



# 2019 Report World Observatory on Subnational Government Finance and Investment

Key findings

# **2019 Report World Observatory on Subnational Government Finance and Investment**

Key Findings

*Launch version*



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## *Acknowledgements*

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The World Observatory is a multi-stakeholder initiative whose overall goal is to increase knowledge of multi-level governance and finance by collecting and analysing standardised indicators and information. More specifically, its objectives are three-fold:

- Ensure standardised, reliable and transparent access to data on subnational government structure, finance and investment.
- Support international dialogue and decision-making on multi-level governance and subnational finance.
- Serve as a capacity-building tool on subnational governance and finance.

The following synthesis report presents the key findings of the 2019 edition of the World Observatory on Subnational Government Finance and Investment. It is based on the country profiles prepared for the World Observatory, which present the main organisational and financial indicators for subnational governments in 121 federal and unitary countries worldwide.

For a full picture of the Observatory data, country profiles and methodology, please visit the interactive web site: [www.sng-wofi.org](http://www.sng-wofi.org). The web site allows users to explore the database and download the data, visualise relevant indicators, and “compare their country” across key dimensions.

The synthesis report was coordinated and written by Isabelle Chatry, Senior Policy Analyst, under the direction of Dorothée Allain-Dupré, head of the Decentralisation, Public Investment and Subnational Finance unit at CFE/OECD. It has benefited from valuable contributions from Dorothée Allain-Dupré, Antoine Kornprobst, Charlotte Lafitte, Louise Phung and Anna Rubin from the CFE/OECD Secretariat and from the support of François Iglesias who designed the final document. The report was reviewed by UCLG, in particular Edgardo Bilsky, Serge Allou and Luc Aldon from the UCLG World Secretariat and by Christel Alvergne and Nan Zhang from UNCDF (Chapter 8 on Least Developed Countries).

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## Key facts

### The World Observatory database

- **The World Observatory on Subnational Government Finance and Investment** is the largest international database on subnational government (SNG) structure and finance ever produced. It covers dozens of indicators for 120+ countries. The sample of this study includes 19 federations and quasi-federations) and 103 unitary countries<sup>1</sup>.
- **The sample** accounts for 86% of the world population and 89% of world GDP. It includes 23 of the 47 Least Developed Countries. The database is complemented by country profiles which provide quantitative and qualitative information on multi-level governance systems around the world.

### Subnational government structure and organisation around the world

- **The study has identified 637 900 subnational governments** in the 122 countries around the world included in the database. This includes 624 166 municipal-entities, 11 965 intermediate governments and 1 769 state and regional governments.
- **Most countries in the sample (59 i.e. 48% of countries) have both a municipal and regional level.** In 36 countries (i.e. 30%), there a single level: the municipal. In 27 countries (i.e. 22%) there is an intermediary level between municipal and regional.
- **Africa and Asia-Pacific have the largest average municipal size across all seven regions,** with an average size around 130 000 inhabitants. By contrast, Euro-Asia, Europe and North America are more fragmented at the local level.
- **Within each region of the world, the territorial organisation varies greatly.** Africa and Asia-Pacific have the world's largest average municipal size, around 130 000 inhabitants. Asia-Pacific countries range from having a highly fragmented municipal landscape with fewer than 3 000 inhabitants in Mongolia and Philippines to highly populated municipalities with over 200 000 inhabitants on average, in Malaysia and Korea. In Euro-Asia, Europe and North America, the size of jurisdiction is smaller. In Europe, average municipal size ranges from less than 2 000 inhabitants in Czech Republic, Slovak Republic and France to more than 150 000 inhabitants in Ireland and the United Kingdom.
- **The number of metropolitan governance authorities has increased over the past decades.** Currently, around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body. However, they have less responsibilities and more limited fiscal power compared to individual municipalities. Metropolitan governance reforms also increased in other regions of the world, Asia-Pacific, Latin America and Africa.
- **Regionalisation reforms represent an important trend in multi-level governance since the 1980s.** Such reforms have been particularly important in Europe, but other regions of the world, in particular Asia, America and to a lesser extent Africa have also experienced regional reforms in recent decades.

<sup>1</sup> There are 122 countries in the database but 121 published "country profiles".

### Complexity and lack of clarity in the way responsibilities are assigned

- **The breakdown of competences between central/federal government and SNGs as well as across SNG levels is complex and unclear in many countries around the world**, leading sometimes to competing and overlapping competences and a lack of accountability.
- **There is a growing trend of asymmetric assignment of responsibilities within the same level of government** (regions, capital cities vs others; metropolitan or large cities vs small municipalities, etc.) **particularly in unitary countries**

### Subnational government spending represents one quarter of total public spending around the world

- **In 2016, SNG spending accounted for 24.1% of total public spending and 8.6% of GDP** on average for the 106 countries in the sample with available data. In federal countries SNGs account for 46.9% of public spending or 16.8% of GDP. In unitary countries, SNG expenditure is slightly below the global average: 6.9% of GDP and 19.4% of public expenditure.
- In general, **high income countries tend to have a greater subnational share in total public spending** than the majority of low income countries.
- **The degree of subnational public spending varies greatly across countries.** China, Denmark and Canada stand apart from the others countries in terms of their particularly high subnational spending in GDP and total public expenditure. Over 30% of public spending accounting for between 15% and 27% of GDP are carried out by federal countries but also Finland, Sweden, Norway, Vietnam, Japan and Belarus. At the other end of the spectrum, there are 59 countries where local authorities have limited spending responsibilities (less than 8% of GDP and 20% of public spending), mostly from Africa but also Latin America. In six OECD countries, subnational government spending accounted for less than 5% of GDP in 2016 (Ireland, Greece, Chile, Turkey, New Zealand and Luxembourg).
- At the global level, **education, social protection, general public services (mainly administration) and health are the primary areas of SNG spending both as a share of GDP and share of SNG expenditure.**
- **Subnational governments are important public employers, and staff expenditure is the most important expenditure item accounting for 36% of subnational government spending.** It is followed by intermediate consumption and capital expenditure, respectively 22% and 20% of expenditure. Overall, current expenditure account for 78% of subnational expenditure.

### SNG play a key role for public investment, but such investment remains low in many regions

- **Subnational governments have a key role to play in public investment, since the level of their investment exceeds 50% of total public investment in 36 countries**, and even 65% in 17 countries, mainly in high and upper middle income economies. The share of SNGs investment is greater in federal countries, reaching 58.9%. In Africa, subnational public investment represents less than 20% of total public investment, and 41% in Asia-Pacific.
- **However, the share of subnational public investment in GDP remains low in many countries.** Subnational public investment is only 1.3% of GDP around the world. It is even less in low income countries. In 2016, in Africa it is 0.9% of GDP on average, comparatively higher in Latin America and twice as high in Asia Pacific. In OECD countries, subnational public investment was declining for 8 years following the 2008 crisis. It is finally starting to

pick back up recently, but significant catching up is still needed, in particular in Europe, for which the level of subnational investment is particularly low: 1.2% of GDP in 2016.

### Subnational governments still depend largely on grants for more than half of their revenue

- **Subnational government revenue represents 25.7% of total public revenue** and 8.6% of GDP on unweighted average in the 104 countries included in the sample with available data.
- **Grants represent more than half (51%) of revenues of subnational governments, followed by taxes (32.7%), user charges and fees (8.9%) and property income.** In federal countries, the share of grants and subsidies in subnational government revenue is lower (42.8%) while it is slightly higher in unitary countries (52.7%). The share of tax revenue range from zero in countries where subnational government cannot raise taxes to more than 70% in India, Iceland, Cambodia, Tajikistan, Argentina and Zimbabwe.
- **Subnational government tax revenue** accounts for 3.3% of GDP on average but in 40 countries, it accounts for less than 1% of GDP and in 15 countries, it exceeds 8% of GDP, the highest levels being found in Germany, Denmark, Argentina, Sweden and Canada.
- **On average, SNG tax revenue represents 14.9% of public tax revenue.** In Argentina, Canada, India and Switzerland, subnational governments account for over 50% of public tax revenue while in 33 countries, it is less than 5% of public tax revenue.
- **Subnational tax revenue** encompasses both **shared taxes and own-sources taxes**, with different taxing powers and levels of tax autonomy. **The property tax** is a cornerstone of local taxation in many countries in the world. At global level (74 countries), recurrent property taxes account for 0.7% of GDP, 33.5% of subnational tax revenue and 9.5% of subnational government revenue on unweighted average.

### Subnational government debt is limited

- **SNG outstanding gross debt is limited compared to central government debt and accounts for 7.5% of GDP and 11.5% of total public debt in the country sample (76 countries).** It is very unevenly distributed among countries, ranging from almost no debt to debt reaching 67.2% of GDP and 58.9% of public debt as is the case of Canada.
- **In 2016, SNG debt amounted to 18.2% of GDP and 23.8% of public debt in federal countries while it accounted for 4.7% of GDP and 8.2% of public debt in unitary countries in 2016.** Local government debt is significantly lower in both federal and unitary countries, accounting for 4.6% of GDP and 7.9% of total public debt in 2016.
- **Loans make the bulk of subnational government debt (57% of debt stock),** followed by “other account payable” (25%) and bonds/securities (12%).

## 1. Country sample and methodology

### 1.1. Country sample accounts for more than 84% of the world area, population and GDP

#### *A large sample of countries spread over seven geographical areas*

The country sample included in the database includes 122 countries<sup>2</sup>. UCLG's definition of the seven geographical areas is: Europe, Africa, North America, Asia-Pacific, Euro-Asia, Latin America and Middle East & West Asia (Figure 1.1). The detailed list of countries and ISO codes by area are provided in Annex 2.

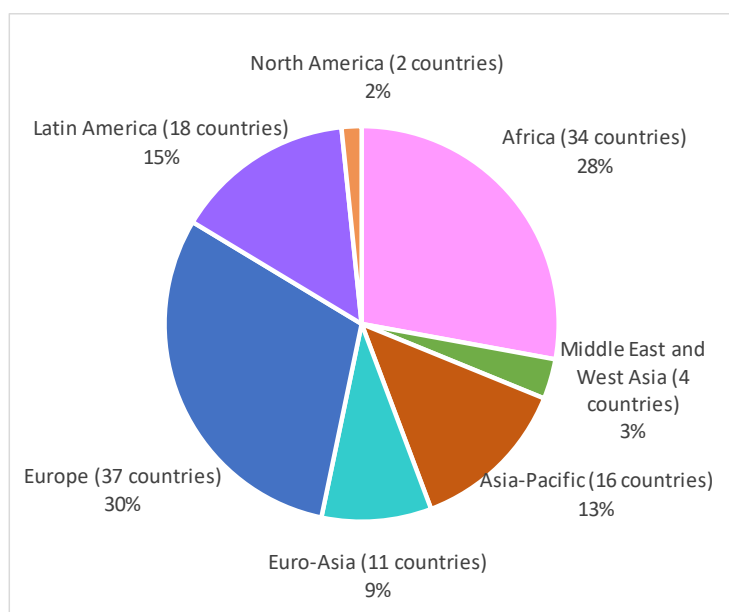
**Figure 1.1. The seven geographical areas**



*Source:* Countries by geographical area according to UCLG classification

Countries located in Europe and Africa account for 58% of the country sample. They are followed by Latin America (15%), Asia Pacific (13%) and Euro-Asia (9%) (Figure 1.2).

<sup>2</sup> There are 122 countries in the database but 121 countries in the volume with “country profiles”.

**Figure 1.2. Distribution of countries by geographical area**

Source: Authors' calculations based on SNG-WOFI database: [www.sng-wofi.org](http://www.sng-wofi.org)

For 16 countries, basic fiscal data (expenditure) are missing. For an even larger number of countries, fiscal data are very incomplete e.g. debt or COFOG data are lacking. In many countries, data accuracy needs improvement. The Observatory provides a system of assessing the quality of data with three levels of reliability of fiscal data: low, medium and high.

Among the 16 countries for which basic fiscal data are missing, two countries are from Asia-pacific (Nepal and Bangladesh) and 14 are from Africa, in particular belonging to the group of low-income countries and Least Developed Countries.

For the analysis, several geographical areas have been grouped together when it was necessary in order to have a minimum number of countries (with data) in each group and carry out comparative analysis.

The data analysis focuses on five groups of countries:

- Africa: 20 countries, excluding the 14 countries without data
- Asia-Pacific: 14 countries, excluding 2 countries which have no data (Nepal and Bangladesh)
- Latin America: 18 countries
- Europe and North America: 39 countries
- Euro-Asia and Middle East and West Asia (MEWA): 15 countries.

### ***19 federations and 103 unitary countries***

The sample includes 19 federations and quasi-federations (out of 24 in the world) and 103 unitary countries. The 19 federations together account for 2.822 billion inhabitants i.e. 43% of population of the country sample. Unitary countries account for 3.679 billion inhabitants

(57%). Federations account for 46% of country sample GDP vs 54% for unitary countries (Table 1.1).

Overall, the 122 countries of the sample account for 84% of the world surface area, 86% of world population (around 6,502 billion inhabitants) and 89% of the world GDP (Table 1.1).

**Table 1.1. Surface area, population and GDP of the 122 country sample**

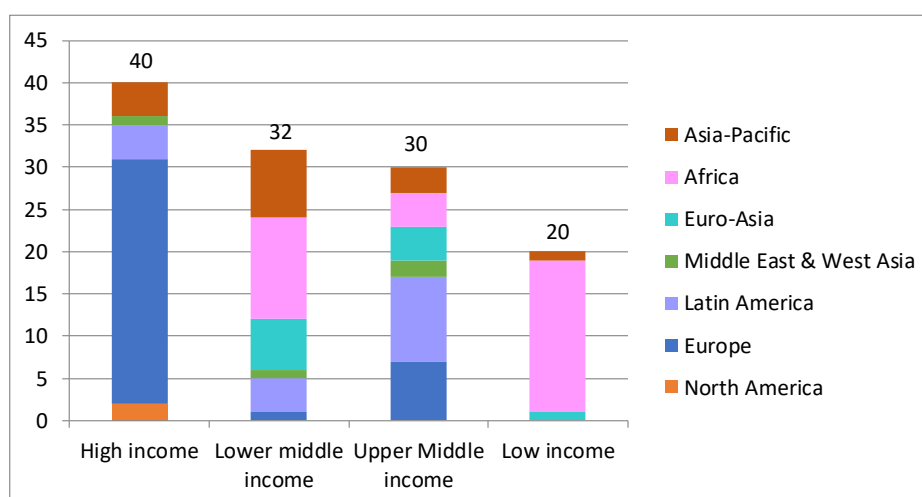
	Sample (122 countries)			World		
	% area	% population	% GDP	% area	% population	% GDP
Federal countries	59%	43%	46%	50%	37%	41%
Unitary countries	41%	57%	54%	34%	49%	48%
All 122 countries	100%	100%	100%	84%	86%	89%

Source: Authors' calculations based on SNG-WOFI database: [www.sng-wofi.org](http://www.sng-wofi.org).

### *Countries by income groups*

Countries have been classified into four income groups according to the World Bank list of countries (as of 2018). The 40 high income countries include 34 OECD countries, three EU countries and three Latin American countries (Argentina, Panama and Uruguay). Two OECD countries are classified into the upper middle income category (Mexico and Turkey), which also includes a significant number of Latin American and European countries (30 countries in total). There are 32 countries in the lower middle income group, representing in particular Africa, Asia-Pacific and Euro-Asia. The low income group is mainly made up of African countries, but also includes Nepal in Asia-Pacific and Tajikistan in Euro-Asia (Figure 1.3). 23 countries belong to the Least Developed Countries group (Box 1.1).

**Figure 1.3. The sample of countries by income group and geographical areas**



Source: Authors' calculations based on SNG-WOFI database: [www.sng-wofi.org](http://www.sng-wofi.org)

Among the 19 federal countries, nine belong to the high income group category, six to the upper middle income group. Ethiopia and Nepal are classified into the low income group

while India and Nigeria belong to the lower middle income group (Table 1.2). Nepal, as indicated above, does not have fiscal data in the database.

**Table 1.2. The federations by regional area and income group**

Regional area	Country	Income group
Europe	Austria	High income: OECD
	Belgium	High income: OECD
	Bosnia and Herzegovina	Upper Middle Income
	Germany	High income: OECD
	Switzerland	High income: OECD
	Spain	High income: OECD
Latin America	Argentina	High income
	Brazil	Upper middle income
	Mexico	Upper middle income: OECD
Euro-Asia	Russian Federation	Upper middle income
Africa	Ethiopia	Low income
	Nigeria	Lower middle income
	South Africa	Upper middle income
Asia-Pacific	Australia	High income: OECD
	India	Lower middle income
	Malaysia	Upper middle income
	Nepal	Low income
North America	Canada	High income: OECD
	United States	High income: OECD

Source: SNG-WOFI database: [www.sng-wofi.org](http://www.sng-wofi.org)

### **Box 1.1. The 23 Least Developed Countries in the country sample**

There are three criteria for being classified as an LDC: low per capita gross national income (GNI), human assets and economic vulnerability to external shocks. On average, nearly half of the population in LDCs live in extreme poverty, compared to 14% in other developing countries.

There are 47 LDCs in the world, representing 13% of the world's population and an estimated 35% of the world's extreme poor. More than two-thirds of LDCs are located in Sub-Saharan Africa (33), while the remaining countries are spread over Asia (9), Oceania (4) and Central America (1).

There are 23 LDCs in the database, including 20 from Africa and three from Asia-Pacific. 18 countries belong to the group of low income countries and the five others to the group of the lower middle income countries.



Among the 23 LDCs in the database, 10 have basic subnational finance data while the other 13 lack such data, despite the significant efforts made by UNCDF and UCLG to collect data on the LDCs.

Unfortunately, there is still a critical lack of subnational fiscal data in LDCs, which calls for increased mobilisation of the international community, donors and national governments to improve budget and reporting frameworks and establish a robust public finance statistical system, collecting data at national and subnational levels, in line with international standards.

## 1.2. Summary of methodology on subnational government finance<sup>3</sup>

### *Scope of government statistics*

The data that have been collected refer to the scope of “public administration”, i.e. the “general government” sector as a whole, which comprises four sub-sectors:

- **“Central government”** i.e. including all administrative departments of the central government and other central agencies whose competence normally extends over the whole economic territory.
- **“State government”** i.e. federated regions in federal and quasi-federal countries (Spain and South Africa) and related public entities (e.g. special-purpose state bodies, state public institutions and various satellite institutions attached to state governments).
- **“Local government”** which comprises municipalities, provinces/counties, regions (in unitary countries) and all related local public entities (e.g. special-purpose local bodies, inter-municipal co-operation structures, local public institutions and various satellite institutions attached to local governments).
- **“Social security”** funds and related entities.

The term “subnational government” refers to two sub-sectors: state governments (in federal countries) and local governments in federal and unitary countries.

Data for general government and within each of the four sub-sectors are consolidated. Data for the subnational government sector are not consolidated when it is the sum of state and local government sub-sectors.

For this new edition, the sectoral coverage has been improved to better distinguish between state and local government’s sub-sectors (for federal countries) within the “subnational government” category. In federal countries, tables include data for the subnational sub-sector, as well as separate figures for state governments and local governments, when available. In unitary, multi-layered countries at subnational level (e.g. having regions and municipalities), some disaggregated data and information to assess the specific weight of each subnational level are included in the qualitative part of the country profiles.

<sup>3</sup> The detailed methodology is described in the second volume of the 2019 Report of the World Observatory on Subnational Government Finance and Investment dedicated to country profiles.

Each country profile contains a box at the beginning of the section on subnational government finance defining the precise scope of the subnational government sector for which financial data are provided.

### ***Source of fiscal data***

All fiscal data are from 2016, unless otherwise specified. Priority has been given to data coming from the general government's accounts (or government statistics) harmonised accordingly to the System of National Accounts from 1968 (SNA 1968), 1993 (SNA 1993) or 2008 (SNA 2008 or 2010 within the European Union). This approach allows greater comparability across countries around the world. However, government statistics, harmonised according to the system of national accounts, are missing or incomplete in many countries, in particular in developing and Least Developed Countries. In this case, other sources of fiscal data have been used, such as national accounts (not harmonised according to international standards) or budgetary accounts.

### ***Averages***

The number of countries included in country samples may differ across indicators (expenditure, staff expenditure, expenditure by functional classification, tax revenues, debt, etc. see Table 1.3). For example, data on total expenditure are available for 106 countries while data on expenditure by functional classification are available for 67 countries. Therefore, the number of countries is systematically indicated in the calculation of the global average as well as for the averages of federal and unitary countries.

All averages are unweighted averages or arithmetic averages (UWA).

Table 1.3. Main financial indicators

Main categories	Transactions
<b>Expenditure by economic classification</b>	<ul style="list-style-type: none"> <li>• <b>Total expenditure by economic classification:</b> current expenditure + capital expenditure.</li> <li>• <b>Current expenditure:</b> staff expenditure + intermediate consumption (purchase of goods and services) + social expenditure (social benefits and transfers in kind purchased market production) + subsidies and other current transfers + taxes + financial charges (including interest) + adjustments for the change in net equity of households in pension funds.</li> <li>• <b>Staff expenditure:</b> compensation of employees. It has two main components: wages and salaries payable in cash or in kind and social insurance contributions payable by employers.</li> <li>• <b>Capital expenditure:</b> capital transfers + investment</li> <li>• <b>Capital transfers:</b> investment grants and subsidies in cash or in kind made by government to other institutional units.</li> <li>• <b>Direct investment:</b> gross capital formation and acquisitions, less disposal of non- financial non-produced assets. Gross fixed capital formation (or fixed investment) is the main component of investment and has been used as a proxy for numerous countries. The SNA 2008 has introduced some changes: expenditures on research and development and weapons systems are now included in gross fixed capital formation and no longer as intermediate consumption.</li> </ul>
<b>Expenditure by functional classification (COFOG)</b>	<ul style="list-style-type: none"> <li>• <b>Total expenditure by functional classification:</b> sum of the 10 sectors defined in classification of the functions of government (COFOG). Comprises both current and capital expenditure.</li> <li>• <b>Expenditure by sector (COFOG):</b> general public services; defence; public order and safety; economic affairs; environmental protection; housing and community amenities; health; recreation, culture and religion; education; and social protection.</li> </ul> <p>When COFOG was not available, classification used in the country has been used when available, or adapted.</p>
<b>Revenue</b>	<ul style="list-style-type: none"> <li>• <b>Total revenue:</b> tax revenues + current grants and subsidies + capital grants and subsidies + user charges/tariffs and fees + property income + social contributions.</li> <li>• <b>Tax revenues:</b> taxes on production and exports (GD2R/D2) + current taxes on income, wealth, etc. (GD5R / D5) + capital taxes (GD91R / D91). Tax revenue includes both own-source tax revenue (or "autonomous") and tax revenue shared between central and subnational governments. The SNA 2008 has introduced some changes concerning the classification of some shared tax revenues. In several countries, certain tax receipts have been recently reclassified as transfers and no longer as shared taxes.</li> <li>• <b>Property taxes:</b> recurrent property taxes on immovable property (land, real estate)</li> <li>• <b>Grants and subsidies:</b> current grants and subsidies + capital grants and subsidies.</li> <li>• <b>User charges and fees:</b> market output, output for own final use and payments for non-market output.</li> <li>• <b>Property income:</b> interest, distributed income of corporations (e.g. dividends), rents on subsoil assets (e.g. royalties)</li> <li>• Other revenues / social contributions</li> </ul>
<b>Debt</b>	<ul style="list-style-type: none"> <li>• <b>Debt:</b> based on the SNA 2008, gross debt includes the sum of the following liabilities: currency and deposits + debt securities (bonds) + loans + insurance pension and standardised guarantees + other accounts payable (commercial debt and arrears). Most debt instruments are valued at market prices.</li> <li>• <b>Financial debt:</b> financial debt includes the sum of the following liabilities: currency and deposits + debt securities (bonds) + loans. This is the definition used in the EU Maastricht protocol for European Union countries (Maastricht debt).</li> </ul>

Source: (OECD, 2018<sub>[13]</sub>)

## 2. Overall trends: snapshot of multi-level governance reforms around the world

Over the past seventy years, the overall trend around the world has been in favour of greater decentralisation. It is sometimes called the "silent revolution" (Ivanyna and Shah, 2014<sup>[1]</sup>; UCLG, 2008<sup>[2]</sup>). The rising decentralisation paradigm has been driven by three main categories of factors: political factors, economic drivers and megatrends such as globalisation and the information revolution (OECD, 2019<sup>[4]</sup>).

However, decentralisation is not a linear process. There are also many examples around the world of recentralisation, motivated by political reasons but also because decentralisation, if badly designed and implemented, has produced unexpected perverse effects and undesired outcomes, failing to deliver on its promises of better projected efficiency and democratic gains. In reality, paths towards decentralisation are made of "Potholes, Detours and Road Closures" (Shah and Thompson, 2004<sup>[5]</sup>; OECD, 2019<sup>[4]</sup>). It is also essential to highlight that multi-level governance trends have gone hand in hand with a transformation – but not necessarily a reduction – in the role of the central government (OECD, 2019<sup>[4]</sup>). Decentralisation is not a zero-sum game in which the central government loses what local and regional authorities gain.

This chapter provides a snapshot of the decentralisation – or recentralisation – reforms around the world in 2019. The question is not whether decentralisation is good or bad in itself. Rather, it is the way it is designed and implemented which makes the difference.

### 2.1. What is decentralisation?

Several definitions of decentralisation exist reflecting different understandings of decentralisation but also reflecting the high diversity of multi-level governance systems around the world.

The definition adopted by the World Observatory is the following: decentralisation consists in the transfer of a range of powers, responsibilities and resources from central government to subnational governments, defined as separated legal entities elected by universal suffrage and having some degree of autonomy. Subnational governments are thus governed by political bodies (deliberative assemblies and executive bodies), and have their own assets and administrative staff. They can raise own-source revenues, such as taxes, fees and user charges and they manage their own budget. Within the limits of the law, subnational governments "have full discretion to exercise their initiative with regard to any matter which is not excluded from their competence nor assigned to any other authority" (European Charter). In particular, they have the right to enact and enforce general or specific resolutions and ordinances. As requested in the international agreements (see below), these principles shall be recognised in domestic legislation, and where practicable in the constitution. As a result, the concept of decentralisation has three dimensions, which are, in theory, inter-dependent: political, administrative and fiscal dimensions (see Box 2.1). The fiscal dimension is often the missing, or underestimated, link of decentralisation reform, resulting in under or unfunded mandates.

Overall, this definition is associated with the concept of Local Self-Government as defined in the European Charter of Local Self Government (1985), in UN-Habitat's International Guidelines on Decentralisation and Strengthening of Local Authorities (2007) and, more recently, in the 2014 African Charter on the Values and Principles of Decentralisation, Local Governance and Local Development (UCLG, 2008<sup>[3]</sup>; OECD, 2018<sup>[11]</sup>).

**Box 2.1. Political, administrative and fiscal decentralisation: three interconnected dimensions**

In theory, the three dimensions of decentralisation - distribution of powers, responsibilities and resources - are complementary, closely interconnected and interdependent: there can (or should) be no fiscal decentralisation without political and administrative decentralisation. On the other hand, without fiscal decentralisation, political and administrative decentralisation are meaningless. Therefore, the linkages between these three dimensions should be carefully considered to maximize the chances of success of a decentralisation process:

- **Political decentralisation** sets the legal basis for decentralisation. It involves a new distribution of powers according to the subsidiarity principle, between different tiers of government, with different objectives, but often with the aim of strengthening democracy. Thus, it refers to the way in which subnational administrators are selected – i.e. by appointment or election. Political decentralisation also implies that local authorities need to be consulted in the planning and decision-making processes for all matters which concern them directly (European Charter).
- **Administrative decentralisation** involves a reorganisation and clear assignment of tasks and functions between territorial levels in order to improve the effectiveness, efficiency and transparency of national territorial administration. It generally relates to the transfer of planning, financing and management decisions for some public functions to lower levels of government, including for the management of their administrative structures and resources. (European Charter).
- **Fiscal decentralisation** involves delegating taxing and spending responsibilities to subnational tiers of government. In this case, the degree of decentralisation depends on both the amount of resources delegated and the autonomy in managing such resources. For instance, autonomy is greater if local governments can decide on tax bases, tax rates, the allocation of spending and if they can have some level of policy discretion in the use of grants allocated to them.

According to the European Charter (article 9), UN Habitat Guidelines and African Charter, fiscal decentralisation involves the devolution or delegation of adequate financial resources - part at least derived from taxes and charges - and spending responsibilities commensurate with the competences provided for by laws.

Source: (OECD, 2017<sup>[6]</sup>; OECD, 2019<sup>[4]</sup>)

## 2.2. Overview of multi-level governance reforms around the world

A large number of countries have undergone multi-level governance reforms, including decentralisation but also recentralisation reforms in the past two decades.

In Europe and North America, several federal and unitary countries have already a solid, long-established tradition of subnational self-government, such as Switzerland, the United States, Germany, Canada or the Nordic countries. The decentralisation trend has however intensified continuously over the last few decades. These reforms aim to strengthen decentralisation and/or improve multi-level governance systems through adjustments in the allocation of responsibilities across levels of government, increased fiscal decentralisation or to introduce new public management methods at the subnational level (Netherlands, Sweden, Finland, Denmark, Norway, France, Italy, United Kingdom, etc.).

In Central and Eastern European countries, decentralisation processes in the early 1990s were also a reaction against the failures of the communist centralised state over the previous decades. The adhesion process of Central Eastern European countries to the European Union, including the implementation of regional development policies, accelerated the movement. Even if the EU did not promote a particular model of decentralised governance, the prospect of entering the EU led several countries to create self-governing regions to access and manage EU funds for regional development (OECD, 2017<sup>[6]</sup>). In the countries of the Western Balkans, decentralisation reforms pursues specific objectives including democratisation, balanced economic development, and post-conflict reconciliation of ethnic communities (Bartlett, Kmezić and Đulić, 2018<sup>[5]</sup>).

The 2008 global financial crisis, and austerity policies that followed calling for better control over public finance, as well as mega-trends created significant budget constraints, affecting subnational governments in several countries and motivated many reforms, towards decentralisation but also recentralisation. They also motivated territorial reforms at the municipal and/or regional levels. Mergers of regions and municipalities, policies encouraging inter-municipal cooperation and metropolitan reforms have taken place involving institutional reforms resulting in reallocations of responsibilities and resources across subnational entities. (OECD, 2017<sup>[6]</sup>).

Some recentralisation reforms have also occurred since the crisis, done either in an explicit and assumed manner or in a more implicit way. In Hungary, the recentralisation reform, started in 2011-2012 with the constitutional reform and the Local Government Act led the central government to reorganise the Hungarian local government sector and take over many functions exercised previously by municipalities and counties. As a result, the share of subnational expenditure in GDP and public expenditure decreased significantly from 2010 to 2016, by respectively 6.5 and almost 12 percentage points. Hungary went from being quite decentralised compared to other OECD countries to among the most centralised. Other European central governments have also substantially increased their regulatory and monitoring activities, which tends to reduce subnational government decision-making power and spending. Many EU countries introduced fiscal rules in order to control subnational expenditures in the wake of the crisis. This enhanced control has called for greater intergovernmental coordination. This may also have boosted the bargaining power of subnational jurisdictions to influence national policymaking (Mello and Jalles, 2018<sup>[8]</sup>).

In Africa, several moves towards decentralisation have been motivated by structural economic reforms, the quest for more local democratic control, and widely promoted by international donors. In Ghana, Uganda, Kenya or Senegal (among other countries), decentralisation has been a major policy agenda item over the last few decades as a means of enhancing democracy and citizen participation. Known as “democratic decentralisation”, this new phase in decentralisation process has sought to strengthen local governments in order to address the region's continuing governance challenges (Conyers, 2007<sup>[9]</sup>). In South Africa, decentralisation was also an essential component of the country's transition from apartheid to democracy. African countries seem to agree on the need for pursuing more comprehensive decentralisation to achieve the vision spelled out in the African Union's Agenda 2063 and to be in line with the 2014 African Charter on the Values and Principles of Decentralisation, Local Governance and Local Development. These processes have been strongly advocated by civil society, different minorities, emerging local governments and development partners concerned by the failure of central governments to deliver effective services and to fight poverty. However, although there is general agreement on the need to empower local governments, further progress is needed for effective decentralisation to be fully implemented. The main reasons for the mismatch between discourse and implementation in the decentralisation reform agenda are to be found in the specific context of each country's political environment, including armed conflicts, political instability, ethnic and social tensions, as well as vested interests of key decision makers. When decentralisation reforms were launched, they often missed the appropriate fiscal dimension, preventing subnational governments from effectively carrying out their tasks. (AfDB/OECD/UNDP, 2015<sup>[11]</sup>).

In Latin America, the path to political, administrative and fiscal decentralisation has been particularly complex. For the most part, the 20th century was marked by the triumph of centralist ideas and a majority of Latin American countries adopted strongly centralised institutions – even dictatorships - in which the central government played a leading role. Since the 1980's, as part as the processes of democratic transition (and peace negotiations in Central America), structural reforms and decentralisation processes were progressively implemented in the majority of countries. Brazil (1988), Argentina (1994) and Mexico, already federal countries, adopted new constitutions or introduced reforms to strengthen the federal system. The Brazilian new constitution acknowledges the autonomy of municipalities and federated states. In the other countries in the region, all unitary states, decentralisation reforms progressed at different paces. While countries such as Andean countries have made significant progress, not without some setbacks, in others the decentralisation process is sluggish (i.e. many Central American Countries) and in some case it is stagnant or even in retreat (Venezuela).

In Asia, decentralisation reforms gained significant momentum in the 1990s (Smoke, 2015<sup>[8]</sup>; World Bank, 2005<sup>[9]</sup>; OECD/KIPF, 2019<sup>[7]</sup>). Continuous periods of economic growth and urbanisation, are often regarded as some of the common dynamics that supported the decentralisation reforms. Political and economic crisis, such as the 1997 Asian Financial Crisis have also played a role. Therefore, in countries such as India, Indonesia, Japan, Korea, Thailand but also China (Shin, 2016<sup>[4]</sup>), decentralisation has been seen as a means of adopting new public management models, oriented towards more effective public policies and service delivery, that can contribute to economic competitiveness and respond to the challenges of globalisation (OECD/KIPF, 2019<sup>[9]</sup>).

Other incentives have also been powerful in the Asia region such as the willingness to strengthen democracy with pro-democracy movements and popular mobilisation rejecting centralised autocratic governments and dictatorships (e.g. India, Indonesia, Korea, and Philippines) as well as to address ethnic and religious conflicts and preserve historical, linguistic, and cultural specificities (e.g. Indonesia, Philippines, and Cambodia).

Decentralisation, in particular fiscal decentralisation, is still high on the agenda in several Asian countries. On the other hand, some countries, such as Mongolia, Thailand, Bangladesh, Sri Lanka and Malaysia, have experienced a back and forth between decentralisation and recentralisation of the country (Box 2.2).

#### **Box 2.2. Recent trends in multi-level governance reforms in Asia**

Reforming the multi-level governance systems is still part of the national debate and public administration reforms in several Asian countries. Yet, many countries have approached decentralisation in different ways, and often in a fragmented and incomplete manner. Administrative decentralisation is not always accompanied by political and fiscal decentralisation, resulting in under or un-funded mandates as well as limited autonomy of subnational government to raise and manage own-revenues.

Indonesia has empowered its local tiers through recent reforms. In particular, the 2014 Village Law granted autonomy to over 83 000 villages. In the Philippines, the current political debate in the country is heading towards the acknowledgement of a more explicitly federal form of government. In Nepal, the transformation from a unitary state to a federation was enshrined in the new Constitution adopted in September 2015. While there exists an incomplete policy framework for decentralisation in China, the transition of the country to the market economy contributed to empowering local authorities and making them key stakeholders in the development process and the provision of local public services. In Korea, decentralisation was incorporated in the Moon Jae-in administration's Top 100 national tasks. In March 2018, as the revised bill of the "Special Act on Decentralization and Restructuring of Local Administrative Systems" was promulgated and the Presidential Committee on Autonomy and Decentralization was set up. Addressing the regional imbalance between Seoul and surrounding regions is at the core of this 2017-2018 decentralisation programme.

Source: (OECD/UCLG, 2019<sup>[16]</sup>)

### **2.3. Measuring decentralisation**

The World Observatory uses fiscal indicators to provide a macro-economic view of decentralisation. However, it is important to highlight that fiscal indicators are insufficient to get the facts right about decentralisation, and they even may provide misleading pictures. They should be interpreted with caution, to understand what is behind the numbers. For example, a high share of tax is not necessarily equivalent to a high tax autonomy (Box 2.3). Fiscal indicators must be complemented by additional approaches, including quantitative and qualitative indicators to determine the real magnitude of decentralisation, to properly capture the trends at play and accurately assess the impacts and outcomes of decentralisation. This is why the Observatory contains detailed country profiles which allow to put the numbers in perspective.



### Box 2.3. Limits of expenditure and revenue indicators

Spending ratios as an indication of spending autonomy should be interpreted with caution. In fact, a high level of subnational expenditure does not necessarily mean a high level of decentralisation, as in some cases these expenditures are delegated from the central government. The assignment of responsibilities to SNGs does not mean that SNGs have full autonomy in exercising them and regarding the choice of how and where expenses are allocated. SNGs may simply act as a “paying agent” with little or no decision-making power or room for manoeuvre. It is often the case when SNGs are in charge of paying teachers or health staff wages or social benefits on behalf of central government, without control on their development. It is also the case when SNGs do not have full autonomy and decision-making authority in their fields of responsibility, functioning sometimes more as agencies funded and regulated by the central government rather than as independent policy makers. In addition, SNGs spending can also be constrained by regulations, norms and standards which can impose compulsory expenditures (environmental norms, security standards, etc.) as well as guided by budgetary rules. Consequently, the share of SNGs in general government expenditure or GDP, while providing a valuable macroeconomic overview of the level of decentralisation, is sometimes open to overestimation, in particular in countries where SNGs have numerous spending obligations on behalf of the central government.

Revenue ratios may be also be inadequate to reflect real fiscal decentralisation. Revenue autonomy is also a complex issue, which goes beyond just tax autonomy. A high reliance of subnational government on central government transfers is an indication of low decentralisation. However, autonomy also depends on the extent of discretion in intergovernmental transfers. It can be limited when grants are earmarked and conditional transfers, but it can be wide in case of general-purpose grants based on a formula.

The same complexity applies to the tax systems. The tax revenue indicator convey relatively little information on the discretion provided to state and local authorities over their tax base and rates and therefore, reflect only partially the real level of tax autonomy of SNGs. With the data currently available in the framework of the government statistics of the national accounts, it is not possible to make the distinction between shared and own-source taxes. National accounts only consider the “ultimately received” tax revenues. This means that the shares displayed under subnational governments do not only include “own” taxes of government sub-sectors, but also the relevant part of the tax revenue that is actually “shared” between the different levels of the general government, even in cases where a government sub-sector has practically no power to vary the rate or the base of those particular taxes.

Source: (OECD/UCLG, 2016<sup>[17]</sup>; OECD, 2018<sup>[11]</sup>)

### 3. How are subnational government structured and organised around the world?

#### 3.1. Federal and unitary countries

Two stylised forms of organisations of the state co-exist – unitary and federal (including confederations); but the reality is more complex. Some unitary countries may have some characteristics of federal countries (e.g. United Kingdom, Italy) while some federal countries function more like unitary countries than federal countries (Malaysia).

In addition, between federal and unitary countries, there is an intermediary situation, that of “quasi-federal”. Although this status is not recognised as such, it applies to unitary countries that have some characteristics of a federal country. In such countries, autonomous regions have less room for manoeuvre than in federations for defining and reforming local government functioning. Basic elements of local government functions and financing are often set out in national constitutions. Even if substantial autonomy is given to autonomous regions in relation to lower tiers through primary and/or secondary legislative powers, it is often a competence which is shared with the central power. This is the case for example of Spain or South Africa (Box 3.1).

#### **Box 3.1. Unitary, federal countries and asymmetric arrangements**

A unitary state is a state governed as a single power in which the central government is ultimately supreme. The unitary states are “one and indivisible” entities, and sovereignty is not shared. This means that citizens are subject to the same unique power on the national territory. This does not preclude the existence of subnational governments, also elected directly by the population and with some political and administrative autonomy. However, subnational governments exercise only the powers that the central government chooses to delegate or devolve. Unitary states can be more or less decentralised, depending on the extent of the powers, responsibilities and resources devolved to others levels of governments and the degree of autonomy they allow them. In a unitary state, subnational units can be created and abolished and their powers may be broadened and narrowed by the central government. Some unitary countries even recognise autonomous regions and cities, which have more powers than other subnational governments because of geographical, historical, cultural or linguistic reasons. As a result, some unitary countries have a complex and “hybrid” institutional structure and, despite their unitary nature, comprise on part of their jurisdiction some autonomous governments which may have legislative powers. This results in asymmetric organisation and decentralisation such as in the United Kingdom (devolved nations of Northern Ireland, Scotland and Wales), Italy (ordinary regions vs special status regions), Finland, France (Corsica, outermost regions), Portugal (Azores and Madeira), Mauritius (Islands of Rodrigues), Azerbaijan (Nakhchivan Autonomous Republic), Nicaragua (Autonomous Regions of the North and South Caribbean Coast), Ecuador (Galapagos), etc.

In federal countries, sovereignty is shared between the federal government and self-governing regional entities (the federated states), which have their own constitution in most

cases (Canada is an exception), a parliament and a government. In a federation, the self-governing status of the component states may not be altered by a unilateral decision of the federal government. Powers and responsibilities are assigned to the federal government and the federated states either by provision of a constitution or by judicial interpretation. In general, federal governments have exclusive and listed responsibilities such as foreign policy, defence, money and criminal justice system while federated states have extensive competencies.

There can be symmetric and asymmetric federal system. Some federal countries tend to favour symmetry with state governments having the same status and powers such as Austria, Switzerland, Germany, United States, even if this situation is evolving (Germany). However, asymmetric arrangements between federated states can be the very essence of the federal system. There are however different gradients of asymmetry: Canada for example has a “menu federalism”, where the “opt in” or “opt out” choices are made available to all provinces. Australia has some forms of regional asymmetry. Other federal countries are highly asymmetric such as India, Russia, Malaysia or Belgium. In this case, asymmetric federalism is often a means to maintain diversity together with unity. In India, the Constitution makes special provisions for nine states. In Malaysia, Sabah and Sarawak retains a higher degree of autonomy than the other 11 states.

In federal countries, the relationships between the state governments and lower levels of government is also very diverse from one country to another. In addition, local government structures can differ significantly from one state to another within the same country, resulting in a patchwork of local governments structures.

In most federal countries, in particular older ones, local governments are “creations” of the federated states and fall directly under their jurisdiction (except for example in Brazil where municipalities are not subordinate to the states in which they are located). Governed by state legislation, local governments do not have independent relations with the federal government. In Australia for example, municipalities are not even explicitly recognised by the Commonwealth Constitution. In some federations however, the guaranteed principle of local self-government is set out in the federal constitution, e.g. Germany, Austria, Belgium, Switzerland, Argentina, Brazil and Mexico. In India, the 73rd and 74th amendments of the Indian Constitution adopted in 1992 ensure recognition and protection to local government and provide a basis for the state legislatures to guide the state governments in the assignment of municipal responsibilities and governance. In Malaysia, the constitution of Malaysia and federal legislation (e.g. Local Government Act 1976 for Peninsular Malaysia) make provisions for all Malaysian local governments.

Asymmetric arrangements at local level across sub-states are a near universal rule as local governments are governed by the state constitution and/or legislation. Their status, organisation, responsibilities and funding mechanisms often differ from one state to another. As a result, the level of decentralisation at local level may vary significantly from one state to another within the same country. In India for example, each state has its own local government legislation, devolving functions to the local level with wide variation, and in many cases, Indian municipalities have few expenditure assignments, often limited to the provision of basic public services.

Quasi-federal countries have several characteristics of federal countries while being formally unitary countries according to their constitution. For example, in quasi-

federations, autonomous regions have less room for manoeuvre than in federations for defining and reforming local government functioning but more than in unitary countries.

Spain for example is constitutionally a unitary state but in reality a quasi-federation with regions having a large autonomy. Organising the municipalities and provinces and changing municipal boundaries within the regional territory are exclusive responsibilities of the autonomous communities, but their functions and finances are decided within the framework of the national law (article 148 of the Constitution). In South Africa, according to Section 41 of the 1996 Constitution, the state is divided into three spheres rather than tiers of government. This distinction forms the basis of the intergovernmental relations between national, provincial and local government, defining a system of “cooperative governance”.

Sources: (OECD/UCLG, 2019<sup>[10]</sup>; OECD/KIPF, 2019<sup>[11]</sup>; OECD, 2018<sup>[12]</sup>);

### 3.2. Around 637 900 municipal, intermediate and regional governments identified in 2018

The study has identified 637 900 subnational governments in the 122 countries around the world included in the sample. Only elected subnational governments with general purpose are included in this count (**Box 3.2**).

#### Box 3.2. Defining subnational government

A subnational government is considered to be a decentralised entity elected through universal suffrage and having general responsibilities and some autonomy with respect to budget, staff and assets.

Therefore, several categories of subnational entities have been excluded from the count:

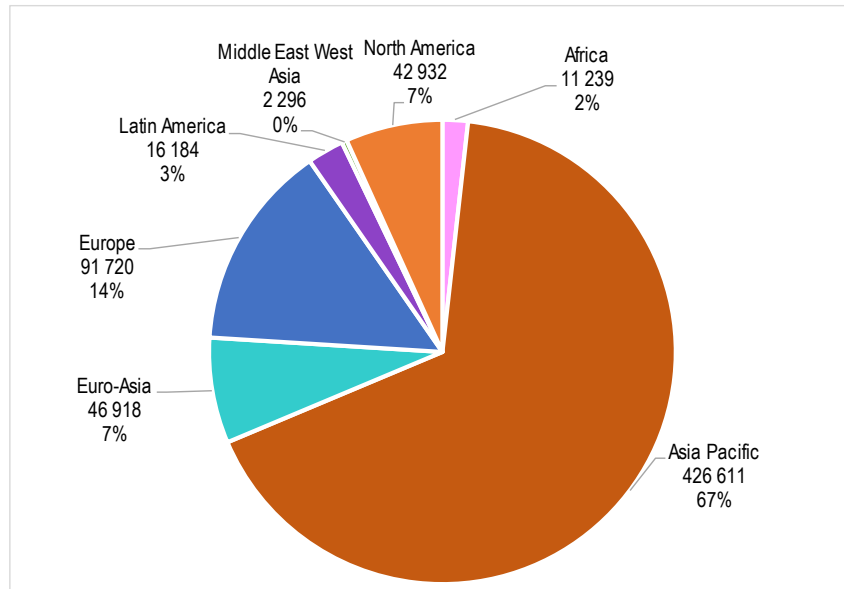
- Deconcentrated districts or agencies of the central/federal/state government established for administrative, statistical or electoral purposes only.
- Special purpose entities, such as school boards, transport districts, water boards, inter-municipal co-operation groupings, even if they have deliberative assemblies elected by direct universal suffrage and taxing powers (functional decentralisation).
- Sub-municipal localities (civil parishes, villages, wards, community boards, settlements, etc.).
- In some cases, special areas (e.g. Indian reserves and settlements in Canada and the United States) as well as communities located in unorganised or unincorporated areas (e.g. Australia and Canada).

Exceptions were made for some countries. For example, the subnational government structure can include entities only elected through indirect suffrage or “dual” entities i.e. having an elected council but an executive appointed by the central government. It may also be that the absence of local elections is just temporary or is currently changing thanks to multi-level governance reforms (e.g. transformation of deconcentrated entities into decentralised entities). In other countries, despite being elected, SNGs may have no autonomous budget or staff, being still managed by the central government.

Source: (OECD, 2018<sup>[11]</sup>)

By regional areas, Asia-Pacific region has the largest number of subnational governments with 426 611 subnational governments followed by Europe, Euro-Asia, North America, Latin America, Africa and Middle East West Asia (Figure 3.1).

**Figure 3.1. Number of subnational governments by geographical areas (2018)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

However, these figures should be interpreted with caution. In particular, the Asia-Pacific region stands out from the others because of three countries, India, Indonesia and Philippines, which have a significant number of small entities which are considered as self-governing entities<sup>4</sup>. In these three countries alone, villages account for 92% of the total number of subnational governments in Asia-Pacific region. In other regions, such small entities are often deconcentrated localities, depending on a larger municipalities, and not recognised as independent subnational governments (Box 3.3). In Latin America, Ecuador is an exception: the 1 500 *parroquias* are recognised as decentralised autonomous governments in the Constitution of 2008.

India alone counts around 267 464 subnational governments, including 267 428 villages and small towns (*panchayat*), which are the cornerstone of local self-government in the country. In Indonesia, the "Village Law" adopted in 2014 recognised the 83 344 villages (*desa and kelurahan*) as self-governing entities, enjoying more authority and resources. Prior to the reform, villages were under control of the districts. In Philippines, there are 42 045 villages (*barangays*) which are the closest tier of local government, representing a neighbourhood level of governance and whose powers have been reinforced over the last years.

### Box 3.3. Sub-municipal governance is widespread around the world

Sub-municipal localities (civil parishes, *parroquias* in Spanish, *arrondissements*, villages, wards, community boards, settlements, etc.) are widespread around the world. They are municipal administrative subdivisions under public law and in some cases, they have their own delegated budget, staff and tasks as well as elected representatives (council, mayor). However, they cannot be considered to be self-governing, being “deconcentrated” creations of the municipality established at the behest of the municipality, they do not have full local autonomy and depend on their “mother-municipality”.

Numerous countries have these types of localities, which can exist across the whole national territory, or only part of it, in rural and/or urban areas (Greece, Ireland, Korea, Netherlands, New Zealand, Portugal, Slovenia, United Kingdom, Cambodia, Serbia, South Africa, Panama, etc.)

- In Thailand, there are approximately 5 333 Tambon Administrative Organisations (TAOs) at the sub-municipal level. They were created during the decentralisation process in the 1990s, and are mostly established in rural areas, with the purpose of enabling for greater citizens’ participation. Each TAO is led by an elected chairperson and a local council with villages’ representatives.
- In Panama, municipalities, which form the single-tier of subnational government, are sub-divided into *corregimientos*, with each have their own local government and local council. These sub-municipal units are represented on the municipal council and on the provincial council, and receive financial transfers from the central government, that they can spend on investment projects after citizen consultation.
- In Ghana, at the sub-municipal level, urban/town/area councils and unit committees form a part of the general pattern of local governments units, and undertake functions delegated to them by assemblies at the municipal level. There are 16 000 unit committees throughout the country, which play an important role in terms of engaging citizens’ participation, revenue-raising activities and environmental protection.

Source: (OECD/UCLG, 2019<sup>[15]</sup>)

Subnational governments are generally spread across one, two or three levels of government:

- **One level:** In 36 countries (30% of countries included in the sample), there is only one level of subnational government: the municipal level. Typically, this level is comprised of entities called “municipalities” but it can take other forms (local government areas or units, local councils, local authorities, districts, etc.). Countries that fall into this category tend to be small in terms of population and/or area (respectively 5% and 4% of the total sample) as shown in Figure 3.2.

- **Two levels:** Almost half countries in the sample (59 i.e. 48% of countries included in the sample) have two levels of subnational government: the municipal and the regional/provincial level. Countries that fall into this category are diverse in terms of size and geographic region, but overall they account for 49% of population and 50% of area of the total sample.
- **Three levels:** 27 countries (22%) have three levels of subnational government: municipal, regional and a third intermediary level between them. This third level takes the form of *départements* in France, provinces in Belgium, Italy and Spain, districts in Germany, Mali and Vietnam, counties in Poland, United Kingdom and the United States, *raions* in several Euro-Asian countries (Kazakhstan, Kyrgyzstan, etc.). Some large cities of “regional importance” may also have the status of intermediary government. These countries account for 46% of population and area of the total sample.

The majority of federal countries in the sample (68%) have a two-tiered structure of subnational governments vs 32% with a three-tiered structure of subnational government (Table 3.1). 45% of unitary countries, have two subnational government layers and 35% only one municipal level.

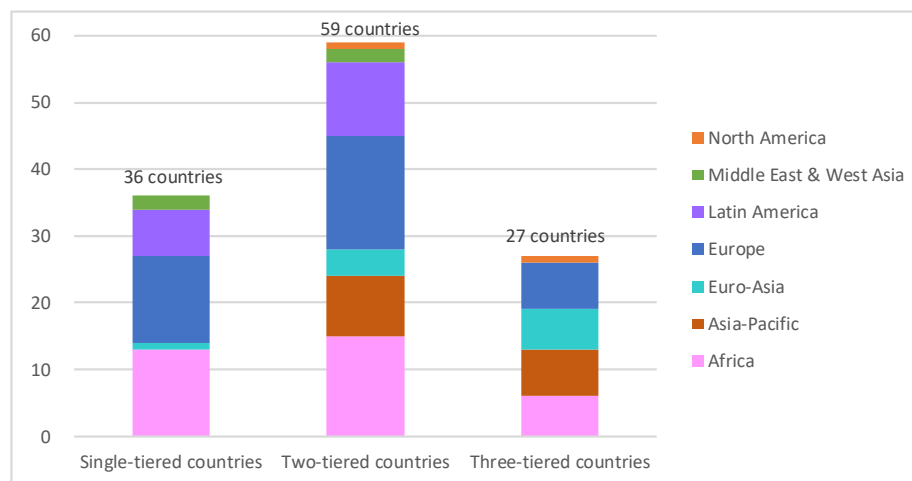
**Table 3.1. Subnational government structures by the numbers**

	Prominence			Distribution
	% of countries	% of pop.	% of area	Unitary/Federal
Single level	30%	5%	4%	35% / 0%
Two levels	48%	49%	50%	45% / 68%
Three levels	22%	46%	46%	20% / 32%

Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

In Asia-Pacific, there are slightly more two-tiered countries than three-tiered countries (56% vs 44%). No Asia-Pacific country in the sample has only one municipal level (Figure 3.2). At the opposite end of the spectrum, no Latin America countries included in the sample have three levels of subnational governments, and a great majority (61%) has two levels. In Africa and Europe, there are few countries with three levels of subnational governments (respectively, 18 % and 19% of countries of reach area). In these two areas, countries with two levels are the most numerous (44% in Africa and 46% in Europe).

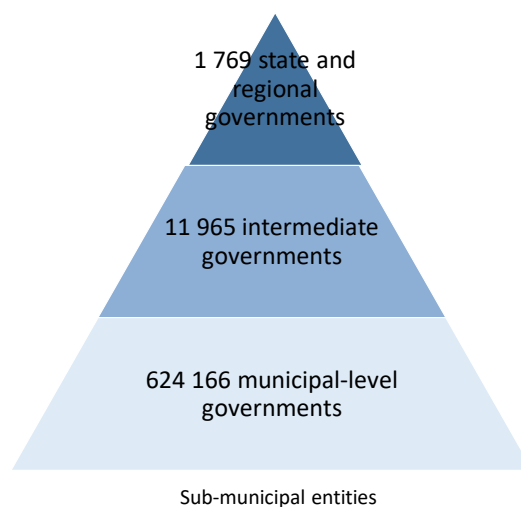
**Figure 3.2. Breakdown of countries by geographical areas and number of subnational government layers**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

Overall, subnational governments include 624 166 municipal-entities, 11 965 intermediate governments and 1 769 state and regional governments (Figure 3.3).

**Figure 3.3. 637 900 subnational governments at municipal, intermediate and regional levels**



Source: Authors' calculations based on SNG-WOFI database – [www.sng-wofi.org](http://www.sng-wofi.org)

Behind this apparent, clear structure, the reality of territorial organisation and governance is far more complex. In some countries, there is a mixed/dual administration at subnational level that corresponds to the existence in the same subnational body of both a deconcentrated administration representing the central government (the executive power) and an elected autonomous self-government (the deliberative power). This is the case for example in Chile (until the 2016 regional reform), Turkey, Kazakhstan and Kyrgyzstan.



Several countries also have “special areas”, also called “ungoverned territories” or “unincorporated areas”. These areas can be found in some parts of the national territory as well as reservations with indigenous populations that may have a particular status in some countries. In the United States for example, tribal governments are not considered “subnational governments” despite being recognised as sovereign nations under the auspices of the federal government.

In many countries around the world, the central government has often a state deconcentrated administration at regional level. Unlike subnational governments, territorial deconcentrated state services are merely a hierarchical part of the central government level. They are not legal entities or corporate bodies. They do not have their own budgets, which are typically included in the national budget. They do not raise revenues, cannot incur liabilities by borrowing on their own or engage in financial transactions, and do not have their own assets (Boex, 2011<sup>[16]</sup>; OECD, 2019<sup>[4]</sup>).

Finally, a great number of countries also have sub-municipal entities (Box 3.3) as well as supra-municipal entities (Box 3.6)

The complexity of territorial organisation seems to be higher in Asia-Pacific and Euro-Asia than in Latin America and Europe, where there seems to be more uniformity. It reflects the great diversity of countries in terms of geography, ethnic and linguistic make-up, socio-economic characteristics, and historical trajectories as well as different socio-political paths (Box 3.4).

#### **Box 3.4. The complexity of subnational government structures in Asia-Pacific and Euro-Asia**

In Asia-Pacific, the diversity and complexity of subnational government structures are partly a result of history. Some countries are former colonies, which have integrated, to a greater or lesser extent, part of their colonial legacy into their current institutional structure – be it French, British or Dutch. Others have retained pieces of more recent legacy of previous Soviet Union institutional framework or the current model of China and Vietnam.

In some countries, such as China, four or even five subnational government levels can be found such as in China. Countries frequently have a differentiated organisation within the same subnational level, which may comprise several sub-categories. Regions may have different self-governing status, some being more autonomous than others and having a special status (Malaysia, Russia). Some large municipalities may also have the status of an intermediate government or even of a regional government, e.g. cities of regional or republican significance or capital cities (Cambodia, Kazakhstan, Korea, Mongolia, Thailand or Vietnam, etc.).

In Japan, the municipalities are also not uniform, being subdivided into 20 designated cities, 42 core cities, 40 special cities, and 688 other cities.

Korea has a composite municipal structure, including cities, counties (mostly rural) and autonomous districts, which are further divided into sub-municipal localities. In some countries, there are also significant differences between urban and rural areas (in structure, powers and capacities).

In India, urban areas can be organised in a single tier (urban councils), while the panchayat system in rural areas may have three tiers, depending on the population of the states.

To add to this complexity, some Asian countries have a dual or “mixed” system of a deconcentrated local administration, representing the central government on one side, and local autonomous self-governments on the other side as in Thailand (before the military coup in 2014, as local elections have been suspended since) or Cambodia. In some cases, the same entity has an executive body appointed by the central government and a deliberative body (councils) elected by the population.

Source: (OECD/UCLG, 2019<sup>[15]</sup>; OECD/KIPF, 2019<sup>[11]</sup>)

### 3.3. Territorial reforms can modify SNG structures in a variety of ways

The form and structure of subnational governments is not static, on the contrary multi-level governance systems experience frequent changes and adjustments. Territorial reforms, which modify the administrative boundaries of subnational governments, can consist of creating new territories or rescaling existing administrative boundaries. Such reforms are often undertaken as part of broader changes in multi-level governance systems (e.g. decentralisation or recentralisation) or to respond to demographic changes such as localised population losses or gains, socio-economic changes that require corresponding adaptation of public services, or fiscal consolidation pressures. Common examples of territorial reforms include (OECD, 2017<sup>[6]</sup>; OECD, 2019<sup>[4]</sup>):

- **Municipal reforms**, including mergers, creation of new municipalities, supra-municipal bodies and inter-municipal cooperation organisations to address issues of municipal fragmentation. Metropolitan governance reforms are a particular case of municipal reforms, which address the issue of fragmentation at the scale of functional urban areas through soft inter-municipal cooperation, more structured and integrated forms, or mergers.
- **Regionalisation reforms, including the creation of administrative regions, directly elected, or the strengthening of existing regions** The main objectives behind regionalisation reforms are an upscale in governance to generate countries of scale for public service provision, for example in the health or public transport sectors. Other objectives are to improve co-ordination between municipalities and intermediate levels of government in such areas as infrastructure delivery, spatial planning and land-use, for example.

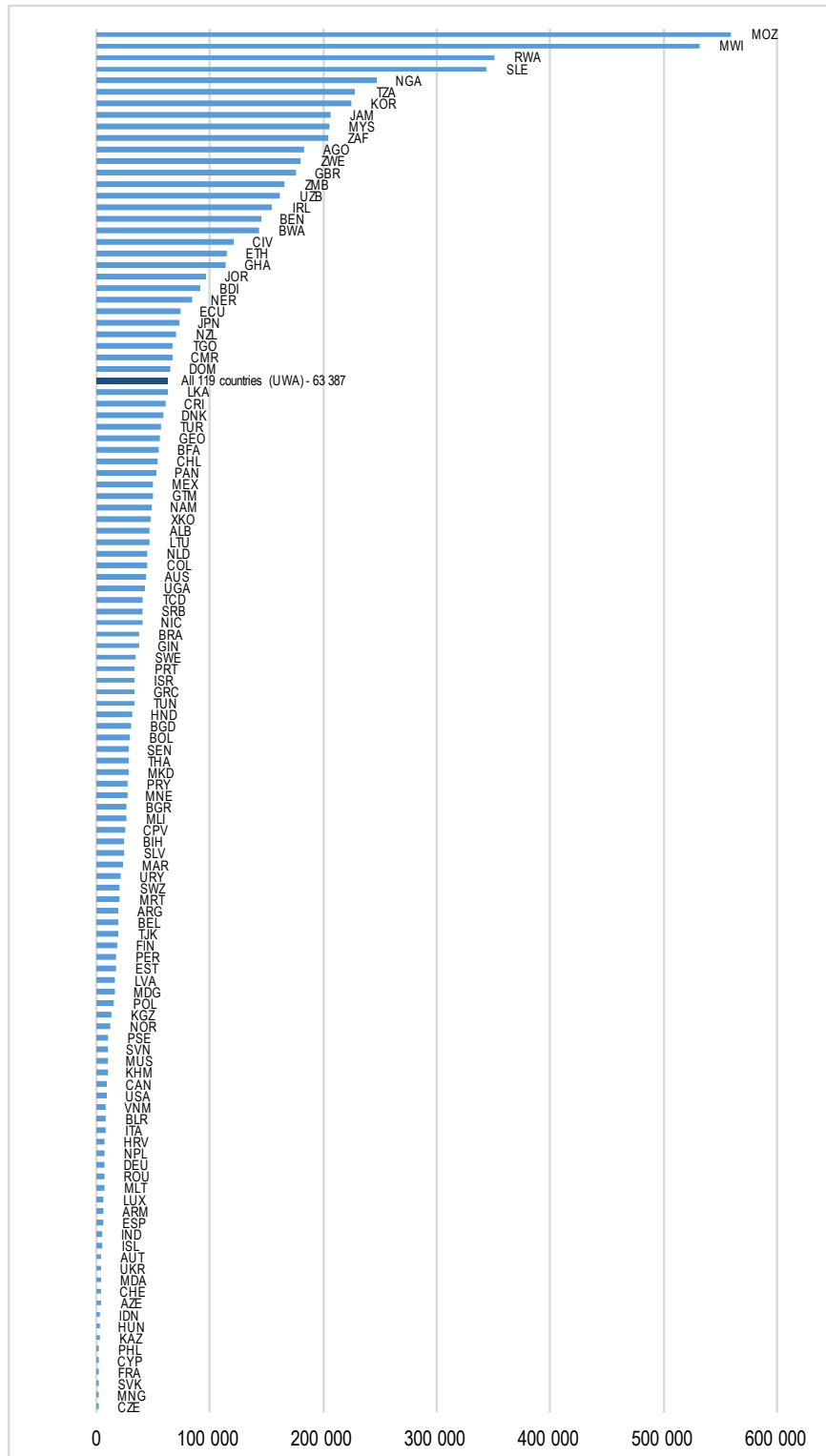
#### *Municipal landscape and reforms*

##### *The diversity of the municipal landscape around the world*

The average municipal size at the global level is 63 387 inhabitants (based on 119 countries). This type of average remains quite theoretical, given the high diversity of municipal organisation within the same country, however it reflects a certain reality. Comparison between countries is also challenging because of huge disparities across countries

Figure 3.4 illustrates the vast differences between countries from highly fragmented municipal landscapes, such as the Czech Republic, Mongolia, Slovak Republic and France (less than 2 000 inhabitants on average) to very large municipalities in countries such as Sierra Leone, Rwanda, Malawi and Mozambique (more than 300 000 inhabitants on average).

Figure 3.4. Average municipal size by country (number of inhabitants, 2017-2018)



Note: China, the Russian Federation and Kenya are not included.

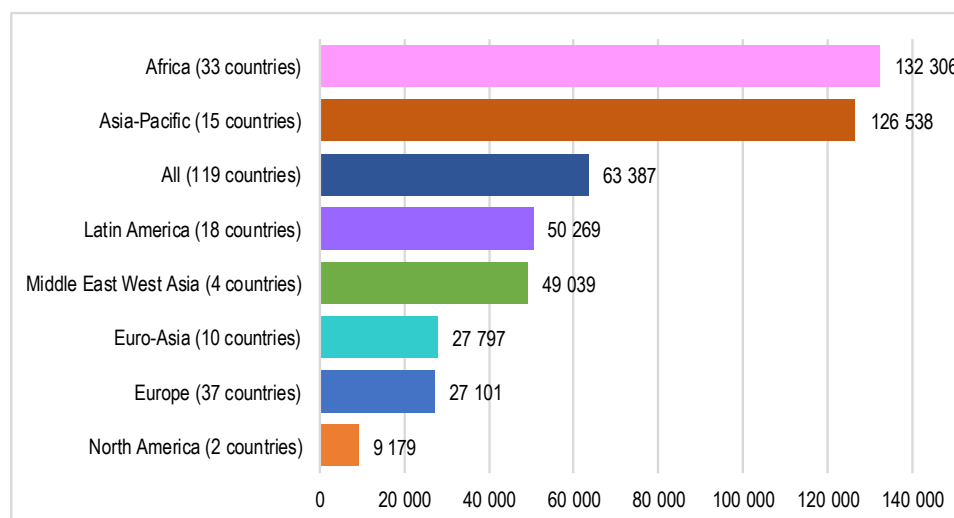
Source: Authors' calculations based on SNG-WOFI database: [www.sng-wofi.org](http://www.sng-wofi.org)

Africa and Asia-Pacific have the largest average municipal size across all seven regions, with an average size around 130 000 inhabitants. By contrast, Euro-Asia, Europe and North America rank last (Figure 3.5). This situation can be partly related to on-going processes of decentralisation in Asia-Pacific and Africa that is not achieved, with the number of subnational governments entities growing rapidly, such as in Uganda. In Indonesia, the 2014 Village law recognised villages as self-governing entities, a promotion to become the basic local government level. In Kazakhstan, towns, villages and settlements with “rayon” status, are recognised as self-governing entities since 2013. In Philippines, regulations have promoted villages (barangays) as the lowest level of local government. Consequently, the number of municipalities has risen notably. Several countries have created new municipalities such as Bangladesh, Ghana, Malawi, Nepal or Cameroun and Mauritania.

These trends contrast with the trends in Europe, which are rather to increase the municipal average size through municipal amalgamations to reach countries of scale.

Within each area, there are significant variations. Asia-Pacific countries range from having a highly fragmented municipal landscape with fewer than 3 000 inhabitants in Mongolia and Philippines to highly populated municipalities with over 200 000 inhabitants, in Malaysia and Korea (Figure 3.5). In Europe, average municipal size ranges from less than 2 000 inhabitants in Czech Republic, Slovak Republic and France, as already pointed out, to more than 150 000 inhabitants in Ireland and the United Kingdom.

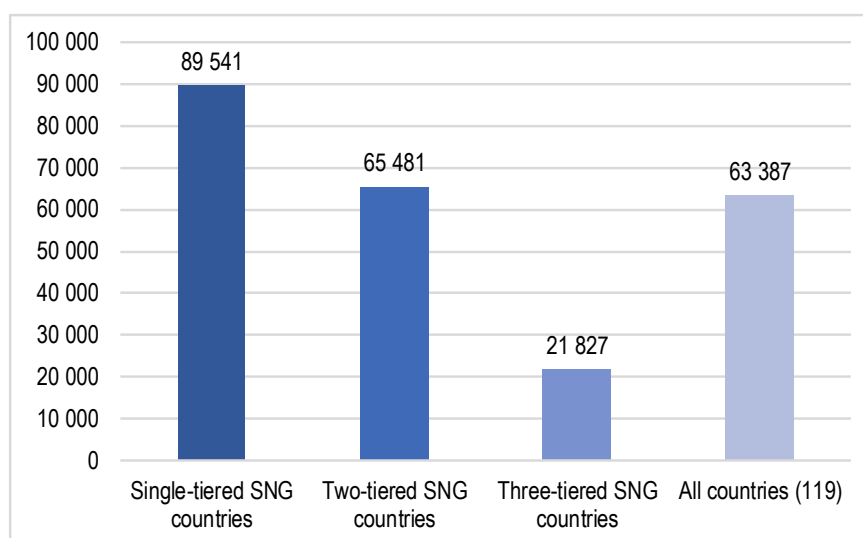
**Figure 3.5. Average municipal size by geographical area**



*Note:* China, the Russian Federation and Kenya are not included.

*Source:* Authors' calculations based on SNG-WOFI database: [www.sng-wofi.org](http://www.sng-wofi.org)

The general structure of subnational government layers in each country may also play a role in the size of municipalities. Three-tiered SNG countries tend to have smaller municipalities on average than single or two-tiered systems (Figure 3.6).

**Figure 3.6. Average municipal size by subnational government country system**

Source: Authors' calculations based on SNG-WOFI database: [www.sng-wofi.org](http://www.sng-wofi.org).

### *Municipal reforms: mergers, inter-municipal cooperation, metropolitan reforms*

Finding the right scale at municipal level to ensure both economic efficiency and effective democracy is particularly challenging. Municipal fragmentation in particular can make provision of local services inefficient, raising issues of equity in access to services, including varying quality (OECD, 2017<sup>[6]</sup>; OECD, 2019<sup>[4]</sup>). Municipal fragmentation has been an important driver to policies encouraging or imposing amalgamations as a way of generating economies of scale, efficiency gains and costs savings, particularly in OECD and European countries (Box 3.5).

#### **Box 3.5. Municipal mergers in OECD countries**

Municipal mergers policies took place in most OECD and European countries over the last decades (Sweden, Japan, Norway, Denmark, Latvia, etc.). The global crisis acted as a catalyst to reactivate or introduce municipal amalgamation policies. Recent reforms took place in Greece (2011), Turkey (2012-2014), Ireland (2014), Albania (2014) and Estonia (2017). Municipal mergers are still on-going as a piecemeal process in several countries such as in Luxembourg, Norway, France, Italy, the Netherlands or Finland. Some federal countries also introduced mergers under the leadership of federated states, e.g. in Switzerland, Australia, Austria, Canada, or Germany.

Reasons for mergers are numerous, including:

- to adapt to demographic change, to reduce the mismatch between obsolete municipal administrative boundaries and socio-economic functional areas (in particular in urban and metropolitan areas);
- to implement economies of scale and scope, generate cost savings and internalise spillovers in the provision of local public services;

- to increase municipal administrative capacities (financial and human resources);
- to improve the quality and quantity of municipal infrastructure and services; and
- more generally, to improve the governance, professionalism and efficiency of municipal management.

However, expected economic benefits of mergers have not always materialised or have been overshadowed by shortcomings. Amalgamations may also lead to diseconomies of scale and congestion costs, when the size is too large. Several empirical studies (Japan, Finland) show that the unit costs of local public services follow a U-shaped curve: they are high for the smallest municipalities, tend to decrease until around a certain level of inhabitants and increase as municipalities grow beyond this threshold. This threshold however differs from one country to another, as other factors must be taken into consideration to define the adequate scale for service delivery (geography, density, type of local services, etc.). Besides economic efficiency considerations, another concern is the risk to reduce local democracy and accountability. Mergers are often seen as a threat to local identity and historical legacies. This explain resistance in several countries to mergers, such as in Japan, France, Slovak Republic or Czech Republic.

Source: (OECD, 2017<sup>[6]</sup>; OECD/UCLG, 2019<sup>[14]</sup>; OECD, 2019<sup>[4]</sup>)

Finding the right scale in service provision while preserving a certain form of proximity, has also motivated policies fostering inter-municipal cooperation. Inter-municipal co-operation (IMC) is widespread in many countries, as legal frameworks and policies supporting inter-municipal co-operation have been significantly enhanced over the last 15 years. It takes many forms across continents, reflecting varying degrees of co-operation in the sectors of public service delivery, socio-economic development, and in some cases planning and governance (Box 3.6).

### **Box 3.6. Finding the right scale at municipal level via vi inter-municipal cooperation**

In some countries, IMC takes the form of single or multi-purpose co-operative agreements/contracts, such as shared services arrangements or shared programmes, whose prime objective is often related to cost-saving. This is the case in England in the United Kingdom, Ireland and New Zealand. In the Philippines, all SNG levels may establish Memoranda of Agreement to co-operate on service delivery, under the supervision of the higher-tier of SNG, provinces. In Latin America, in Honduras, El Salvador, or Guatemala, municipal codes and laws allow for the option of developing IMC for service delivery and development goals, yet their application remains limited due to the low autonomy of the municipal level. Mexico stands out, with around one-quarter of municipalities being engaged in formal inter-municipal agreements for the joint supply of public services (water and sewerage, public security and public transport).

In some federal countries, IMC vary across state governments, such as in the United State where shared service agreements are commonly directed by individual state governments. In Argentina, IMC arrangements include the management of public service delivery (mainly electricity, gas and water) by cooperatives in rural areas, and through “Urban

agreements” near metropolitan areas. In Canada, where “special agencies”, “joint boards” and “commissions” are generally popular to provide specific services to groups of municipalities, some provinces, such as New Brunswick, have developed policies to promote IMC further at the local and metropolitan scales.

IMC takes the form of stronger forms of integration in some countries in Europe where associations of municipalities have the status of supra-municipal authorities with delegated functions, such as in France, Spain or Portugal. France, a country with a long tradition of inter-municipal cooperation, is the only country among the sample of the study in which all municipalities are part an IMC structure with own-source tax (*EPCI à fiscalité propre*). Therefore, the latter form a quasi-fourth subnational level of government. In Spain, *mancomunidades* and *comarcas* are entities created on a voluntary basis, as “associations of municipalities”, to carry out joint projects or provide common services. In Portugal, all municipalities are engaged in one of the numerous inter-municipal cooperative associations, and the new decentralisation programme set up in 2019 aims to increase IMC, including at metropolitan level. In Nordic countries, IMC is a common way, in particular for smaller-size municipalities, to arrange services: special-purpose joint authorities in Finland in education and health; formalised cooperation in waste management clinics and auditing in Norway; “municipal federations” and “common committees” to run joint services in Sweden. In addition, in Italy, Iceland or Greece, IMC is compulsory for smaller-size municipalities, with the aim of helping them carrying out their responsibilities and enhance efficiency of local policies (most often in primary school, and social services).

In other countries, co-operation is focused on economic and social development. In the Republic of Guinea, it takes the form of a public interest group, GREPAH. This organised structure gathers 10 entities and supports several Committees for Village Rural Track and Urban Road Maintenance, and more generally economic development. In the Republic of Moldova, IMC is regulated by a 2006 Law with the aim of enhancing integrated territorial co-operation.

In several countries across Africa and Euro-Asia (Azerbaijan, Kyrgyzstan, Senegal, Benin, Mauritania, Burundi, or Madagascar), IMC is promoted in the Constitution and encouraged by the legal framework, according to modalities set by national decrees. However, the lack of municipal autonomy in many countries may hinder its applicability and efficiency, and few examples of IMC exist in practice in countries such as Albania, or Uzbekistan.

On the other hand, inter-municipal cooperation also exists, to various degrees, in countries where IMC mechanisms are not formally implemented. In South Africa, local government legislation creates forums for cooperation between districts and municipalities. Although not formally legislated, shared services and IMC are high on the agenda at the national level. In addition, municipal councils in Mozambique or associations of local governments in Belarus provide basic platforms for collaboration at the municipal level, in the absence of formal legal framework.

Source: (OECD, 2019<sup>[4]</sup>; OECD/UCLG, 2019<sup>[15]</sup>)

Metropolitan governance reforms are one particular category of inter-municipal cooperation. Efficient metropolitan governance has become a priority topic in many countries. Administrative borders in metropolitan areas, based on historical settlement patterns, no longer reflect current human activities or economic and social functional relations (OECD, 2015<sup>[17]</sup>; OECD, 2015<sup>[18]</sup>). Enhancing cooperation and the coordination of public policies on a metropolitan-wide basis, in particular with regard to the provision

of public infrastructure and services, aims to improve the quality of life and international competitiveness in large cities.

The number of metropolitan governance authorities has increased considerably and there has been renewed momentum in the number of metropolitan governance bodies created or reformed since the 1990s, against the backdrop of the early 1990s recession and the 2008 financial crisis. Currently, around two-thirds of the metropolitan areas in the OECD have a metropolitan governance body (Ahrend, Gamper and Schumann, 2014<sup>[43]</sup>). The additional responsibilities given to metropolitan areas are often linked with infrastructure and planning tasks, such as public transport, environment, and spatial planning, as well as services targeted at local business.

The country profiles of the Observatory highlight a number of recent metropolitan governance reforms in OECD countries, like in France, Italy, the Netherlands, New Zealand or the United Kingdom (see also (OECD, 2019<sup>[4]</sup>).

Metropolitan governance reforms also increased in other regions of the world, Asia-Pacific, Latin America and Africa. In China, “city-region” models of governance have emerged over the past years, with the development of “urban clusters” as interconnected city-regions have become a salient feature of the “new urbanisation” policy. Mayors of these metropolitan areas are directly appointed by the central government representatives in each province. In Colombia, six metropolitan areas were set up in 2013 as legislated territorial jurisdictions, with enhanced administrative and fiscal autonomy compared to other urban regions. In Ecuador, the Metropolitan District of Quito (MDQ) is an example of an elected metropolitan council headed by an elected metropolitan mayor, and with broad responsibilities. In Brazil, in 2015, the Metropolis Statute (Law 13089) was adopted, which promoted the creation and management of metropolitan areas (78 areas in 2018). In South Africa, metropolitan municipalities are officially recognized since 1998, acknowledged as “Category A municipalities”. There are currently eight metropolitan municipalities (e.g. City of Johannesburg Metropolitan Municipality), and metropolitan councils are vested with municipal, legislative and executive powers and functions, as well as a single metropolitan budget.

Territorial and governance reforms to enhance and implement metropolitan governance are also still on-progress in several countries: in Georgia, the capital city of Tbilisi started a metropolitan governance project in 2009 encompassing the city of Rustavi and the municipalities of Mtskheta and Gardabani, and including cooperation in the sectors of water supply, sewerage system and solid waste management. In Togo, a new metropolitan urban planning framework is being developed to address the growth of its capital city, Lomé, beyond its administrative borders (Grand Lomé). In Zimbabwe, the establishment of metropolitan councils is provided in a 2013 Constitution amendment, but the government has not enacted the necessary legal framework for its implementation yet. In 2018, a new bill on decentralization was passed which spells out new mechanisms for decentralization and devolution of powers to provincial and metropolitan councils. In Morocco, in the absence of larger governing bodies, cooperation institutions were established by municipalities to form the Greater Casablanca.

The common features of metropolitan governance reforms in all regions of the world are that, apart from some exceptions, the metropolitan governance bodies tend to have less responsibilities and fiscal power when compared to individual municipalities (Schakel, 2019<sup>[17]</sup>; OECD, 2019<sup>[4]</sup>) and effective metropolitan governance remains a challenge. A notable feature of metropolitan government that is important to highlight is its limited fiscal



and borrowing autonomy. In general, the fiscal capacity and budgetary autonomy of metropolitan and urban government is particularly limited, which makes them more reliant on intergovernmental transfers from the participating municipalities and cities and from higher regional and national governments.

### ***Regional reforms***

Regionalisation reforms, understood here as the creation of new regions, or the strengthening of existing ones, have represented an important trend in multi-level governance since the 1980s. Such reforms have been particularly important, with the influence of the European Union and cohesion policy, but other regions of the world, in particular Asia and America have also experienced regional reforms in recent decades.

The motivation for regionalisation reforms varies across countries. The size of the country matters: large countries tend to have more layers of subnational governments (OECD/UCLG, 2016<sup>[12]</sup>). But, many countries of a relatively modest size have also introduced or strengthened a regional level in recent decades. The main objectives behind regionalisation reforms are an upscale in governance to generate countries of scale for public service provision, for example in the health or public transport sectors. Regions may also better respond to widening functional labour markets. Other objectives are to improve co-ordination between municipalities and intermediate levels of government in such areas as infrastructure delivery, spatial planning and land-use, for example. Larger regions are also expected to be more competitive: they have higher critical mass, more resources to implement effective regional development strategies, and the ability to foster intra-regional co-ordination and to implement more integrated territorial planning (OECD, 2017<sup>[6]</sup>).

Regionalisation can have very different implications for decentralisation: it can represent a form of decentralisation with respect to central government, but it can also generate centralisation at regional level with respect to local authorities; this situation is particularly common in the case of political regionalisation and in federal states.

In Europe, there have been in recent years trends towards regionalisation, that coexist with trends toward the reduction of the role of regions. Several countries have created new regions, notably in eastern European countries in the context of EU enlargement. Others have strengthened existing regions: this is the case in recent or current reforms in Nordic countries, France, Greece or Italy. In several Nordic and Central and Eastern European countries, responsibilities such as higher education, specialised health care and regional public transport were reassigned from the municipal and the central government levels to a newly created regional level. In France, the 2015 reform merged and reduced the number of regions from 26 to 17 (of which 12 in mainland France, along with Corsica and four overseas regions). In Norway, it was decided to abolish the 18 counties and to replace them with 11 larger regions by 2020, in order to strengthen the regions as functional units and to provide more coherent housing and labour market areas. In Portugal, Lithuania and Bulgaria, the creation of self-governing regions is currently discussed. In Finland, it was planned to create self-governing regions but the project was recently put on hold. In Sweden and Netherlands, regional mergers have been discussed but reforms were abandoned.

However, in recent years some European countries have also gone in the opposite direction and have reduced the role of regions. This is the case in Denmark with a reduction in the responsibilities assigned to regions, for example, or in Hungary through recentralisation reforms. In Estonia, the municipalities were recently strengthened by a radical merger reform, and at the same time the regional government level was abandoned and the tasks

were given to municipalities and central government agencies (Rahandusministreerium, 2019<sub>[18]</sub>).

In Asia, regionalisation reforms have also been quite important, in particular since the 1990s. Regionalisation is often asymmetric, to recognise the specific identities of certain regions. For example, in the Philippines, as of 2019, the country comprises 17 administrative regions, with one being autonomous.

In Latin America, regional reforms have also occurred in recent decades, but at a slower pace compared to other regions. In Chile, administrative regions became self-governing entities in 2017 and the first regional elections are to take place in 2020.

Regional reforms have also taken place in some African countries. In Mauritania, decentralised regions were established in 2018. In 2018, the 15 regions (*wilayas*), previously deconcentrated entities of the State, were grouped into six administrative regions and set up as decentralized local authorities, each with a regional council composed of members elected by direct universal suffrage for five years. They elect the governor (*wali*), as the head of the council, and his/her deputies. The Region of Nouakchott is divided into three *wilayas* (north, south and west)

In Cabo Verde, a law on regionalisation is being finalised and will introduce a new level (regions) between the central government and municipalities. In Ghana, following a national referendum on December 2018, six new regions were created, increasing the total number of regions in the country from 10 to 16. Regions are further divided for administrative purposes into 216 local districts.

Regionalisation trends raise several policy and governance implications. They increase the need for coordination across government tiers and the need for clarification in the assignment of responsibilities, in order to avoid overlap. In general, fiscal autonomy of regions is rather limited and regions depend quite heavily on the national government for financing. It is quite likely that regionalisation trends will continue to progress in the coming decades, to generate countries of scale in public service delivery and provide more effective regional development policies, given persistent territorial disparities. Scale issues thus need to be balanced with accountability and democratic issues. One trend that might increase as well is the differentiation of responsibilities assigned to different regions (OECD, 2019<sub>[18]</sub>).

## 4. What are subnational governments responsible for?

### 4.1. Overview of subnational government responsibilities

As shown in the country profiles, there is a wide variety in the distribution of responsibilities across levels of government. However, some general schemes emerge. Most responsibilities are shared across levels of government (Table 4.1).

In most federal countries, federal governments have exclusive and listed competences (foreign policy, defence, money, criminal justice system, etc.) while state governments have wider responsibilities. At the local level, local government responsibilities are defined by state constitutions and/or laws, and they can differ from one state to another.

In unitary countries, the assignment of responsibilities is generally defined by national laws, referring sometimes to the general clause of competence or “subsidiarity principle”, especially for the municipal level. Laws can also define whether a subnational responsibility is an own/ exclusive local function, a delegated task on behalf of the central government or a shared responsibility with another institutional government level. Some SNG tasks can be mandatory while others are optional.

**Table 4.1. Breakdown of responsibilities across SNG levels: a general scheme**

Municipal level	Intermediary level	Regional level
<p><b>A wide range of responsibilities:</b></p> <ul style="list-style-type: none"> <li>• General clause of competence</li> <li>• Eventually, additional allocations by the law</li> </ul> <p><b>Community services:</b></p> <ul style="list-style-type: none"> <li>• Education (nursery schools, pre-elementary and primary education)</li> <li>• Urban planning &amp; management</li> <li>• Local utility networks (water, sewerage, waste, hygiene, etc.)</li> <li>• Local roads and city public transport</li> <li>• Social affairs (support for families and children, elderly, disabled, poverty, social benefits, etc.)</li> <li>• Primary and preventive healthcare</li> <li>• Recreation (sport) and culture</li> <li>• Public order and safety (municipal police, fire brigades)</li> <li>• Local economic development, tourism, trade fairs</li> <li>• Environment (green areas)</li> <li>• Social housing</li> <li>• Administrative and permit services</li> </ul>	<p><b>Specialised and more limited responsibilities of supra-municipal interest</b></p> <p><b>An important role of assistance towards small municipalities</b></p> <p><b>May exercise responsibilities delegated by the regions and central government</b></p> <p><b>Responsibilities determined by the functional level and the geographic area:</b></p> <ul style="list-style-type: none"> <li>• Secondary or specialised education</li> <li>• Supra-municipal social and youth welfare</li> <li>• Secondary hospitals</li> <li>• Waste collection and treatment</li> <li>• Secondary roads and public transport</li> <li>• Environment</li> </ul>	<p><b>Heterogeneous and more or less extensive responsibilities depending on countries (in particular, federal vs unitary)</b></p> <p><b>Services of regional interest:</b></p> <ul style="list-style-type: none"> <li>• Secondary / higher education and professional training</li> <li>• Spatial planning</li> <li>• Regional economic development and innovation</li> <li>• Health (secondary care and hospitals)</li> <li>• Social affairs e.g. employment services, training, inclusion, support to special groups, etc.</li> <li>• Regional roads and public transport</li> <li>• Culture, heritage and tourism</li> <li>• Environmental protection</li> <li>• Social housing</li> <li>• Public order and safety (e.g. regional police, civil protection)</li> <li>• Local government supervision (in federal countries)</li> </ul>

Source: (OECD, 2018<sub>[1]</sub>; OECD, 2019<sub>[4]</sub>)

While these regulations might be clear in theory, the reality is somewhat different. The breakdown of competences between central/federal government and SNGs as well as across

SNG levels is particularly complex in many countries, with many cases of asymmetric decentralisation of responsibilities (Box 4.1).

Complexity in the distribution of responsibilities can also lead to competing and overlapping competences and a lack of accountability concerning public policies. In several countries from Asia-Pacific such as Australia, Malaysia, Korea, Japan or Philippines, there is a frequent overlap in responsibilities both vertically (between central/federal and subnational governments) and horizontally (within the different subnational layers). This results from shared competencies as well a complex system of delegation. In several countries such as China or Vietnam, local governments may be delegated additional responsibilities by higher levels of government (OECD/KIPF, 2019<sup>[11]</sup>).

#### **Box 4.1. Towards more asymmetric decentralisation at global level**

Differentiated subnational governance (or asymmetric decentralisation) means that at the same level of government, different types of responsibilities or multi-level governance arrangements exist. Asymmetric arrangements have been used since at least the 1950s. However, they are growing in popularity and the trend is accelerating. During the last seven decades or so, asymmetric arrangements have become more common especially among unitary countries. The trends also indicate that once adopted, asymmetric arrangements are maintained in the long-term.

Asymmetric decentralisation means that governments at the same subnational level have different political, administrative or fiscal powers:

- **Political:** some regions or subnational governments have been given political self-rule that deviates from the norm or average assignment.
- **Fiscal:** includes a wide variety of measures including special spending responsibilities, revenue bases or taxation rights and additional transfers granted to particular subnational entities.
- **Administrative/management:** aims to take the different capacities of subnational governments into account and may include, for example, sequencing a national policy so that the subnational governments that fulfil certain predetermined standards are given greater autonomy in spending and revenue collection.

Historically, asymmetric decentralisation could be found mainly at the regional level, as is the case in Finland, Georgia, Portugal, Serbia, Canada, Sweden, Spain. Regional asymmetric decentralisation often has its roots in geographical, historical, cultural or linguistic reasons.

However, there is a growing trend towards municipal and/or local asymmetric decentralisation. At the metropolitan level, special status can also be given to capital cities and/or metropolitan governance bodies to address specific challenges and capacities of metro areas (e.g. in France, Italy, UK, US, and Germany).

Finally, at the local level, different sets of responsibilities can be given to different municipalities, depending on their capacities and classifications (e.g. urban/rural). Such systems can be found in Denmark, Czech Republic, Colombia, Norway, and Sweden. Related, in most federal countries, local governments are governed by the federated state constitution and legislation, and thus roles, responsibilities, and even names of local

governments may differ across the states (Argentina, Australia, Canada, Russian Federation, United States, etc.).

More and more unitary countries are now putting in place asymmetric decentralisation, while this was once most common in federal countries.

In the Asia-Pacific region, asymmetric arrangements are also widespread, reflecting the diversity in terms of territorial organisation. Autonomous regions, capital cities, cities with special status, and other specific categories of local governments may have different responsibilities, revenue assignments or special rights (e.g. to borrow) than those of “ordinary” status. In Thailand, for example, the three types of municipalities (i.e. sub-district municipality, town municipality and city municipality) have different responsibilities. In addition, they may also exercise differentiated tasks within the same sub-type, e.g. “Must-Do” and “May-Do” duties. In New Zealand, functions of the 67 “territorial authorities” (city, district and unitary councils) are approved through consultation with their communities, therefore differing from one council to another. In Japan, the 20 designated cities and the 23 Metropolitan Tokyo special wards enjoy more administrative and fiscal autonomy than the other municipalities. In Vietnam, rural local governments include communes, rural districts and provinces while urban local governments include wards and commune-level towns (townships), urban districts, district-level towns and provincial cities,

Source: (Allain-Dupré, Chatry and Moisiso, Forthcoming<sup>[24]</sup>; OECD, 2019<sup>[6]</sup>)

## 4.2. Education, social protection, general public services and health are the main areas of subnational government spending

The breakdown of subnational expenditure by functional area (COFOG) reflects both the involvement of subnational governments in some key areas for local development and well-being (education, health, social protection, environment, etc.) and the distribution of responsibilities across the different levels of government.<sup>5</sup> At global level, education, social protection, general public services (mainly administration) and health are the primary areas of subnational spending both as a share of GDP and share of subnational government expenditure. There are however significant differences across countries (Figure 4.1 and Figure 4.2).

### *Education*

Education is the primary area of SNG spending (primary and secondary as well as higher education in some countries) both as a share of GDP and share of subnational government finance. On unweighted average, education accounts for 2.6% of GDP and 23.6% of SNG expenditure for all 67 countries with available data. Spending on education is significantly higher in federal countries than in unitary countries as a share of GDP (4.5% vs 2.2 % of GDP) but as a share of total subnational spending, education accounts for a larger share in

<sup>5</sup> Expenditure (current and capital) by functional classification presented in this section follows the classification of the ten functions of government or COFOG. However, this international classification is not used in all countries. Where national classification did exist but was too different or partial, it was not included in the statistical analysis. These two factors explain the relatively small sample of countries (67 countries).

unitary countries than in federal countries (23.9% vs 22.2%). In federal countries, states account for a larger share of spending than local governments (Table 4.2).

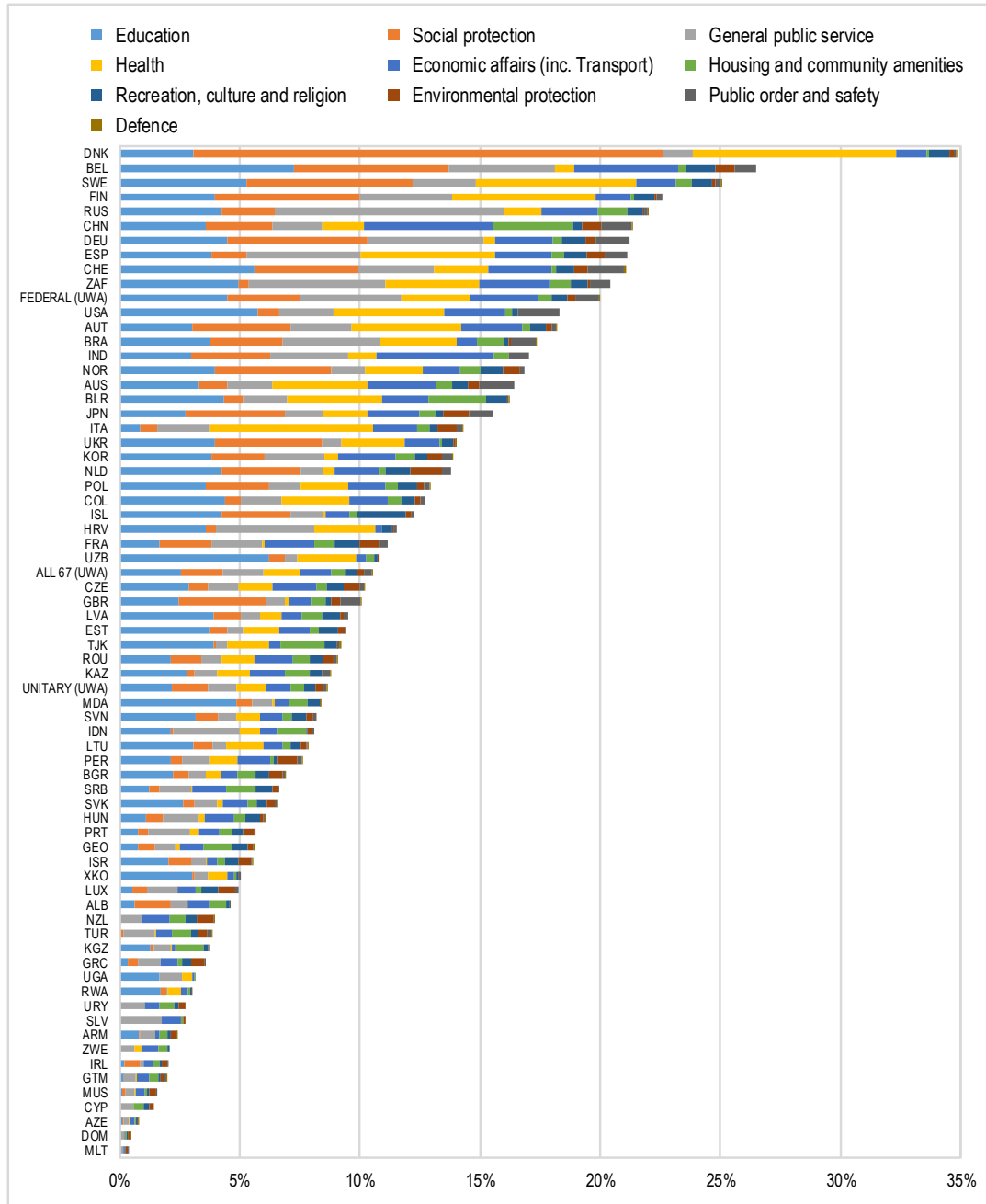
### *Social protection*

Social protection is the second largest spending category. It comprises expenditure related to social services and benefits as well as investment in social infrastructure for families, children and youth, elderly, the unemployed, disabled people, deprived persons, immigrants, etc. Social protection expenditure accounts for 1.8% of GDP and 12.4% of SNG spending for all 67 countries on unweighted average. In federal countries, the share of social protection spending in GDP and in total subnational spending is much higher than in unitary countries (respectively 3.0% vs 1.5% of GDP and 14.7% vs 11.9% of subnational spending).

### *General public services*

The third highest spending area is general public services (1.7% of GDP and 18.5% of subnational spending). This function accounts for 4.2% of GDP and 20.8% of subnational expenditure in federal countries and only 1.2% of GDP and 18.1% in unitary countries. It includes all expenses relating to the organisation and operation of government, the collection of taxes and the management of public debt. In federal countries, administrative functions are particularly developed at state government level, explaining the importance of this area for federal countries (Table 4.2).

**Figure 4.1. Subnational government expenditure by functional classification as a percentage of GDP (2016)**



Source: Authors' calculations based on SNG-WOFI database: [www.sng-wofi.org](http://www.sng-wofi.org)

### **Health**

Spending on health accounts for 1.5% of GDP and 10.7% of subnational expenditure for all 67 countries. Health spending is significantly higher in federal countries (2.9% of GDP and 15.3% of subnational expenditure), as state governments have wide responsibilities, including the management of public hospitals, specialised medical services and basic

healthcare. In unitary countries, subnational health spending amounts to 1.2% of GDP and 9.8% of subnational spending.

### ***Economic affairs and transport***

SNG spending on economic affairs (economic interventions in the industrial, energy, mining, agricultural and construction sectors, etc.) and transportation (roads, public transport, etc.) accounted for 1.3% of GDP and 13.9% of subnational spending for all 67 countries on unweighted average. It reaches a higher share in federal countries (2.8% of GDP and 14.1% of subnational spending) than in unitary countries (1.0% of GDP and 13.9% of subnational spending).

### ***Housing and community amenities***

Housing and community amenities include expenditure related to water supply, public lighting, urban heating, social housing, community development, etc. It is a major function of subnational governments. However, as a share of GDP it accounts for only 0.6% of GDP for the 67 countries. As a share of subnational expenditure, this sector amounts to 8.9% in unitary countries, slightly more than for the whole sample (8.0%) but significantly more than in federal countries (3.1%). In federal countries, this function is more carried out by local governments than by state governments which explains why the average at subnational level is low (Table 4.2).

### ***Recreation, culture and religion***

Recreation, culture and religion services and infrastructure (sports, libraries, recreational areas, museums, cultural heritage, etc.) are also key responsibilities of subnational governments. However, expenditure in these areas accounts for only 0.5% of GDP and 5.6% of subnational spending at global level. This share is however higher in unitary countries than in federal countries (6.1% vs 3.0% of subnational spending).

### ***Environmental protection***

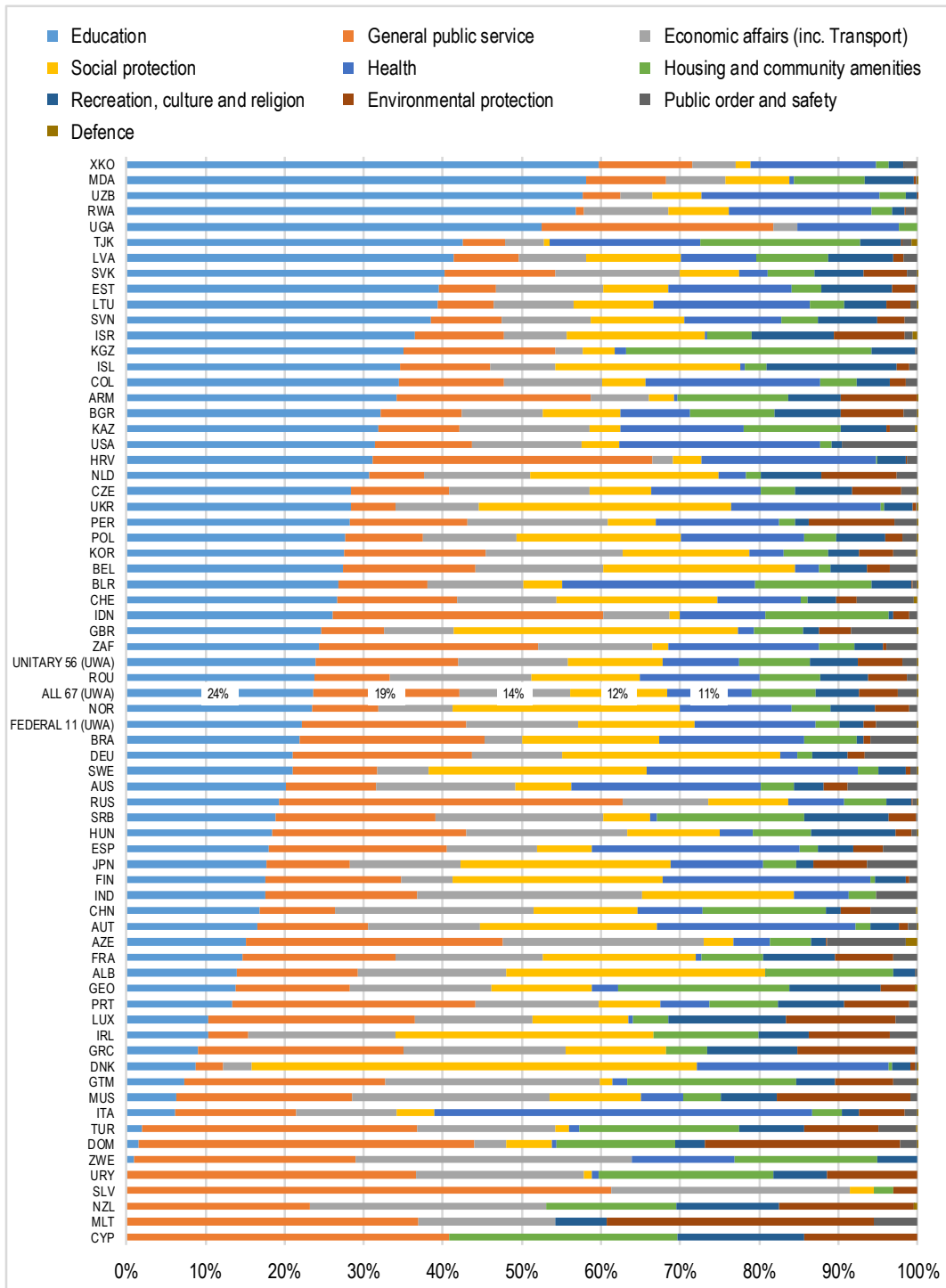
In numerous countries, subnational governments are responsible for a wide range of services and investment related to environmental protection, which comprises spending related to waste collection and treatment, sewerage, parks and green areas, air pollution, noises, soil protection, nature preservation, etc. As a share of GDP, environmental protection accounts for only 0.3% of GDP on average in the 67 countries of the sample. It amounts to 5.0% of subnational expenditure overall but only 1.5% in federal countries vs 5.7% in unitary countries. In federal countries, environmental protection is mainly a local government spending responsibility.

### ***Public order and safety and defence***

Public order and safety expenditure includes local and regional police services, fire-protection services, prisons, civil protection and emergency services. For all 67 countries, it accounts for 0.3% of GDP on unweighted average. However, in federal countries where state governments play a key role in this area, it amounts to 1.0% of GDP, while in unitary countries, local spending in this area is low (less than 0.2% of GDP). Defence remains marginal as it is very rarely a subnational responsibility.

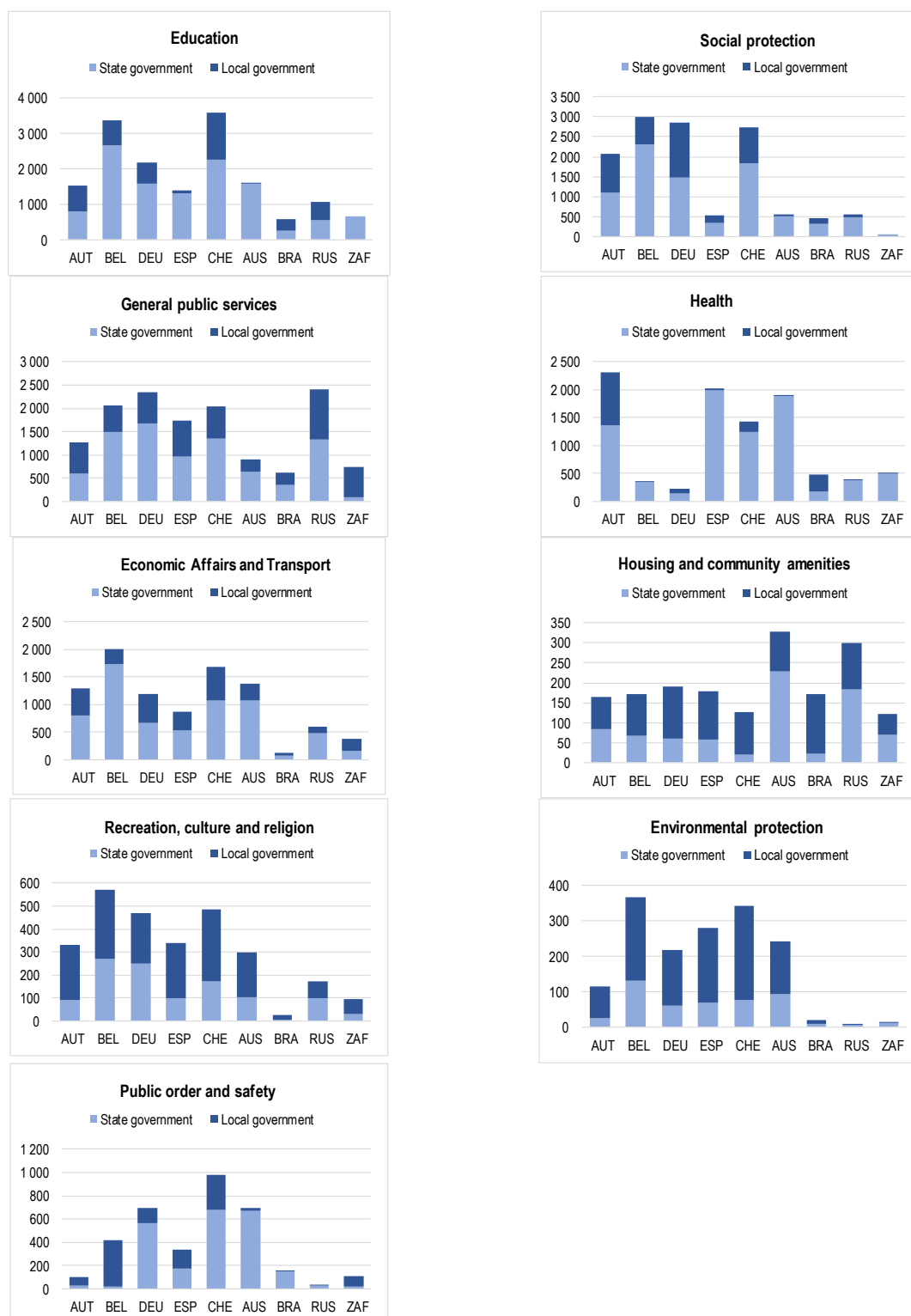


**Figure 4.2. Subnational government expenditure by functional classification as a percentage of total subnational government expenditures (2016)**



Source: Authors' calculations based on SNG-WOFI database: [www.sng-wofi.org](http://www.sng-wofi.org).

**Table 4.2. State and local government spending by function in federal countries (USD PPP per capita, 2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

## 5. What role do subnational governments play in public spending?

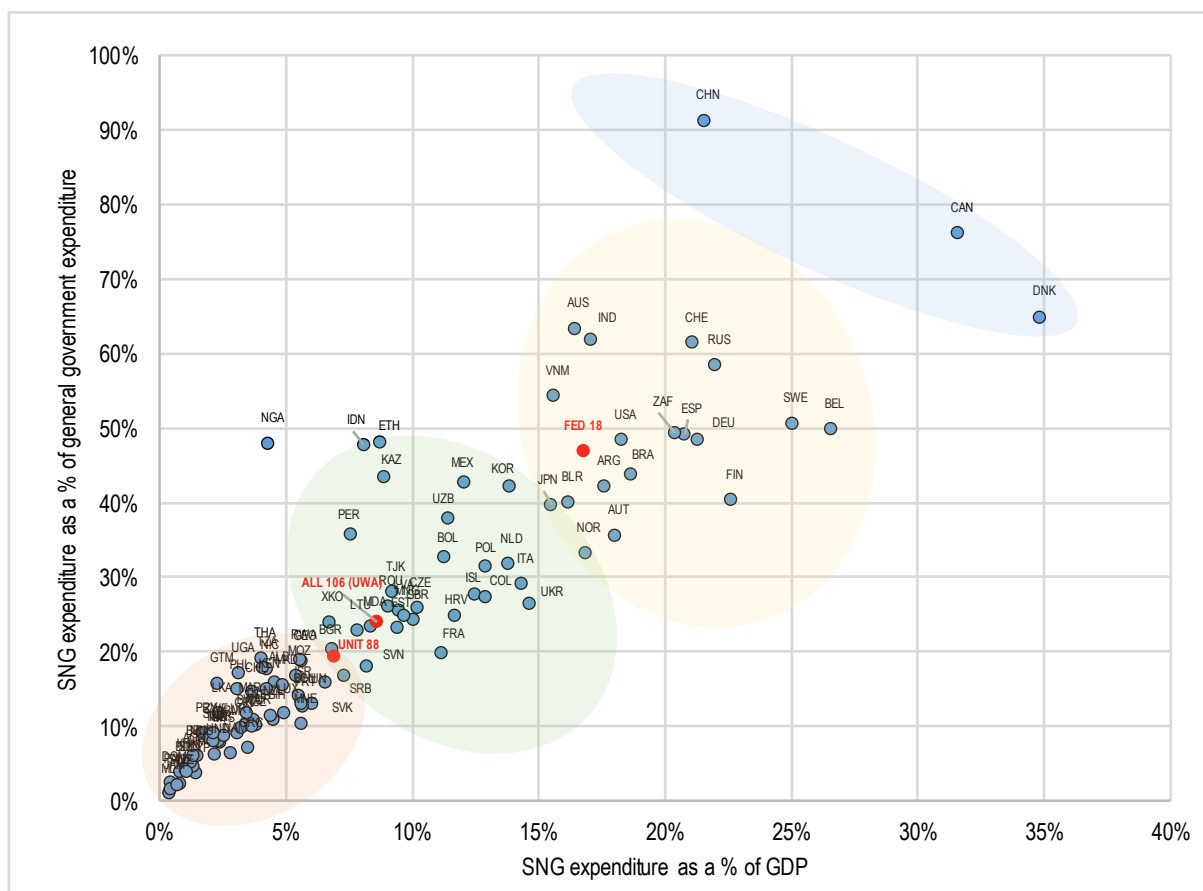
### 5.1. One quarter of public spending, i.e. 9% of GDP, is at the subnational level

In 2016, SNG spending accounts for 24.1% of total public spending and 8.6% of GDP on average (unweighted) for the 106 countries in the sample with available data, amounting to 2 505 USD per capita.

#### *Subnational expenditure varies considerably across countries and groups of countries*

In federal countries, subnational government expenditure, which combines spending by the state governments with spending by the local public sector, is much higher than the average accounting for 16.8% of GDP and 46.9% of total public expenditure in 2016. In unitary countries, this is the reverse: subnational government expenditure is slightly below the global average: 6.9% of GDP and 19.4% of public expenditure (Figure 5.1).

**Figure 5.1. Subnational government expenditure as a percentage of GDP and general government expenditure (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

Different groups of countries can be distinguished. The first group is made up of three countries that stand apart from the others in terms of their particularly high subnational spending in GDP and total public expenditure: two are unitary countries (China and Denmark), while the third is a federal country (Canada). In China, more than 90% of public expenditure is made by subnational governments. But, China is particularly representative of a “magnifying effect” which can distort the reality of spending autonomy. China might seem to be one of the most decentralised countries in the world. However, subnational governments are part of the national governmental system and most spending is provided on behalf the central government.

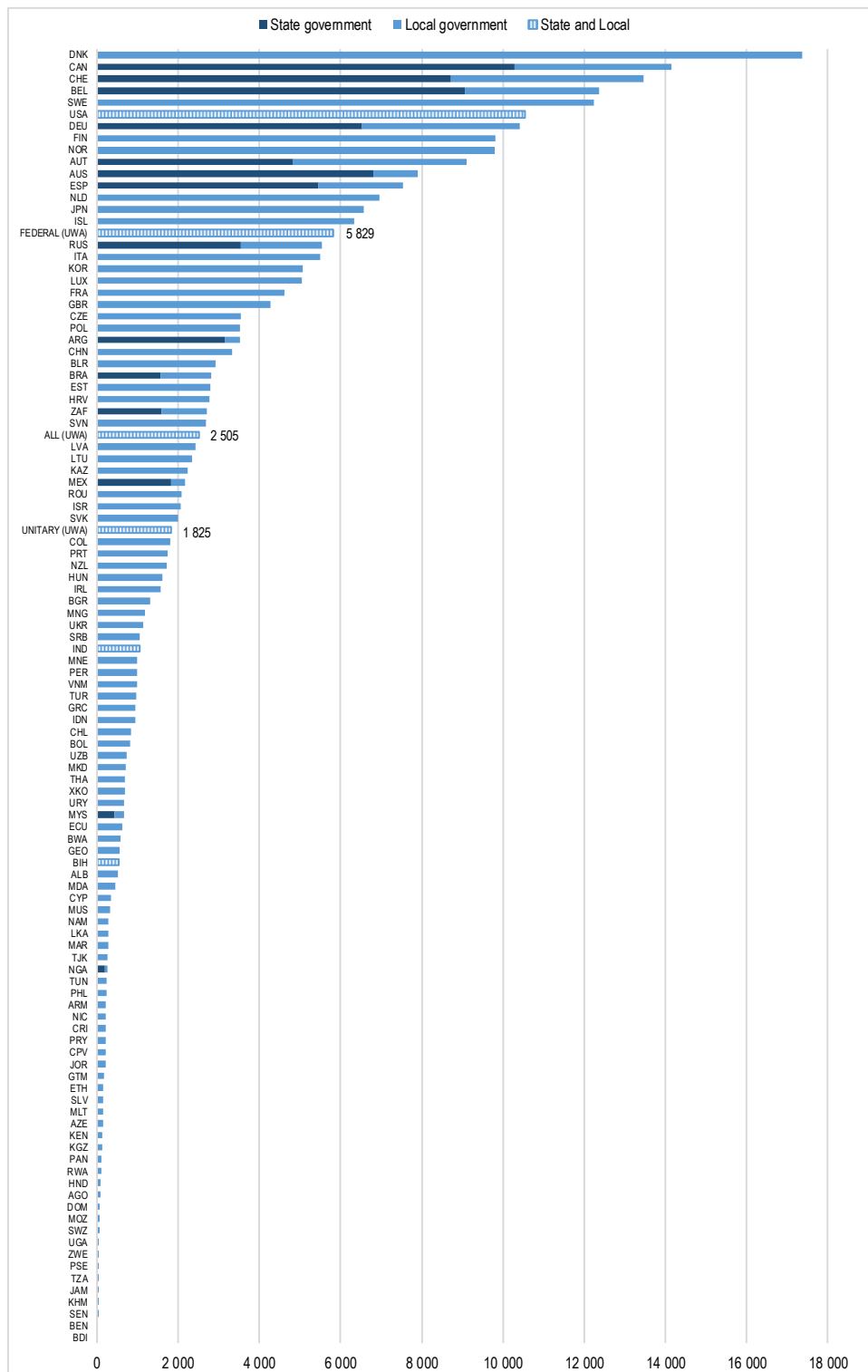
The second group with high level of public spending carried out at subnational level (over 30%) and accounting for a large share of GDP (between 15% and 27%) comprises mostly federal countries. There are however six unitary countries in this group: Finland, Sweden, Norway, Vietnam, Japan and Belarus.

The third group includes countries where the level of subnational government spending is comprised between 8% and 15% of GDP and 15% and 50% of public spending. This group comprises unitary countries, with two exceptions: Mexico and Ethiopia. A majority are from Europe. However, there are three Latin America countries (Colombia, Peru and Bolivia), five Euro-Asian countries (Kazakhstan, Moldova, Tajikistan, Uzbekistan, Ukraine), three Asian countries (Indonesia, Korea, Mongolia) and only one from Africa (Ethiopia).

At the other end of the spectrum, are more centralised countries where local authorities have limited spending responsibilities, resulting in low spending ratios (less than 8% of GDP and 20% of public spending). This group of 59 countries comprises only one federal country (Malaysia), all others being unitary. They include 90% of African countries included in the sample, 67% of Latin America countries, 43% of Asia-Pacific countries, all four countries from Middle East and West Asia, four Euro-Asia countries and 38% of European countries. This category includes 10 OECD countries. In six OECD countries, subnational government spending accounted for less than 5% of GDP in 2016 (Ireland, Greece, Chile, Turkey, New Zealand and Luxembourg).

Subnational government expenditure amounts to 2 505 USD PPP per capita on unweighted average in 2016 at global level (106 countries), but there are huge variations across countries and groups of countries. Again, subnational spending in federal countries is higher, amounting to 5 829 USD PPP per capita on unweighted average vs 1 825 USD PPP per capita in unitary countries (Figure 5.2). In federal countries, the share of expenditure carried out by local government compared to that of state government varies significantly from one country to another: while more than 40% of SNG expenditure is carried out by municipalities in Austria, Brazil and South Africa, local governments represent less than 16% of SNG expenditure in Mexico, Australia and Argentina (Figure 5.2).

**Figure 5.2. State and local government expenditure in USD PPP per capita (2016)**

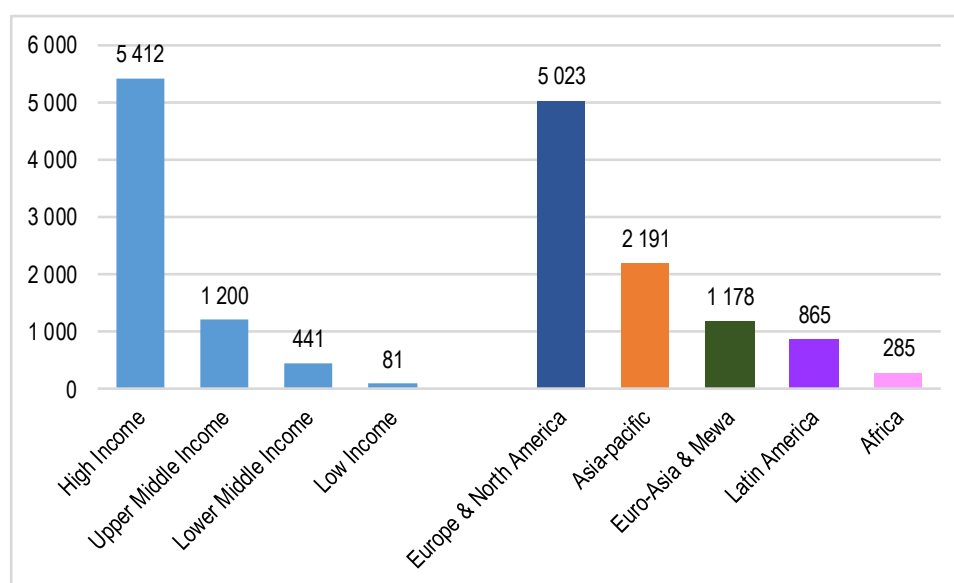


*Note:* In the United States and India, there is no disaggregated data available between state and local governments.

*Source:* Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

By income groups and geographical areas, there are the same discrepancies: 81 USD per capita in low income countries vs 5 412 in high income countries; 285 USD PPP in Africa vs 5 023 USD PPP per capital in Europe and North America (Figure 5.3).

**Figure 5.3. Subnational government expenditure by income groups and geographical areas in USD PPP per capita, 2016**

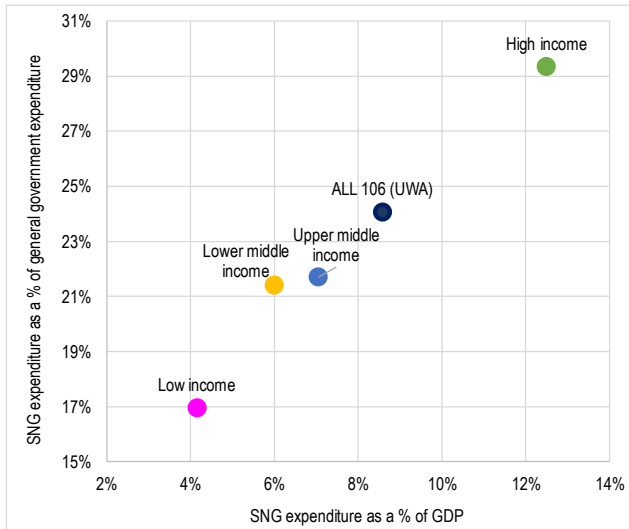


Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

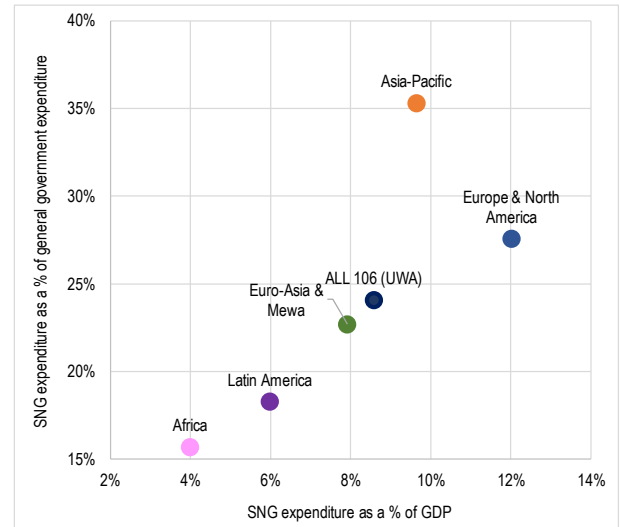
Similarly, as share of GDP and share of total public spending, high income countries have the highest level of subnational spending while the low income countries have, for their majority, a low level of subnational spending (Figure 5.4).

As a share of public expenditure, subnational government expenditure accounts for 35% in the Asia-Pacific region, i.e. the highest ratio in all five regions. As a share of GDP, Europe & North America ranks first. For both ratios, Africa ranks last among the five regions (Figure 5.5).

**Figure 5.4. SNG expenditure as a percentage of GDP and public expenditure by income groups (2016)**



**Figure 5.5. SNG expenditure as a percentage of GDP and public expenditure by geographical areas (2016)**



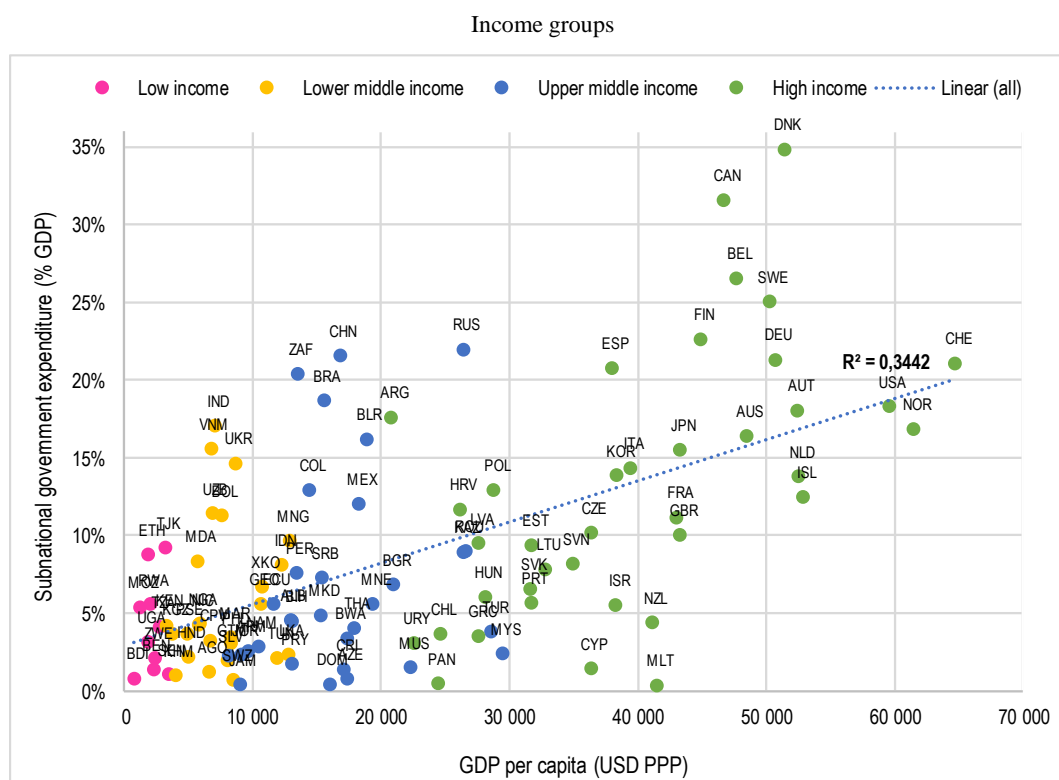
Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

***The level of decentralisation of expenditure is positively correlated to the level of development of countries***

Figure 5.6 indicates a positive correlation between subnational expenditure as a percentage of GDP and GDP per capita, suggesting that wealthier countries tend to be more decentralised and implying, by contrast, that centralised countries tend to be less wealthy. Correlation does not mean causation and therefore, it is not possible to say whether decentralisation favours development or whether it is development which goes hand in hand with decentralisation.

Nevertheless, it is important to note that there are several counter-examples. Some high-income countries are centralised, like Israel, Ireland or New Zealand, while several low or middle-income countries are decentralised, like Vietnam. In addition, the positive relation between GDP per capita and decentralisation does not hold for upper-middle-income countries.

**Figure 5.6. Comparing subnational government expenditure as a percentage of GDP and GDP per capita (2016)**



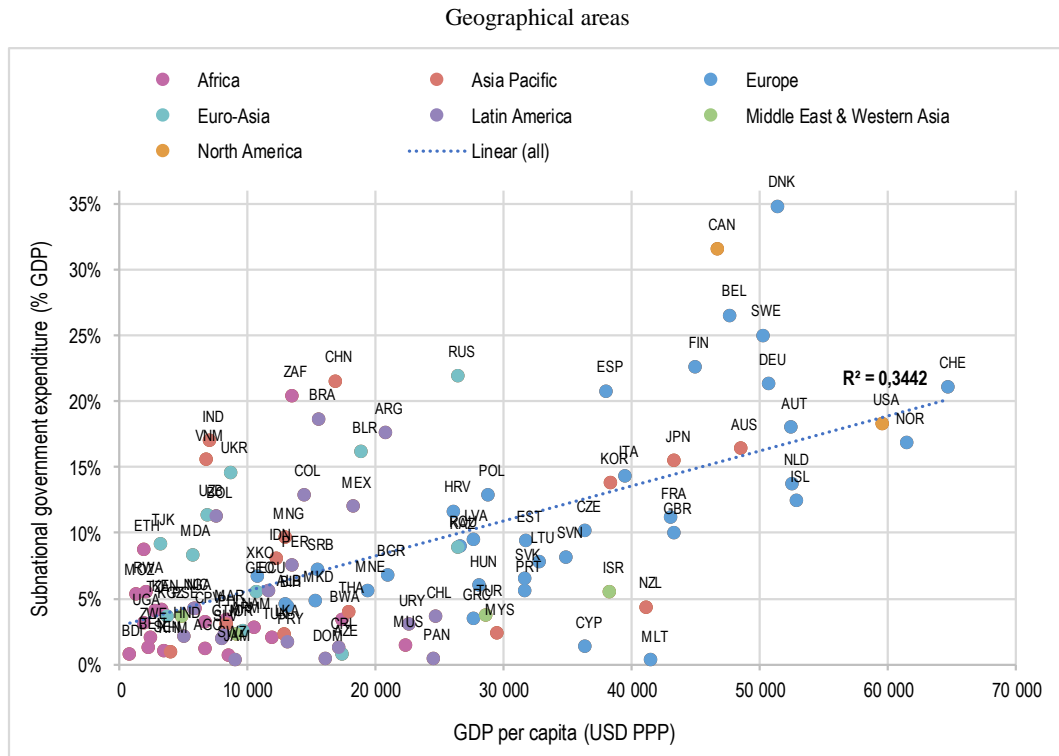
*Note:* Luxembourg and Ireland are not included on the graph as they represent extreme cases due to their high GDP per capita.

*Source:* Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

It is also interesting to note, that while the correlation between decentralisation and GDP per capita is very strong in European countries, it is relatively strong in Euro-Asian, Latin American and Asia-Pacific countries but less for African countries included in the sample (Figure 5.7). This confirms that, beyond the level of wealth, there are many other geographic, socio-economic, historical and institutional factors that explain why a country is centralised or decentralised or why a country is wealthy or not.



**Figure 5.7. Comparing subnational government expenditure as a percentage of GDP and GDP per capita (2016)**

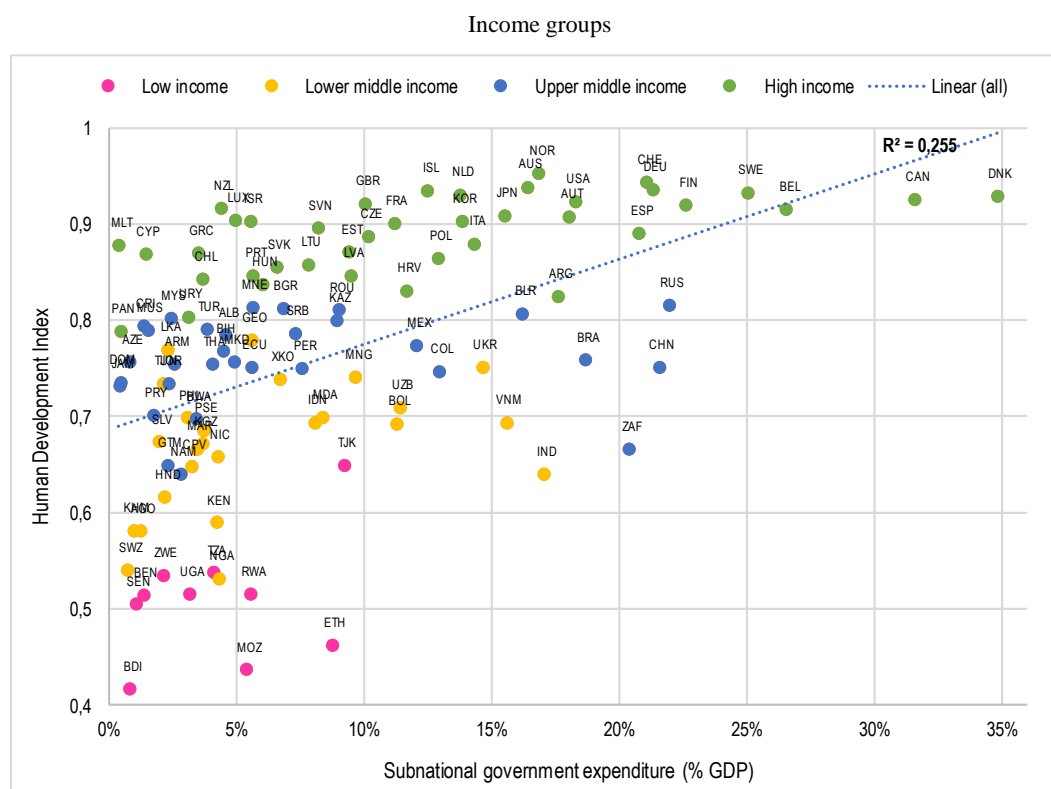


*Note:* Luxembourg and Ireland are not included on the graph as they represent extreme cases due to their high GDP per capita.

*Source:* Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

Finally, although again no conclusion can be drawn in terms of causality, Figure 5.8 shows that there is a positive relation between decentralisation and the level of human development.

**Figure 5.8. Comparing subnational government expenditure as a percentage of GDP and Human Development Index (2016)**

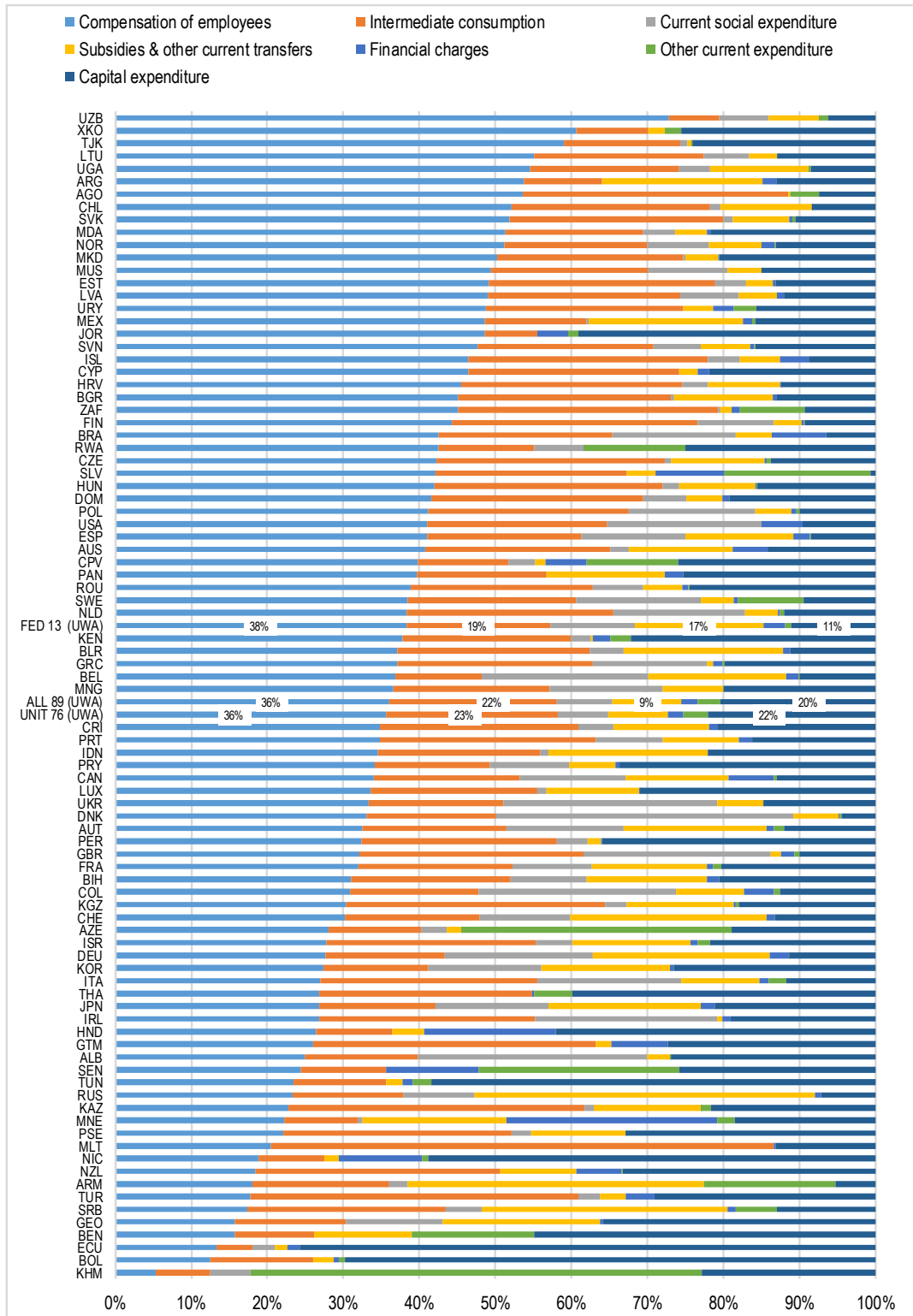


Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

## 5.2. Staff expenditure, intermediate consumption and capital expenditure are the top three spending items for subnational governments

Staff expenditure, intermediate consumption (purchase of goods and services) and capital expenditure (capital transfers and direct investment) are the top three spending items on unweighted average in the country sample of 89 countries for which data are available (Figure 5.9). Staff expenditure is, by far, the most important expenditure item accounting for 36% of subnational government spending. It is followed by intermediate consumption and capital expenditure, respectively 22% and 20% of expenditure and then, subsidies and other current transfers (8%), current social expenditure (social benefits), other current expenditure and financial charges (mainly interest expenses). Overall, current expenditure accounted for 78% of expenditure on unweighted average in 2016.

**Figure 5.9. Subnational government expenditure by economic classification (% , 2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

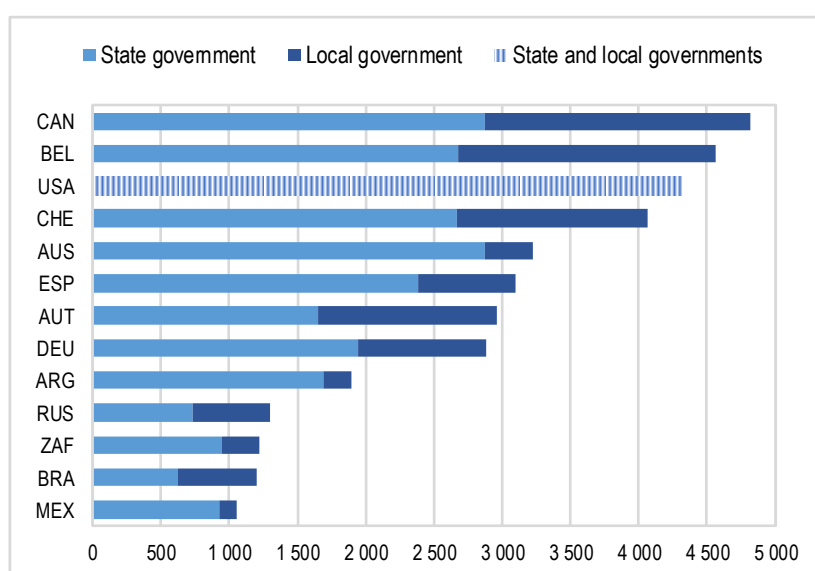
## Staff expenditure

### *Staff expenditure is the first expenditure item of subnational government*

In 2016, staff expenditure accounted for 36% of subnational spending i.e. 3.2% of GDP. The institutional nature of the country does not seem to have a great impact on the weight of staff spending in total subnational spending, although the unweighted average for federal countries (38%) is slightly higher than those of unitary countries (36.0%). At country level, variations are however much wider, ranging from 5% in Cambodia to 73% in Uzbekistan (Figure 5.9). In some federal countries (Switzerland, Germany, the Russian Federation), the weight of staff expenditure in total subnational government level is less than 30%.

In 2016, in federal countries, state governments accounted for 62% of subnational staff expenditure vs 38% for the local level only. In Mexico, Argentina, Australia, the share was over 88% while in Austria, Brazil and Russia, it was less than 56% (Figure 5.10).

**Figure 5.10. Staff expenditure at state and local government levels in federal countries (USD PPP per capita, 2016)**



Note: No disaggregated data in United States and India.

Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

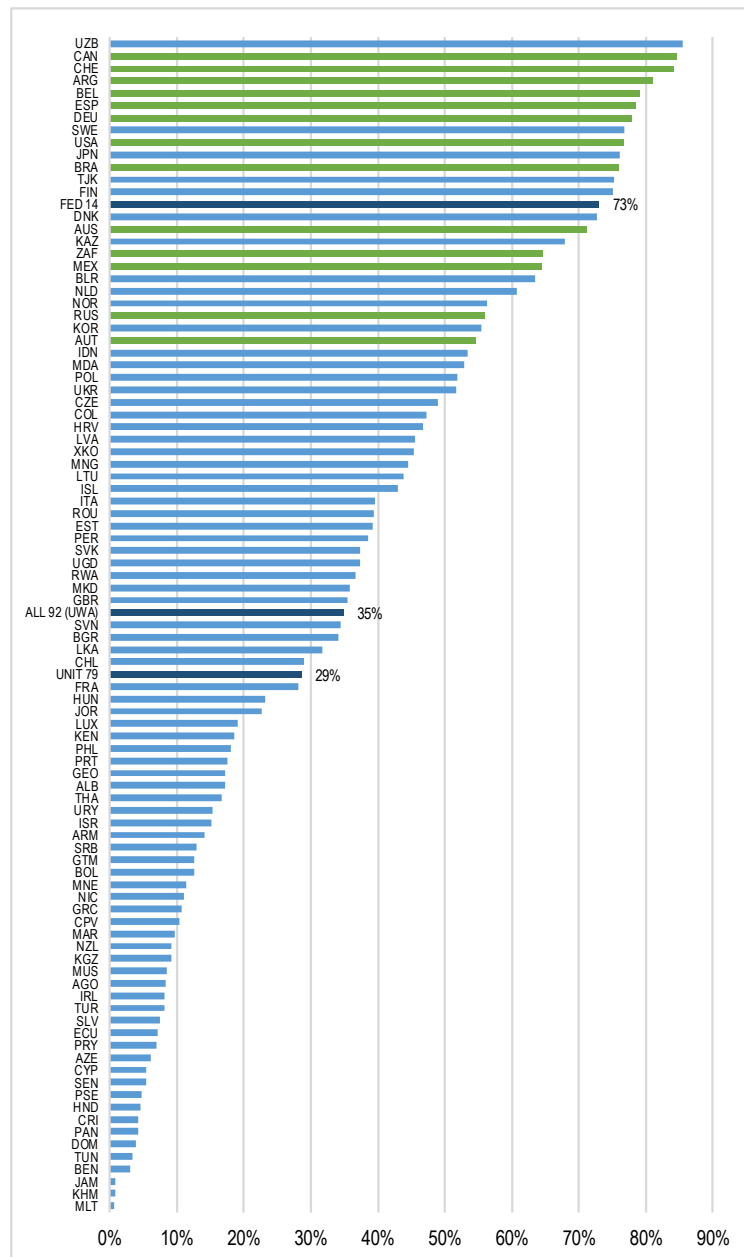
### *Subnational governments are key public employers in several countries around the world*

In 2016, SNGs undertook 35% of all government personnel expenditure on unweighted average. However, there are wide variations across individual countries and between federal and unitary countries (Figure 5.11). SNGs are key public employers, either directly or on behalf of the central government in sectors such as education, health, social services or public order (local police force).

In most federal countries, subnational governments employ the majority of public sector workers. In federal countries, SNG staff spending amounted to 73% of public staff expenditure on unweighted average. However, some federal countries such as Austria, the

Russian Federation are below both federal averages. In unitary countries, SNGs generally account for less of public staff expenditures, undertaking 29% of all government personnel expenditure on unweighted average. Some unitary countries are well above both unitary country averages, in particular Uzbekistan, Sweden, Japan, Tajikistan, Finland and Denmark. In these countries, SNGs employ a large share of public workers, chiefly in the social and health sector.

**Figure 5.11. Subnational government staff expenditure as a percentage of total public staff expenditure (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

### *Intermediate consumption*

The share of intermediate consumption varies from 5% in Ecuador to 66% in Malta. This category includes a great variety of expenditure such as small equipment and supplies, maintenance and repairs, general expenses, heating and electricity, communications and IT, studies, consulting, insurance, etc. This spending item can fluctuate a lot depending on changes in certain components such as energy (fuel, electricity) and commodities – or VAT rates.

### *Capital expenditure*

#### *The share of capital expenditure in subnational government expenditure*

The share of capital expenditure in total SNG expenditure ranges from less than 5% in El Salvador or Denmark to over 59% in Burundi, Nicaragua, Bolivia and Ecuador.

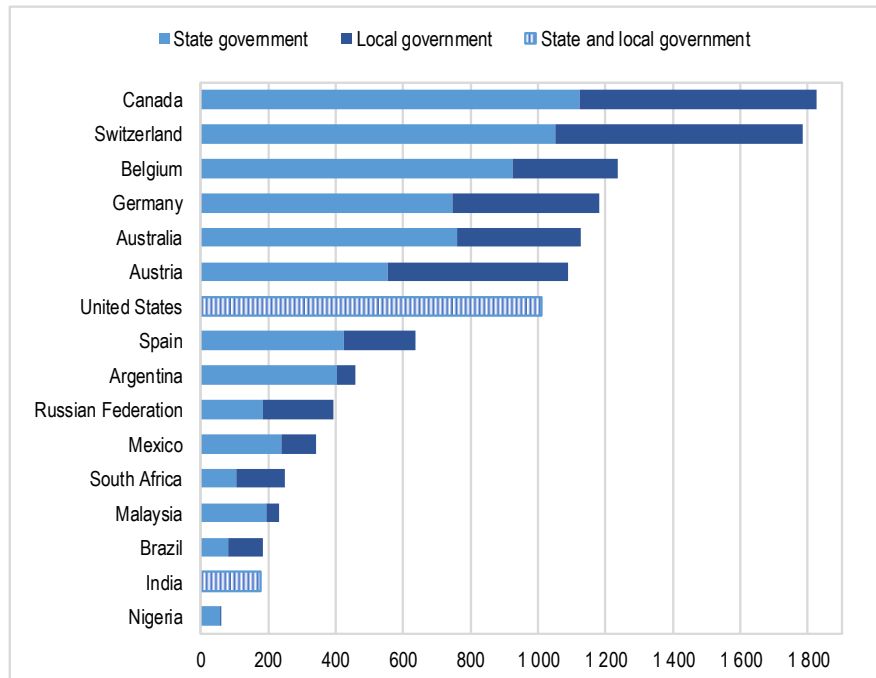
In Bolivia, Ecuador and Nicaragua, as well as in other countries, the ratio tend to be high, in part due to the legal constraints that made mandatory for local governments to spent a percentage of local budgets in capital expenditure. Investment priorities are defined in local development plans that are also mandatory (and should be consulted with communities).

More globally, the ratio tends to be higher in more centralised countries where subnational governments have few management responsibilities, concentrating on investment, very often on behalf of the central government. In these countries, subnational governments are often used to channel public investment in territories and they rarely invest on their own according to their own priorities.

In contrast, the share of capital expenditure in subnational government expenditure is lower in federal countries (11%) than in unitary countries (22%). With a wide range of responsibilities in federal countries, SNG expenditure is mobilised not only for investment but also for current expenditure (salaries, social expenditure, purchase of goods and services, etc.), reducing, in relative terms, the share of investment. In federal countries, local governments account for 35% of subnational capital expenditure on average vs 65% for the state governments. However, in Austria, Russian Federation, Brazil and South Africa, local governments account for more than a half of total subnational capital expenditure (Figure 5.12).

The share of capital expenditure in subnational expenditure can also be low in unitary countries, in two radically opposed cases: in decentralised countries for the same reasons as in federal countries (e.g. Denmark) and in very centralised countries, where in any case, subnational governments have a limited role, both in terms of investing and delivering local public services.

**Figure 5.12. State and local capital expenditure in federal countries (USD PPP per capita, 2016)**



Note: No disaggregated data in United States and India.

Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

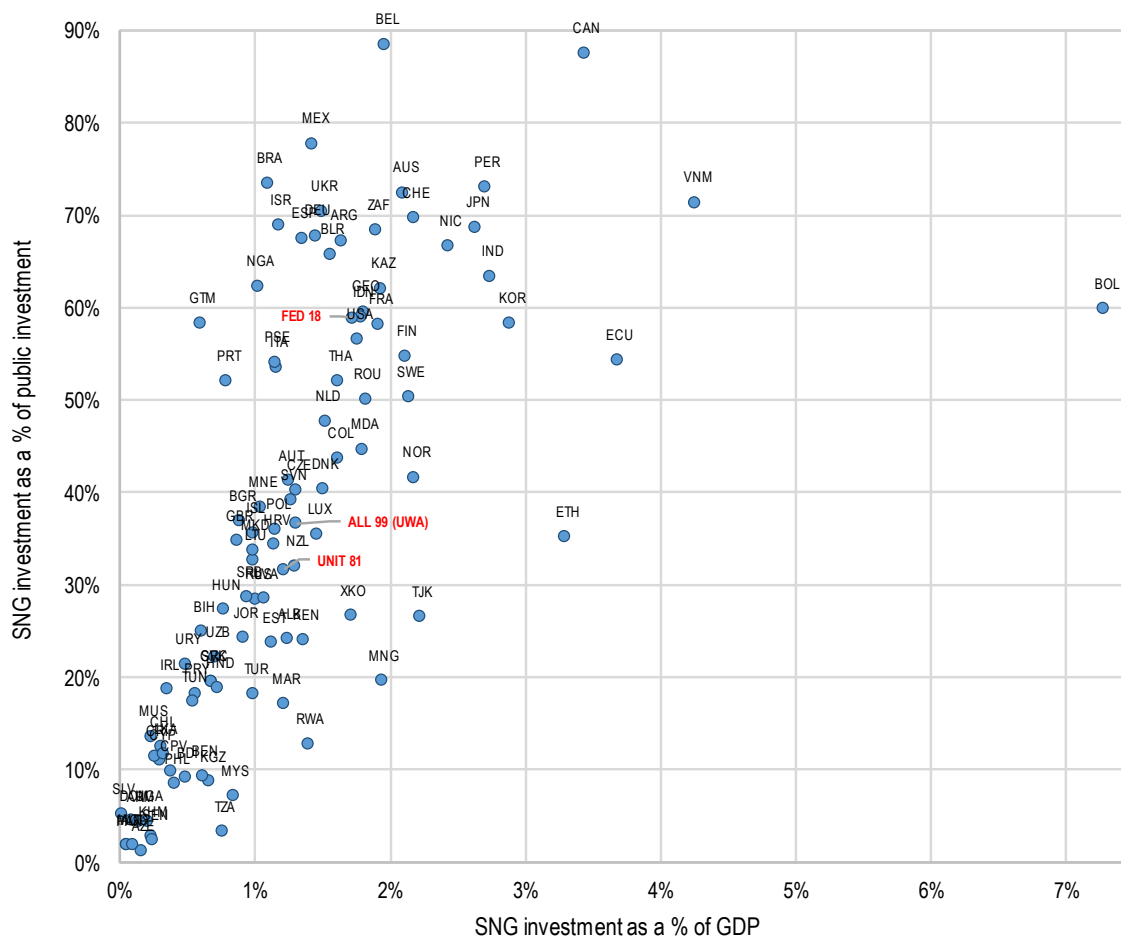
### *SNGs are key public investors in many countries in the world*

In 2016, SNG investment amounted 36.6% of total public investment on unweighted average in the country sample of 99 countries with available data (Figure 5.13).

The share of subnational governments in overall public investment however differs widely across countries: from having almost no role – or a very minor role to a key role. Subnational government investment exceeds 50% of public investment in 36 countries, and even 65% in 17 countries.

Overall, the share of subnational government in public investment is larger in federal countries, reaching 58.9%, and less in unitary countries (31.7%). In Brazil, Mexico, Belgium and Canada, subnational investment is over 73%. However, SNGs are also a driving force of public investment in several unitary countries (Belarus, Nicaragua, Japan, Ukraine, Vietnam, Peru), representing 65% or above of public investment in 2016.

**Figure 5.13. Subnational government investment as a percentage of GDP and public investment (2016)**

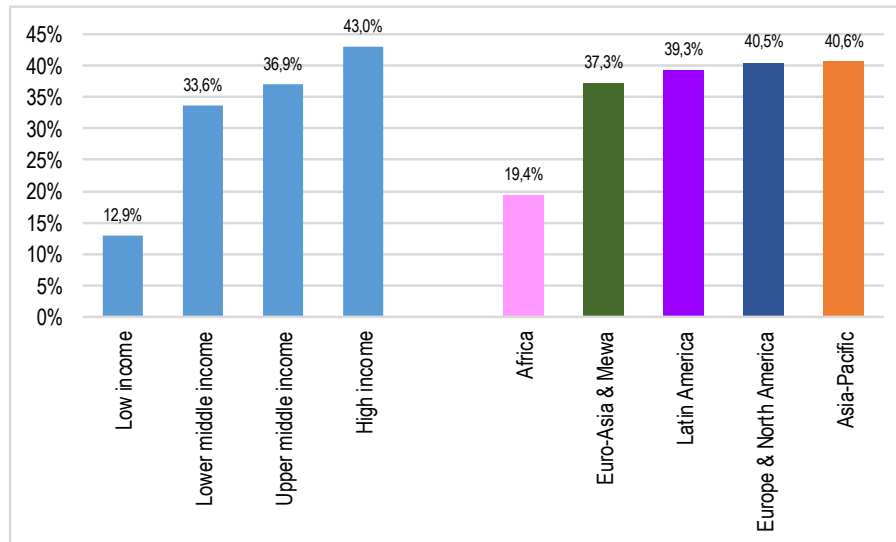


Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

Subnational governments play a more significant role in public investment in high and upper middle income countries. They have an equivalent role in Asia-Pacific, Europe & North America and Latin America while in Africa, subnational governments role in public investment is less pronounced (Figure 5.14).



**Figure 5.14. Subnational government investment as a share of public investment by income groups and geographical areas (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

The importance of subnational governments in public investment in many countries around the world shows that public investment is a shared responsibility across levels of government. Managing the relations between different levels of government is thus crucial to strengthen the efficiency and effectiveness of public investment (Box 5.1).

#### **Box 5.1. Public investment is a shared responsibility across levels of government.**

Effective co-ordination among levels of government is crucial to identifying investment opportunities and bottlenecks, managing joint policy competencies, ensuring adequate resources and sufficient capacity to undertake investment, resolving conflicts, or creating trust. Adequate multi-level governance arrangements are as important as the amount of financing because they make public investment more productive, effective and inclusive.

Recognising the importance of these challenges, the OECD Regional Development Policy Committee developed the Recommendation of the Council on Effective Public Investment Across Levels of Government, adopted in 2014. The UCLG and the Committee of the Regions of the European Union have officially endorsed the Recommendation.

The Recommendation groups 12 principles into three pillars to help governments at all levels assess the strengths and weaknesses of their public investment capacity and set priorities for improvement:

- Co-ordinate across governments and policy areas
- Strengthen capacities for public investment and promote learning across levels of government
- Ensure sound framework conditions at all levels of government.

Source: (OECD, 2014<sub>[20]</sub>)

*Public investment remains however low both at national and subnational levels*

Although data emphasize the key role of investors of subnational governments, they also show that public investment in subnational (and national) governments remains low in many countries.

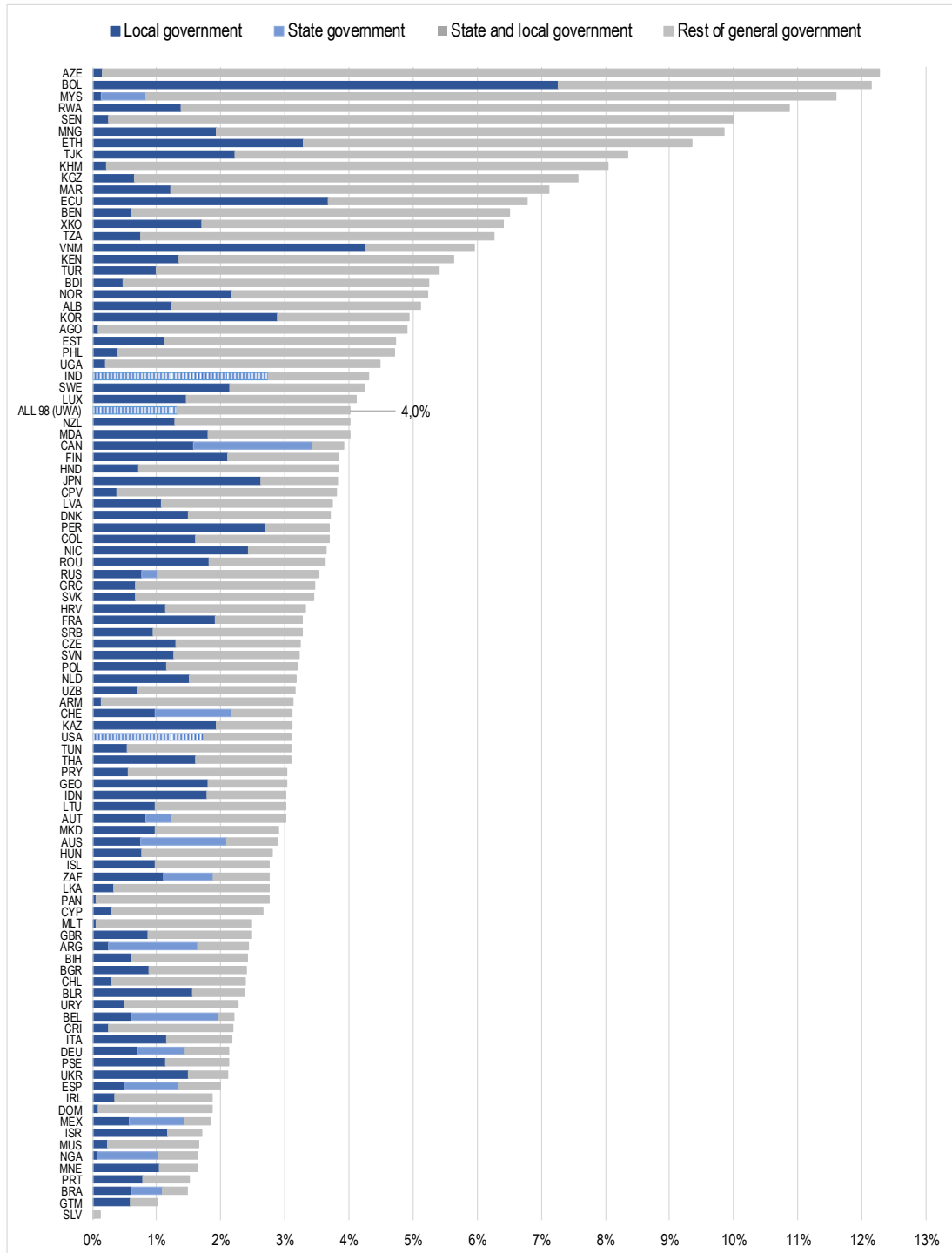
At national level, public investment amounted to 4.0% of GDP in the sample of 94 countries with available data. There are large variations across countries as shown on graph Figure 5.15. Public investment is over 10% of GDP in Azerbaijan, Bolivia, Malaysia and Rwanda. It is less than 1.5% of GDP in Brazil, Portugal, El Salvador and Guatemala.

Subnational public investment is 1.3% of GDP around the world on unweighted average. This average share of subnational investment in GDP masks huge differences between countries, from almost zero investment at local level in Malawi to local investment accounting for more than 7.5% of GDP in Bolivia, which clearly stands out from other countries included in the sample.

In federal countries, the level of SNG investment in GDP is higher (1.7% of GDP) than in unitary countries (1.2% of GDP). In several federal countries, the level of subnational investment in GDP is however low (Brazil, Austria, Russia, Nigeria) while, in contrast, in several unitary countries, it is high (Bolivia, Vietnam, Ecuador, Korea, Peru, Japan and Nicaragua).

In the OECD, subnational public investment was declining for 8 years following the 2008 crisis. It is finally starting to pick back up since last year, but significant catching up is still needed, in particular in Europe, for which the level of subnational investment is particularly low: 1.2% of GDP.

Figure 5.15. Public investment across levels of government as a percentage of GDP (2016)

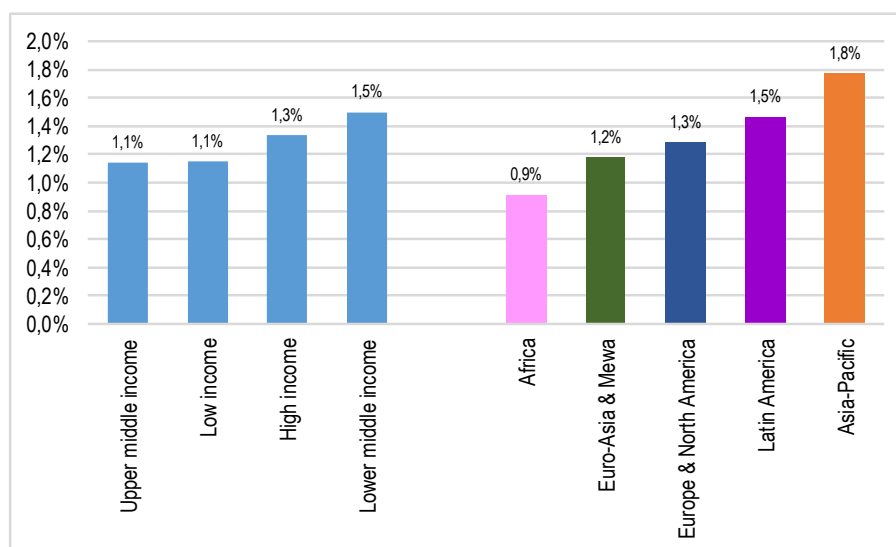


Source: Authors' elaboration based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

In addition, there are great variations by income groups and geographical areas. The unweighted average level of subnational government investment in GDP is slightly higher

in lower middle income countries than in high-income countries (Figure 5.16). Subnational government investment is higher Asia-Pacific and Latin America: for example in Asia-Pacific, the level of subnational public investment is twice as higher compared to Africa: 1.8% of GDP.

**Figure 5.16. Subnational government investment as a share of GDP by income groups and geographical areas (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

## 6. Where do subnational governments get their revenues?

### 6.1. Overview of subnational government sources of revenue

SNG revenue represents 25.7% of total public revenue and 8.6% of GDP on unweighted average in the 104 countries included in the sample with available data, mirroring expenditure ratios. There are large discrepancies between countries, linked in particular to their institutional nature, assignments of responsibilities and income level. Likewise, the share of subnational government revenue in GDP and public revenue is significantly higher in federal countries than in unitary countries: 16.5% vs 7.0% of GDP and 49.4% vs 20.7% of public revenue on unweighted average in 2016.

As for expenditure, significant disparities in terms of revenue decentralisation can be explained by the level of income. The most decentralised countries belong, for the majority, to the high-income group, while the least decentralised belong to the low-income group. The same conclusions could be drawn using the GDP per capita ratio.

Subnational governments are funded by five main sources of revenues: tax revenue, grants and subsidies, user charges and fees, property income and other revenues. The level of revenue autonomy attached to these different sources differs, including within the same source of revenue depending on their precise characteristics (Box 6.1).

#### Box 6.1. Classifying subnational government revenues and measuring revenue autonomy

To simplify and facilitate data collection and international comparisons, revenues have been classified in five categories: tax revenue, grants and subsidies, user charges and fees, property income and other revenues.

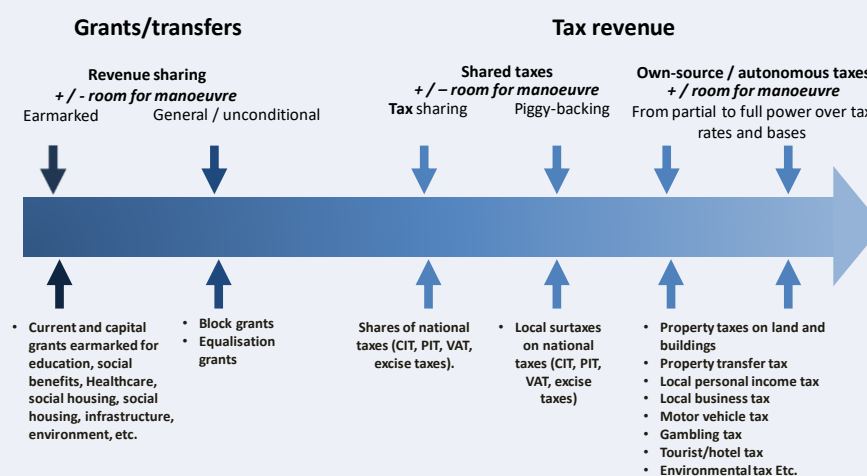
- Tax revenue category comprises both own-source and shared taxes. National accounts, however, do not make the distinction between these two categories. Therefore, the tax revenue indicator only partially reflects the real level of tax autonomy of subnational governments.
- Grants and subsidies category includes transfers to subnational governments from the central government (representing the great majority) but also from higher levels of government (state or regional governments) and from international organisations (e.g. European Union structural funds, international aid, etc.). They comprise current and capital expenditure grants. A distinction can also be made between unconditional/general/non-earmarked transfers vs earmarked (assigned conditional) transfer. Non-earmarked grants can be general purpose grants or block-grants and are often based on distribution formulas. There are other distinctions between grants, including discretionary grants, matching grants and equalisation grants. General and earmarked grants are not recorded as such in the national accounts while such information is crucial to assess the level of autonomy of subnational governments over grants.
- User charges and fees include revenues coming from the sales of public goods and services which are charged to users. In turn, these charges or fees help finance a

number of local public services and facilities in areas such as water treatment and distribution, collection and treatment of waste, cultural and sporting facilities and activities, public transport, car parks, school meals, energy, nursing homes, etc. They also comprise the payment for administrative services. User charges and fees are considered as own-source revenue, as subnational governments generally have significant leeway in this regard. However, the freedom to set the level of tariffs and fees may be limited by regulations (e.g in strategic or “essential” sectors such as energy, water, education or some social services) but also by users’ capacity to pay, especially in developing countries. In addition, charging for local services also demands a capacity for offering this service, which is not the case in many developing countries or centralised countries.

- Property income comprises revenue from financial assets (interest on deposits and investments, dividends from local public companies, loans, etc.) and those from non-financial assets, such as revenues from land and subsoil assets. This category comprises both recurring income (rents, dividends, interests) and one-off revenues (sales of assets, revenues from privatisation). These revenues are also generally considered as own-source revenues. However, it is not always the case as they can be redistributed under the form of grants, with no power of subnational governments on these resources.

There is no clear-cut frontiers between the different sources of revenue (Figure 6.1) but rather a continuum with fuzzy delimitations ranging from very little autonomy (earmarked grants) to high autonomy (own-source taxes for which subnational governments have the power to set rates and bases). Between these two extremes, there are various gradations ranging from revenue sharing (general grants), tax sharing arrangements on national taxes (personal income tax, corporate income tax, value added tax, excise taxes), local surtax or piggy-backing on national taxes to tax revenue generation with more or less room for manoeuvre in terms of rates and bases (caps on rate for example or limited exemptions).

**Figure 6.1. Subnational resources and autonomy: no clear cut frontiers**



Source: (OECD, 2018<sup>[13]</sup>; OECD, 2019<sup>[20]</sup>)

The delineation between “revenue sharing” (transfer of tax revenue) and “tax sharing” (sharing of tax revenue) is also sometimes unclear. In the case where tax revenues pass through the state budget and are transformed and redistributed in the form of grants or subsidies, they are not considered as tax revenue but as transfers. This has been clarified by the SNA reform in 2008 and since its implementation in 2014, several countries have seen their tax revenues reclassified as transfers and no longer as shared taxes. For example, Austria has seen the share of subnational tax revenue in total subnational revenue fall sharply from 54% to 10% because of this change. The same occurred in Estonia (from 44% to 4%) or in Slovak Republic (from 46% to 7%). The frontier between fees (charging the user "for service rendered") and taxes (charging the taxpayer) can also be imprecise and there are many borderline cases. e.g. between a tax on waste collection and a waste fee. Depending on the country, the same type of revenue can be considered as a local tax or a fee.

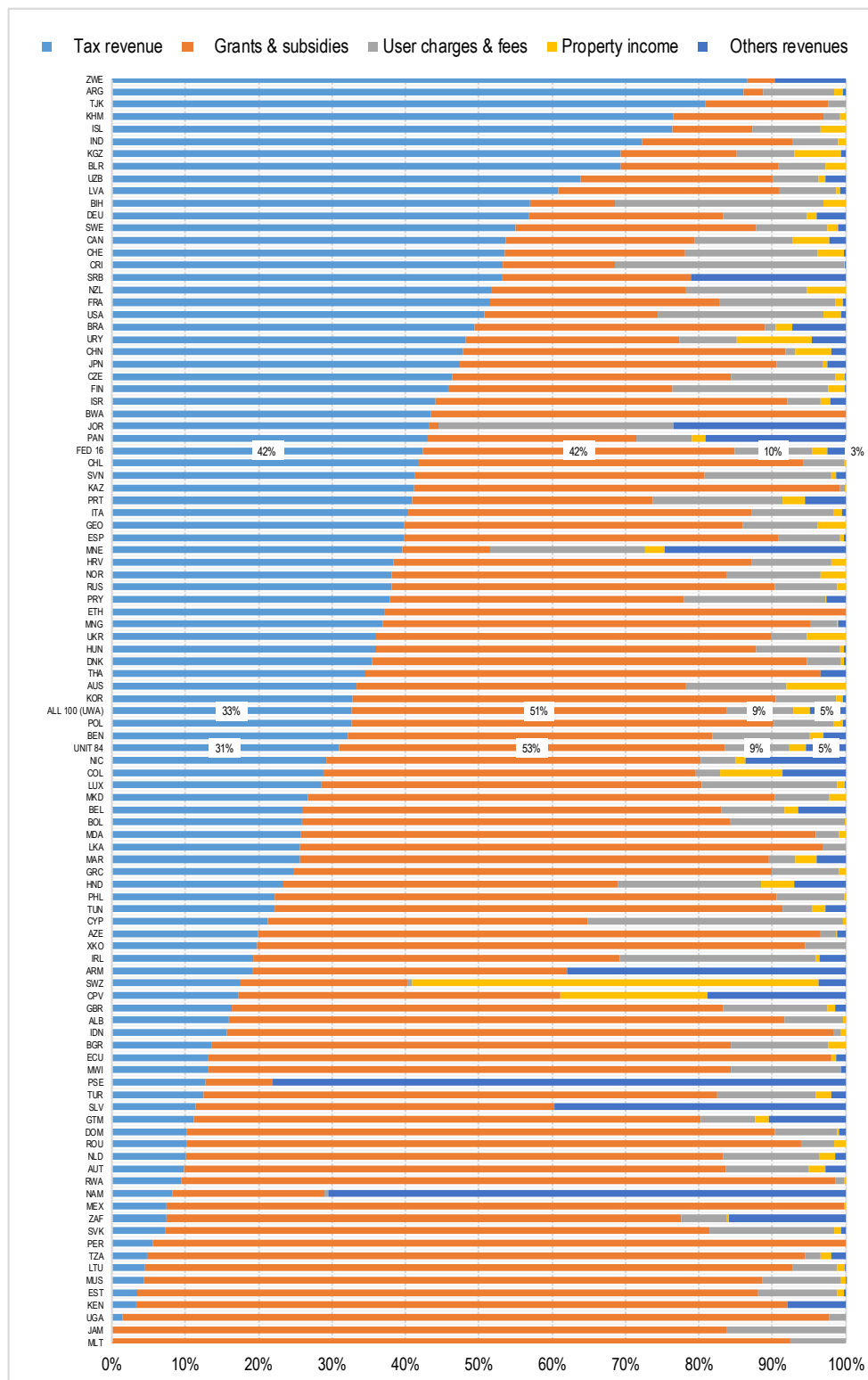
Revenue autonomy is a complex issue, which goes beyond just the share of taxes or grants in revenue. To assess more properly revenue autonomy, it is necessary to assess subnational governments’ discretion on grants and subsidies (from earmarked and conditional transfers to general-purpose grants based on a formula), measure their real power on taxes (from shared taxes with no or little taxing power to own-source taxes on which subnational governments have a certain power over rates and bases), estimate their ability to set the level of tariffs, user charges or fees or the possibility to raise revenues from local assets. To assess tax autonomy, the OECD Network on Fiscal Relations across Levels of Government has developed taxonomy, which allows each country to determine the degree of taxing power granted to its subnational governments (OECD, 2019<sup>[24]</sup>).

In addition, revenue autonomy also comprises the capacity to access external funding (borrowing, engaging in public-private partnerships). Finally, revenue autonomy can be limited by equalisation mechanisms, especially horizontal equalisation that impose that richest jurisdictions allocate part of their revenues to the benefits of the poorest. Striking the right balance between autonomy and solidarity and equity is always challenging.

Source: (OECD, 2018<sup>[1]</sup>; OECD, 2019<sup>[4]</sup>)

Grants and subsidies represent the primary source of SNG revenue in 101 countries in the sample with available data, accounting for 51.0% of total SNG revenue on unweighted average, and 4.2% of GDP on average. Tax revenues are the second most important source of income, accounting for 33% of subnational government revenue, i.e. 3.3% of GDP. User charges and fees account for 9% of subnational revenue i.e. 0.8% of GDP. Finally, property income amounts to 2% of subnational revenue i.e. 0.2% of revenue. The breakdown between the different sources of revenue and their weight in GDP vary greatly from one country to another (Figure 6.2 and Figure 6.3).

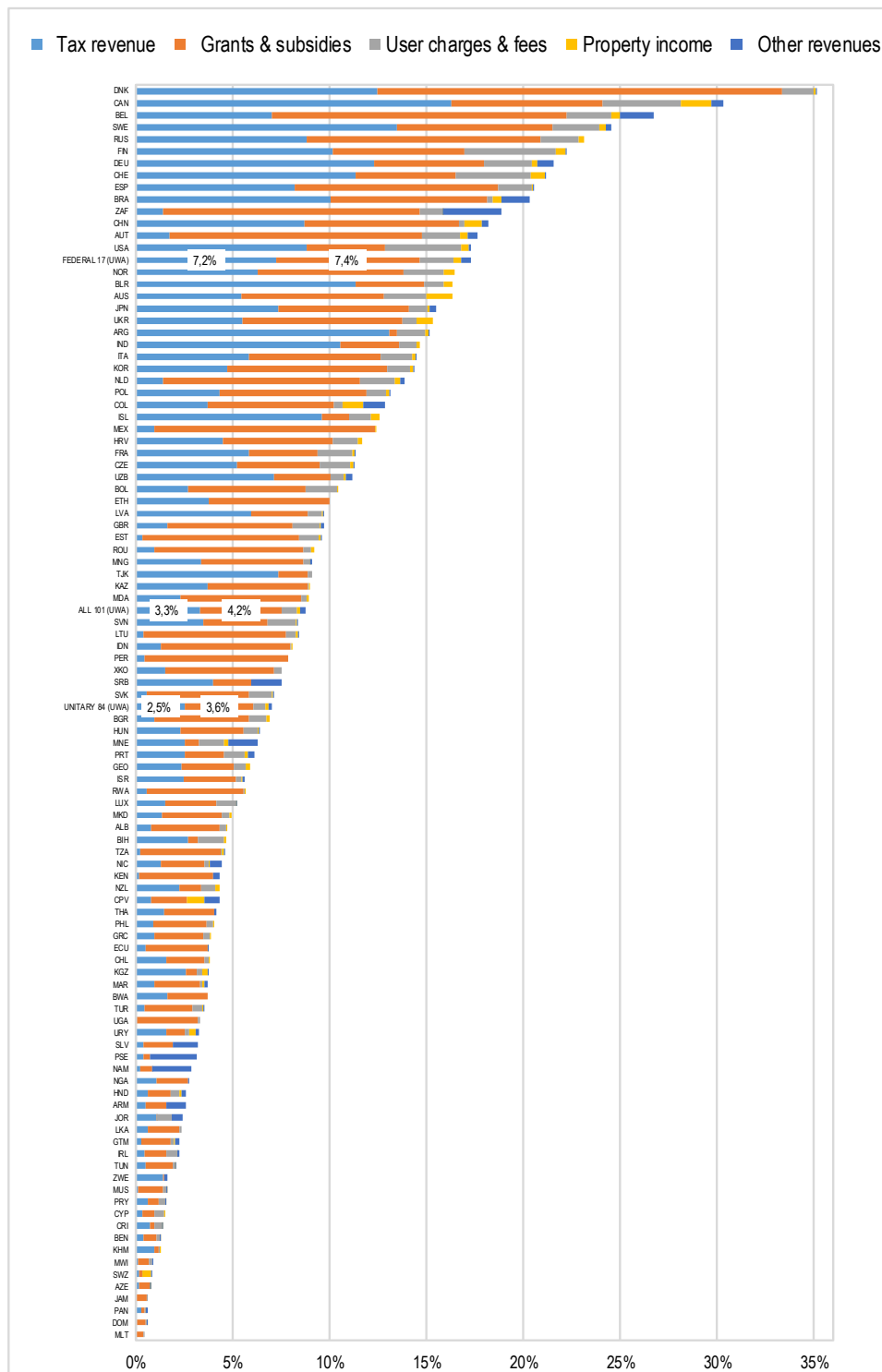
**Figure 6.2. Subnational government revenue by category as a percentage of total subnational government revenue (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)



**Figure 6.3. Subnational government revenue by category as a percentage of GDP (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

## 6.2. Grants represent more than half of subnational government revenues

Grants and subsidies are the primary source of revenue in a great majority of countries around the world. However, there are great variations across countries, both in terms of share in GDP and share in total subnational revenue (Figure 6.2 and Figure 6.3). Grants and subsidies range from less than 1% of GDP in 26 countries to more than 10% in eight countries, including in the Russian Federation, Austria, South Africa, Belgium and Denmark where it reaches 20.9% of GDP.

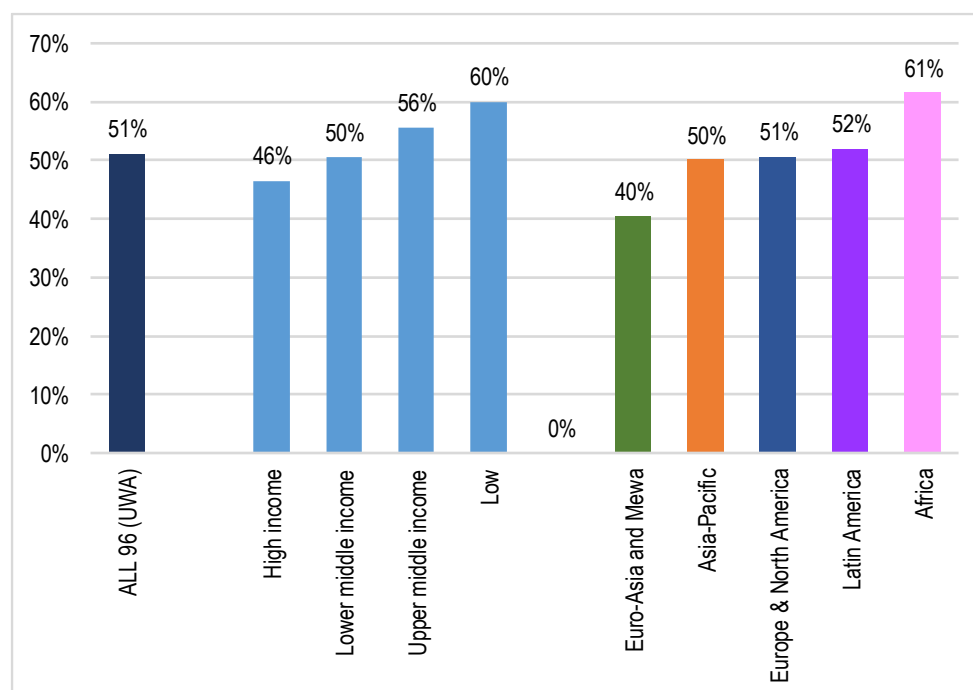
In the same vein, the share of grants and subsidies in subnational revenue is below 25% in 17 countries (including Iceland, Zimbabwe, Argentina and Jordan for the lowest) and over 80% in 14 countries (including Uganda, Peru, Malta, Mexico or Tanzania for the highest).

In federal countries, the share of grants and subsidies in subnational government revenue is lower than in unitary countries (42% vs 53%). As a share of GDP, grants and subsidies account however for 7.4% of GDP in federal countries vs 3.6% in unitary countries.

In low income countries, subnational governments are highly dependent on central government transfers and subsidies (60% of their revenue in 2016), compared to 46% in high income countries. African subnational governments are also mainly funded by grants and subsidies while in Euro-Asia and Middle East and West Asia, grants and subsidies amount only to 40% of subnational government revenue on unweighted average. Other regions are on par with the global average (Figure 6.4).

These figures show that there is a great variety of funding models. In some highly decentralised countries and federal countries, subnational governments heavily rely on central government transfers, which may represent a very high share of GDP.

**Figure 6.4. Grants and subsidies as a share of subnational government revenue by income groups and geographical areas (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

### 6.3. Tax revenues are the second largest source of subnational government revenue

#### *Tax revenues account for 32.7% of subnational revenue and 3.3% of GDP*

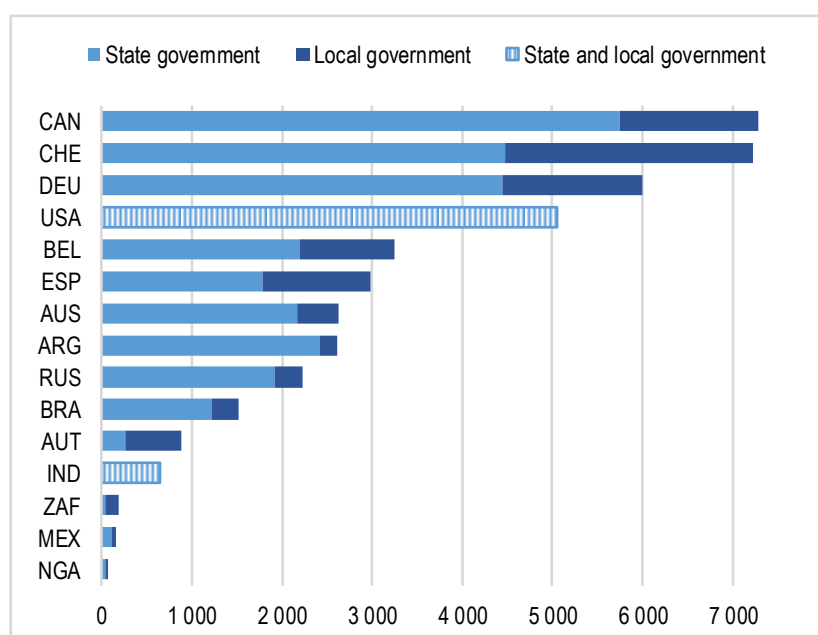
Tax revenues account for 32.7% of subnational revenue and 3.3% of GDP on unweighted average overall. However, by countries, there are wide disparities (Figure 6.2 and Figure 6.3). In two countries (Malta and Jamaica), local governments cannot raise taxes. In Uganda, Kenya, Estonia, Mauritius, Lithuania and Tanzania, tax revenue accounts for less than 5% of subnational revenue. At the other end of the spectrum, tax revenues amount to over 50% of subnational revenue in 20 countries, and even more than 70% in India, Iceland, Cambodia, Tajikistan, Argentina and Zimbabwe. As a share of GDP, the same diversity is found: in 40 countries, tax revenues account for less than 1% of GDP in 2016. In 15 countries, they exceed 8% of GDP, the highest levels being found in Germany, Denmark, Argentina, Sweden and Canada.

Federal countries allocate a higher tax share and/or taxing power to subnational governments than unitary countries: overall, subnational tax revenues represent 41.7% of subnational government revenue and 7.2% of GDP in federal countries vs 30.9% of subnational government revenue and 2.5% of GDP in unitary countries, which is significantly lower.

In many federal countries (Argentina, Brazil, Canada, Germany, India, Russian Federation, Spain, Switzerland, United States), SNG funding is essentially based on taxation. In some other federations however such as Austria, Mexico and South Africa, tax revenue provided

less than 20% of revenue in 2016 (equivalent to less than 2% of GDP). In federal countries, the share of state in subnational government tax revenue is higher than that of local governments (more than 60%), except in Austria and South Africa. In Brazil, Australia, Russia and Argentina, it exceeds 80% (Figure 6.5.).

**Figure 6.5. State and local government tax revenue in federal countries (USD PPP per capita, 2016)**



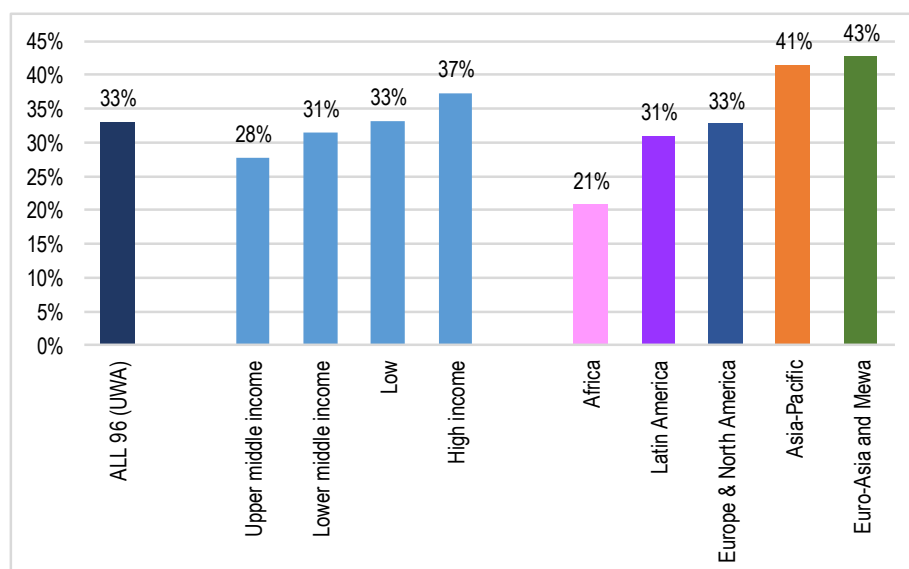
*Note:* No disaggregated data for the United States and India.

*Source:* Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

Taxation is also a major source of revenue in several unitary countries such as the Nordic countries (Finland, Iceland, Sweden) but also China, Italy and Japan.

There are some differences by income groups and geographical areas. In high income countries, the share of tax in subnational revenue is much higher than in upper middle income economy. It is also significantly higher in Euro-Asia & Middle East and West Asia and Asia-Pacific regions than in Latin America, Europe & North America as well as Africa (Figure 6.6).

**Figure 6.6. The share of tax revenue in total subnational government revenue by income groups and geographical areas (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

As indicated in Box 2.3 and Box 6.1, tax ratios should be interpreted with caution. They indicate a certain level of revenue autonomy, compared to grants funding, but they are not an indication of tax autonomy. In fact, tax revenues encompass both shared taxes and own-sources taxes, with different taxing powers and levels of tax autonomy (Box 6.2).

#### Box 6.2. Shared taxes and own-sources taxes

Subnational government tax revenues include both shared taxes and own-sources taxes (or “autonomous”):

- Shared taxes are national taxes (personal income tax - PIT, corporate income tax - CIT, VAT, excise taxes, etc.) shared between the central/federal government and subnational governments, and redistributed to the latter. Rates are defined nationally. Shares of national taxes are redistributed according to specific redistribution mechanisms, decided at national level (generally by parliament) but also sometimes negotiated with SNGs (annually or for a period of several years). SNGs have varying degrees of power depending on the country. Redistribution can be based, or not, on the localisation of the proceeds, including or not equalisation mechanisms. Tax sharing arrangements are widespread around the world, the most frequent shared tax being the income tax. In several federal countries, as well as in China and Vietnam, the majority of tax receipts come from tax-sharing arrangements with the federal government. Various different arrangements exist and are detailed in the country profiles.
- An own-source tax is a tax on which sub-national governments have a certain leeway with regard to the tax base or tax rates. In fact, classifying a local tax as an own-source tax is a difficult exercise as in numerous countries, there is no leeway at all. However, because their receipts are entirely attributed to subnational

governments, they are considered own-source taxes. The ability to act on rates and bases may also be regulated and restricted, reducing subnational government taxation power (imposition of caps, exemptions imposed by the central government, etc.). Local surtaxes (or surcharges) on national taxes such as PIT, CIT or VAT may also be considered an own-source taxes if subnational governments have some power on the rate of the surtax.

One typical “autonomous” tax is the property tax, but not only, as there is a great diversity of direct and indirect local taxes in some countries such as the local business tax, the motor vehicle tax, gambling tax, tourist and hotel taxes, environmental tax, etc. In some countries, there is also a local personal income tax. In the Nordic countries, most tax revenue comes from local income tax, and in Japan by far the primary subnational tax is the resident tax.

Sometimes, the same tax can be a combination of both arrangements, benefitting SNGs both as shared tax (e.g. a share of PIT receipts) and an own-source tax (e.g. ability to raise a surtax on PIT, in addition to the PIT share). In Italy for example, the PIT is both a shared tax and an own-source tax: part of PIT receipts are shared and subnational governments also have the possibility to levy a surtax on the PIT.

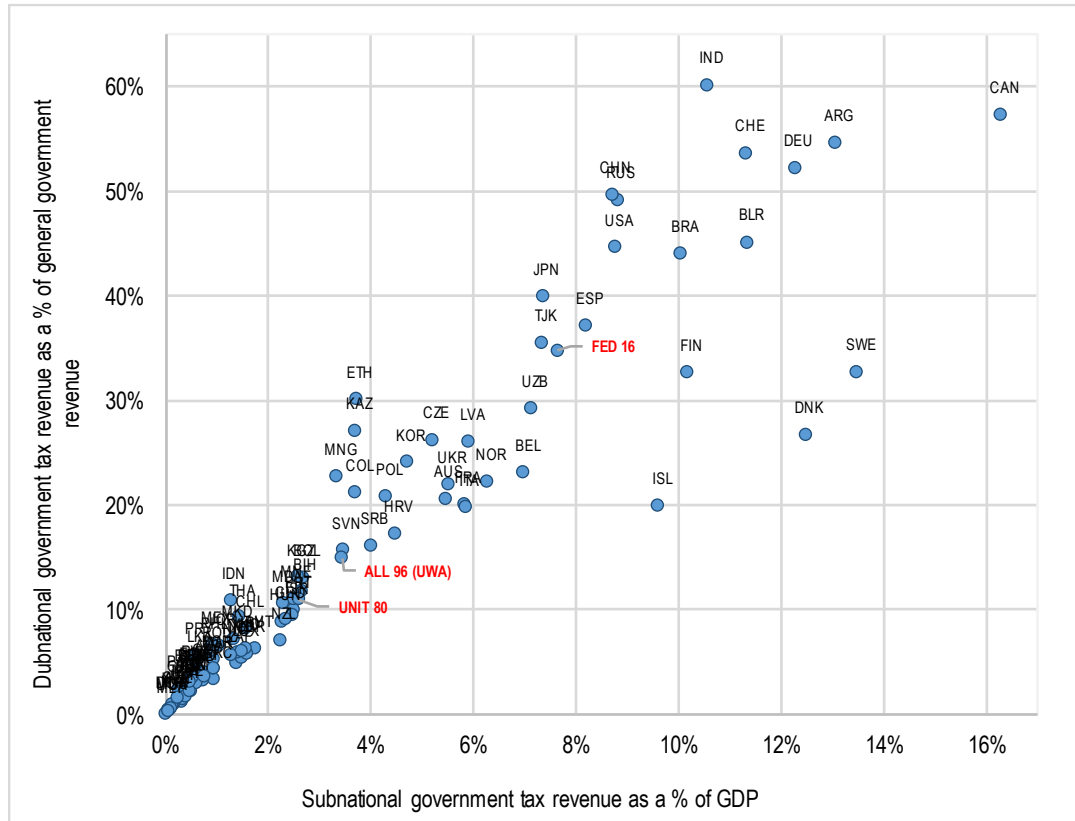
Source: (OECD, 2018<sup>[16]</sup>)

### ***Subnational government tax revenues account for 14.9% of public tax revenue***

The share of SNG tax revenue in public tax revenue complements this overview, also reflecting the degree of tax decentralisation. However, it is important to keep in mind the fact that tax revenue is not made up only of own-source taxes, but includes shared taxes.

On average, SNG tax revenue represents 14.9% of public tax revenue, ranging from less than 5% in 33 countries to more than 30% in 16 countries (Figure 6.7). It is higher than 50% in China, Germany, Switzerland, Argentina, Canada and India. Overall, the share of subnational governments in public tax revenue is significantly higher in federal countries than in unitary countries (34.7% vs 11.0%).

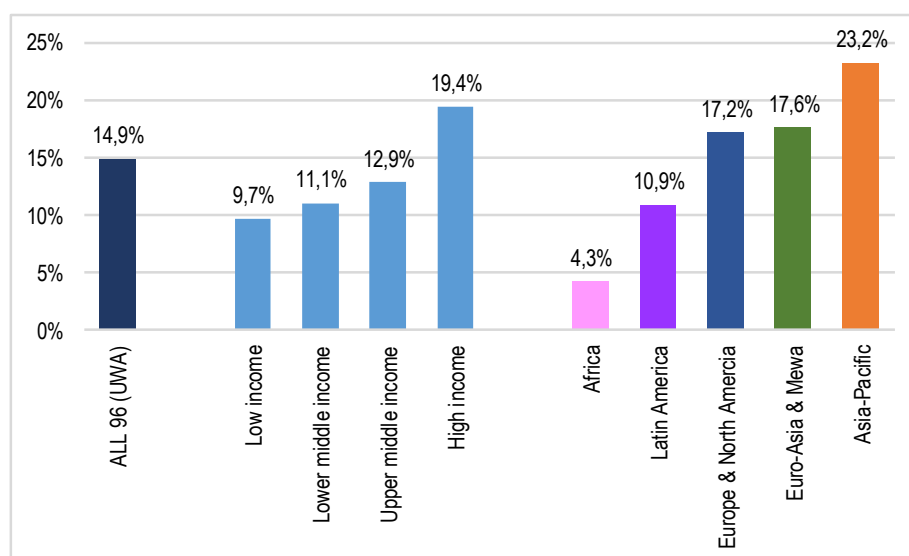
**Figure 6.7. Subnational government tax revenue as a percentage of GDP and public tax revenue (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

The share of subnational government in public tax revenue differs considerably across income groups and geographical areas. It is twice as high in high income countries than in low income countries, and generally much higher in high income countries than in other income groups. By regions, the disparities are even greater, Africa ranking last by far. In Africa, subnational tax revenues account for only 4.3% of public tax revenue in 2016 on unweighted average vs 23.2% in Asia-Pacific (Figure 6.8).

**Figure 6.8. Subnational tax revenue as a percentage of public tax revenue by income groups and geographical areas (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

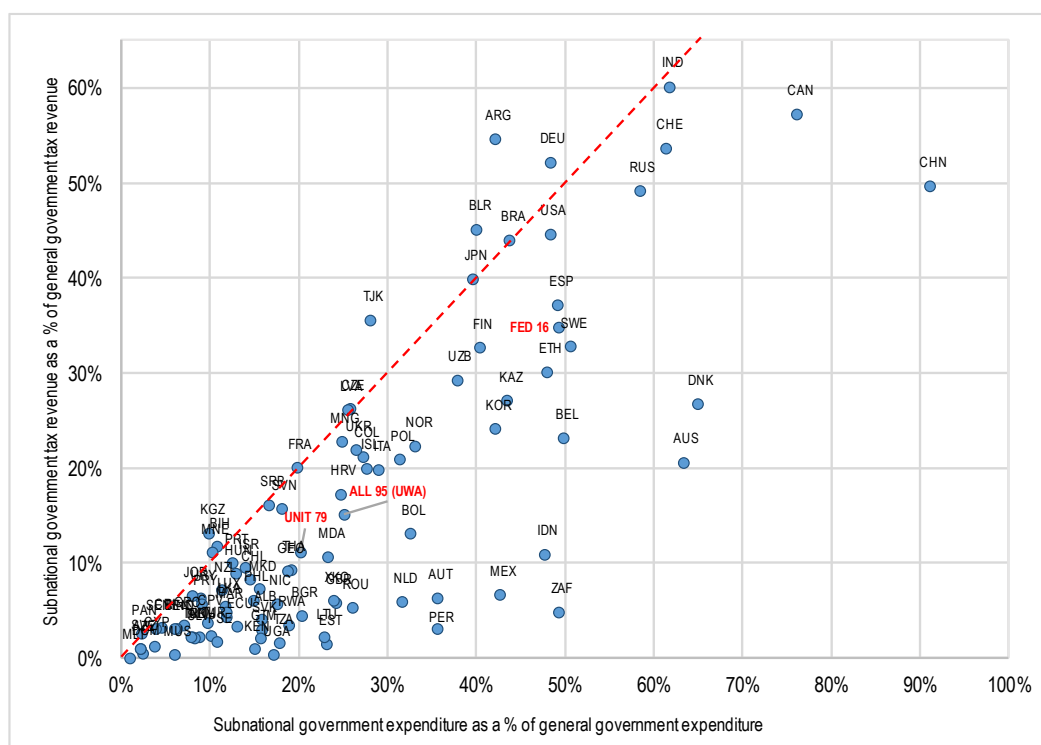
### *Fiscal imbalances between expenditure and tax revenue*

There are great imbalances across countries between the level of subnational government expenditure as a share in public expenditure and the level of subnational tax revenue in public tax revenue, reflecting – however imperfectly as already underlined – the level of tax decentralisation (Figure 6.9). The bottom right corner of the graph shows countries where subnational governments undertake a high share of public spending but their share in public tax revenue is lower (e.g. Denmark, Australia, Belgium, Indonesia, Korea, Mexico, Peru, South Africa, Austria, etc.).



**Figure 6.9. The gap between subnational government expenditure and tax revenue is often large**

Expenditure as a percentage of public expenditure and tax revenue as a percentage of general government tax revenue (2016)



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

### ***Property tax around the world***

The property tax is a cornerstone of local taxation in many countries in the world. A “local tax by excellence”, the recurrent property tax on land and/or building has a lot of merits which are regularly praised by economists: visibility, lack of tax export, productivity thanks to the stability of tax bases and solid return on tax collection, lack of vertical tax competition by exclusive or priority allocation to the municipal level, implicit progressivity (property values rise alongside the revenue of their owners) and horizontal equity. However, the property tax has also some weaknesses and limits inherent in its practical implementation and management, especially in developing countries. Almost all countries encounter difficulty in keeping pace with the mass of wealth that property constitutes, i.e. calculating the value of tax bases. The primary method used is based on the area, or usable area, or the property, and may include other criteria such as geographic location or characteristics of the asset. In an increasing number of countries, tax bases are calculated based on the value of the property, which can be the rental value or the market value, which may be difficult to implement in some countries. Beyond valuation and revaluation difficulties, the primary obstacle to the efficient collection of this tax is the lack of an efficient and reliable cadastre and land registry, including procedures to resolve land disputes.

These constraints explain that the importance of recurrent taxes on property in subnational tax revenue varies considerably across countries.

At global level (74 countries), recurrent property taxes account for 0.7% of GDP, 33.5% of subnational tax revenue and 9.5% of subnational revenue on unweighted average (Figure 6.10).

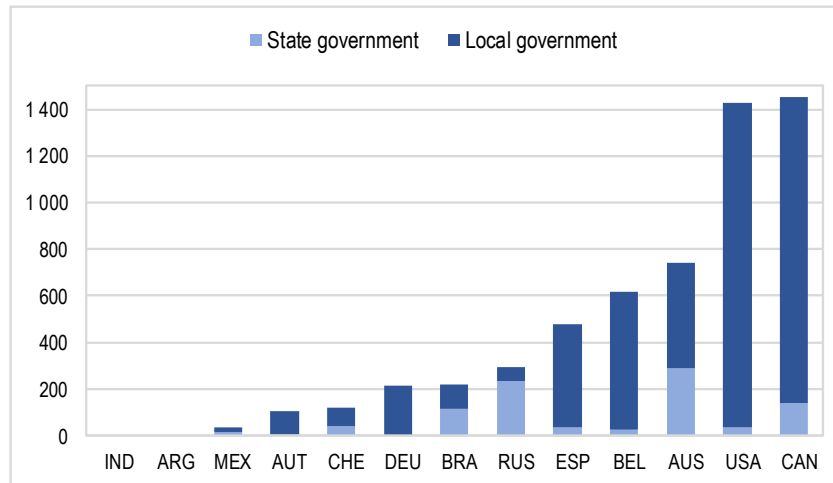
**Figure 6.10. Recurrent property taxes as a percentage of GDP and subnational government tax revenues (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

In federal countries, it reaches 1.1% of GDP and 14.3% of subnational tax revenue and 5.6% of total subnational revenue. In the 60 unitary countries for which data have been collected, recurrent property taxes amounted to 0.6% of GDP, 37.9% of subnational tax revenue and 10.5% of total subnational revenue, confirming that they represent a major source of tax revenue. In federal countries, recurrent property taxes are mainly raised by local governments, except in Russia and to a lesser extent in Brazil and Australia where it is more balanced between state and local governments (Figure 6.11).

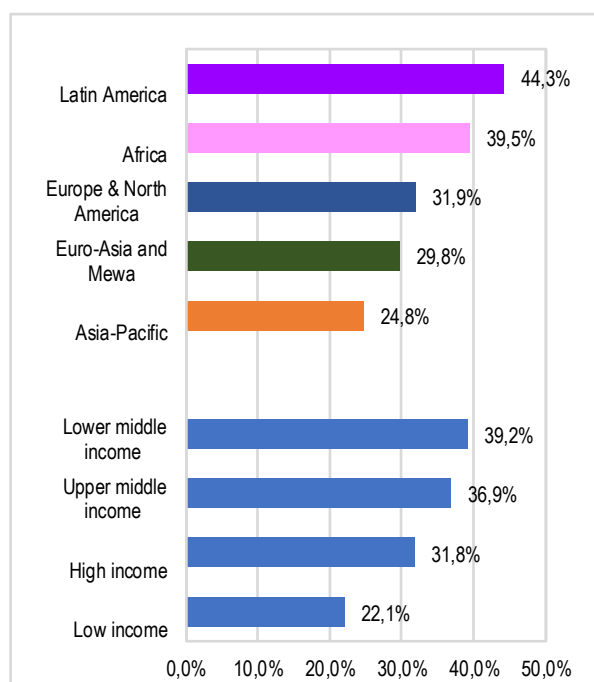
**Figure 6.11. In federal countries, recurrent property taxes are mainly raised by local governments (USD PPP per capita, 2016)**



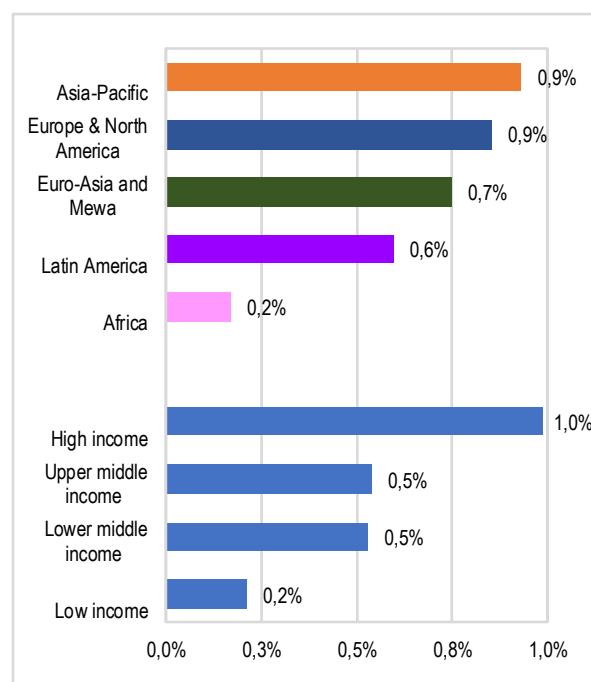
Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

There are great variations across countries depending on their level of income (Figure 6.12 and Figure 6.13). In upper and lower middle income groups, recurrent property taxes account for more than 39% of subnational tax revenue. In low income countries, this share falls to around 22%. As a share of GDP, recurrent property taxes account for 1.0% of GDP but only 0.5% in lower and upper middle income countries and 0.2% in low income countries.

**Figure 6.12. Recurrent property taxes as a percentage of subnational tax revenue by income groups and geographical areas (2016)**



**Figure 6.13. Recurrent property taxes as a percentage of GDP by income groups and geographical areas (2016)**

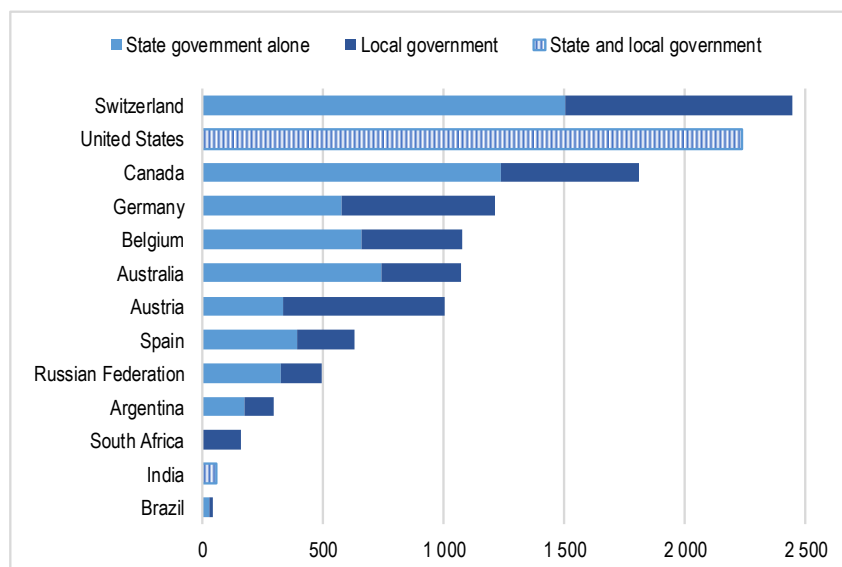


Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

#### 6.4. User charges and fees and property income may be significant sources of revenue in some countries

The share of user charges and fees in GDP and total subnational government revenues ranges from almost zero to more than 2% of GDP in 11 countries and more than 15% of subnational revenues in 20 countries. Some countries stand out for both a high share in GDP and subnational revenue, in particular France, Finland, Switzerland and the United States. In federal countries, the share of user charges and fees in subnational revenues is slightly higher than in unitary countries (10.5% vs 8.9%). In federal countries, the share of user charges and fees collected by local governments ranges from one-third of subnational revenues of this category (Australia, Canada, Russian Federation) to 100% (Figure 6.14).

**Figure 6.14. User charges and fees at state and local government levels in federal countries (USD PPP per capita, 2016)**

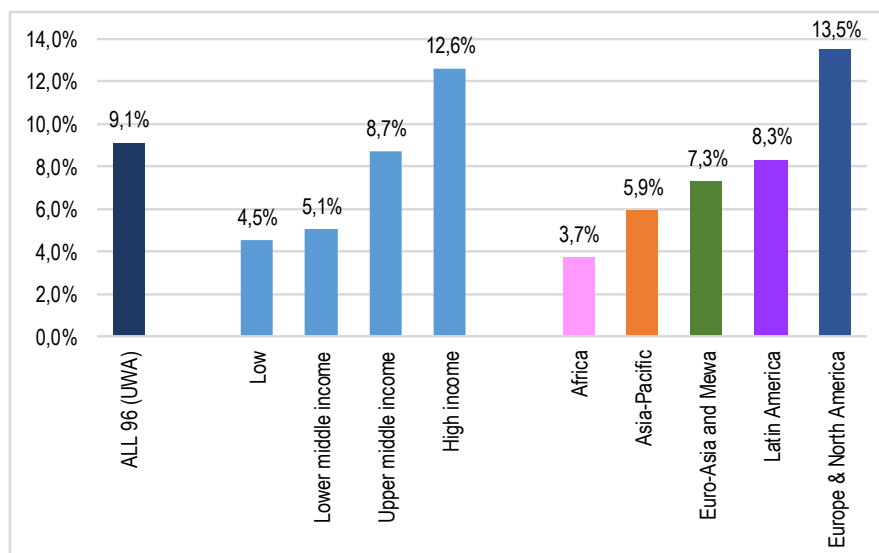


*Note:* No disaggregated data in United States and India.

*Source:* Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

User charges and fees account for a larger share of subnational government revenue in high income countries than in low (almost three times more) and lower income countries. They also represent a larger share in Europe & North America than in Africa or Asia Pacific (Figure 6.15). This type of revenue considerably depends on the availability of local public services (depending in turn on the allocation of responsibilities and capacity of subnational governments to provide these services), on the capacity of users to pay for these services as well as on political choices (Box 6.1).

**Figure 6.15. User charges and fees as a share of subnational government revenue by income groups and geographical areas (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org).

Property income is particularly important in countries where subnational governments own significant financial and physical assets, including land and subsoil assets. Development charges paid by developers are also included in this category. Therefore, there are wide disparities across countries in this area, from no revenue to revenues accounting for between 0.6% and 1.5% of GDP, in particular in Norway, Switzerland, Ukraine, China, Colombia, Australia and Canada. The share in revenues may be significant (more than 5% of subnational revenues) such as in China, Canada, New Zealand, Ukraine, Kyrgyzstan, Australia, Colombia or Uruguay.

Revenues from local public companies (state owned enterprises) may be very important in some countries where local public companies are well developed and provide significant dividends to their owners (Box 6.3).

In New Zealand, as part of granting consent for development, councils require development rights or development contributions from developers so that they bear the costs of new infrastructure (roads, water and wastewater infrastructure, and community facilities). In China, subnational governments, counties and prefectures in particular, receive revenues from the sale of land-use rights for periods of 30 to 70 years. The Land Administration Law provides all levels of governments with the power to control and regulate land use, to convert rural land into urban land, and to sell land rights to real estate developers, within the limits set by the national farmland preservation policy. In some provinces and municipalities, land-right sales revenues accounted for up to 40% of total revenues in 2014 (Chongqing, Anhui or Zhejiang).

Revenues from natural resources (royalties) may also be a significant source of income in countries such as Australia, Canada, and several Latin American countries (Colombia, Peru, Argentina, Brazil). In Argentina, authorities in resource-rich provinces receive significant amounts of royalties from natural resource exploitation, particularly mining, electricity and the production of crude oil and natural gas.

### Box 6.3. Revenues from local public companies

In Europe, there are about 25 000 local public companies (LPCs) according to the French Federation of Local Public Companies, including Austria (1 800), France (1 220), Germany (around 8 500), Italy (3 500), Poland (2 500), Sweden (1 800), Finland (950) and Spain (1 150). For example, in the Netherlands and Norway, power companies provide important revenues to subnational governments. In Asia, public-owned enterprises are also active in public service delivery such as in Korea (around 300) and Japan (around 8 700, particularly active in the sewerage businesses (42% of all LPCs), water supply (24%) and hospitals (7%). In Colombia, some large cities benefit from dividends from local industrial and commercial companies such as *Empresas Públicas de Medellín* (EPM), the Water and Sewerage Company of Bogota or the Mass Transport Company of Cali S.A.

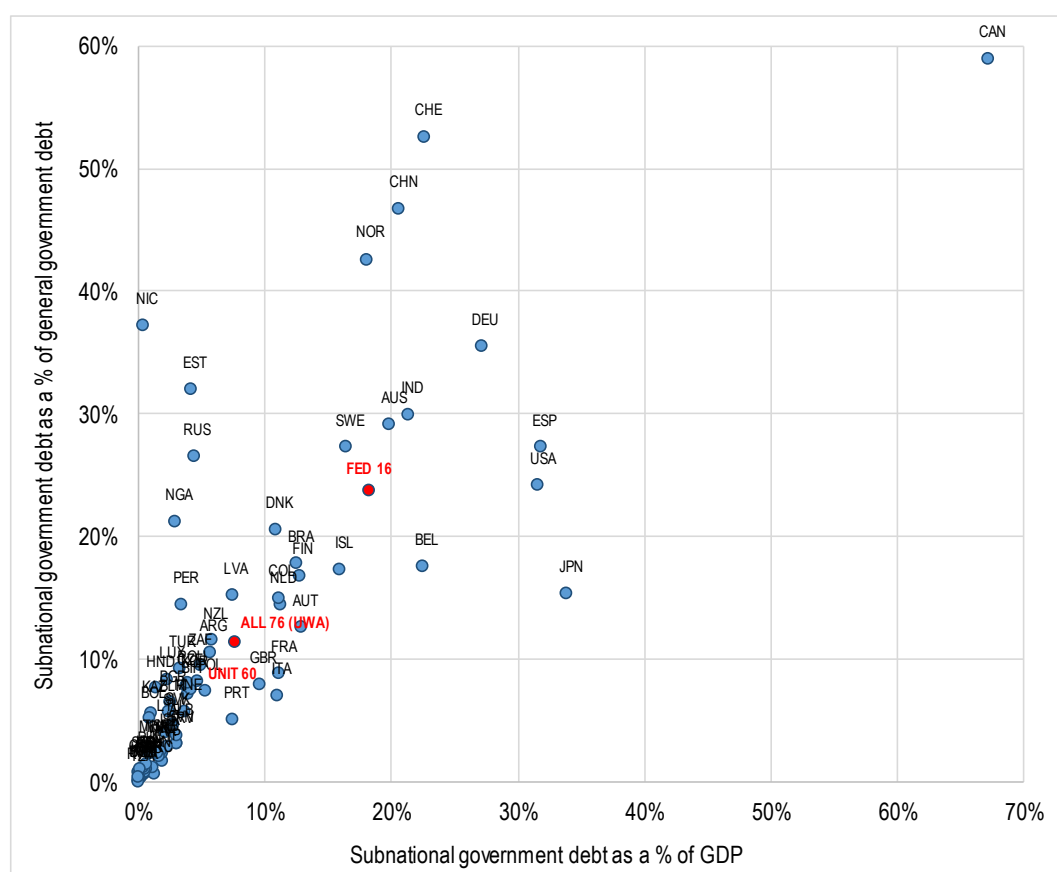
Source: (OECD, 2018<sup>[25]</sup>; OECD, 2017<sup>[26]</sup>)

## 7. How do subnational governments use external financing?

### 7.1. Subnational government debt across countries and groups of countries

SNG outstanding gross debt accounts for 7.5% of GDP and 11.5% of total public debt in the country sample with available data (unweighted average based on 76 countries). It is very unevenly distributed among countries, ranging from almost no debt to debt reaching 67.2% of GDP and 58.9% of public debt as in Canada (Figure 7.1).

**Figure 7.1. Subnational government debt as a percentage of GDP and general government debt (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

#### *SNG debt is significantly higher in federal countries than in unitary countries*

In 2016, in federal countries, SNG debt amounted to 18.2% of GDP and 23.8% of public debt while it accounted for 4.7% of GDP and 8.2% of public debt on unweighted average in unitary countries (Figure 7.1).

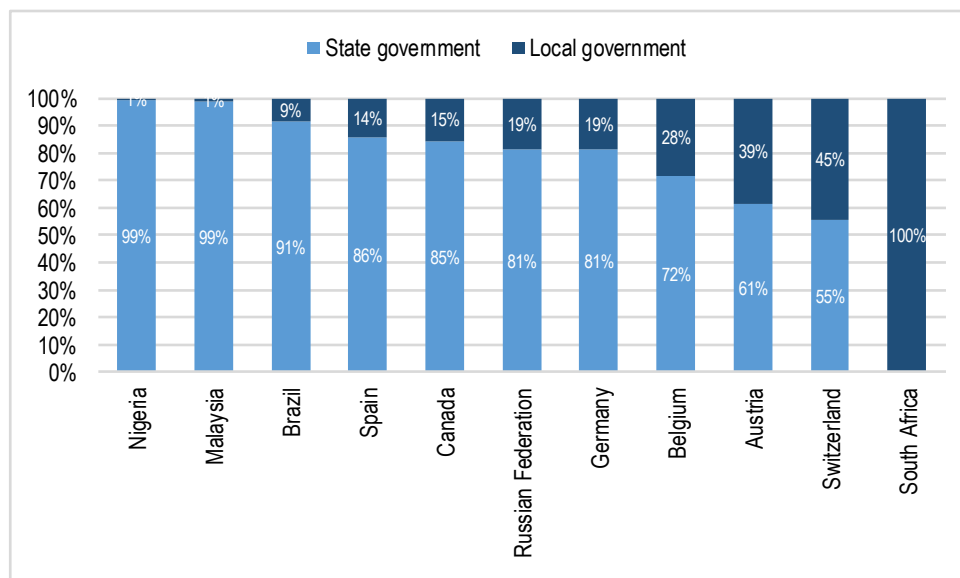
Among federal countries, SNG debt is higher in OECD countries than in non-OECD countries. In OECD countries, the unweighted average for federal countries (excluding



Mexico) amounts to 29.4% of GDP and 32.2% of public debt. In the seven federal non-OECD countries for which data were collected (Argentina, Brazil, India, Nigeria, Russian Federation, Malaysia and South Africa), SNG debt accounts for 7.4% of GDP and 16.6% of total public debt on unweighted average.

In general, debt of state government represents the bulk of SNG debt, particularly in Nigeria, Malaysia, Brazil, Spain and Canada, but also for other countries for which disaggregated data by subnational level are not available such as Australia, India and United States (Figure 7.2). The high level of state government debt in federal countries can be explained by the fact that states are not subject in general to the “golden rule”, a rule that restricts borrowing to finance long-term investment projects, thus limiting the level of indebtedness. The high level of state debt is also due to the fact that in several federal countries, it a significant share of insurance pension and standardised guarantees such as in Australia and the United States. South Africa is a singular case as provinces are not allowed to incur debt - or only in small amounts. Only municipalities are constitutionally empowered to borrow.

**Figure 7.2. State and local government debt as a percentage of total subnational outstanding debt in federal countries (2016)**



*Note:* No disaggregated data for India, United States, Argentina and Australia.

*Source:* Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

Local government debt is significantly lower in federal and unitary countries, accounting for 4.6% of GDP and 7.9% of total public debt in 2016 (unweighted average based on 72 countries). It is particularly low in countries where SNGs have few spending responsibilities. It is also the case where local borrowing is restricted by the “golden rule” (which is the case in a majority of countries) and governed by strict prudential rules defined by central or state governments, e.g. need of prior approval to borrow from a supervisory authority, caps on debt outstanding debt, service and new annual borrowing, ban on foreign debt, ban of bonds financing, conditionalities attached to borrowing, debt restricted to large cities, etc. In many developing countries, local borrowing is not allowed. Ban on borrowing however may also exist in OECD countries, such as Chile. Overall, in 27 countries, local

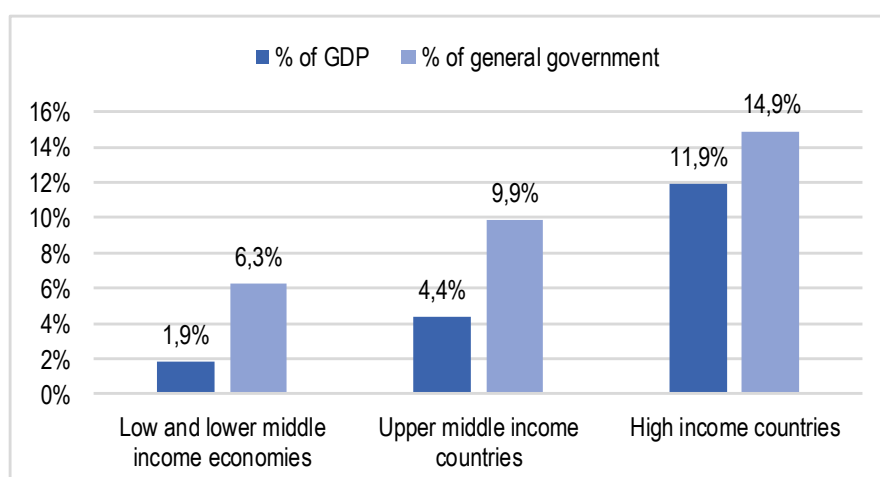
outstanding debt is less than 1.5% of GDP and in 26 countries, less than 2.5% of public debt.

Some unitary countries have, however, a high level of local government debt. Iceland, Sweden, Norway, China and Japan stand out for their high level of local government debt, above 15% of GDP. In China, local government debt amounted to 20.6% of GDP and 46.6% of public debt whereas in Japan local debt reached 33.9% of GDP and 15.3% of public debt (Figure 7.1).

### *SNG debt by income groups and geographical areas*

As for expenditure and revenue, the income level of the different countries is correlated with the level of SNG debt, both as a percentage of GDP and as a percentage of general government debt (Figure 7.3). This reflects the degree of decentralisation in terms of spending responsibilities, in particular for investment. It also reflects subnational government fiscal capacity and creditworthiness and the fiscal framework, in particular borrowing rules. Finally, access of subnational governments to national and international credit markets can be easier in high income countries.

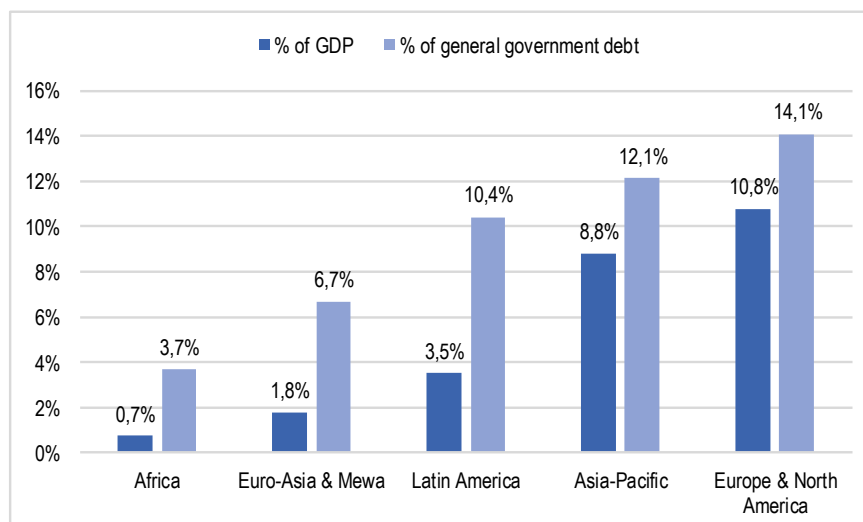
**Figure 7.3. Subnational government debt by income country groups as a percentage of GDP and general government debt (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

SNG debt is also greater in Europe and North America and Asia-Pacific than in other geographical areas (Figure 7.4). In Asia-Pacific in particular, subnational debt is high on average, but it is mainly driven by Japan, China, India, and Australia. The level of debt in other Asian countries remaining low.

**Figure 7.4. Subnational government debt by geographical areas as a percentage of GDP and general government debt (2016)**



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

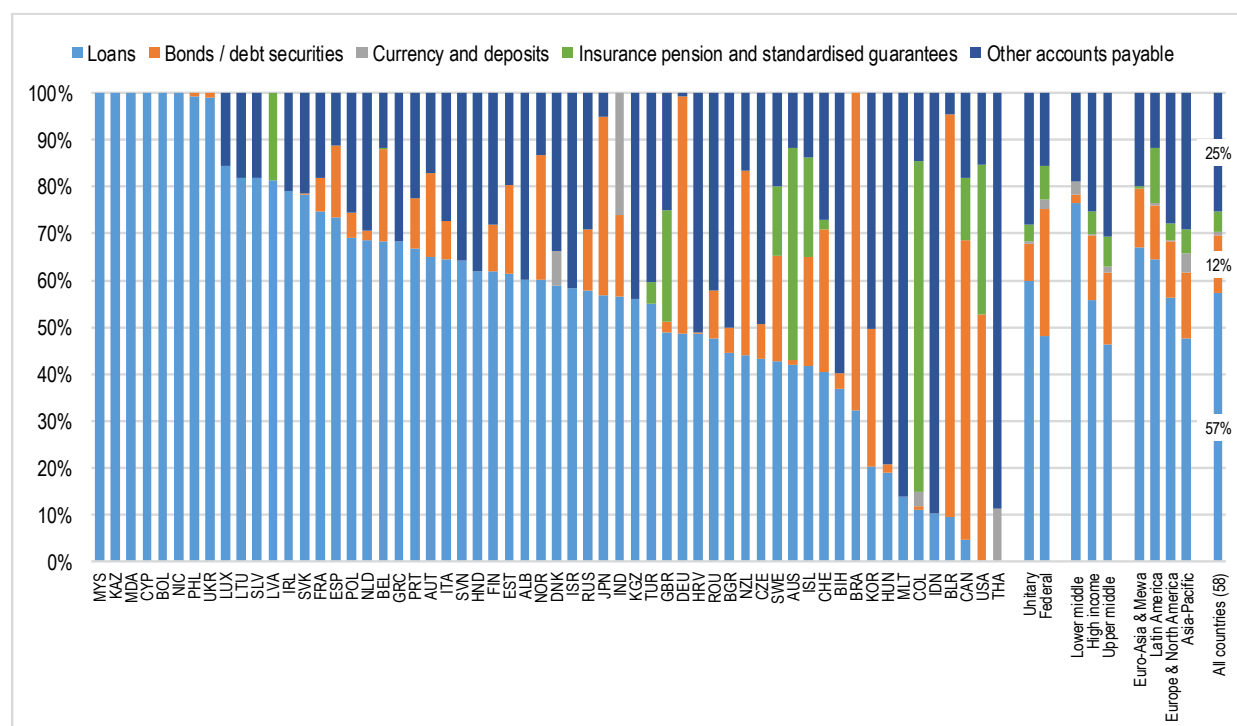
## 7.2. Loans are the primary source of external funding

SNG debt stock is made up of both “financial debt” (mainly loans and debt securities resulting from borrowing) and “non-financial debt” i.e. the sum of other accounts payable (arrears, suppliers’ debt, etc.) and pension liabilities (insurance pensions and standardised guarantees). In 2016, financial and non-financial debt accounted for respectively 70% and 30% of debt stock of the country sample on unweighted average (58 countries).

Loans make the bulk of subnational government debt (57% of debt stock), followed by “other account payable” (25%) and bonds/securities (12%) as shown in Figure 7.5.

Figure 7.5. Subnational government debt by instrument

Share of total outstanding debt (% , 2016)



Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

The use of loans is higher in unitary countries than in federal countries (60% vs 48% of subnational debt) as well as in lower middle income countries than in other income groups.

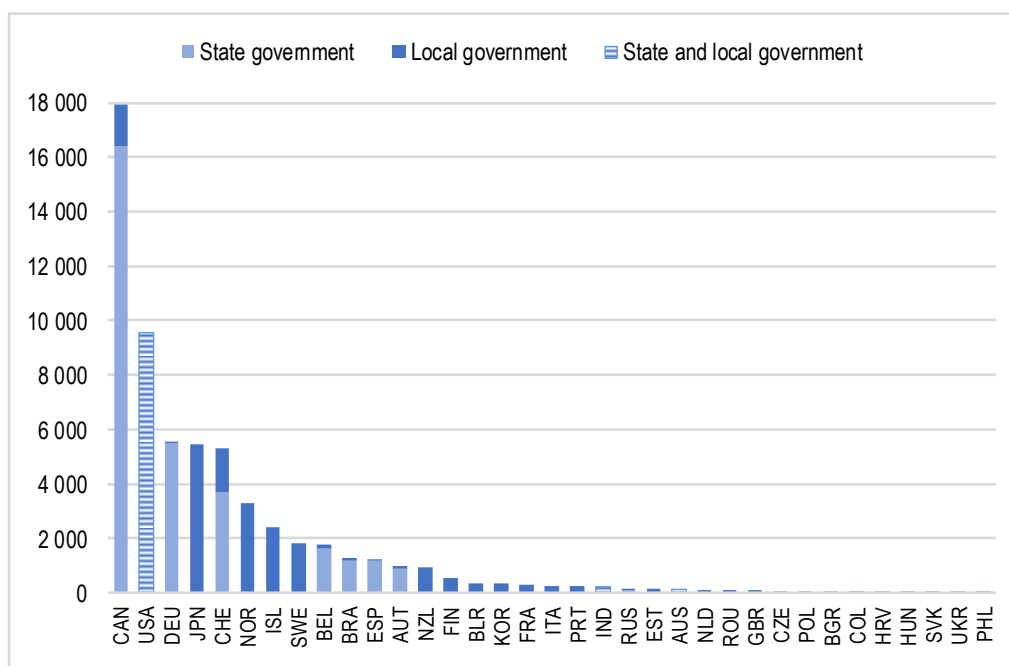
The accumulation of short-term debt or “commercial debt” with suppliers and arrears may be a concern in some cases. In some countries, the share of “other accounts payable” in total subnational government debt is particularly high (Figure 7.5).

Bond financing is more developed in federal than in unitary countries (27% vs 8% of debt stock). In federal countries, issuance of bonds is the preferred source of funding of state governments while the share for local government remains small or inexistent (Figure 7.6). Canada stands out for the high level of bonds per capita (almost 18 000 USD PPP), followed by the United States. In many unitary countries, bond financing by local governments is not allowed - or at least not used widespread. However, the importance of bonds in debt stock may be significant as in Japan, Norway, Iceland or Sweden.

The share of bonds in debt stock is also slightly higher in upper middle income countries than in high income countries (16% vs 14%) while it is insignificant in lower middle countries and inexistent in the low income countries of the sample. Finally, the share of bonds by geographical area is quite balanced between 11% and 14%, Asia-Pacific leading with 14%.

**Figure 7.6. State and local government bonds/securities**

Amounts of bonds/securities in total subnational government outstanding debt in USD per capita, 2016



Note: No disaggregated data in United States and India.

Source: Authors' calculations based on SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

### Box 7.1. Borrowing rules have been strengthened in many countries

Borrowing rules have been reinforced over the last 15 years, following several crises of over-indebtedness (e.g. in Latin America) and more recently, after the 2008 economic crisis in the context of public finance consolidation policies. Borrowing frameworks have been strengthened to include the setting up or increase of caps on debt service (interest and capital reimbursement), outstanding debt and new annual borrowing, prohibitions or restrictions concerning bonds issuance, loans with foreign institutions or the use of foreign-currency borrowings, regulation of floating-rate borrowings and the use of swaps, etc. These new regulations also reinforced debt monitoring and regular reporting on key fiscal indicators. Several countries have also adopted fiscal responsibility laws and created independent authorities for fiscal responsibility to monitor and report on compliance of all levels of government to fiscal rules.

## 8. Main features of decentralised governance in Least Developed Countries

Least developed countries (LDCs) are low-income countries confronting severe structural impediments to sustainable development. There are three criteria for being classified as an LDC:

- low three-year average of per capita gross national income (GNI): \$1,025 or below
- low level of human assets index (HAI): 60 or below
- high structural vulnerability measured by the economic vulnerability index (EVI): 36 or above

SNG-WOFI study focuses on 23 of the 47 LDCs, namely 3 in Asia-Pacific: Bangladesh, Cambodia and Nepal; and 20 in Africa: Angola, Benin, Burkina Faso, Burundi, Chad, Ethiopia, Guinea, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Togo, Uganda, Tanzania and Zambia.

The specificity of LDCs, (high degree of poverty, weakness of the institutions) calls for a specific role for decentralisation processes. Local authorities are seen as important actors for service delivery and local economic development enabler. In most countries, traditional authorities have been the most important regulators at the local level. The decentralisation has made the dynamics more complex, with the creation of local authorities. Local authorities also have a role to play in conflict resolution, peace agreements and migration dynamics. Finally, the intensity of demographic growth has created an addition pressure for municipalities.

### 8.1. Multi-level governance framework and territorial organisation

Least Developed Countries (LDCs) are mainly unitary countries, with the exception of Ethiopia and Nepal. Most of them have undergone political democratisation and decentralisation reforms in the last decades, particularly since the 1990s. Democratization was not the only reason for decentralisation processes in the 90s; improved service delivery mechanisms have also been a key driver. The path followed in several countries is a dual system between decentralisation and deconcentration: elected local government bodies work with deconcentrated bodies representing the central government. For example, in Chad and Madagascar, the transition from deconcentration to devolution started in 2000 and 2004 respectively but the central government is still represented in each municipality today. In Mauritania and Burundi, governance remains centralised and local governments are placed under the authority, supervision and control of national ministries. In some countries, overlapping responsibilities between decentralised and deconcentrated bodies may create confusion as in Mozambique, where the provincial local government have no authority over state organs functioning within its area. In Rwanda and Sierra Leone however, deconcentrated bodies act as coordinating organs between levels of government and support local government capacity, namely human resources and spatial planning.

In LDCs, territorial organisation is very diverse (Table 8.1). There are nine single-tiered countries, eight two-tiered countries, and six three-tiered countries in LDCs included in the study. There are two federations in the sample: Ethiopia and Nepal. Ethiopia is unique among LDCs as it has developed a federation of multi-ethnic nations to manage ethnic

diversity, allowing each region to develop specific provisions. In 2015, Nepal moved from a unitary form of government to a federal one with a strong focus on decentralisation based on “cooperative federalism”. In addition, while the lowest and unique decentralised local authority is generally the municipality, traditional authorities often serve as constituencies or places to promote citizen engagement at the sub-municipal level as in Rwanda, Ghana, Ethiopia and Zambia. This is also explained by the large size of municipalities on average, especially in African LDCs while two Asian LDCs have on average less than 10 000 inhabitants per municipality (Table 8.1).

Municipal councillors are generally directly elected, often with universal suffrage, except in Angola where no local election has taken place (in May 2015, the Parliament approved a plan for the preparation of local elections, which are anticipated to occur before the general election in 2022), in Chad where only 42 municipalities out of 365 have elected rather than presidentially appointed councillors and in Togo where the last local elections took place in 1987. In Togo, two important steps have been taken recently. Elections are to be held on June 30, 2019 and 116 municipalities were created in 2017 on the basis of a grouping of cantons or districts in certain large cantons and five regions. In Uganda, the last election for district/city, municipality/city division, and sub-country/town councils was held in 2016 and in July 2018, the government organized elections for village councils for the first time in 17 years.

At the regional level, councillors are either elected by municipal councillors (indirect elections) as in Cambodia, Guinea and Mali or appointed by the central government as in Madagascar and Niger.

The decentralisation framework encourages inter-municipal cooperation in Mauritania, Burundi, Senegal, Sierra Leone and Togo. In the latter, inter-municipal cooperation is a compulsory mode of cooperation between municipalities within the same prefecture since 2018.

## 8.2. Subnational government responsibilities

Local governments commonly exercise responsibilities tied to local interests, civil administration and spatial planning. Like in all countries, the way responsibilities are assigned across levels of governments nevertheless differs greatly between LDCs. The clarity of responsibilities assigned across levels of government is essential to decentralisation effectiveness and successful implementation. Mechanisms for cooperation across levels of governments exist in Burundi, Ethiopia, Malawi and Rwanda. In Burundi and Rwanda, local governments cooperate with deconcentrated bodies of ministries and national sectoral agencies on delegated tasks. In Ethiopia, the constitution provides a clear division of power between states and local governments. In Nepal, the new constitution assigns responsibilities to the three levels of governments, namely three exclusive lists addressed to the federal, state and local governments respectively, a concurrent federal-state list, and a concurrent federal-state-local government list. In some countries, the transfer of resources corresponding to newly assigned responsibilities is generally slow and SNGs are not very involved in programme budget processes. This is very clear in Mali despite the Peace and Reconciliation Agreement in 2015. In Bangladesh, the central government may perform transferred functions where local resources are limited.

Local authorities may also play a certain role in conflict resolution and peace agreements. In many peace agreements, local authorities have been considered as potential actors to

overcome and prevent conflict and recognized as such by the Peace Agreements with a certain percentage of national budgets to be decentralised (Mali).

Lack of clarity in the division of responsibilities seems a challenge in Angola, Burkina Faso, Mali and Chad where there is either no framework or no implementing legislation to assign responsibilities. Mauritania made efforts to tackle this issue with its 2018 reform assigning own and transferred competences to regions. Local governments' responsibilities are limited in Angola and its municipalities have a very limited role in local services provisions. In Burkina Faso, the process of operationalising the transfers of responsibilities and resources remains incomplete overall despite specific decrees published in 2009. In Malawi, there is a duplication of functions across the levels of governments and limited capacity at the subnational level to fulfil transferred mandates. In Benin, the 2009 ten-year program is currently under revision. In Senegal, a new General code was established in 2013. In Uganda, since constitutional reforms in 2005, the tendency seems to be one of re-centralisation of powers and authority, as the central government has become more assertive over local affairs, while the administrative powers and financial resources of local governments have been gradually eroded. In Cambodia, upper levels of government are responsible for budget and management duties while communes' responsibilities are limited to civil administration, primary health, pre-school and waste management.

In contrast, Benin municipalities exercise exclusive, shared and delegated functions. In Mozambique, municipalities exercise their responsibilities under the supervision of local State organs and entrepreneurial bodies are encouraged to answer collective needs and granted some administrative and financial autonomy.

### 8.3. Subnational government finance

Data quality, reliability and availability is very low in most LDCs. Subnational government fiscal data have been collected for 10 countries. Ethiopia, Malawi, Rwanda and Senegal stand out as the relatively best providers of subnational fiscal data (see Table 8.2 and Table 8.3). In Bangladesh, Burkina Faso, Chad, Guinea, Madagascar, Malawi, Mali, Mauritania, Nepal, Niger, Sierra Leone, Togo and Zambia, mechanisms for collecting and consolidating sub-national government fiscal data, at the national level, where they exist, often produce, at best, only partial and irregular data.

Subnational government expenditures account for a low share of GDP, i.e. less than 1% of GDP in 5 countries (Angola, Benin, Burundi, Cambodia and Senegal) and between 3% and 6% of GDP for the other 4 countries, i.e. Mozambique, Rwanda, Uganda and Tanzania (see Table 2). The contribution of subnational governments to total public expenditure is also marginal in the same five countries while it is a bit higher in the other four countries (between 17% and 19% of general government expenditure). Expenditure management is centralised in Angola and Madagascar, where subnational expenditure share in general government is below 5%. Ethiopia stands out as the most decentralised country among LDCs with 48% of public expenditures occurring at the subnational level, although heterogeneity across regions remains significant. Current expenditures and especially the weight of staff expenditures in subnational budgets is particularly high in Angola and Uganda where it amounted to more than 50% of subnational expenditures. Local governments mainly act as paying agents in Bangladesh, as the central government contributions mainly go to paying staff salaries and holding local elections. The lack of capacity at the local level, compulsory expenditures enshrined in the law or grants earmarking limit local governments' spending autonomy.



Overall, investment accounts for a small share of total subnational expenditures, particularly in Mali, Mauritania, Malawi, Uganda and Zambia. Investment accounts for a large share of subnational expenditures in Benin, Burundi and Ethiopia. Regulations often include a minimum threshold of investment as a share of local public expenditures to promote economic development and prevent local public investment from dipping too low. For example, the investment share in total subnational expenditures must account for at least 15% in Madagascar, 20% in Nepal, 20% in Togo and 45% in Niger. The share of investment in GDP and total public investment is however very low, except in Ethiopia and Rwanda to a lesser extent. Without sufficient self-financing and adequate, timely and predictable capital transfers from the central government, municipalities remain unable to cope with huge investment needs, and local investment is therefore limited.

Local governments' revenues in most LDCs are highly dependent on central government transfers. Most low-income countries also receive international aid and donations. In Uganda, Tanzania, Rwanda and Mali, intergovernmental transfers represent 96, 90%, 89% and 75% of subnational revenue, respectively. Even in Ethiopia, two thirds of local governments' revenues depend on grants. While formula-based grants prevail in Cambodia, Ethiopia and Mozambique, predictability and actual disbursement may be low, as in Niger, Mali and Nepal, hindering municipalities' ability to procure and implement planned and budgeted programs. In Uganda, the government introduced a Local Government Performance Assessment System aligned with Intergovernmental Fiscal Transfer Reforms to increase the adequacy, improve equity and ensure efficiency of local government financing. These type of mechanisms exist in many other countries although not always fully applied (Mali, Benin, Tanzania, Burundi).

By contrast, the share of local tax revenue in subnational revenue is limited. The exceptions are Cambodia where taxes account for 77% of total subnational revenue although tax collection and budget planning remain highly centralised. In Mozambique, greater fiscal autonomy has been granted to local governments since 2008. Taxes now account for 80% of subnational revenues in Mozambique. In most of the least developed countries, the Treasury manages and collects local taxes and duties. In Ethiopia's federation, subnational tax revenues are high by international standards, namely 30% of public taxes are collected at the subnational level although the main contributors are Addis Ababa chartered city and a few region states. In Nepal, the federalisation process is not mature yet and both local governments and state governments rely on central government transfers. In Nepal, the share of taxes in municipal revenues averaged 13% over the last ten years. The 2017 Intergovernmental Fiscal Management Act indicates that the share of shared taxes in subnational revenues is likely to increase as the central government will continue to collect the VAT and local excise taxes but will now partly transfer them to subnational governments. In other LDCs, local tax revenues share in public tax revenues averages 3%. Indeed, local governments often have authority in levying local taxes but they may face difficulties in mobilising or defining their own resources such as local tax bases and local users fees because of a lack of clarity in their authority as in Nepal or because of limited capacities as in Burkina Faso, Sierra Leone and Burundi.

Tariffs and fees are relevant at the subnational level in Benin (civil fees, land certificates) and Malawi (toll fees) as they account for 13% and 15% of subnational revenue respectively. In Niger, mining and oil royalties' revenues that are transferred to local governments to be primarily channelled to local investment projects.

There is sparse data on public debt contracted at the subnational level. Borrowing is generally allowed at the subnational level to finance capital investments upon approval of the Ministry of Finance, but local debt is in practice very limited and represent no more than 1% of public debt in every LDC for which data are available. Cambodia strictly restricts access to borrowing to subnational governments while in Ethiopia, region states may borrow upon federal state approval but the local level is strictly restricted from borrowing. In Chad, the law restricts local governments' access to loans and only the monetary authority may allow a local government to borrow. In Guinea, Mauritania and Rwanda, the institutional framework is not clear enough to enable local governments access to capital markets in practice. Local governments can issue bonds in Uganda, Zambia, Tanzania and Senegal.

**Table 8.1. Multi-level governance structure in LDCs**

	Population		Number of SNG	
	<i>Average municipal population</i>	<i>Municipal level</i>	<i>Intermediary level</i>	<i>Regional level</i>
<b>Angola</b>	182 724	163		18
<b>Bangladesh</b>	30 625	5 377	489	64
<b>Benin</b>	145 139	77		
<b>Burkina Faso</b>	54 681	351		13
<b>Burundi</b>	91 296	119		
<b>Cambodia</b>	9 600	1 646	185	25
<b>Chad</b>	41 000	365	95	23
<b>Ethiopia</b>	114 630	916		11
<b>Guinea</b>	37 185	342		8
<b>Madagascar</b>	16 121	1 695	22	6
<b>Malawi</b>	531 429	35		
<b>Mali</b>	26 375	703	49	11
<b>Mauritania</b>	20 275	218		15
<b>Mozambique</b>	559 622	53		
<b>Nepal</b>	7 450	753		7
<b>Niger</b>	84 224	255		7
<b>Rwanda</b>	350 532	30		
<b>Senegal</b>	28 457	557		45
<b>Sierra Leone</b>	343 636	22		
<b>Togo</b>	67 200	116	39	5
<b>Uganda</b>	42 860	169		
<b>Tanzania</b>	228 066	169		
<b>Zambia</b>	165 962	103		

Source: Extracted from SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

Table 8.2. Subnational government expenditure in LDCs (2016)

	Expenditure			Staff expenditure				Investment			
	<i>Per capita</i>	% GDP	% GG	<i>Per capita</i>	% GDP	% SNG	% GG	<i>Per capita</i>	% GDP	% SNG	% GG
Angola	81	1	5	44	1	54	8	6	0	7	2
Bangladesh											
Benin	29	1	6	5	0	16	3	13	1	45	9
Burkina Faso											
Burundi	6	1	4					4	0	59	9
Cambodia	37	1	4	2	0	5	1	8	0	23	3
Chad											
Ethiopia	152	9	48					57	3	38	35
Guinea											
Madagascar											
Malawi				1	0						
Mali											
Mauritania											
Mozambique	65	5	17								
Nepal											
Niger											
Rwanda	107	6	19	46	2	43	37	27	1	25	13
Senegal	37	1	4	9	0	24	5	8	0	23	2
Sierra Leone											
Togo											
Uganda	57	3	17	31	2	55	37	4	0	6	4
Tanzania	40	4	18					7	1	18	3
Zambia											

Note: GG: general government; SNG: subnational government

Source: Extracted from the SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

Table 8.3. Subnational government revenue and debt in LDCs (2016)

	Revenue			Tax revenue				Grants and subsidies			Debt		
	<i>Per capita</i>	% GDP	% GG	<i>Per capita</i>	% GDP	% SNG	% GG	<i>Per capita</i>	% GDP	% SNG	<i>Per capita</i>	% GDP	% GG
Angola													
Bangladesh											3.7	0.1	0.3
Benin	27	1	8	9	0	32	3	13	1	50			
Burkina Faso								1	0				
Burundi	7	1	7										
Cambodia	45	1	8	34	1	77		9	0	20			
Chad								1	0				
Ethiopia	174	10	58	65	4	37	30	109	6	63			
Guinea													
Madagascar													
Malawi	10	1	4	1	0	13	1	7	1	71			
Mali													
Mauritania													
Mozambique													
Nepal													
Niger													
Rwanda	108	6	18	10	1	9	3	96	5	89	0.2	0.0	0.2
Senegal	45	1	6	16	0	35	3	12	0	26	3.3	0.1	1.0
Sierra Leone								6	0				
Togo													
Uganda	60	3	21	1	0	1	0	58	3	96	0.3	0.0	0.3
Tanzania	45	5	19	2	0	5	2	40	4	90	0.0	0.0	0.0
Zambia													

Source: Extracted from the SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

## Annex 1: The World Observatory on Subnational Government Finance and Investment

The World Observatory on Subnational Government Finance and Investment was launched in November 2017 by the Organisation for Economic Co-operation and Development (OECD) and United Cities and Local Government (UCLG). Supporting partners include the *Agence Française de Développement* (AFD), United Nations Capital Development Fund (UNCDF), the Council of Europe Development Bank (CEB), and the Development Partners Network on Decentralisation and Local Governance (DeLoG). Its broader Steering Committee gathers representatives from international organisations; development banks and donors; national and subnational governments; and foundations, institutes and other networks reflecting the multi-level governance approach at the core of its work.

The World Observatory is a multi-stakeholder initiative whose overall goal is to increase knowledge of multi-level governance and finance by collecting and analysing standardised indicators and information. More specifically, its objectives are three-fold:

- Ensure standardised, reliable and transparent access to data on subnational government structure, finance and investment.
- Support international dialogue and decision-making on multi-level governance and subnational finance.
- Serve as a capacity-building tool on subnational governance and finance.

Several significant advances have been made since the pilot study “Subnational Governments Around the World: Structure and Finance” published in October 2016:

- **Expanded geographic coverage.** The 2019 edition includes 121 countries, an increase of 20 countries compared to 2016. Notably, coverage of Least Developed Countries (LDCs) has been expanded. To facilitate the inclusion of LDCs, where data is often limited or less reliable, the methodology has been adapted to allow for more qualitative information and estimates as necessary.
- **Enhanced sectoral coverage.** The sectoral coverage has been improved to make a better distinction within the “subnational government” category between state and local government’s sub-sectors (for federal countries). For unitary multi-layered countries at subnational level (e.g. having regions and municipalities), some disaggregated data and information have been included to assess the specific weight of each subnational level.
- **Improved quantitative indicators and measures.** Additional quantitative indicators have been included for all categories (social and intermediate consumption; tariffs and fees and property income; financial debt, etc.) and fiscal data are now presented not only as ratios (to GDP or to general/subnational government), but are also in dollars PPPs per inhabitant. This allows a much clearer comparable understanding of the amounts at stake, in order to facilitate comparisons between countries.
- **Deeper qualitative information.** Additional qualitative information has been collected for a number of relevant areas: multi-level governance framework, decentralisation processes in a historical perspective, territorial reforms, subnational government structure and size, allocation of responsibilities across subnational government levels, detailed description of expenditure by economic and functional classification, detailed presentation of subnational revenue by type, details on tax revenues, including on property taxes, equalisation mechanisms, fiscal and borrowing rules, loans and bonds financing, etc.

## Annex 2: List of countries, ISO codes and basic socio-economic and institutional indicators

Table 8.4. Countries classified by income groups

Geographic Area	Country (ISO code and name)	Income Group	Form of the State	Area (km <sup>2</sup> )	Population (thousand)	GDP per capita (in dollars PPP)	Number of SNGs at	Number of SNGs at	Number of SNGs at Regional /State level	Total number of SNGs	Average number of inhabitants per municipality
EUR: Europe	AUT: Austria	High income	Federal State	83 879	8 809,2	52 397,8	2 098	..	9	2 107	4 200
EUR: Europe	BEL: Belgium	High income	Federal State	30 326	11 348	47 661,9	589	10	6	605	19 267
EUR: Europe	HRV: Croatia	High income	Unitary	56 594	4 154,2	26 107,6	556	..	21	577	7 472
EUR: Europe	CYP: Cyprus	High income	Unitary	5 695	854,8	36 355	380	..	..	380	2 249
EUR: Europe	CZE: Czech Republic	High income	Unitary	77 219	10 589,5	36 333,4	6 258	..	14	6 272	1 692
EUR: Europe	DNK: Denmark	High income	Unitary	42 924	5 767	51 387,3	98	..	5	103	58 449
EUR: Europe	EST: Estonia	High income	Unitary	43 432	1 315,6	31 739,1	79	..	..	79	16 653
EUR: Europe	FIN: Finland	High income	Unitary	338 150	5 508,2	44 891,1	311	..	1	312	17 670
EUR: Europe	FRA: France	High income	Unitary	647 795	66 865	43 012,9	35 357	101	18	35 476	1 891
EUR: Europe	DEU: Germany	High income	Federal State	357 580	82 657	50 662,2	11 054	401	16	11 471	7 450
EUR: Europe	GRC: Greece	High income	Unitary	130 820	10 754,7	27 616,6	325	..	13	338	33 181
EUR: Europe	HUN: Hungary	High income	Unitary	93 030	9 788	28 107,9	3 177	..	20	3 197	3 081
EUR: Europe	ISL: Iceland	High income	Unitary	100 243	0,3	52 825,2	74	..	..	74	4 640
EUR: Europe	IRL: Ireland	High income	Unitary	70 280	4 802,3	75 648,2	31	..	..	31	154 912
EUR: Europe	ITA: Italy	High income	Unitary	295 114	60 536,7	39 436,5	7 960	..	20	7 980	7 605
EUR: Europe	LVA: Latvia	High income	Unitary	64 490	1 941,2	27 592,3	119	..	..	119	16 312
EUR: Europe	LTU: Lithuania	High income	Unitary	65 286	2 847,9	32 763,7	60	..	..	60	47 140
EUR: Europe	LUX: Luxembourg	High income	Unitary	2 586	0,6	104 174,5	102	..	..	102	5 850
EUR: Europe	MLT: Malta	High income	Unitary	320	460,3	41 479,4	68	..	..	68	6 500
EUR: Europe	NLD: Netherlands	High income	Unitary	33 688	17 127	52 521,2	380	..	12	392	45 071
EUR: Europe	NOR: Norway	High income	Unitary	385 207	5 277	61 414,3	422	..	18	440	12 408
EUR: Europe	POL: Poland	High income	Unitary	312 680	38 422	28 783,9	2 478	380	16	2 874	15 507
EUR: Europe	PRT: Portugal	High income	Unitary	92 225,6	10 291	31 672,7	308	..	2	310	33 524
EUR: Europe	SVN: Slovenia	High income	Unitary	20 145	2 065,7	34 886,1	212	..	..	212	9 744
EUR: Europe	SVK: Slovak Republic	High income	Unitary	49 036	5 438,4	31 625,2	2 930	..	8	2 938	1 856
EUR: Europe	ESP: Spain	High income	Quasi-Federal State	505 940	46 534	37 997,9	8 124	50	17	8 191	5 728
EUR: Europe	SWE: Sweden	High income	Unitary	447 430	10 057,7	50 208,2	290	..	21	311	34 217
EUR: Europe	CHE: Switzerland	High income	Federal State	41 290	8 451,8	64 712,1	2 222	..	26	2 248	3 804
EUR: Europe	GBR: United Kingdom	High income	Unitary	243 610	66 040	43 268,8	382	35	3	420	175 500

LAC: Latin America	ARG: Argentina	High income	Federal State	2 780 400	44 044,8	20 784,8	2 277	..	24		2 301	19 340
LAC: Latin America	CHL: Chile	High income	Unitary	756 096	18 522,4	24 635	345	..	16	361		53 688
LAC: Latin America	PAN: Panama	High income	Unitary	75 420	4 098,6	24 468,9	78	..	..	78		52 546
LAC: Latin America	URY: Uruguay	High income	Unitary	176 220	3 456,8	22 562,5	112	..	19	131		21 391
MEWA: Middle East & Western Asia	ISR: Israel	High income	Unitary	21 643	8 709,2		38 275,7	257	..	..	257	33 253
ASIAP: Asia Pacific	AUS: Australia	High income	Federal State	7 741 220	24 597,5		48 460	562	..	8	570	43 770
ASIAP: Asia Pacific	JPN: Japan	High income	Unitary	377 962	126 728		43 279	1 741	..	47	1 788	72 790
ASIAP: Asia Pacific	KOR: Korea	High income	Unitary	99 461	51 446		38 350,3	226	..	17	243	224 742
ASIAP: Asia Pacific	NZL: New Zealand	High income	Unitary	267 710	4 820		41 109	67	..	11	78	70 450
NAMER: North America	CAN: Canada	High income	Federal State	9 984 670	36 708,1		46 704,9	3 959	..	13	3 972	9 272
NAMER: North America	USA: United States	High income	Federal State	9 831 510	325 983		59 531,7	35 879	3 031	50	38 960	9 086
EUR: Europe	BGR: Bulgaria	Upper middle income	Unitary	110 372	7 075,9		20 948,1	265	..	..	265	26 702
EUR: Europe	BIH: Bosnia and Herzegovina	Upper middle income	Federal State	51 210	3 507		13 107,7	141	10	3	154	24 700
EUR: Europe	ROU: Romania	Upper middle income	Unitary	238 391	19 644,4		26 578,3	3 181	..	42	3 223	6 990
EUR: Europe	ALB: Albania	Upper middle income	Unitary	28 750	2 873,5		12 943,5	61	..	12	73	47 150
EUR: Europe	MKD: Republic of North Macedonia	Upper middle income	Unitary	25 710	2 083,2		15 290,3	81	..	..	81	28 050
EUR: Europe	MNE: Montenegro	Upper middle income	Unitary	13 810	622,5		19 351,9	23	..	..	23	27 060
EUR: Europe	SRB: Serbia	Upper middle income	Unitary	77 474	7 022,3		15 428,8	174	..	2	176	40 358
LAC: Latin America	BRA: Brazil	Upper middle income	Federal State	8 515 770	209 288,3		15 553,4	5 570	..	27	5 597	37 574
LAC: Latin America	COL: Colombia	Upper middle income	Unitary	1 141 748	49 291,6		14 406,3	1 101	..	33	1 134	44 770
LAC: Latin America	CRI: Costa Rica	Upper middle income	Unitary	51 100	4 905,8		17 073,5	81	..	..	81	60 565
LAC: Latin America	DOM: Dominican Republic	Upper middle income	Unitary	48 670	10 767		16 029,6	159	..	..	159	65 000
LAC: Latin America	ECU: Ecuador	Upper middle income	Unitary	256 370	16 624,9		11 612	221	..	24	245	74 279
LAC: Latin America	GTM: Guatemala	Upper middle income	Unitary	108 890	16 913,5		8 150,3	340	..	..	340	49 700
LAC: Latin America	JAM: Jamaica	Upper middle income	Unitary	10 990	2 890,3		8 995,4	14	..	..	14	206 450
LAC: Latin America	MEX: Mexico	Upper middle income	Federal State	1 964 380	123 518		18 273,5	2 479	..	32	2 511	49 826
LAC: Latin America	PRY: Paraguay	Upper middle income	Unitary	406 752	6 811,3		13 081,6	257	..	17	274	27 270
LAC: Latin America	PER: Peru	Upper middle income	Unitary	1 285 220	32 165,5		13 434,2	1 866	..	25	1 891	17 238
MEWA: Middle East & Western Asia	JOR: Jordan	Upper middle income	Unitary	89 320	9 702,4		9 153,4	101	..	12	113	96 063
MEWA: Middle East & Western Asia	TUR: Turkey	Upper middle income	Unitary	780 043	79 037		28 606,9	1 389	..	81	1 470	56 577
EURASIA: Euro-Asia	KAZ: Kazakhstan	Upper middle income	Unitary	2 724 902	18 037,6		26 434,9	6 938	215	16	7 169	2 600
EURASIA: Euro-Asia	ARM: Armenia	Upper middle income	Unitary	29 740	2 930,5		9 668,0	502	..	..	502	5 848

EURASIA: Euro-AZE: Azerbaijan Asia	Upper middle income	Unitary	86 600	9 854	17 398,2	1 607	..	1	1 608	3 700
EURASIA: Euro-BLR: Belarus Asia	Upper middle income	Unitary	207 600	9 507,9	18 847,9	1 190	128	7	1 325	7 990
EURASIA: Euro-RUS: Russian Federation	Upper middle income	Federal State	17 098 250	144 495	26 417,5	19 976	2 351	83	22 410	..
AFR: Africa BWA: Botswana	Upper middle income	Unitary	581 730	2 292	17 354,2	16	..	..	16	143 229
AFR: Africa MUS: Mauritius	Upper middle income	Unitary	2 040	1 264	22 308,0	130	12	1,0	143	9 692
AFR: Africa NAM: Namibia	Upper middle income	Unitary	824 290	2 534	10 475,5	57	..	14	71	48 727
AFR: Africa ZAF: South Africa	Upper middle income	Quasi-Federal State	1 219 090	56 717	13 498	257	..	9	266	204 019
ASIAP: Asia Pacific CHN: China	Upper middle income	Unitary	9 634 057	#####	16 806,7	2 851	334	31	3 216	..
ASIAP: Asia Pacific MYS: Malaysia	Upper middle income	Federal State	330 345	31 624	29 448,9	154	..	13	167	205 350
ASIAP: Asia Pacific THA: Thailand	Upper middle income	Unitary	513 120	69 037,5	17 872,2	2 441	..	76	2 517	28 282
EUR: Europe XKO: Kosovo	Lower middle income	Unitary	10 887	1 830,7	10 754,4	38	..	..	38	48 176
LAC: Latin America BOL: Bolivia	Lower middle income	Unitary	1 098 580	11 051,6	7 559,6	342	..	10	352	29 675
LAC: Latin America SLV: El Salvador	Lower middle income	Unitary	21 040	6 377,9	8 006	262	..	..	262	24 343
LAC: Latin America HND: Honduras	Lower middle income	Unitary	112 490,0	9 265,1	4 986,2	298	..	..	298	31 090
LAC: Latin America NIC: Nicaragua	Lower middle income	Unitary	130 370	6 217,6	5 842,2	153	..	2	155	40 100
MEWA: Middle East & Western Asia PSE: Palestinian Authority	Lower middle income	Unitary	6 020	4 684,8	4 885,3	456	..	..	456	10 263
EURASIA: Euro-GEO: Georgia Asia	Lower middle income	Unitary	69 700	3 717,1	10 683,1	72	..	2	74	55 740
EURASIA: Euro-KGZ: Kyrgyzstan Asia	Lower middle income	Unitary	199 950	6 198,2	3 725,4	470	12	2	484	13 188
EURASIA: Euro-MDA: Republic of Moldova	Lower middle income	Unitary	33 850	3 549,8	5 697,8	925	..	35	960	3 840
EURASIA: Euro-UKR: Ukraine Asia	Lower middle income	Unitary	603 550	44 831,2	8 666,9	11 030	676	27	11 733	4 064
EURASIA: Euro-UZB: Uzbekistan Asia	Lower middle income	Unitary	447 400	32 387	6 865	201	..	14	215	162 000
AFR: Africa AGO: Angola*	Lower middle income	Unitary	1 246 700	29 784	6 643	163	..	18	181	182 724
AFR: Africa CMR: Cameroon	Lower middle income	Unitary	475 442	24 053	3 714	360	..	10	370	66 805
AFR: Africa CPV: Cabo Verde	Lower middle income	Unitary	4 033	546,4	6 657	22	..	..	22	24 818
AFR: Africa GHA: Ghana	Lower middle income	Unitary	238 540	28,8	4 641,3	254	..	..	254	113 519
AFR: Africa CIV: Ivory Coast	Lower middle income	Unitary	322 463	24 294,8	3 971,9	201	..	33	234	121 000
AFR: Africa KEN: Kenya	Lower middle income	Unitary	580 370	49 700	3 285,9	47	..	..	47	1 057 444
AFR: Africa MRT: Mauritania*	Lower middle income	Unitary	1 030 700	4 420,2	3 949	218	..	15	233	20 275
AFR: Africa MAR: Morocco	Lower middle income	Unitary	446 550	35 739,6	8 334,5	1 538	..	..	..	..
AFR: Africa NGA: Nigeria	Lower middle income	Federal State	923 770	190 886	5 874,7	774	..	37	811	246 623
AFR: Africa SWZ: Eswatini	Lower middle income	Unitary	17 360	1 367	8 496	68	..	..	68	20 407
AFR: Africa TUN: Tunisia	Lower middle income	Unitary	163 610	11 532,1	11 911	350	..	24	374	32 949
AFR: Africa ZMB: Zambia*	Lower middle income	Unitary	752 610	17 094	4 050,3	103	..	..	103	165 962
ASIAP: Asia Pacific BGD: Bangladesh*	Lower middle income	Unitary	147 630	164 669,8	3 868,8	5 377	489	64	5 930	30 625



ASIAP: Asia Pacific	KHM: Cambodia*	Lower middle income	Unitary	181 040	16 005,4	4 009	1 646	185	25	1 856	9 600
ASIAP: Asia Pacific	IND: India	Lower middle income	Federal State	3 287 259	#####	7 059,3	267	..	36	267 464	5 010
ASIAP: Asia Pacific	IDN: Indonesia	Lower middle income	Unitary	1 910 931	263 991,4	12 283,6	83 344	514	34	83 892	3 167
ASIAP: Asia Pacific	MNG: Mongolia	Lower middle income	Unitary	1 564 120	3 075,6	12 918,4	1 720	339	22	2 081	1 788
ASIAP: Asia Pacific	PHL: Philippines	Lower middle income	Unitary	300 000	104 918	8 342,8	42 045	1 634	82	43 761	2 398
ASIAP: Asia Pacific	LKA: Sri Lanka	Lower middle income	Unitary	65 610	21 444	12 826,6	341	..	9	350	62 880
ASIAP: Asia Pacific	VNM: Vietnam	Lower middle income	Unitary	330 967	95 540,8	6 775,8	11 162	713	63	11 938	8 511
EURASIA: Asia	Euro-TJK: Tajikistan	Low income	Unitary	141 380	8 920	3 194,9	369	65	4	438	19 000
AFR: Africa	BEN: Benin*	Low income	Unitary	114 760	11 176	2 271,7	77	..	..	77	145 139
AFR: Africa	BFA: Burkina Faso*	Low income	Unitary	274 200	19 193,4	1 869,8	351	..	13	364	54 681
AFR: Africa	BDI: Burundi*	Low income	Unitary	27 830	10 864,3	770,9	119	..	..	119	91 296
AFR: Africa	ETH: Ethiopia*	Low income	Federal State	1 104 300	104 957	1 899,2	916	..	11	927	114 630
AFR: Africa	GIN: Guinea*	Low income	Unitary	245 860	12 717,2	2 284,0	342	..	8	350	37 185
AFR: Africa	MDG: Madagascar*	Low income	Unitary	581 800	25 570,9	1 555,0	1 695	22	6	1 723	16 121
AFR: Africa	MWI: Malawi*	Low income	Unitary	118 480	18 622	1 202,2	35	..	..	35	531 429
AFR: Africa	MLI: Mali*	Low income	Unitary	1 240 190	18 542	2 213,5	703	49	11	763	26 375
AFR: Africa	MOZ: Mozambique*	Low income	Unitary	786 380	29 669	1 247,6	53	..	11	64	559 622
AFR: Africa	NER: Niger*	Low income	Unitary	1 267 000	21 477,3	1 017	255	..	7	262	84 224
AFR: Africa	RWA: Rwanda*	Low income	Unitary	26 340	12 208,4	2 035,7	30	..	..	30	350 532
AFR: Africa	SEN: Senegal*	Low income	Unitary	196 710	15 850,6	3 450,3	557	..	45	602	28 457
AFR: Africa	SLE: Sierra Leone*	Low income	Unitary	71 740	7 557,2	3 949	22	..	..	22	343 636
AFR: Africa	TCD: Chad*	Low income	Unitary	1 284 000	14 900	1 941,2	365	95	23	483	41 000
AFR: Africa	TGO: Togo*	Low income	Unitary	56 785	7 797,7	1 569,7	116	39	5	160	67 200
AFR: Africa	TZA: United Republic of Tanzania*	Low income	Unitary	947 300	57 310	2 786,3	169	..	..	169	228 066
AFR: Africa	UGA: Uganda*	Low income	Unitary	241 550	42 863	1 863,8	169	..	..	169	42 860
AFR: Africa	ZWE: Zimbabwe	Low income	Unitary	390 760	16 530	2 428,6	92	..	10	102	179 673
ASIAP: Asia Pacific	NPL: Nepal*	Low income	Federal State	147 180	29 305	2 696,7	753	..	7	760	7 450

Note: countries marked with an \* are LDCs countries

Source: SNG-WOFI database. [www.sng-wofi.org](http://www.sng-wofi.org)

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