PROCEEDINGS
FIRST MEETING OF THE STEERING COMMITTEE
WORLD OBSERVATORY ON SUBNATIONAL GOVERNMENT FINANCE AND INVESTMENT
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About the World Observatory on Subnational Government Finance and Investment

The World Observatory on Subnational Government Finance and Investment is a multi-stakeholder initiative led by the OECD and UCLG dedicated to collecting comparable data and information on territorial organisation and subnational finance from over 100 countries and to support decision-making of national and subnational governments around the world.

Its objectives are to:

- 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 initiative follows a 2016 pilot study conducted by the OECD and UCLG on “Subnational Governments around the World: Structure and Finance”. The study was the first undertaken at such a large scale, covering over 100 countries. It highlights that subnational governments are responsible for 25% of public expenditure worldwide, or 9% of GDP, and 40% of public investment – 60% in OECD countries. The study confirms that there is a growing demand worldwide for reliable, objective and comparative information and data on different topics regarding multi-level governance and finance. However, a limited amount of comparative data exists at the global level on subnational government structure and finance.

To help bridge this gap, the OECD and United Cities and Local Government (UCLG) joined forces to set up this initiative. It was officially launched at the first meeting of the Steering Committee on 17 November at the OECD headquarters in Paris.
The meeting gathered around 45 persons representing national governments (Chile, Denmark, Estonia, France, Italy, the Netherlands, Poland and the Slovak Republic) and subnational governments associations (Africa, Asia-Pacific, Europe and South East Europe, Latin America, etc.), European and international organisations (EU Committee of the Regions, Council of Europe, UN Capital Development Fund), multi-lateral and national development banks (Council of Europe Development Bank, French Development Agency), and think tanks (Lincoln Institute of Land Policy).

The following report provides a synthesis of the presentations and discussions held during this meeting. The Participants list is at the end.

Opening the meeting: key messages from OECD and UCLG, founders of the World Observatory

Mr. Joaquim Oliveira Martins, Special Advisor of the Centre for Entrepreneurship, SMEs, Regions and Cities (CFE) opened the Steering Committee meeting by welcoming participants and by stressing the importance of the World Observatory to learn more about multilevel governance and better understand subnational governments’ role for regional and local development in a comparative perspective at global level.

Mr. Joaquim Oliveira Martins recalled that the Observatory is grounded in a joint OECD-UCLG pilot study published in October 2016 and supported by the French Development Agency (Agence Française de Développement - AFD), which was aimed at assessing the feasibility and potential of the Observatory. This first phase was a great success as the study called “Subnational governments around the world: structure and finance” succeeded in gathering information and data on structure and finance on 100 countries, covering more than 80% of the world population. It was the first time that such a broad-based work was carried out, offering a comprehensive analysis based on standardised indicators and common analysis frameworks.

The Steering Committee meeting began with two interventions by the OECD and UCLG, the two founders of the World Observatory on Subnational Government Finance and Investment.
Ms. Lamia Kamal-Chaoui, Director of CFE reminded that the World Observatory is the result of several years of close collaboration with UCLG, illustrated by the signature of a Memorandum of Understanding and the development of joint activities.

By working together, OECD and UCLG have generated a momentum to bring this initiative together at a timely moment for the international agendas.

Ms. Lamia Kamal-Chaoui remarked that the Steering committee was putting in practice the concept of multi-level governance with the participation and collaboration of different key stakeholders representing the international, national and subnational levels.

Through the impetus given the OECD Regional Development Policy Committee (RDPC), created in 1994 to advocate for place-based policy approaches and more effective multi-level governance conducive to regional and local development, the OECD is convinced of the critical role played by subnational governments in all public policy areas to ensure well-being of their residents, contribute to inclusive growth, foster innovation and tackle climate change. Subnational governments are key economic and social actors in the OECD, where they account for 40% of public expenditure and 60% of public investment on average but also worldwide, as demonstrated by the OECD/UCLG study. In this context, it is impossible to look at any type of policy areas, as diverse as they are, without having a clear understanding of the role of subnational governments and the ways responsibilities are shared with central government, financed and coordinated across levels of government and sectors.

Better understanding this role and promoting effective coordination across levels of government are one the main focus of CFE’s work on regions, cities and multi-level governance. In 2014, the OECD Council has adopted a Recommendation on effective public investment across levels of government calls for strong multi-level dialogue, coordination and strengthening of subnational capacities for public investment. CFE has also developed an on-line database of indicators on subnational finance and organisation at the scale of the 35 OECD Member States. Finally, the OECD has established the Roundtable of mayors and ministers to favour interactions between mayors and ministers, and has created the Champion Mayors for Inclusive Growth Initiative, as a global coalition of 50 local leaders who are committed to tackling inequalities and promoting more inclusive economic growth in cities.

The World Observatory, launched jointly by the OECD and UCLG with the initial support of AFD and United Nations Capital Development Fund (UNCDF), pursues the same objectives: collecting and analysing data on subnational governance and finance for better understanding and comparing the role of subnational governments in the development. But the Observatory is more than just about subnational finance. The hopes are that this Observatory supports policy makers and their partners to help assess the strengths and weaknesses of multi-level governance and fiscal frameworks. This observatory should also become a capacity-building tool for stakeholders at all levels of government and generate an active, constructive and informed dialogue on these issues.
Mr. Josep Roig, UCLG Secretary General¹, recalled the continuous aspiration of UCLG since 2007 to develop a Global Observatory on Local Finance. At that moment, UCLG had developed a first statistical pocket book on local government finance in partnership with Dexia and the AFD. The 2016 pilot study was a first important step developed by two organisations, one representing national governments and the other local and regional governments, that both share the principle that the role and financing of subnational governments is essential to improve efficiency of multi-level governance system, in particular the dialogue between the central and subnational governments at national level. This implies better assessing the strengths and weaknesses of intergovernmental fiscal frameworks, improving the knowledge of subnational governments’ financial and investment capacities, and bridging the missing link of development finance, as acknowledged by paragraph 34 of the Addis-Ababa Action Agenda on the need to support local government’s capacities to access finance.

As far as UCLG is concerned, this orientation should be also understood in the framework of the global development agendas, such as Paris Agreement, New Urban Agenda, Addis Ababa Action Agenda on Financing for Development, Sendai Framework and the SDGs. In order to demonstrate the active role of SNGs in these agendas, engage in evidence-based discussions, enhance dialogue with international institutions and to report on their implementation, it is necessary to improve standards to access reliable and comparable qualitative and quantitative data at subnational levels. With this objective in mind, UCLG strengthened its partnership with UNCDF, and invited the Organisation UNCDF to become an important partner of the Observatory. The outcomes of the first pilot study were a strong set of key messages. The Observatory should corroborate the belief that fiscal decentralisation – when properly conducted - offers the opportunity to achieve global agendas.

UCLG is also particularly committed to develop the partnerships around the Observatory as well as to enhance synergies with other existing observatories and networks. The efforts and inputs of all key stakeholders driven by the same goals are particularly critical to consolidate data collection and assessments, to discuss and improve the guidelines and disseminate the results and training.

UCLG also calls for broader financial engagement to be able to improve quality of the indicators; adapt some indicators to data availability in some countries and full development of the network strategy.

### Taking stock of the 2016 OECD/UCLG Pilot Study

The first pilot exercise confirmed the diagnosis: on one side, the lack of data and assessment tools on local finance in many countries; on the other side, the extreme diversity of institutional and financial contexts at global level.

Ms. Isabelle Chatry, Senior Policy Analyst and OECD coordinator for the 2016 study, provided some highlights of the main findings of the 2016 study. She also stressed the biggest challenges faced during this pilot exercise. In fact, the pilot study highlighted several difficulties to carry out the study, in particular on the methodological side (e.g. to define the scope of the subnational public sector and common standardised indicators) but also in data collection (especially in developing countries), processing (issues of consolidation), analysis and interpretation. Figures can hide different realities and that is why the study also provides qualitative information to better understand the real state of decentralisation and fiscal frameworks (Box 1).

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¹ In December 2017, Emilia Sáiz was elected Secretary General of UCLG.
As underlined by Ms. Nathalie Le Denmat, Executive Secretary at AFD and as the time of the pilot study, the coordinator of the pilot study on the UCLG side, the pilot study was an inventory of what is available and accessible but also what is difficult to reach. At the same time, it showed the potential room for improvement in terms of data collection, reliability, harmonization and evidence-based recommendations. The goal was to demonstrate the value of this work to various key stakeholders, central and subnational governments, development banks and donors, citizens and civil society, international organisations, etc. and create a “community of interest” on subnational finance.

Box 1. 2016 Pilot Study “Subnational governments around the world: structure and finance”: main findings and identified challenges

The 2016 study covered 101 countries, with around 30 countries in Europe and 26 in Africa and a quite balanced number of countries in Latin America, Asia-Pacific and Euro-Asia. The sample comprised 37 high income economies, from the OECD and the European Union, 26 and 24 countries belonging to respectively the upper and lower middle income groups. 14 countries, all form Africa, are low income economies. It comprises one comparative synthesis and 100 country fiches, which present the subnational government organisation, responsibilities and finance, through fiscal indicators on expenditure, investment, revenue and debt.

The study process was quite challenging and it faced numerous methodological issues. The first difficulty was to agree on a shared definition of subnational government in countries and how to classify them by levels of governments. In total, the study collected information for 17 federations and 84 unitary countries, including around more than 500 000 subnational governments distributed across one, two or three governments layers and even more in some countries (municipal, intermediary, regional/state)! But, in many countries, subnational governments are not always fully decentralised bodies. They can be mixed entities, having both representatives of the central government (e.g. appointed governors) and elected bodies. As far as it was possible, the definition which was used was that a subnational government was a decentralised entity elected through universal suffrage that has general responsibilities and some autonomy with respect to budget, staff and assets. That excluded non-autonomous sub-municipal entities, special purpose entities and state territorial administrations, among others. Additional difficulty was the extreme diversity of SNGs.

Another challenge was to describe the distribution of responsibilities across levels of government, by focusing on those exercised at regional and local levels. In many cases, the allocation is vague, unclear, with many overlaps, or a long list of tasks with no real content.

The study also brings forward recent territorial reforms (e.g. municipal mergers, regionalisation) or institutional changes (decentralisation or recentralisation). In that area, the difficulty was the continuous changes, with many stop and go. Multi-level governance reforms are often politically sensitive and a difficult process to carry on and to play out to its conclusion. In addition, sometimes, laws are adopted but not implemented.

On the financial side, the study used, whenever possible, the national accounts harmonised according to the international standards of the System of National Accounts, provided by the OECD, Eurostat and the IMF. However, in a number of countries, it was not possible to use them, but other budgetary accounts collected at national level. In some cases, when data were missing or outdated, estimates were done. The study process confirmed the difficulty to collect data, in particular in least developed countries and in countries which have not adopted yet a system of harmonised national accounts or which do not disseminate public finance data for the subnational level. The study also underlined the difficulty to compare these data, sometimes based on various definitions.
The biggest challenge remains however the fact that fiscal data do not always reflect the spending power of subnational governments. This is quite standard for all regions in the world, but more frequent in countries where subnational governments carry out delegated responsibilities or functions on behalf of the central government e.g. paying teachers’ salaries or distributing social benefits, with no decision making authority. The same applies for SNG revenues, as fiscal indicators imperfectly capture the level of revenue autonomy. Therefore, fiscal indicators only partially reflect the level of decentralisation.

Despite these limits, the study provides a valuable overview of the fiscal significance of subnational governments in the world measured through several spending and revenues indicators. It also provides more detailed analysis according to the federal or unitary nature of the State and the country income level (either through belonging to income groups or country’s GDP per capita).

The study shows that SNGs play overall a significant role in public policies, accounting for around 25% of total public spending on average, or 9% of GDP. The bulk of SNG spending in relation to GDP is on education, social protection and general public services. SNGs are key investors as they account for 40% of public investment worldwide. Of course, there are great variations between federations and unitary states and across countries. In particular, national situations are very diverse. However, one of the main outcomes of the study – and demonstrated for the first time at this scale – is that there is a positive correlation between subnational fiscal ratios and the country’s wealth: high income countries or countries having the highest GDP per capital tend to be more decentralised (figure 1). It is important to note that correlations do not imply causality: it is not possible to say if decentralisation favours wealth or if it is wealth which tends to favour decentralisation. There are many other socio-economic, historical and institutional factors that should be taken into consideration. In addition, this is not a general rule, with several counter-examples (also due to the imperfection of ratios as explained above).

As far as investment is concerned, the level of subnational government investment is slightly higher in upper middle income countries than in high-income countries. In fact, it confirms that many upper middle income countries are investing heavily in public infrastructure which is considered as a key structural driver of growth. In contrast, low-income economies seem to continue to invest very little (at least at subnational level), and the gap between them and other countries is huge. In a majority of countries, investment is a shared responsibility across levels of government, making its governance particularly complex, as acknowledged by the OECD Recommendation on effective public investment across levels of government.

On the revenue side, the study shows that SNGs are dependent on central government transfers in a great number of countries. On average, grants and subsidies amount to 53% of SNG revenue at global level. Tax revenue represent 32% while the rest is composed of tariffs and fees, property income, etc. As far as tax revenues are concerned, it is worth noting that they comprise both shared and own-source taxes, with very limited autonomy when tax sharing arrangements are dominant. Unfortunately, comparable data on own-source taxes do not exist in a standardised way at international level while they reflect the real level of tax autonomy. The study also shows that there are also major methodological issues concerning the classification of taxes.

Finally, data on SNG debt were the most difficult to collect and they were reported for only 59 countries. One reason is that in some cases, SNGs do not have the right to borrow. In other cases, subnational debt may be embedded in central government debt and disaggregated data do not exist, or are not publicly available. The issue of borrowing is also linked to debt definition. In the OECD, it is quite large, encompassing the financial debt but also other types of liabilities. It is not the case in several countries, especially for the local level. Overall, SNG debt accounts 14.0% of public debt and 9% of GDP on average at global level. But debt is very uneven among countries. In particular, it is significant in federal countries, as states are most often constrained by the golden rule and they can borrow to cover current expenditure. As far as local governments are concerned, when borrowing is allowed, it is restricted to the financing of infrastructure investment, and is a tool for development when it is properly used.
Defining the objectives of the Observatory

Following the opening remarks, Ms. Dorothée Allain-Dupré, head of the Decentralisation, public investment and subnational finance Unit of the OECD, and Edgardo Bilsky, Director of Research of UCLG, set the stage for the Observatory. They presented the rationale steering the Observatory, in particular the fact that subnational governments play a key role in most public policies. They highlighted that this is increasingly recognised at national and international level but that – paradoxically – there is a lack of fiscal data on subnational finance at the national level and at global level. At national level, data is not published in many countries or not regularly reported. At the global level, there is a lack of comparable and standardised data while there is a great diversity of institutional and fiscal frameworks. Therefore, there is a need for such standardised and comparable data as well as a need of reliable and accessible data. This will allow a better understanding of multi-level governance systems – what works, what does not work –, helping design and implement public policies that have a multi-level dimension.

Three main objectives for the observatory have been set by the OECD and UCLG

The first objective of the Observatory is to bridge the gap in subnational finance data while defining and sharing common methodological approaches, tools, indicators, developing new indicators on multi-level governance and finance and providing an easier and user-friendly access to data.

The Observatory can also be an appropriate tool to analyse the great diversity of multi-level governance systems and identify common features and challenges worldwide.

Beyond this primary objective, the second objective of the observatory is to serve as a capacity-building tool and as a platform for policy-making discussions between all levels of governments.

Finally, the third objective is to support international dialogue on multi-level governance and finance by facilitating the exchange of experiences, peer-to-peer learning and constructive dialogue between international, national and local stakeholders, and their financial partners.

Support, vision and expectations from the Steering Committee’s members

All the participants showed enthusiastic support to the initiative, stressing in particular the added value of a partnership based on a multi-level governance approach. This approach of a “distributed network” or “federation of competences”, as underlined Mr. Josep Roig, allows “the collective knowledge of the group to be mobilised”, providing evidence on the performance of multi-level governance and the importance of dialogue between levels of government.

The AFD and the United Nations Capital Development Fund (UNCDF) started the discussions by explaining why they are actively supporting the initiative (Box 2).
Box 2. Why supporting the Observatory? The view of AFD and UNCDF

The AFD and the UNCDF have already committed their support to the launch of the Observatory. As both funding and technical partners, they explained the reasons why they wish to engage in the process.

The AFD in particular, represented by Ms. Réjane Hugouenq, Project Manager at the Division on Urban development and subnational governments, explained that the AFD has been funding this project from the beginning. The AFD is the public development bank, committed to finance and provide technical assistance to development projects both in developing and emerging countries as well as in the French Overseas regions. In the past, the AFD worked mainly with central governments worldwide. Following the different waves of decentralisation and the emergence of local governments as development actors, AFD has turned to local communities. Today, the AFD finances many local investment projects, which are, for most of them, to provide “proximity services” such as slaughterhouse or local roads. AFD has reinforced its relationships with local government associations, in particular with UCLG which has developed a partnership agreement, in particular to develop the GOLD reports. AFD became aware of the lack of reliable data and methods, including significant divergences in methods between countries, and the difficulty in interpreting and using data. Slowly, the idea of setting up a specific observatory emerged, which would allow AFD to have comparative data and tools useful for policy discussions and operations at country level (e.g. accounting and budgetary framework). AFD has now developed an important strand of work on governance issues. It means that they are able to work with central governments to assess multi-level governance frameworks, promote decentralisation processes, provide guidance for fiscal decentralisation and improve the dialogue across levels of government. Decentralisation is too complex to be described with figures alone, they are part of a puzzle. Governments need significant assistance in understanding and handling the data. Despite recent trends towards localisation observed in some countries around the world, the role of subnational governments as significant policy actors seems irreversible. Therefore, it is necessary to construct in long term but also build capacities. In that perspective, the AFD is convinced that the Observatory can provide clear definitions, common methodology, comparable data and benchmarks as well as a better measurement and understanding of decentralisation processes, able to support the AFD in its missions.

Ms. Christel Alvergne, Deputy Director at UNCDF, also presented the Fund’s approach. UNCDF is a Fund without a thematic mandate like other UN organisations but only a financial mandate. The Fund operates through subventions, guarantees and loans to help the 47 least developed countries in the world – UNCDF is currently active in 17 LDCs - unlocking public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF offers “last mile” finance models, in particular localized investments. UNCDF is therefore particularly involved at local level looking at how fiscal decentralisation, innovative municipal finance, and structured project finance can drive public and private funding. UNCDF is also exploring innovative uses of blended finance to support the development of the private sector and local banking markets, including PPPs. There has been a shift since 1990s. Before, subsidies were provided to directly finance small investments, such as roads, schools, etc. With the development of decentralisation across the world, aid should be given directly to local government budgets, so that they can carry out themselves their own investments. The idea behind this innovative approach is that it is not worth waiting that local governments build their capacities before managing funds, as it is a vicious cycle. It is more efficient to grant them money first so that they can start capacity-building (a “learning by doing” method). In that process, UNCDF is committed to accompany local governments while evaluating their performance in this area. UNCDF has decided to actively support the Observatory for three reasons: (i) it participates to the recognition of subnational governments’ role in achieving SDGs, mitigating climate change and for “Financing for Development”, helping in the monitoring of global agendas. (ii) It helps measure local government fiscal space and thus could be used to review the criteria used by the United Nations to categorise the countries. It could advocate for the integration of mechanisms based on measuring decentralisation in the LDC graduation, in addition to current criteria (income, human assets and economic vulnerability). (iii) It brings the role of fiscal decentralisation into centre of debates on decentralisation and regional development. Fiscal decentralisation challenges seem to have been neglected, in particular by the UN agencies and donors’ agendas, including the role of municipal funds. Many LDCs are having a hard time getting enough funds to support their local government systems. The focus on major cities and networks is not enough to support decentralisation with adequate budgets. Secondary cities are crucial in national urban systems and financial mechanisms are as important as accountability.
Several representatives of national governments were very supportive to the World Observatory, and they explained why the Observatory could bring some value to them and what were their expectations.

The Slovak Republic, represented by Ms. Monika Filipová, Director of Local State Administration within the Ministry of Interior praised and welcome the launch, in a context where the country is currently re-evaluating its decentralisation system, considering a move towards recentralisation. It appears that the previous decentralisation reforms have gone too far while the local government structure is fragmented, with numerous small municipalities unable to perform properly their responsibilities.

In that context, collecting data on subnational government size and finance is particularly useful to evaluate current policies and design new ones. Such tools represent a good basis for discussions on de/recentralisation reforms at national and local levels.

The Netherlands, represented by Ms. Marielle Van Oosterhout and Mr. Martijn Zwart from the Dutch Ministry of the Interior and Kingdom Relations welcome the launch of the Observatory and are convinced of its added value.

In the Netherlands, the government coalition is preparing an agreement which set policy objectives, which can be attained only through reinforced cooperation with the subnational level.

The Dutch government is in the process of drafting a new inter-governmental programme describing how the three tiers of government can work together to reach these objectives. The Dutch government is planning to increase substantially central government transfers to subnational governments, in order to support huge investments foreseen to support the energy transition, climate change and circular economy.

In that context, it is crucial to have a better understanding of what an efficient multi-level governance framework is and to identify potential innovative financial arrangements allowing the local level to work and execute tasks efficiently.
Chile also supported strongly the efforts to collect data done by the Observatory. It is also a precious tool to inform policy making in multi-level governance and build evidence bases, as indicated by Ms. Consuelo Herrera Riera, Presidential Attaché at the OECD Chilean Delegation. Chile is one of the most centralised countries in the OECD and the government is currently undergoing a decentralisation reform in line with recommendations developed by the OECD.

The World Observatory can also be very useful in the context of the decentralisation component that Chile is developing in the framework of Latin American Countries (LAC) programme.

For Mr. Preben Gregersen, Regional Policy Director at the Ministry of Industry, Business and Financial Affairs of Denmark, also a member of the bureau of the OECD Regional Development Policy Committee (RDPC), the work which is produced by the RDPC is all about knowledge and making recommendations based on this knowledge, good practices and “place-based thinking”. Therefore, Denmark is interested in getting more knowledge on governance frameworks, which ultimately are the ones which make the difference between countries in living standards.

Moreover, Italy, represented by Mr. Marco Biagetti from the Italian Agency for Territorial Cohesion, expressed its support to the initiative. The representative stressed that the difficulty for Italy to collect data at the municipal level and expressed interest in learning from other countries, in particular to develop analysis on subnational revenues.

The World Observatory was also well received by the associations of local governments around the world, whose several were present at the Steering Committee meeting: Mercociudades, representing the UCLG Latin American section, UCLG Africa (UCLGA), the Council of European Municipalities and Regions (CEMR), UCLG Asia-Pacific (ASPAC), the French Association of Regions (ARF) representing the UCLG section Forum of Regions, Association internationale des maires francophones (AIMF) and the Network of Associations of Local Authorities of South-East Europe (NALAS).

For UCLG Africa, represented by Mr. François Paul Yatta, Director of Programmes, the World Observatory is a very important initiative because it puts the emphasis on fiscal decentralisation, which is often left behind, appearing as the weak dimension of decentralisation reforms. UCLGA created a network of City Financial Officers to address issues of data availability and harmonisation, many of which were highlighted also by other delegates.
According to CEMR, represented by **Ms. Helen Clucas**, Councillor of Cheltenham Borough Council and Spokesperson of CEMR, the Observatory should be forward looking. It should go beyond the snapshot of what is happening now. It should provide evidence on the local impact of upcoming transformations, such as demographic transition, technologies and disruptive innovations on jobs in regions and areas and how cities and rural areas can benefit from these trends rather than lose out.

**Mr. Juan Voelker**, Director of Financial Resources of Montevideo and representative of Mercociudades, made a few comments on the methodology and interpretation of data. Like **Ms. Clucas**, he stressed the need to get a better understanding of efficient subnational governance and better assess its structure and finance to improve analysis.

**Mr. Bastien Koch**, Counsellor at the AIMF confirmed the significant needs and demand for harmonised and reliable data on subnational governments at global level and indicated that the French-Speaking mayors’ network could cooperate.

The Committee of the Regions of the European Union (COR) also congratulated the OECD and UCLG on the initiative, confirming the strong interest from a European perspective for a timely discussion.

**Mr. Thomas Wobben**, Director for Legislative Works at the COR, indicated that it was necessary to improve the monitoring at the subnational level. He presented how he sees the three steps for the Observatory: (i) What does it collect? It collects data which allow a better understanding of what happens at local level. It is crucial because there is a growing acknowledgement that “places matter”. (ii) What do we learn with data? It should draw comparisons and conclusions, in particular on how to combine fiscal transfers and structural reforms, a hot topic in Europe (iii) What do we do? The Observatory should serve at providing clear and strong messages and recommendations to Member States and international fora on actions to take, in particular concerning the role of subnational governments in the field of investment and services which should be commensurate with their fiscal capacities.

**Ms. Alina Tatarenko**, Deputy Head of the Centre of Expertise for Local Government Reform of the Council of Europe (CoE) also expressed the will of the CoE to support the Observatory. She invited the partners to discuss with the European Committee on Governance and Democracy (CDDG) which gathers ministries of 47 member’s states. The CDGG could support the Observatory in collecting the data and is also an excellent forum for cooperation.
A platform which can motivate countries to make available data on subnational governments

There was a shared consensus among experts that the World Observatory should be a neutral platform and avoid political interferences. There is a risk: in many countries, when such tools exist and look great on paper, they may have in reality political affiliations, using generated data according to specific goals or targets. Data may be handled by politicians and take out of their context to support their argument. This is not a problem in itself – it is part of politics – but it is therefore necessary to offer different perspectives and data interpretations and explain the possible divergences. As a result, this reinforces the need for the Observatory to cross-reference data, analysis and assessments.

Ms. Nathalie Le Denmat stressed that the Observatory is a multi-stakeholder initiative. It does not highlight or advocate for a particular model of decentralisation or financing, which depends too much on the history, geography, economic features and administrative culture of the countries. The main objectives of the Observatory are to promote some fundamentals learning and to be used to nurture and strengthen the dialogue between all levels of government, at the international level but also at the national level. This idea was also strongly put forward by Mr. Preben Gregersen who considers that the Observatory must be a tool to raise the level of knowledge on multi-level governance and not a tool for lobbying.

This type of observatory can also motivate countries to understand the value of being more proactive in the dissemination of local finance data.

In Asia as well, the Observatory is perceived to be right on time and particularly necessary because it moves forward to open government systems, said Mr. Marcelino Pandin from the Secretariat of ASPAC (UCLG Asia-Pacific), which unfortunately is not a trend in South East Asia. Open data and transparency are needed: too much data are used in a political manner and have now a commercial value. These two aspects – political and economic dimensions – represent a significant issue which could be overcome – or at least reduced – by such observatory.

Mr. Elton Stafa, an expert in Finance representing NALAS took the best practice of Albania where the government used to publish very detailed Excel files but unreadable and therefore lacking transparency and usefulness. With the help of NALAS, the government is now setting up a (open) platform to show local government finance in a more user-friendly manner which helps officials as well as citizen capture results of the on-going reforms. In fact, as underlined by Ms. Nathalie Le Denmat, one positive outcome would be to encourage countries to set up national observatories and local finance committees, bringing together key stakeholders at national and subnational levels to work together.
The Observatory should be forward looking

There was a consensus among the members that the Observatory should help establish a long-term vision and planning for public investment at local and regional levels and identify areas where subnational investment can make a bigger difference than invested elsewhere.

In general, it has been said that such initiative should be followed up in time. The AFD considers that it would be a pity that these efforts are done just as one-shot. Observatory’s partners really need to invest and sign up for a longer term project.

Moving from objectives to tasks: what and how

Mr. Edgado Bilsky, Director of Research and Mr. Luc Aldon, Project officer at UCLG presented the main tasks that are proposed to consolidate the Observatory. The first task will be to collect data on subnational government structure and finance in more than 100 countries to update country fact sheets. The data collection will be ensured on a triennial base, even if the data for certain regions will be updated more regularly (EU and OECD countries for example). The number of indicators will be also enlarged while a system of evaluation to assess the quality and reliability of data will be created. The country fact sheets of 2 pages will be expanded. To carry out this work, a global network of experts and institutions will be established in all regional areas. Training and capacity-building activities will be organised by UCLG for a smaller group of experts (“focal points”) in partner institutions who will be in charge of identifying and training collaborators at regional and country levels. To help collect and process data and analysis, a methodological guide will be developed by the OECD.

Expanding the number of countries

The number of covered countries will increase. Ideally, the Observatory would target around 130 countries i.e. around 30 additional countries, including more Least Developed Countries. The OECD will be responsible for 60 countries, UCLG for 48 and UNCDF for 19.
The integration of new LDCs in the study will imply to adapt the methodology to them in order to assess the specific context of local governments in poorest countries and identify best ways to collect and analyse information in these countries, as data are often missing or are less accessible.

The lack of data in LDCs becomes more and more problematical as underlined by Mr. Vicente Ruiz from the OECD Development Centre.

In Africa, the demographic transition and the growth of urban population (it doubled from 230 million to 470 million between 1995 and 2015) tremendously impact on local government, particularly for delivering public services. They also bring large challenges to finance huge needs in urban infrastructure.

Estimates indicate that 29 and 60 billion dollars are needed per year. The OECD Development Centre, which gathers 52 countries around the world, tries to meet demand of African countries to accompany them but there is a significant lack of data (only estimates are available but still with a wide range!) and robust analytical tools. There is clearly a need for better data on subnational governments in Africa, and beyond in LDCs. DEV welcomes the analysis and materials that have been already developed in the framework of the pilot study, and supports the setting up of the World Observatory.

**Expanding the number of indicators and ratios**

Currently, data are pretty basic. However, they are still difficult to collect for a number of countries as shown by the 2016 study. Data cover subnational governance structure, institutional context, assignments of responsibilities and financial weight. Several fiscal indicators have been selected covering the general government and subnational government (state government and/or local government) sectors: expenditure including current expenditure, staff expenditure, capital expenditure or investment, expenditure by economic function (according to the classification of the 10 functions of government - COFOG); revenue including tax revenue, grants and subsidies, and other revenues (user charges and fees, social contributions, property income; outstanding debt. Different ratios have been used to measure subnational finance: in % of GDP, % of general government and in % of subnational total expenditure, revenue or debt.

As explained by Ms. Dorothée Allain-Dupré, these indicators should be fine-tuned and also enriched in the future. To extend the dataset, it is necessary to ask what the priority policy questions are: how to better assess the spending power of subnational governments? How much room do they have to manoeuvre, to invest and to play a pro-active role for development? How to better understand who does what – the different assignment of roles and functions across levels of government? How to promote and facilitate dialogue across levels of government.
Ms Dorothée Allain-Dupré highlighted the new data and indicators that the Observatory could collect, to better reflect countries' specificities and better appreciate the fiscal space of subnational. She made three propositions of new indicators to include:

- The first proposition is that the Observatory could better distinguish between the regional and local levels and include more detailed information on government sectors. It will make more systematically the difference between subnational government, state government (in federal countries) and local government. Such a distinction would be a first step in including more targeted methodologies for federal vs. unitary countries. The Observatory may also include more “measures” in addition to ratios in % of GDP, general government and subnational government, in particular by providing data in dollars PPP (purchasing power parities) to allow a much clearer comparable understanding of the amounts at stake, as well as per capita in order to facilitate comparisons between countries. The Observatory could also include more «transactions» concerning expenditure (e.g. spending on goods and services, social benefits and better distinguishing direct investment and capital transfers) revenues (more revenues’ categories, differentiation of tax revenues, focus on some specific taxes such as property tax or PIT) and debt (debt composition).

- The second proposition is to develop and disseminate specific indicators, to go one step further in the measurement of decentralisation and multi-level governance in the world to provide a better picture of decentralisation. These indicators would go beyond national accounts data and fiscal indicators to include some qualitative aspects of multi-level governance The Observatory could also add indicators on specific sectors or priorities, e.g. on green finance at the subnational level.

- The third proposition is to integrate in the Observatory indicators on the governance of public investment. These indicators have been developed by the OECD to monitor the 2014 OECD Council Recommendation on Effective Public Investment across levels of governments. They stem from the observation that adequate multi-level governance arrangements are as important as the financing by making public investment more productive, effective and inclusive. These indicators help systematise information and facilitate benchmarking between countries and provide with a metric to identify main challenges and progresses of countries. Such information could ultimately be included in the country profiles as part of the Observatory, a proposal which was strongly supported by Mr. Preben Gregersen, the OECD Danish delegate at the RDPC, who suggested integrating these principles of efficient public investment to support self-assessment of subnational government performance.

This extended focus demands more work for each country and thus the level of resources needed is larger. Gathering these statistics would permit a more precise level of analysis, notably for the synthesis of data.

This is ambitious. If the Observatory seeks to systematically update such indicators and includes new ones, the role of all participants will be essential to provide feedback, information, and to reach out to non OECD countries.
To respond to this challenge, several participants made interesting suggestions.

In particular, participants share a common expectation: obtaining disaggregated data for the subnational sector.

This is something really needed, as underlined by Mr. Juan Voelker. Countries need to have subnational data not only aggregated at national level but also across levels of government and at city level.

The French Association of Regions (ARF), member of the Forum of Regions, was also interested in having comparable data and information focused specifically on the regions, across Europe and at global level, in particular to assess the fiscal strength and autonomy of regions. According to Mr. Sebastien Creusot, Financial Advisor at ARF, the Observatory could be a very valuable tool if it could provide evidence-based recommendations to the central government on the role of regions.

Other participants raised the issue of special purpose governments (as opposed to general purpose governments) such as water boards, school districts or inter-municipal groupings. They can represent a high level of expenditure and revenue, such as in the Netherlands and therefore should be included in the scope of analysis.

But this need of “disaggregated view” concerns not only data but also qualitative information, in particular the assignment of responsibilities across levels of government. As underlined by the Slovak Republic or Mercociudades, important questions remain posed: what competences for which level? Which combination of responsibilities has the better impact in people’s quality of life?

The “disaggregation scheme” which is proposed for the next update of the Observatory is already a progress in that direction (i.e. better distinguishing between the state and local government sectors in federal countries). But it would be necessary to go a step further and provide data for the different layers (municipalities, intermediate and regional levels) not only for federal countries but for all countries. This is a real challenge because these data do not exist at international level using national accounts harmonised according to the SNA. Today, it is not possible to analyse and compare regional government or municipal data. These data have to be found at national level, and collected country by country (when they are publicly available), but often, they are not really comparable. Pilot projects could be launched in that perspective.

Other participants welcomed the proposals of the OECD and UCLG but also suggested new approaches to measure the potential strength of subnational governments such as indicators on fiscal flexibility, fiscal readiness, fiscal capacity or fiscal risks, as suggested by Mr. Marcelino Pandin, who added his interest on private investment, technology and innovation or FinTech indicators. Mr. François Yatta proposed additional indicators with regard to local taxation and un/conditional transfers. Mr. Thomas Wobben recommended looking at georeferencing of data, an approach which is being developed at the Committee of the Regions as well as to PPP models. Ms Alina Tatarenko insisted on the need of indicators concerning decentralisation, including standards on public ethics, corruption and sound financial management at subnational level.
Prof. Andrew Reschovsky, Director of Research at Lincoln Institute of Land Policy acknowledged the tremendous advances the Observatory work offers. He added a few suggestions to move forward. In particular, he presented the value of a more heterogeneous approach to look at big cities finance and their financial health to provide the services and achieve the New Urban Agenda. This micro-data approach is currently being developed in the US, directly with interested mayors, allowing monitoring data on operating expenditures. He also recommended focusing more on the issue of transfers and tax sharing system to enhance comparison across countries.

Finally, several members of the Steering Committees cautioned against the temptation of ranking countries. Such classification should be avoided. Others said that there was sometimes a “fatigue” with indices. As a result, the number and types of indicators should be carefully considered.

**Going beyond data by developing more analysis for policy-makers**

Several Steering Committees’ members insisted on the fact that data were indeed indispensable but should not be and end in themselves. The Observatory should not limit itself to the collection of data and data should come with an interpretation, analysis and hints of solutions. As stated by Ms. Helen Clucas, we can have all data and comparisons in world, if they are not analysed and interpreted, they do not help policy makers, who expect solutions that help improve the life of the people they represent, not problems. The Observatory should “enable rather than confine”.

The Observatory should go a step further by providing qualitative assessments and analysis in order to improve learning and give insight to politicians or governments.

As stated by Ms. Monika Filipová, this type of data is particularly useful for preparing multi-level governance reforms, looking at the most efficient/balance between capacity and good spending.

However, it was said that such data should help, not replace decision-making of policy makers. In particular, Dr. Angelika Poth-Mögele, Executive Director European Affairs at CEMR, highlighted that data on governance performance should support and not replace democratic decision making process. Secondly, she stressed the importance of political processes, in particular in the EU regarding supranational rules.

Mr. Thomas Rougier from the French Observatory confirmed that such observatory tool can be used to provide information to decision maker but should not establish policies. It is a platform for dialogue and information. It can provide capacity building and, furthermore opportunities to learn how to use the data. Even if the data is not 100% reliable, one needs to go ahead and get started.

The World Observatory could provide useful thematic focuses, comparing countries on specific topics and highlighting good practices and solutions. “This is really useful to have concrete hands-on experience from other countries” said Mr. Thomas Rougier who suggested that international knowledge on very specific issues would be of great interest for the French community of actors.
Several topics have been identified such as public investment, quality of spending and investment, best practices on regulatory frameworks for borrowing – what are the rules that can help sustainable borrowing, an important topic in Latin America.

One important topic which could be investigated within the Observatory is how to develop accounting and budgets frameworks at local level, as stressed by Ms. Réjane Hugounenq from AFD and Ms. Christel Alvergne form UNCDF. In fact, if data do not exist, it is often because such local finance regulatory systems do not exist at local level or are not appropriate to capture local fiscal operations, especially in LDCs.

Other topics have been raised such as analysis on urban vs. rural dimension or on large cities as suggested by Ms. Elisa Muzzini, Advisor at the Council of Europe Development Bank (CEB); complex migration patterns and the financing of secondary cities, as underlined by the OECD Development Centre and UNCDF. In particular, it is necessary to gathering evidence on secondary cities to clarify the over-simplification of urbanization trends. The Observatory is important to build this momentum and DEV invited partners to a workshop during the first quarter of 2018 focusing on secondary cities and their financing.

**The need to tailor analysis to groups of countries with similar characteristics**

Decentralisation varies a lot between regions (Asia, Africa, Europe, Latin America, etc.) as well as within regions (between countries), and between federal and unitary countries. Different regions and countries have different concerns and this should be reflected in the Observatory by more focused analysis.

As underlined by several participants such as Slovak Republic, Netherlands, UCLG ASPAC and CEMR, statistical processing and comparative analysis could be done and deepen by “families of countries” or “peer groups” having similar characteristic, be they geographic, economic, institutional or according to the degree of decentralisation. Mr. François Yatta from UCLGA recalled that place-based contextual assessments are important to interpret data and draw conclusions.

**The Observatory will have to consolidate the methodological framework and guidelines**

The first step, consolidating the methodology, is crucial in developing the Observatory. The development of the Observatory will build upon the methodological work already developed for carry out the 2016 Pilot Study. This methodology will be improved and deepened, in particular to take into account the expansion of the number of indicators, rations and countries, including the need to adapt the methodology to LDCs.

The OECD will prepare a methodological guide presenting the conceptual and methodological framework including common definitions, concepts and nomenclatures as well as practical advice on the way to identify the adequate information sources at national level, to overcome methodological obstacles, to collect country information data, aggregate and interpret them properly in a harmonised manner. It will develop tools to ensure a coherent reporting process. The draft handbook will be discussed with regional focal points and experts.

Ultimately, a system could be proposed to assess the quality of the information for each country and each category of indicators, in order to progressively upgrade the quality of subnational data and their international comparability.
Developing, training and sustaining a global network of experts

The process of collecting and analysing data should be participatory and dynamic, based on a common methodology and a shared knowledge base. To build the observatory as a platform of exchange, with the support of UCLG a network of experts on local finances will be established at regional (Africa, Asia, Europe, etc.) and national level.

The Observatory will set a task force of regional “focal points’, in partner institutions of the Observatory. These focal points will be in charge of identifying and training collaborators at regional and country levels. The network of national experts will have to collect, harmonize, analyses the data and organise the dialogue on multi-level governance in their respective country.

A first capacity building seminar with regional focal points will be organised in the short term to present and consolidate the methodological guide and tools to start the collection of data.

As underlined by several participants, one difficulty will be to motivate focal points to be involved in the network, and keep this motivation alive. To do that, focal points should not be only “data collectors” but be involved in analysis too. This should be done by motivating focal points to be involved in a sustainable way, not just one or two goes and to create ownership said Mr. Marcelino Pandin.

Ms. Helen Clucas and Mr. François Yatta also mentioned that the challenge for the Observatory lies not just in collecting data but in going forward, i.e. understanding how they can use data. National associations of local governments and elected officials themselves should find an interest for contributing to the Observatory. They should contribute to the analysis, going beyond data collection and improving their skills.

Developing communication and dissemination tools

Establishing appropriate tools to communicate and disseminate information, analysis and key messages will be essential. Within the Steering Committee and experts’ network, an extranet joint platform may be created to facilitate exchanges between the members. Partners will be able to upload documents as well as participated in a more dynamic way to the discussions.

With the external world (policy makers at all levels of government, financial institutions, civil society, academics, etc.), it will be also crucial to develop an on-line database and web-based platform allowing interactive use and visualisation of data in a user-friendly and accessible manner, as explained by Mr. Rudiger Ahrend, head of Economic Analysis, Statistics and Multi-level Governance Section at the OECD.

Moving forward, it is proposed that the Observatory presents its ongoing work during an international conference with a larger audience in late 2018/early 2019. The outcomes of the 2018 data collection will be presented at this occasion as well as the next steps for the continuation of the initiative. The idea would be to organise a conference every two years gathering all interested stakeholders, to discuss and disseminate the outcomes of the Observatory's work.
Developing links with other observatories and initiatives

To build the Observatory, it is also proposed to establish links and synergies with other observatories and initiatives, at international and national levels, as mentioned by Mr. Edgardo Bilsky during the meeting.

Figure 2. Enhance synergies with other observatories and portals

Linkages are to be established in the first instance with observatories developed by UCLG regional associations.

UCLG Africa in particular has been working for many years to establish a database. UCLGA has collected, aggregated and harmonised fiscal data on around 200 cities in 35 African countries (out of 54). UCLGA is well aware of the difficulties of such work, in particular methodological ones (different definitions of cities and national accountings methods and nomenclatures). UCLGA has also been very active in supporting the creation of national finance committees on local finance and a network of financial directors, which could support the World Observatory.

Within the OECD, it is also quite natural to build synergies between the World Observatory and the OECD Network on Fiscal Relations across Levels of Government. Mr. Sean Dougherty, Senior Advisor at the OECD responsible for the Fiscal Network stressed that the Observatory will contribute to strengthen and deepen indicators in key domains on subnational governance. Mr. Sean Dougherty confirmed that lots of governments struggle to compile comparable data. The OECD Network on Fiscal Relations is willing to cooperate with the Observatory. There is a need of common definitions, standardised methodology and new indicators (e.g. fiscal rules), not just for knowledge but also to benchmark and compare positions of different governments in a country or across countries. In this perspective, the Fiscal Network has also developed fiscal databases - e.g. on revenue and tax autonomy in the OECD – which could benefit the Observatory. Some of its indicators (tax autonomy) could be tested in other countries than the OECD.
Other international initiatives are willing to cooperate. The COR in particular is willing to work closely with the Observatory, and to link it with the COR’s own databases such as the COR database on the Division of Powers.

Another example is the “city database” set up by the Lincoln Institute and Un-Habitat with whom synergies could be established with the Observatory.

Ms. Lourdes German, Director of Research at the Lincoln Institute of Land Policy, explained that the objective of this pilot project was to make progress in data comparability from city to city perspective by creating a fiscally standardised city database. The project takes to look at individual big cities and actually collects information on the legal framework for fiscal decentralisation, understand the expenditure mandates, the service mandates, the role of revenue raising authorities and collect data around that.

This project tries to link fiscal frameworks to urbanisation and planning dimensions frameworks and see how those two conversations intersect from a data standpoint. Mr. Elton Stafa also shared NALAS’s long standing experience in reporting on fiscal information. Already six annual NALAS Fiscal Decentralisation Indicators Report have been published and the 7th edition is being prepared. This report is the result of a collaborative effort of local and regional governments’ experts in 17 countries of South East Europe. The fiscal report includes basic macroeconomic information, data on own-source revenue and transfers and investments. Each year, methodology to collect and analyse data is improved every year, to also include information on legal changes and policy dialogues’ outcomes.

At present, NALAS is setting up a Regional Decentralisation Observatory which will have strong interactions with the Fiscal Decentralisation Report. The aim of the Regional Observatory is to showcase the state of political and administrative decentralisation and intergovernmental dialogue. It should also be an open platform, user-friendly and understandable by citizens. NALAS expressed its interest in collaborating as a focal point of the World Observatory.

The NALAS network has proven experience and expertise to provide data and participate in the definition of indicators and capacity building in the region. Mr. Elton Stafa suggested cooperating with ministries of finance as well as national associations of local government to improve access to data and mainstream the recommendations.
National observatories could also develop linkages with the World Observatory.

Ms. Elisa Muzzini suggested connecting the World Observatory with country initiatives and methodological approaches, and capture what is already happening. Mr. Marco Biagetti offered the technical support of Italy to develop “territorialised data” consolidating public finance data at regional level. Mr. Thomas Rougier, Secretary General of the French Observatory on local finance and public management (Observatoire des Finances et de la Gestion publique Locales – OFGL) presented this new tool established in partnership between the French Government and the associations of local governments. It comes from a long standing observation of distortion and political tension between the national and local levels, in particular concerning budgetary issues. It happens quite often that local actors do not agree on fiscal data which are used by the central government. Therefore, the French Observatory has been established by both the central and local government to form a neutral platform based on methodologies which mix national and local perspectives, produce manageable data and interpretations which are agreed and understandable by both sides. Mr. Thomas Rougier confirmed his high interest for the international monitoring offered by the World Observatory, considering that it will allow the national level to move forward to better understand “where we stand”.

Conclusion

To conclude the meeting, Mr. Rudiger Ahrend and Mr. Edgardo Bilsky acknowledged the dynamism of the discussions and thanked participants for their active and constructive participation. The balance of actors and competencies within the Steering Committee makes it particularly resourceful and innovative. This is a first essential step to build the Observatory.

The Steering committee meeting has been a starting point to discuss objectives and tasks of the Observatory and build a common understanding about data collection, analysis and interpretation. This first Steering committee allowed for important progress on defining the vision and the roadmap. The structuring of a network of focal points will be crucial to move ahead.

In that perspective, it is necessary to continue -and even intensify - the efforts to involve more partners, including financial contributors. Several tasks (e.g. additional indicators, more focused analysis by groups of countries, sophisticated visualisation tools) will depend on the availability of funds.
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