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Tamara Krawchenko

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Article abstract

Enhancing productivity is a common rationale for devolution, outsourcing and new institutional configurations and a recurring theme in public administration reforms. Functions such as urban planning, infrastructure development, water management, and transportation planning have clear spatial characteristics wherein their governance ideally spans their functional use and/or management. These considerations have led to municipal amalgamations and two-tier governance in an effort to consolidate functions and build economies of scale and to the creation of special purpose, intermediate or regional bodies to manage public investments and deliver specialised services. While there is a growing urban literature on governance at the right scale in certain policy areas, far fewer studies explore these factors in lower density places (towns and rural and remote areas). Moreover, how effective and efficient governance might boost productivity both within the institution and more generally, across the local/regional economy is underexplored. This paper takes stock of how governance at the *right scale* might improve public sector productivity in different types of places—urban, rural and remote. It draws on theoretical, empirical and policy literature to explore how scale matters to public sector productivity and governance.

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CAN GOVERNANCE AT THE RIGHT SCALE INCREASE PRODUCTIVITY? A COMPARATIVE SCOPING REVIEW

Dr. Tamara Krawchenko

Dr. Tamara Krawchenko
Assistant Professor, School of Public Administration
Member of Institute for Integrated energy Systems
University of Victoria, British Columbia, Canada
TamaraKrawchenko@UVic.ca

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Abstract: Enhancing productivity is a common rationale for devolution, outsourcing and new institutional configurations and a recurring theme in public administration reforms. Functions such as urban planning, infrastructure development, water management, and transportation planning have clear spatial characteristics wherein their governance ideally spans their functional use and/or management. These considerations have led to municipal amalgamations and two-tier governance in an effort to consolidate functions and build economies of scale and to the creation of special purpose, intermediate or regional bodies to manage public investments and deliver specialised services. While there is a growing urban literature on governance at the right scale in certain policy areas, far fewer studies explore these factors in lower density places (towns and rural and remote areas). Moreover, how effective and efficient governance might boost productivity both within the institution and more generally, across the local/regional economy is underexplored. This paper takes stock of how governance at the *right scale* might improve public sector productivity in different types of places—urban, rural and remote. It draws on theoretical, empirical and policy literature to explore how scale matters to public sector productivity and governance.

Keywords: spatial productivity, governance, public sector, urban, rural, remote.

INTRODUCTION

The concept of *productivity,* which has conventionally been studied from the perspective of the nation, sector or firm, has taken a place-based turn in the regional sciences literature (Bradford, 2017). Productivity is a measure of how much output an economic agent produces out of a given amount of inputs or put simply "what you get for what you give" (Lau *et al.*, 2017; Rosen, 1993). Growing regional inequalities in productivity growth have spurred an interest in its spatial dimensions. Between 2008-2018, the gap between the most and the least productive regions narrowed in around half of OECD countries (OECD, 2020). This sounds promising, but in eight of those countries convergence was led by declines in high productivity regions. While rural regions close to cities have been catching up to urban ones (particularly since 2020), rural remote ones are falling behind and natural resources based rural economies have experienced some of the lowest growth since 2008 (OECD, 2020, pg. 58). The trends at a sub-regional level give a different picture of convergence; at that scale, within country disparities have generally increased since 2000 as cities have concentrated economic activity and small remote regions fall further behind (OECD, 2020, pg. 56). These divergences were greatest in places where certain regions have very strong growth and/or in metropolitan economies (OECD, 2020, pg. 56).

A better understanding of the spatial dimensions of productivity is needed in order develop more successful subnational and place-based policies and to effectively stimulate regional productivity growth and decrease interregional inequality (Tsvetkova *et al.*, 2020). A synthesis of productivity knowledge by Tsvetkova et al. (2020) reveals that even seemingly *aspatial* productivity drivers (e.g., R&D, technology, demography etc.) have important spatial features. Moreover, among those expressly spatial elements of productivity (infrastructure, agglomeration, geography/borders and governance/public services), many aspects remain underexplored, particularly governance. If certain functions of government can be provided more effectively and efficiently at a specific *scale*, then presumably productivity gains could be made through governance reforms. This paper takes stock of how governance at the *right scale* might improve public sector productivity in different types of places—urban, rural and remote. It draws on theoretical, empirical and policy literature to explore how scale matters to public sector productivity and governance.

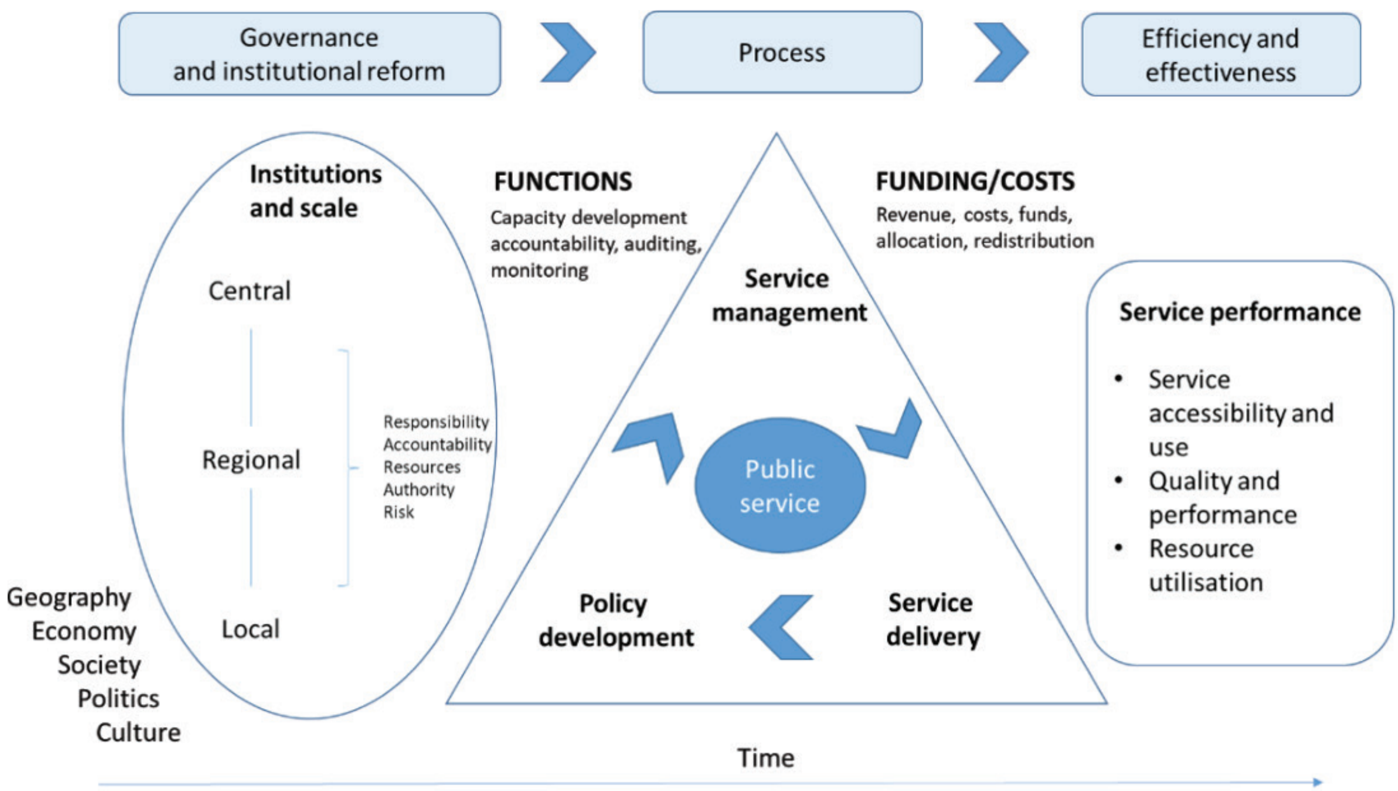
METHODS

This scoping review synthesises the diverse literature on how governance at the right scale can lead to more productive (efficient and effective) service provision. Scoping reviews are: "a form of knowledge synthesis that addresses an exploratory research question aimed at mapping key concepts, types of evidence, and gaps in research related to a defined area or field by systematically searching, selecting and synthesizing existing knowledge" (Colquhoun *et al.*, 2014). This scoping review has examined both academic (peer-reviewed) literature as well as policy documents from governments published between 2000-2021 and other relevant reports in order to draw out key themes and policy lessons. Articles were found by searching: University of Victoria and University of Hong Kong library search functions and Google Scholar (in English). Search terms included: public sector productivity, amalgamation, cost effectiveness, efficiency, governance, metropolitan governance, institution and institutional, municipal, practice, policy, political economy, public choice, fiscal federalism, scale and OECD (wildcard modifiers and AND/OR search used). These terms were determined by emergent coding, following preliminary examination of relevant articles (Stemler, 2000). Key terms were independently reviewed by two researchers in order to determine key search terms; search terms were expanded as additional relevant literature was discovered. The purpose of sampling was to be exhaustive in coverage across a range of topics and disciplinary approaches (e.g. institutionalism, economic geography).

The search resulted in 585 documents. Factors for inclusion were relevance judged against discussion of public sector productivity, governance, and spatial, scale, or place-related concepts or evidence. The resulting final selection of studies by two researchers (based on inclusion criteria) were sorted into the following categories: Amalgamation (41), Governance (181), Institutionalist (31), Political economy of scale (13), Public-Private (12), Public choice (12), Public services (71), Rural and rural-urban partnerships (6), special and multipurpose bodies (5) (n=372). These are not discrete areas of literature; there is overlap among them. For each article, data was collected and compiled in tables under the following headings: country(ies), topic, thematic grouping, main research questions, key findings, productivity measure used, scale of the study (e.g., regional, local), and discussion/limitations. Relevant sections of each article were also compiled for a more in depth content analysis of main themes. These studies include a wide range of methods and as such, it was not possible to quantify the effectiveness of an intervention (governance reform) on productivity. Some of the literature reviewed is quantitative (e.g., literature on local government efficiency), while other studies were qualitative (e.g., institutionalist literature on governance reforms). There is a large management literature on organisational performance (e.g., total quality management) which has not been included in this study because it focusses on internal processes and not governance and scale per se.

Figure 1 presents the conceptual framework which is informed by the work of Regmi et al. (2010). The scale (central to local) of governance is considered alongside its functions and public service provision (including management, delivery and policy development) resulting in an assessment of service performance in terms of efficiency and effectiveness. The structure of the economy, politics, culture and importantly, geography, shape institutional environments. Finally, the timeframe of analysis is an important consideration in understanding impacts of institutional reforms and the governance of service delivery.

Figure 1. Conceptual framework: Governance, scale and productivity



Source: Figure adapted from: Regmi et al. (2010).

PRODUCTIVITY, GOVERNANCE AND THE 'RIGHT SCALE'

Productivity is a measure of how much output an economic agent (e.g., firm, industry, region) produces out of a given amount of inputs or put simply "what you get for what you give" (Lau *et al.*, 2017; Rosen, 1993). In general terms, public sector inputs are the labour, equipment and other resources used to produce services while outputs are the services produced and delivered by public sector agencies to clients or residents. Conventionally, public sector outputs have been assessed by means of the (output=input) convention; however, this approach cannot account for changes in productivity, and increasingly it is being abandoned in favour of other methods (Atkinson, 2005). One of the most commonly used measures is labour productivity, calculated on the basis of output produced per hour worked, wages or per capita income. Multifactor productivity (MFP) (or Total Factor Productivity - TFP) is another widely used measure which considers both capital and labour. A recent review of productivity measures identifies as many as 38 distinct approaches (Günter and Gopp, 2021).

The nature of public sector work—where there are often competing objectives unrelated to productivity broadly conceived—complicates efforts to define and measure it. In general, definitions and measurements of public sector productivity typically look to *efficiency* (ratio of inputs to outputs) and *effectiveness* (the achievement and quality of outcomes) (Atkinson, 2005; Lau *et al.*, 2017).

- *Efficiency.* Public sector efficiencies concern the inputs required for a given number of outputs produced with those resources. This concept is more easily applied where public sector activities most closely reflect the private sector (e.g. data centers, financial management) and often focus on issues like cost savings and public management reforms such as decentralisation or in the case of education and health, increasing the sale of operations (Public Policy Forum, 2014). Public sector efficiencies have been a major rationale for institutional reforms in OECD countries, despite the lack of empirical evidence of their impact (Curristine *et al.*, 2007).
- *Effectiveness.* This includes difficult-to-measure objectives such as the quality, equity and accessibility of services and reflects the view that outputs may not be considered equal to inputs. Incorporating effectiveness into the measurement of public sector productivity can deliver a more robust view of productivity in sectors where outputs include intangible outcomes. For example, health, education, and defence for which outcomes may include increased wellbeing, human capital and safety. There is a public management literature focussed on how the quality can be improved given existing resources.

Measurement challenges abound. In a public sector context it can be hard to identify the services being provided (outputs), the inputs required to produce them, and changes in efficiency and effectiveness over time (Dunleavy, 2017; Lau *et al.*, 2017). Most public services are not bought and sold, and many government services are collective goods which cannot be consumed individually (e.g. policing, defence, environmental protection). Services often rely on intangibles like tacit knowledge and are process-based. Measuring inputs is also problematic; in many countries full overhead costs are not measured and budgets are instead produced on a cash basis. Beyond this, it is challenging to link the measurement of an output or outcome to a particular action—determining attribution. This is particularly the case with institutional reforms for which there are many intervening factors. Even definitions of what constitutes the public sector can be

Figure 1. Cochrane-Orcutt Estimates of the Effects of Google Mobility on Natural Logarithm of Daily COVID-19 Cases

Higher density areas	Lower density areas
Higher access to services	Lower access to services
Thicker labour markets	Thinner labour markets
Larger number of specialists	Fewer specialists
Lower infrastructure and transportation costs	Higher infrastructure and transportation costs
Larger population for locally financed services	Smaller population for locally financed services
High property tax values	Lower property tax values
More diversified labour market	Less diversified labour market

Source: Own elaboration

contested (e.g., legal government entities versus all actors/institutions that provide public services).

In thinking about public sector productivity it is thus important to consider: for what *purpose*? Does increasing public sector productivity deliver better outcomes for people, including more effective public services, good jobs and wellbeing? Does it support human capital development? As noted in the seminal report by Atkinson (2005), productivity depends on the activity and the *value* attached to the activity. Thus, beyond methodological issues, there are important underpinning normative assertions (Burkett, 2006; Hulten, 2000).

GOVERNANCE AT THE *RIGHT* SCALE

Settlement patterns are one of the most important determinants when it comes to delivering efficient and effective governance and services. Higher density areas have greater access to services, thicker labour markets, specialisation, labour pooling and benefits from connectivity etc. In these places, governments are tasked with managing the benefits of agglomeration alongside its costs such as congestion and sprawl (summary Table 1). Territorial fragmentation and the need for coordination across functionally connected areas is a common challenge and there is a large literature that examines the merits and drawbacks of amalgamated vs. polycentric governance in an urban context. *Lower density places face different concerns*. Dispersed populations and longer distances to services reduce access and can increase inequalities, leading to such phenomena as 'medical deserts' (Pierron and Roca, 2017; Sanz-Barbero *et al.*, 2012). The cost of public service provision generally increases with the degree of remoteness and sparsity due to transportation costs/distance, loss of economies of scope and scale, and greater difficulty in attracting and retaining professionals (e.g., health care professionals). Rural areas have thinner labour markets and fewer specialists resulting in higher labour costs. They also tend to have lower property tax values (or no property tax in some cases) and, where public services have been reoriented around full or partial cost recovery, they have a smaller population pool to draw on. Given this, urban and rural regions and communities/cities tend to have different forms of government and need different strategies to deliver services. This section considers these two cases – higher density and lower density areas – in turn.

The optimal size of governments in agglomeration economies: Is bigger better?

Agglomeration economies demonstrate productivity premiums. OECD-wide, metropolitan areas with at least half a million inhabitants accounted for almost half (45%) of total population and generated around half (52%) of total GDP in 2018 (OECD, 2020, pg. 62). Long term trends show consistently higher returns compared to other types of regions and consistent population growth (OECD, 2020, pg. 62). Metropolitan growth is however uneven: GDP per capita in the richest metropolitan areas is more than one-third higher than in other metropolitan areas of the same size and 80% higher than in the rest of the country, on average (OECD, 2020, pg. 62). Moreover, GDP per capita is overstated in metropolitan areas because of commuting and missing regional price deflators. There is a large literature on metropolitan productivity and urban form—much of it focussed on how to balance agglomeration benefits (proximity of firms, innovation, specialisation etc.) against the costs such as congestion, high housing costs, increasing inequality, sprawl etc. This literature tends to ask: do we have the right institutional forms to manage the scope and scale of these challenges – and what is the optimal size of government? The literature points to a number of strategies: amalgamation, two-tiered metropolitan government or multi-purpose or single purpose bodies with some places drawing on a combination of institutional forms.

Rationales for upscaling local governments (amalgamation, two tiers) generally rest on three arguments. First, that this yields economies of scale, allowing services to be provided more efficiently. Second, that larger local governments have greater institutional capacity (and specialisation) and are thus more effective. Third, that larger governments lead to more coherent planning and can better manage complex projects and problems. In many countries, amalgamations may simply be a logical outcome of decentralisation and the need to provide a wider range of services (Askim *et al.*, 2016). Reforms in many countries over the past 30 years indicate a preference for larger local jurisdictions. For example, among the 44 member states of the Council of Europe, at least 18 have had amalgamation reforms since 2000, resulting in the reduction of 5,000 municipalities (Gendźwiłł *et al.*, 2020, pp. 2–3). The promise of cost savings has been the driving force of amalgamation and metropolitan governance reforms, often outweighing other considerations such as democratic representation and locally responsive government (Allers and Geertsema, 2016; Blom-Hansen *et al.*, 2016; Cobban, 2019; Steiner *et al.*, 2016). In some places, improved social and cultural integration are also an important motivation for reforms (e.g., the amalgamation of Montreal in the 2000s) (Nielsen *et al.*, 2002).

Do larger local governments produce efficiency gains? Empirical analyses of economies of scale in local government have largely entailed studies on: i) the impact of municipal size on average costs of service delivery and ii) the impact of scale on the average cost of specific municipal services (Tran and Dollery, 2019, p. 634). The results of numerous studies and meta-analyses indicate that there is no one-size-fits-all solution. Estimates on the cost functions for local services have found no consistent evidence on economies of scale (Blom-Hansen *et al.*, 2016; Dollery *et al.*, 2013; Faulk *et al.*, 2013; "Reforming the municipal service sector", 2008; Sinnewe *et al.*, 2016; Tran and Dollery, 2019). Analysis on the efficiency of small versus large governments are mixed and the optimal scale varies across different services (i.e., multiple optimal sizes depending on type of service) (lo Storto, 2016). Economies of scale are found to be more evident in services for which constant costs are important such as water and sewage (Gendźwiłł *et al.*, 2020). Also, while many studies relate governance to the cost of service provision, in the cases of schools, child care centres, libraries and residential homes the primary scale of the service may be the distinct organisations and as such amalgamation has little effect (Blom-Hansen *et al.*, 2016). As noted by Gendźwiłł et al., the outcomes of amalgamation are hard to determine due to specific "institutional contexts, territorial organization prior to the reform, strength of local identities, and political agency of the reforms' proponents and opponents, as important moderating variables" (Gendźwiłł *et al.*, 2020).

Country level studies illustrate these dynamics. Denmark's 2007 municipal mergers have provided a useful quasi-experiment to understand scale effects: 239 small municipalities were combined to form 66 new local government units while 31 municipalities were not reformed (thus offering a control and test group). A 2014 study by Blom-Hansen et al. on these reforms found administrative cost savings of as much as 10% in municipalities that were merged (Blom-Hansen *et al.*, 2014). However, in subsequent work, it was noted that administration only accounts for 10% of municipal spending on average. In examining whether municipal mergers reduce the costs of public services in other areas of spending (the remaining 90 percent), a study by Blom-Hansen et al. (2016) on the effects of amalgamation in Denmark found *no clear and systematic cost savings*. While administrative costs and spending on road maintenance declined, they could not determine if this was attributable to the amalgamation reforms. They further reported that economies of scale in administration and (potentially) infrastructure maintenance were offset by diseconomies of scale in labour market programs. Further, like other studies, there were several areas for which the size of government was found to be not important: e.g., eldercare, schools, daycare, and caring for children with special needs. In a similar study design evaluating the efficiency of 278 mainland municipalities in Portugal prior (2010) and post (2015) bailout agreement reforms which required fiscal consolidation and structural reforms (i.e., reducing the number of local government administrations) Basilio et al. find no significance difference pre and post reforms (Basílio *et al.*, 2020). These reforms were focussed on cost control and budgetary issues—i.e., value for money. While it would appear that they are *not* particularly effective in that regard, the study does indicate that factors such as the education level of the region, the degree of fiscal autonomy and the share of state transfers over current expenses had a positive impact on efficiency (Basílio *et al.*, 2020). Timing is critical in understanding the impacts of these reforms. The employment status of public administration employees (officials) may lead to larger time lags until efficiency gains materialise.

If efficiency gains are mixed, what about the *effectiveness* of larger local governments? Here, the empirical evidence appears stronger. In an comparative analysis of amalgamation reforms in 14 European countries, Steiner et al. (2016) find that amalgamations led to improved service *quality* in all countries of study. Counterintuitively they also report that *local autonomy was observed to be strengthened* in most countries with amalgamations. They explain this by noting that while a municipality loses local autonomy in a merger they may have a strengthened position in a longer term by being part of a bigger, stronger polity (Steiner *et al.*, 2016). Recent OECD work points to the importance of *governance quality* for urban labour productivity. Higher quality governance across functional urban areas is positivity related to labour productivity in decentralised contexts (and negatively related in the case of fragmented governance) (Jong *et al.*, 2021). Some comparative studies find significant regional variations. For example, in an analysis of the trade-off between cost efficiency and public service quality in 108 Italian municipalities, lo Storto (2016) finds higher efficiency in the southern and islands region and lower in northern Italy. One explanation provided is that municipalities in these two regions have different administrative strategies (and cultures) when it comes to managing expenditures. In general, the literature on municipal mergers suggests that there is no one-size-fits-all solution. Pre-existing relationships between municipalities are important (Bhatti and Hansen, 2011) as are their own characteristics and identities (Tran and Dollery, 2019). Regional sub-cultures and local political histories influence bureaucratic efficiency and effectiveness (Blom-Hansen *et al.*, 2016, p. 816). The literature on efficiency (e.g., cost, production) tends to equate lower spending with more efficient government which may in fact detract from localities' longer term investments and economic development. The imperative to promote balanced development across regions and local governments could be an opportunity to focus less on cost cutting measures and more on *how to work more effectively* given that cost cutting measures have had mixed results.

An alternate (or complementary) institutional strategy is to adopt special or multi-purpose bodies. The advantages of such specialization are most clearly articulated by polycentrists who favour metropolitan fragmentation (Bish, 1971; Ostrom *et al.*, 1961; Tiebout, 1956). The empirical work on specialized local jurisdictions is largely based on special districts in the US and has tended to focus on coordination as opposed to efficiency or effectiveness per se (Lyons, 2015, pp. 176–177). Such bodies are commonly governed by municipalities, have limited tax authority if at all, relying instead on fees levied by member municipalities, inter- governmental transfers or user fees (see for example cases from Canada dicussed in Lyons, 2015, p. 177). They do not operate as independent orders of government. Research by Hulst et al. (2009) indicates that while costs saving (efficiency) is a major rationale for the adoption of special purpose bodies (multi or single purpose), once these organisations have operated for some time they can face management and coordination challenges. Moreover, they can become a threat to the municipalities that establish them. In Spain and the Netherlands, this has led to a shift from multi-purpose functions to single purpose organizations. In multi-purpose organisations, some of the services will inevitably be at the wrong scale and as such, multiple single purpose bodies may be preferable. Multi or single purpose bodies are found in around a quarter of metropolitan areas in the OECD (OECD, 2015). *Scale is not policy neutral*. Special purpose bodies (single or multi) can lack political accountability and lead to complex governance structures—they can make critical decisions about metropolitan investment with little buy-in from the populations they serve, eroding trust in government (Krawchenko, 2011). In a similar vein, scaling metropolitan governance (single or two tier) bundles interests—e.g., suburban interests could dominate policy choices, favouring for example, dispersed settlements and road expansion over compact development and sustainable transport investments. These elements are challenging to quantify but may be no less important to efficient and effective metropolitan governance.

Beyond *formal* institutional configurations (and structural reforms), inter-municipal co-ordination, cooperation and reciprocity are also important. Illustrating this, research by the ESPON SUPER project on promoting sustainable urbanisation and land use assessed 232 types of interventions in 39 countries. Among the different types of measures, coordination was the most successful instrument followed by a long-term perspective, reusing resources, collaboration, the inclusion of private partners and multidimensionality, which fits the aims of sustainability. Interestingly, the study found mixed outcomes on the effectiveness of centralization versus decentralization of land use planning functions, implying that success of either approach is highly context dependant (ESPON, 2021). Soft coordination measures may lead to more efficient and effective outcomes—however, as they are harder to study their impacts are much less well understood. Around half of all metropolitan areas in the OECD have informal or 'soft' coordination bodies (OECD, 2015). These types of partnerships can help navigate the inherent power asymmetries between large and small communities in a metropolitan area and build trust among actors leading to stronger forms of coordination in the future. However, there is the risk that collaboration will only occur on issues that are mutually beneficial to the actors involved, leaving some of the most important challenges that need to be tackled unresolved. There is little comparative work on these types of institutionally light configurations as they differ so much across countries (see for example the work of Allmendinger and Haughton (2009) on soft spaces). They tend to lack enforcement tools and the types of services that they provide can be challenging to evaluate in some cases such as greater cooperation on strategic spatial planning (less so in others like dedicated transport bodies).

Institutional (structural) reforms can only deliver so much and it would appear that they have too often focussed on the wrong objectives: cost cutting instead of *quality governance*, which is critical for long-term economic development. Complex policy challenges – wicked problems such as adaptation and mitigation to climate change, addressing the need for affordable housing – can only be tackled by highly competent governments and requires intergovernmental co-ordination. While the scale of governance is important, particularly in some policy areas, so too is effective local public management including intergovernmental working relationships. The incentives for robust long-term planning and strategic investments are critical and upper level governments play a major role in shaping these. A further general finding from the literature on local governance and productivity is that there are distinct cultures and ways of working that are unique to a place. Top down structural reforms can undermine this.

Scaling governance for rural and remote territories

While there is a large literature on urban productivity and governance, there are far fewer studies in a rural context. Rural productivity studies tend of focus on rural businesses (e.g., Webber, Curry, & Plumridge, 2009), access to credit (e.g., Devaney & Weber, 2000), the role of technology, and productivity in certain sectors most notably agriculture. Comparative studies on rural *governance* are uncommon and tend to instead emphasize context and place specific features. Despite this, common structural changes such as the scaling back of state activities in rural government, shifting responsibilities from the state to 'active citizens' and the rescaling of functions to regional bodies have been identified across OECD countries—collectively referred to as the shift from rural government to governance (Woods, 2005, p. 163). In a Canadian context, this type of top down reform of rural regions was pursued in Ontario in the 2000s—cost cutting efficiencies being a main rationale (Douglas, 2005). An earlier bout of rural municipal restructuring in Ontario (1998-1999) led to average cost increases (by 56%) and less representation (the number of constituents per councillor increased by 230%) (Lehman, 2000). These outcomes of rescaling rural governance are similar across diverse country contexts including Australia (O'Toole and Burdess, 2004), Denmark (Thuesen, 2017) and Sweden (Jordahl and Liang, 2010).

Beyond structural reforms, the importance of rural-urban partnerships are commonly extolled as an economic development and governance strategy. However, many question the extent to which such partnerships can be meaningfully impactful and overcome inherent power asymmetries to deliver benefits. Moreover, the institutional and organisational forms for such partnerships are a matter of debate—can they be managed through existing sectoral strategies or are new institutional forms needed? Kawka (2013) usefully develops a model of rural-urban linkages that highlights how proximity shapes partner interests, and thus forms of rural-urban governance. Closer to the core there is a focus on land use management and the formation of clusters and networks is important, further from the core there is a focus on things like accessibility or functions like culture and recreation while other matters span both (e.g., ecological management) (Kawka, 2013, pg. 55). The literature on rural-urban partnerships is mostly case-based and tends to stress such factors as regional cultures, the role of leadership and policy incentives for urban-rural partnerships. Reported benefits include: reducing gaps in rural urban innovation (Conto' *et al.*, 2015), territorial sustainability and the revalorization of agri-rural landscapes (Buciega *et al.*, 2009; Hjalager, 2017; Mayer *et al.*, 2016).

Rural urban partnerships are often focused on the metropolitan context—the role and importance of small and medium-sized towns has been overlooked. Research from the ESPON TOWN project (2014) which comprehensively examined trends and policies for small and medium-sized towns in Europe found that most national and regional governments do not have focussed policies to encourage/enable rural-urban partnerships (Atkinson, 2019; ESPON TOWN, 2014; Government of Canada, 2020; Servillo *et al.*, 2017).

In rural areas far from towns/cities or simply among a set of rural communities for which there are common interests, rural-rural partnerships are important, such as joint marketing of place, business linkages, economic development strategies, joint service delivery etc. Rural partnership development models are a major part of the EC's regional development policy. Value-added agriculture and rural economic diversification are encouraged though such initiatives as Local Action Groups. Similar programmes exist in other countries and there is a large literature that examines the types of projects such partnerships tackle, how well they function and, how they deliver on economic objectives. A criticism of these models is that they tend to *work well in places that work well*—e.g., where there is already community capacity and effective leadership—and not in the places where investments may be most needed (Przewłocka, 2011; Furmankiewicz, Janc and Macken-Walsh, 2016).

The utility of such partnership approaches in rural remote regions, where there can be great distances between communities, is less obvious. In many countries (e.g., Canada, Australia), there are unincorporated areas for which there is no local government and regional bodies provide services instead. In many cases, they bear disproportionate risks and disruption from natural resources developments with little short or long-term reward. The literature on rural development in resource dependent communities emphasizes the need to build economies of scale and expertise in order to negotiate better benefits from industry activities and to ensure that long-term site remediation is managed alongside community investments. In places like Australia, Sweden and Canada where there are large Indigenous populations in remote regions with natural resources, benefit sharing agreements and funds have been used to gain community consent and realize community benefits. There are a number of strategies that can be adopted to ensure that these negotiations proceed with free, prior and informed consent and from a position of strength among First Peoples (see Raderschall, Krawchenko, & Leblanc, 2020). For remote rural regions where there are no natural resources and for which other forms of economic activity are limited, effective public service provision may rely on upper level governments. Seeking productivity gains in governance is much less important than ensuring equity in service provision in these cases.

GETTING THE INCENTIVES (AND SUPPORTS) RIGHT

Institutions are often said to be 'sticky,' particularly institutions of subnational governance that are commonly *policy takers*—subject to the legislative and regulatory frameworks of upper level governments (Pollack, 1996). The incentives (laws, policy frameworks, public finance, fiscal incentives) of upper level governments shape how local and regional governments deliver programs and services and work together, including the scale of governance and the flexibility to adjust to changing conditions. How might upper level governments set incentives and policy frameworks to support governance at the right scale alongside efficient and effective governance for all types of places? It is clear that good governance is a critical element – but how is good governance fostered at the regional and local levels by upper level governments? And how does one balance the aims of efficiency and effectiveness which can be contradictory? These questions are extremely context-specific, not just among countries/regions/cities but also across different kinds of geographies—urban/rural/remote.

Incentives relate to a variety of functions including public finance and coordination among local/regional actors. Among the many types of incentives that governments set, fiscal incentives are of particular importance. The large literature on unfunded mandates in fiscal decentralisation tells that local and regional governments are concerned with the balance of their responsibilities and their capacities to pay for them (OECD, 2019). A study by Blöchliger, Bartolini, and Stossberg on fiscal decentralisation in OECD countries found that assigning more own source revenue to sub-national governments dampens regional GDP disparities and underpins regional convergence (Blöchliger *et al.*, 2016). However, there are distinct effects depending on the type of region. 'Catching-up' regions fare better than 'lagging regions' in such contexts. Given this, they recommend that intergovernmental fiscal frameworks pair increases in sub-national own-source revenue with fiscal equalisation transfers to reduce disparities. This approach effectively balances the need for incentives and supports. Most countries tend to have a system of equalization transfers, though the question remains whether the balance is adequate. Reliance on own sources of revenue can also breed poor decision-making. For example, a disproportionate reliance on property taxes can encourage municipalities to promote expansion of residential homes into new greenfield areas despite the longer term fiscal and environmental costs of this choice. Greater tax autonomy for subnational government brings benefits and drawbacks (for discussion see OECD, 2017a).

Upper level governments also set strong incentives for coordination (or lack of it) across a wide range of issues important for effective and efficient regional and local government. Activities like joint procurement and shared infrastructure planning often need to be enabled by national or, in federal countries, regional laws. Even where they have been enabled, they may not be used due to unfamiliarity with how they work or due to perceived risk. Resolving inter-municipal co-ordination problems is challenging and involves finding ways to provide positive incentives for municipalities to collaborate on a voluntary basis. National and regional governments can actively promote and support inter-municipal co-ordination and demonstrate its benefits, particularly for new initiatives such as shared services centres. One way to encourage this is through contracts, which generally take three main forms:

- *Empowerment contracts* that can help subnational authorities to develop new capacities and gain greater autonomy (e.g., France's State-Regions Contracts; Italy's Pacts for the South (2016);
- *Delegation contracts* where central governments delegate the implementation of specific tasks to subnational governments (e.g., the UK's "Devolution Deals");
- *Policy-sharing contracts* where the central and subnational government cooperate to fulfill certain competences (e.g., Spain's "Collaboration contracts"; the Climate Adaptation City Deal in the Netherlands, 2016) (summarised from Charbit & Romano, 2017).

However, sometimes incentives are not enough. Policy incentives may presume that local agents/actors are able to respond the challenges that are facing them. Places that are losing their economic functions, that are facing social or environmental distress or that are rural and remote and have far fewer resources to draw on need supports (and not just incentives) to flourish. They cannot simply 'pull their bootstraps up.' There is a large literature on policies for places losing their economic functions and the role of government. In present policy debates, there is a growing interest in how to support places facing industrial transition due to the shift towards a post carbon economy (Stevis and Felli, 2014).

CONCLUSIONS

Can governance at the *right scale* increase productivity—the diverse literature on this topic provides varying answers. On the one hand, from the literature on local government efficiency it is evident that scale does indeed matter and there are multiple efficient scales for different public services. On the other hand, there is no recipe book. Governance is complex and contextual. There are a number of key considerations:

- *Decentralisation takes different forms.* It is a multi-dimensional concept spanning three distinct but interrelated dimensions: political, administrative and fiscal. It can entail: i) delegation wherein the central government transfers decision making and administration to regional or local governments; and ii) devolution wherein the central government transfers authority for decision making, finance/taxation and administration to regional or local governments. Where decentralisation occurs absent adequate resourcing, the resulting downloading of services to the local or regional level (or third sector) may prove efficient in an input-output sense, but lacks effectiveness, quality and equity. Thus, it is not enough to look at what level of government delivers what types of services but also the contexts in which they operate and the incentives that they face from upper level governments and the authority, capacity and power that they have in performing their duties.
- *Scale is not neutral—it bounds interests.* Shifting governance to a different scale can impact governing priorities and interests. For example, the priorities for land use at a local level may differ considerably than that of a regional scale: at the local level the focus may be on increasing the supply of land for housing particularly if property taxation is a major contributor to own source revenues; in contrast, a regional government may be more focused on resource use, infrastructure and transport networks and development or land protection. Scale impacts policy intentions, purpose and the types of programmes and services offered. Shifting the scale of governance from one level to another *is not policy neutral* and considerations of the 'right scale' need to contend with 'according to whose interests'?
- *Places have different capacities.* Regions, cities and communities in different parts of a country may have different institutional capacities related to their distinct political, economic and social contexts. As such, while a particular form of governance and service provision may have an ideal scale for delivery, some places may not have the capacity to adequately fulfil this role. A goal of place-based polices then is to understand local characteristics, assets, and capacities and to direct policies and supports accordingly (Bradford, 2011).

These features of governance make it challenging to 'unpack' the relationship between the governing institutions, productivity and scale.

Much of the empirical literature is not able to account for soft institutional characteristics such as communities' distinct histories, cultures and ways of working with one another. While challenging to empirically demonstrate, they may offer compelling explanatory value for why certain governance forms works well in one place and not another. For example, a study by Klok et. al (2018) on inter-municipal co-operation in the Netherlands highlights the importance of inter-municipal trust (as a cultural variable) to effective and efficient cooperation. An implication of this work is that polycentrism (where local governments rely on voluntary coordination and cooperation for regional governance) works more efficiently and effectively in higher trust environments than in low trust environments. Similarly, in their study of fiscal decentralisation, efficiency, and growth, Rodriguez-Pose, Tijmstra and Bwire (2009) explore the claims that political decentralisation brings about significant welfare and economic benefits. Their analysis of subnational expenditures and regional growth in Germany, India, Mexico, Spain, and the USA leads them to conclude that the economic dividends from devolution depends on such factors as the legitimacy of local governments (devolution from below), their political authority and bargaining power (Rodríguez-Pose et al., 2009, pg. 2041). Thus, the institutional 'lessons' of productive and efficient governance may offer limited comparative lessons due to their different cultural contexts; the 'right scale' and institutional configuration may be context specific. Social, economic, cultural, and environmental factors intervene to complicate the narrative and institutions are more than the sum of rules. Thus, while it may be more efficient to provide services in a particular way, it may not ultimately be effective. The large literature on the cost effectiveness of amalgamations serves as a case in point. There are, however, better and worse ways to incentivise effective government and to promote partnerships, collaborations and new and innovative forms of service provision.

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