Contracts for supporting multi-level governance of innovation policy

A number of tools for contractual and performance indicator approaches can be used to effectively manage interdependencies in innovation policy between players across different levels of government.

OECD, 2011

Target and purpose

Dynamics of innovation, which are key for competitiveness, are territorially concentrated and can benefit from public intervention at different levels of government. In almost all OECD countries regional development is a shared responsibility between central and sub-national authorities, and since innovation is considered as key for development, this has favoured regional approaches of innovation. Local and regional actors can set privileged relations with local and regional firms and research centres of their territories; they are often unavoidable partners for designing and implementing territorially based innovation policies. In such a context, the role of public actors at central and sub-national levels has evolved. Historically a conjunction of three different movements has led to this situation:

Countries have implemented decentralisation policies to varying degrees, allocating more and often increasingly complex or resource-intensive competences to lower levels of government.

The decreasing role of big public companies due to deregulation policies of the 80’s and the fact that a series of public owned monopolies are no longer the main focus of central government policies of research and development and spatial planning. The need for other partners became crucial.

The growing role of the European Commission in regional policy of EU members and its willingness to orient it towards innovation targets. Multi-level governance largely includes the supranational level for European countries.

Nevertheless, central governments maintain their key role in defining national strategies, with the mission, difficult to achieve, of ensuring coherence and economies of scale in regional innovation policies. However regions are increasingly active in promoting their own innovation policy agenda. In such a context, interdependency between different institutional levels is the rule (sometimes due to the institutional organisation which leads to overlapping responsibilities). Because of such a mutual dependence, interaction between public players needs to be managed in order to bridge a series of gaps:
• An information gap is open when different levels of government do not have the same quantity or quality of information when designing, implementing and delivering innovation policy.

• A capacity gap arises when there is a lack of know-how and infrastructural resources available to carry out innovation policy tasks. Asymmetries between central and sub-national authorities can be related to regional weaknesses in terms of innovation strategy design, or on the other side, to the central government limitations to identifying relevant innovation projects without consulting sub-national actors.

• A fiscal gap opens when sub national revenues are not sufficient to finance the required expenditures, indicating a direct dependence on higher levels of government for funding innovation policies.

• An administrative gap arises when administrative borders do not correspond to relevant economic and social territories for innovation policies, leading to a fragmentation of public approaches.

• A policy gap results when line ministries take a purely vertical approach to innovation policy which is a cross-sectoral domain, leading to a lack of inter-sectoral co-ordination at the regional level for co-designing or implementing national innovation policy.

Promoting co-ordination and capacity building at both the national and sub national level is a large and critical step toward bridging these gaps and overcoming the obstacles they present.

Practice

Contracts can be used between levels of government in order to manage their interdependencies in innovation policy. A contract in general is a set of mutual promises by which the parties commit themselves either to take actions or to follow the prescription of a mutually agreed decision mechanism. A contract here refers to bilateral agreements between central and sub-national governments concerning their mutual obligations, i.e. the assignment of decision-making powers, the distribution of contributions (including financial commitments) and mechanisms to enforce the contract. Compared to contracts between private actors the logic of contracting between levels of government means that co-ordination mechanisms must be built to manage a co-operation that is unavoidable. They also allow for committing political leaders beyond electoral mandates, into contracts that concern their national, regional or local authority. By doing so, contracts can also contribute to “depoliticise” innovation strategies.

Different types of innovation support can be addressed by contracts. A contract can be entirely devoted to innovation policy, often supporting the development of regional innovation systems to build missing links and synergies between different types of regional stakeholders, public and private, academic and businesses (e.g., InnoRegio in Germany, Poles of Competitiveness in France, etc.). Innovation policy contracts can also be signed for supporting infrastructure investment such as the construction and management of the Synchroton light...
laboratory agreed in a *Convenio* between the Spanish Ministry of Science and Innovation and the regional authorities of Catalonia. Innovation policy contracts can be preceded by call for tenders in order to reveal information before selecting the regional partner (VINNVAXT programme in Sweden, Norwegian Centre of Expertise programme, BioRegio and InnoRegio in Germany, Poles of Competitiveness in France, etc.). Innovation can also be just one domain and ambition of broader contracts (*Contrats de projets Etat-région* in France, *Accordi di programma Quadro* in Italy, etc.).

In practice there are various types of contracts from “transactional” to “relational” (and many possibilities for mixing between these two “extremes”):

- **Transactional contract**: the respective duties of both central and sub-national parties can be stated in advance; contracting thus implements incentive mechanisms and sanctions to influence behaviour of the signatory parties.
- **Relational contract**: the parties commit mutually to co-operate after the signature of the contract and design governance mechanisms for that purpose. Here contracting means implementing bilateral negotiation mechanisms and guaranteeing the long-term dynamics of co-operation.

Generally speaking, the choice of contract type must consider the following four dimensions:

- The respective **expertise** of both parties.
- The **complexity** of the policy domain, meaning that information is revealed only through policy implementation.
- The degree of **vertical interdependency** between national and regional policies.
- Characteristics of the **enforcement context** that warrant commitments’ credibility (independent administrative justice, clear delimitation of responsibilities, neutral selection committee, etc.).

Contracts for innovation policy are strongly impacted by the degree of uncertainty that influence the design of the policy. It is rarely the case that central government can ex-ante pre-define all the dimensions of the innovation policy to be realised at the regional level. In this context, contractual arrangements between levels of government are often more of relational type than transactional type, except for parts of the contracts directly related to specific pre-identified tasks, such as infrastructure projects.

**Appropriateness and feasibility**

Contracts between levels of government are useful instruments in both unitary or in federal countries. They allow for a regionally customised management of interdependencies in innovation policies which is useful in unitary countries for avoiding a possible “one fits all” strategy. In federal countries, contracts are tools for allowing co-operation because interdependences between levels of government may be even stronger (even if the distribution of prerogatives is clear) and central government can use contracts for orienting regional innovation policies to follow a national strategy.
Contracts are tools for dialogue, for experimenting and for learning.

- **Impact evaluation** should be encouraged so as to adjust the policy.
- Bilateral commitments validated by innovation policy contracts among levels of government must be as **verifiable** as possible.
- For promoting learning and orient stakeholders towards results, contracts can be more effective when complemented by performance indicators systems.
- Collaboration through contracts makes the need for strategic leadership at regional and or local level more obvious.

Contracts gain to be complemented by **indicators systems** for meeting information needs and promoting performance.

- Incentives are inevitable with the use of indicator systems. The incentives emerge because reporting performance data are not neutral. Attaching explicit **rewards (or sanctions)** to performance data can be a powerful way to encourage effort or improvement; however an explicit monetary incentive is not a sufficient condition for success. Causal linkages between innovation policy actions and results might be very difficult to identify, which could create distortions in the implementation of explicit incentives.
- Indicators need to address **different purposes and timeframes** (inputs, processes and outputs and outcomes). The results of regional innovation policy can be long term, however there are indicators needed to support short and medium-term decision making.

**Success factors**

There is no one fits all innovation policy contract between levels of government. When they are used to promote learning and effective policy design among levels of government, they can be laboratories for good practice.

Indicator systems offer regional innovation policy stakeholders a tool for meeting important information challenges:

- As a strict complement of a contract, they allow for **reducing the information gap** between actors at different levels of government and measure the reality of the commitment of both parties, especially the sub national partner whose contractual activities can be monitored.
- Indicators can also **capture, create and distribute information** throughout a network of actors involved in innovation activities to improve the formulation of objectives and enhance the effectiveness of the strategies employed. Here indicator systems can bring together and distribute otherwise disparate information and create a common frame of reference for dialogue about innovation policy and its regional dimensions.
• When carefully coupled with specific incentive mechanisms and realistic targets, they promote capacity development, good management practices as well as reinforce accountability of stakeholders by improving transparency.

**Risk factors**
Contracts present a series of possible drawbacks:

- The possible **high cost** of consultation and negotiation, as well as execution.
- Their trend towards **proliferation**.
- **Resistance to share their prerogatives** of ministries in central government as well as regional authorities that can be reluctant.
- The **limited timeframe** for contracts relative to the longer-term needs of innovation policies...
- …as well as the **limited flexibility** when the parties are rigidly committed to fixed long-term programmes.
- **Possible tension** between levels of government in the acknowledgment of the respective parties responsibilities of the contract.
- **Difficulties in specifying a regional innovation strategy** when national goals are too broadly defined.

Performance assessment and audit provided by indicators systems should not be considered from the perspective of controlling opportunistic behaviour only. In many cases it should be considered from a learning perspective: aiming at evaluating the source of efficiency in the management of the relation between levels of government and at assessing how what was learnt could be useful in different context.

When setting up or improving an existing performance indicators system, the following should be borne in mind:

- There is no **“optimal” design** for performance indicator systems in regional innovation policy.
- The implementation of a performance indicator system is an **Iterative process**.
- They require the competency and **reasonable administrative costs** to be developed and used.
- Central governments (and supra national ones) are both evaluator and grantor of regional innovation policies. While they have a role to play in the orientation and implementation of regional innovation strategies, such an approach could undermine the neutrality of performance evaluation.

These considerations should temper expectations and be addressed by setting aside resources for developing and managing indicator systems as well as technical assistance and training where needed. The neutrality of performance evaluators should also be warranted through independent bodies.
Evaluation

There is no extensive and comparable evaluation of contractual mechanisms between levels of government for organising innovation policy. Measuring the results of innovation policy is very complex (causality links are difficult to identify, external factors to the public actions have strong influence on its impact, even measuring innovation is challenging, etc.) and it is even more difficult when different actors are co-engaged through contracts in its design and implementation.

Despite the fact that using indicators is often initially perceived as a constraint, they help to improve relations among levels of government. Their main impact is their ability to reinforce linkages among innovation policy stakeholders at different levels of government and their contribution to learning and capacity building. However, it has been observed that they have limited feedback into decision making.

However since contracts allow for agreeing on roles and commitments of partners in innovation policy at different levels, they allow for measuring performance in delivering the policy (more than the policy itself) and in particular the performance of regional partners.

Performance indicators are useful mechanisms for monitoring the implementation of contractualised policies and programmes (i.e. the EU case of monitoring regional development policy oriented towards Lisbon agenda innovation targets; the case of Italian national performance reserve; or the UK continued efforts to monitor programme implementation by Regional Development Agencies). More often than not, the performance indicators lead to public administration improvement more than to innovative ways in using public funds, because they are not managed in a flexible way and oriented towards outcomes.
Further resources


