Decentralisation trends in OECD countries: a comparative perspective for Ukraine

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Regional Development Policy Division
OECD
Outline of the presentation

1. **The current picture: decentralisation around the world**

2. **Recent trends in decentralisation reforms**

3. **Some lessons: making decentralisation work**
The governance system of subnational government
the OECD

35 countries: 9 federal and 26 unitary including
137 635 subnational governments in 2015-2016:

- 133 007 municipal-level entities
- 4108 intermediary-level entities
- 520 regional or state-level entities

- Unitary countries
- Federations & quasi-federations
The OECD: an institutional landscape very diverse and complex at subnational level

- The OECD institutional landscape which has dramatically changed over the last 20 years, especially since the crisis as a result of decentralisation or recentralisation processes.

<table>
<thead>
<tr>
<th>9 countries with only one level:</th>
<th>18 countries with two levels:</th>
<th>8 countries with three levels:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipalities</td>
<td>States/regions - Municipalities</td>
<td>States/regions - Intermediary gov. - Municipalities</td>
</tr>
<tr>
<td>9 federations and quasi-federations</td>
<td>Australia, Austria, Canada, Mexico, Switzerland</td>
<td>Germany, Belgium, Spain, United States</td>
</tr>
</tbody>
</table>

| 25 unitary countries | Estonia, Finland, Ireland, Iceland | Israel, Luxembourg, Portugal, Slovenia | Chile, Korea, Denmark, Greece, Hungary, Japan, Norway | New Zealand, Netherlands, Czech Republic, Slovak Republic, Sweden, Turkey | France, Italy, Poland, United Kingdom, Ukraine |

Notes: 1. Spain is a quasi-federal country. 2. Finland and Portugal have autonomous regions on part of the country. 3. There is an intermediary level only on part of England.
SNGs are key economic and policy actors across the OECD

% of general government - 2014

- **Expenditure**
  - Greece (40%)
  - New Zealand (31%)

- **Staff expenditure***
  - Chile (63%)

- **Investment**
  - Chile (59%)

- **Tax revenue**
  - Estonia (32%)

- **Debt***
  - Greece (4%)

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*: No data for Chile and Australia

**: Debt OECD definition i.e. including, in addition to "financial debt", insurance reserves and other accounts payable. No data for Mexico.
Degrees of decentralisation varies largely in OECD countries

Subnational government expenditure as a percentage of GDP and total public expenditure (2014)
.... And around the world: 25% of total public spending i.e. 9% of GDP
Wealthier countries tend to be more decentralised...
Some policy areas are more decentralised than others: education, social protection, health, public transport, housing.

Breakdown of SNG expenditure by economic function:

- Defence, security and public order: 2.4%
- Environmental protection: 5.4%
- Recreation, culture and religion: 8.8%
- Housing and community amenities: 12.5%
- Economic affairs & transport: 13.8%
- Health: 20.3%
- General public services: 21.8%
- Social protection: 19.1%
- Education: 1.9%

% of GDP

% of total SNG expenditure
What are the sources of SNG revenues?

Tax revenues account for 44% of SNG revenue in the OECD
Spending is more decentralised than revenues: the risks of fiscal imbalances
1. The picture in 2016: decentralisation around the world

2. Recent trends in decentralisation reforms

3. Some lessons for countries at the early stage of their decentralisation process
The OECD area has grown more decentralised over the last two decades at least, although reforms that have profoundly changed the institutional set-up of fiscal decentralisation are confined to a few countries.

Motivations vary across countries

- **Mainly democratic/political motivations**: eastern European countries (decentralisation wave in 2000, 2004, 2006: Poland, Slovakia, Czech Rep, Estonia, Hungary, etc.)
- **Mainly economic/public finances motivation**: Greece, Italy, Portugal

Changes/rationalisation in allocation of responsibilities:

- Mostly in the field of education
- Public transport
- Health care: both decentralised and recentralised (Norway)

Broader context of Multi-level Governance reforms
MLG reforms: three interconnected dimensions

Institutional:
re-organising powers, responsibilities and resources

Territorial:
re-organising territorial structures

Public management:
re-organising administrative processes

- Ukraine
- France, Finland
- New Zealand
- Italy
- Japan
A regain of actions on MLG reforms across OECD countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Institutional reforms</th>
<th>Fiscal reforms</th>
<th>Territorial reform at regional level</th>
<th>Territorial reform at intermediary level</th>
<th>Municipal (mergers, IMC, metropolitan)</th>
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<tbody>
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<td>Australia</td>
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<td>State level</td>
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<td>Austria</td>
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<td>Belgium</td>
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<td>Germany</td>
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<td>State level</td>
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<td>Spain</td>
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<td>X + Regional level</td>
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<td>UKRAINE</td>
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</table>
1. The picture in 2016: decentralisation around the world

2. Recent trends in decentralisation reforms

3. Some lessons
Decentralisation includes a number of benefits, but needs to be properly done

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Risks</th>
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<tbody>
<tr>
<td><strong>Efficiency and improved local public services</strong></td>
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<tr>
<td>• More capacities for place-based policies</td>
<td>• Diseconomies of scale</td>
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<td>• Better local public service delivery</td>
<td>• Duplication/overlap in competencies</td>
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<tr>
<td>• Lower costs</td>
<td>• Lack of human/technical capacities</td>
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<td>• Mobilisation of local public resources</td>
<td>• Unfunded mandates</td>
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<td>• Incentives for pro-active local development approaches</td>
<td>• Rising disparities across jurisdictions</td>
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<tr>
<td>• Mobilisation of comparative advantages of local enterprises</td>
<td>• Increased competition</td>
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<td>• Room for experimentation</td>
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<td><strong>Democratic governance</strong></td>
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<tr>
<td>- Enhanced transparency and accountability</td>
<td>• Local politics and bad local governance</td>
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<td>- Enhanced citizens’ participation</td>
<td>• Corruption</td>
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<tr>
<td>- Reflects better citizens needs</td>
<td>• More complex governance structure – more coordination costs</td>
</tr>
</tbody>
</table>
Some pre-conditions that need to be met in all cases:

- Adequate capacities at subnational government
- Sufficient resources to meet new responsibilities
- Balance in the way various policy functions are decentralised
- Adequate coordination mechanisms
- Effective monitoring systems at the central government level
- Coherent fiscal constitutions
Some pre-conditions that need to be met in all cases:

- Keep flexibility in implementation
- Allow for pilot experiences in specific places/regions
- Define short term objectives/projects...
- Within a broader strategic framework/long-term perspective
- Not necessarily one side-size fits all. Decentralisation may include asymmetric arrangements
# OECD Recommendation on Multi-level Governance of Public Investment

## Pillar 1
**Co-ordinate across governments and policy areas**
- Invest using an integrated strategy tailored to different places
- Adopt effective co-ordination instruments across levels of government
- Co-ordinate across SNGs to invest at the relevant scale

## Pillar 2
**Strengthen capacities and promote policy learning across levels of government**
- Assess upfront long term impacts and risks
- Encourage stakeholder involvement throughout investment cycle
- Mobilise private actors and financing institutions
- Reinforce the expertise of public officials & institutions
- Focus on results and promote learning

## Pillar 3
**Ensure sound framework conditions at all levels of government**
- Develop a fiscal framework adapted to the objectives pursued
- Require sound, transparent financial management
- Promote transparency and strategic use of procurement
- Strive for quality and consistency in regulatory systems across levels of government
Next steps OECD support on Decentralisation in Ukraine

- Series of seminars (2017-Q1 2018)
- Second fact finding mission: March 2017
- Final report: end 2017
THANK YOU

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