2019 Report
World Observatory on Subnational Government Finance and Investment

Country Profiles

OECD
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SNGWOFI
World Observatory on Subnational Government Finance and Investment

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Foreword

This report is the fruit of an international initiative led by the Organisation for Economic Cooperation and Development (OECD) and United Cities and Local Governments (UCLG). With four supporting partners, 50 Steering Committee members, 120+ countries, 50 local and national experts, collecting, collating and analysing the 10,000+ data points on subnational government structure and finance this publication gathers was truly a collective effort. But this effort has never been more important or relevant. Around the world, subnational governments are playing an increasingly larger role in domestic affairs - from investment to service delivery. Internationally, local and regional governments have a key role in delivering on the promises of global agendas, from the 2030 Agenda for Sustainable Development, to the Addis-Ababa Action Agenda, the Paris Climate Agreement and the New Urban Agenda. And as the localised "face" of government that citizens interact with most directly, they occupy a privileged position in responding to the general trend of declining trust in governments.

The data and analysis contained in this publication helps to fill in the broad brush strokes of what many already know: subnational governments must be fully engaged if we are to face these challenges with resolve. It provides concrete evidence that overlooking the role of subnational governments means overlooking one quarter of public expenditure and 37% of public investment.

While predominantly a stocktaking exercise, this publication also raises important questions: are there significant mismatches between subnational mandates and finances that impede the ability of subnational governments to deliver for their citizens? How can sources of subnational finance be diversified in order to better fill the existing investment gap? To respond to major shifts to our economies and societies such as urbanisation, growing inequalities, climate change, ageing populations, youth inclusion and new technologies, how can stakeholders at all levels of government work together more strategically in the context of limited fiscal space and often overlapping competences? These questions are relevant for governments the world over, regardless of the absolute level of decentralisation.

This report is the 2019 publication of the World Observatory of Subnational Government Finance and Investment (SNG-WOFI), a joint endeavour led by the OECD and UCLG, and with the active support of the United Nations Capital Development Fund (UNCDF), the French Development Agency (AFD), the Council of Europe Development Bank (CEB), and DeLoG. It is guided by a Steering Committee, gathering national government representatives, associations and institutions representing subnational governments, international organisations and networks, multilateral and national development banks, aid donors and think-tanks. Putting multi-level governance in practice, the Steering Committee has followed and validated all steps, from the definition of the methodology to the review of the work.

The 2019 World Observatory Report is built on the foundation of a first pilot study entitled "Subnational governments around the world: structure and finance", published in October 2016 by the OECD and UCLG, with the support of AFD. The 2019 World Observatory Report expands the country coverage; complements data, indicators and measures; deepens the analysis of multi-level governance processes, including institutional, territorial and fiscal decentralisation reforms. It allows for the development of additional comparative analyses on the relationship between political, administrative and fiscal decentralisation. This edition is made up of two volumes: one presenting the key findings, the other comprising the 121 country profiles, together with the detailed methodology used in the study. In addition, an interactive web database has also been established. All country data and profiles presented in the report can be found and downloaded on the web site of the initiative (www.sng-wofi.org). This web site includes access to the World Observatory Database and visualisation tools that allow comparison of countries and groups of countries.

Data and information of the World Observatory will be regularly updated and expanded to cover other global priorities. More countries will be progressively added to the sample, if data become available. The SNG-WOFI is a living initiative, which marks a key milestone in deepening the global knowledge base on subnational government structure and finance. It supports the OECD work on multi-level governance, decentralisation and subnational finance as part of the OECD Regional Development Policy Committee and Network on Fiscal Relations across Levels of Government. It also feeds into UCLG's research and policy work on local democracy and decentralisation, notably through the Global Observatory on Local Democracy and Decentralisation triennial report, as well as yearly reports to the UN High Level Policy Forum on the localisation of the Sustainable Development Goals.

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The 2019 World Observatory Report, and its associated web interactive database, were produced by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), led by Lamia Kamal-Chaoui, Director, as part of the programme of work of the Regional Development Policy Committee (RDPC), jointly with UCLG under the direction of Emilia Saiz, Secretary General of UCLG.

The OECD developed the overall methodology, prepared 62 country profiles, and wrote the synthesis report. It was also in charge of creating the database and preparing the web platform, and providing quality control for all the country profiles. At the OECD, the project was co-ordinated by Isabelle Chatry, Senior Policy Analyst under the direction of Dorothée Allain-Dupré, head of the Decentralisation, Public Investment and Subnational Finance Unit. This unit is part of Economic Analysis, Statistics and Multi-level Governance Section, led by Rudiger Ahrend. Charlotte Lafitte and Yingyin Wu from the CFE/OECD Secretariat and Rose Camille Vincent, expert from the Maastricht University provided invaluable support. Other important contributions have also been made by Antoine Kornprobst, Antti Moisio, Louise Phung and Anna Rubin from the CFE/OECD Secretariat. Valuable comments and inputs on the country profiles were also provided by Amal Chevreau, Varinia Michalun, Joaquim Oliveira Martins, and Isidora Zapata from CFE/OECD, as well as from Hansjoerg Bloechliger and Margit Molnar from the OECD Economics Department. The team is also grateful to Lawrence Pacewicz and Foivi Vlastou Dimopoulou from the OECD Legal Department. Finally, this work would not have been possible without the support of Samuel Pinto Ribeiro, Smart Data Practice Expert from the OECD Statistics and Data Directorate, Eric Gonnard, statistician at CFE/OECD as well as Vincent Finat-Duclos, Matthias Rumpf, and Vincent Gallart from the OECD Public Affairs and Communications Directorate. The OECD would also like to warmly thank all delegates of the Regional Development Policy Committee for their valuable comments and support. Special thanks are also due to Preben Gregersen, Regional Policy Director, Danish Business Authority, Lewis Dijikstra, Head of the Economic Analysis in the DG for Regional and Urban Policy of the European Commission, and Junghun Kim, President of the Korean Fiscal Policy Institute and Chair of the OECD Network on Fiscal relations across levels of Government.

UCLG mobilised focal points in different regions of the world, collected data and prepared country profiles for 45 countries from Africa, Latin America, Asia-Pacific, Euro-Asia and Middle East and West Asia, and organised capacity-building seminars to discuss the methodology. At UCLG, the work was coordinated by Edgardo Bilsky, Director of Research, Serge Allou, Special Adviser and Luc Aldon, Programme Officer. The coordination team was supported by Andrea Ciambra, Ainara Fernandez and Mathilde Penard from the UCLG Global Observatory on Local Democracy and Decentralization. UCLG networks of experts made substantial contributions: for Africa, the African Center for Cities (Sylvia Croese, Cara Hartley, Brendon van Niekerk, Comfort Molefinyana, Jennifer Van Geesbergen), Patrick Karanja, Mamadou Sembene, Njato Rabehajaina and the South African Local Government Association; for Asia, Rainer Rohdewohld; for Euro-Asia, the Center for Fiscal Policy (Galina Kurlyandskaya, Yana Polyakova); for Europe, Angelika Poth-Moegele, Executive Director European Affairs, Nathalie Noupadja, Head of Research and Studies and Marine Goudron, Policy Officer at the Council of European Municipalities and Regions; and for Latin America and the Caribbean, the *Confederação Nacional de Municípios* (Thalyta Cedros Alves, Elisiane Beltrame Mangrich), the Chilean Association of Municipalities (Mario Rosales), *Mercociudades*, the *Centro Latinoamericano de Economía Humana* (Enrique Gallicchio, Ioanna Grotiuz), Agusti Fernandez de Losada and Anna Calvete, the *Instituto Centroamericano de Gobernabilidad*, Demetrio Holguin and Andrew Nickson.

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Comments and inputs received from the Steering Committee of the Observatory are gratefully acknowledged. Two meetings of the Steering Committee were organised at the OECD in November 2017 and December 2018. The following institutions were represented and actively participated in the discussions:

- Representatives of national governments: Belgium, Chile, Denmark, Estonia, France, Italy, Netherlands, Poland, Slovak Republic, Korea
- Representatives of associations of subnational governments: Network of Associations of Local Authorities of South East Europe (NALAS), United Cities and Local Governments (UCLG) – Africa, United Cities and Local Governments (UCLG) Asia-Pacific, Council of European Municipalities and Regions, National Confederation of Municipalities of Brazil, Commonwealth Local Government Forum, Forum of Regions, *Mercociudades*, Metropolis, Association internationale des maires francophones
- EU institutions: European Commission, EU Committee of the Regions
- International Organisations and institutions: Council of Europe, United Nations Capital Development Fund (UNCDF)
- Multilateral and national development banks: *Agence Française de Développement* (AFD), Council of Europe Development Bank, Asian Development Bank
- Foundations, institutes, and other networks: DeLoG Network, Lincoln Institute of Land Policy

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1 Objectives of the study

The roles and responsibilities of subnational governments are rapidly evolving, and in many cases, growing. At the national level, a large number of countries have recently undergone or are undergoing decentralisation reforms, sometimes referred to as the "silent revolution". Internationally, subnational governments are playing an increasingly active role in meeting the objectives of global agendas, from the 2030 Agenda for Sustainable Development, to the Addis-Ababa Action Agenda, the Paris Climate Agreement and the New Urban Agenda. And in the current political and socio-economic climate, they also have a privileged role to play in restoring citizen trust in government.

Despite these general trends, there are important differences in the financial and investment capacities of subnational government across the world. To date, however, a lack of reliable and internationally comparable data on subnational finance and investment has impeded a full stocktaking of the state of subnational governments' capacities to effectively and efficiently exercise their responsibilities and implement development policies. While several initiatives and instruments have been launched in recent years to provide internationally comparable data, their scope has been limited to small sample of countries or relevant indicators, and they are often one-off exercises rather than ongoing efforts to collect continuous and timely information.

The OECD and United Cities and Local Government (UCLG) have joined forces to fill this gap. Following a pilot study launched in October 2016 at the UCLG Summit in Bogota, the World Observatory on Subnational Government Finance and Investment was launched in November 2017 at the OECD Headquarters in Paris. 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 includes 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 and disseminate 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.

This 2019 report of the World Observatory presents the main organisational and financial indicators for subnational governments in 121 federal and unitary countries worldwide. The number of countries included will continue to expand on the web platform. It is composed of two volumes: (I) Country Profiles and (II) Key findings. They provide qualitative information on subnational government structure and responsibilities, as well as macro financial data assessing subnational government spending, investment, revenue and debt. Financial indicators in the country profiles are accompanied by short descriptions of the structure of expenditure and investment (by type and economic function), revenue (tax, grants, user fees and property income, etc.) and the main characteristics of the debt and fiscal rules.

Several significant advances have been made since the 2016 pilot study

- **Expanded geographic coverage**. The 2019 edition includes 121 countries, an increase of 21 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.

Additionally, a major advance is the launch of the accompanying new, interactive website (www.sng-wofi.org). This website allows users to explore the database and download the data, visualise relevant indicators, and "compare countries of their choice" across key dimensions. With these tools, stakeholders the world over can leverage the work of the World Observatory to build a deeper collective knowledge base on subnational government and finance; catalyse dialogue across levels of government and strengthen multi-level governance frameworks; and enhance accountability and transparency at the subnational level.

This volume presents the country profiles. It can be downloaded on the SNG-WOFI web site, as can the Key Findings report.

2 General methodology and information sources

2.1. SELECTION OF COUNTRIES

Each country is defined by its name and ISO Code and has been classified in one of the seven geographical areas, defined in the study: Africa; Asia-Pacific; Euro-Asia; Europe; Latin America; North America; and Middle East and West Asia.

There are 121 country profiles. Countries were selected by the OECD and UCLG, and validated by the Steering Committee.

The OECD was responsible for collecting data and preparing country profiles for 62 countries: 37 OECD member countries, 5 countries from the European Union (Bulgaria, Croatia, Cyprus, Lithuania, Malta and Romania) and 20 other partner countries.

UCLG was responsible for collecting data and preparing country profiles for 44 other countries from Africa, Latin America, Asia-Pacific, Euro-Asia and Middle East and West Asia.

UNCDF was responsible for the remaining 15 countries, all Least Developed Countries.

The responsible organisation (OECD, UCLG or UNCDF) is indicated at the end of each country profile. Each partner is responsible for the data provided for their respective countries.

The list of countries, including ISO codes (used for the graphs), is provided in Annex 1.

2.2. STRUCTURE OF THE COUNTRY PROFILES

The country profiles are made up of five main parts, which comprise both quantitative and qualitative information:

1. Basic socio-economic indicators
2. Main features of the multi-level governance framework
3. Territorial organisation
4. Subnational government responsibilities
5. Subnational government finance:
    - Subnational government expenditure
    - Subnational government revenue
    - Subnational government fiscal rules and debt

2.3. BASIC SOCIO-ECONOMIC INDICATORS

Socio-economic data used in the country profiles are described in Table 2.1 below:

TABLE 2.1. DESCRIPTION OF SOCIO-ECONOMIC INDICATORS USED IN THE COUNTRY PROFILES

	INDICATORS
General	• Income group (2018 classification, as defined by the World Bank): - High Income - Upper Middle Income - Lower Middle Income - Low Income • Local currency
Population and geography	• Geographical area (km^2) • Population (thousands inhabitants) • Population growth (%, per year 2010-2015) • Density (inhab./km^2) • Urban population (% total population) • Urban population growth (%, 2017 vs 2016) • Name of the capital and share of population (city or metropolitan area)
Economic data	• Current GDP in PPP international dollars (billion, USD PPP) • Current GDP per capita in PPP international dollars (USD PPP) • Annual growth rate in real terms (%, 2017 vs 2016) • Unemployment rate (number of unemployed people as a percentage of the labour force) • Foreign direct investment, net inflows (BoP, current USD millions) • Gross fixed capital formation - public and private (% of GDP) • Human Development Index: - Index value - Category (very high, high, medium, low) - World ranking • Poverty rate

Source: OECD (2018) Methodological guide of the World Observatory on Subnational Government Finance and Investment

In order to facilitate international comparisons, common sources of socio-economic information were used for most countries (national sources may have been used in some cases to complement these data).
These sources are:

- OECD
- Eurostat
- World Bank: World development indicators (databank)
- United Nation DESA: World Population Prospects
- International Labour Organisation
- United Nations Development Programme: Human Development Report

Sources for socio-economic data are specified at the end of each country profiles. Socio-economic data are as of 2017, unless otherwise specified.

2.4. TERRITORIAL ORGANISATION

A common template was prepared for all countries to describe subnational government structure. This common template comprises a maximum of three levels of subnational governments: municipal, intermediate and regional.

This structure facilitates country comparisons, but also hides a more complex organisation in several countries, where several subnational government layers may exist. Within the same layer, several types of subnational governments can be found. In each country table, some details have been provided to reflect this diversity of territorial organisation.

Only "general purpose subnational governments" are included in these counts, i.e.

- "decentralised governments" i.e. elected by universal suffrage (in theory through direct elections and for both executive body and deliberative assembly but there are cases of indirect elections as well as of "dual systems", which leads to a more flexible definition). Overall, a "subnational government" should have an organised entity and enjoy some autonomy with regards to its own functions/responsibilities, budget, staff and administration.
- having a general competence within their jurisdiction, even if their responsibilities may be strictly defined ("territorial decentralisation"), as opposed to subnational governments having single or multiple functions e.g. school boards, transport districts, water boards and sanitation districts ("functional decentralisation").

The year of reference (most often 2017-2018) is indicated in Table 2.2, which appears in each country profile.

TABLE 2.2. TERRITORIAL ORGANISATION: COUNTING GENERAL PURPOSE SUBNATIONAL GOVERNMENTS

Year: XXX	**1st level (*municipal*)**	**2nd level *(intermediate in 3 tiered-countries)***	**3rd level *(regional/state)***	**Total number of subnational governments**
	Name(s) in English and national language			
	Average municipal size (if relevant)			
Total	**XX**	**XX**	**XX**	**XX**

Source: OECD (2018) Methodological guide of the World Observatory on Subnational Government Finance and Investment.

If relevant, information is also provided concerning sub-municipal entities which are not self-governing bodies (parishes, districts, villages, etc.), special purpose subnational governments (e.g. school districts, water boards), state deconcentrated entities at territorial level, special areas ("ungoverned territories" or "unincorporated areas") as well as inter-municipal cooperation.

2.5. SUBNATIONAL GOVERNMENT RESPONSIBILITIES

A common template is used based on the definition of nine areas of responsibilities (Table 2.3). These areas have been defined to match to the extent possible the classification of functions of government (COFOG), for which fiscal data are provided (expenditure by COFOG). Country profiles present the breakdown by subnational government levels (municipal, intermediate, regional) by sector and provide detailed information related to sub-actors.

TABLE 2.3. SUBNATIONAL GOVERNMENT RESPONSIBILITIES: COMMON TEMPLATE

1.General public services (administration)	• Administrative services (marriage, birth, etc.) • Public buildings and facilities (town houses, etc.) • Administration and operation of general services (non-assigned to specific functions) • Basic research activities (non-assigned to specific areas)
2. Public order, safety and defence	• Police • Firefighting • Civil protection & emergency services • Road traffic control / Traffic signs and lights • Defence (military and civil)
3. Economic affairs / Transports	• Road networks and facilities (highways, national, regional, local) • Parking • Railway networks and facilities (national, regional, local) • Airports (international, national, local) • Ports (sea and fishing, inland waterways) • Public transport (road) • Public transport (railways, tramway) • Special transport services (e.g. pupil and student transport) • Employment policies / services • Support to local enterprises and entrepreneurship • Agriculture, rural development, irrigation • Telecommunications / IT • Manufacturing and construction • Mining • Tourism • Commerce • Energy (electricity, gas, etc.)
4. Environmental protection	• Parks & green areas • Nature preservation • Noise and vibration abatement • Air pollution • Soil and groundwater protection • Climate protection • Waste management (collection, treatment and disposal of waste) • Sewerage (waste water management) • Street cleaning
5. Housing and community amenities	• Drinking water distribution • Public lighting • Urban heating • Housing (subsidies) • Housing (Construction/renovation) • Housing (Management) • Urban and land use planning • Urbanism

6. Health	• Pharmaceutical and medical products • General and specialised medical services and paramedical services (e.g. dental care) • Primary healthcare (medical centres) • Hospital services (general and specialist) • Preventative healthcare • Public health services
7. Recreation, culture, recreation and religion	• Sports and recreation • Libraries • Museums • Cultural activities (theatres, exhibition halls, zoos, botanical gardens, etc.) • Cultural heritage/monuments • Media/Broadcasting and publishing services • Religious affairs
8. Education	• Pre-primary education • Primary education • Secondary education • Higher education (universities, other tertiary education institutions) • Vocational education / training • Special education • Research & Development
9. Social protection	• Social care for children and youth • Support services for families • Elderly • Disabled people • Social exclusion / poverty (benefits and policies) • Immigrants • Integration of foreigners • Social welfare centres • Housing subsidies/benefits • Unemployment subsidies/benefits

Note: With regard to COFOG classification, two functions have been merged: public order and safety and defence.
Source: OECD (2018) Methodological guide of the World Observatory on Subnational Government Finance and Investment.

2.6. SUBNATIONAL GOVERNMENT FINANCE

2.6.1. 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.

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.

2.6.2. 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 According 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.

All sources for fiscal data are provided at the end of each country profile. Fiscal data come from several sources, including:

- **International sources:**
  - International Monetary Fund (government statistics)
  - OECD (general government accounts, revenues statistics, subnational government finance database)
  - Eurostat (government statistics)

- **National sources:**
  - National statistics institute, which is theoretically the prime provider of data from national accounts
  - Ministries: Finance, Treasury, Budget, Interior, Local government
  - Parliament (specific commissions dealing with subnational governments or budget)
  - The Court of Auditors
  - The Central Bank and Debt Management Office regarding in particular data on public debt
  - Local Government Commissions / Local Government Finance Committees
  - Public banks or funds
  - National associations of subnational governments
  - Universities and research centres specialised in subnational governance and finance
  - National portals on municipal and regional finance

When there is no or limited data available, in particular in Least Developed Countries, local government financial data may have been collected from yearly financial statements of accounts, in particular of the main cities (and regions if relevant). Data on the main local finance items (expenditure, investment, tax revenue, grants, etc.) were then aggregated and used to calculate ratios and estimates.

2.6.3. Fiscal data measures

For this new edition, public finance data is expressed in dollars PPPs per inhabitant, in addition to ratios related to GDP and general/subnational government. PPPs are the rates of currency conversion that equalise the purchasing power of different countries by eliminating differences in price levels between countries. When converted by means of PPPs, expenditures on GDP across countries are in effect expressed at the same set of prices, enabling comparisons between countries that reflect only differences in the volume of goods and services purchased.

All averages in the analysis and graphs are unweighted (arithmetic) averages as of 2016, unless otherwise specified.

2.6.4. Main transactions and fiscal indicators

Data that have been used in the survey are the following (Table 2.4):

TABLE 2.4. MAIN FINANCIAL INDICATORS

Expenditure by economic classification	• **Total expenditure by economic classification**: current expenditure + capital expenditure. • **Current expenditure**: 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. • **Staff expenditure**: compensation of employees. It has two main components: wages and salaries payable in cash or in kind and social insurance contributions payable by employers. • **Capital expenditure**: capital transfers + investment • **Capital transfers**: investment grants and subsidies in cash or in kind made by government to other institutional units. • **Direct investment:** 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.
Expenditure by functional classification (COFOG)	• **Total expenditure by functional classification**: sum of the 10 sectors defined in classification of the functions of government (COFOG). Comprises both current and capital expenditure. • **Expenditure by sector (COFOG)**: 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. When COFOG was not available, classification used in the country has been used when available, or adapted.

Revenue	• **Total revenue**: tax revenues + current grants and subsidies + capital grants and subsidies + user charges/tariffs and fees + property income + social contributions. • **Tax revenues**: 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. • **Property taxes**: recurrent property taxes on immovable property (land, real estate) • **Grants and subsidies**: current grants and subsidies + capital grants and subsidies. • **User charges and fees**: market output, output for own final use and payments for non-market output. • **Property income**: interest, distributed income of corporations (e.g. dividends), rents on subsoil assets (e.g. royalties) • Other revenues / social contributions
Debt	• **Debt**: 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. • **Financial debt**: 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).

Source: OECD (2018) Methodological guide of the World Observatory on Subnational Government Finance and Investment

2.6.5. Availability and reliability of data

In this new edition, a system of rating has been established to describe the data availability and data quality/reliability for each country (low, medium, high).

When data come from national accounts harmonised according to international standards, the availability of fiscal data and their quality/reliability can be considered as high, although there are some exceptions. When they come from other sources, they have been rated by the organisation in charge of data collection as low, medium or high.
For a number of countries, no or limited fiscal data for subnational governments were available. This was the case in many LDCs. Overall, there are 16 countries without expenditure data at subnational level for example (out of 121 countries in the sample).

2.7. OTHER SOURCES OF INFORMATION

Numerous national and international sources were used by the OECD, UCLG and UNCDF to prepare the country profiles. In addition to UCLG materials including those from its regional sections and OECD databases and reviews, the main international sources were the Council of Europe, the Committee of the Regions of the European Union, the Commonwealth Local Government Forum and reports from the United Nations and other international organizations (UN-Habitat, World Bank, etc.).

The main sources of information are listed at the end of each country profile.

3 Country profiles

AFRICA

Angola
Benin
Botswana
Burkina Faso
Burundi
Cabo Verde
Cameroon
Chad
Eswatini
Ethiopia
Ghana
Guinea
Ivory Coast
Kenya
Madagascar
Malawi
Mali
Mauritania
Mauritius
Morocco
Mozambique
Namibia
Niger
Nigeria
Rwanda
Senegal
Sierra Leone
South Africa
Tanzania
Togo
Tunisia
Uganda
Zambia
Zimbabwe

ASIA PACIFIC

Australia
Bangladesh
Cambodia
China
India
Indonesia
Japan
Korea
Malaysia
Mongolia
Nepal
New Zealand
Philippines
Sri Lanka
Thailand
Vietnam

*Note: the number of country profiles will continue to expand on the web platform of the Observatory: www.sng-wofi.org

EURO-ASIA

Armenia
Azerbaijan
Belarus
Georgia
Kazakhstan
Kyrgyzstan
Moldova
Russian Federation
Tajikistan
Ukraine
Uzbekistan

EUROPE

Austria
Belgium
Bosnia and Herzegovina
Bulgaria
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Italy
Kosovo
Latvia
Lithuania
Luxembourg
Malta
Montenegro
Netherlands
Norway
Poland
Portugal
Republic of Albania
Republic of North Macedonia
Romania
Serbia
Slovak Republic
Slovenia
Spain
Sweden
Switzerland
United Kingdom

LATIN AMERICA

Argentina
Bolivia
Brazil
Chile
Colombia
Costa Rica
Dominican Republic
Ecuador
El Salvador
Guatemala
Honduras
Jamaica
Mexico
Nicaragua
Panama
Paraguay
Peru
Uruguay

MIDDLE EAST / WEST ASIA

Israel
Jordan
Turkey

NORTH AMERICA

Canada
United States

ITALY

UNITARY COUNTRY

BASIC SOCIO-ECONOMIC INDICATORS

INCOME GROUP: HIGH INCOME

LOCAL CURRENCY: EURO (EUR)

POPULATION AND GEOGRAPHY

Area: 295 114 km^2
Population: 60.537 million inhabitants (2017), a decrease of 0.1% per year (2010-2015)
Density: 205 inhabitants / km^2
Urban population: 70.1% of national population
Urban population growth: 0.3% (2017 vs 2016)
Capital city: Rome (7.0% of national population)

ECONOMIC DATA

GDP: 2 387.4 billion (current PPP international dollars), i.e. 39 437 dollars per inhabitant (2017)
Real GDP growth: 1.5% (2017 vs 2016)
Unemployment rate: 11.2% (2017)
Foreign direct investment, net inflows (FDI): 9 235 (BoP, current USD millions, 2017)
Gross Fixed Capital Formation (GFCF): 17.5% of GDP (2017)
HDI: 0.880 (very high), rank 28

MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK

Italy is a parliamentary democracy. According to its Constitution, which was ratified in 1947 and amended several times since then, the legislative power is vested in the bicameral parliament. The parliament is composed of the Chamber of Deputies and the Senate, which is elected by direct universal suffrage every five years. Senators are elected on a regional basis and are assigned to each region proportionally according to their population. The Chief of State is the President of the Republic, elected for a seven-year term by an electoral college comprising the two chambers of Parliament. The Chief of the Government is the Prime Minister (*Presidente del consiglio dei ministri*), appointed by the President with the confidence of the Parliament.

According to the Constitution, Italy is a unitary country, one and indivisible which recognises and promotes local autonomies, and implements the fullest measure of administrative decentralisation and adapts the principles and methods of its legislation to the requirements of autonomy and decentralisation. In its Articles 114 to 133, the Constitution lays down the fundamental elements of local and regional self-government, counting four administrative government layers at subnational level: regions, provinces, metropolitan cities and municipalities.

The decentralisation process started in 1990s, with law 142/1990 on the “Regulation of Local Autonomies” and then with the 1997 Bassanini reform which implemented the subsidiarity principle through different laws, referred to as “administrative federalism”. This reform significantly modified the fiscal, administrative and political framework at the subnational level. Law 59/1997 in particular granted administrative powers to the regions. The most important piece of legislation on local authorities is the “Unified Laws on local authorities (“*Testo Unico*”), enacted by Legislative Decree No. 267 in 2000. In 2001, there was a major move towards decentralisation through the constitutional reform which enshrined the regions, provinces and municipalities in the constitution, placing them on the same level as central government. A clause listing the responsibilities of the central government was introduced while regions receive all residual competencies. Several implementing decrees were not adopted, however (“unfinished agenda”). In 2006, a national referendum rejected the constitutional reform that would have further strengthened the regions and paved the way to a federal state. In 2009, a new framework law on fiscal federalism was adopted, which reshaped subnational government functions and relations across levels of government as well as the fiscal framework. It initiated the transformation of the country towards more federalism and as a “regionalised country In 2014”. Law 56/2014 (*Delrio Act*) introduced several profound changes concerning the provinces and the metropolitan cities. In 2016, a national referendum rejected the constitutional reform which intended to clarify the allocation of responsibilities between the central government and ordinary regions, abolishing “concurrent competencies” and recentralising several responsibilities (e.g. transport, labour, public finance and taxation).

In Italy, inter-governmental coordination mechanisms are well developed. There are three separate conferences – state-regions, state and local governments, and state-regions-local governments – which serve as intergovernmental fora.

TERRITORIAL ORGANISATION

2018	MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGS
	7 960 municipalities *(comuni)*		20 regions *(regioni)*	
	Average municipal size: 7 605 inhabitants			
	7 960		20	7 980

OVERALL DESCRIPTION. Italy has a two-tier system of SNGs, comprising 20 regions and 7 960 municipalities, since the reform of territorial organisation through law no. 56/2014 effective since January 2015, which abolished the intermediate level of 107 provinces.

REGIONS. Regions are composed of a regional council (*Consiglio regionale*) and a regional president (*presidente*). Both are elected for a five-year term by direct universal suffrage. The regional president chairs the regional executive committee (*Giunta regionale*) which is the executive body of the region. Regionalisation is asymmetric. Among the 20 regions, 15 have ordinary status (*regioni a statuto ordinario* – RSO) and five have special status (*regionai a statuto special* - RSS). These five regions were created in 1948 and granted special status including legislative and financial autonomy given their cultural and socio-geographical specificities (Aosta Valley, Friuli-Venezia Giulia, Sardinia, Sicily and Trentino-Alto Adige/Südtirol). The Trentino-Alto Adige/Südtirol region is further divided into two special-status provinces, Bolzano and Trento, with the same legislative powers as regions. Italy’s regional organisation is marked by long-standing regional disparities, between North-Eastern regions and Southern regions. The RSOs were established in the early 1970s. Italian regions are very diverse by their geographic and demographic size and their level socio-economic development. The already large regional economic disparities in Italy have slightly increased over the last 16 years. In the province of Bolzano-Bozen, the level of GDP per capita was two and a half times higher than in Calabria in 2016.

MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipalities are governed by municipal councils (*Consiglio*) and mayors (*Sindaco*) elected by direct universal suffrage for five-year periods. The city board (*Giunta comunale*) is composed of deputy mayors appointed by the mayor. In 2009, as a special case, Rome was given a special legal status with the Article 24 of the law 42/2009 ("Roma capitale"). The capital city has more competences than a regular city, specific provisions on fiscal and budgetary matters, and a deeper administrative and organisational autonomy. Rome is divided into 10 municipalities, and each one is considered to be a local authority (a municipality) on its own.

The number of municipalities has been stable since the 142/1990, which imposed a minimum threshold on the creation of a municipality (10 000 inhabitants). However, the municipal local level is fragmented. While municipal average size is around 8 000 inhabitants (to be compared to 9 700 in the OECD and 5 900 in the EU28), the median size is around 2 430 inhabitants. Around 70% of Italian municipalities have fewer than 5 000 inhabitants and 44% fewer than 2 000 inhabitants. To reduce fragmentation, law no. 56/2014 encourages municipal mergers through central government and regional financial incentives.

Inter-municipal cooperation has been promoted since law 142/1990 went into effect, in particular through the creation of municipal unions (*Unione dei Comuni*) and mountain communities, and again with law 56/2014, which strengthened municipal unions and set up financial incentives for municipalities. It also established minimum thresholds of 10 000 inhabitants and 30 000 inhabitants in the mountain areas and extended the scope of tasks of municipal unions, including all basic functions of municipalities. Inter-municipal cooperation is compulsory for municipalities with fewer than 5 000 inhabitants. There were 586 Unioni in 2017.

At infra-municipal level, large municipalities, with a population of at least 250 000, can establish district councils (*Circoscrizione di decentramento comunale*). These bodies, formally recognised in 1976, sometimes have an elected committee and a President. Districts' powers, which vary from one city to another. Their tasks can include include schools, social services and waste collection.
A supra-municipal level, metropolitan cities were introduced with law 142/1990 offering the possibility for the ten major cities of Italy to establish "metropolitan cities" (città metropolitana). No real action was taken and several local initiatives remained unsuccessful (e.g. Bologna in the 1990s, Rome and Turin in the 2000s). Law 56/2014 ended two decades of gridlock over metropolitan governance reform and created the legal structure for the introduction of differentiated governance in ten major metropolitan areas and four additional cities in special regions.

Provinces were abolished as self-governing units and transformed into inter-municipal cooperation bodies, which also became "metropolitan cities" in each of the metropolitan areas designed by the law. Metropolitan cities and provinces are headed by mayors, presidents and council members, elected by mayors and city councillors of participating municipalities.

In addition, the central state appoints a prefect (*prefetto*) in each province as a representative of deconcentrated administrative units.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The regions and the two autonomous provinces have had significant legislative and administrative powers since the 2001 Constitutional reform, which gave them exclusive legislative power with respect to any matter not expressly reserved to the State. The central government is exclusively in charge of foreign policy, defence and social protection, electoral legislation, local government and fundamental principles. Regions are in charge of healthcare, transport, social services and housing, economic development, environmental protection, etc. They also share some responsibilities with the central government, resulting in significant overlap (concurrent responsibilities). RSS have additional duties in healthcare, school systems and public infrastructure.

Following Law 56/2014, provincial tasks (transport, roads, environmental protection, among others) were transferred to regions, municipalities or new-intermunicipal bodies, depending on each region. Metropolitan cities were also devolved some of the provinces' former responsibilities such as territorial planning and coordination and supervision of municipalities' functions that are part of the metropolitan area. Provinces still have responsibilities regarding provincial roads and schools.

Responsibilities of municipal and inter-municipal associations involve mainly service provision, and competences in urban management (town planning, environment), local road networks, culture and recreation, and social welfare. They are also responsible for deconcentrated administrative competences related to registries, elections, military service, and statistics. Regions may attribute "non-core" competences to their own local authorities through regional legislation. Local authorities are however not governed by regional legislation, except in the five special statute regions.

Regions and municipalities can create state-owned companies as well as stock companies. In the health sector, health agencies (ASL) have been established. They are regional public bodies with a separate legal identity but are supervised by the regions.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

	REGIONAL LEVEL	MUNICIPAL LEVEL
1. General public services	Regional administration; Relations with provinces, metropolitan cities and municipalities; Management of EU funds	Internal administration; Land registry; Building and commercial permits; Delegated administrative services
2. Public order and safety		Local police
3. Economic affairs/transports	International and EU relations; Research and innovation; Regional transport; Civil ports and airports; Large-scale transport and navigation networks; Communications; Energy; Regional land; Agriculture; Regional savings; Banks and credit institutions; Tourism; Employment agencies	Local transport; Local roads; Local economic development; Planning, programming and regulation of commercial activities and of industrial and trade zones
4. Environmental protection	Environmental protection	Environmental protection; Waste management; Waste water
5. Housing and community amenities	Housing	Town planning; Social housing; Water supply
6. Health	Health, through public healthcare agencies (construction and maintenance of hospitals, medical equipment, drugs, medical staff management, etc.	
7. Recreation, culture & religion	Sports; Cultural activities	Museums; Exhibition halls; Cultural activities; Theatres; Leisure
8. Education	Education	Pre-school and primary education; School-related services
9. Social protection	Complementary social welfare	Social services and community assistance (poverty reduction policies)

ITALY

UNITARY COUNTRY

SUBNATIONAL GOVERNMENT FINANCE

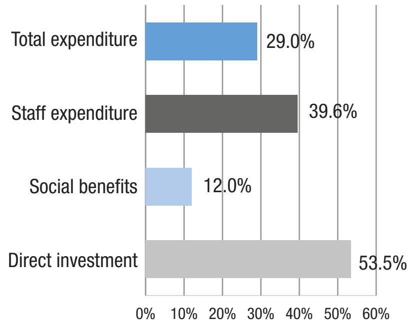
Scope of fiscal data: regions and autonomous provinces, provinces, municipalities' unions, municipalities, mountain development bodies and chambers of commerce. The sector also includes other local organisations such as tourism bodies, port authorities, regional health agencies, regional development bodies, public research hospitals, universities, and water services regulatory authorities.	SNA 2008	Availability of fiscal data: **High**	Quality/reliability of fiscal data : **High**

GENERAL INTRODUCTION. Articles 117 and 119 of the Constitution provide the framework for the SNG financing system and public finance coordination, granting SNGs fiscal autonomy regarding revenues and expenditure. Article 119 was modified in 2009 by the framework Law on financial federalism no. 42/2009. The fiscal decentralisation and municipal federalism processes were slowed down by the economic and public finance crisis and political changes. Despite reforms to increase revenue capacity and financial autonomy, SNG expenditures, and particularly investment spending, have been limited.

SUBNATIONAL GOVERNMENT EXPENDITURE BY ECONOMIC CLASSIFICATION

2016	DOLLARS PPP / INH.	% GDP	% SNG EXPENDITURE
Total expenditure	**5 503**	**14.3%**	**100%**
Inc. current expenditure	4 856	12.6%	88.2%
Staff expenditure	1 483	3.9%	27.0%
Intermediate consumption	1 573	4.1%	28.6%
Social expenditure	1 044	2.7%	19.0%
Subsidies and current transfers	566	1.5%	10.3%
Financial charges	67	0.2%	1.2%
Others	123	0.3%	2.2%
Incl. capital expenditure	647	1.7%	11.8%
Capital transfers	202	0.5%	3.7%
Direct investment (or GFCF)	445	1.2%	8.1%

% GENERAL GOVERNMENT EXPENDITURE (SAME EXPENDITURE CATEGORY)

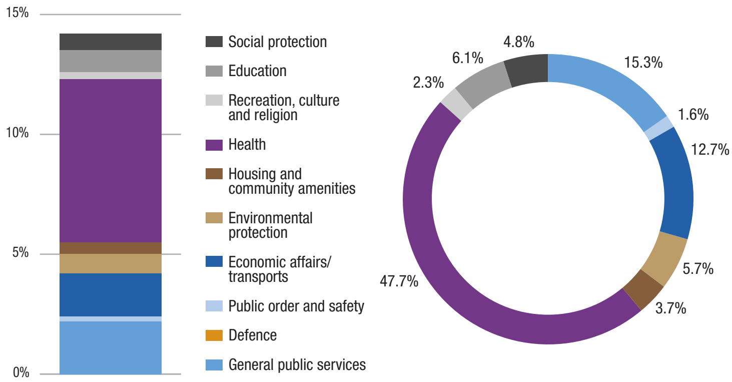


EXPENDITURE. The gradual but deep decentralisation process led to a strong increase in SNG expenditure. In 2016, Italian SNGs accounted for almost 15% of national expenditure as a share of GDP and 29% of public expenditure. However, these figures remain below the OECD average (respectively 16.2% and 40.4% respectively) and the EU28 average (15.5% of GDP and 33.4% of public expenditure). Regions represent around two-thirds of SNG expenditure, while municipalities represent 31.3% of total SNG revenue, and provinces and metropolitan cities 2.7%. SNG staff expenditure accounted for 40% of the public staff expenditure, which is below the OECD and EU28 average (respectively 62.9% and 50.9%).

DIRECT INVESTMENT. SNGs play an essential part in public investment, as they account for more than half of public investment in 2016, a share which is below the OECD average (56.9% in 2016) but above the EU28 average (50.9%). Overall, municipalities represented 47% of SNG direct investment in 2016, and provinces and metropolitan cities 5.3%, while the rest was funded by regions. Since the crisis, consolidation measures (cuts in grants) and tightening of constraints under the Internal Stability Pact, SNG investment has declined sharply, and has not recovered fully yet. In fact, SNG investment decreased by 5.4% per year in real terms between 2007 and 2017. It accounted only for 1.2% of GDP in 2016, which is below the OECD and EU28 average (1.7% and 1.4% of GDP). In 2017, an ambitious investment plan in infrastructure, notably in transport was adopted. The European Structural and Investment Funds for 2014-2020 are being carried out with the main objective of reducing regional disparities through infrastructure investments. Southern regions and metropolitan cities are also supported by the recently created Invitalia agency as well as by the Agency for Territorial Cohesion created in 2013 to provide technical support to central, regional and local administrations in the implementation of regional policy programmes and investment projects.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

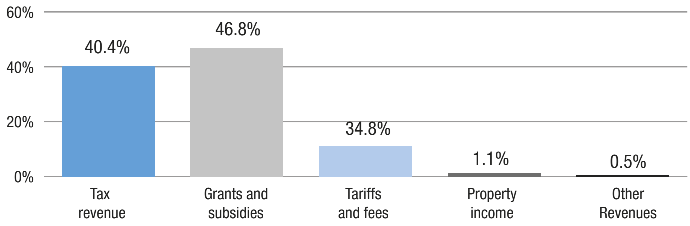
By far, health is the primary area of SNG spending, accounting for almost half of SNG expenditure and 6.8% of GDP in 2016 (vs 18.1% of public expenditure and 2.9% of GDP in the OECD). Health accounts for about 85% of regional spending. It is followed by general public services and economic affairs/transport. The share of social protection and education is lower than the OECD on average as these two sectors remain primary functions of the central government, in particular regarding staff management. SNGs are also responsible for the large majority of overall public spending in the areas of environmental protection, and housing and community amenities.



SUBNATIONAL GOVERNMENT REVENUE BY CATEGORY

2016	DOLLARS PPP / INH.	% GDP	% GENERAL GOVERMENT REVENUE (SAME REVENUE CATEGORY)
Total revenue	**5 555**	**14.5%**	**30.9%**
Tax revenue	2 242	5.8%	19.8%
Grants and subsidies	2 598	6.8%	-
Tariffs and fees	624	1.6%	-
Property income	64	0.2%	-
Other revenues	28	0.1%	-

% SNG REVENUE



OVERALL DESCRIPTION. The 2001 Constitutional reform and the fiscal federalism law No. 42 of 2009 set a milestone for Italy in its gradual move towards fiscal decentralisation. The objective of the reform was to increase SNG fiscal autonomy, efficiency and accountability, and to guarantee an adequate level of subnational services across the country. It led to an increase of own-taxes and shares in national taxes with the aim of covering spending obligations. It also led to the replacement of a portion of central government grants by tax revenues equalisation payments. In 2016, intergovernmental transfers remained, however, the primary source of revenue, representing nearly 47% of SNG revenue, a share above the OECD average (37.2% in 2016). Consequently, the contribution of tax revenue to SNG revenue is also slightly below the OECD average (44.6%), while other sources of revenues (tariffs and fees) are quite low by international comparison.

In 2016, municipalities represented 31.2% of total SNG revenue, provinces and metropolitan cities 4.1%, and regions approximately 65%. Tax revenue accounted for 38% of regional revenue.

TAX REVENUE. Following the 1998 Bassanini Reform, tax revenue increased vastly from 25% in 1997 to 41% of subnational revenue after the 2009 reform. In 2016, tax revenue accounted for 5.8% of GDP (vs 7.1% in the OECD) and 19.8% of public tax revenue (vs 31.9% in the OECD). SNG tax revenue comprises both shared and own-source taxes.
Municipalities receive a share of the personal income tax (*compartecipazione* - IRE) but they do not have control over it. The central government also takes a share of certain national taxes, notably the PIT, the corporate income tax, excise duties, stamp tax, with the RSS.
Italian regions have several own-source taxes. The most important is a regional tax on productive output (*imposta regionale sulle attività produttive* - IRAP). The IRAP is a tax on economic activities, whose basic rate is 3.9% (from 1 January 2015). The regions have the ability to increase (up to 0.92%) or reduce the rate. Other regional taxes include a regional tax on vehicles, which is paid by the owner or user of the vehicle (around 9% of SNG tax), a regional tax on waste landfills and waste incineration plants as well as a regional surtax on the PIT (*addizionali regional all* - IRPEF) which varies from 0.7% to 3.33% depending on regions.

The main source of municipal tax revenue is the recurrent tax on property (18.3% of SNG tax revenue in 2016). It was reformed in 2013 with the creation of a single municipal tax (*Imposta unica comunale* - IUC) which incorporates three taxes: 1/ the IMU (*imposta municipale propria*), which is a real estate tax paid by owners of secondary residences only. The taxable base is determined in connection with the value of the property according to the cadastre. The regular tax rate is 0.76% of the taxable base, but municipalities may increase or reduce the rate, with a maximum of 0.3%. 2/ the TASI or "tax for indivisible services" which is a supplementary real estate tax, which is supposed to meet the expenses for the delivery of lighting, street cleaning, green areas and services that are provided equitably by municipalities to all citizens; 3/ and the TARI (waste tax) which must cover the cost of the service of collection and treatment of waste. Both the IMU and the TASI were repealed on primary residences (except luxury homes) in 2014 and 2015. A reform of cadastral values is still pending to fully exploit the potential of the property tax. In 2016, the recurrent property tax accounted for 1.1% of GDP, in line with the OECD average.

Municipal taxes also include a surtax on the PIT (*imposta addizionale comunale*), with some municipal leeway on the rate with a maximum of 0.8% (for Roma Capitale, 0.9%), a tax on advertising and touristic tax.

GRANTS AND SUBSIDIES. There are two separate systems of grants, one for the regions (RSO) and one for the municipalities. However, the 2001 constitutional reform and Fiscal Federalism Law of 2009 set the principles for both systems, introducing the obligation for the central government to determine and ensure, by providing adequate financing, uniform levels for public service provision across the whole country for a set of basic services assigned to regions and municipalities. The 2009 Law mandates that officials use both standard expenditure needs and fiscal capacity when calculating the allocation of equalisation transfers. This new equalisation system is therefore based on covering the costs of essential public services and equalising tax-raising capacities. It replaced the prior system of negotiated and discretionary transfers based primarily on historical levels rather than a formula-driven one. It is currently being implemented.

At regional level, the equalisation fund guarantees the coverage of essential public services (healthcare, education, social assistance) in regions with low tax revenue. The funds allocated by the State are calculated based on standard cost, for each service based on expenditure in the region that spends the least and no longer on historical cost. The Regional Health Fund is the most important component. It is allocated on a slightly modified per capita basis, upon agreement reached among regions and the central government within the State-Regional Governments Conference.

At municipal level, the Municipal Solidarity Fund (*Fondo di Solidarieta' Comunale* - FSC), created by law no. 228/2012, is the most important equalisation tool. Managed by the Ministry of the Interior, it is endowed by a share of the local property tax, as well as by contributions from the central government. Grants consist exclusively of general-purpose equalisation grants, allocated according to a complex formula taking into account both fiscal capacity and expenditure needs to ensure the provision of the "fundamental functions" of municipalities. The rest of the FSC continues to be distributed on the basis of the historical level of transfers to individual municipalities. Since the 2014 Stability Pact, a portion of the FSC has been used as incentives in favour of the merger of municipalities. Merged municipalities may receive grants that are up to five times bigger than regular municipalities, for a period of five years at the most.
In addition, Italian municipalities may also receive ad hoc earmarked transfers targeted to specific needs, including for investment projects.

OTHER REVENUES. Italian municipalities may collect a diverse range of fees and charges on installation of advertising (CIMP), occupation of public spaces by economic activities (TOSAP and COSAP), and to cover the cost of some public works by the municipality (ISCOP) or collection of traffic and parking fines. Regions are also entitled to collect charges and fees (e.g. on concessions made on regional public domain goods, on the right to study at the university, on phytosanitary activities, etc.). The share of tariffs and fees in SNG revenue is lower than in the OECD on average (14.9% in 2016).

ITALY

UNITARY COUNTRY

SNG may also collect revenue from business, commercial activities and revenue from the ownership of property (sale of movable and immovable property), interests and dividends from state-owned companies. Some decrees have been adopted, particularly concerning the attribution to the municipalities of a portion of the State's property ("public property federalism".

SUBNATIONAL GOVERNMENT FISCAL RULES AND DEBT

2016	DOLLARS PPP/INH.	% GDP	% GENERAL GOVERNMENT DEBT	% SNG DEBT
Total outstanding debt	**3 195**	**10.9%**	**7.0%**	**100%**
Financial debt*	2 325	8.0%	5.3%	72.8%

* Currency and deposits, loans and bonds

FISCAL RULES. In 1999, Italy introduced an Internal Stability Pact (*Patto di Stabilità Interno* - ISP) to ensure that the financial situation of central and regional governments is consistent with Italy's obligations under the European Union fiscal rules. ISP has been progressively modified and since 2001, local governments have been subject to ISP. Updated and approved yearly, they set targets for their fiscal balances, limits on expenditure growth as well as borrowing limits for SNGs, and may set specific rules for spending, for example on health. In particular, a Health Pact constrains current and capital expenditure on health care by region. Since 2003, a system of sanctions has been set up for non-complying municipalities mostly in the form of transfer cuts and freezes on hiring local staff. The Constitutional Act No. 1/2012 introduced the principle of balanced budgets in structural terms and bans the use of debt to finance the deficit. Implemented by law 243/2012, the law imposed a balanced budget on RSOs for 2015 and for local government as from 2016. The law provides regions with leeway to compensate for temporary imbalances among the municipalities located in their territories. This could strengthen the coordinating role of the regions vis-à-vis their municipalities. The 2012 law also reinforced the State role of coordination of public finance, subjecting SNG budgets to central state control. Accounting and transparency requirements were tightened. The recently established Parliamentary Budget Office (*Ufficio parlamentare di bilancio* - UPB), whose autonomy is referred to in the 2012 Constitutional Law, has the mandate to analyse and monitor public finance developments, including at the subnational level, and evaluate compliance with budget rules.

DEBT. Regional and local use of debt is limited to financing investment expenditure ("Golden Rule"). There are additional prudential rules on new borrowing (debt service), which are included in the provisions of the annual finance law. Municipalities and regions may issue bonds according to specific prudential rules. SNG outstanding debt as a share of GDP and public debt is below OECD averages (24.5% of GDP and 20.7% of public debt in 2016) as well as the EU28 average (14.3% of GDP and 14.4% of public debt in 2016). It is made up of financial debt for 73% of debt stock ("Maastricht debt"), and other accounts payable, i.e. commercial debt and arears (27%). The majority of SNG financial debt is in the form of bank loans largely issued to domestic financial institutions, in particular the Italian public bank Cassa Depositi e Prestiti (89%). The share of loans has increased over the past years compared to the use of bonds, which has declined, representing only 11% of the financial debt stock in 2016. In 2016, Italian regions stopped issuing new debt, but instead relied on the central government for funding. In addition, the central government established programmes to restructure SNG debt in 2013-2014, including a programme for bond repurchases. In 2016, Italian SNGs remained however the third-largest group of issuers among European regions and municipalities, after Germany and Spain.

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Socio-economic indicators: OECD // Eurostat // World Bank // UNDP // UN Desa // ILO // ISTAT.
Fiscal data: OECD National Accounts Statistics // OECD Revenue Statistics // OECD (2018) Subnational Government in OECD countries: key data (brochure and database) // Eurostat // ISTAT
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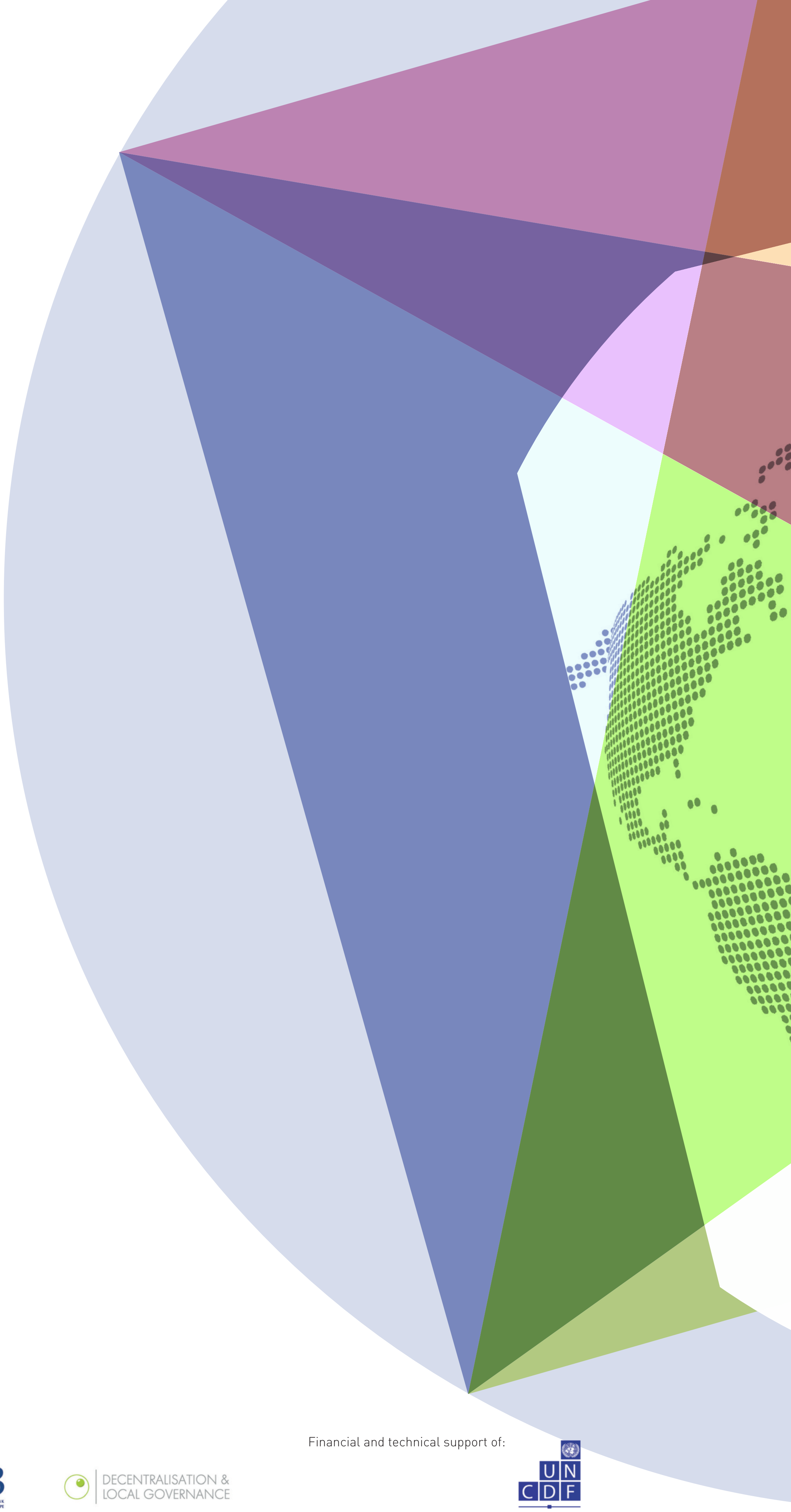

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