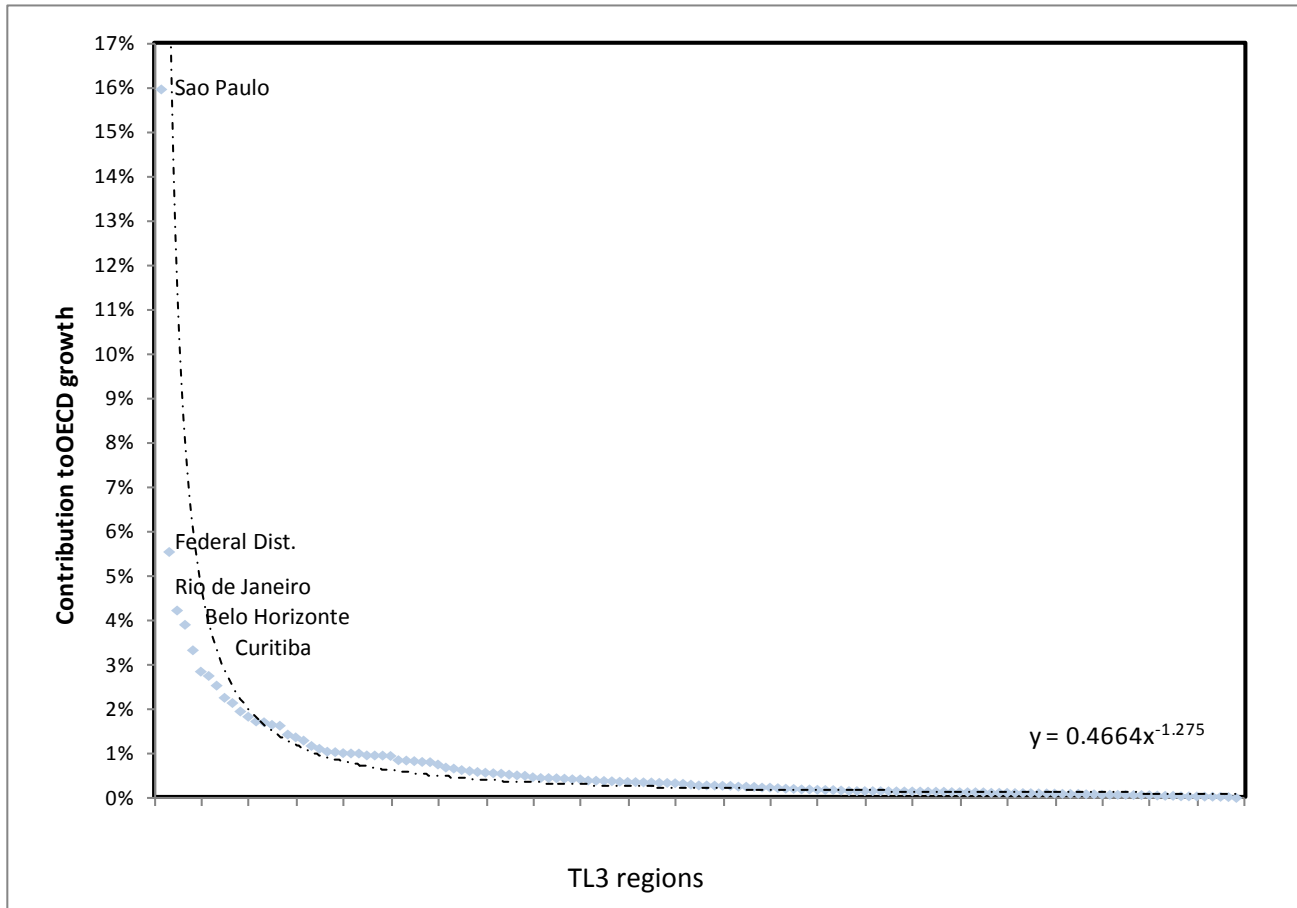
**Growth in GDP per capita among types of TL3 regions,
1995-2007**

	Brazil	OECD
Predominantly rural	4.64%	2.31%
Intermediate	3.14%	1.88%
Predominantly urban	1.58%	1.93%

...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



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

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

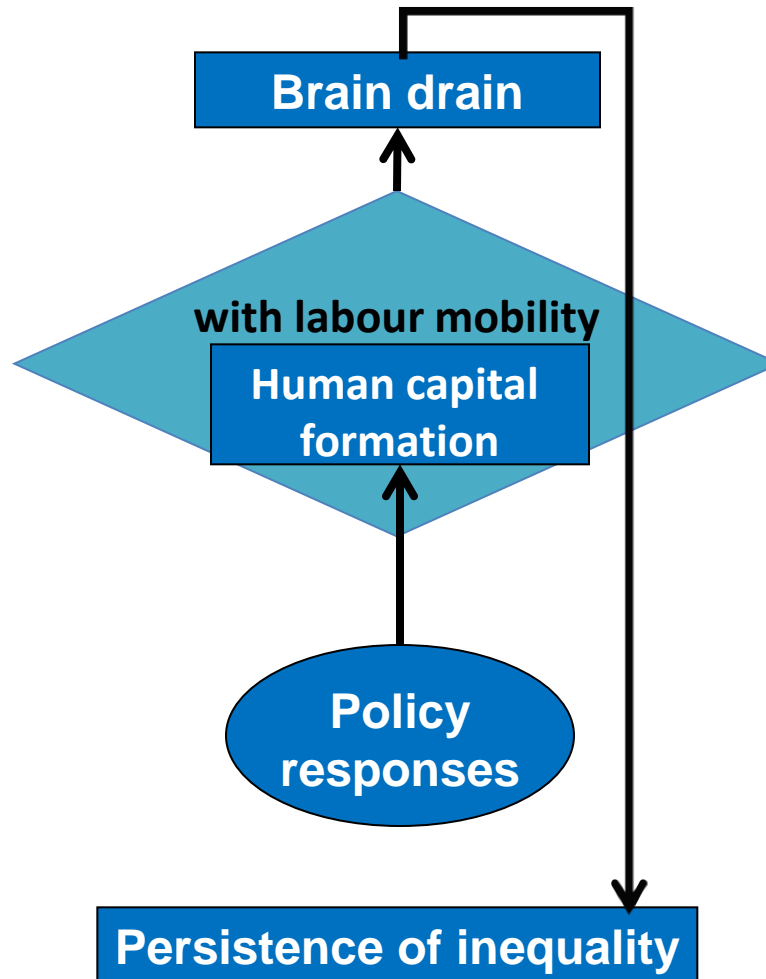


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Isolated sectoral action may have unintended outcomes (example)





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*

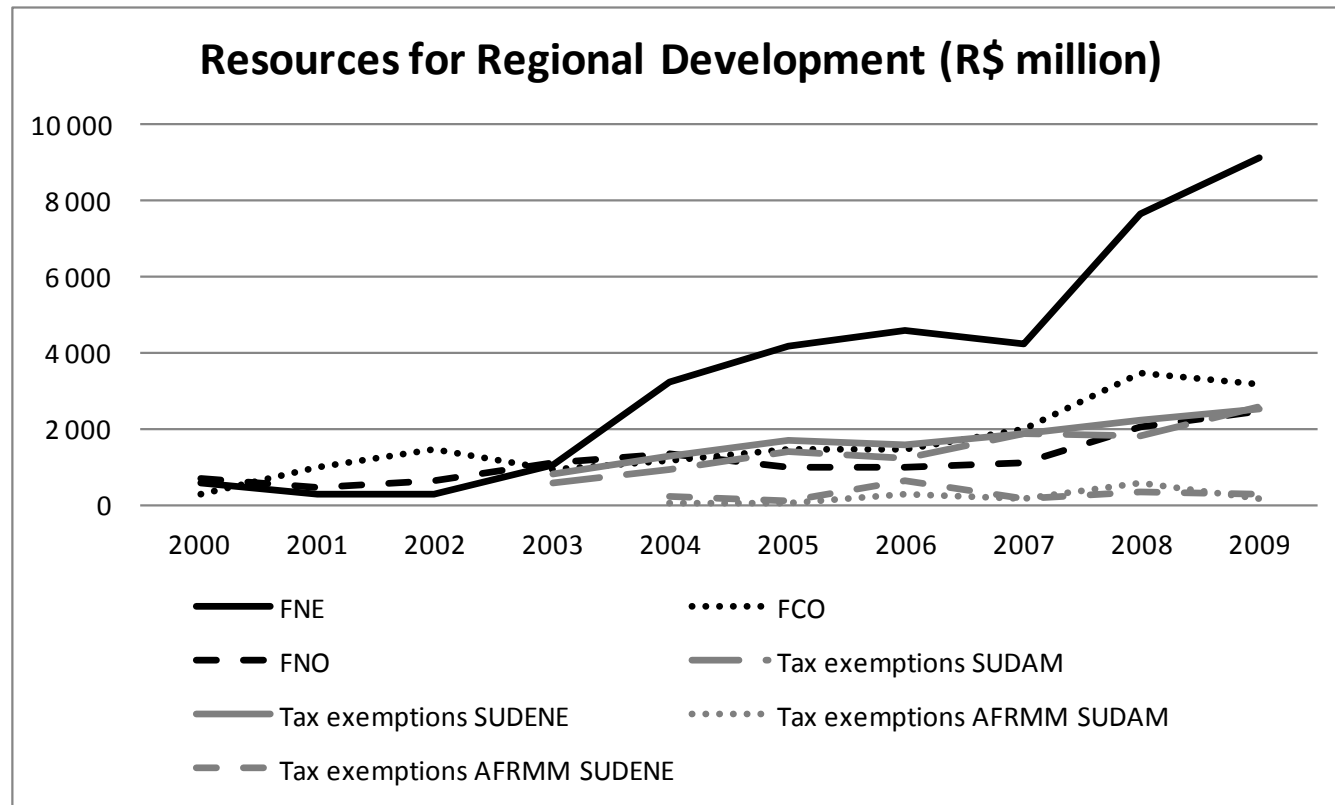


Paradigm shift in regional policies

	Traditional Regional Policies	New Paradigm
Objectives	Balancing economic performances by temporary compensating for disparities	Tapping under-utilised regional potential for competitiveness
Strategies	Sectoral approach	Integrated development projects
Tools	Subsidies and state aid	Soft and hard infrastructures
Actors	Central government	Different levels of government
Unit of analysis	Administrative regions	Functional regions
	Redistributing from leading to lagging regions	Building competitive regions by bringing actors together and targeting key local assets



Resources for regional development are soaring, but target mainly private firms

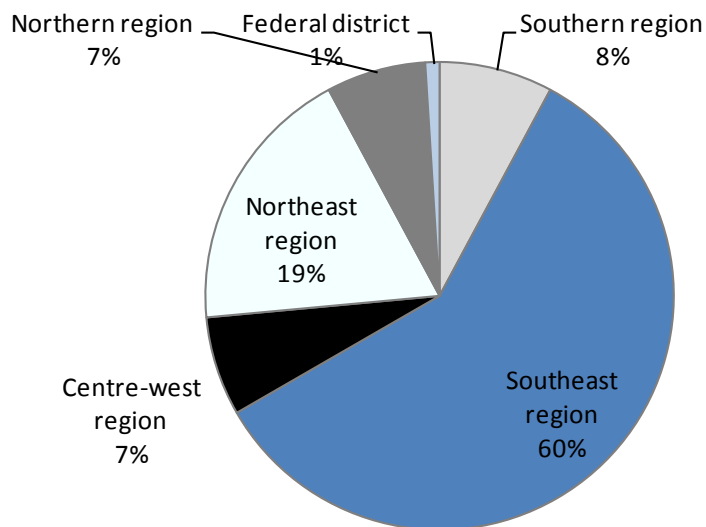


Source: Sistema de Informações Geranciais dos Fundos Constitucionais de Financiamento (2000-09); IRPJ e IOF-Coordenação-Geral de Estudos Econômicos-Tributários – COGET/Receita Federal; Relatório de Execução Territórios da Cidadania Matriz 2008 and Relatório de Execução Plano de Execução 2009 Territories of Citizenship.



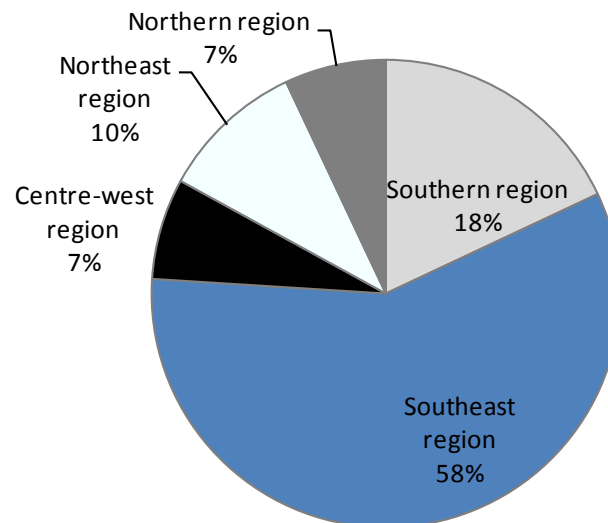
Public investment and BNDES funds still face difficulties reaching lagging regions

**Regional allocation of PAC investments
(2007-10)**



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

Regional allocation of lending by BNDES in 2010



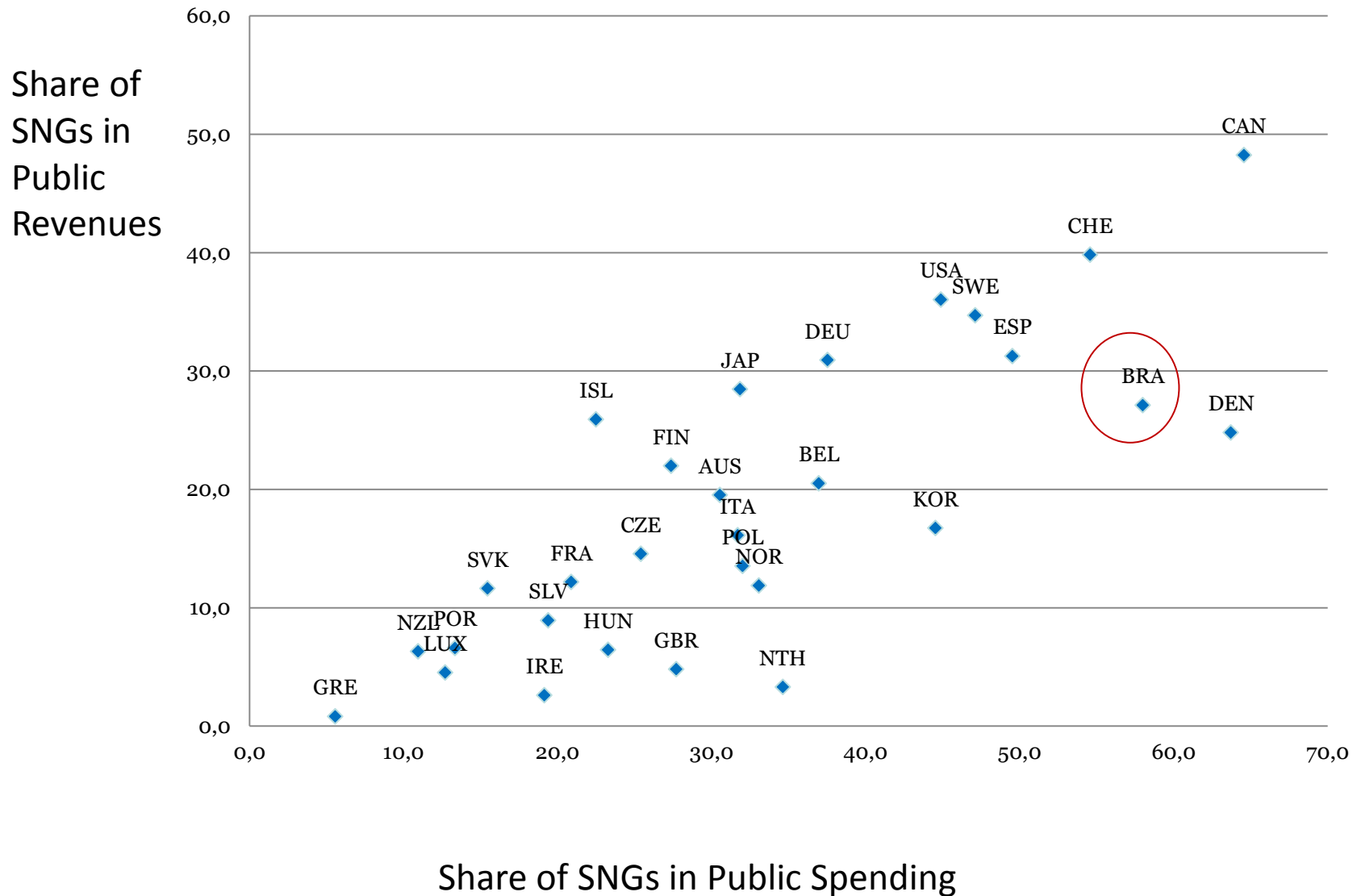
Source: BNDES website, www.bndes.gov.br.



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Brazil is among the most decentralised countries both in revenue and spending allocations



'Mind the Gaps' : a Tool for a Diagnosis of MLG challenges

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



Brazil faces multilevel governance challenges

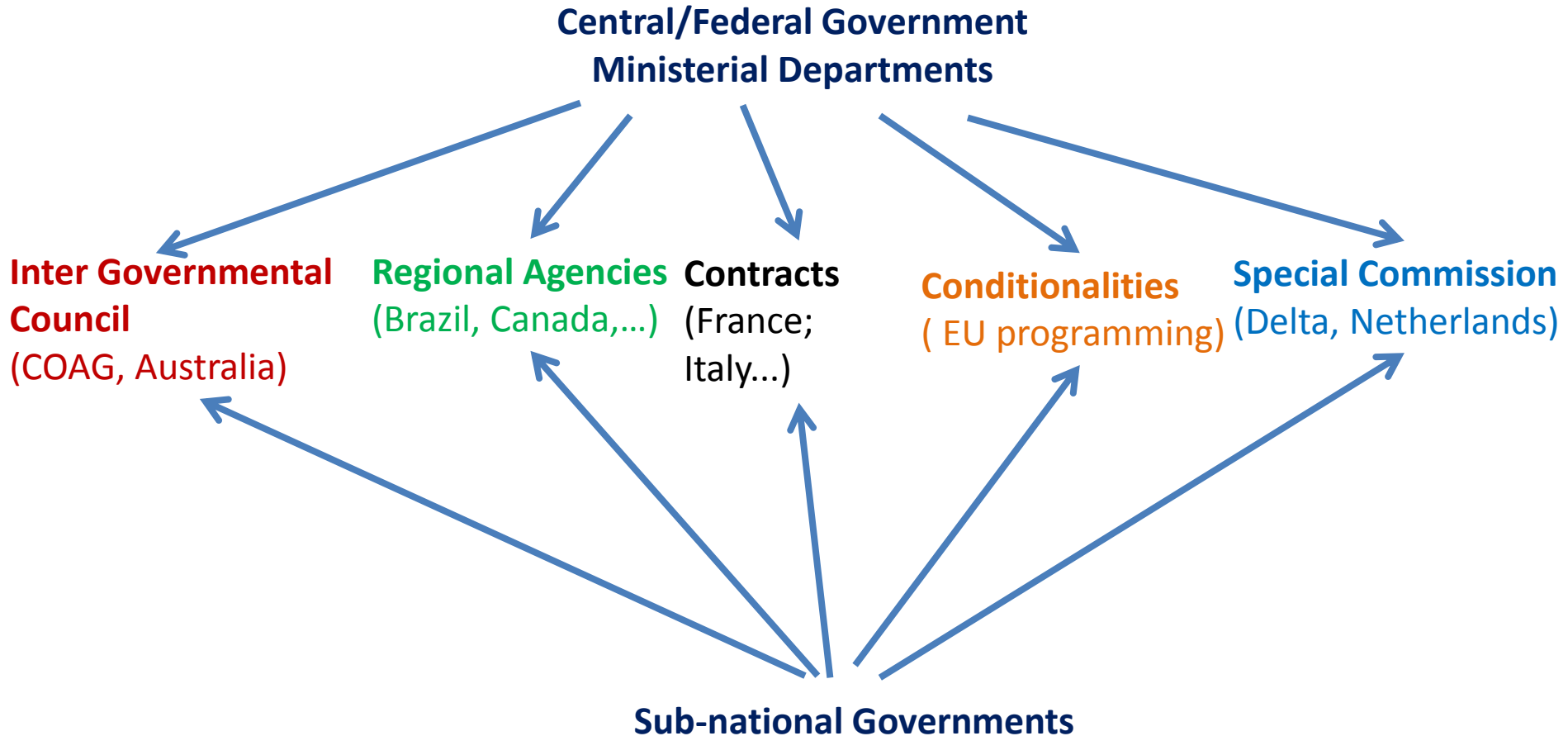
- ❖ Multi-dimensional fragmentation of policies
- ❖ Sub national governments financial and political autonomy
- ❖ Institutional and administrative capacity at sub national level
- ❖ Information asymmetries, monitoring and evaluation



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

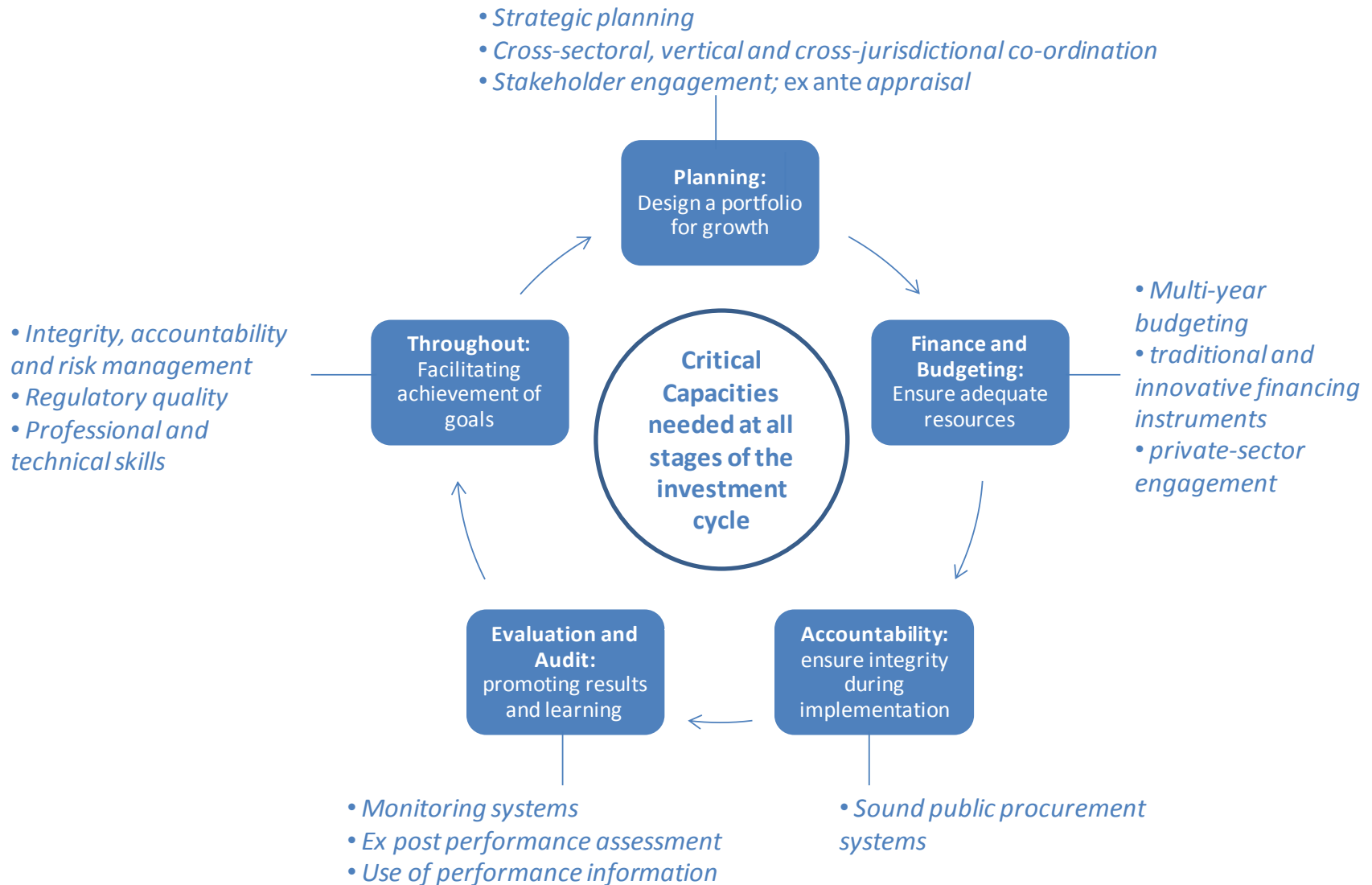


Whatever the type of system – federal, regionalised, unitary – there is a strong need of coordination across levels of government

Contractual Governance: Some Findings

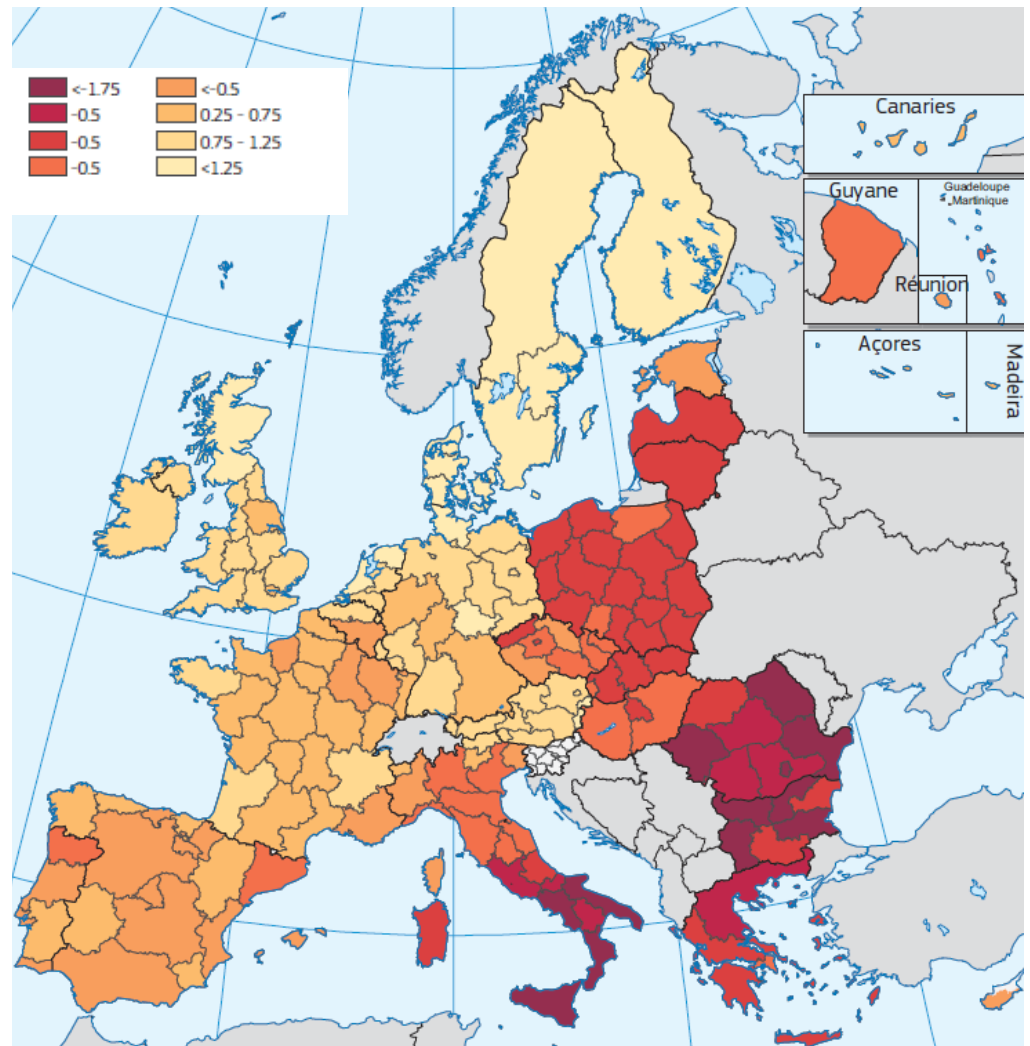
- ✓ Contracts among levels of government are **unavoidable** (vertical interdependencies + assignment of responsibilities)
- ✓ Contracts allow a **customized management** of interdependencies, useful in either unitary or federal contexts
- ✓ **Evaluation** conditions the appropriateness of the contract
- ✓ 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



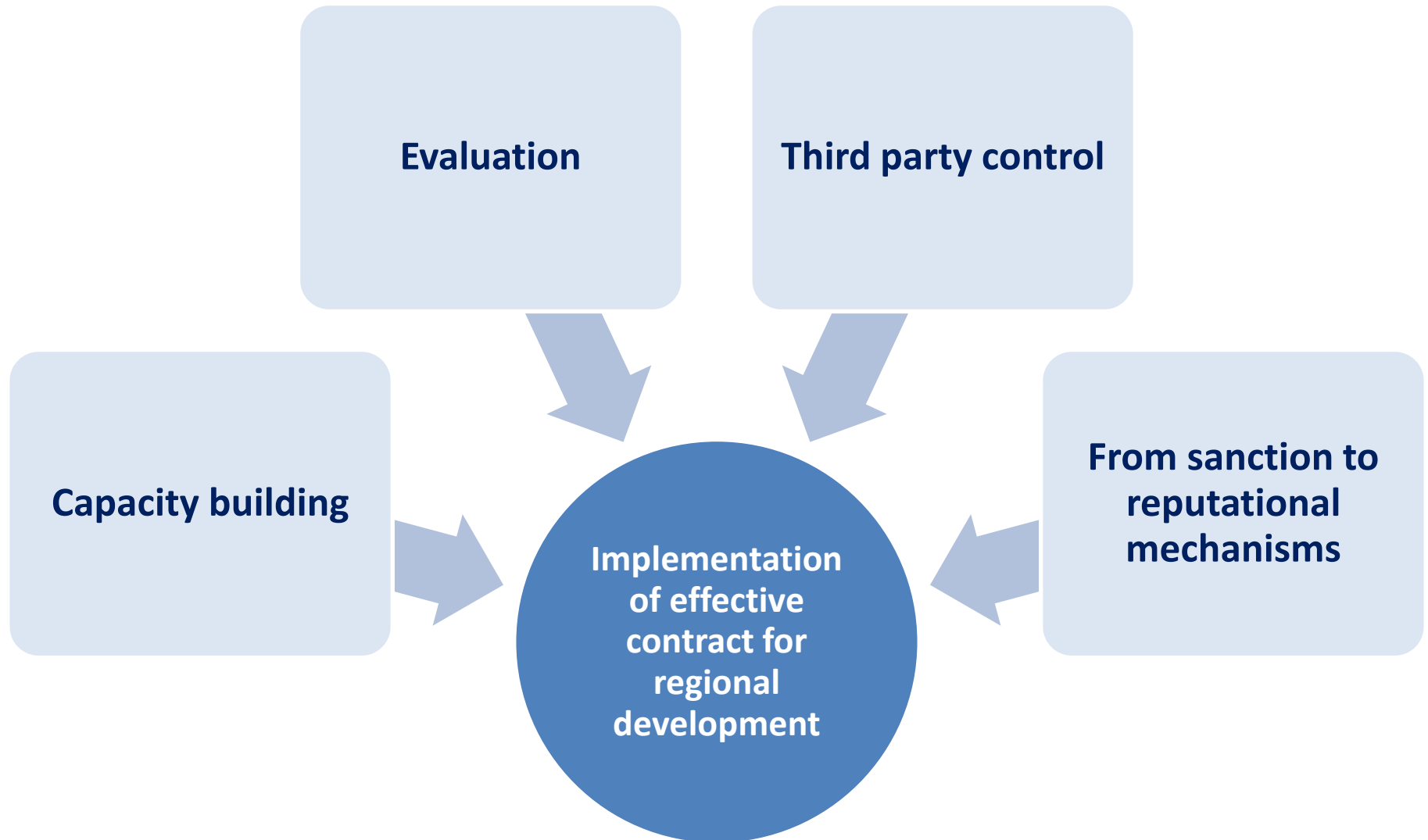
Institutions matter

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.



Source: N. Charron, V. Lapuente and L. Dykstra (2012.) "Regional Governance Matters: A Study on Regional Variation in Quality of Government within the EU" (forthcoming *Regional Studies*).

Ingredients for successful commitments, enforced on the ground





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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 of 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

.../...

Recommendations (2)

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 co-ordination 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* (*Índice de Gestão Descentralizada*) 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!

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