

INVESTING IN REGIONAL DEVELOPMENT – COMPETITION AND COLLABORATION PROJECT

DISCUSSION PAPER 1: DEALS WITHOUT DELUSIONS

Collaborative deals are *hot* in regional economic development. They embody a contracted approach to designing and delivering policy on the ground. But grants are the tried and tested approach which brings transparency in process and competition into regional development. Having two very different tools in the policy maker's toolbox, along with others (e.g. loans) provides scope for designing and delivering new policy approaches.

But it begs the question – **which tool is best for my regional development success?**

PROJECT AIM

The aim of this project is to design a guide for policy makers that will address this question 'which policy tool is best for my regional development success?' – essentially synthesising the risks and rewards of common policy tools and providing guidance on which tool works where and why.

THE CHALLENGE

There is no known collation or repository of regional economic development policy tools for Australia. Actually this type of critical review of policy was missing globally until early April 2018 when the OECD released its report on 'Rethinking Regional Development Policy-making'. But the OECD document lacks Australian and practical insights. As such the evidence required to complete this project is not available through one source. The evidence required is stored within people's heads, across jurisdictions, it has no transparency, equity or comparable critique.

Therefore, to deliver a guide we need direct engagement by federal and state regional development policy departments to collate case studies, inform the critique and analyse insights.

To help address this challenge we have produced this discussion document which summarises the current knowledge in regional development policy-making and drafted a framework that could guide future policy decisions.



THE STATE OF PLAY IN REGIONAL DEVELOPMENT POLICY-MAKING

In April 2018 the OECD released the most comprehensive review of the state of play for regional development policy making, including the tools usedⁱ. This work is drawn on for this section, along with other literature.

FUTURE REQUIRES FLEXIBILITY AND INNOVATION – ARE WE READY?

Regional development has had a siloed approach to delivering outcomes in the past, e.g. increase jobs, or population growth, or stimulating industry etc. But the last few decades have seen a change in what regional development must deliver and who it is delivered by. Once the province of only the government, now regional development is more about government working with the regions to deliver agreed goals.

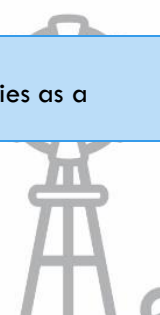
This means traditional evaluations of regional development policy and tools which are focused purely on government efficiency and effectiveness (along with machinery of government implementation) will be inadequate to design regional development policy of the future.

The future requires us to look broadly at what regional development is and how best to achieve its goals.

To inform the future design of development policy the OECD has identified nine key lessons (summarised in Table 1). These lessons should be addressed when designing future regional development policy to ensure legitimacy, not delusion, are delivered.

TABLE 1. NINE KEY LESSONS IDENTIFIED BY OECD ON WHAT FUTURE DEVELOPMENT POLICY SHOULD INCLUDE

Lesson	Policy design criteria
What works here might not work there	<ul style="list-style-type: none"> Flexibility in policy design to adapt to different contexts Ensure programmes are flexible to local conditions, needs and emerging challenges
Capacities first	<ul style="list-style-type: none"> Ensure capacities of all players are understood Grow capacities of all players as part of every programme interaction
Keep it simple	<ul style="list-style-type: none"> Ensure benefits reflect administrative burden Coordinate simple data, rules and consistency
It is the quality of the relationship that counts	<ul style="list-style-type: none"> Ensure trust and reciprocity are priorities in every programme interaction Avoid unilateral decisions without consultation
Ownership matters	<ul style="list-style-type: none"> Use a citizen-centric ownership approach Use ownership as a selectivity criterion and conditionalities as a supportive incentive





Be aware of biases	<ul style="list-style-type: none"> Identify key biases (e.g. communication problems, engagement challenges, priority misalignment, funding gaps or misallocation) and design tools to directly address this
Get the incentives right	<ul style="list-style-type: none"> Good feedback mechanisms and build partnerships and trust Define clear relationships between inputs, outputs and outcomes
Keep trying and testing	<ul style="list-style-type: none"> Develop a culture and trial and test to develop a practical body of knowledge Pilot, test and evaluate policies with flexibility to make changes
Begin with the goal in mind	<ul style="list-style-type: none"> Design goals collectively along with MRE frameworks Share results and learn from the process

Source: summarised from OECD (2018)

CURRENT APPROACHES DELIVER ALTERNATE DEVELOPMENT GOALS

It is clear that there are emerging two development goals: collaborative and competitive.

European and UK evidence shows that collaborative goals use tools like deals and contracts and have had clear outcomes including stronger local leadership, flexible solutions, and more effective interventions. They are currently the preferred policy tool in regional economic development. They embody the ‘place-based’ policy approach which is driven by local needs and originates in a ‘bottom-up’ design and implementation ethos reflecting context-specific concernsⁱⁱ.

Alternatively, regional development has a long history of competitive grants and commissioning which has achieved transparent outcomes, efficient allocation and procedural fairness. These represent the more traditional ‘top-down’ approach to delivering outcomes which are desired by the central government and reflective of their needs with little concern for local contextual issuesⁱⁱⁱ.

Box 1. provides a brief outline of these goals and some examples of their implementation in Australia.

BOX 1. COLLABORATIVE AND COMPETITIVE GOALS OF REGIONAL DEVELOPMENT POLICY

Collaborative deal making whereby one or more public agencies craft a solution to a policy issue using consensus-driven dialogue with diverse parties who will be affected by the solution or who can help to implement it.¹ This Deal based approach is a favourite of many coordinating departments, it has been tested across a variety of areas, e.g. Indigenous, Cities etc for example current City Deals.¹ (<https://cities.dpvc.gov.au/city-deals>).

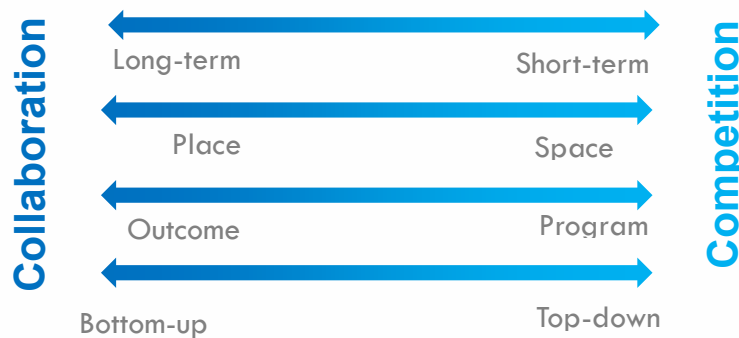
Competitive granting is the procurement of services through competitive bidding processes. Where choice of preferred provider is decided on via a range of ‘measurable’ attributes that structure the procurement process.¹ Is generally considered the approach for most regional development funds through grants, as with most other departments, see the federal grant register, Grant Connect <https://www.grants.gov.au/?event=public.GO.list>

So, what makes each of these goals different?

Evidence is growing that depending on the goal desired, different outcomes emerge and different tools are better suited.

Where the more collaborative or deal based a policy tool (e.g. Regional Partnerships, City Deals) the more long-term, place based, bottom-up, outcome driven, and collaborative are the results. While the more competitive based a policy tool (e.g. infrastructure grants, one-off transactional arrangements like relief of state charges) the tool will deliver more short-term, people centred outcomes that are driven by centralised governmental issues (see Figure 1).^{iv}

FIGURE 1. DEVELOPMENT GOALS AND THEIR EXPECTED OUTCOMES



GOALS DIRECT SUCCESSFUL TOOLS

Depending on the desired policy goal, some tools are better suited than others. Generally, regional development tools can be grouped into three types:

- **Financial instruments** e.g. loans, guarantees or publicly backed equity
- **Contracts** e.g. deals, partnerships, commissions or boards
- **Gants**

For each tool group there are inherent risks and rewards for its use. Table 2 summarises the key elements.

TABLE 2. THE RISKS AND REWARDS OF ALTERNATE POLICY TOOLS

Tool	Contracts	Financial instruments	Grants
Definition	Are used by governments to set a framework for long term investments in regional areas. ^v	Are designed to overcome market failures experienced by businesses and public organisations ^{vi} .	Are used as one-off transactions of support to deliver development programs on the ground.
Rewards	<ul style="list-style-type: none"> • Trust is built when long term contracting is successful 	<ul style="list-style-type: none"> • Support provided is repaid therefore they have longevity as it should 	<ul style="list-style-type: none"> • Transparency for government agencies





	<ul style="list-style-type: none"> • Tailored to spatial and local needs • Credibility and legitimacy with the contracting parties • Enforcement is in all actors best interest and hence is an effective tool • Flexible to deliver long term, multifaceted issues • Involves many actors and share responsibility 	<ul style="list-style-type: none"> • be a continuous reinvesting strategy. • Project quality is higher as private sector has stronger due diligence and repayment obligations • Are a cost-effective use of public funds because funds are recycled and they attract more private funds. • Promotion of entrepreneurial culture • Strong market development 	<ul style="list-style-type: none"> • Clear government guidelines on delivery, legal status, protocols. • Enhances competition to ensure only the 'best' projects are funded • MoG is established to manage and deliver efficiently
Risks	<ul style="list-style-type: none"> • Inertia in the contracting systems which ensures lack of flexibility in delivery period • Challenge of aligning objectives between actors • Risk of rent seeking from different actor parties • Gaps in information, administration, capacity, accountability. • High transaction costs with bespoke contracts 	<ul style="list-style-type: none"> • Projects need to generate positive future revenue streams – therefore not suitable for all opportunities • Inefficient government or 'government failures' • Challenge of political processes such as the risk of political capture. • New capacity in implementation in government with associated unknown risk appetite • Misalignment of private and government priorities 	<ul style="list-style-type: none"> • Highly managed risk profile with clear support for explicit low risk projects • Lack of flexibility to align with changes needs and objectives • Lack of long term ownership or trust between parties • Lack of flexibility to deliver on local needs or spatial inequalities • With increased conditionalities they hamper accountability

TOOL DESIGN AND INTERACTIONS

We have outlined three separate groups of policy tools; financial, contract and grants and looked at their risks and rewards, explicitly noting that some tools fit better at delivering more collaborative (e.g. contracts) or competitive (e.g. grant) policy goals. However, it is important to recognise that there are many design features and tool interactions that can occur which could hamper or help the success of a regional development tool. Therefore, in designing a new policy tool for regional development we must be aware of these:

Design criteria to consider

- How engaged its process is with key stakeholders and others?
- What sorts of conditionalities are placed on implementation?
- Who is included or excluded?

Interactions to understand

- Cross tool engagement: are tools complementary or competing in the current context
- Spatially: are tools aligned to deal with the needs in the right space?





What other tools are there;
complementary or competing?
What is the monitoring and evaluation
program capturing?

Hierarchical understanding of tools at all levels
of government to ensure efficient and effective
delivery
Temporally: have the tools been designed with
the history of the place and its interactions with
actors in mind?
Do all actors have the capacity to engage with
the tool in a constructive and deliberative form
that delivers real change on the ground?

Both the design criteria and the tool interactions provide a clear understanding of the contextual and environmental conditions in which any tool should be considered for regional development policy.

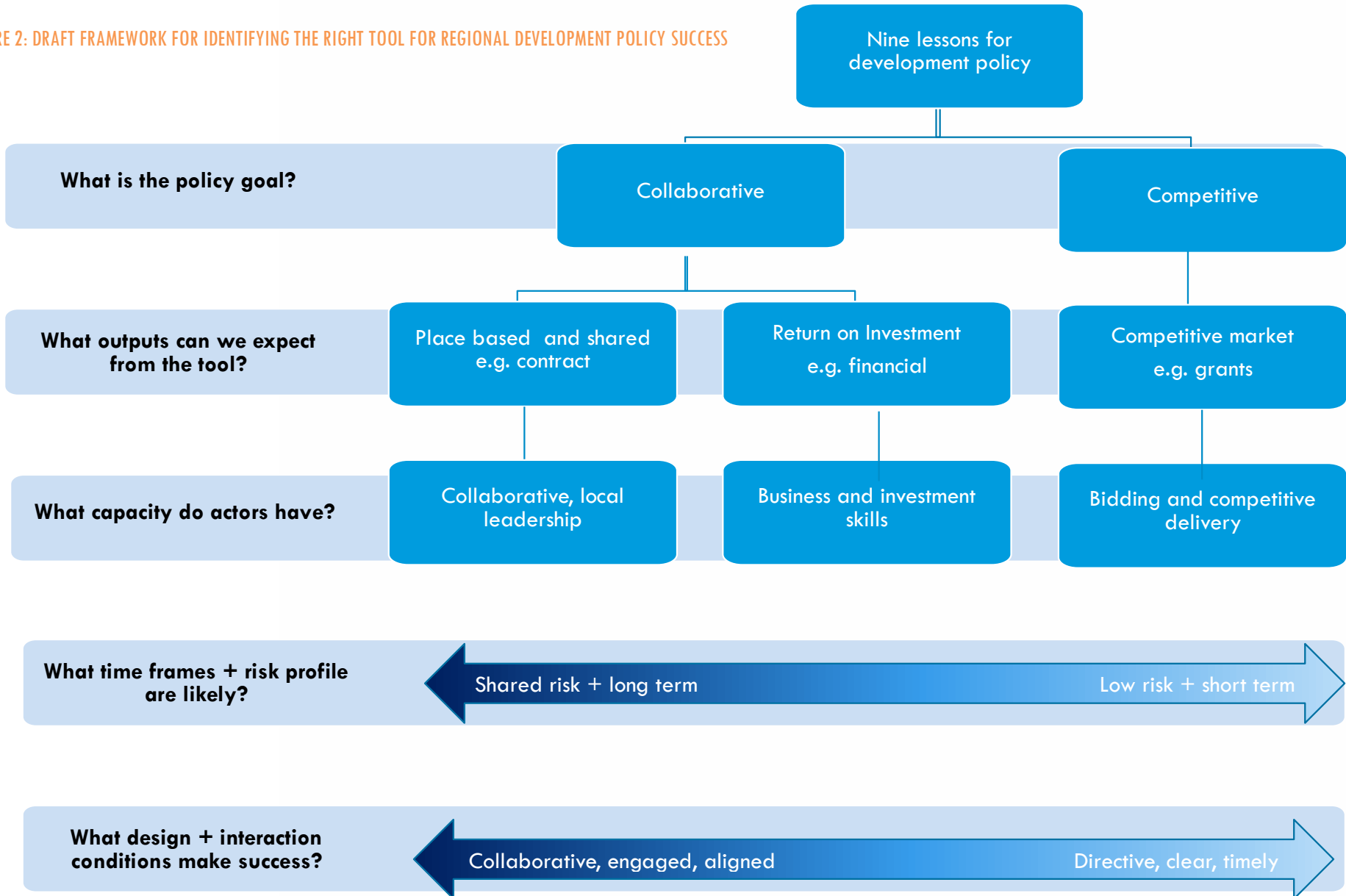
A DRAFT FRAMEWORK FOR GUIDING TOOL SELECTION

This draft framework is designed in the same way as a psychologist might design an intervention program – it doesn't tell you the answer, but asks questions to diagnose the problem, and then you come up with the answer. Previous RAI work on regional cities 'Blueprint for Investing in Regional City Deals' has used a similar approach which has been well received by many jurisdictions.

The framework (figure 2) is a set of parsimonious probing questions and requires the implementors to have in-depth knowledge of their policy and context.



FIGURE 2: DRAFT FRAMEWORK FOR IDENTIFYING THE RIGHT TOOL FOR REGIONAL DEVELOPMENT POLICY SUCCESS



NEXT STEPS

To ensure this draft framework is based on state of the art knowledge and is relevant to Australian conditions and useful – we need some critical feedback with examples from jurisdictions across Australia.

Can you help?

Can we work with you to review aspects of recent policy tool eg:

What overall regional development goal did the policy hope to achieve?

- Collaborative or competitive? Did it want a long term, place based outcome driven co-ownership approach or a more 'fair and equitable' process?

Did the chosen tool reflect the goal through design and implementation?

- What was the design and engagement approach? Any capacity building provided or required, any expectation of input/leadership from recipients?

During implementation – how did the tool go?

- Reflections on involvement (capacity), quality of engagement, quality of applications, outcomes?

How would you reflect on the tools ability and capacity to achieve the desired regional development goal?

- What were the biggest barriers, any specific challenges, clear learnings?

Does this framework reflect your experiences?

What is missing?

ⁱ OECD (2018) Rethinking Regional Development Policy-making, OECD Multi-level Governance Studies, OECD Publishing, Paris, <http://dx.doi.org/10.1787/978264293014-en>

ⁱⁱ Barca, F., 2009. Agenda for a Reformed Cohesion Policy. European Communities.

ⁱⁱⁱ Marsh, I., Crowley, K., Grube, D. and Eccleston, R., 2017. Delivering public services: Locality, learning and reciprocity in place based practice. *Australian Journal of Public Administration*, 76(4), pp.443-456.

^{iv} Bentley, G. and Pugalis, L., 2014. Shifting paradigms: People-centred models, active regional development, space-blind policies and place-based approaches. *Local Economy*, 29(4-5), pp.283-294.

^v Pearson, L.J., Carter, A., Houghton, K., How, G.(2017) Blueprint for Investing in Regional City Deals: Are You Ready to Deal?, The Regional Australia Institute. And Charbit, C. and O. Romano (2017) Governing together: An international review of contracts across levels of government for regional development, OECD Regional Development Working Papers, N. 2017/04, OECD Publishing Paris, <http://dx.doi.org/10.1787/ff7c8ac4-en>

^{vi} Wislade, F. r. Michie (2017) Financial instruments in practice: uptake and limitations. Background paper prepared for the seminar "When to use financial instruments" held 28 June 2017, OECD Headquarters, Paris.

