



Intergovernmental Transfers and Decentralised Public Spending

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The need for multi-level governance in decentralised contexts

3 economic paradoxes in OECD countries:

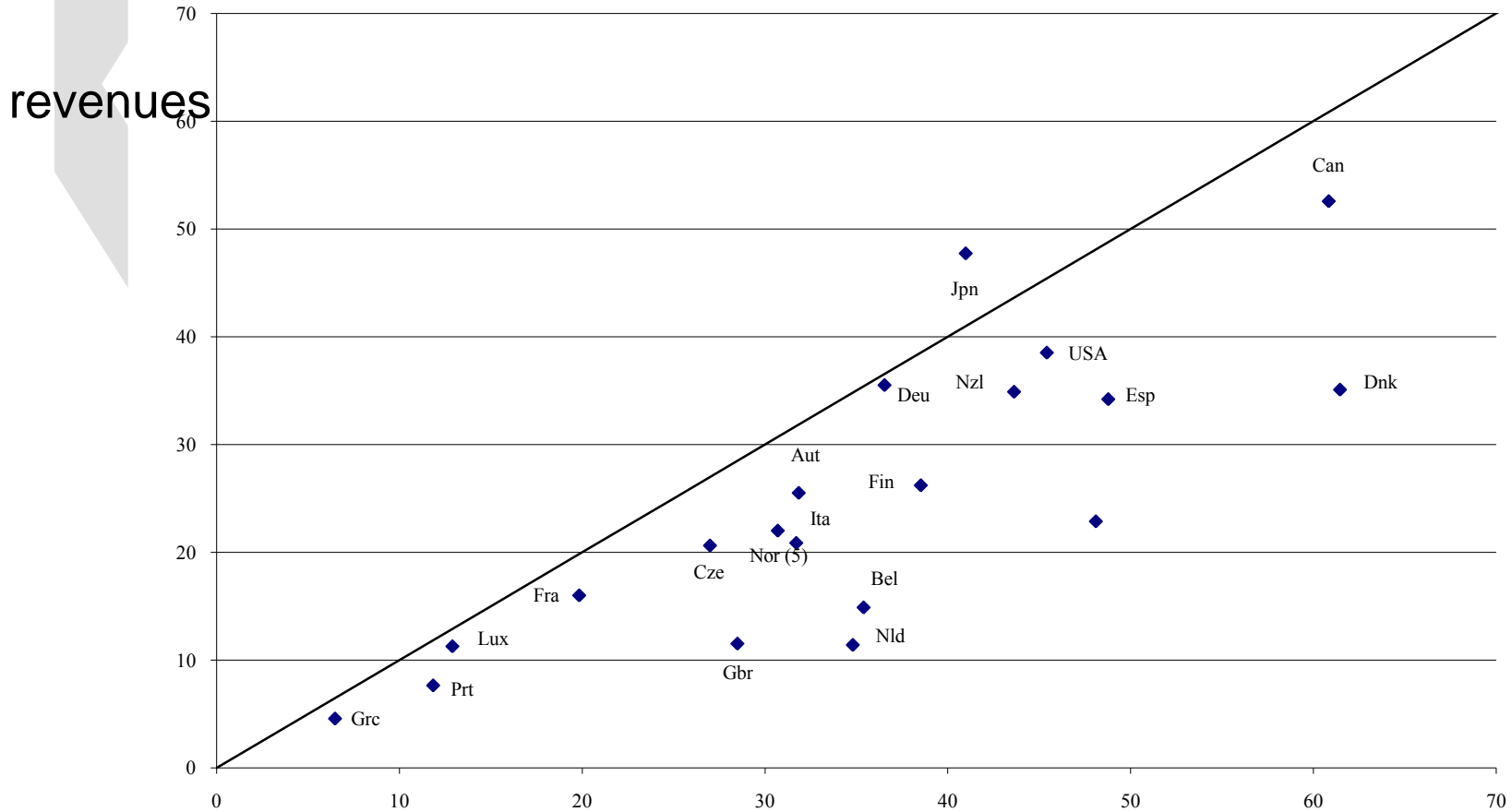
1. Increased sub national responsibilities in spending *while* growing dependency on central governments for resources
2. No convergence of GDP among regions *call for* central government interventions: equalisation and customisation
3. Central governments devolve responsibilities to sub national governments *while* growing central concerns for the control on standards of local public services and on performance of local delivery

Fiscal autonomy and fiscal decentralisation

- **Fiscal autonomy (the share of sub national own revenue in the total revenue) and fiscal decentralisation (the share of sub national expenditure in total public expenditure) vary widely among countries.**
- **Fiscal decentralisation has led to increased sub national responsibility in the area of spending, while at the same time sub national governments have become more dependent on central governments for their resources.**
- **How to identify good practices?**

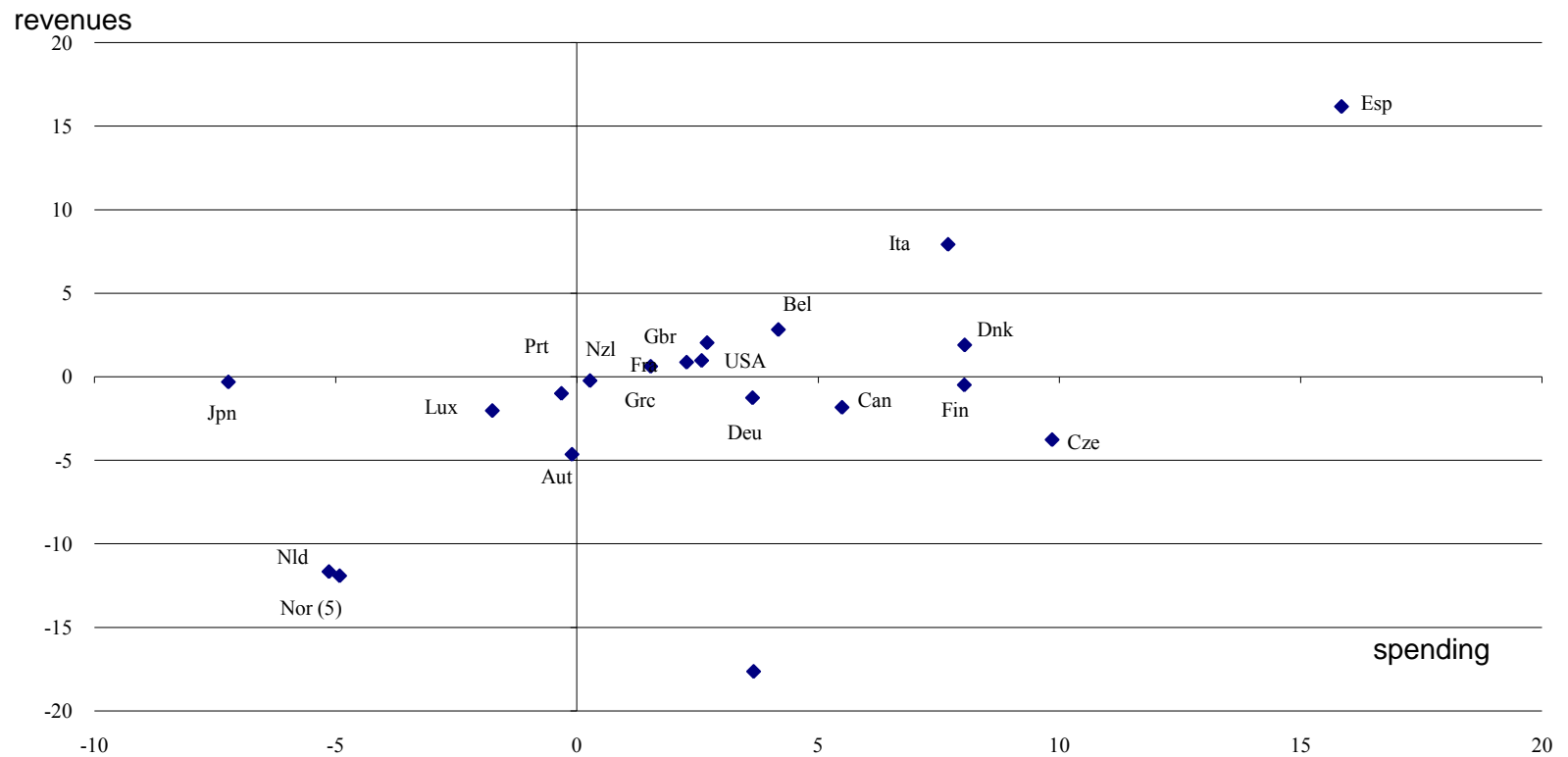
Decentralisation in OECD countries (1/2)

share in general government revenue and expenditure, 2005



Decentralisation in OECD countries (2/2)

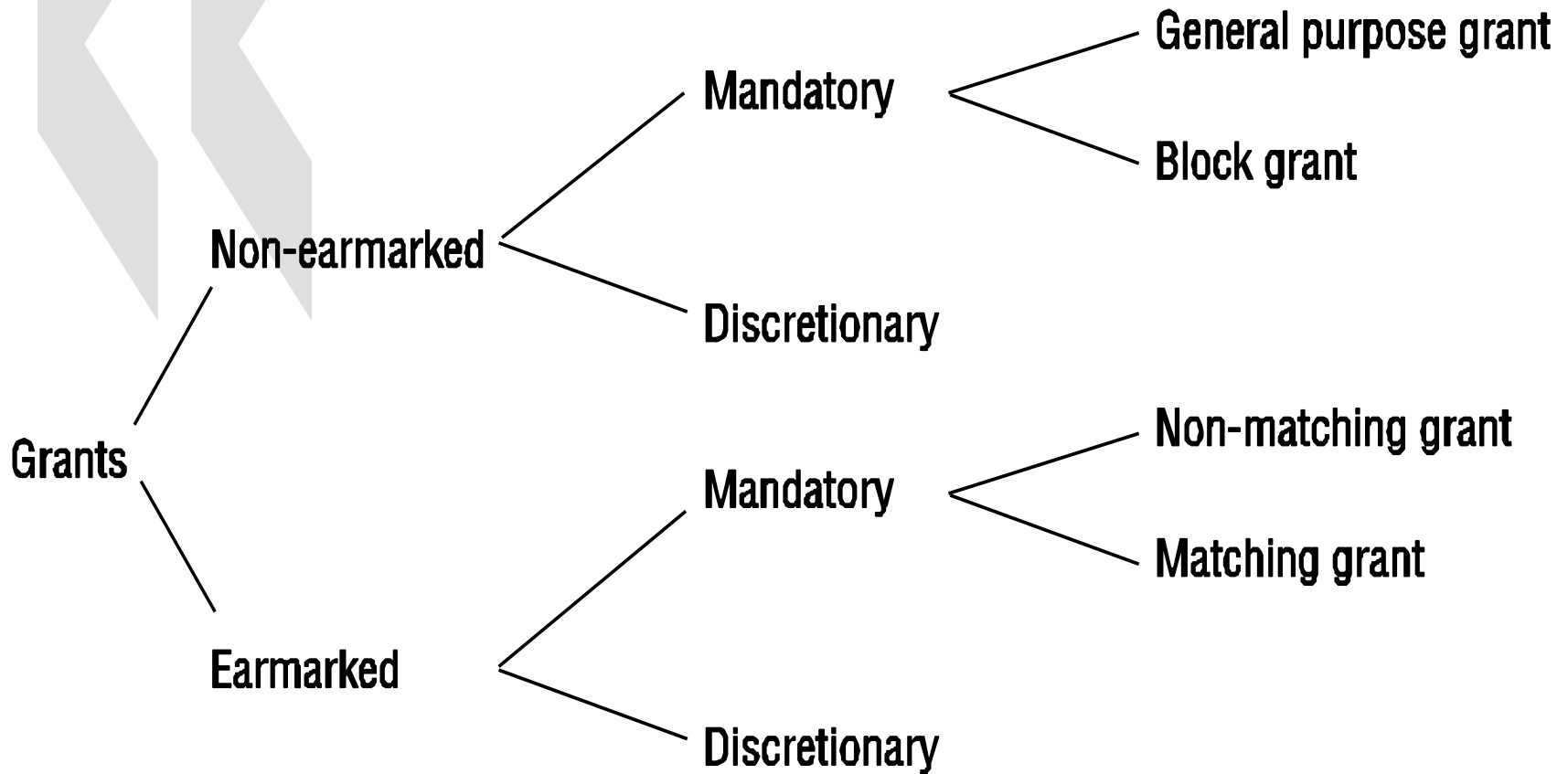
Changes expressed in percentage points 1995-2005



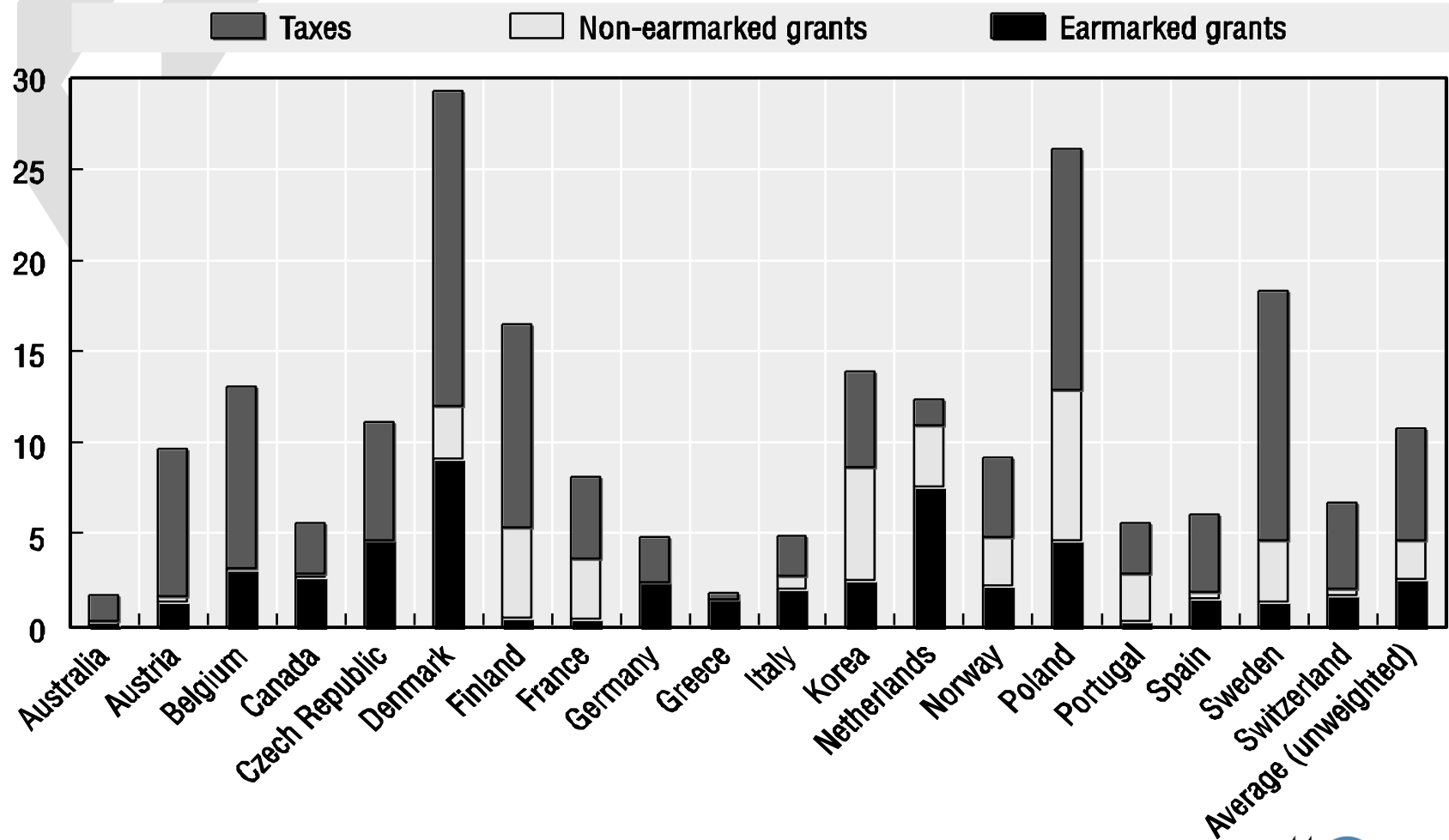
OECD Network on Fiscal Relations across Levels of Government

- 2005-2006: **Intergovernmental transfers; Subnational taxes; Fiscal discipline**
- 2006-2007: **Equalisation policies**
- 2007-2008: **Efficiency in public services delivery: the use of indicators systems; the use of market mechanisms**
- 2008: **Choice between taxation and grants**

A typology of transfers



Country choices on different types of grants – Local government revenue from taxes and grants



Country choices on different types of grants – Receipts of earmarked and non-earmarked grants

	Earmarked grants	Non-earmarked grants	Total
States			
Australia ^a	87.5	12.5	100.0
Austria	79.8	20.2	100.0
Belgium	94.0	6.0	100.0
Canada	18.6	81.4	100.0
Italy ^a	28.6	71.4	100.0
Mexico ^c	59.2	40.8	100.0
Spain	14.8	85.2	100.0
Switzerland	77.8	22.2	100.0
Average	57.5	42.5	100.0
Local jurisdictions			
Australia ^a	17.2	82.8	100.0
Austria	86.1	13.9	100.0
Belgium	95.9	4.0	100.0
Canada	95.7	4.3	100.0
Czech Republic	100.0	0.0	100.0
Denmark	69.8	30.2	100.0
Finland	9.2	90.8	100.0
France	11.7	88.3	100.0
Greece ^b	100.0	0.0	100.0
Hungary	56.9	43.1	100.0
Iceland	21.0	79.0	100.0
Italy ^a	75.5	24.5	100.0
Korea	27.7	72.3	100.0
Netherlands ^b	70.0	30.0	100.0
Norway	44.9	55.1	100.0
Poland ^b	29.5	70.5	100.0
Portugal ^b	11.4	88.6	100.0
Spain	33.8	66.2	100.0
Sweden	28.7	71.3	100.0
Switzerland	80.4	19.6	100.0
Turkey	77.3	22.7	100.0
Average	54.4	45.6	100.0

Different grants for different purposes

- **Financing** *To enable sub national governments to finance a basic package of services for which they have competencies (or to reach imposed standards)*
- **Subsidisation** *To compensate for spillover effects*
- **Equalisation** *To allow sub national governments to provide their citizens with « similar » sets of public services at roughly « similar » tax burden*

Efficient use of grant instruments

Purpose	Efficient type of grant or regulatory instrument	Central government initiative			Sub-national government initiative	
		Imposed programmes or standards	Compensation of spillovers	Temporary projects and programmes	Basic services	Fringe services
Financing	Extension of sub-national tax base	X			X	X
	Non-earmarked general purpose grants	X			X	
	Non-earmarked block grants	X				
	Earmarked discretionary grants			X (co-funding)		
	Earmarked matching and non-matching grants	(X)		X (risk sharing)		
Subsidisation	Earmarked matching grants		X (national spillovers)	X (experiments)		
	Imposition of co-operation		X (regional spillovers)			
Equalisation	Imposition of horizontal grants	X			X	
	Non-earmarked general purpose grants	X			X	

Fiscal Equalisation in OECD countries, main findings

- 2 main distinctions: horizontal vs. vertical equalisation transfers; equalisation of revenue disparities vs. cost disparities
- Fiscal equalisation makes up around 2.3 % of GDP (between 0.5 and 3.8 %; between 1.2 and 7.2% of government expenditures; between 110 and 1200 US\$ per capita)
- Equalisation reduces fiscal disparities: by 2/3 on average; horizontal systems seem to show a slightly stronger equalising effect per GDP
- Equalisation can pose a problem for budget stability (less likely for horizontal systems)
- Revenue equalisation can reduce tax and development efforts (risk of poverty trap)
- Cost equalisation is prone to rent seeking
- The choice of standardised revenue or cost bases can mitigate disincentives; as well as having an independent body that allocates equalisation transfers

Performance indicators, main findings

- An "indicator system" refers to the systematic collection of information to measure and monitor the activities of government
- Indicators are tools for 1) revealing information and reducing information asymmetries and 2) encouraging performance improvements by altering incentives to SNG
- The choice of the objectives the systems will serve is crucial; countries aim to achieve multiple objectives which leads to no "optimal solutions"
- Top down approach often perceived as an ex-post substitute for ex ante control...intergovernmental cooperation is essential
- Incentives are inevitable, the choice is to rely on implicit (ex. Kostra system in Norway) or explicit (ex. Italy) incentives to achieve objectives
- Indicator systems should be seen in a dynamic and collaborative context

Conclusions

- **The constitutional framework of government in a country – federal or unitary – has little impact on the governance of sub national fiscal autonomy**
- **Reforming multi level governance is a complex process with institutional inertia and political economy aspects**
- **The OECD Network on fiscal relations across levels of government can help in building statistical information and identifying pros and cons of various arrangements, instead of providing “optimal” (normative) solutions.**