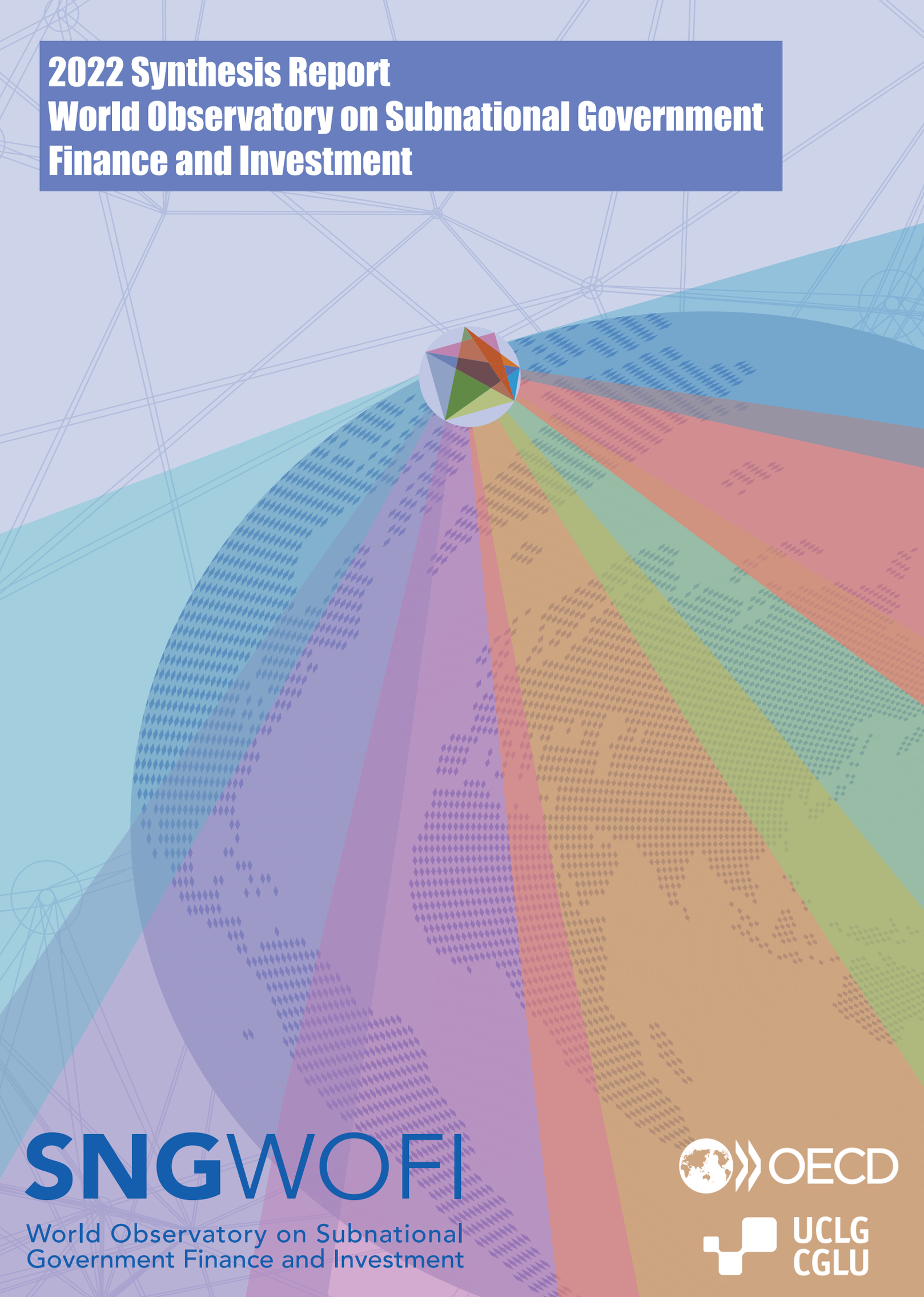
2022 Synthesis Report
World Observatory on Subnational Government Finance and Investment



SNGWOFI

World Observatory on Subnational Government Finance and Investment

OECD

UCLG CGLU

Cancels and replaces the same document of 16 December 2022

2022 Synthesis Report World Observatory on Subnational Government Finance and Investment





Corrigendum

As of March 2024, the following changes were made to the original version of the report, published on 16 December 2022:

- Figure 2.4, Figure 2.9 and Figure 2.10 were updated.
- Reference number 35 now reads “IADB and ECLAC”.
- Page 81 now reads “Subnational revenue has increased […] in terms of total public revenues” and “Property income amounts to 3.1% of subnational revenue, or 0.2% of GDP”.
- Page 116 excludes Ethiopia from the list: “traditional authorities often serve as constituencies or places to promote citizen engagement at the sub-municipal level as in Rwanda, Ghana and Zambia”.
- Page 123 now reads “they constitute a significant weight in Uganda and in Rwanda, amounting to over 55% of total public expenditure”.
- Table 5.5, under Guinea, Article 440 is mentioned instead of Article 490.
- Page 159 now numbers Box E.X as Box E.2.

Disclaimers

This document and any maps included herein are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.

Note by the Republic of Türkiye

The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Türkiye shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Union

The Republic of Cyprus is recognised by all members of the United Nations with the exception of Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

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Foreword

The World Observatory on Subnational Government Finance and Investment (SNG-WOFI), the largest international knowledge repository on subnational government structure and finance, is a joint endeavour led by the OECD and UCLG (United Cities and Local Governments).

This third (2022) edition of the SNG-WOFI was supported by the Asian Development Bank (ADB), the French Development Agency (AFD), the Council of Europe Development Bank (CEB), the French Ministry for Europe and Foreign Affairs, the German Corporation for International Cooperation (GIZ), the United Nations Capital Development Fund (UNCDF), and the DeLoG network.

The primary motivation for the Observatory is to increase knowledge and promote international dialogue and peer learning on multi-level governance and subnational finance, by collecting and analysing standardised quantitative data and qualitative information. Other objectives are to help monitor the contribution of subnational governments to the Sustainable Development Goals and other global development agendas.

More specifically, the Observatory has three key objectives:

- 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 at the international, national and subnational levels.

The ultimate goal is to support policymaking at all levels of government and help enhance multi-level governance and decentralisation frameworks, particularly fiscal ones.

This 2022 edition expands the country coverage and now includes data for 135 countries, covering 93% of the global population and 94% of the world's GDP.

The Observatory includes a fiscal database that covers dozens of indicators on subnational expenditure, investment, revenue and debt as of 2020, as well as on subnational government organisation and reforms as of 2021-2022. The website (www.sng-wofi.org) provides access to the database as well as a tool to compare countries across key dimensions.

The platform also provides country and territory profiles presenting multi-level governance and subnational finance systems in 135 federal and unitary countries. The profiles present structured and harmonised information on multi-level governance frameworks, territorial organisation, decentralisation and territorial reforms, subnational government responsibilities and subnational finance (expenditure, investment, revenue, fiscal decentralisation reforms and fiscal rules), providing a powerful and simple tool to analyse the relationship between political, administrative and fiscal decentralisation.

The 2022 edition includes specific foci on the territorial impact and management of the COVID-19 crisis and recovery, property taxation, subnational public-private partnerships, innovative subnational budgeting practices and an extended analysis for Least Developed Countries. Finally, the World Observatory also provides a synthesis report that presents the key findings of the 2022 edition.

Acknowledgements

The World Observatory on Subnational Government Finance and Investment (SNG-WOFI) is a joint initiative launched by the OECD Centre for Entrepreneurship, SMEs, Regions and Cities (CFE), led by Lamia Kamal-Chaoui, Director, and UCLG (United Cities and Local Governments), led by Emilia Saiz, Secretary General. The World Observatory supports the work of the OECD Regional Development Policy Committee (RDPC), its Expert Group on Multi-Level Governance and Public Investment as well the OECD 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 annual reports to the UN High Level Political Forum on the localisation of the Sustainable Development Goals.

For this 2022 edition, the third after the 2016 and 2019 editions, the OECD and UCLG would like to thank their partners – the Asian Bank of Development (ADB), the French Development Agency (AFD), the Council of Europe Development Bank (CEB), the French Ministry for Europe and Foreign Affairs, the German Corporation for International Cooperation (GIZ), the United Nations Capital Development Fund (UNCDF), and the DeLoG network – for their invaluable support.

The 2022 edition (available at http://www.sng-wofi.org) comprises 135 country and territory profiles, a database with data on territorial organisation and subnational government finance, a visualisation tool ("Compare your country") and a synthesis comparative report that presents the key findings of this third edition.

At the OECD, the 2022 edition of the SNG-WOFI was co-ordinated by Isabelle Chatry, Head of the Decentralisation, Subnational Finance and Infrastructure Unit, Margaux Vincent and Charlotte Lafitte, Policy Analysts, under the supervision of Dorothée Allain-Dupré, Head of the Regional Development and Multi-Level Governance Division at CFE/OECD. At UCLG, co-ordination was conducted by Serge Allou, Special Advisor, Mathilde Penard and Paloma Labbé, Policy Officers.

The OECD developed the overall methodology and templates for the data collection and country and territory profiles. The OECD also collected data and prepared 75 country and territory profiles (including OECD and EU countries, OECD partner countries, Balkan countries, and countries from Asia Pacific, Northern Africa and the Middle East and West Asia), developed the database and web platform, and provided quality control for all the country and territory profiles. UCLG collected data and prepared country and territory profiles for 60 countries from different regions of the world, in particular Africa, Latin America, Euro-Asia and Middle East and West Asia. UCLG also provided comments and inputs on the methodology, templates and the synthesis report. It also translated the methodological guide and the templates for data collection from English into French and Spanish.

Synthesis Report

The synthesis report was co-ordinated by Isabelle Chatry, under the direction of Dorothée Allain-Dupré. It was drafted by Miquel Vidal-Bover, Isabelle Chatry, Charlotte Lafitte and Margaux Vincent with valuable contributions from Courtenay Wheeler, all from the CFE/OECD Secretariat. Statistical analyses were conducted by Miquel Vidal-Bover. The report benefitted from comments from Nadim Ahmad, Deputy Director of CFE. It was reviewed by Serge Allou, Kader Makhlouf and Paloma Labbé from the UCLG World Secretariat and by Christel Alvergne, Nan Zhang and Mkhululi Ncube from UNCDF (Chapter 5 on Least Developed Countries). Paloma Labbé also provided country examples to inform the report.

Country and territory profiles

Country and territory profiles prepared by the OECD were drafted by Margaux Vincent, Charlotte Lafitte, Antti Moisio, Miquel Vidal-Bover, Courtenay Wheeler, Kate Power, Grace Marshall and Isidora Zapata from the CFE/OECD Secretariat as well as by external experts – Rose Camille Vincent, Mathieu Berrone, Manuel Barroso, Majda Eddaifi and Karol Rodriguez. Comments and inputs on the country and territory profiles were also provided by Varinia Michalun, Stephan Visser and Yingyin Wu from the CFE/OECD Secretariat.

The OECD would also like to thank all delegates of the Regional Development Policy Committee (RDPC) and its Expert Group on Multi-Level Governance and Public Investment for their comments on the country profiles and this report, which was presented on 30 November 2022 and approved on 9 December 2022 by written procedure under the reference [CFE/RDPC(2022)29].

The OECD also thanks UCLG regional associations for their valuable comments on the country and territory profiles, as well as Rachana Shrestha, Public Management Specialist, and country desks from the Asian Development Bank (Bhutan, Cambodia, Indonesia, India, Kazakhstan, Lao PDR, Malaysia, Mongolia, Nepal, People's Republic of China, Thailand, and Viet Nam), Elisa Muzzini, Technical Advisor for Urban and Regional Development at the Council of Europe Development Bank, as well as the Bureau of Local Government Finance of the Philippines' Department of Finance. The OECD would also like to thank Junghun Kim, President of the Korean Fiscal Policy Institute and Chair of the OECD Network on Fiscal Relations across Levels of Government. The OECD is also grateful to Sean Dougherty from the Fiscal Network Secretariat, Camilla Vammale from the OECD Governance Directorate, Monika Kurian from OECD/SIGMA, William Tompson from the OECD Global Relations Secretariat, Clara Thiemann and Lawrence Pacewitz from the OECD Legal Department for their reviews and advice.

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World Observatory internet platform, database and communication

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The World Observatory Steering Committee

The OECD and UCLG would also like to extend their gratitude to the World Observatory Steering Committee that gathers national governments, in particular members of the OECD Regional Development Policy Committee and the OECD Network on Fiscal Relations across Levels of Government, subnational governments, international organisations and networks, development banks and donors and think tanks. Putting multi-level governance into practice, the Steering Committee has followed and validated the different steps of the work.

The third meeting of the Steering Committee was organised virtually on 20 January 2022. The following institutions were represented and actively participated in the discussions:

- **Representatives of national governments:** Australia, Chile, Estonia, France, Italy, Poland, Sweden, and United Kingdom.
- **Representatives of subnational governments:** Antioquia, Colombia
- **Representatives of associations of subnational governments:** Council of European Municipalities and Regions (CEMR), Fonds Mondial pour le Développement des Villes (FMDV), Local Governments for Sustainability (ICLEI), Mercociudades, Metropolis, Network of Associations of Local Authorities of South East Europe (NALAS), United Cities and Local Governments Africa (UCLG-Africa), United Cities and Local Governments Asia Pacific (UCLG-ASPAC), United Cities and Local Governments Middle East and West Asia (UCLG-MEWA)
- **EU institutions**: European Commission (DG Regio), EU Committee of the Regions
- **International Organisations and institutions:** Congress of Local and Regional Authorities of the Council of Europe, Council of Europe, United Nations Capital Development Fund (UNCDF), UN-Habitat.
- **Development banks and co-operation agencies**: African Development Bank (AfDB), Agence Française de Développement (AFD), Asian Development Bank (ADB), Council of Europe Development Bank (CEB), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), European Investment Bank (EIB), Inter-American Development Bank (IADB), World Bank.
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Key findings

Over the past four decades many countries have undergone multi-level governance reforms to improve their institutional, territorial and public management frameworks. In many countries, this has also translated into reforms that devolved powers, responsibilities and resources to subnational governments. This process of decentralisation has seen subnational governments assume responsibility for many core service and infrastructure provision responsibilities, including areas that are essential for development, such as education, social protection, health, economic development and environmental protection. In turn, they are playing an increasingly significant role in public spending, investment, and revenues but also in addressing significant socio-economic challenges, crises and megatrends.

This was starkly illustrated in the wake of the COVID-19 pandemic, which put subnational governments on the frontline of crisis management. More recently, just as they were beginning to support an inclusive, resilient and sustainable recovery from the pandemic, they have been hit by the profound global economic shock that has reverberated from Russia's large-scale aggression against Ukraine. Whilst this is first and foremost a humanitarian crisis it has also precipitated an energy crisis and, in turn, a cost-of-living crisis.

Compared to OECD forecasts from December 2021, global GDP is now projected to be at least USD 2.8 trillion lower in 2023 (OECD, 2022[1]). In many economies, inflation in the first half of 2022 reached levels not seen since the 1980s, and those pressures are broadening beyond food and energy prices, with businesses passing through higher energy and transportation costs, as well as rising labour costs from tight labour markets to a broad range of consumer products. For subnational governments, higher rates of inflation, and indeed higher borrowing costs will put further pressure on fiscal spaces, which were already being squeezed by the pandemic, and in turn hamper their ability to deliver essential services and critical investments, in particular those that can drive inclusive digital and green transitions and deal with asymmetric subnational impacts. Understanding the scale of that fiscal space, the multi-level governance frameworks within which subnational governments operate, and the scope and need to address funding and financing challenges, is a pre-requisite to address the legacy of the COVID-19 crisis, the crisis precipitated by Russia's aggression, megatrends, as well as persistent and long-standing spatial inequalities and disparities.

This third edition of the OECD/UCLG World Observatory on Subnational Government Finance and Investment is a powerful evidence-based resource that can help drive that understanding and, in turn, address those challenges. In addition to its rich, internationally comparable data and analysis for 135 countries, it provides insights into ways to strengthen the resilience of subnational public finance and provides a specific focus on the impact of the pandemic on subnational governments, the territorial dimension of recovery plans, property taxation systems, innovative subnational budgeting practices, subnational public-private partnerships, and a special chapter dedicated to 31 Least Developed Countries.

The fiscal impact of COVID-19 has been asymmetric between and within countries

- **The fiscal impact of COVID-19 has been asymmetric both between and within countries**. Urban and rural regions, capital cities, metropolitan areas, larger and smaller municipalities and rural areas have all shown differentiated impacts from the pandemic. Moreover, their geographical location, their participation in global value chains and exposure to tradable sectors as well as their subnational finance profile have determined the size and nature of COVID-19 effects. For example, compared to interior regions, the public finances of coastal regions in Spain and Italy suffered an intense blow due to the travel restrictions and the closure of hotels, thereby reducing tourist flows, which is one of their main sources of subnational revenue.
- **The pandemic has prompted debate on how to reform multi-level governance systems so that they are better able to manage crises and emerging risks.** Multilevel governance frameworks were put under considerable stress by the pandemic. Highly decentralised systems were stressed by significant co-ordination challenges, while highly centralised systems experienced a lack of flexibility and room for manoeuvre to experiment at the local level. The pandemic re-emphasised the importance of effective intergovernmental co-ordination for crisis management. In some countries, subnational governments have been able to foster co-ordination by involving subnational governments and other stakeholders in the design and/or implementation of their response, usually by setting up or reactivating joint inter-governmental fora. In addition, the rigidity or ambiguity of multi-level governance frameworks have in some cases hampered or paralysed concerted action, underlining gaps that limit the emergence and the effectiveness of vertical and horizontal co-ordination.
- **The COVID-19 pandemic has led many subnational governments to experience, to different degrees, a "scissors effect" of simultaneous rising expenditure and dropping revenue.** The size of this effect is contingent upon the level of decentralisation as well as the five main differentiating factors of the subnational finance system in place, including the spending responsibilities and the resources to fulfil them, the degree of diversification and stability of revenue sources, the fiscal health of each subnational government prior to the pandemic, the flexibility or suspension of fiscal rules, and the scope of solidarity mechanisms such as equalisation policies. The scissors effect has also been reduced in countries where central governments have propped up local finances (see below).
- **More decentralised countries have seen subnational government expenditure increase between 2019 and 2020 as a result of COVID-19.** Although this varies significantly across countries, subnational expenditure increased on average by 2.6% in real terms between 2019 and 2020 for 61 countries. On the other hand, the sample includes a minority of countries that have opted to re-centralise tasks that were once subnational responsibilities, thereby leading to an increase in central government expenditure and a decrease at the subnational level.
- **Between 2019 and 2020, the increase in subnational spending in 61 countries** was mainly due to the increase in current expenditure (2.7% on average in real terms), with almost no increase in capital expenditure. Current social expenditure ballooned by up to 4.0% in real terms on average in 53 countries and so did subsidies and current transfers by 24.0% in 56 countries as a result of COVID-19 response measures that were implemented. By contrast, subnational direct investment on average in 56 countries decreased by 0.4% in real terms, with 28 countries experiencing increases and the remaining 28 experiencing decreases.
- **To counter the impact of the crisis on subnational expenditure, central governments adopted a range of measures** such as supporting temporarily some spending costs (e.g. credit interests), granting subnational governments a grace period for debt repayment, or easing spending responsibilities devolved to subnational governments. Fiscal rules have also been

temporarily eased for subnational governments in several OECD and EU countries in 2020, lifting expenditure ceilings for coronavirus-related operating expenditures and investments.

- **On the revenue side, subnational revenue fell in a great number of countries in 2020 around the world.** The extent of the impact however varies across countries, depending in particular on the capacity of central/federal governments to step in to support subnational finance. In several countries, the drop in taxes and user charges and fees was compensated by an increase in inter-governmental transfers and the support of emergency and compensation funds. For example, while subnational tax revenue decreased by 5.0% in real terms between 2019 and 2020 on average in 58 countries and user charges and fees decreased by 10.4% on average in 59 countries, these drops were compensated by a strong increase (10.4%) of grants and subsidies on average. Accordingly, total subnational revenue relatively stable, with an increase of 0.6% on average in 61 countries in 2020 compared to 2019.
- **Other revenue-side measures** included tax measures (shared and own-source taxes) and the activation of rainy-day funds and fiscal reserves. In some countries, equalisation and stabilisation mechanisms have also mitigated the differentiated impact of COVID-19 among subnational governments.
- **Debt borrowing rules have generally been relaxed** to facilitate the use of debt for short and long-term needs, especially for subnational governments whose fiscal health prior to the pandemic was already struggling. Countries around the world have also reduced their debt burden, set up credit lines, developed access to long-term borrowing and capital markets and/or established municipal liquidity facilities. On average, total outstanding debt in 47 countries increased by 7.6% in real terms between 2019 and 2020 and total financial debt (currency and deposits, loans and bonds) also increased by 9.7% in 46 countries.
- **Subnational governments play an active role in the COVID-19 recovery by being key recipients of stimulus funds and designing their own place-based recovery plans.** These often contain social and green objectives that consider the social and economic shocks on local economies. This is particularly the case in EU countries, where 37% of the Recovery and Resilience Facility in EU countries is allocated to climate action.

Resilience of multi-level governance and finance frameworks needs to be boosted to cope with recent shocks and future crises

- **The COVID-19 crisis has generated momentum for central/federal and subnational governments to rethink their multi-level governance frameworks.** The crisis has highlighted the need for a place-based approach to crisis management and recovery and stressed the importance of having an effective multi-level governance system based on flexibility, adaptability, co-ordination, and consultation across and among levels of government. Regular multi-level and multi-stakeholder dialogue, when using shared evidence as well as embracing a forward-looking perspective, can be particularly helpful to avoid fragmented policy responses.
- **For subnational resilience to be enhanced, multi-level governance frameworks must strike a balance between the responsibilities and the resources available to subnational governments, to avoid underfunded or unfunded mandates.** Balancing decentralised responsibilities and sources of funding is key to setting up a resilient subnational finance system. The crisis has revealed that having a diversified funding system based on a basket of revenues made of grants (for delegated functions or priority objectives), tax revenues, tariffs and fees, and property income also diversifies risks and contributes to coping better with external shocks. It also makes the continuity of public service delivery more likely during a period of crisis.

- **Flexible and efficient horizontal or vertical equalisation mechanisms help mitigate the territorially differentiated impact of a crisis.** In several countries the activation of equalisation mechanisms has alleviated the heterogenous impact of the pandemic among subnational governments (e.g. Austria, Germany, Switzerland). However, equalisation mechanisms have not always had the expected effects, depending on equalisation formulas. Their effect could be limited, as many equalisation systems are susceptible to contractions in economic activity and may thus have a pro-cyclical impact on subnational finance.
- To prepare for the next exogenous shock, **fiscal space will need to be rebuilt**. This is particularly challenging in a context of rising interest rates and consolidation of public finance. However, the overhaul of subnational finance systems should lead to the establishment of stabilisation mechanisms, such as rainy day funds and reserves funds, which accumulate reserves in periods of growth and disburse them in times of fiscal stress to compensate for declines in subnational revenues. This has been the case in Japan, Mexico and the United States.
- **Given the tight fiscal space after COVID-19, facilitating access to external financing for subnational governments to provide quality infrastructure investments is key.** This requires an enabling environment created by flexible and adaptable multi-level governance systems that can effectively identify innovative funding and financing sources, including external sources and private sector collaboration (OECD, 2022[2]).
- **Gathering reliable data on subnational government finance is vital for central and subnational governments to assess the strengths and weaknesses of their public finances as well as to better anticipate external shocks and build their resilience to counter them.** However, in many countries especially in Africa, Asia Pacific and Latin America, subnational government finance data are not regularly updated, hard to access and not publicly available.

Subnational government structure and organisation around the world

- **The study has identified 663 639 subnational governments** in the 135 countries included in the database. This includes 648 741 municipal entities, 12 385 intermediate governments and 2 513 state and regional governments.
- **Nearly half of the countries in the sample (61 countries) have both a municipal and regional level.** In 38 countries (i.e. 28%), there is only a municipal level. In 36 countries (i.e. 27%), there is an intermediate level between municipal and regional levels.
- **Decentralisation frameworks have continued to evolve in many countries across the world.** Many of them have been reformed to allocate responsibilities across levels of government more clearly and to assign the corresponding necessary funding to fulfil them (e.g. 3DS reform in France in 2022, Ghana in 2020). Avoiding the emergence of unfunded or underfunded mandates (i.e. the mismatch between responsibilities and resources available) is of the utmost importance to create operational decentralised frameworks that ensure effective public service provision at the subnational level. For example, other countries, especially in Africa, have further reformed their decentralised systems to enhance democracy and citizen participation (e.g. Kenya, Uganda).
- **As countries decentralise, territorial reforms such as municipal amalgamations but also municipal partitions take place**. A large majority of municipal partitions can be found in the regions of Africa and the Middle East and West Asia, mostly to respond to demographic changes in certain regions and/or municipalities but also partly as the result of ongoing processes of decentralisation. In turn, municipal mergers are more common in Europe and Euro-Asia where municipal mergers are often encouraged through fiscal incentives in an attempt to benefit from economies of scale, efficiency gains and cost savings. Whilst these gains may indeed materialise, mergers or partitions are not a panacea to generate local economic growth and depend on factors such as the size of amalgamated territories, the technical capacity of local administration and the

active involvement of local government decision-makers and all local stakeholders from the beginning of the amalgamation or partition process.

- **As an alternative to mergers, many countries are implementing inter-municipal co-operation in widely diverse forms**, from the softest ones such as co-operative agreements to the strongest forms of integration, such as supra-municipal authorities with delegated functions. This enables municipalities, both in rural and metropolitan areas, to benefit from economies of scale and scope. Inter-municipal co-operation is particularly beneficial in enabling small municipalities with scarce public resources to efficiently deliver quality public services and infrastructure. Metropolitan governance reforms are one particular form of inter-municipal co-operation. Effective co-operation between municipalities within metropolitan functional areas has become a priority topic in many countries, especially those confronted by a high level of urbanisation and administrative fragmentation.
- **Regionalisation reforms continued apace, driven by multiple factors (economic, political, cultural, etc.),** especially in the OECD and Europe, but also in Asia, America and to a lesser extent Africa. Several countries are creating a new decentralised regional level (e.g. Chile, Finland, Morocco, Ghana, etc.) while others are improving the governance of the regional level (France, Greece, Lithuania, etc.). Currently, several countries are debating regional governance reforms – debates that have been either stopped or, on the contrary, reinforced with the COVID-19 crisis (e.g. Bulgaria, Portugal, United Kingdom, Senegal). Regionalisation reforms also take the form of territorial reforms, such as regional mergers (e.g. France, Norway).
- **Countries are increasingly adopting asymmetric governance arrangements**, at the regional and metropolitan levels. In other words, more and more countries tend to provide different political, administrative or fiscal powers to governments at the same subnational level (regional/state, intermediate or municipal). The objectives are to transfer more responsibilities or specific tasks to subnational governments with greater capacities, to recognise a different status for territories with a particular history, a strong identity or a particular geography or to protect and promote special rights, such as the special right of Indigenous Peoples to manage their own territory. Asymmetric regional governance appears more “natural” in federal countries but is growing in unitary countries. Asymmetric arrangements are increasingly being used for metropolitan governance to recognise the specificities of metropolitan areas and city-regions, in particular in large cities and capital districts.

Subnational government spending represents over 21.5% of total public spending around the world

- **In 2020, subnational spending accounted for 21.5% of total public spending and 8.3% of GDP on average for the 122 countries in the sample with available data.** In federal countries, subnational governments accounted for 41.9% of public spending or 16% of GDP. In unitary countries, subnational expenditure is slightly below the global average: 6.6% of GDP and 17.1% of public expenditure. Staff expenditure is the most important expenditure item accounting for 35.3% of subnational government spending in 2020. That confirms the important role of subnational governments as public employers.
- **Subnational spending has increased from 8.6% to 9.1% in terms of GDP whereas it has decreased from 24.1% to 23% in terms of total public expenditure**, when comparing the same 106-country sample of the previous edition of this report between 2016 and 2020 data. This may be explained by the decrease in the ratio of subnational expenditure to total government expenditure due to a global increase in total public spending to respond to the COVID-19 pandemic as well as the reorientation of public spending carried out at the central level during the COVID-19

pandemic. Since GDP has also fallen due to the COVID-19 crisis, the data reflect an increase on average.

- **The degree of subnational public spending varies greatly across countries,** depending on whether the country is federal or unitary, its size and territorial organisation, the degree of decentralisation and the nature of decentralised responsibilities (health, social protection, education, etc.). Denmark and Canada stand apart from the rest of countries in terms of their particularly high subnational spending as a percentage of GDP and of total public expenditure. In most federal countries, as well as in a few unitary ones (Finland, Japan, Korea, Norway, Sweden and Viet Nam), subnational governments were responsible for over 30% of public spending — accounting for between 15% and 30% of GDP in 2020. In general, high income countries tend to have a larger subnational share in total public spending than low income countries.
- At the other end of the spectrum, **there are 58 countries where local authorities have limited spending responsibilities** (less than 8% of GDP and 20% of public spending), mostly from Africa but also Latin America. In seven OECD countries, subnational government spending accounted for less than 5% of GDP in 2020 (Costa Rica, Ireland, Republic of Türkiye, Chile, Greece and New Zealand). Smaller and usually more centralised countries (e.g. Malta, Mauritius, Gambia, Eswatini, Dominican Republic) also tend to show rates of subnational government spending lower than 2% of GDP in 2020.
- At the global level, **education, general public services (mainly administration) and social protection are the primary areas of subnational spending as a share of GDP**. However, the main areas of subnational spending differ greatly across countries.
- **Subnational governments are increasingly using their budgetary policies as a tool to achieve their strategic aims, fulfil their climate objectives and increase citizen participation and transparency.** Although most budgetary policies are intended to reform financial management systems, innovative subnational budgeting policies (such as gender, green and participatory budgeting) are starting to emerge, mostly in decentralised and decentralising countries, as a tool for subnational governments to achieve environmental and climate objectives and increase accountability.

Subnational governments play a key role in public investment, but such investment remains low in many regions

- **Subnational governments have a key role to play in public investment. In 2020, subnational government investment amounted to 39.5% of total public investment** and the level of subnational investment exceeds 50% of total public investment in 29 countries, and even 65% in 14 countries (36 and 17 countries respectively in 2016), mainly in high and upper middle income economies. The share of subnational government investment is greater in federal countries, reaching 59%. Disparities across world regions are considerable: in Africa, subnational public investment represents less than 25% of total public investment, whereas it amounts to 47.2% in Asia Pacific.
- **However, compared to investments required to meet new-zero targets, the share of subnational public investment in GDP remains low in many countries.** Indeed, at a global level, over USD 95 trillion in public and private investment in infrastructure will be needed between 2016 and 2030 to sustain growth/well-being and help achieve the Sustainable Development Goals (OECD, 2017[3]). Subnational public investment represents only 1.5% of GDP around the world. It accounts for even less in low income countries. In 2020, it accounted for 0.7% of GDP on average in Africa. It was comparatively higher in Latin America (1.1%) and over three times as high in Asia Pacific (2.4%).

- **In OECD countries, subnational public investment has increased on average between 2016 and 2020 from 620 to USD 845 PPP per capita in real terms, and from 13.1% of public investment in 2016 to 15.6% in 2020.** Nonetheless, this increase is expected to slow down after 2020, as the COVID-19 pandemic and other shocks that unfolded in 2022, such as the energy crisis (see above), recede.
- **Subnational public-private partnerships (PPPs) are being promoted in some countries as a means to stimulate subnational investment in tight subnational fiscal environments.** The use of this instrument is more widespread in federal rather than unitary countries. A large reliance on grants and subsidies as a main source of subnational revenue, the lack of supporting legal frameworks or technical skills are the main obstacles for subnational governments when seeking to implement PPPs. Yet, PPPs are not a magic bullet: they require the right capacities at the subnational level to be carefully designed and implemented at the right scale.

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

- **Subnational government revenue represents 25.9% of total public revenue,** i.e. 8% of GDP on unweighted average in the 122 countries included in the sample with available data.
- **Subnational revenue has increased** from 8.6% to 9.3% in terms of GDP and from 25.7% to 28.1% in terms of total public revenue, when comparing the same 104 country sample of the previous edition of this report between 2016 and 2020 data**.** This may be explained by an overall increase in grants from the central government to support subnational governments responding to the pandemic in 2020, as well as a drop in GDP.
- **Grants represent more than half (51.5%) of revenue of subnational governments, followed by taxes (31.5%), user charges and fees (10.3%) and property income.** In federal countries, the share of grants and subsidies in subnational government revenue is lower (44.9%), while it is slightly higher in unitary countries (53%).
- **Subnational government tax revenue accounts for 2.9% of GDP on average with large disparities across countries.** In 53 countries out of 116, it accounts for less than 1% of GDP and in 15 countries, it exceeds 8% of GDP, the highest levels being found in Argentina, Sweden, Denmark and Germany.
- **On average, subnational tax revenue represents 14.5% of public tax revenue**. In the People's Republic of China, Germany, Switzerland, Argentina and India, subnational governments account for over 50% of public tax revenue while in 45 countries, it is less than 5% of public tax revenue.
- **Subnational tax revenue encompasses both shared taxes and own-sources taxes**. However, the size of tax revenue *per se* is not indicative of the level of discretion that subnational governments can exercise over their tax revenue. Indeed, the extent to which subnational governments can set their tax base and rates varies across countries, thereby generating differences in tax autonomy at subnational level. Tax autonomy is lower with tax sharing arrangements (e.g. on personal income tax, corporate income tax, excise taxes or VAT) as tax rates are defined nationally as well as shares that are redistributed to subnational governments. It is greater with own-source tax on which subnational governments have a certain leeway with regard to setting the tax base or rate. However, this taxing power can also be regulated and restricted in some countries.
- **Property tax is a cornerstone of local taxation in many countries in the world**. At global level (87 countries), recurrent property taxes account for 0.7% of GDP, 34.1% of subnational tax revenue and 8.2% of subnational government revenue as an unweighted average. However, **the property tax, despite its merits as a local government revenue source, remains largely untapped in**

many countries, especially developing countries due to obstacles related to its practical implementation, management and collection. In Latin America and Africa, the recurrent property tax represents a high share of subnational tax revenue, but a very low share of their GDP. To further benefit from this important source of local revenue, many countries are undertaking reforms of their property tax systems. Some reforms have involved the valuation of the tax base (e.g. Kenya, the Philippines), the extension of the tax to new assets (e.g. Germany, Poland), the collection system, the improvement of cadastre systems and land registries (e.g. Angola, Cambodia, Italy).

Subnational government debt remains low

- **Subnational outstanding gross debt is limited compared to central government debt** and accounted for 7.9% of GDP and 9.8% of total public debt in 2020 in the country sample (75 countries). It is very unevenly distributed among countries, ranging from almost no debt to debt reaching 75.8% of GDP and 53.6% of public debt as is the case of Canada.
- **Subnational outstanding gross debt has slightly increased from 7.5% to 7.9% in terms of GDP** whereas it has decreased from 11.5% to 9.8% in terms of total public debt, when comparing the same sample of the previous edition of this report between 2016 and 2020 data. A part of this increase in terms of GDP is driven by large COVID-19 support expenditures.
- **In 2020, subnational debt amounted to 20.3% of GDP and 22.7% of public debt in federal countries** while it accounted for 4.6% of GDP and 6.2% of public debt in unitary countries. Local government debt, when compared to state or regional government debt, is significantly lower in both federal and unitary countries, accounting for 4.5% of GDP and 6.1% of total public debt in 2020.
- **Loans make up the bulk of subnational government debt (53.4% of debt stock)**, followed by "other accounts payable" (29.2%) and "bonds/securities" (11.4%).

Least Developed Countries

- **The 31 LDCs in the database are mainly unitary countries, with the exception of Ethiopia, Nepal and Somalia.** Most of them have undergone decentralisation reforms in an attempt to pursue democratisation and enhance service delivery. Many countries have implemented a system falling between decentralisation and deconcentration.
- **LDCs are almost exactly divided among one-tier, two-tier and three-tier systems**. Different historical legacies as well as different geographies and land extensions have resulted in a wide diversity of territorial organisation and institutional structures.
- **Unclear divisions of responsibilities, unfunded or underfunded mandates, and lack of subnational government participation in programme budget processes** are issues that are particularly common in LDCs, even though these affect or have affected most countries included in this report.
- In many LDCs, **total subnational government expenditures accounted for a low share of GDP compared to the rest of countries included in this report**, i.e. less than 1% of GDP in 11 countries and between 1% and 3% of GDP for 6 other countries in 2020.
- **The role of subnational governments in public investment varies markedly across the 10 LDCs for which investment data are available**, from Nepal's subnational investment accounting for over half of total government investment while it accounts for less than 10% of total public investment in Mali, Uganda, Senegal and Togo.

- **Subnational government revenues in most LDCs are limited compared to the rest of countries included in this report**. 15 out of 21 unitary countries have revenues that amount to less than 2% of GDP and 10% of general government.
- **LDCs are heavily dependent on intergovernmental transfers from the central government, both for federal and unitary countries**. Most low income countries also receive international aid and donations, most of which are channelled first through the central government. Tariffs and fees constitute a sizeable portion of subnational revenues in some LDCs, making up to a maximum of 41% of total subnational revenue. By contrast, tax revenue is rather limited.
- Although data in LDCs remains scarce especially for debt, borrowing is generally allowed at the subnational level to finance capital investments provide that prior approval is obtained from the Ministry of Finance. In practice, **even in countries where borrowing is legally possible, local debt is very limited**.
- **LDCs must improve the creditworthiness of their subnational governments** in order to expand their access to external financing at the subnational level and establish an enabling regulatory framework that allows them to borrow. This requires having sufficient and diversified sources of revenue. Once this is achieved, creative forms of finance can be envisaged, such as blended finance.

Introduction

Enhancing multi-level governance and finance systems requires access to reliable, harmonised and comparable data. This is even more essential during crises, where subnational governments stand at the forefront of the response, as was starkly illustrated during the COVID-19 pandemic. More recently, just as they were beginning to support an inclusive, resilient and sustainable recovery from the pandemic, subnational governments have been hit by the profound global economic shock that has reverberated from Russia's large-scale aggression against Ukraine. Whilst this is first and foremost a humanitarian crisis, it has also precipitated an energy crisis and, in turn, a cost-of-living crisis.

Compared to OECD forecasts from December 2021, global GDP is now projected to be at least USD 2.8 trillion lower in 2023 (OECD, 2022[1]), with inflation in many economies reaching levels in the first half of 2022 not seen since the 1980s. For subnational governments, higher rates of inflation (and therefore higher borrowing costs) will put further pressure on fiscal spaces that are already being squeezed by the pandemic. This will, in turn, hamper their ability to deliver essential services and critical investments, in particular those that can drive inclusive, digital and green transitions. These shocks complicated the task of implementing adequate multi-level governance and finance mechanisms to address the asymmetric impacts of crises within countries and regions as well as across levels of government. Moreover, on top of short-term emergencies, subnational governments must take action to adapt to the different megatrends to which they are exposed, such as demographic changes or the green and digital transitions. Understanding the multi-level governance frameworks within which subnational governments operate and the subnational fiscal space is a pre-requisite to address the legacy of the COVID-19 crisis, the crisis precipitated by Russia's aggression, megatrends, as well as persistent and long-standing spatial inequalities and disparities.

The World Observatory on Subnational Finance and Investment (SNG-WOFI) is a global repository and a powerful evidence-based resource that compiles and analyses both quantitative and qualitative data to help understand the key role played by subnational governments in public policy. It helps identify gaps and shed light on the main structural challenges that prevent multi-level governance systems from working properly. While subnational governments have demonstrated—perhaps now more than ever before—that they can respond effectively to urgent needs and longer-term challenges, it is also clear that they are highly vulnerable to internal and external shocks, and face obstacles related to ineffective decentralisation frameworks that prevent them from duly fulfilling their responsibilities.

This new and third edition of the World Observatory contains data and analysis for 135 countries around the world, including 22 federations and 113 unitary countries, covering almost 90% of the world surface area, 93% of the world population and 94% of global GDP. The World Observatory has thus become the largest international knowledge platform on subnational government structure and finance ever produced, covering dozens of indicators on expenditure, investment, revenue and debt. Apart from the global key findings presented in this report, the World Observatory also includes 135 country profiles with easily comparable information on multi-level governance frameworks, horizontal and vertical co-ordination mechanisms, decentralisation processes, territorial reforms, spending and investment responsibilities, fiscal frameworks, grants and tax reforms, fiscal and borrowing rules, among others. This edition also provides a specific focus on the impact of the COVID-19 crisis on subnational governments,

the territorial dimension of recovery plans, property taxation systems, subnational public-private partnerships, and includes a special chapter dedicated to 31 Least Developed Countries.

A third edition marked by the COVID-19 crisis

Subnational governments have played a key role in the response to the COVID-19 pandemic and are continuing to do so by taking action to ensure a resilient recovery. However, not all subnational governments have faced the same challenges in managing their response to the crisis, depending on the multi-level governance and finance frameworks within which they operate (Box 0.1).

The World Observatory compiles the experiences of subnational governments in 135 countries regarding the territorial management of the crisis, the emergency measures implemented at the different levels of government, and the impacts of the crisis on subnational government finance. It also addresses the economic and social stimulus plans devised to recover in a resilient manner from the crisis.

In outlining the key findings, this report includes, for each chapter, boxes that contain specific information on the COVID-19 response. Separate country and territory profiles provide further detail of the actions taken by each of the 135 countries in the database.

Box 0.1. Differentiated impact of the COVID-19 crisis on subnational governments across the world

The impact of the COVID-19 crisis on subnational governments has been differentiated across countries, levels of government, regions and municipalities, depending on the multi-level governance and finance frameworks of countries across the world.

In particular, the asymmetric impact on subnational finance is primarily due to five factors (OECD, 2021[4]):

1. The degree of decentralisation and, in particular, the assignment of spending responsibilities (e.g. health, social protection, economic development, etc.).
2. The characteristics of subnational government revenue and the extent to which such revenue is vulnerable to economic shocks and fluctuations (e.g. tax revenue drops due to a halt in economic activity and consumption, decreases in user charges and fees) and sensitive to policy decisions (e.g. exemptions, abrogation, postponement).
3. The fiscal health or the financial conditions prior to the pandemic (i.e. the state of budget balances and debt, the levels of cash and reserves).
4. The degree of fiscal flexibility or, in other words, the ability of subnational governments to absorb exceptional stress and to both adjust their expenditure and revenue to meet urgent needs and access external financing.
5. The scope and efficiency of support policies from higher levels of government and the existence of equalisation or solidarity mechanisms.

Urban and rural regions, capital cities, metropolitan areas, larger and smaller municipalities and rural areas have been affected in different ways and to different extents depending on the factors above. Moreover, their geographical location, their participation in global value chains and exposure to tradable sectors and their subnational finance profile have determined the size and nature of the effects of COVID-19. For example, compared to interior regions, the public finances of coastal regions in Spain and Italy suffered an intense blow due to the travel restrictions and the closure of hotels, thereby reducing tourist flows, one of their main sources of subnational revenue.

In general, response measures to support subnational finance can be classified in four main groups. These include: 1) revenue-side measures; 2) expenditure-side measures; 3) financial management measures; and 4) measures related to fiscal rules and debt (including measures to facilitate the use of debt for short- and long-term needs). Revenue-side measures and measures related to fiscal rules and debt seem to be the most frequently applied measures, although measures to improve financial management are also quite widespread (OECD, 2021[4]).

Towards more resilient subnational finance?

Over the last 15 years, the 2008 global financial crisis as well as the COVID-19 pandemic have placed subnational government finances under severe stress. The COVID-19 pandemic has recently shown how subnational governments face a scissors effect, which refers to an inability to raise sufficient revenues precisely at a time when expenditure needs soar, resulting in increasing deficits and debt. Now, Russia's large-scale aggression against Ukraine is fuelling the strain on public finances. Subnational governments are confronted with rising import prices, higher deficits and larger debt bills in a significantly uncertain context of inflation hikes as well as growth slowdowns. Moreover, the recurrence of natural disasters (e.g. floods, earthquakes, pandemics, etc.) has increased and is predicted to continue in the future (WMO, 2021[5]; IMF, 2022[6]). With the weak state of public finances after COVID-19 and rising interest rates, the higher cost of borrowing makes essential infrastructure investments less likely (OECD, 2022[2]).

Given that the occurrence of exogenous shocks with fiscal implications is becoming gradually more frequent, subnational governments must, as actors on the frontline of risk management, anticipate crises and reinforce their financial resilience (de Mello and Ter-Minassian, 2022[7]). As subnational governments vary widely across and within countries in terms of responsibilities, resources, budgetary discretion and capacities, no one-size-fits-all prescriptions are in order. Nevertheless, boosting finance resilience at subnational level relies on a balanced multi-level framework that appropriately matches the responsibilities devolved to subnational governments with a sufficient level of human and financial resources (OECD, 2019[8]). Avoiding the proliferation of underfunded or unfunded mandates and balancing decentralised responsibilities and sources of funding is key to setting up a resilient subnational finance system (Rodríguez-Pose and Vidal-Bover, 2022[9]). The crisis has also revealed that having a diversified funding system based on a basket of revenues made up of grants (for delegated functions or priority objectives), tax revenues, tariffs and fees and property income enables subnational governments to: 1) diversify risk, 2) bolster their ability to withstand external shocks, and 3) continue to provide public services even amid a crisis.

The COVID-19 crisis has also generated momentum for central/federal and subnational governments to rethink their multi-level governance frameworks. The crisis has highlighted the need for a place-based approach to crisis management and recovery and stressed the importance of having an effective multi-level governance system based on flexibility, adaptability, co-ordination, and consultation across and among levels of government. Regular multi-level and multi-stakeholder dialogue, when using shared evidence as well as embracing a forward-looking perspective, can be particularly helpful to avoid fragmented policy responses. Flexible and efficient horizontal or vertical equalisation mechanisms help mitigate the territorially differentiated impact of a crisis. In several countries the activation of equalisation mechanisms has alleviated the differentiated impact of the pandemic among subnational governments (e.g. Austria, Germany, Switzerland), but equalisation systems may have limited effects as they are susceptible to contractions in economic activity and may thus have a pro-cyclical impact on subnational finance. Subnational governments should also identify development policy priorities arising from the COVID-19 crisis, rethink the spatial and demographic long-term trends, re-evaluate their industrial policies, and recalibrate and further prioritise climate-significant investments (OECD, 2022[10]).

Most countries included in this study have devised recovery plans to respond to the pandemic, and some of them have strategically oriented them in a way that maximises subnational finance resilience in the medium and long term. For example, Canada's national economic recovery plan (A Recovery Plan for Jobs, Growth, and Resilience) rests upon four pillars: COVID-19 response, job creation and growth, resilient and inclusive recovery, and fair and responsible government. In addition to the national stimulus packages, the provinces, territories, as well as some municipalities, have also released their own economic recovery plans. In all EU member countries, grants that are a part of the EU Recovery and Resilience Facility are conditional on committing to pursue structural reforms and investment projects that contribute to advancing in the green and digital transitions. For instance, in Croatia, 40.3% of its recovery plan will support climate objectives and 20.4% will foster the digital transition over 2020-2026. Within this framework, several subnational governments in Croatia are preparing to make green investments that strengthen the ecological transition. In Cameroon, the government has developed the "Post-COVID-19 Economic Recovery Plan" which aims to provide support to the branches of activity strongly impacted by the crisis and to strengthen the resilience of the local economic structure to external shocks. In Haiti, the Post-COVID-19 Response Plan includes adopting an integrated disaster resilience plan in at least 20 communes as a top priority action.

The COVID-19 crisis also led to a relaxation of fiscal rules that traditionally have been quite strict. Subnational governments in most countries were allowed to spend their reserve funds and their outstanding cash balances to face the additional costs of the pandemic (e.g. Montenegro, Philippines, Lao People's Democratic Republic, etc.). To prepare for the next exogenous shocks, fiscal space will need to be rebuilt. Countries like Japan have taken steps to remedy this: one of the pillars of its recovery plan includes the constitution of a contingency reserve fund for COVID-19 of around JPY 6.8 trillion to enhance the preparedness for future crises. Other measures such as insurance mechanisms to continue ensuring public service provision in the event of an extreme event may be useful at the subnational level. Incentivising private insurance is estimated to potentially reduce government liabilities by 50% for very extreme events and by up to 67% for smaller events (World Bank, 2021[11]). Such a financial risk transfer solution has several benefits when compared to ad-hoc or ex-post financing, including the fact that compensation on the basis of pre-agreed rules is preferred over ad-hoc decisions, thereby providing legal certainty which can also be the basis for additional borrowing. In any case, insurance schemes should be transparent and clear on the insured interests, perils, and risk allocation, they should ensure that the total premium pool is sufficient to cover risks and associated costs, and their coverage should be universal, i.e. they should comprise the majority of affected stakeholders (Baur, 2022[12]). All these tools, including fiscal rules, strategic recovery plans, diverse sources of revenue, and public-private insurance schemes can play a significant part in boosting resilience.

Structure of the report

This report is structured as follows. Chapter 1 analyses the different institutional structures in both federal and unitary countries and provides an overview of multi-level governance and territorial reforms. The latter include both municipal and regional reforms as well as inter-municipal co-operation arrangements. Chapter 2 focuses on subnational government expenditure and outlines the main areas of subnational government spending and investment, with a particular emphasis on subnational public-private partnerships. It also includes a section on subnational budgetary policies as an approach to align subnational budgets with strategic priorities and/or foster new innovative practices. Chapter 3 examines the different sources of subnational revenue and offers an extended analysis of property tax as a vital revenue source for subnational governments. Chapter 4 looks at the fiscal and debt borrowing rules and reports on the different levels of subnational debt. In so doing, it analyses the different debt instruments, such as loans and bonds (including a specific section on green bonds). Chapter 5 reproduces the structure of the entire report for 31 Least Developed Countries, describing their specific characteristics, challenges and

opportunities. All averages calculated in this report are unweighted averages (see Annex C). All country examples that are quoted in the report can be found in the country and territory profiles (OECD/UCLG, 2022[13]) that are available on the World Observatory internet platform (www.sng-wofi.org).

The report also includes various annexes with detailed information on the 135 countries, the basic socio-economic indicators collected in the fiscal database, a summary of the methodology, the structure of country and territory profiles, the definitions and measurements of decentralisation, and the OECD's guiding principles for reform of the recurrent tax on immovable property. The report ends with a comprehensive list of references. The two previous editions can be found on www.sng-wofi.org (OECD/UCLG, 2016[14]; OECD/UCLG, 2019[15]).

1. How are subnational governments structured and organised around the world?

1.1. Federal and unitary countries

Countries can be organised into two main forms: unitary and federal (including confederations). However, the reality is more complex, allowing for characteristics of the former to mix with the latter, and vice versa. For example, the United Kingdom is a unitary country but since its devolution process began in 1998 it has added federal traits. In Malaysia, despite having a federal structure enshrined in its Constitution, functions more as a unitary country, as the central government concentrates many powers at its core leaving relatively little room for manoeuvre for subnational governments (Ostwald, 2017[16]).

Intermediary situations between federal and unitary countries are not uncommon and are usually referred to as "quasi-federal". Although this is not a clear-cut definition, it often applies to unitary countries with some characteristics of federal countries (e.g., Spain). Regarding local government, autonomous regions in quasi-federations generally have less room for manoeuvre than in federations for defining and reforming local government functioning and financing, among other functions (OECD, 2017[17]; OECD, 2019[8]). Basic elements of local government functions and financing are often set out in national constitutions. Even if substantial autonomy is given to autonomous regions in relation to lower tiers through primary and/or secondary legislative powers, it is often a competence which is shared with the central power.

Box 1.1. Unitary, federal countries and asymmetric arrangements

Unitary states

Countries governed as a single power in which the central government is ultimately supreme are referred to as unitary states. These are understood to be "one and indivisible" entities whose sovereignty cannot be shared. Citizens of unitary states are subject to the same unique power across the state's territory. Being a unitary state does not necessarily mean that subnational governments do not exist in that country. In fact, subnational governments, elected directly by the population and with some political and administrative authority, often exist in unitary countries. Nevertheless, it is the central government that decides which powers and responsibilities are delegated or devolved to lower tiers of government. Depending on these prerogatives, different degrees of decentralisation can be found among unitary states.

Therefore, unitary countries come in myriad shapes and sizes. In fact, some unitary countries may adopt a "hybrid" institutional structure where they recognise autonomous regions and cities with special powers due to geographical, historical, cultural or linguistic reasons. In these cases, some of these historical regions have more powers than other subnational governments because of their particularities. These complex and often uneven institutional arrangements are often referred to as asymmetric, alluding to the fact that powers, responsibilities and resources are not distributed evenly across subnational units within a country. Examples of asymmetric arrangements in unitary countries include the United Kingdom (devolved nations of Northern Ireland, Scotland and Wales), Italy (ordinary

regions vs special status regions), Finland, France (Corsica, overseas departments and territories), Portugal (Azores and Madeira), Mauritius (Islands of Rodrigues), Azerbaijan (Nakhichevan Autonomous Republic), Nicaragua (Autonomous Regions of the North and South Caribbean Coast), Ecuador (Galapagos), etc.

Federal states

Compared to unitary states, federal countries share their sovereignty between the federal government and self-governing regional entities (also known as the federated states), which can have their own legal constitution (with Canada being a distinct exception), a parliament and a government. Federal governments are unlike central governments in unitary states in that the former cannot unilaterally alter the self-governing status of federated entities. Powers and responsibilities are assigned to the federal government and the federated states either by provision of a constitution or by judicial interpretation. Overall, federal governments retain an exclusive competence over areas such as foreign policy, defence, money and the criminal justice system, whereas federated states have extensive competencies.

Federal states are diverse, with symmetric and asymmetric arrangements. In some countries, responsibilities are evenly distributed among state governments. Although institutional arrangements are often an evolving process, the case of symmetric federal countries is exemplified today by Austria, Switzerland, Germany and the United States. Nonetheless, asymmetric federal countries are not uncommon and can even be considered the essence of federal systems. For example, Australia has certain aspects of regional asymmetry whereas other federal countries, such as Belgium, India or Malaysia, are highly asymmetric. High levels of asymmetry act as a glue that keeps diverse territories together. The Indian Constitution allows for special provisions for nine states; in Malaysia, Sabah and Sarawak regions have larger autonomy levels than the other 11 states.

Source: (OECD, 2018[18])

1.2. Subnational governments identified as of 2021

The third edition of the SNG-WOFI database comprises data for 663 639 subnational governments across 135 countries worldwide included in the sample. Only elected subnational governments with general purpose are included in this count (Box 1.2).

Box 1.2. Defining subnational government

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

Using the previous definition means that the following subnational entities have been excluded from the database:

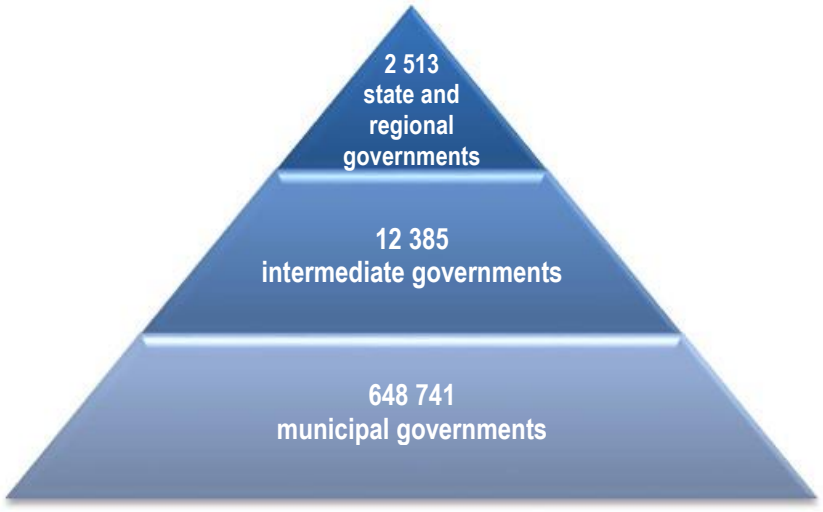
- Deconcentrated districts or agencies of the central/federal/state government established for administrative, statistical or electoral purposes only.
- Special purpose entities, such as school boards, transport districts, water boards, inter-municipal co-operation groupings, even if they have deliberative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

However, some exceptions were made. For example, following the definition above implies including entities which are only elected through indirect suffrage or "dual" entities i.e. having an elected council but an executive appointed by the central government. It may also be that the absence of local elections is just temporary or is currently changing thanks to multi-level governance reforms (e.g. transformation of deconcentrated entities into decentralised entities). In any case, having elected subnational governments does not automatically translate into enabling these subnational governments to acquire and manage their budget or staff autonomously, as the central government remains in charge of such responsibilities in some countries.

Source: (OECD, 2018[18]; OECD, 2019[8])

Overall, the subnational governments in the database include 648 741 municipal entities, 12 385 intermediate governments and 2 513 state and regional governments (Figure 1.1).

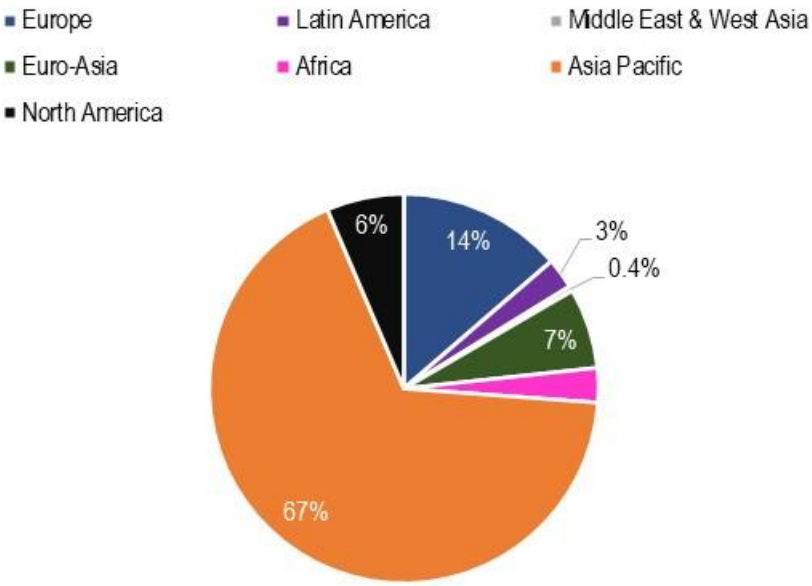
Figure 1.1. 663 639 subnational governments at municipal, intermediate and regional levels



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

By world region, Asia Pacific comes first with over 447 000 subnational governments (67%), followed by Europe (14%), Euro-Asia (7%), North America (3%), Latin America (3%), Africa (3%) and Middle East and West Asia (0.3%) (Figure 1.2).

Figure 1.2. Number of subnational governments by world region



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

However, caution should be exercised when interpreting these figures. When analysing these statistics, India, Indonesia and the Philippines are the three countries that drive the Asian total significantly upwards, as these countries host many small and autonomous municipal authorities that fall within the SNG-WOFI definition of subnational governments. In the aforementioned countries alone, villages account for over 87% of the total number of subnational governments in the Asia Pacific region. In other world regions, the equivalent of such small entities is often labelled as deconcentrated localities that depend on larger municipalities, which are not recognised as independent subnational governments following the definition used in this database. In Latin America, Ecuador is an exception: the roughly 1 500 *parroquias* are recognised as decentralised autonomous governments in the Constitution of 2008.

Box 1.3. Sub-municipal governance is widespread around the world

A sub-municipal locality can be defined as a municipal administrative subdivision under public law that, in some cases, has its own delegated budget, staff and responsibilities as well as elected representatives (e.g. council, mayor) but that does not enjoy self-governing powers, as it is often created as a deconcentrated entity by a municipality that retains most local autonomy.

Sub-municipal localities are widespread around the world but often take different nomenclatures: civil parishes (*parroquias* in Spanish), arrondissements, villages, wards, community boards, settlements, etc. These can exist in the entire national territory or just be limited to a part of it, such as rural and/or urban areas. Sub-municipal localities are present in countries such as Greece, Ireland, Korea, Netherlands, New Zealand, Portugal, Slovenia, United Kingdom, Cambodia, Serbia, South Africa, Panama, etc.

- Armenia's *bnakavayrer* are sub-municipal villages that have no self-governing authority. Due to the process of amalgamation of rural municipalities between 2015 and 2021, the number of municipalities has been reduced by roughly two-thirds, from 931 in 1995 to 308 in 2021. This has increased the pool of sub-municipal towns and villages as former municipalities have now transferred their self-governing authority to their municipality communities and have become a part of a given municipality, thereby falling into the sub-municipal category. Sub-municipal small villages without self-governing rights exist in several countries in Asia and Euro-Asia, such as Georgia and Tajikistan.
- Thailand is home to 5 333 *Tamboon* Administrative Organisations (TAOs) at the sub-municipal level. Created in 1990s as a consequence of the decentralisation process, they are located mostly in rural areas and aim to be enablers of greater citizen participation. Each TAO is led by an elected chairperson and an elected local council with representatives of the corresponding village.
- Haiti's 146 communes are further subdivided into 571 communal sections. They enjoy very little financial and organisational autonomy given that they are under the administrative control of the communes. Elections by universal suffrage are held every four years at the level of the communal section to elect the members of the deliberative body, the communal assembly (which has 5 to 9 representatives depending on the population of the section), 3 representatives for the council (executive), and town delegates to sit on the communal assembly. The last election took place in 2017 and the next one, scheduled for 2021, has been postponed.

Source: (OECD/UCLG, 2022[13])

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

- One level: In 38 countries (i.e. roughly 30% of the sample), the municipal level is the only subnational governance level. These subnational bodies are usually referred to as municipalities, but they can also be denoted as local government areas or units, local councils, local authorities, districts, etc. One-level countries tend to be smaller in terms of population or land area (both 6% of the total sample) as shown in Table 1.1.
- Two levels: Nearly half of the countries in the sample (61 i.e. 48% of countries included in the sample) have two levels of subnational government: the municipal and the regional/provincial level. Countries in this category are diverse in regards to their size and their world region, but overall they account for 50% of the population and 57% of area of the total sample.
- Three levels: 36 countries (22%) have three levels of subnational government: municipal, regional and a third intermediate level between these two. This third level takes the form of *départements* in France, provinces in Belgium and Spain, districts in Germany, Mali and Viet Nam, counties in Poland, United Kingdom and the United States, *rayons* in several Euro-Asian countries (Kazakhstan, Kyrgyzstan, etc.). Some large cities of "regional importance" may also have the status of intermediate government. These countries account for 44% of the population and 37% area of the total sample.

The presence of different levels of subnational government varies significantly across the different types of institutional structures. On the one hand, the majority of federal countries in the sample (71%) have a two-level structure of subnational governments, followed by three-level ones (29%). On the other, most unitary countries (43%) have a two-tier subnational government system, some of them (21%) also have a third intermediate level, but a remarkable 35% only have a single tier of subnational government.

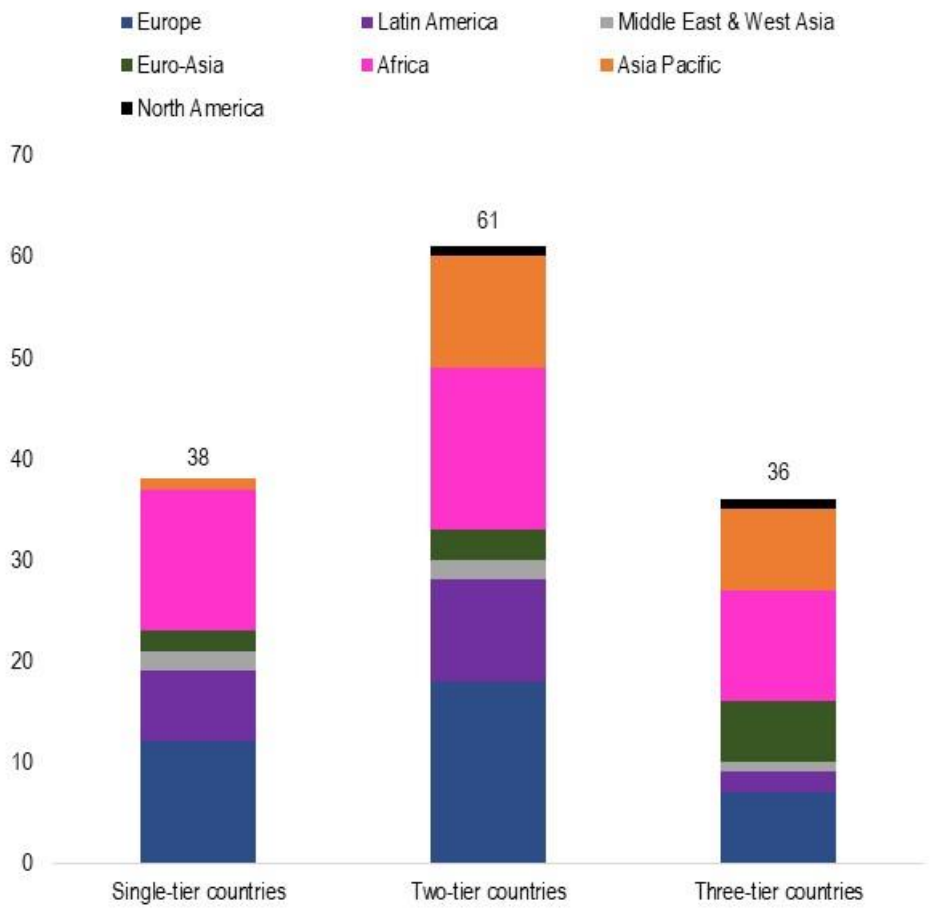
Table 1.1. Subnational government structures by prominence and form of state

	Prominence			Distribution
	% of countries	% of pop.	% of area	Unitary/Federal
Single level	30%	6%	6%	35% / 0%
Two levels	48%	50%	57%	43% / 71%
Three levels	22%	44%	37%	21% / 29%

Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org

A breakdown of the different subnational government structures by geographical region provides a closer look at the situation. In Asia Pacific, there are slightly more two-tier countries than three-tier countries (56% vs 44%). No Asia Pacific country in the sample has only one municipal level (Figure 1.3). At the opposite end of the spectrum, no Latin America countries included in the sample have three levels of subnational governments, and a great majority (61%) have two levels. In Africa and Europe, there are few countries with three levels of subnational governments (respectively, 18 % and 19% of countries of each area). In these two areas, countries with two levels are the most common (44% in Africa and 46% in Europe).

Figure 1.3. Number of tiers of government by world region (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org

Despite the clear-cut classification of subnational government levels, the reality of territorial organisation and governance is more complex. For example, in the Asia Pacific region, we can find four or even five subnational government levels, such as in China. Countries frequently have a differentiated organisation within the same subnational level, which may overlap several sub-categories. This often results in asymmetric decentralisation, when these sub-categories do not have the same assignment of responsibilities and revenues (see below and (Chatry and Vincent, 2019[19])).

In some other countries, certain subnational tiers of government are composed of mixed/dual administrations. This implies the co-existence of both a deconcentrated administration representing the central government (the executive power) and an elected autonomous self-government (the deliberative power) in the same subnational body. This is the case for example in Chile (until the 2016 regional reform), Republic of Türkiye (hereinafter Türkiye), Cambodia, Thailand, Kazakhstan and Kyrgyzstan.

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

Similarly, central governments are sometimes represented at the regional level by a state deconcentrated administration. These act as a hierarchical branch of the central government in the region where they are

located. Their budget is set and earmarked by the national budget, leaving these bodies unable to 1) own their assets, 2) raise revenues, 3) incur liabilities by borrowing on their own, or 4) engage in financial transactions (OECD, 2019[8]). Finally, many countries also have sub-municipal entities, as explained previously in Box 1.3.

1.3. Overview of multi-level governance reforms around the world

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

In Europe and North America, several federal and unitary countries already have a solid, longstanding tradition of subnational self-government, such as Switzerland, the United States, Germany or the Nordic countries. The decentralisation trend has however intensified continuously over the last few decades. These reforms aim to strengthen decentralisation and/or improve multi-level governance systems through adjustments in the allocation of responsibilities across levels of government, increased fiscal decentralisation or to introduce new public management methods at the subnational level for example in the Netherlands, Sweden, Finland, Denmark, Norway, France, Italy, United Kingdom, etc. (OECD, 2019[8]). For example, France has continued its decentralisation process with the Differentiation, Decentralisation, Deconcentration and Simplification reform, adopted in February 2022, which grants more powers to subnational governments and aims to simplify public action across levels of government.

In Central and Eastern European countries, the accession process to the European Union, including the implementation of regional development policies, accelerated the move towards decentralisation. In the Western Balkans, decentralisation reforms have specific objectives including democratisation, balanced economic development, and post-conflict reconciliation of ethnic communities. Accordingly, recent evidence in Serbia shows that fiscal decentralisation is associated with better economic outcomes in employment (Bartlett, Đulić and Kmezić, 2018[20]). This comes after Serbia's Public Administration Reform Strategy in 2014 sought to clarify the allocation of responsibilities and identify and address weaknesses, especially as regards the financing needs of local authorities.

Some European countries have also undertaken more or less wide-ranging recentralisation reforms. For example, the Danish National Health System was highly decentralised until 1993 but has gradually experienced a process of recentralisation. Over time, the central government has made intergovernmental agreements more complex and detailed, narrowing subnational autonomy and allowing the Danish National Board of Health to have strict control over subnational governments and play a substantial planning and co-ordination role (Terlizzi, 2019[21]). Hungary's 2011-2012 constitutional reform and the Local Government Act, which reorganised local governments and transferred many of their functions to the central government, were more comprehensive.

In Africa, steps to initiate or deepen decentralisation processes have been motivated by structural economic reforms as well as the quest for more local democratic control, and have been widely promoted by international donors (Conyers, 2007[22]). There seems to be an African consensus that comprehensive decentralisation reforms are needed to achieve the vision spelled out in the African Union's Agenda 2063 and to be in line with the 2014 African Charter on the Values and Principles of Decentralisation, Local Governance and Local Development. These processes have been strongly advocated by civil society, different minorities, emerging local governments and development partners concerned by the failure of central governments to deliver effective services and to fight poverty. To illustrate, Senegal has implemented three Acts on decentralisation since its independence, with its third one entering into force in 2013 and aiming to harmonise all decentralisation efforts together with the approval of the revised General Code for Local Government. Similarly, Ghana has been elaborating quadrennial National Decentralisation Action Plans since 2010, with its latest one for 2020-2024 establishing policy measures to further clarify the roles of traditional authorities and civil society groups in local governance and developing a comprehensive, well-sequenced approach to decentralisation. In other African countries, such as Kenya

or Uganda, decentralisation has featured prominently in their policy agendas over the last few decades as a means of enhancing democracy and citizen participation.

However, although the need to empower local governments is not contested, further progress is needed for effective decentralisation to be fully implemented. Ineffective decentralisation arrangements often stem from two mismatches: a mismatch between the discourse and the implementation of the decentralisation reform agenda in general, and a mismatch between devolved responsibilities and resources (also known as unfunded or underfunded mandates). The specific context of each country's political environment, including armed conflicts, political instability, ethnic and social tensions, as well as vested interests of key decision makers, plays a significant role in how the decentralisation process unfolds. For example, the decentralisation process in the United Republic of Tanzania (hereinafter Tanzania) at first only allocated minimal local taxing powers to subnational governments and all grants were earmarked by the central government (Bahl and Martínez-Vázquez, 2013[23]; AfDB/OECD/UNDP, 2015[24]).

In Latin America, the path to fiscal, political and administrative decentralisation has been complex over the last three decades. Brazil (1988), Argentina (1994) and Mexico, already federal countries, have adopted new constitutions or introduced reforms to strengthen the federal system. The rest of those countries in the region, which are unitary states, have undertaken decentralisation reforms at different paces (OECD/UCLG, 2019[15]). While countries such as the Andean countries have made significant progress, albeit in fits and starts, in others the decentralisation process is sluggish (i.e. many Central American countries) and in some cases it is stagnant or even in receding (Venezuela). The usual issue in Latin America lies at the fiscal level, where subnational governments remain highly dependent on transfers from the central government, which are often tightly earmarked, thereby reducing their incentive to act efficiently, be accountable and behave responsibly in fiscal terms (IADB and ECLAC, 2022[25]). This is coupled with limited powers to raise own-source revenue, falling short of providing the adequate level of public services at a comparable tax burden across and within countries in Latin America.

In Asia, decentralisation in countries such as India, Indonesia, Japan, Korea and Thailand has been seen, since the 1990s, as a means of adopting new public management models, oriented towards more effective public policies and service delivery, which can contribute to economic competitiveness and respond to the challenges of globalisation (OECD/KIPF, 2019[26]). Other incentives have also been powerful such as the willingness to strengthen democracy with pro-democracy movements and popular mobilisation rejecting centralised autocratic governments and dictatorships (e.g. India, Indonesia, Korea, and Philippines) as well as to address ethnic and religious conflicts and preserve historical, linguistic, and cultural specificities (e.g. Indonesia, Philippines, and Cambodia). Decentralisation, in particular fiscal decentralisation, is still high on the agenda in several Asian countries. On the other hand, some countries, such as Mongolia, Thailand, Bangladesh, Sri Lanka and Malaysia, have experienced a back and forth between the decentralisation and recentralisation of the country. In Malaysia, for example, where federalism has historically been disputed, the trend in institutional reforms in recent decades has been towards the recentralisation of responsibilities traditionally devolved to subnational governments and the concentration of decisions and fiscal capacity at the central level.

Overall, Asian countries usually feature among the most decentralised countries. In practice, however, administrative decentralisation has often come devoid of political and, most importantly, fiscal decentralisation initiatives, thereby opening the door to the emergence of unfunded or underfunded mandates as well as issues related to the limited autonomy of subnational government to raise and manage own-source revenues. A tendency towards generating mismatches between the three dimensions of decentralisation can be found in some countries in the region (e.g. People's Republic of China [hereinafter China], India and Uzbekistan). China's fiscal system is characterised by a strict vertical hierarchical relationship between different tiers of government, similar to its administrative system. Provinces bear the largest share of fiscal mandate among Chinese subnational governments. China's local governments, on the other hand, do not have taxing power, have limited access to borrowing, and are often overloaded with unfunded mandates. In Kerala (India), fiscal decentralisation has not fully delivered due to partial

implementation. Indeed, transferring a large number of expenditure functions at an early stage of fiscal decentralisation—without the appropriate administrative and fiscal powers—results in poor execution (Prakash, 2020[27]). In Uzbekistan, the misalignments between fiscal, political and administrative decentralisation stem from a lack of demarcation of responsibilities between the central and regional governments, resulting in a strong vertical power-sharing structure. The COVID-19 crisis has shed light on multi-level governance reform opportunities and challenges to better meet the needs of citizens and territories, especially in times of crisis (Box 1.4).

Box 1.4. Reconfiguring multi-level governance frameworks after the pandemic

Extreme events such as financial crises, natural disasters or pandemics exert an influence on the configuration of multi-level government arrangements. In the not-so-distant past, the 2008 global financial crisis and its ensuing austerity policies motivated institutional reforms at all levels of government. Now, the pandemic has prompted debate on how to reform multi-level governance systems so that they are a better fit for crisis management and emerging risks and to avoid fragmented policy responses.

Multi-level governance frameworks were put under considerable stress by the pandemic. Highly decentralised systems were stressed by significant co-ordination challenges, while highly centralised systems experienced a lack of flexibility and room for manoeuvre to experiment at the local level. Decisions taken to better respond to the pandemic were diverse, leaning towards decentralisation or recentralisation depending on the country. For instance, while Spanish autonomous communities, which normally oversee and administer all healthcare responsibilities, were suspended and superseded by the central government's Ministry of Health under the State of Emergency, France better empowered and devolved health responsibilities to deconcentrated regional health agencies and strengthened the role of subnational government representatives on their boards.

In addition, the COVID-19 crisis underscored the importance of effective intergovernmental co-ordination for crisis management. In some countries, central governments have been able to foster co-ordination by involving subnational governments and other stakeholders in the design and/or implementation of their response, usually by setting up or reactivating joint inter-governmental fora. For example, the central government of Pakistan established a National Co-ordination Committee, which was headed by the prime minister and served as a platform for Pakistani provincial governments to work in unison with the federal government. In some federal countries where healthcare is a shared responsibility between federal and subnational governments such as in Australia, Belgium, Brazil, and Canada, mechanisms for intergovernmental co-ordination on matters of public health already existed in certain contexts. In Canada, the Pan-Canadian Public Health network, whose council is composed of federal, provincial, and territorial officials, is one such example.

In other cases, the rigidity or unclarity of multi-level governance frameworks have hampered or paralysed concerted action, underlining gaps that limit the emergence and the effectiveness of vertical and horizontal co-ordination. There were also instances where subnational governments were not taken into consideration, thereby hampering vertical co-ordination among levels of government.

Finally, the pandemic also motivated territorial reforms at the municipal and/or regional levels. Mergers of regions and municipalities, policies encouraging inter-municipal co-operation and metropolitan reforms have taken place involving institutional reforms resulting in reallocations of responsibilities and resources across subnational entities (OECD, 2022[28]; OECD, 2021[4]).

Therefore, the impact of COVID-19 on multi-level governance frameworks shows that resilience could be further boosted. The crisis has highlighted the need for a place-based approach to crisis management and recovery and stressed the importance of having an effective multi-level governance system based on flexibility, adaptability, co-ordination, and consultation across and among levels of government. For subnational resilience to be enhanced, multi-level governance frameworks must strike a balance between the responsibilities and the resources available to subnational governments, diversify their sources of revenues, put in place anticipatory and foresight mechanisms, promote platforms for inter-governmental dialogue and stakeholder engagement and, finally, gather data to make evidence-based policy decisions.

Source: (OECD/UCLG, 2022[13])

1.4. Territorial reforms to subnational government structures

The form and structure of subnational governments is not static; on the contrary, multi-level governance systems are frequently changed and adjusted. Territorial reforms, which modify the administrative boundaries of subnational governments, can consist of creating new territories or rescaling existing administrative boundaries. Such reforms are often undertaken as part of broader changes (decentralisation or recentralisation) or to respond to demographic or socio-economic changes or fiscal consolidation pressures that require public services to be adapted (OECD, 2017[17]; OECD, 2019[8]). As illustrated below, these comprise both municipal (amalgamations, partitions, and inter-municipal co-operation), metropolitan, and regionalisation reforms.

Municipal reforms take different forms, from amalgamations through partitions to inter-municipal co-operation

Municipal partitions and amalgamations

Throughout the decentralisation process, compact subnational entities may decide to split into separate local entities. This is commonplace either in countries where decentralisation is relatively new or in those where socioeconomic and long-term development trends alter the composition of a certain municipality.

As of 2022, the majority of municipal partitions have taken place in Africa. With the demographic and economic evolution of certain districts and neighbourhoods, in 2020 and 2021, Guinea has upgraded 19 districts to rural communes and a sub-prefecture to urban communes, bringing the number of local authorities to 362. Similarly, as a result of the large increase in population in some districts, 13 new districts were established in Zambia between 2016 and 2018. Côte d'Ivoire has moved from 197 communes in 2013 to 201 communes in 2018, and has created 12 new autonomous districts. Finally in Chad, as of 2021 the National Transitional Council has restructured administrative units and subnational governments, recognising 8 new departments and 43 new communes. In the Middle East and West Asia region, the Palestinian Authority has seen a rise in the number of municipalities and village councils (from 139 in 1997 to 565 in 2021) due to population increases and improved village council performance. In Euro-Asia, Uzbekistan's number of local governments has increased with the creation of new districts, which is justified by the need to develop the economy, ensure the growth of employment of the population and strengthen the social fabric of the territory.

On the contrary, instances of municipal amalgamation seem to be concentrated in European and Euro-Asian countries. In Belgium, the Flemish region further shrank its number of municipalities from 308 to 300 in 2019 and is continuing to support voluntary mergers through the Flemish Coalition Agreement 2019-2024 by guiding local councils in their implementation. In Armenia, over the period 2015-2021, the national government has undertaken four rounds of administrative-territorial reform, which have resulted in many municipal mergers bringing the number of municipalities down from 931 to 308 as of 2021. Perhaps most importantly over the last decade, in response to its high degree of municipal fragmentation, Ukraine has implemented a comprehensive reform of its multi-level governance system and has drastically encouraged mergers. Following the amalgamation law, between 2015 and 2019, more than 4 700 of local self-governments merged voluntarily to form 980 new territorial communities.

Both municipal amalgamations and partitions may be justified as ways to better provide local government goods and services. Whereas partitions often stem from a wish to better cater to the needs of an increasingly large local population and/or with specific policy preferences, municipal amalgamations respond to the desire to gain from economies of scale as well as to improve efficiency and cost savings. While mergers can potentially reduce per capita expenditure and increase efficiency, such an outcome is not assured and depends on various factors such as the fragmentation of local government systems, the size of amalgamated territories, and the technical capacity of local administration, among others (McQuestin, Drew and Dollery, 2018[29]; Karkin, Gocoglu and Yavuzcehre, 2019[30]). Most importantly,

existing empirical evidence points to the fact that given the significant changes to institutional structures required for two or more municipalities to merge, it is essential that local government decision-makers and all local stakeholders be actively involved from the beginning of the process, instead of imposing mergers in a top-down fashion (Mughan, 2019[31]).

Municipal reforms require collaboration and consensus for the new municipal entities to be perceived as legitimate and for the quality of local democracy not to be diminished (Tavares, 2018[32]). Indeed, mergers are often seen as a threat to local identity and historical legacies, which explains resistance in many countries (e.g. France, Japan, Slovakia). Nevertheless, it must be pointed out that municipal mergers do not always translate into the elimination of former municipalities. In a number of OECD countries with predominantly large municipalities, the potential negative effects of consolidation have been mitigated by keeping the former municipalities as sub-municipal units, which has been the case in New Zealand, Greece, Ireland, France, Portugal, Korea and United Kingdom (see also Box 1.3).

Inter-municipal co-operation reforms

Municipal fragmentation has often motivated policy-makers to implement policies fostering inter-municipal co-operation as an alternative to mergers with a view to generating economies of scale, efficiency gains and cost savings (OECD, 2019[8]). There are extremely diverse inter-municipal arrangements around the world, ranging from the softest (single or multi-purpose co-operative agreements/contracts) to the strongest forms of integration such as supra-municipal authorities with delegated functions in France, Portugal and Spain. Between the two, co-operation adopts manifold formats, from co-operation focused on technical issues to strategic co-operation for economic and social development (OECD, 2017[17]).

In Europe, Belgium's legal framework for inter-municipal co-operation is representative of the diversity of forms said co-operation among municipalities can take. In Flanders, there are five legal forms of inter-municipal co-operation: "inter-local association", "project association", "service providing association", "association with a clear assignment", and "association with a clear assignment and private sector participation". Another common form of inter-municipal co-operation in Belgium is inter-municipal companies (*intercommunales*), which are public law entities that are subject to both private and public law.

Some countries in Europe started relatively recently to engage in inter-municipal co-operation and are beginning to reap its benefits. In Poland, local authorities have since 2016 created so-called shared service centres to collectively deliver public services. Following the new legal framework enacted by the national government. Remote, rural municipalities in Poland with limited capacities resort to inter-municipal arrangements to transfer tasks to other municipalities that may be better equipped to provide the required public services (OECD, 2021[33]). Similarly, in Lithuania, in 2019, the central government established two pilot projects to promote inter-municipal co-operation in regard to local investment (Tauragė+ and Šalčininkai+).

Latin America co-operation between municipalities is also developing. In Guatemala, ten inter-municipal associations with their own legal status have been set up to provide public services under their jurisdiction. In Honduras, there are 46 inter-municipal associations as of June 2022, with the main goal of guaranteeing service provision in rural areas for water management and education. More cases of inter-municipal co-operation can be found in Brazil, where 601 inter-municipal consortia encompass a total of 4 723 municipalities (nearly 85% of all local governments in Brazil) and deal with issues related to health, waste collection and disposal and environment protection. Finally, inter-municipal co-operation is strongly incentivised in Bolivia, where municipalities with less than 5 000 inhabitants must form associations in order to access tax co-participation resources.

African countries have made progress in establishing horizontal co-operation frameworks for municipalities. For example, Benin adopted the Code of Local and Regional Government in December

2021, offering communes the possibility to form a public body for inter-communal co-operation (the so-called *Établissement Public de Coopération Intercommunale*).

In Asia and particularly in Euro-Asia, inter-municipal co-operation is not as frequent as in other regions and is often missing altogether from national legal systems. In Kyrgyzstan, although the Local Self-Government Act of 2021 promotes inter-municipal collaboration, to date there is no specific regulation for such arrangements. The lack of a formal framework puts a brake on the emergence of this form of co-operation also in Sri Lanka, where horizontal co-operation at the subnational level mainly operates through informal mechanisms dependent on personal endeavours and leadership of both the political and administrative bodies. Similarly, there have been some cases of collaborative inter-*soum* service delivery models in Mongolia in the areas of health and education, but progress has been slowed due to a lack of framework regulating these initiatives. Despite these shortcomings, several countries are starting to place more emphasis on inter-municipal co-operation. In Georgia, the 2014 Local Self-Government Code is gradually serving as a way to empower municipalities to establish joint enterprises, drawing from the successful experience of a metropolitan governance project in 2009. In Moldova, where inter-municipal co-operation is poorly regulated, discussions are currently ongoing in Parliament so that local governments can effectively co-operate on regulatory functions, community services, public utilities and infrastructure, general administrative functions, or create associative bodies with independent legal personality, in the aim of enhancing integrated territorial co-operation.

Metropolitan reforms

Metropolitan governance reforms are one particular form of inter-municipal co-operation. Metropolitan areas, especially larger ones, have experienced a surge of 400 million new inhabitants between 2000 and 2020 (OECD/European Commission, 2020[34]). Effective co-operation between municipalities within metropolitan functional areas has become a priority in many countries, especially those confronted with a high level of urbanisation and administrative fragmentation. The Regional Authority Index reflects this trend, as the number of metropolitan governance authorities increased fourfold between 1970 and 2018, from 38 metropolitan governance authorities (concentrated in 15 countries worldwide) in 1970 to 99 authorities in 2000 (in 39 countries) and 165 in 2018 (in 42 countries) (Hooghe et al., 2021[35]).

Around two-thirds of metropolitan areas in the OECD have a metropolitan governance body. Examples of metropolitan governance reforms in the OECD comprise the 2013 French Law on Metropolitan Areas or the creation of 14 metropolitan cities in Italy in 2014 that absorbed the responsibilities of provinces and were given additional responsibilities for local police services, roads, transport, and spatial and urban planning. In Türkiye, all provinces with a population over 750 000 inhabitants were transformed in 2013 into metropolitan municipalities. In Colombia, Law 1625 – passed in 2013 – set up six metropolitan areas that are territorial jurisdictions with their own legal status. They have more administrative and fiscal autonomy than other urban regions and they can jointly manage some services of area-wide importance (e.g. transport). Metropolitan governance bodies are also common in Brazil, Ghana, and South Africa, among others.

As for co-operation arrangements in metropolitan areas, these can take various forms, ranging from soft (dialogue platforms/informal/soft co-ordination) to the more “stringent” in institutional terms (supra-municipal body, metropolitan cities). The choice of arrangement depends on the territorial and institutional context at hand; but in all cases more integrated and strategic forms of inter-municipal co-operation structures are needed for these areas to handle metropolitan issues. Some elements are essential to ensuring effective metropolitan governance including political representation, geographic boundaries that match boundaries of the economic region (functional area), clear assignment of expenditure responsibilities and revenue sources, and decision-making power, including some fiscal autonomy (OECD, 2021[36]). For example, urban areas in the United Kingdom are governed through “tailored arrangements” between national and “combined” local authorities, called “devolution deals”. This approach has been replicated in other OECD countries such as Australia, which adopted the City Deal approach in 2019 and

9 other City Deals have since been agreed upon to be operational in a 10- to 20-year period. In Chile, the programme Pilot Project for the Establishment of Planning and Co-ordination Capacities for Metropolitan Areas was launched in 2015 in four Chilean regions. This programme intended to address the different morphological, functional and population differences present in Chile's emerging metropolitan areas.

Regionalisation reforms are ongoing

Although the process is not linear and differs across countries and over time, regionalisation reforms – across the entire country or for certain specific territories – have been promoted for different reasons in different countries: to strengthen democracy and regional cultures, to reinforce regional economies and competitiveness, to facilitate place-based investments, or simply to achieve economies of scale in the provision of public services (OECD, 2022[28]).

Regionalisation reforms can be classified into three main categories: institutional, territorial and public management reforms (OECD, 2017[17]). They often go hand in hand, and countries often implement a combination of two or more of these forms to achieve their goals.

Institutional reforms at the regional level

Institutional reforms aim to re-organise powers and responsibilities across levels of government through decentralisation or recentralisation processes by creating a new regional level (elected or not) or modifying the responsibilities and resources of existing regional entities. Regionalisation, understood as strengthening the regional level through decentralisation, has been on the rise over the last five decades, especially in the OECD and Europe, but also in Asia, the Americas and to a lesser extent Africa. This is illustrated by the 2021 Regional Authority Index, which shows that 67% of countries have experienced a net increase in the degree of regional authority over the period 1970-2018 (Hooghe et al., 2021[35]). Such reforms are ongoing across the world. For example, Chile and Finland have recently created a new elected regional level. In France, the law 3DS "Differentiation, Decentralisation, Deconcentration and Simplification", adopted in February 2022, has reinforced several regional responsibilities. Regional governance mechanisms are being improved in Greece (Kleisthenis reform), Lithuania (law on regional development in 2020), Sweden (creation of "regions" replacing counties in 2019) and Costa Rica (Regional Development Law in 2021). Discussions on developing a regional level are still ongoing in countries such as Portugal, Romania and Bulgaria. In Morocco, the "advanced regionalisation" process (*régionalisation avancée*) comes after the decision of the 2011 Constitution to introduce direct elections for regional councils and intends to place regions at the core of the implementation of territorial development policies. Indonesia recently passed the Law no. 1 of 2022 which aims to ensure transparent and accountable intergovernmental fiscal relations and which includes a strengthening of regional fiscal capacity. In 2018, Mauritania established regions as well as institutional consultation mechanisms such as Regional Health Committees and Regional Development Committees. In Ghana, after a popular referendum, six new regions were created in 2017. The creation of Regional Coordinating Councils, which act as deconcentrated entities, aims to better respond to the needs of citizens and to accelerate the country's socio-economic development. In Cape Verde, a draft Law on Regionalisation was submitted to the National Assembly and approved in general terms in 2018, but has not yet been approved in specific terms.

Although the importance of regional governments is increasing, there have been some reforms that have aimed to recentralise or limit regional powers. In some cases, this has been the result of abandoning, postponing or rejecting regionalisation projects via referendum (e.g. Slovenia in 2008, Seychelles in 2015 following a one-year experimentation phase to introduce regional councils) or due to diverse political bottlenecks (e.g. Netherlands in 2014). Sometimes, countries have also opted for decreasing the responsibilities of regions by reallocating them to the central level or to the municipal level (Hungary in 2012, Ireland in 2014).

Territorial reforms at the regional level

Besides regional governance reforms, regional territorial reforms seek to re-organise regional administrative boundaries to find an appropriate scale to design and implement policies. Most often, re-scaling is achieved through mergers. The main objectives of regional mergers are to generate economies of scale in public service provision (e.g. health and public transport sectors), as well as the design of integrated regional development strategies that take into account urban-rural linkages. A good example of territorial reforms is Norway, where 11 larger regions have replaced the former 18 counties in 2020 with the purpose of reaching greater critical mass and strengthening the regions as functional units while increasing the consistency of housing and labour market policies. France also passed a law in 2015 to merge 22 regions into 13.

Asymmetric governance arrangements are developing

Countries are increasingly adopting asymmetric governance arrangements, at the regional, metropolitan and local levels, providing different political, administrative or fiscal powers to governments at the same subnational level (Box 1.5) (Schakel et al., 2018[37]).

Asymmetric decentralisation arrangements can serve various purposes: whereas some countries adopt them to transfer more tasks to subnational governments with greater capacities, others use these arrangements to recognise a different status for territories with a particular history or strong identity (e.g. Spain, Italy, United Kingdom). They are also used for peripheral territories such as outermost regions, islands, and outlying regions (e.g. France, Portugal, Finland) or for large cities. Asymmetric governance systems can be also mobilised to protect and promote special rights, such as the special right of Indigenous Peoples to manage their own territory (e.g. Colombia).

Box 1.5. Towards more asymmetric decentralisation at global level

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

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

- Political: some subnational governments may be granted political self-rule to an extent that deviates from the national average;
- Fiscal: subnational governments may take on board special spending responsibilities, revenue bases or taxation rights and additional transfers that are granted to particular subnational entities;
- Administrative: subnational governments may be given greater administrative resources, or the capacity to acquire them, whenever greater autonomy in spending and revenue collection is needed. For example, sequencing a national policy to secure this administrative asymmetry can help.

Source: (OECD, 2019[8]; Allain-Dupré, Chatry and Moisio, 2020[38])

Asymmetric regional governance systems can be found both in federal and unitary countries, and to different degrees. In federal systems, Belgium, Canada, India and Spain stand out as examples of highly asymmetric countries. More symmetric federations (e.g. Australia, Austria, Germany, Switzerland or the United States) also have some elements of asymmetry. Unitary countries, despite being founded on the principle of symmetry, also increasingly show some signs of asymmetry. In France for example, where the outermost regions and Corsica already have a differentiated status compared to other regions, the 2022 “3DS” law has introduced the principle of differentiation whereby subnational governments are able to modify legislation in their domain of competence, in order to adapt them to the local context.

Many countries in Africa, Asia and Latin America also implement regional governance reforms in an asymmetric way. In 2019, the Philippines assigned an elected regional government to a single region, the Bangsamoro Autonomous Region of Muslim Mindanao. As a result of a peace agreement, this regionalisation process provided the region with a specific legislative framework and political autonomy from the central government. In Indonesia, five provinces (including the capital region) out of 34 have special status and enjoy more autonomous powers. In Cameroon, a 2019 law introduced a special status for English-speaking regions, including participation in the development of national public policies relating to the Anglophone education and justice sub-system.

Box 1.6. Regionalisation reforms in the wake of COVID-19

In several countries, the COVID-19 pandemic has provided an impetus to undertake regionalisation reforms in order to better allocate responsibilities across levels of government. The responses have been very diverse. In some countries, the central governments have passed state-of-emergency laws to take the reins of specific tasks that would fall within the remit of subnational governments under normal circumstances (e.g. Switzerland, Slovenia, Spain, South Africa, Angola), but this has often been only temporary. On the flip side, other countries have opted to further decentralise, thereby devolving additional powers to subnational governments in health and social protection areas and to make budgetary adjustments, contribute to the COVID-19 recovery funds and grant relief allowances (e.g. United Kingdom, Senegal).

Although the pandemic forced some countries to postpone regionalisation reforms, in the long run this pandemic may trigger more comprehensive regionalisation reforms to strengthen the regional level. Indeed, efficient regional governments have proven that they contribute to coping with the impacts of crises and provide adequate policy responses to recover from them. In this sense, many countries are adjusting the way in which responsibilities and resources are allocated across levels of government. In Costa Rica, for instance, the Regional Development Law in 2021 seeks to bolster inter-regional co-operation and address inter- and intra-regional gaps. The crisis could also push for future regional governance reforms (e.g. Bulgaria, Portugal, etc.), including regional fiscal reforms (e.g. Spain) and equalisation mechanisms.

Source: (OECD/UCLG, 2022[13])

2. What are subnational governments responsible for?

2.1. Subnational government responsibilities

As shown in the country and territory profiles, responsibilities are distributed across levels of government in myriad ways. However, some general patterns have emerged. Most responsibilities are shared across levels of government (Table 2.1), and the allocation of responsibilities differs greatly depending on whether the country is federal or unitary.

In most federal countries, federal governments retain exclusive and explicit competences over foreign policy, defence, the criminal justice system, among others, whereas state governments undertake wider responsibilities. In turn, the responsibilities of local governments depend on those attributed by the state constitution and/or legislation, thereby opening the door to asymmetrical local government powers and responsibilities between different states in a same country.

This is significantly different in unitary countries. Responsibilities in unitary states are usually assigned by the country's Constitution or national laws, referring sometimes to the general clause of competence or "subsidiarity principle". This is especially frequent in the case of the municipal level of government. National laws can also establish whether a specific subnational responsibility falls exclusively within the remit of the subnational authority, whether it is a delegated task on behalf of the central government, or whether it is a shared responsibility with another institutional government level. Some tasks allocated to subnational levels of government can be mandatory while others may be optional.

Table 2.1. Breakdown of responsibilities across SNG levels: a general scheme

Municipal level	Intermediate level	Regional level
A wide range of responsibilities: • General clause of competence • Additional allocations by the law (potentially) **Community services:** • Education (nursery schools, pre-elementary and primary education) • Urban planning & management • Local utility networks (water, sewerage, waste, hygiene, etc.) • Local roads and city public transport • Social affairs (support for families and children, elderly, disabled, poverty, social benefits, etc.) • Primary and preventive healthcare • Recreation (sport) and culture • Public order and safety (municipal police, fire brigades) • Local economic development, tourism, trade fairs • Environment (green areas) • Social housing • Administrative and permit services	**Specialised and more limited responsibilities of supra-municipal interest** **An important role of assistance towards small municipalities** **May exercise responsibilities delegated by the regions and central government** **Responsibilities determined by the functional level and the geographic area:** • Secondary or specialised education • Supra-municipal social and youth welfare • Secondary hospitals • Waste collection and treatment • Secondary roads and public transport • Environment	**Heterogeneous and varying responsibilities depending on the country (in particular, federal vs unitary)** **Services of regional interest:** • Secondary / higher education and professional training • Spatial planning • Regional economic development and innovation • Health (secondary care and hospitals) • Social affairs e.g. employment services, training, inclusion, support to special groups, etc. • Regional roads and public transport • Culture, heritage and tourism • Environmental protection • Social housing • Public order and safety (e.g. regional police, civil protection) • Local government supervision (in federal countries)

Source: (OECD, 2018[18]; OECD, 2019[8])

Compartmentalising responsibilities as shown in Table 2.1 can help visualise the most common distribution of responsibilities among levels of government. However, these theoretical boundaries are somewhat fuzzy in reality. The breakdown of powers between central/federal government and subnational governments as well as across subnational levels is particularly complex in many countries, and asymmetric decentralisation of responsibilities is frequent (see above).

Complexity in the distribution of responsibilities can also lead to competing and overlapping competences. In turn, this may result in a lack of accountability concerning public policies. In several countries there is a frequent overlap in responsibilities both vertically (between central/federal and subnational governments) and horizontally (within the different subnational layers). This results from a complex system of shared competencies and delegation. This is particularly the case in Asia Pacific countries, such as Australia, Malaysia, Korea, Japan, China, Viet Nam or Philippines (Allain-Dupré, Chatry and Phung, 2021[39]).

Box 2.1. Responsibility allocation in the COVID-19 pandemic

Given the complexity and despite the heterogeneous institutional structures across countries, governments at any level should be in a position to act in a co-ordinated manner and quickly discuss and redress any contentious issues that may arise from a disagreement regarding the allocation of responsibilities. This is all the more important during an emergency such as a pandemic, as has been recently witnessed with COVID-19. Although it is still too soon to draw conclusions, existing evidence points to a consensus that both horizontal co-ordination among regional governments (or among municipalities) and vertical co-ordination between the central and the subnational levels of government are crucial to address an emergency situation swiftly and effectively. This is the case irrespective of the type of institutional structure (i.e. federal or unitary).

For example, the Australian Government created a new National Cabinet, an intergovernmental decision-making forum composed of the Prime Minister, and state and territory premiers and chief ministers and advised by Australian Health Protection Principal Committee. The members of the National Cabinet discussed and agreed on plans and strategies to respond to the crisis. While decisions of the National Cabinet were made collectively, each jurisdiction implemented them in the way they saw fit. In Chile, the government established the Social Committee for COVID-19 formed by representatives of municipal associations (mayors), government authorities, academics and professionals from the health sector. The Committee met twice a week to help strengthen the Action Plan for COVID-19. This committee was replicated at the regional level. One of the key outputs of the national committee was the creation of the COVID-19 Database based on information from the Ministry of Health. Data at the national, regional and local levels on daily deaths and infections, critical patients, recoveries, among others, were made publicly available.

Source: (OECD, 2021[4]; OECD/UCLG, 2022[13])

2.2. Main areas of subnational government spending

A closer examination of subnational expenditure by functional area (COFOG) reflects both the involvement of subnational governments in some key areas for local development and wellbeing (education, health, social protection, environment, etc.) and the distribution of responsibilities across the different levels of government.[1] Unweighted average values for a sample of 81 countries across the world reveal that

[1] Expenditure (current and capital) by functional classification presented in this section follows the classification of the ten functions of government or COFOG. However, this international classification is not used in all countries. Where national classification did exist

education, general public services (mainly administration) and social protection are the primary areas of subnational spending as a share of GDP. Yet, there are significant differences across countries (Figure 2.1 and Figure 2.2).

Education

Education is the primary area of SNG spending as a share of GDP. This includes primary and secondary as well as higher education in some countries. On average, education accounted for 2.2% of GDP and 20.2% of subnational expenditure in 2020 for all 81 countries with available data.

Spending on education is significantly higher in federal countries than in unitary countries as a share of GDP (4% vs 1.8% of GDP) and as a share of total subnational spending (21.2% vs 20%). In federal countries, states account for a larger share of spending than local governments (Figure 2.3). In some countries, subnational government spending on education is fully funded via earmarked grants. For example, in Mongolia the central government is obligated to transfer the necessary resources for subnational governments to cover the full costs of delegated responsibilities in education (which is the second category of subnational government spending).

It is interesting to note that there are few countries where education is not a decentralised competence and is fully centralised, which is the case in some countries in Asia Pacific or South-East Europe (e.g. Montenegro, where municipalities have very limited competences in social sectors such as health, social protection or education).

General public services

The second highest spending area in terms of GDP is general public services (1.6% of GDP and 23.4% of subnational spending). This function comprises administrative services, the maintenance of public facilities as well as basic research activities, all of which are expenses related to the organisation and operation of government, the collection of taxes and the management of public debt. General public services represent 3.4% of GDP and 19.4% of subnational expenditure in federal countries and 1.2% of GDP and 24.3% in unitary countries. In federal countries, administrative functions are particularly developed at state government level, which reflects the importance of this area in terms of GDP for federal countries (Figure 2.3). In addition, this functional category also tends to be larger in lower middle income and low income countries compared to high income and upper middle income countries (OECD, 2018[18]). On average, the former two amount to 34.8% and 27.7% as a share of subnational expenditure whereas the latter remain at the lower values of 16.3% and 24.4% respectively.

Social protection

Social protection is the third largest spending category at the subnational government level on average and as a share of GDP. It comprises expenditure related to social services and benefits as well as investment in social infrastructure for families, children and youth, elderly, the unemployed, disabled people, deprived persons, immigrants, etc. Social protection expenditure accounts for 1.5% of GDP and 10.7% of subnational spending for all 81 countries on unweighted average. In federal countries, the share of social protection spending in GDP and in total subnational spending is much higher than in unitary countries (respectively 2.6% vs 1.3% of GDP and 13.2% vs 10.2% of subnational spending).

Economic affairs and transport

Subnational spending on economic affairs including transport encompasses interventions in the industrial, energy, mining, agricultural and construction sectors as well as those in the transportation sector. This

but was too different or partial, it was not included in the statistical analysis. These two factors explain the relatively small sample of countries (81 countries).

category accounted 15.5% of subnational spending (i.e. 1.4% of GDP) for all 81 countries on average. It reaches a higher share in federal countries (15.4% of subnational spending, i.e. 2.7% of GDP) than in unitary countries (15.5% of subnational spending or 1.1% of GDP).

Health

Spending on health accounts for 10.4% of subnational expenditure (i.e. 1.3% of GDP) for all 81 countries on average. Health expenditure at the subnational level is remarkably higher in federal countries (14.3% of subnational expenditure or 2.7% of GDP), as state governments have responsibilities such as the management of public hospitals, specialised medical services and basic healthcare. In unitary countries, subnational health spending amounts to 9.5% of subnational spending (i.e. 1% of GDP).

Housing and community amenities

Housing and community amenities include expenditure related to water supply, public lighting, urban heating, social housing, community development, etc. It is a major function of subnational governments. However, it accounts for only 0.6% of GDP for the 81 countries. As a share of subnational expenditure, this sector amounts to 8.5% in unitary countries, slightly more than for the whole sample (8.1%) but significantly more than in federal countries (6.1%). Instead, this function, in federal countries, is carried out by local governments rather than by state governments, which explains why the average at subnational level is low (Figure 2.3).

Recreation, culture and religion

Recreation, culture and religion services and infrastructure (sports, libraries, recreational areas, museums, cultural heritage, etc.) are also key responsibilities of subnational governments. Nevertheless, expenditure in these areas remains relatively low at 0.4% of GDP and 4.7% of subnational spending at global level. This share is however higher in unitary countries than in federal countries (5.1% vs 2.8% of subnational spending).

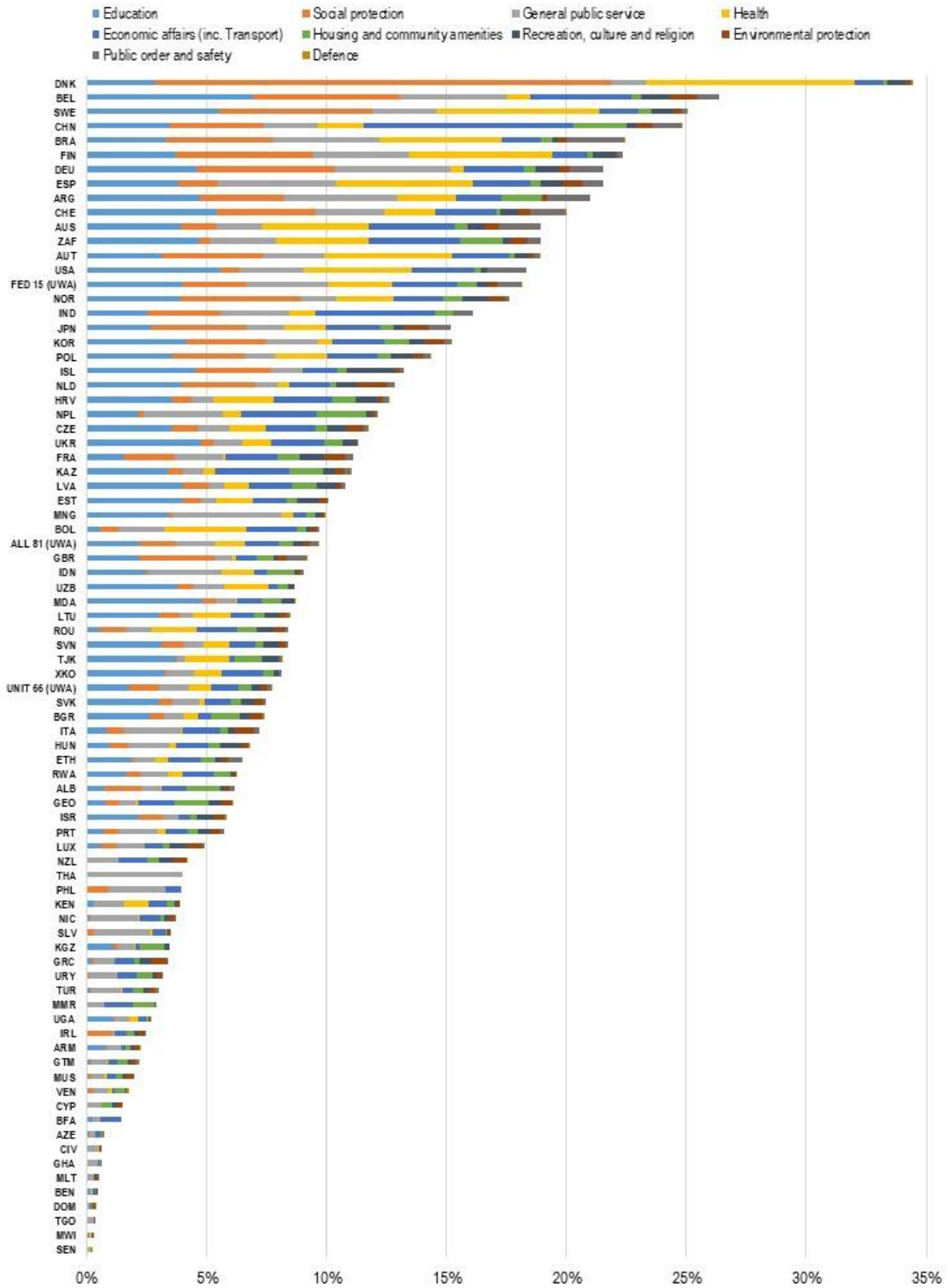
Environmental protection

In numerous countries, subnational governments are responsible for a wide range of services and investment related to environmental protection, which comprises spending related to waste collection and treatment, sewerage, parks and green areas, air pollution, noise pollution, soil protection, nature preservation, etc. Environmental protection accounts for only 0.3% of GDP on average in the 81 countries of the sample. It amounts to 4.6% of subnational expenditure overall but only 1.9% in federal countries vs 5.2% in unitary countries. In federal countries, environmental protection is mainly a local government spending responsibility.

Public order and safety, and defence

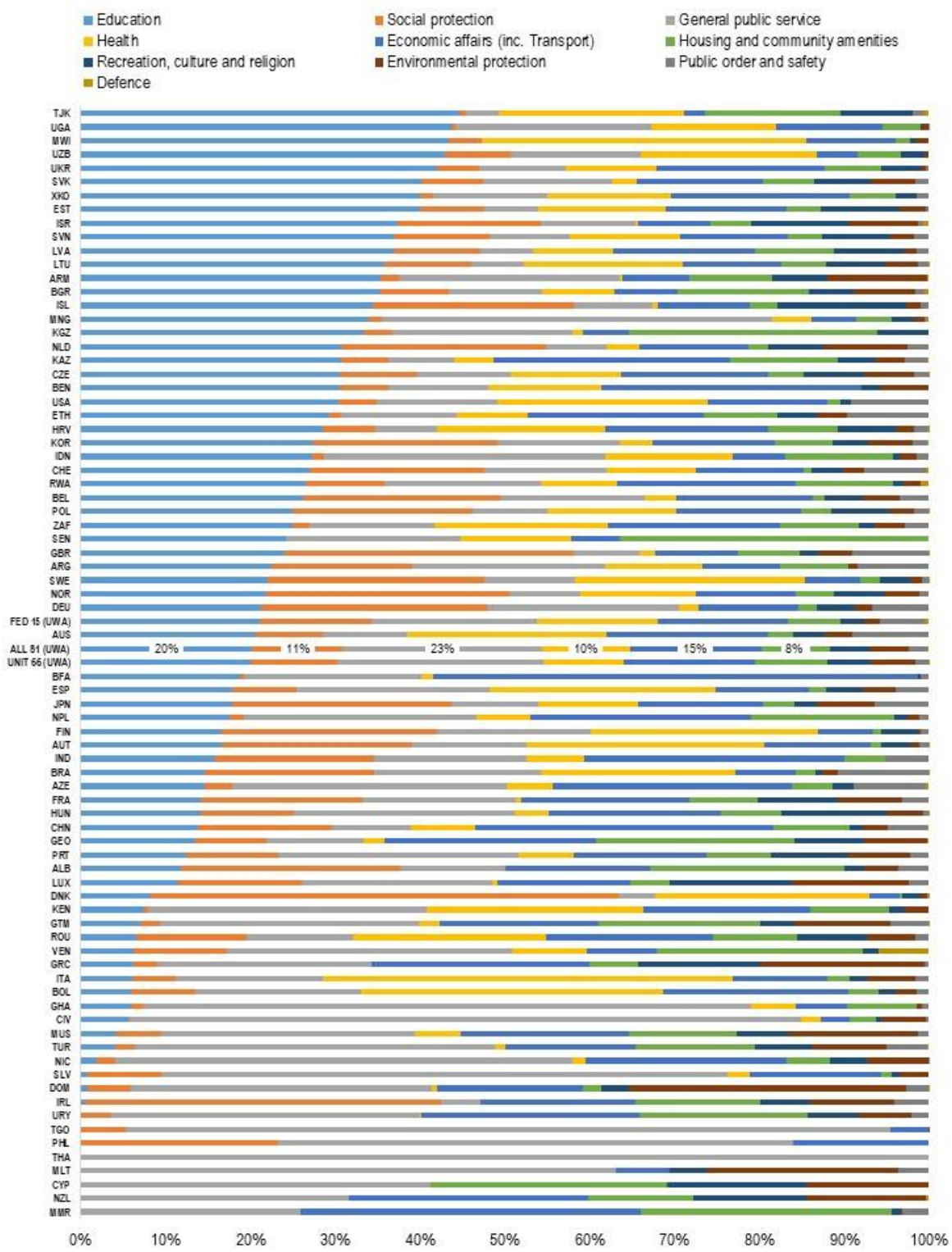
Public order and safety expenditure includes local and regional police services, fire protection services, prisons, civil protection and emergency services. It accounts for 0.3% of GDP on unweighted average for the 81-country sample. However, in federal countries where state governments play a key role in this area, it amounts to 1% of GDP, while in unitary countries, local spending in this area is low (0.1% of GDP). Defence remains marginal as it is very rarely a subnational responsibility.

Figure 2.1. Subnational government expenditure by functional classification as a % of GDP (2020)



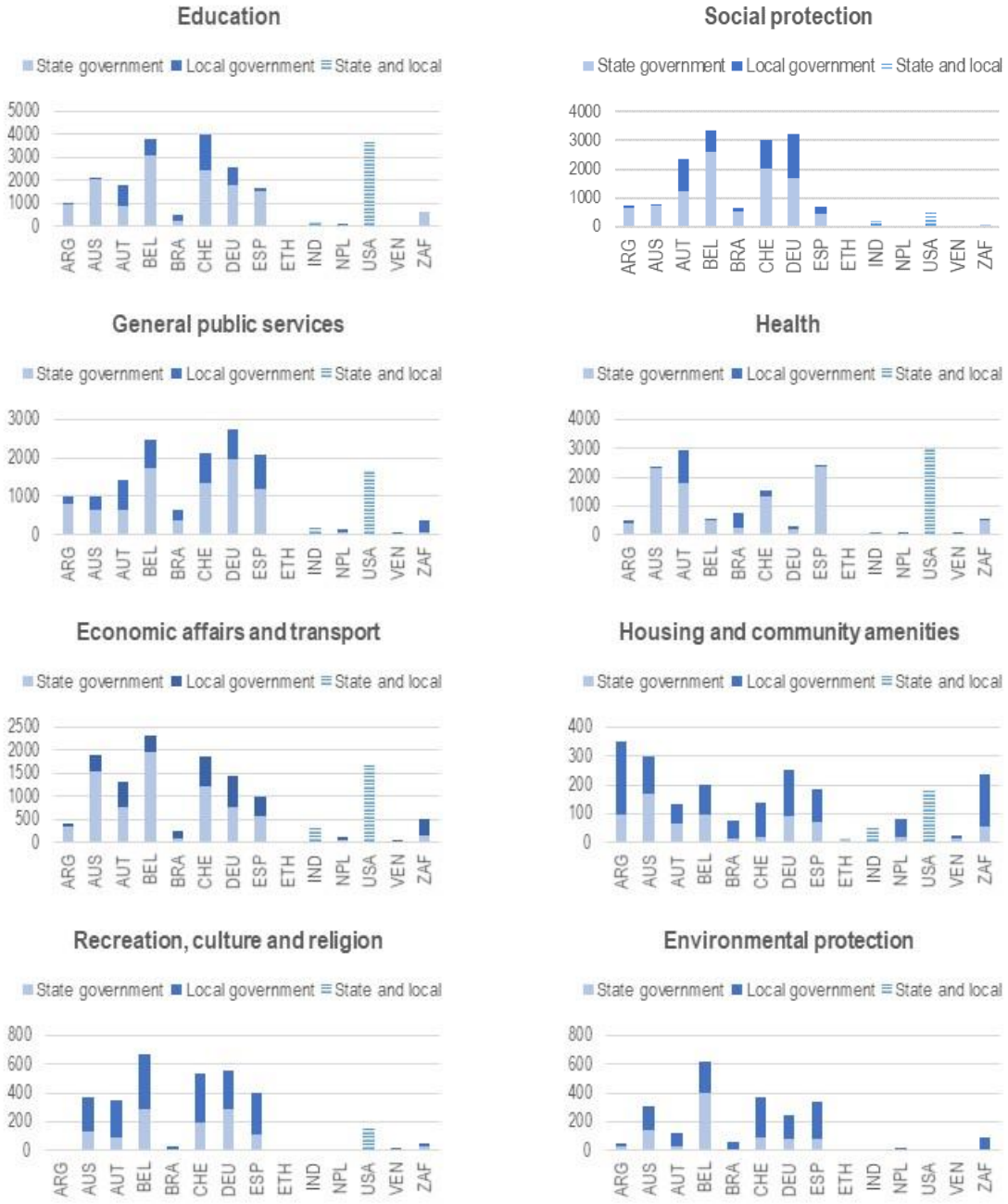
Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

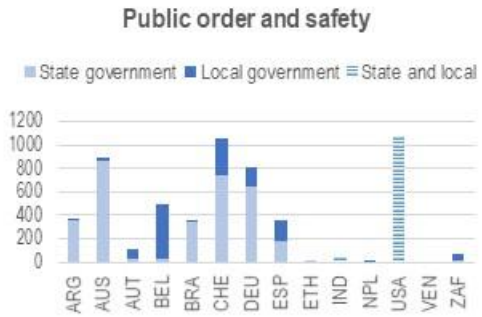
Figure 2.2. Subnational government expenditure by functional classification as a % of total subnational expenditure (2020)

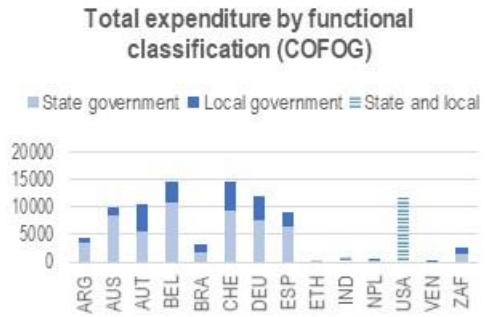


Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

Figure 2.3. State and local government spending by function in federal countries (USD PPP per capita, 2020)







Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

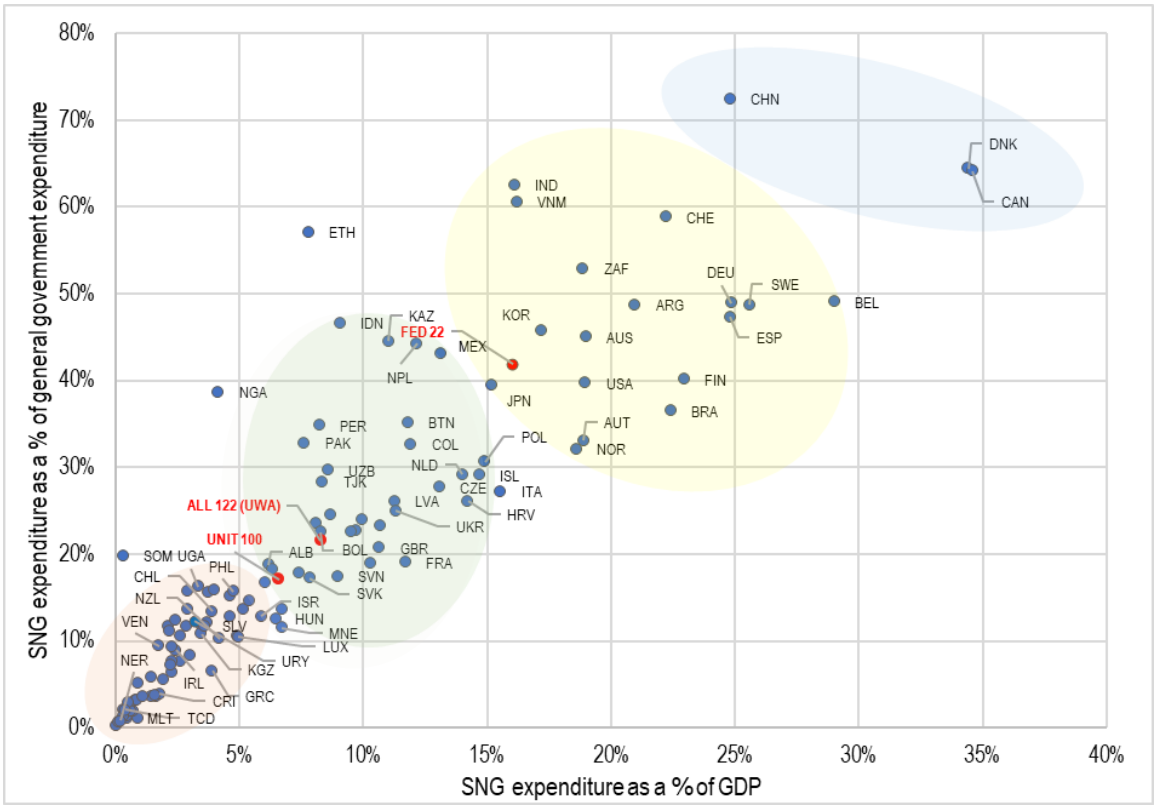
2.3. Subnational government spending by world region and type of government

Subnational governments account for 21.5% of public spending, i.e. 8.3% of GDP

In 2020, subnational government spending accounted for 21.5% of total public spending, i.e. 8.3% of GDP on an unweighted average for the 122 countries in the sample with available data (Figure 2.4), amounting to USD 2 713 PPP per capita (Figure 2.5).

In federal countries, subnational government expenditure, which combines spending by state and local governments, is markedly higher than the average, accounting for 41.9% of total public expenditure, i.e. 16% of GDP in 2020. On the other hand, for unitary countries only, subnational government expenditure is below the global average, amounting to 17.1% of public expenditure, i.e. 6.6% of GDP. Subnational spending has increased from 8.6% to 9.1% in terms of GDP whereas it has decreased from 24.1% to 23% in terms of total public expenditure, when comparing the same 106-country sample of the previous edition of this report between 2016 and 2020 data. This may be explained by the decrease of subnational expenditure in total government expenditure due to the increase of public spending carried out at the central level during the COVID-19 pandemic. Since GDP has also fallen due to the COVID-19 crisis, the data reflect an overall increase on average.

Figure 2.4. Subnational government expenditure as a percentage of GDP and general government expenditure (2020)



Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

In Figure 2.4, four distinct groups of countries can be distinguished. As in the previous edition of this report, the first group of countries encompasses Canada, Denmark and China, three countries which show particularly high subnational spending on both indicators. While these data provide unique comparative information on levels of decentralisation across countries, they should be interpreted with caution. In China, for instance, more than 70% of public expenditure is made by subnational governments. However, China is particularly representative of a "magnifying effect" which can distort the reality of spending autonomy: despite its large subnational spending values, in practice subnational governments in China are part of the national governmental system and most spending at the subnational level is delegated and then executed on behalf of the central government. Therefore, despite having a high share of subnational government spending in total public spending, subnational governments have limited autonomy over their spending[2].

Highlighted in yellow, a second group of countries comprises those countries with a high level of public spending at subnational level both as a share of public spending (over 30%) and as a share of GDP (between 15% and 30%). This group comprises mostly federal countries, as well as some decentralised unitary countries, such as Finland, Japan, Korea, Norway, Sweden, and Viet Nam.

The third group, in green, includes countries where subnational government spending varies between 15% and 50% of public spending and 8% and 15% of GDP. This group comprises mostly unitary countries, with exceptions such as Mexico, Nepal, and Pakistan.

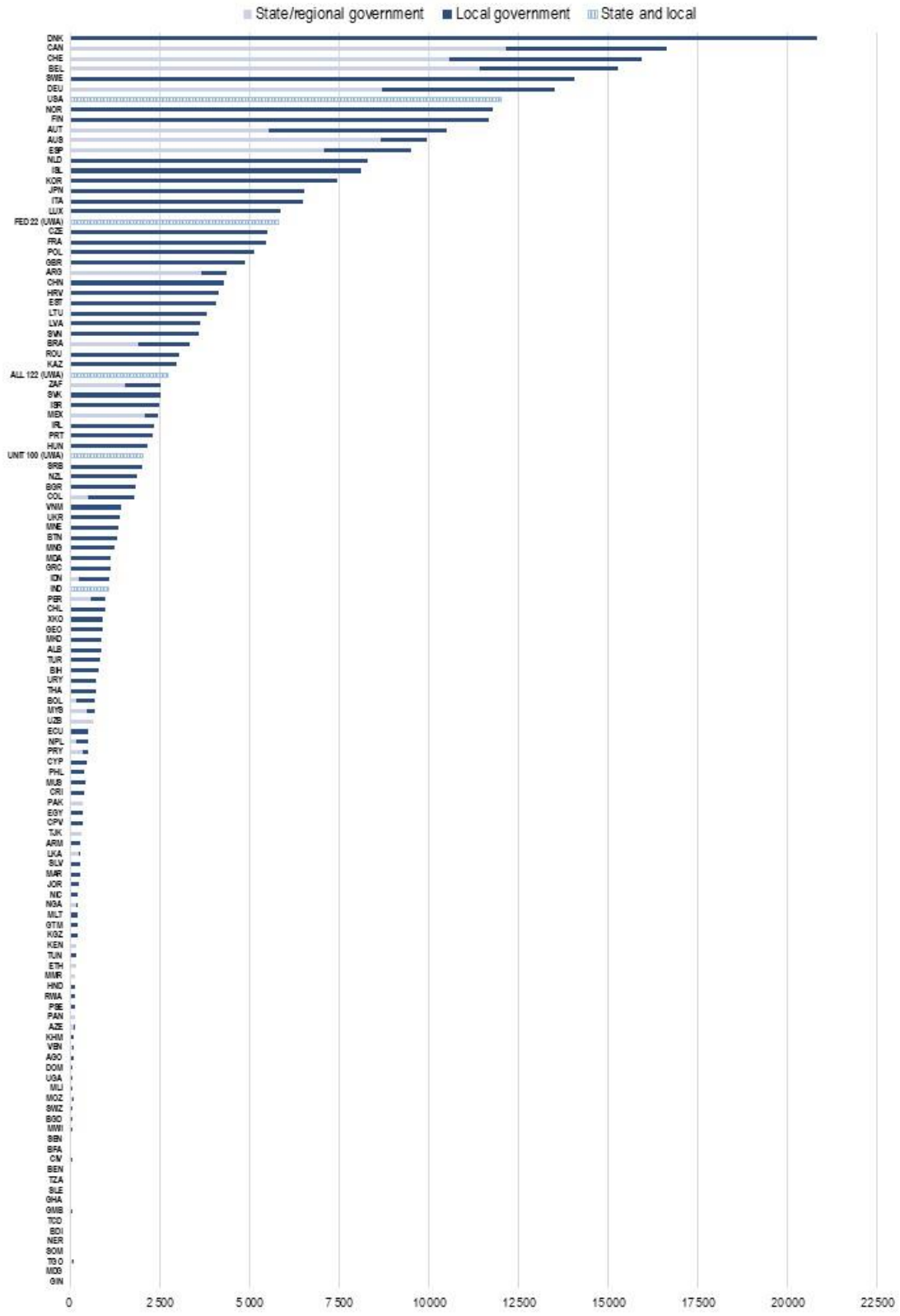
[2] For further detail on the limits of expenditure and revenue indicators, see Annex E.

At the other end of the spectrum are more centralised countries where subnational governments have limited spending responsibilities, resulting in low subnational spending values (less than 8% of GDP and 20% of public spending). This group encompasses 58 countries across different world regions, primarily Africa, the Middle East, West Asia and Latin America. On the other hand, 42% of Asia Pacific countries and 16% of European and Euro-Asian countries belong to this group. In addition, this last group of countries also comprises 7 OECD countries, in which subnational government spending accounts for less than 5% of GDP in 2020 (Costa Rica, Ireland, Türkiye, Chile, Greece, New Zealand, and Luxembourg).

These figures reflect expenditure decentralisation in the subnational government sector in general. However, these expenditures are not evenly distributed among the various types of subnational governments belonging to this sector. In some countries, they can be highly concentrated in the regional or in the municipal level, or even in one specific municipality or region, often the capital (e.g. Jordan, Mauritius).

In 2020, subnational government expenditure amounted to USD 2 713 PPP per capita on unweighted average at global level for a sample of 122 countries. Again, there are significant variations across countries and groups of countries. Subnational spending in federal countries is higher, amounting to USD 5 808 PPP per capita vs USD 2 010 PPP per capita in unitary countries. Among federal countries, the share of expenditure carried out by local government compared to that of state government varies widely across countries: while local governments (including municipalities) are responsible for more than 35% of total subnational expenditure in Austria, Brazil, South Africa and Nepal, local governments account for a lower share (below 17%) in Argentina, Mexico and Australia.

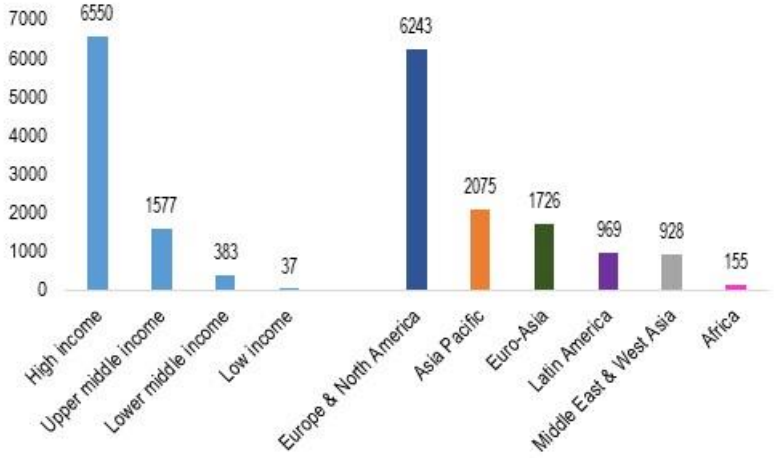
Figure 2.5. State and local government expenditure in USD PPP per capita (2020)



Note: In the United States, Pakistan, Ethiopia, Somalia and India, there is no disaggregated data for state and local governments.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org

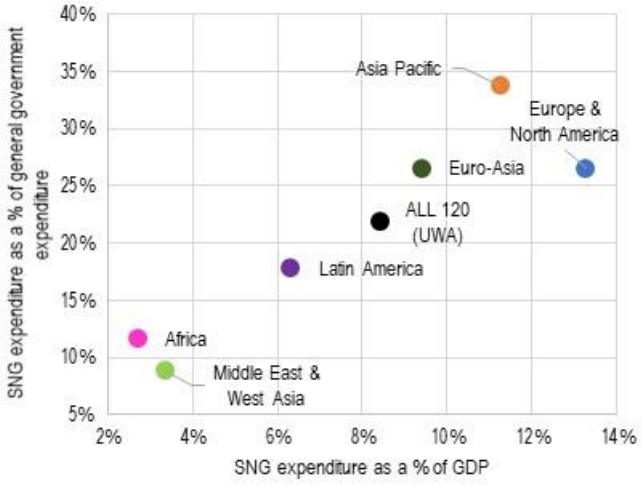
By income group and geographical area, there are similar discrepancies: the average of subnational government expenditure amounts to USD 37 PPP per capita in low income countries, vs USD 6 550 PPP per capita in high income countries; USD 155 PPP per capita in Africa vs USD 6 243 PPP per capita in Europe and North America (Figure 2.6). As a share of public expenditure, subnational government expenditure accounts for 33.7% in the Asia Pacific region, i.e. the highest ratio in all five regions. As a share of GDP, Europe and North America ranks first (13.3%). The Middle East and West Asia as well as Africa rank last among the five regions both as a share of GDP and as a share of total public spending, respectively (Figure 2.7).

Figure 2.6. Subnational government expenditure by income group and world region in USD PPP per capita, 2020



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Figure 2.7. SNG expenditure as a % of GDP and public expenditure by world regions (2020)



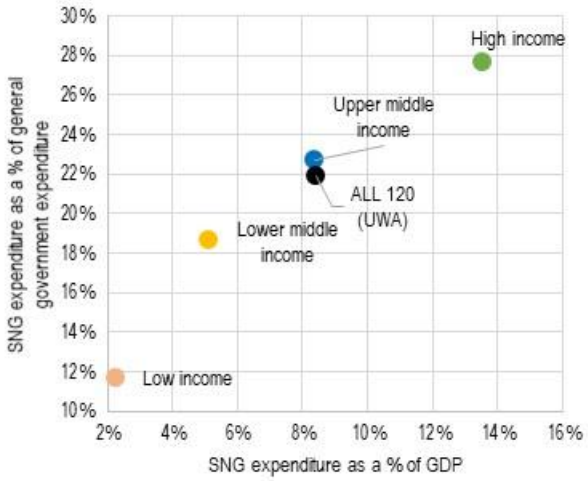
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

The level of decentralisation of expenditure is positively correlated with the level of development of countries

High income countries have the highest level of subnational spending as a share of GDP and total public spending, whereas low income countries show, for their majority, lower levels of subnational spending (Figure 2.8 and Figure 2.9)

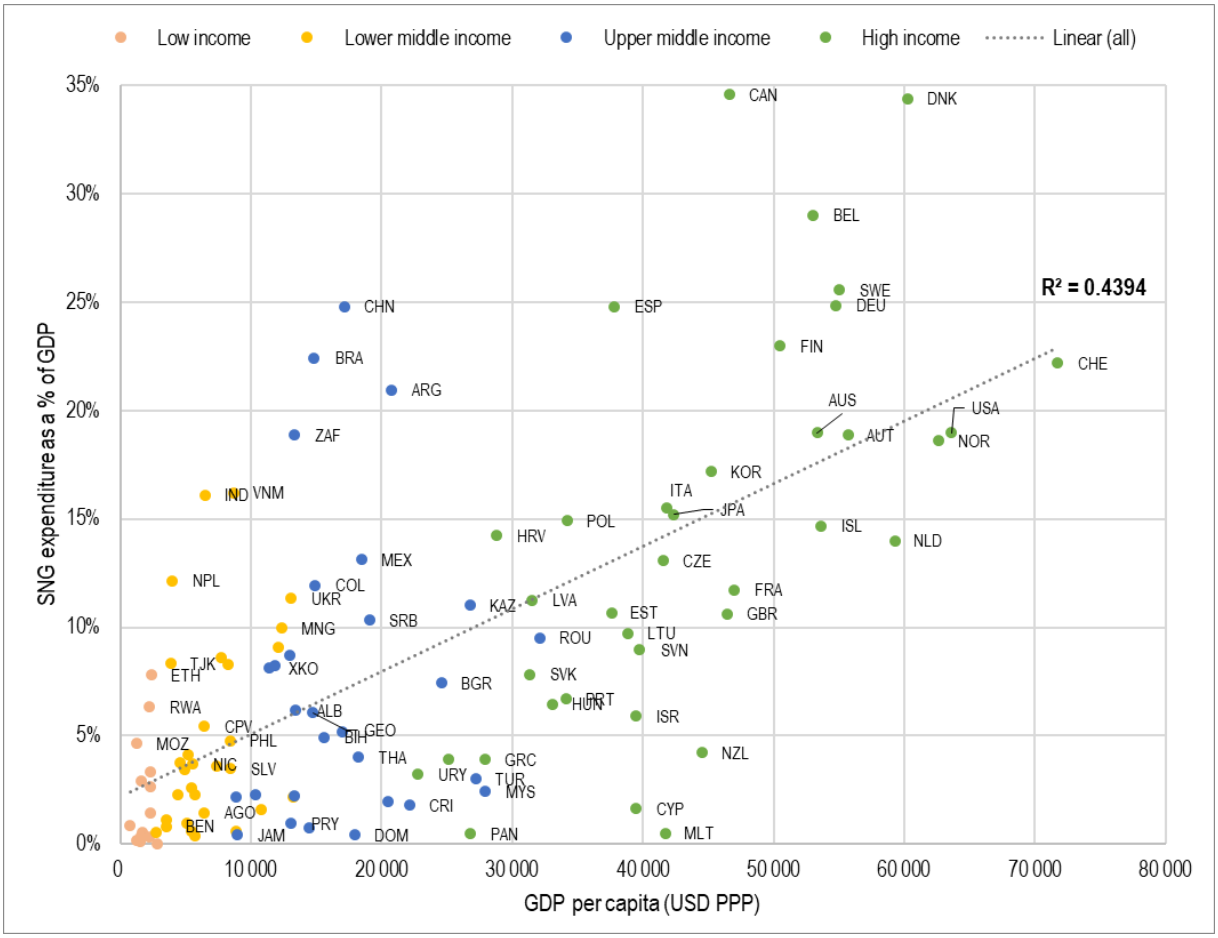
Descriptively, this suggests that wealthier countries tend to be more decentralised and implies, by contrast, that centralised countries tend to be less wealthy. Nonetheless, it is impossible to conclude from these correlations whether decentralisation favours development, or whether it is higher levels of development that lead to more decentralisation.

Figure 2.8. Subnational government expenditure as a % of GDP and public expenditure by income group (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org

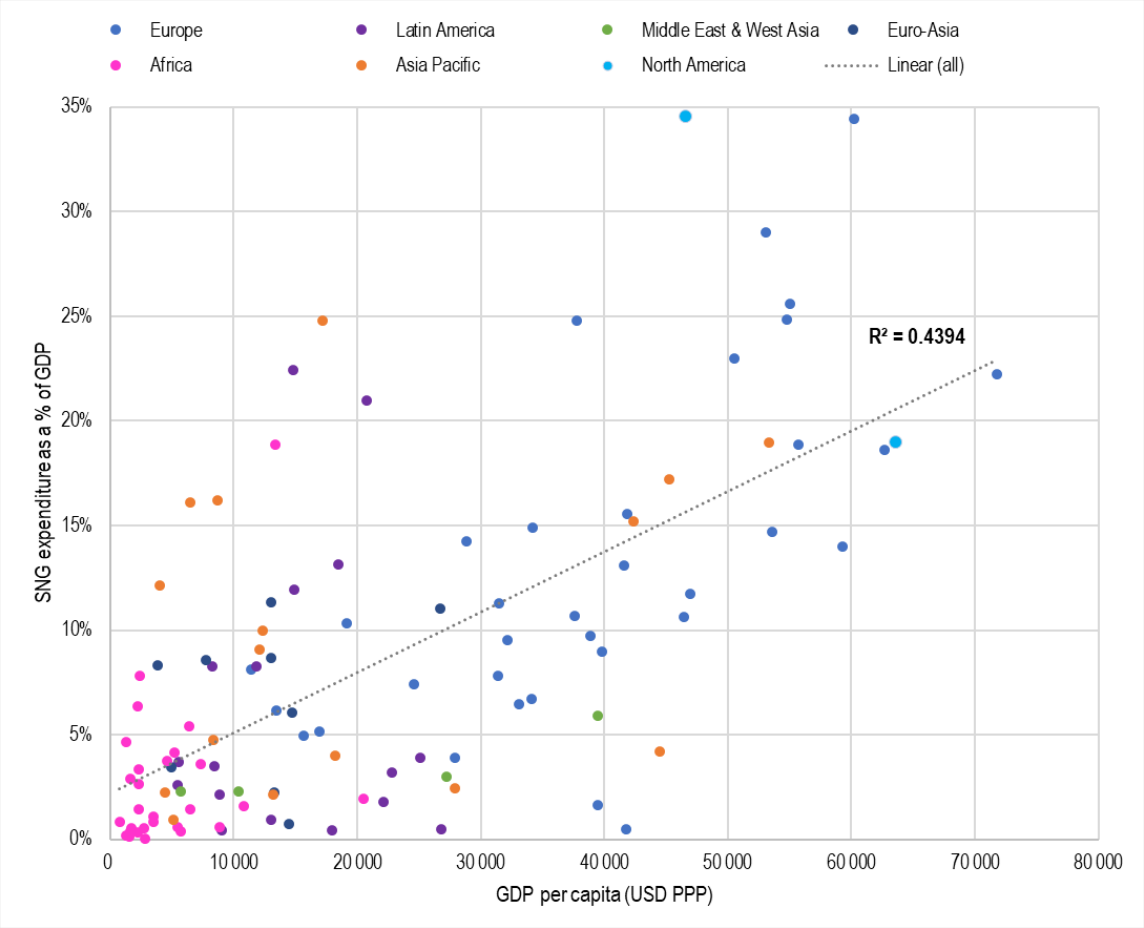
Figure 2.9. Subnational government expenditure as a % of GDP and GDP per capita by income group (2020)



Note: Luxembourg and Ireland are not included on the graph as they represent extreme cases due to their high GDP per capita.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

In addition, it is vital to note that there are several examples that fall outside the main patterns illustrated by the averages in Figure 2.8. Some high income countries show low levels of subnational spending, such as Israel, Ireland or New Zealand, while several low or middle income countries display relatively higher values of expenditure at the subnational level, such as Burundi, Gambia and Viet Nam. In addition, the positive association between GDP per capita and subnational expenditure does not hold for upper middle income countries, with some countries having relatively large values of subnational spending (Thailand, Brazil, Peru, Malaysia, Paraguay) while others remain rather low (such as Georgia, Bosnia and Herzegovina, Colombia, Jordan, Mauritius) (Figure 2.9).

Figure 2.10. Subnational government expenditure as a % of GDP and GDP per capita by world region (2020)

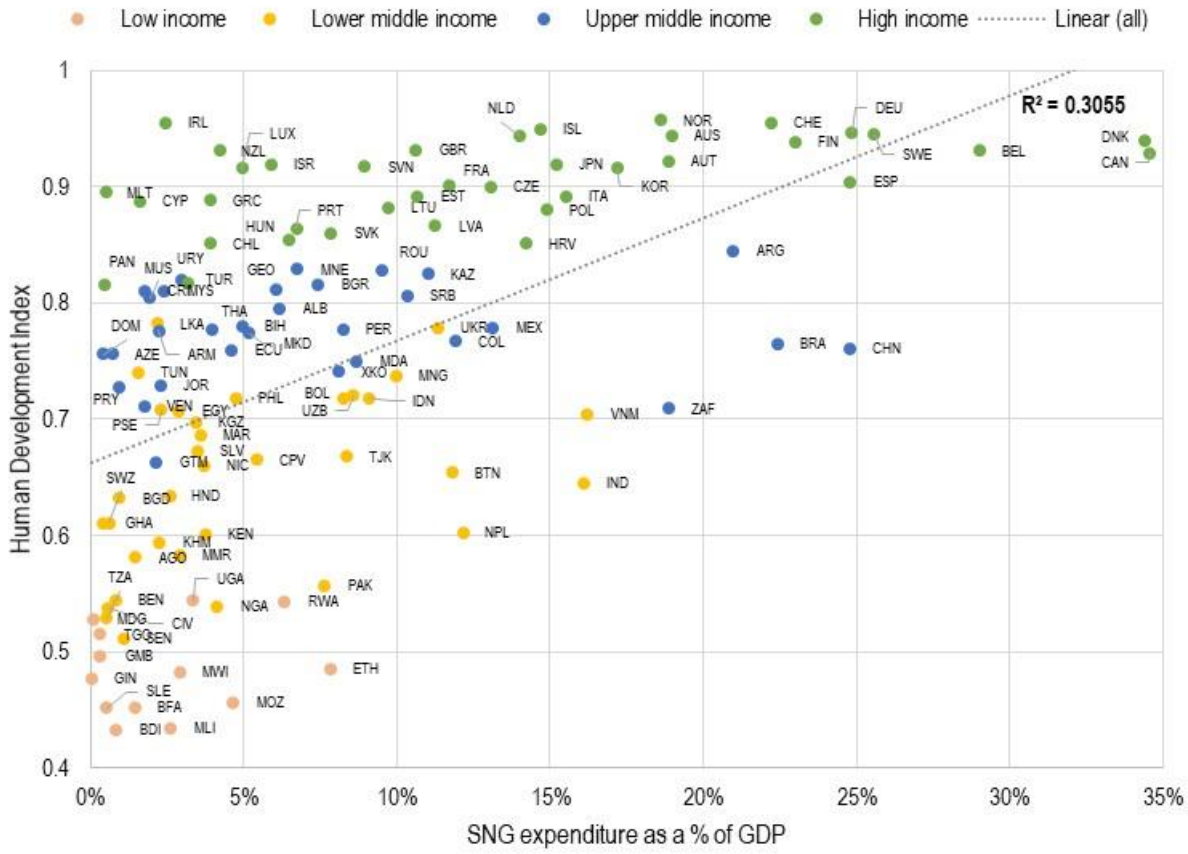


Note: Luxembourg and Ireland are not included on the graph as they represent extreme cases due to their high GDP per capita.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Interestingly, the correlation between subnational expenditure and GDP per capita is strong for European countries, relatively less so for Euro-Asian and Latin American countries, and somewhat weaker for the Asia Pacific and African countries included in the sample (Figure 2.10). This indicates that, beyond the level of wealth, many other geographic, socio-economic, historical, and institutional factors are behind a country's degree of decentralisation and level of wealth.

Lastly, although no causality can be drawn, Figure 2.11 shows that subnational expenditure and the level of human development are somewhat positively associated. In particular, countries where the share of subnational government expenditure in GDP goes beyond 25% are all high income countries. On the other hand, low income countries are all concentrated in the bottom left-hand corner. However, there are many disparities across country groups, with several high and upper middle income countries displaying low shares of subnational government spending in GDP.

Figure 2.11. Subnational government expenditure as a % of GDP and Human Development Index by income group (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

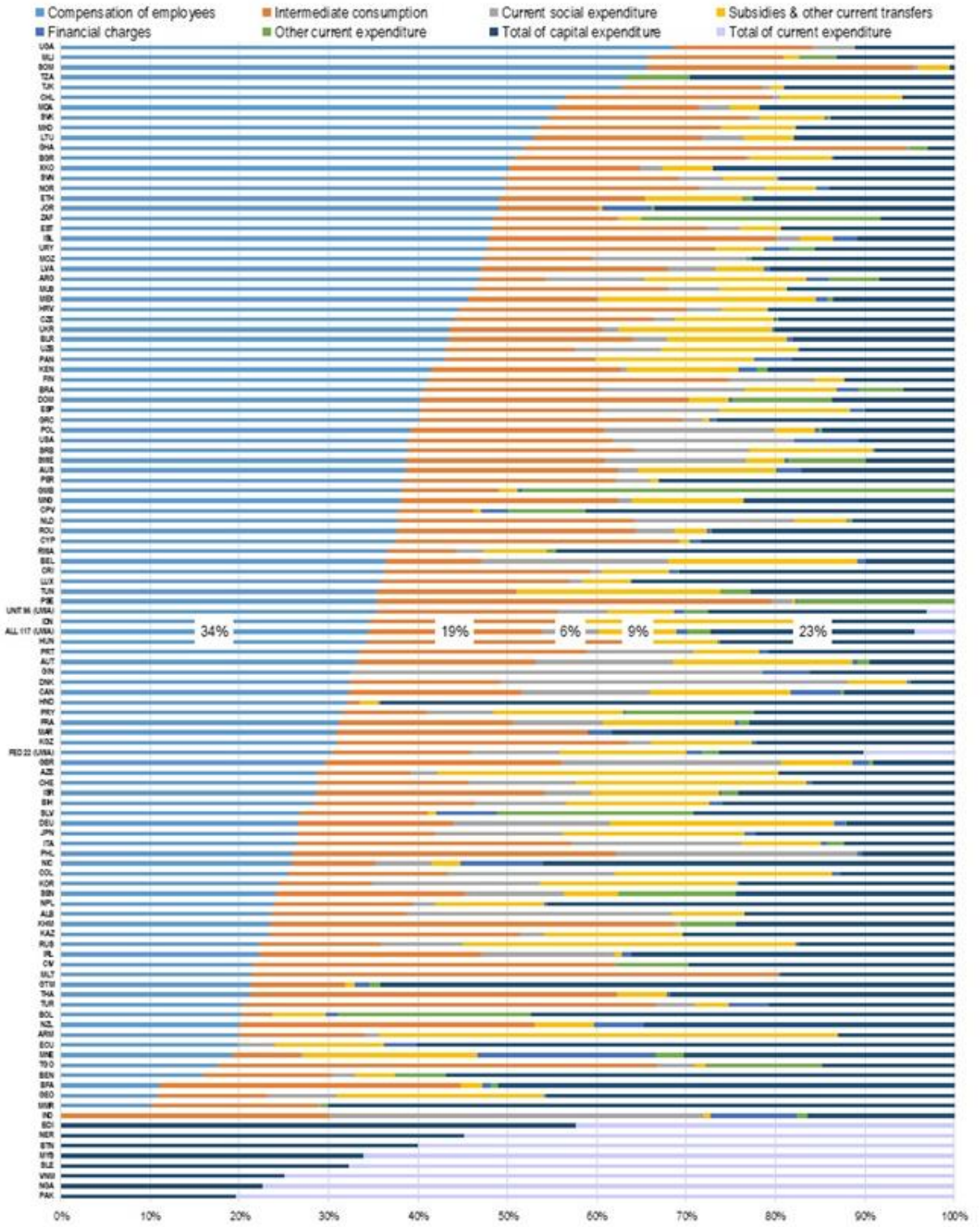
Staff expenditure is the top spending item for subnational governments

Staff expenditure, intermediate consumption (purchase of goods and services) and capital expenditure (capital transfers and direct investment) are the top three spending items of subnational governments as a share of total subnational government expenditure on unweighted average and for a sample of 107 countries (Figure 2.12).

Staff expenditure is the most important expenditure item, accounting for 35.3% of subnational government spending. It is followed by capital expenditure and intermediate consumption, accounting respectively for 24.4% and 20.4% of total subnational expenditure. Intermediate consumption includes a wide variety of items such as small equipment and supplies, maintenance and repairs, general expenses, heating and electricity, communications and IT, studies, consulting, insurance, etc. This spending category can fluctuate considerably depending on changes in certain components such as energy (fuel, electricity), commodities or VAT rates.

The next biggest categories are subsidies and other current transfers (7.4%), current social expenditure or social benefits (5.6%), other current expenditure (2.7%) and financial charges (1.1%) – mainly interest expenses. In aggregated terms, current expenditure accounted for 72.5% of total subnational government expenditure in 2020.

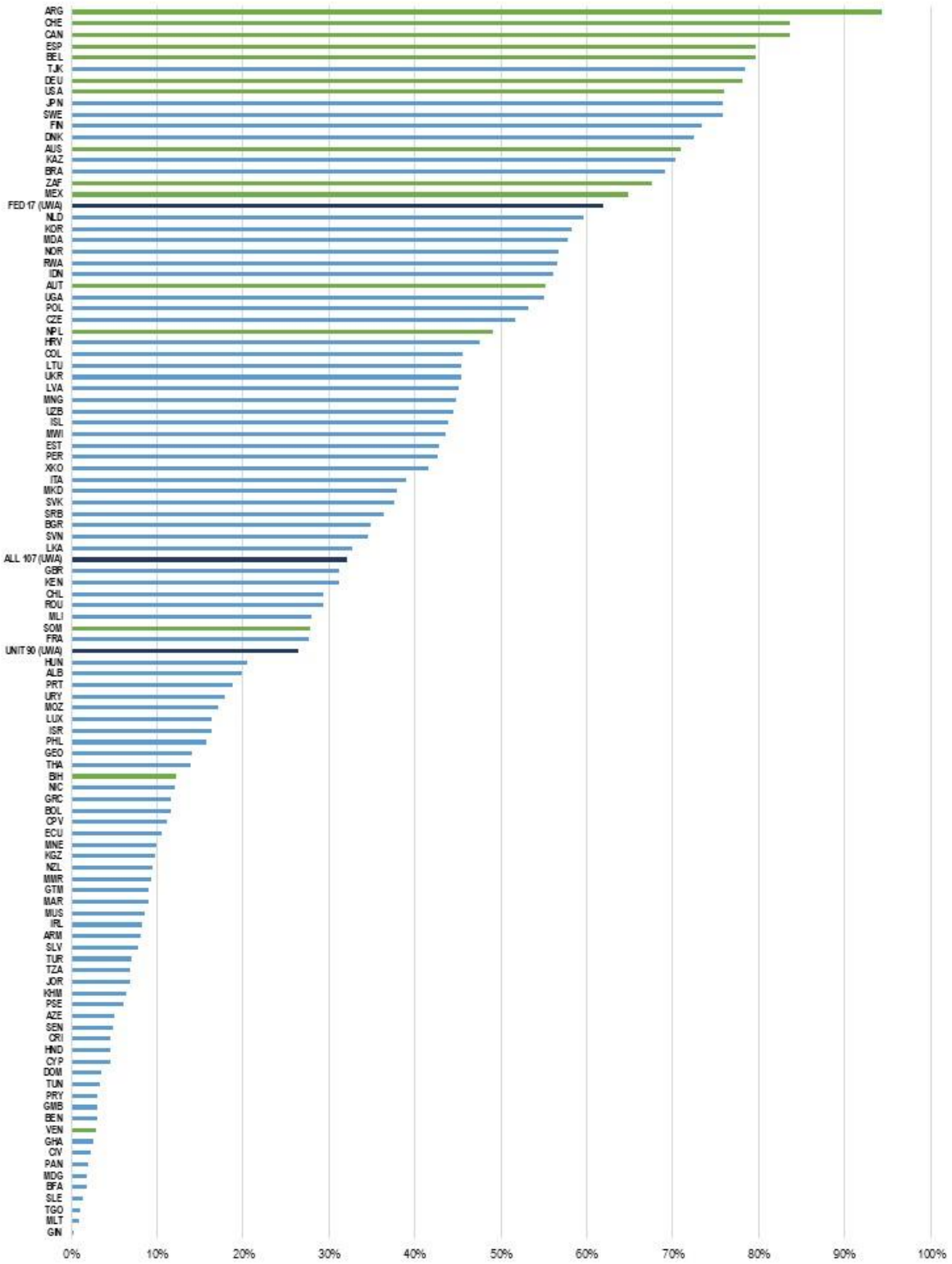
Figure 2.12. Subnational government expenditure by economic classification (2020)



Note: The breakdown into different economic categories of subnational government expenditure is not available (either fully or partially) for the following countries, which only provide data for all current expenditure instead: Argentina, Bhutan, Burundi, Malaysia, Niger, Nigeria, Pakistan, Sierra Leone, South Africa and Viet Nam. These countries are not included in the estimation of sample averages.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Subnational governments are key public employers in several countries around the world. In 2020, they accounted for 32.1% of total public staff expenditure on average. They exercise this function either directly or on behalf of the central government, mainly in sectors such as education, health, social services or public order (local police force).

Figure 2.13. Subnational government staff expenditure as a % of total staff expenditure (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

In most federal countries, subnational governments employ the majority of public sector workers (Figure 2.13). Subnational government staff spending in these countries amounted to 62% of total public staff expenditure on unweighted average in 2020. However, there are some countries below the federal average, such as Venezuela (3%), Somalia (27.8%), Nepal (49%) and Austria (55.2%).

State/provincial governments tend to account for the largest share of subnational staff expenditure in federal countries (64%) on average. In Australia, Mexico and Argentina, states and provinces account for more than 80% of total subnational expenditure. On the other hand, local governments account for 36% of subnational staff expenditure. However, in Nepal, Canada, Brazil, Venezuela and Austria, the share for local governments is above the average.

In unitary countries, subnational governments in general account for a smaller share of public staff expenditures, at 26.5% of all government personnel expenditure on unweighted average in 2020. Some unitary countries are well above the average, in particular Tajikistan, Japan, Sweden, Finland, Denmark, and Kazakhstan. In these countries, subnational governments employ more than 70% of public workers, primarily in the social and health sector.

Box 2.2. Impact of COVID-19 on subnational governments' expenditures

The COVID-19 crisis has had a strong impact on subnational government expenditure, requiring governments at all levels to strike a balance between current and capital expenditure. In countries with decentralised service provision, subnational government expenditure generally increased between 2019 and 2020**,** although this varies significantly across countries. For example, total subnational expenditure increased on average by 2.4%, in real terms, between 2019 and 2020 for 38 OECD countries, including EU countries. Current social expenditure as well as subsidies and current transfers ballooned by up to 6.5% and 25.2% in real terms respectively as a result of COVID-19 response measures.

This is especially the case in federal countries (Germany, Brazil), but also some decentralised unitary countries (Ghana). This is due to emergency expenses that were directly related to the health crisis (e.g. purchase of protective equipment, vaccines), but also, indirectly, to the additional expenses related to mitigating the impact of the economic crisis on households and businesses (e.g. social protection).

However, a minority of countries have seen a drop in their subnational government expenditure in 2020 compared to 2019 (e.g. Serbia, El Salvador, Kyrgyzstan), due to the recentralisation of spending responsibilities at the central government level and in deconcentrated state bodies.

Due to the scissors effect caused by the increase in expenditure and decrease in revenue, many subnational governments were forced to implement sharp cuts in capital spending in 2020 and beyond. Between 2019 and 2020, the increase in subnational spending in OECD countries was mainly due to the increase in current expenditure (2.6% in real terms), with almost no increase in capital expenditure. The total increase of direct investment on average in the OECD was only 0.28% in real terms, but it dropped in 19 out of 38 OECD countries. Subnational direct investment decreased in real terms by 6% in Austria, by 11% in France, by 15% in the UK, and by 16% in Türkiye. These cutbacks nevertheless jeopardise efforts for a co-ordinated recovery response at the country level and weaken the equity and quality of service availability among subnational governments. In fact, investment projects in many countries have been postponed since 2020 (e.g. Bolivia, Armenia).

To counter the impact of COVID-19 on subnational government expenditure, central governments have adopted a range of measures. These measures have come in various forms: easing spending responsibilities devolved to subnational governments (Slovenia, Germany) to decrease spending pressure; temporarily transferring spending responsibilities to the central government; reducing certain expenditure items in subnational budgets (Poland, Burkina Faso); temporarily exempting subnational governments from taxes and contributions payment (Poland); and supporting temporarily some spending costs such as interest payments (Germany, Cabo Verde); or even granting municipalities a grace period for debt repayment (Cameroon, Brazil).

Subnational governments, however, have resorted to inter-municipal co-operation and other initiatives to pool service provision to reduce costs (Armenia).

Other measures aimed at supporting subnational investments in the perspective of recovery included securing investments projects (Poland). Fiscal rules have also been temporarily eased for subnational governments, lifting expenditure ceilings for both coronavirus-related operating expenditures and investmennmark).

Source: (OECD, 2021[40])

2.4. Subnational budgetary policies

Although most budgetary policies are intended to reform financial management systems, innovative subnational budgeting practices including priority budgeting (gender, SDGs or green budgeting) and participatory budgeting are starting to emerge, mostly in decentralised and decentralising countries, as a tool for subnational governments to achieve strategic priority objectives and increase accountability (OECD, 2022[10]).

Budgetary practices to achieve strategic priorities at subnational government level

In several countries included in this third edition of the report, subnational governments must align their annual or multi-annual budget with strategic priorities and development plans. These plans can be set either at the regional/state, national or international level, and aim to facilitate integrated action by helping each level of government understand and work towards achieving agreed-upon, long-term development objectives.

To reach these goals, several countries are currently enacting public finance management reforms to improve their budgetary system. In 2020, Lithuania passed the Law on Strategic Management of the Republic of Lithuania in order to reform its budgetary system. The law established a new integrated model of strategic management, which includes strategic planning, regional development and spatial planning processes, to ensure efficient planning and use of public finances in line with national development programmes. In Cambodia, through its Subnational Budget System Reform Strategy 2019-2025, the central government aims to improve subnational policy outcomes and to strengthen public finances by reinforcing budget-policy linkages and enhancing fiscal balances. In Uganda, the central government is working to deepen and consolidate reforms in Public Financial Management at subnational government level, to further strengthen and sustain accountability, transparency and efficiency in public expenditure management. The initiatives include the promotion of “Programme Based Budgeting”, by focusing on outputs and outcomes to assess the achievement of strategic objectives. It also encompasses the implementation of Integrated Financial Management Systems and other computerised Financial Management Systems in 115 districts and 41 municipal councils.

Finally, budgetary practices can also be implemented to align subnational government budgets with the achievement of the Sustainable Development Goals (SDGs), in particular in African countries (Box 2.3).

Box 2.3. Aligning subnational budgets with the Sustainable Development Goals (SDGs): country examples

In Guatemala, municipalities start their budgetary cycle by drafting their Annual Operational Plans, which must be aligned with a series of strategic documents, including the 2032 K'atun National Development Plan and the Sustainable Development Goals (SDGs).

In Mali, the central government has adopted a National Gender-Responsive Planning and Budgeting Strategy for the implementation of gender-responsive budgeting practices at the subnational government level.

In Sierra Leone, the National Decentralisation Policy of 2010 was updated in 2020 with the aim of better aligning the role of local councils with the country's_National Medium-Term Development Plan 2019-2023, and with the implementation of the SDGs.

Source: (OECD/UCLG, 2022[13])

Budgetary processes can also be used to promote the achievement of climate and environmental objectives, by implementing green budgeting practices. Green budgeting is defined as "using the tools of budgetary policy making to help achieve environmental and climate objectives". It is a concrete, practical tool that governments can use to address climate change, biodiversity loss, and environmental degradation. In recent years, as an ever-growing number of regions and cities have set ambitious climate and environmental targets, the interest in subnational green budgeting has also grown steadily as has the number of subnational governments implementing green budgeting practices across the globe (OECD, 2022[10]).

Among the countries in the dataset of this report, only a small group has been identified as having subnational green budgeting exercises, mostly in Europe with some other cases found in Asia Pacific and Africa. France stands out for having a large number of green budgeting exercises at all levels of subnational government: regional, departmental and municipal. At the regional level, the regions of Bretagne, Grand-Est and Occitanie have launched a green budgeting practice based on the Institute for Climate Economics methodology, which aims to help governments assess their green spending and thus re-orient them towards climate transition. The departments of Alpes-Maritimes and Mayenne have also carried out a green budgeting exercise. At the municipal level, several municipalities have also adapted the climate budgetary assessment methodology to their specific contexts. This is the case in the City and the Metropolis of Lille, the City of Paris, the Eurometropole of Strasbourg and the municipality of Clermont-Ferrand) (OECD, 2022[10]).

Spain is another country where green budgeting has been implemented at the subnational level. The autonomous community of Andalusia is particularly remarkable with its "Green Budget" initiative, which is a new way to implement fiscal policies whose objective is to align Andalusia's revenues and expenditures with environmental objectives. Moreover, it includes a "Green Fund" which provides financing to all the projects presented by the different administrative centres interested in ensuring that their investments be green according to environmental standards.

In Asia Pacific, several countries have undertaken initiatives related to climate budget tagging and green budgeting, including Cambodia, Indonesia, Nepal, India and the Philippines. While in some countries, such as Indonesia and the Philippines, subnational climate budget practices have followed the prior implementation of green budgeting practices at national level, in others such as India, subnational green budgeting has emerged on its own.

More recently, in South Africa, the National Treasury has led a project with the support of the World Bank to carry out several climate budget tagging exercises at national, provincial and municipal levels, with the objective to develop an overall methodology adapted to national specificities (OECD, 2022[10]).

While green budgeting exercises are still rare at the subnational level, other less constraining practices can take place to align budget management and climate goals. For instance, in Kenya, county governments must align their local budget plans and projects with the Climate Change Act of 2016 and the National Climate Change Action Plan 2018-2022. In Guinea, local governments' local development plans and capital investment plans must be aligned with the national impact mitigation programmes, which set objectives in areas such as environment protection, sanitation and waste management.

Subnational government budgetary practices to increase citizen participation and transparency

Subnational governments can also set up initiatives to increase transparency, communication and public participation in their budgetary process, in order to increase their accountability to higher levels of government and the general public. This is the case in several countries in Africa or Asia, where subnational governments seek to enhance accountability and legitimacy.

For instance, in Burkina Faso, several communes are undertaking initiatives to make their budget information public by drawing up citizen budgets and organising public accountability exercises with the support of civil society and non-governmental organisations, such as the Budget Information, Training and Study Centre (Centre d'information de formation et d'études sur le budget) and Citizenship Lab (Labo Citoyenneté). In Kenya, counties are required by law to ensure public participation through the budget preparation and county plans. In Mali, the Code of Local and Regional Authorities states that budget votes shall be preceded by a public debate. In Viet Nam, the government made an effort to increase transparency by publishing a "citizen-friendly" state budget online for the first time in 2022. In the Philippines, a Budget Modernisation Bill was sent for examination to parliament in 2021. It aims to streamline the management of public resources and to enhance accountability, transparency and citizen participation, especially through participatory budgeting.

Public participation is also promoted in countries with long-standing decentralised systems, such as Switzerland, whose fiscal framework stands out from other countries and other federations due to the active participation of citizens regarding fiscal matters. Any constitutional amendment, including provisions on the distribution of fiscal power, must be adopted by a double majority of the cantons and the people via a compulsory referendum. In addition, if a law is contested by a sufficient number of citizens, it must be submitted to a referendum (so-called "optional referendum").

Participatory budgeting is a concrete budgetary practice that subnational governments can use to enhance local accountability and citizen participation. It is a democratic process in which community members decide on how to spend parts of a public budget (OECD, 2022[10]). This approach builds on two different needs: improving public performance and enhancing the quality of democracy. Participatory budgeting varies from city to city, yet at its core it consists of a city, region, or even country setting aside a portion of its public budget, citizens then submitting project proposals, and finally citizens voting on which projects to fund using the allocated budget. The first participatory budget was in Porto Alegre (Brazil) in 1989 and has since been adopted by 2 700 national and subnational governments worldwide (Gelman and Votto, 2018[41]). The types of projects funded can be subject to various conditionalities: thematic (i.e. green or climate-related, health, education, basic services, etc.), placed-based (i.e. a specific neighbourhood, district, or city), and actor-based (i.e. focused on vulnerable communities, marginalised communities, youth, etc.) (OECD, 2022[10]).

Some examples of subnational participatory budgeting are highlighted in Box 2.4, which vary in terms of the nature and the scope of public participation.

Box 2.4. Examples of participatory budgeting practices at the subnational level

In Portugal, the city of Lisbon has been a leader in participatory budgeting and green participatory budgeting. Beginning in 2019, the entirety of the allocated participatory budget funds (EUR 2.5 million in 2020) has been directed towards green projects. Projects funded include the creation of greenspaces on unused wasteland, secure bicycle parking infrastructure, and urban gardens.

In Canada, several Canadian municipalities have implemented participatory budgeting as part of their annual budgeting process. The budget allocated to participatory budgeting is generally small, ranging from several thousand dollars to CAD 300 000, and tends to be focused on art, culture or municipal infrastructure projects. The City of Victoria is a unique example, as the priority of the city's annual participatory budgeting process changes yearly and has focused in the past on policy areas such as youth homelessness and newcomer integration.

In Mongolia, the law acknowledges the importance of community participation in the local budget process (Article 62 of the 2013 Integrated Budget Law), and particularly in the allocation of local development funding. In 2020, subnational capital expenditure represented 2% of Mongolia's GDP and 29.5% of general government capital expenditure.

In Kenya, county governments are required by law to ensure public participation during the entire budget preparation process. This implies that participatory processes identifying the key projects and programmes to be funded in the budget must be identified and discussed throughout the drafting of county plans. In other countries, laws on public participation are more flexible, encouraging (instead of requiring) municipalities to solicit recommendations from citizen advisory commissions. This is the case in Georgia, where municipalities are advised to organise general meetings with citizens to discuss spending priorities and identify which investment projects should be implemented at the local level.

Source: (OECD/UCLG, 2022[13])

2.5. Subnational public investment

Subnational governments are key public investors in many countries in the world

In 2020, subnational government investment[3] amounted to 39.5% of total public investment as an unweighted average from a sample of 93 countries (Figure 2.14). The importance of subnational governments in public investment in many countries around the world shows that public investment is a shared responsibility across levels of government. Managing relations between different levels of government through effective co-ordination and dialogue is thus crucial to ensure the efficiency and effectiveness of public investment (OECD, 2014[42]).

However, the share of subnational government investment in total public investment differs widely across countries, ranging from those countries where little to no public investment is undertaken at the subnational level to those where most public investment happens at the subnational level. Subnational government

[3] The way public investment is defined and measured varies across countries. In general, it refers to investment in physical infrastructure (e.g. roads, government buildings, etc.) and soft infrastructure (e.g. innovation support, research and development, etc.) with a productive use that extends beyond a year. Capital expenditure consists of investments (i.e. gross capital formation and acquisitions, less disposals of non-financial non-produced assets) and capital transfers (i.e. investment grants and subsidies in cash or in kind made by subnational governments to other institutional units). Gross fixed capital formation (or fixed investments) is the main component of investments (OECD, 2019[74]).

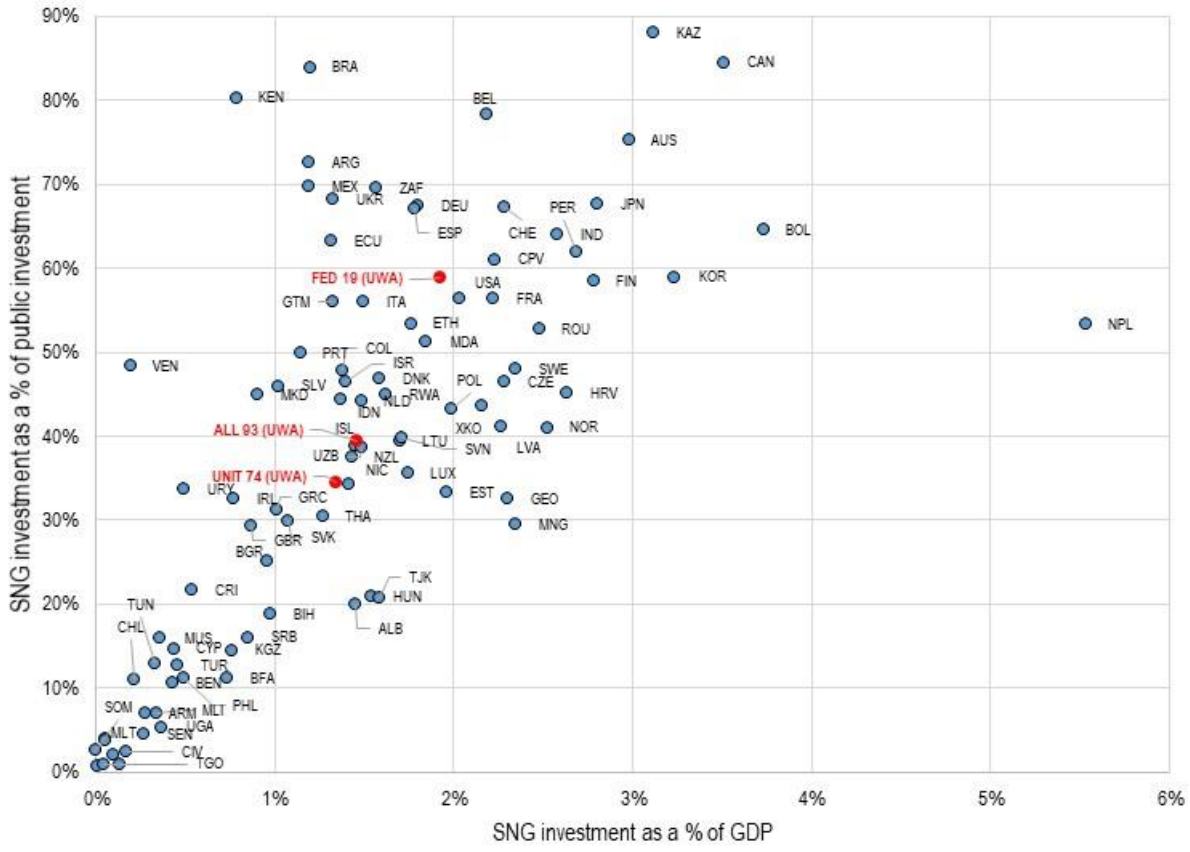
investment exceeds 50% of total public investment in 29 countries of the sample, and even 65% in 14 countries.

Overall, the share of subnational governments in public investment is larger in federal countries (59% on average) than in unitary countries (34.5%). In Kazakhstan, Canada, Brazil and Kenya, subnational investment is over 80% of total public investment. Canadian subnational governments, which are responsible for 84.5% of public investment, top the ranking of OECD countries together with Belgium (78.4%) and Australia (75.3%). Canada also ranks first in the OECD regarding subnational government investment-to-GDP ratio (3.5%).

Subnational governments are also a driving force of public investment in several unitary countries (Ukraine, Japan, Bolivia, Ecuador, Peru, Cabo Verde, among others), representing more than 60% of public investment.

In some countries, subnational government investment is concentrated in one or two individual regions, provinces or cities. This is the case for instance in Panama, where subnational government investment is concentrated in municipalities from the Panama province (where the Panama City is located), accounting for 86% of total subnational investment in 2020. In the Republic of North Macedonia, more than half of subnational government investment is generated in the capital city of Skopje, and in Mongolia, Ulaanbaatar, the capital city, is responsible for carrying out most subnational government investment.

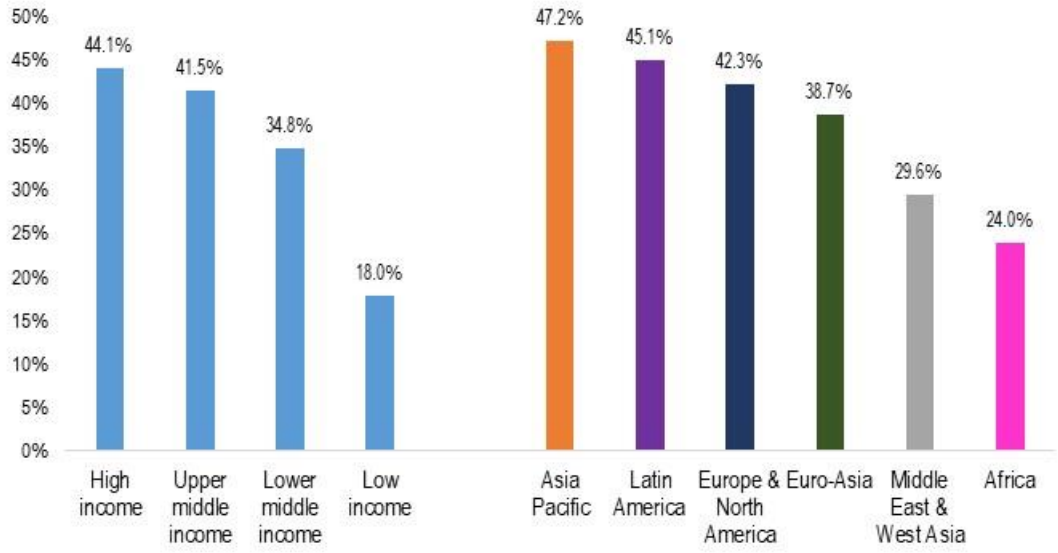
Figure 2.14. Subnational government investment as a percentage of GDP and public investment (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Subnational governments play a more significant role in public investment in high and upper middle income countries. Across G20 countries[4], subnational governments are responsible for almost 60% of public investment, well above the world average (OECD, 2021[43]). Subnational governments have an almost equivalent role in Asia Pacific, Latin America and Europe and North America, while in Africa, subnational governments' role in public investment is lower (Figure 2.15) (OECD, 2021[43]).

Figure 2.15. Subnational government investment as a percentage of public investment by income group and world region (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

In countries where the level of subnational government investment in total public investment is high, subnational governments also play a key role in achieving climate and environmental objectives. These findings are drawn from the OECD Subnational Government Climate Finance database[5], which covers a mix of 33 OECD and EU countries. An analysis of the database reveals that in 2019, subnational governments accounted for 63% of climate-significant public expenditure (1.1% of GDP) and 69% of climate-significant public investment (0.4% of GDP), on average (OECD, 2022[10]; OECD, 2022[44]).

[4] The members of the G20 are: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States, the European Union, and Spain as a permanent guest. This average does not include China or Saudi Arabia for which data are not available.

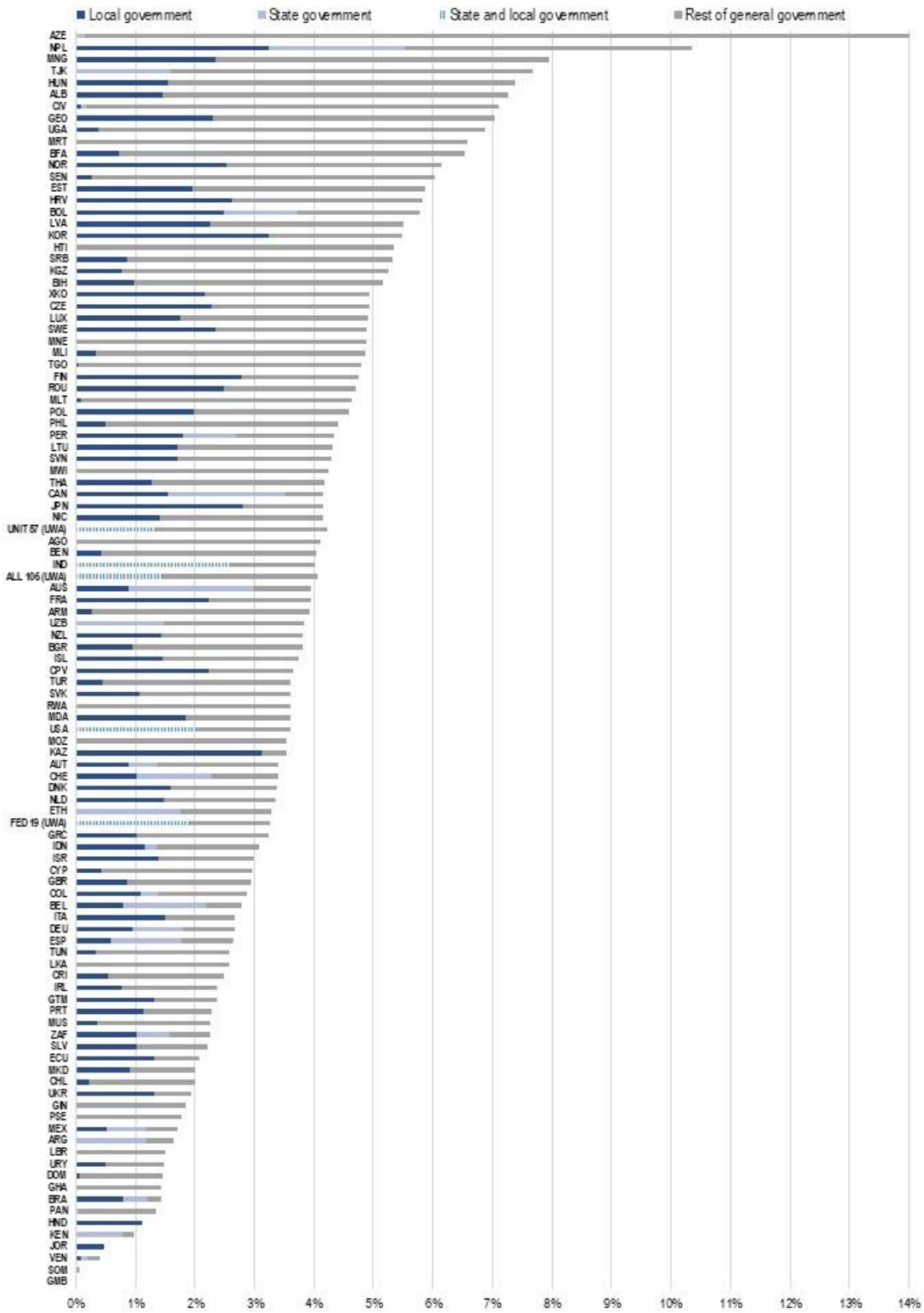
[5] The OECD Subnational Government Climate Finance database was developed in 2022 within the framework of a joint project with the European Commission. It includes subnational government climate-related expenditure and investment data for 33 OECD and EU countries for the period 2001-2019. The database contains data collected by using the OECD's pioneering subnational government climate finance methodology. It relies on COFOG data from the National Accounts database, a unique repository of internationally comparable and harmonised government expenditure data. Further information is available on the Subnational Climate Finance Hub: https://www.oecd.org/regional/sngclimatefinancehub.htm.

Public investment levels remain low in 2020 and have been hit by the COVID-19 pandemic

Despite evidence suggesting that the role of subnational governments in public investment is key, it also shows that public investment overall remains lower than levels from the 2008 financial crisis, below what is needed to drive sustainable economic development or to improve well-being in many countries.

At the national level, public investment amounts to 4.1% of GDP on average from a sample of 106 countries. There are large variations across countries as shown in Figure 2.16. In 2020, total public investment is over 10% of GDP in Azerbaijan and Nepal, whereas it represents less than 1.5% of GDP in Liberia, Uruguay, Dominican Republic, Ghana, Brazil, Panama, Kenya, Venezuela, Somalia and Gambia.

Figure 2.16. Public investment across levels of government as a percentage of GDP (2020)



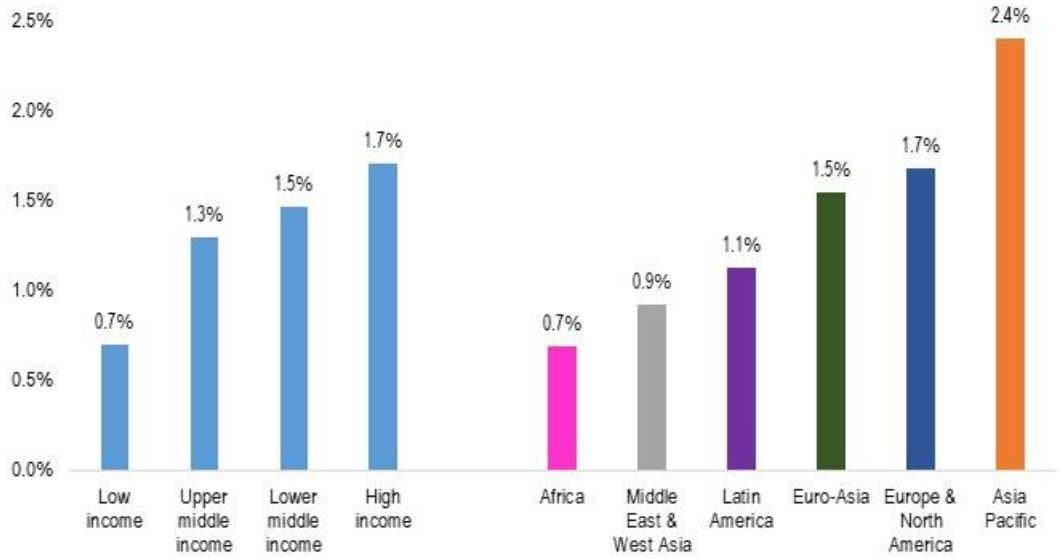
Note: No disaggregated data in India and the United States.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Subnational government investment accounts for 1.5% of GDP around the world (unweighted average). However, this value masks considerable differences among countries, from almost no investment made at subnational level in Malawi, to more than 5% of GDP in Nepal, and more than 3% of GDP in Bolivia, Canada, Korea and Kazakhstan.

In federal countries, the level of subnational government investment in GDP is slightly higher (1.9% of GDP) than in unitary countries (1.3% of GDP). There is a stark contrast between countries, as in several federal countries, the level of subnational government investment as a percentage of GDP is low, below 1.2% (Kenya, Mexico, Brazil), while by contrast, it is high in several unitary countries (Bolivia, Korea, Kazakhstan, Japan, Finland, Peru or Croatia).

Subnational public investment varies widely across income groups and world regions. While the high income country group tops the ranking, the level of subnational government investment as a share of GDP is slightly larger in lower middle income countries than in upper middle income countries on unweighted average. The share of subnational government investment as a percentage of GDP is the highest in Asia Pacific, where it is more than twice as high compared to Africa (Figure 2.17).

Figure 2.17. Subnational government investment as a percentage of GDP by income group and world region (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

For OECD countries, subnational public investment declined for eight years following the 2008 crisis, and it has started to pick back up since 2016. From 13.1% of public investment in 2016, subnational public investment reached 15.6% in 2020 in the 38 OECD member countries. The trend was similar for total public investment (including investment by both the central government and subnational governments), which declined by 0.9% between 2008 and 2016, due to the implementation of consolidation strategies in many OECD countries and the recovery of GDP in others, to reach 3% of GDP in 2016. It has increased subsequently, reaching 3.5% of GDP in 2020 in OECD countries (OECD, 2018[45]; OECD, 2022[46]). However, with the COVID-19 pandemic, the upward trend of direct investment has slowed. The total rise in direct investment on average in the OECD was only 0.28% in real terms, but it dropped in 19 out of 38 countries. Subnational direct investment decreased in real terms by 6% in Austria, by 11% in France, by 15% in the UK, and by 16% in Türkiye. This deceleration due to COVID-19 is expected to continue with other crises that unfolded in 2022, such as Russia's aggression against Ukraine.

Financing of subnational public investment: the role of subnational public-private partnerships and private sector financing

To meet the needs in terms of project delivery and infrastructure investment, subnational governments in many countries can harness Public-Private Partnerships (PPPs). A wide variety of PPPs exist. A broad definition is that a PPP is "a long-term contract between a private party and a government entity, for providing a public asset or service, in which the private party bears significant risk and management responsibility, and remuneration is linked to performance" (World Bank et al., 2017[47]; OECD, 2018[48]). This definition also includes public service contracts and concessions.

Potential benefits of PPPs for subnational governments may include enhanced project selection due to private sector analysis and innovation, improved access to private sector expertise and better lifecycle management due to long-term incentives, among other areas (OECD, 2012[49]; World Bank et al., 2017[47]; OECD, 2018[48]). For example, the private sector might better at managing certain risks (e.g., construction, implementation of user charges, operations) and have a stronger incentive to minimise whole-of-life costs, which might result in higher quality up-front investment that lowers ongoing operational and maintenance costs. In some contexts, a PPP may also provide access to funding sources and financing instruments (for example, where a private provider is better able to implement user charges than a subnational government).

PPPs also have costs and risks for subnational governments that need to be carefully assessed. Risks specific to subnational governments particularly relate to institutional capacity to successfully harness PPP projects and fiscal and regulatory frameworks (OECD/G20, 2022[50]). Some countries have created PPP agencies or units to provide targeted technical assistance to subnational governments (see below).

Overall, the use of PPPs at subnational level is more widespread in Europe, North America and Asia, while it is developing in Latin America and Euro-Asia. Some countries have evolved their PPP models and practices in recent years at the subnational level (e.g. the UK), with the aim to increase transparency and limit the risks of bypassing of fiscal rules.

On the other hand, the use of PPPs remains very limited in African countries. The limited use of PPPs by subnational governments can relate to the fact that these governments, in general, have low fiscal autonomy (based on own-source revenue, such as tax revenue and user charges) and tend to rely mostly on grants and subsidies from the central government. They may also not have sufficient expertise and capacity for project preparation, PPP financing and the management of a PPP contract, which are crucial to successfully deliver infrastructure investments.

Public Private Partnerships in federal countries

The use of public-private partnerships at the subnational level is relatively widespread in federal countries such as Australia, the United States and Belgium.

In federal countries, legislation and regulations on public-private partnerships are often designed at the state level and vary from state to state. For instance, Canada does not have PPP legislation in place at the national level, but some provinces and territories have implemented their own laws. The province of Manitoba, for example, passed the Public-Private Partnerships Transparency and Accountability Act in 2012, outlining rules for public sector organisations, including municipalities, to take part in PPP agreements. Six provinces have also created PPP agencies (e.g. *Société québécoise des infrastructures*) to supervise PPP implementation within the province and to assist municipalities in developing their own PPPs. In Germany, subnational PPPs contracted to finance investment projects account for the vast majority of total PPP investments in terms of volume (around 80%).

In the United States, PPPs are a matter of state or municipal regulation. Currently, 36 states plus the District of Columbia and Puerto Rico have dedicated PPP laws, many of which limit the use of PPPs to

certain kinds of projects. For example, in Virginia PPPs can only be used for transportation and education projects, and in Colorado, for transportation projects only.

In Belgium, where the number of PPPs executed at all levels of government is on the rise, the federal government set common and standardised procedures, while at the regional level, Flanders and Wallonia are responsible for establishing special PPP units to promote their use (the Flemish PPP Knowledge Centre and the Wallonia PPP unit, respectively). The regions also implemented integrated permit regimes to reduce deadlines and simplify PPP procedures on complex projects within their regions.

In other federal countries, the legislation on PPPs is more recent and still in progress. The Government of India has placed infrastructure upgrades high in its policy priorities. As a result, PPPs are also strongly encouraged, especially in urban sectors such as solid waste, water supply, sewage, and urban transport. These are also incentivised through the use of a "viability gap funding scheme" to support projects that are economically justified, but commercially unviable due to large capital investment requirements. The Twelfth Five Year Plan (2012–2017) in India also promotes the "4P" framework—People–Private–Public–Partnerships (not fully implemented yet). In Nepal, where the central government has wished to encourage the participation of the private sector in the financing of public investment since 1990, the Public-Private Partnership Policy 2072 (2015) and the Public-Private Partnership and Investment Act of 2019, allow PPP projects to be implemented at all levels of government. Several provinces have elaborated their own "PPP Bills" since then. In Mexico, the Program for the Promotion of Public-Private Partnerships in Mexican States (PIAPPEM), which was in place until 2015, was dedicated to supporting subnational entities in Mexico to create the conditions that would allow them to develop investment initiatives using PPPs.

In Nigeria, the Infrastructure Concession Regulatory Commission (ICRC) established in 2005 develops guidelines, policies and procurement processes for PPPs and collaborates with the states in implementing PPPs. This federal government agency also carries out workshops to strengthen subnational governments' capacities to implement capital projects. According to the PPP national policy, each state is responsible for its own investment projects but PPP projects within states can be financed with the support of a guarantee by the federal government. Only a few of the approved PPP projects were undertaken in collaboration with state governments in 2020. The Nigeria Public Private Partnership Network (NPPPN) aims to establish a harmonised framework for projects that cross state borders or require a federal guarantee, and to act as a platform for PPP peer learning across states.

Subnational Public-Private Partnerships in unitary countries

Depending on the country's degree of decentralisation and fiscal framework, PPPs may be a common investment approach in unitary countries. This is the case for instance in Italy, where PPPs are commonly used to undertake infrastructure projects, notably by regions which enjoy a large degree of autonomy. Contractual PPPs are mainly used by regions for infrastructure projects (building of new hospitals), while institutional PPPs are commonly used for managing public services at the local level. When undertaking PPPs, regional and local authorities are supported by the Ministry of Infrastructure and Transport with technical and administrative assistance for the planning and approval of infrastructure projects.

Subnational PPPs are also a common practice in several unitary countries, where their management is often centralised, in particular through the establishment of a dedicated PPP Unit within a central government or public agency. In the Netherlands, a PPP support unit was created in 2012 by the Ministry of Housing, Spatial Planning and Environment in order to make the central government's knowledge and experience of PPPs available to subnational governments and semi-public institutions. In Korea, the Public and Private Infrastructure Investment Management Centre has a PPP unit that provides technical assistance to subnational governments. In other countries, specific public agencies are in charge of supervising PPPs, such as the Latvian Investment and Development Agency in Latvia. In Lithuania, the Central Project Management Agency and the PPP Competence Centre provide support to subnational governments to develop and negotiate PPP projects (e.g. methodological guidance, tools for preparation

and evaluation). The cities of Vilnius and Kaunas also have specialised units to prepare and implement PPPs.

In Croatia, between 2016 and 2020, PPPs (announced and contracted) at the subnational level represented around USD 89 million in infrastructure investment. According to the Ministry of Economy and Sustainable Development, all projects between 2016 and 2020 have been carried out by municipalities, and generally focus on the maintenance and modernisation of public lighting, and the construction of medical, sports and cultural infrastructure. In Senegal, the Municipal Development Agency launched in 2021 the "Innovative Financing Project" which aims to support local and regional authorities in raising financial resources from private partners, through the financial market, the banking sector and PPPs.

On the other hand, subnational governments in some countries may be allowed by law to use PPPs, but their use remains limited. This is the case in several European and Euro-Asian countries, which can be explained by the minimal role played by subnational governments in public investment, or by the need for prior consent from the Ministry of Finance or another ministry if the value of the project exceeds a certain threshold (Slovak Republic). Kosovo's law on PPPs allows private participation for investments in the provision of Public Services and/or Public Infrastructure in all economic and social sectors, yet between 2016 and 2020, only two PPP projects were carried out in Kosovo, none of them municipal initiatives. In Malta, local councils are not commonly engaged in PPPs even though they are allowed by law, given their small role in public investment. This is the case also in Moldova, Slovenia. In Montenegro, the central government is currently working jointly with the IFC, the IMF and several bilateral partner countries in preparing a PPP law. In Poland, despite enabling legislation, subnational governments still usually choose the concession model instead of PPP contracts, particularly for smaller projects. In Armenia, prior to the enactment of the PPP law in 2020, PPP projects at the municipal level were implemented only in the form of concessions and mostly in Yerevan.

In the Asia Pacific region, the use of PPPs is widespread, and in countries where it is not already common, it is largely encouraged by the central government to promote subnational investment in infrastructure. In the Philippines, subnational governments at all levels can finance investment projects through PPPs, including social and environmental projects and solid waste management facilities. In China, where infrastructure investment relies heavily on PPPs, the central government set up an integrated PPP information platform in 2015 and issued regulations on PPPs in infrastructure and public services in 2017. In Mongolia, the central government has been seeking ways to encourage private participation in financing public infrastructure through various instruments, such as the Invest Mongolia Agency, which is responsible for the development of PPPs, alongside a PPP Unit within the Ministry of Industry. Most PPPs are carried out by the city of Ulaanbaatar, which has more responsibilities and fiscal autonomy compared to other subnational governments. Similarly, in Kyrgyzstan, PPP projects at the municipal level are only implemented in the capital city of Bishkek. Kazakhstan is another example of a country where the use of PPPs is well developed, mostly in sectors such as health care, education and sports and recreation facilities.

In most countries outside of Europe, Euro-Asia and Asia Pacific, the legislation enabling and promoting the use of subnational PPPs tends to be more recent. In Tunisia, the 2015 law on PPPs gave local governments the power to enter directly into PPPs as a means of boosting the local economy and developing social infrastructure projects. In Türkiye, the 11th Development Plan (2019-2023) mentions, among its priorities, the need to introduce a new regulatory framework to provide a common basis for PPPs. In Burkina Faso, the central government put in place a legal and institutional framework for the implementation of PPPs in 2013, and since then, a few pilot projects have been developed by some communes to build bus stations or markets. Other African countries have enacted legislation on PPPs only recently: Ethiopia in 2018 (Public-Private Partnerships Proclamation), Ghana in 2020 (Public-Private Partnership Act 1039) and Zimbabwe in 2019 (Zimbabwe Investment and Development Agency Act). In Latin America, Panama enacted Law 93/2019 on PPPs, which will permit the State, autonomous entities

and municipalities to enter into agreements with private partners for the provision of public services and public infrastructure.

While this section shows that PPPs are being promoted in several countries and world regions, they are used less often in certain European countries where subnational governments instead rely on alternative tools and mechanisms to finance public investment. This is the case in Nordic countries, where the existence of financing institutions for subnational governments facilitates subnational governments' access to financing.

Public investment by subnational governments plays an important role in the recovery from the COVID-19 crisis

Subnational governments are key recipients of COVID-19 stimulus funds and strategies

Among the countries included in the sample for this report, national stimulus funds and recovery packages to respond to the COVID-19 pandemic have often taken into consideration the role of subnational governments to implement and finance policies by channelling funds directly to them with the purpose of increasing subnational and national investments during the recovery phase.

Supporting subnational investment is a clear objective of the Recovery and Resilience Facility in the European Union, whose funds are to a significant extent channelled to the subnational government level in many countries, and of which 37% is allocated to climate action. For instance, in Belgium, about half of the national recovery plan (focused on climate action and digitalisation) will be implemented and monitored jointly by the federal state, the regions and the communities, which are all key investors. In Denmark, as part of the Agreement on the Finance Act for 2020 the central government has also encouraged municipalities to increase investments in infrastructure and renovation projects (schools, public facilities, public housing, etc.). In France, the *France Relance* plan focuses on territorial development and aims to accompany subnational governments in their post-COVID-19 recovery. In Germany, the federal government also introduced measures to improve local planning and capacity in order to boost further local investment, particularly in transportation and digital infrastructure (e.g. the Investment Acceleration Act and laws to increase the implementation of green transport).

In addition, the EU Enlargement Package and the adoption of the Economic and Investment Plan post-COVID both aim to address structural weaknesses and reforms for recovery in the Western Balkan region. The plan will mobilise up to EUR 9 billion of the Instrument for Pre-Accession Assistance (IPA III) funding for 2021-27, mostly directed towards key productive investments and sustainable infrastructure in the Western Balkans, some of which could be undertaken by subnational governments. For instance, in Bosnia and Herzegovina, to support municipalities throughout the recovery, discussions are on-going about the creation of a revolving fund for applications to the EU and international projects, developed through co-operation with the FBiH Government and the FBiH Development Bank.

Other mechanisms have been developed in other countries. The UK economic recovery policy includes a growth plan that established the UK Infrastructure Bank, to serve as a key investor and lender to local authorities, particularly for large-scale, climate-aligned infrastructure projects. In Australia, an AUD 1 billion COVID-19 Relief and Recovery Fund was established to support regions, communities, and industry sectors most strongly affected by the crisis. Among other benefits, this initiative has already provided AUD 100 million to fund Regional Recovery Partnerships, which will co-ordinate investments with other levels of government to support recovery and growth in 10 regions. In Chile, the "Step by step, Chile Recovers" (*Paso a Paso, Chile se recupera*) recovery plan prioritises, among its portfolio of projects, direct support to municipalities and enhanced mobility and integration of cities.

Regional and local recovery plans can help to manage the differentiated impact of COVID-19

Subnational governments in several countries play an active role in the COVID-19 recovery by promoting their own territorially specific recovery plans that take into account the social and economic shocks on local economies. This is particularly important given the heterogeneous impacts of COVID-19 on regions (OECD, 2021[40]).

States and provinces in federal countries played a particularly active role in this regard. In Canada, the provinces, territories, as well as some municipalities, have also released their own economic recovery plans. The province of Alberta launched its “Alberta’s Recovery Plan” in the summer of 2020 to respond to a simultaneous trifecta of challenges: a global economic recession, an unprecedented drop in oil prices, and the COVID-19 pandemic.

In Australia, state and territory governments have announced their own fiscal stimulus packages, amounting to a total of AUD 50 billion (2.5% of GDP). For example, the New South Wales Government Recovery Plan outlines an AUD 100 billion for infrastructure investment over four years to help drive employment growth.

In Belgium, regional governments and communities have also each drawn their own plans, focusing on the thematic areas that are most relevant to their territory. For example, the Flemish region puts emphasis on investment in the healthcare and welfare systems whereas the Brussels-Capital Region plans to invest in mobility, social housing, employment and the environment.

In Switzerland, several cantons have released their own recovery plans to support their economies throughout and after the pandemic. For instance, the canton of Freiburg issued a regional recovery composed of 25 measures, covering the areas of construction, mobility and energy, business competitiveness, training, consumption, tourism, agriculture, culture and sport.

In Pakistan, the governments of Punjab and Khyber Pakhtunkhawa have formulated their medium-term strategies for economic growth. These strategies guided the provincial governments in channelling their funding to spur economic activity. The government of the Punjab has also revised its medium-term Punjab Growth Strategy. The revised strategy takes into account the economic shocks due to the pandemic and provides strategic guidance for public investments in sectors in the post-COVID-19 period.

In unitary countries, subnational governments have devised their own recovery strategies, in particular at the regional level. In the Philippines, the Regional Development Councils have been tasked with elaborating Regional Recovery Programmes (RRP). The RRP are expected to outline the different challenges that a given region had to face during the COVID-19 lockdown period, the region’s recovery framework and strategic action plan as well as its proposed programmes to effectively recover economically and socially. The RRPs complement the Regional Development Plans for 2017-2022, in order to ensure that current development efforts continue despite the pandemic.

In the Netherlands, the 12 provinces were at the frontline to support the most affected sectors (e.g. culture, public transportation, regional economic development). Hence, they decided to establish a common Regional Economic Recovery Plan, with the aim of providing financial support to sectors hit by COVID-19 restrictions. In Lithuania, the two largest municipalities have developed post-COVID-19 Economic Development and Management Plans in May 2020, to sustain the local economy and recovery over the long term.

Recovery strategies post-COVID-19 with a territorial dimension focus on green and social agendas

Many countries have designed their COVID-19 recovery plans with the aim of fostering the recovery of a steady and sustainable growth trajectory after the pandemic by strengthening the country’s foundations for

green growth and low-carbon development. This is the case for example of Costa Rica's "Fiscal and Decarbonisation Management Development Policy Loan", funded with the support of the World Bank.

There are countries where this strategy has a territorial dimension and is therefore often developed by relying on subnational governments. This is particularly the case in federal or quasi-federal countries, such as Spain and Germany. In Spain, the post-pandemic economic recovery strategy emphasises investment for the green transition and the digitalisation of the economy by granting dedicated funds to the Autonomous Communities and municipalities to invest in energy efficiency, digitalisation and electric mobility in public transport. In Germany, the environment is a strong component of the German recovery package, notably concerning the coal mining regions of the country. In India, the central government is seizing the opportunity of the COVID-19 recovery to reform the energy sector, decentralised to the state level, in order to upgrade infrastructure through grant incentives.

Subnational governments also play a key role for recovery in some unitary countries, which aim to combine a green economic recovery and regional development policies. In Korea, the New Deal includes a Green New Deal component for a value of KRW 73 trillion (USD 51 billion). The Green New Deal should be implemented at a regional scale and guarantee that the future economic development will be balanced regionally by investing half of the total budget outside the Greater Seoul area. To reach this objective, provincial governments have been preparing Regional Green New Deals. Subnational governments will be key stakeholders in the implementation of this Green New Deal.

3. Where do subnational governments get their revenue?

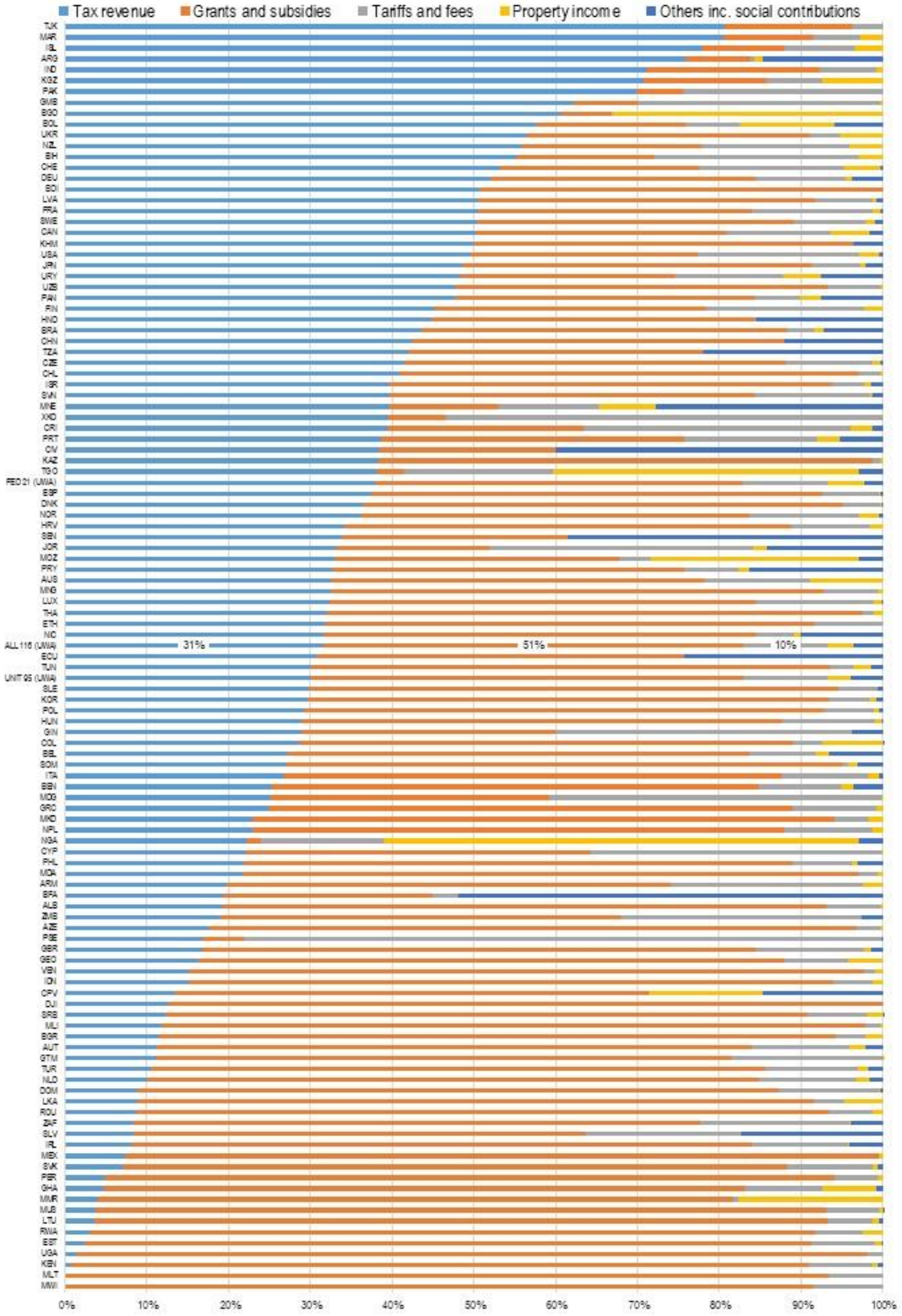
3.1. Overview of subnational governments' sources of revenue

Subnational revenue represents 25.9% of total public revenue or 8% of GDP on unweighted average in the 122 countries included in the sample with available data, amounting to USD 2 617 PPP per capita on average. Similar to the data for expenditure, the importance of subnational revenue varies widely across countries, primarily due to the differences in institutional settings, the assignment of responsibilities, and income level. Similarly, the share of subnational government revenue in GDP and public revenue is significantly higher in federal countries than in unitary countries: 15.6% vs 6.4% of GDP and 51.9% vs 20% of public revenue on unweighted average. Subnational government revenue in federal countries is on average USD 5 587 PPP per capita, compared to the USD 1 963 PPP per capita for unitary countries. Subnational revenue has increased from 8.6% to 9.3% in terms of GDP and from 25.7% to 28.1% in terms of total public revenues, when comparing the same 104-country sample of the previous edition of this report between 2016 and 2020 data.

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

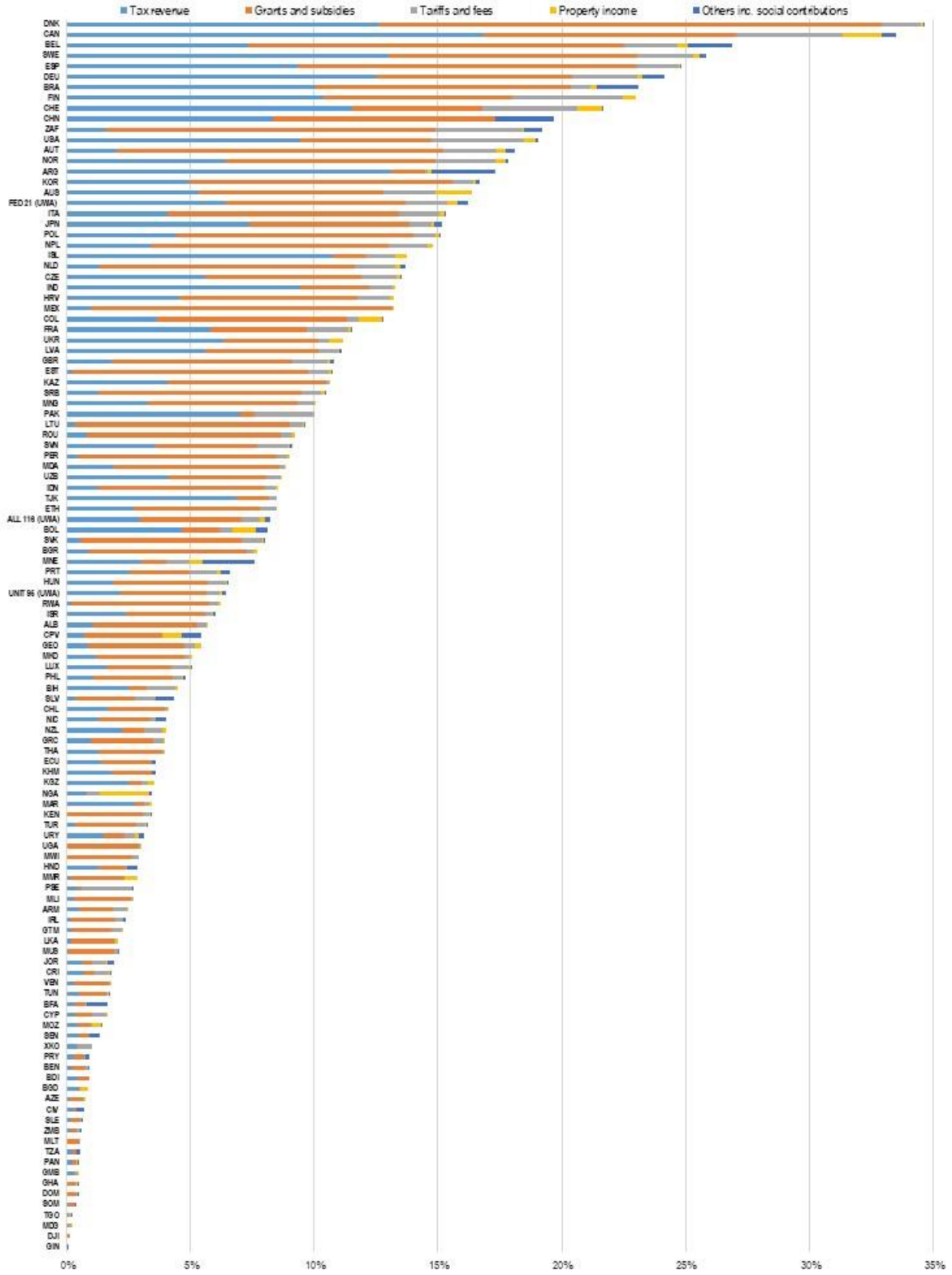
Subnational governments are funded by five main sources of revenue: tax revenue, grants and subsidies, user charges and fees, property income and other revenue (e.g. social contributions, revenue from local companies, revenue from natural resources). Grants and subsidies represent the primary source of subnational revenue in over a half of the countries in the sample with available data. For all countries in the sample, grants and subsidies account for 51.5% of total subnational revenue and 4.1% of GDP on average. Tax revenue is the second biggest source of income, accounting for 31.5% of subnational government revenue, or 2.8% of GDP. User charges and fees represent 10.3% of subnational revenue, or 0.7% of GDP. Finally, property income amounts to 3.1% of subnational revenue, or 0.2% of GDP. The breakdown between the different sources of revenue and their weight in GDP vary greatly from one country to another (Figure 3.1).

Figure 3.1. Subnational government revenue by category as a % of total subnational revenue (2020)



Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

Figure 3.2. Subnational government revenue by category as a percentage of GDP (2020)



Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

Box 3.1. The impact of COVID-19 on subnational governments' revenues

Subnational government revenue fell in a great number of countries in 2020 around the world. In particular, the COVID-19 pandemic has negatively affected subnational government own-source revenue in 2020 i.e. own-source tax revenue, user charges and fees. The extent of the impact varies across countries depending on the sensitivity of subnational revenues to economic fluctuations as well as on the capacity of central/federal governments to step in to support subnational finance. In several countries, the drop in taxes and user charges and fees was compensated by an increase in inter-governmental transfers and the support of emergency and compensation funds.

For example, in the OECD, subnational tax revenue (shared and own-source) decreased by 4.3% in real terms on average between 2019 and 2020. This figure hides large variations among countries: in a few countries, subnational governments experienced increases in their subnational tax revenue in real terms (e.g. 4.6% in Finland), mainly because the central government increased the share of national taxes redistributed to subnational governments (e.g. in Finland with the municipal share of the corporate income tax). The bulk of countries saw their tax revenue decrease (e.g. 11.1% in Italy, 4.9% in Germany, 2.7% in Spain and 2.2% in Canada). Tariffs and fees revenue also fell sharply by 7.7% on average in real terms between 2019 and 2020 in all OECD countries, with significant differences across them.

This decrease in subnational government tax revenues and user charges was partially, or sometimes fully, compensated by an increase in grants and subsidies from the central governments in most OECD and EU countries in our sample, which alleviated the effect of the pandemic on subnational governments' revenue. Grants and subsidies increased by 9.2% on average in real terms between 2019 and 2020 for the 38 OECD member countries. The size of the changes from 2019 and 2020 differs considerably across countries (e.g. 34% in the United States, 27% in Germany, 21% in Finland, 16% in Canada, 11% in Poland, and 7% in Norway). Accordingly, total subnational revenue increased by 1.7% on average in OECD countries in 2020 compared to 2019.

Several measures were taken by the central government to support subnational government revenue during the crisis. Revenue-side measures included increasing existing inter-governmental operating and capital transfers, creating new funds to cope with specific needs, accelerating grants and subsidies, increase and advance of EU structural funds, increase and advance revenues from non-tax revenues and from shared taxes (e.g. Austria, Finland, Canada, Poland, Portugal), developing compensation schemes for lost revenue from taxes and fees. Support measures also consisted in activating rainy-day funds and fiscal reserves (Czech Republic, Japan, Luxembourg, Mexico, Slovak Republic, United States, etc.). In some countries, the activation of equalisation mechanisms has mitigated the differentiated impact of COVID-19 among subnational governments (Luxembourg, Switzerland, Germany).

The crisis has also offered an opportunity to launch or accelerate local finance reforms in some countries such as France, Iceland, Spain or the United Kingdom. In France, for instance, the corporate value-added tax (CVAE), which is a regional tax based on the value-added of local companies one or two years before, was replaced by a share of VAT in 2021 to reduce the impact of the pandemic on regional governments' finances. In Spain, a dedicated fund was established in 2020 to support the Autonomous Communities' spending in healthcare and education and to compensate for the decrease in economic activity. In Germany, a "Municipal Solidarity Pact 2020" was implemented to compensate for revenue losses related to the local business tax ("*Gewerbesteuer*"). One objective of these reforms is also to take into account long-term challenges such as demographic issues (ageing) that are

generating a financing gap for the local government sector in many countries, such as Belgium, Finland, Japan or Sweden.

Source: (OECD/UCLG, 2022[13])

3.2. Grants and subsidies represent more than half of subnational government revenue on global average

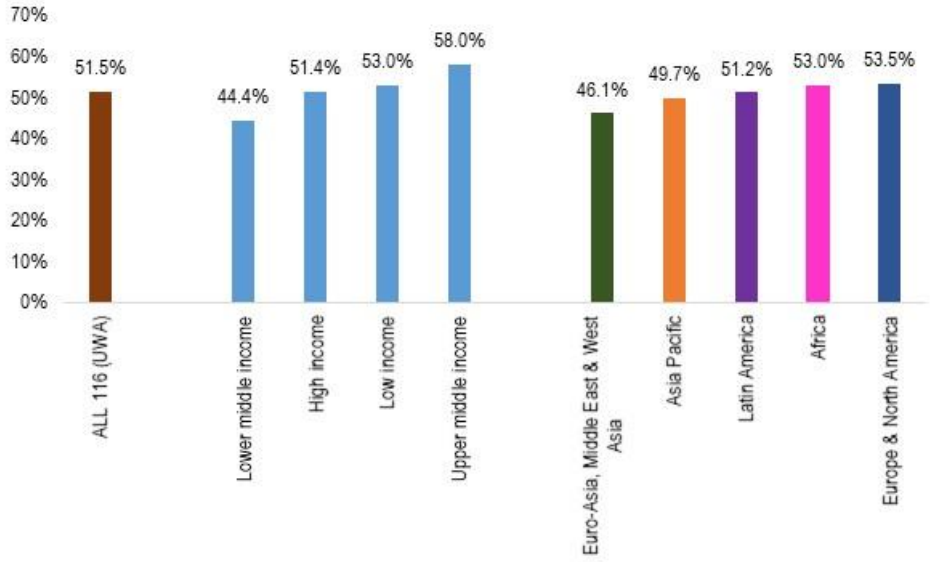
Grants and subsidies are the primary source of subnational government revenue in a large majority of countries around the world. Over 50% of subnational revenue comes from grants in 64 out of the 116 countries with data available in the SNG-WOFI database (i.e. 55% of the sample). Grants and subsidies account for 51.5% of total subnational revenue or 4.1% of GDP on average. Nevertheless, there are remarkable disparities among countries, both in terms of share in GDP and share in total subnational revenue (Figure 3.1 and Figure 3.2). Grants and subsidies range from less than 1% of GDP in 53 countries to more than 10% in 10 countries, including in Denmark, Sweden, Argentina, and most of all in Canada, where it reaches 16.8% of GDP.

In the same vein, the share of grants and subsidies in subnational revenue is below 25% in 22 countries (including Pakistan, the Palestinian Authority, Togo, and Nigeria for the lowest) and over 80% in 17 countries (including Kenya, Malawi, Mexico, Malta, and Uganda for the highest).

In federal countries, the share of grants and subsidies in subnational government revenue is lower than in unitary countries (44.9% vs 53%). As a share of GDP, grants and subsidies account, however, for 7.3% of GDP in federal countries against 3.5% in unitary countries.

Averages do not show a clear pattern between level of income and the percentage of grants in total subnational revenue: 53% of subnational revenue comes from grants in low income countries, against 58% for upper middle countries and 51.4% for high income countries. Both Europe and North America as well as Africa exceed the global average, going beyond 51.5% up to 53.5%, while in Euro-Asia and Middle East and West Asia, grants and subsidies amount only to 46.1% of subnational government revenue on unweighted average (Figure 3.3). These figures may stem from increasing the size and number of grants to subnational governments in order for them to respond effectively to the COVID-19 pandemic.

Figure 3.3. Grants and subsidies as a share of subnational government revenue by income group and world region (2020)



Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

These figures show that there is a wide variety of funding models. In some highly decentralised countries and federal countries, subnational governments rely heavily on central government transfers, which may represent a very high share of GDP. Grants and subsidies are often partly the result of equalisation transfers, which, if managed correctly, may reduce territorial disparities (Box 3.2).

Box 3.2. Equalisation transfers

Equalisation systems are often seen as a means to redress territorial disparities in the provision of public goods and services. More precisely, equalisation mechanisms aim to correct fiscal imbalances and thus provide approximately comparable levels of public services at comparable tax burdens (Blöchliger et al., 2007[51]). The following are some interesting examples of intergovernmental equalisation transfers and reforms in the countries examined in this edition.

- In Japan, the Local Allocation Tax Grant (LAT) is an equalisation grant based on national tax revenues which are then redistributed to subnational governments. Subnational governments receive between 25% and 34% of the receipts, based on their local fiscal capacity and expenditure needs. Therefore, no distribution is made to local governments with base revenues exceeding their financial needs. The LAT is broken down into an "ordinary" LAT (94% of funds) and a "special" LAT (6%), dedicated to extraordinary expenses such as damages from natural disasters. LAT still requires topping up from other funding sources, including the general account of the national government's budget and debt financing, half of which is co-financed by local governments.
- In Germany, the Parliament adopted new regulations and constitutional amendments in 2020 to reform the intergovernmental fiscal relations between the federal state and the *Länder* by increasing the role of the former. The core element of the reform is the abolition of the horizontal equalisation mechanism between *Länder*. The two main categories of grants and equalisation mechanisms are now: (i) distribution of the *Länder* share of VAT revenue in a way that balances the fiscal capacities of the *Länder* (i.e. surcharges and deductions based on *Länder* fiscal capacity), and (ii) vertical equalisation through additional transfers to the poorest states, notably to the former East Germany.
- In Chile, the Municipal Common Fund (*Fondo Común Municipal*, FCM) seeks to decrease inter-municipal inequalities and provide additional resources to municipalities with the lowest tax revenues so they can fulfil their basic competences. The FCM's resources come from automatic contributions from municipalities via the transfer of a portion of their tax revenues (i.e. territorial tax, municipal business licenses, vehicle registration tax, and the tax on vehicle transfer and revenues from fines). Funds are distributed to beneficiaries according to a formula based on criteria such as the population, property exemptions, poverty and local revenue. The government has put forward a number of reforms to bring concrete and effective responses among which is the strengthening of the Municipal Common Fund to establish greater contributions from higher income regions.
- In Armenia, more than half of municipalities' revenues are constituted by grants, which include capital grants and equalisation grants. The total amount of equalisation transfers is guaranteed up to 4% of the consolidated budget revenues for the previous fiscal year. Targeted central government grants for the implementation of delegated powers are only provided to Yerevan. In 2016, the adoption of a new Law on Financial Equalisation defined the concepts and principles of financial equalisation, as well as calculation and allocation procedures for the subsidies granted according to the equalisation criteria. The law was intended to enter into force in 2019.

Source: (OECD/UCLG, 2022[13])

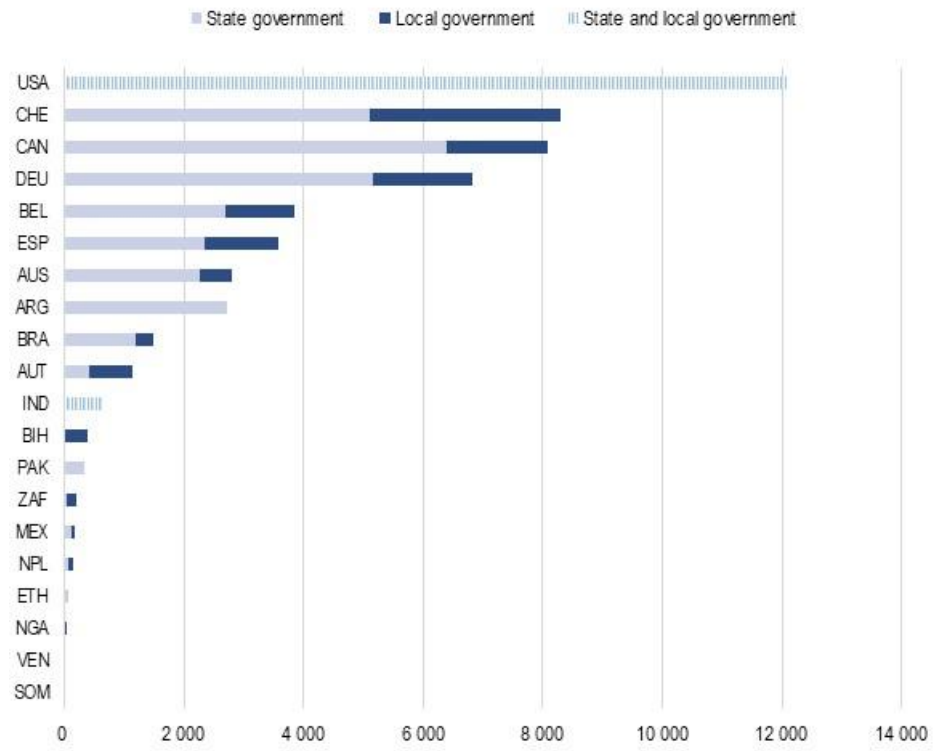
3.3. Tax revenue is the second largest source of revenue but with large disparities across countries

Tax revenue accounts for 31.5% of subnational revenue and 2.9% of GDP

Tax revenue accounts for 31.5% of subnational revenue and 2.9% of GDP on unweighted average overall for 116 countries in 2020. However, there are wide disparities (Figure 3.1 and Figure 3.5). In Malta, local governments cannot raise taxes. In Kenya, Uganda, Estonia, Rwanda, Lithuania, Mauritius, Ghana and Peru, tax revenue accounts for less than 5% of subnational revenue. At the other end of the spectrum, tax revenue amounts to over 50% of subnational revenue in 21 countries, and even more than 70% in Kyrgyzstan, India, Argentina, Iceland, Morocco and most of all Tajikistan, with the latter at 80.7% of subnational revenue. As a share of GDP, countries vary to a similar extent: in 53 countries, tax revenues account for less than 1% of GDP in 2020. In 15 countries, they exceed 8% of GDP, the highest levels being found in Canada, Argentina, Sweden, Denmark and Germany.

Federal countries allocate a higher tax share and/or taxing power to subnational governments than unitary countries: overall, subnational tax revenue represents 44.9% of subnational government revenue and 6.4% of GDP in federal countries whereas in unitary countries tax revenue accounts for 30% of subnational government revenue and 2.2% of GDP. In many federal countries (Argentina, Brazil, Canada, Germany, India, Spain, Switzerland, United States), subnational funding is essentially based on taxation. However, in federations such as Austria, Mexico, South Africa and Venezuela, tax revenue provided less than 16% of revenue in 2020 (equal to or less than 2% of GDP). In federal countries, the share of states in subnational government tax revenue is also higher than that of local governments (more than 60%), except in Austria and South Africa. In Brazil, Australia, Argentina, Pakistan, Ethiopia and Somalia, it exceeds 80% (Figure 3.4).

Figure 3.4. State and local government tax revenue in federal countries (USD PPP per capita, 2020)



Note: In India and the United States, there is no disaggregated data between state and local governments.
Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

Taxation is also a major source of revenue in several unitary countries, such as the Nordic countries (Finland, Iceland, Sweden) but also China, Italy and Japan. There are some differences depending on income group and world region. In high income countries, the share of tax in subnational revenue is much higher than in upper middle income economy (i.e. a 7.7% difference). It is also significantly higher in Euro-Asia, Middle East and West Asia as well as Asia Pacific regions than in Latin America, Europe & North America as well as Africa (Figure 3.5).

Figure 3.5. Tax revenue as a share of subnational government revenue by income group and world region (2020)



Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

Tax ratios should be interpreted with caution. They indicate a certain level of revenue autonomy, compared to grant funding, but they are not an indication of tax autonomy. In fact, tax revenue encompasses both shared taxes[6] and own-sources taxes[7] with different taxing powers and levels of tax autonomy (for further detail on the limits of expenditure and revenue indicators, see Annex E). Therefore, larger shares of subnational tax revenue as a percentage of total tax revenue are not equivalent to higher levels of tax autonomy.

Subnational tax revenue account for 14.5% of public tax revenue as a global average

Subnational tax revenue represents on average 14.5% of public tax revenue, ranging from less than 5% in 45 countries to more than 30% in 19 countries (Figure 3.6). It is higher than 50% in China, Germany, Switzerland, Canada, Argentina, India and most of all in Pakistan, where it reaches 61.5%. Overall, the

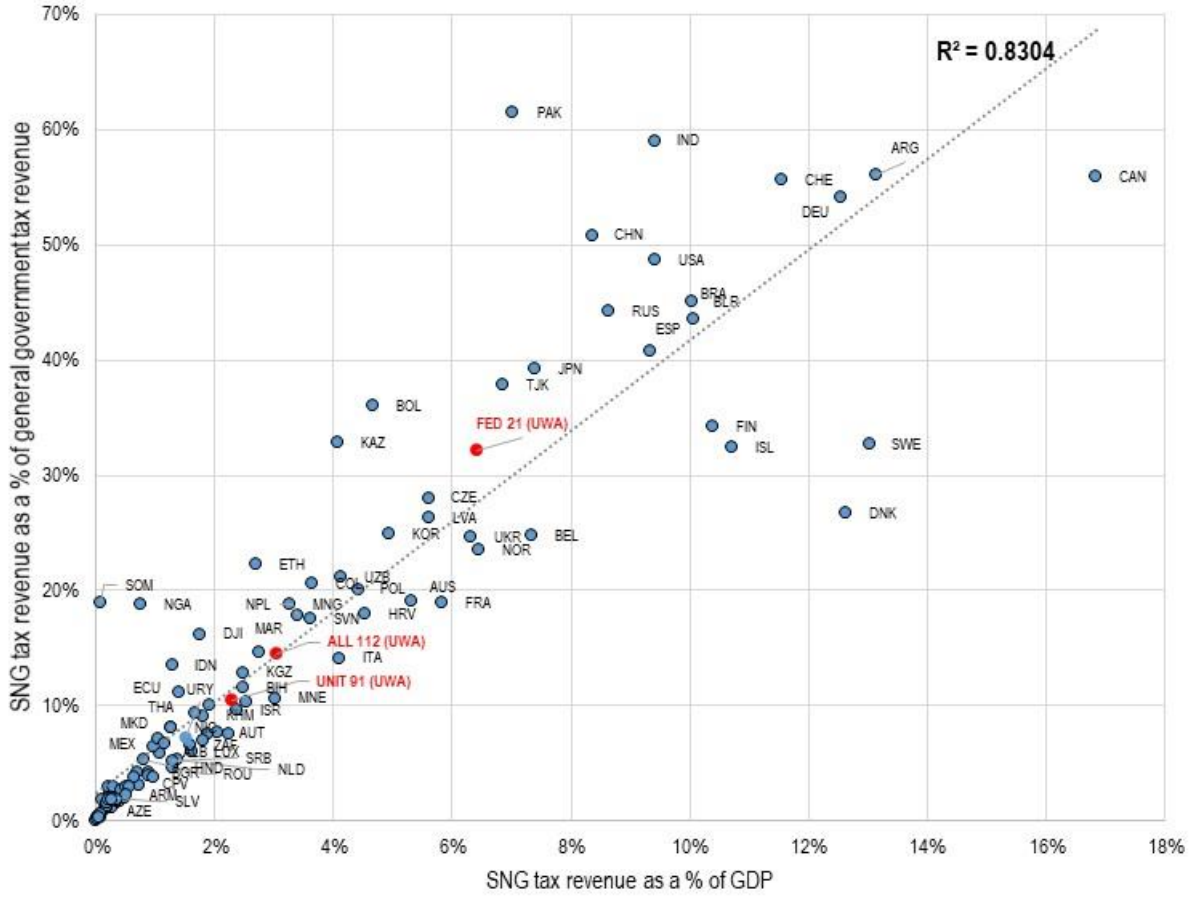
[6] Shared taxes are national taxes shared between the central/federal government and subnational governments, and redistributed to the latter as tax revenues and not as grants (even when grants are made up of specific national taxes). Rates are defined nationally and tax receipts are redistributed according to allocation criteria defined by the state. Subnational governments have varying degrees of power depending on the country (OECD, 2018[18]).

[7] An own-source tax is a tax on which subnational governments have a certain leeway with regard to the tax base or tax rates. In fact, classifying a local tax as an own-source tax is a difficult exercise as in numerous countries, there is no leeway at all. However, because their revenues are entirely attributed to subnational governments, they are considered own-source taxes. The ability to act on rates and bases may be also regulated and restricted, reducing subnational government taxation power (imposition of caps, exemptions imposed by the central government, etc.) (OECD, 2018[18]).

share of subnational governments in public tax revenue is significantly higher in federal countries than in unitary countries (32.2% vs 10.4%).

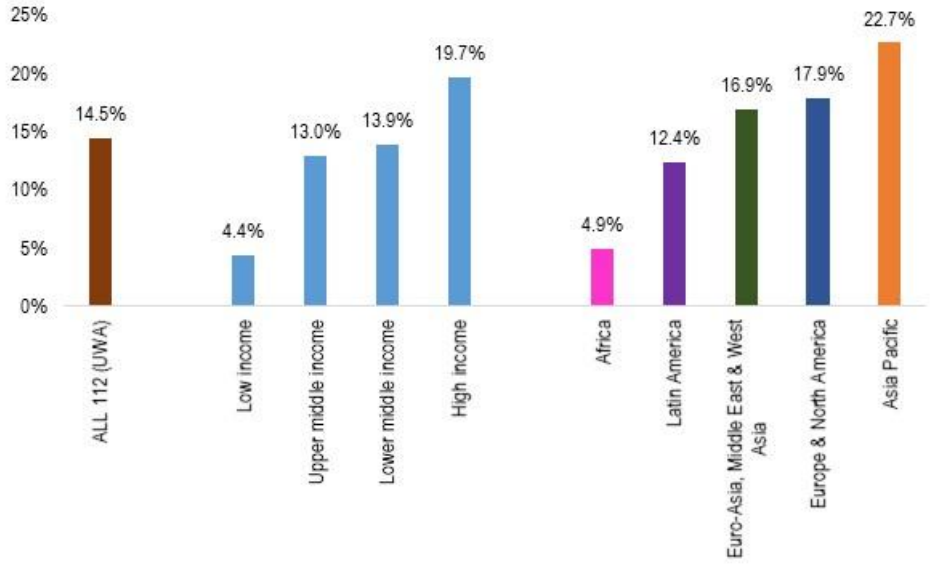
The share of subnational government in public tax revenue differs considerably across income group and world region. It is over four times as high in wealthier countries (i.e., “high income” in Figure 3.7) than in poorer countries (i.e., “low income” in Figure 3.7). By region, the disparities are even more stark, with Africa ranking last by far where subnational tax revenues account for only 4.9% of public tax revenue in 2020 on unweighted average compared to 22.7% in Asia Pacific (Figure 3.7).

Figure 3.6. Subnational government tax revenue as a percentage of GDP and public tax revenue (2020)



Source: Authors’ calculations based on the SNG-WOFI database: www.sng-wofi.org.

Figure 3.7. Subnational tax revenue as a percentage of public tax revenue by income group and world region (2020)

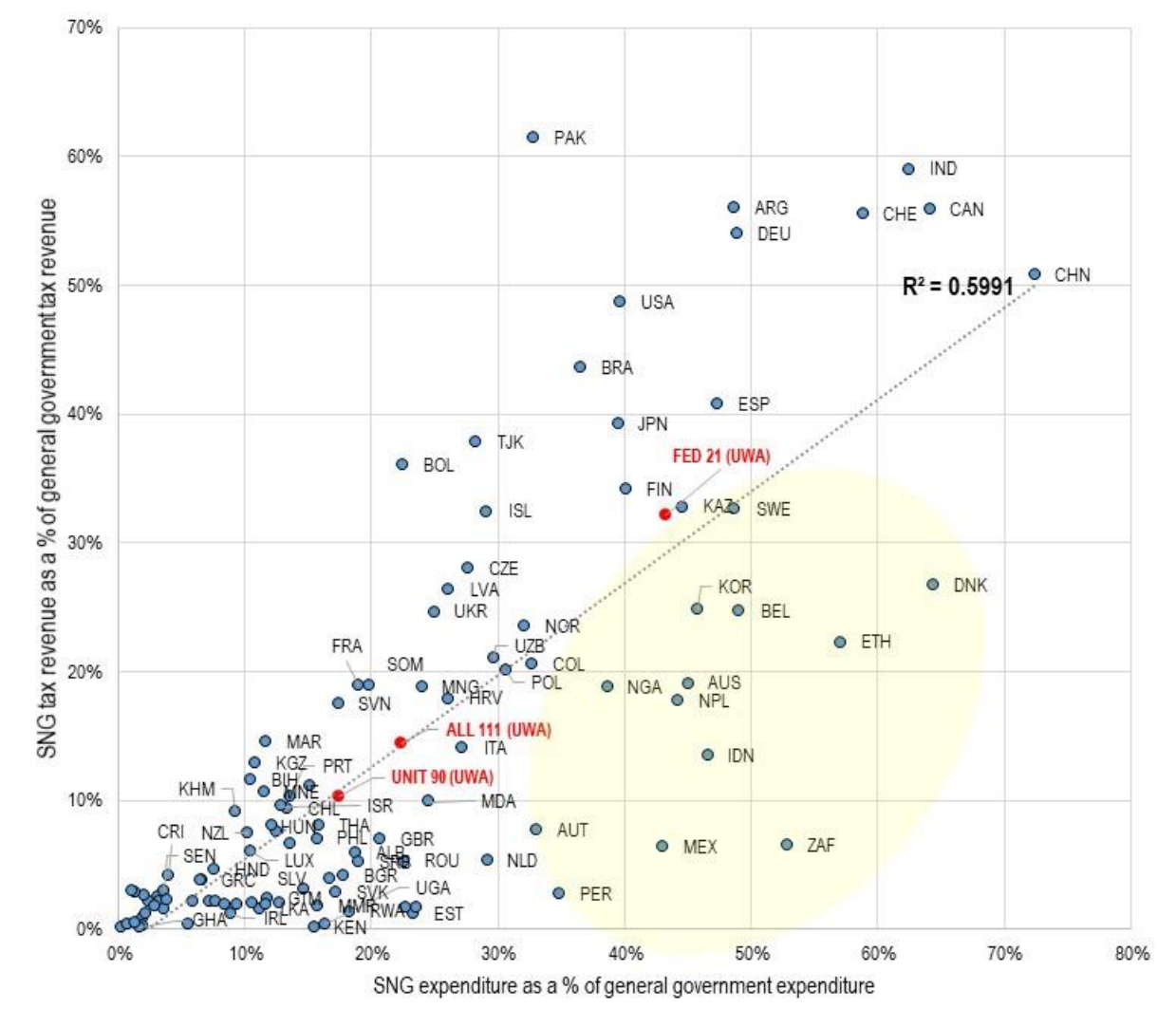


Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

Box 3.3. Fiscal imbalances between expenditure and tax revenue

There are substantial imbalances across countries between the level of subnational government expenditure as a share of public expenditure and the level of subnational tax revenue in public tax revenue, reflecting – however imperfectly as already underlined – the level of tax decentralisation (Figure 3.8). The highlighted bottom right-hand corner of the graph shows countries where subnational governments account for a high share of public spending but their share in public tax revenue is relatively low (e.g. Denmark, Ethiopia, Australia, Belgium, Indonesia, Korea, Nepal, Mexico, Peru, South Africa, Austria, etc.).

Figure 3.8. Gap between subnational government expenditure and tax revenue as percentages of general government expenditure and tax revenue, respectively (2020)



Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

Recurrent property tax is a key local revenue source, but remains underexploited

Among own-source taxes, the recurrent immovable property tax is usually understood as the "local tax by excellence" (Box 3.4). Property tax is mainly levied at the local level, that is, by the municipality. There are very few exceptions to this, namely a few federal countries where states are in charge of levying property taxes themselves (e.g. Australia, Switzerland) (Figure 3.9).

Box 3.4. Definition of property tax

The property tax refers to both recurrent and non-recurrent[8] taxes on the use, ownership or transfer of property. It includes taxes on immovable property or net wealth, taxes on the transfer of ownership through inheritance or gifts, and taxes on financial and capital transactions.

The recurrent immovable property tax, which is addressed in this report, is regularly levied in respect of the use or ownership of immovable property. The tax does not include debt, thus differing from the tax on net wealth and is not related to a transfer of ownership.

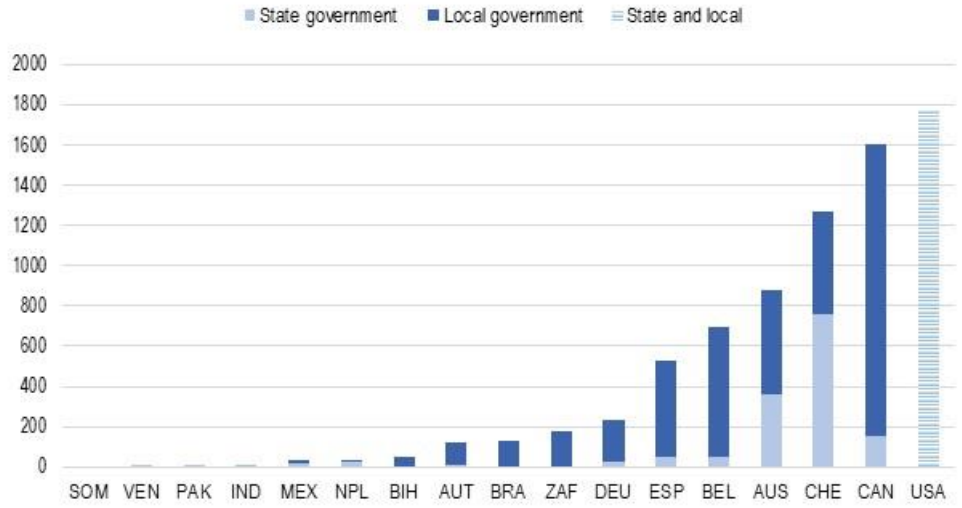
Recurrent property tax has the following characteristics:

- It is levied on land and buildings.
- It can be paid by owners, tenants or both. In some cases, it can also be paid by a level of government to another level in respect of property under the jurisdiction of the latter.
- It can take the form of a percentage of an assessed property value, which can be based on a national rental income, on sales price or on capitalised yield. It can also be based on other characteristics of real property (e.g. size or location) from which a presumed rent or capital value can be derived.

Source: (OECD, 2021[52]; OECD, 2017[17])

[8] Non-recurrent taxes on property covers once-and-for-all, as opposed from recurrent, levies on property, which include taxes on net wealth and other non-recurrent taxes on property. The taxes on net wealth include taxes levied to meet emergency expenditures, or for redistribution purposes. The other non-recurrent property taxes comprise taxes levied to take account of increases in land value due to permission given to develop or provision of additional local facilities by general government, any taxes on the revaluation of capital and once-and-for-all taxes on particular items of property.

Figure 3.9. Recurrent property tax revenue raised by state and local governments in federal countries (USD PPP per capita, 2020)



Note: In Somalia, Venezuela, Pakistan and India, the recurrent property tax is levied by state governments. The amount in USD PPP per capita is close but not equal to zero.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org

Benefits and challenges of the property tax

The recurrent property tax is a key local revenue source for several reasons (Asian Development Bank, 2020[53]; OECD, 2021[54]). First and foremost, property tax is hard to evade due to asset immobility. Related to this, the tax base can be easily allocated among subnational governments and it is more stable than consumption and income tax bases (particularly for area-based property tax systems). This is also due to the possibility to adapt tax rates annually. Moreover, if subnational governments have control over the rates and/or base, the property tax can promote local fiscal autonomy. Depending on its design, the tax can also comprise implicit progressivity and horizontal equity, unlike other taxes (e.g. VAT). Property tax also generates little if any distortion. When the tax is levied on land, taxpayer behaviour is not distorted since the supply of land is fixed. When levied on improvements (e.g. buildings) at moderate rates, the tax is not very distortive.

In addition to the benefits above, recurrent property taxes can also be a policy tool to achieve other non-fiscal objectives. These range from promoting efficient land use by increasing the cost of vacant property (e.g. Poland), stabilising house prices by reducing real estate market speculation (e.g. Luxembourg) and capturing the increase in the value of land and buildings that is attributable to subnational governments' spending to finance green infrastructure development. It can also play an important role in enhancing democratic local governance. Since most local public service provisions are directly linked to properties (e.g. water supply and sewage), the tax can create incentives to improve local public services. Finally, the property tax can increase the accountability of subnational governments for the public services they deliver as property tax is remarkedly visible: it is usually paid in large lump-sum amounts several times per year instead of being included in the purchase of goods and services (sales tax) or withheld by employers from wages (income tax).

Despite its significant revenue potential, the recurrent property tax remains underutilised in most countries across the world, especially in developing ones. There are several possible reasons why subnational governments fail to tap into the full potential of this tax, which are mainly inherent to its implementation and management. For instance, subnational governments may fail to keep pace with property values, which

may not be assessed often enough. Property values that are not frequently reassessed may lead to unequal treatment by placing higher burdens on households with limited ability to pay than on those with higher incomes. Beyond valuation difficulties, a reliable property identification system (or cadastre) and land registry is costly and may represent a high initial investment for subnational governments in developing countries. The recurrent property tax can also be difficult to collect and manage for subnational governments due to low administrative and technical capacities. In regard to implementation, subnational governments can face high political resistance from taxpayers and voters given the unpopularity of this highly-visible tax. As a result, in many countries, the central government has imposed restrictions on subnational government tax rates or base, as well as various exemptions, credits or deductions on targeted low income taxpayers, which reduce the potential revenue of the property tax for subnational governments (OECD, 2015[55]; OECD, 2021[54]; OECD, 2021[56]; OECD/UN ECA/AfDB, 2022[57]).

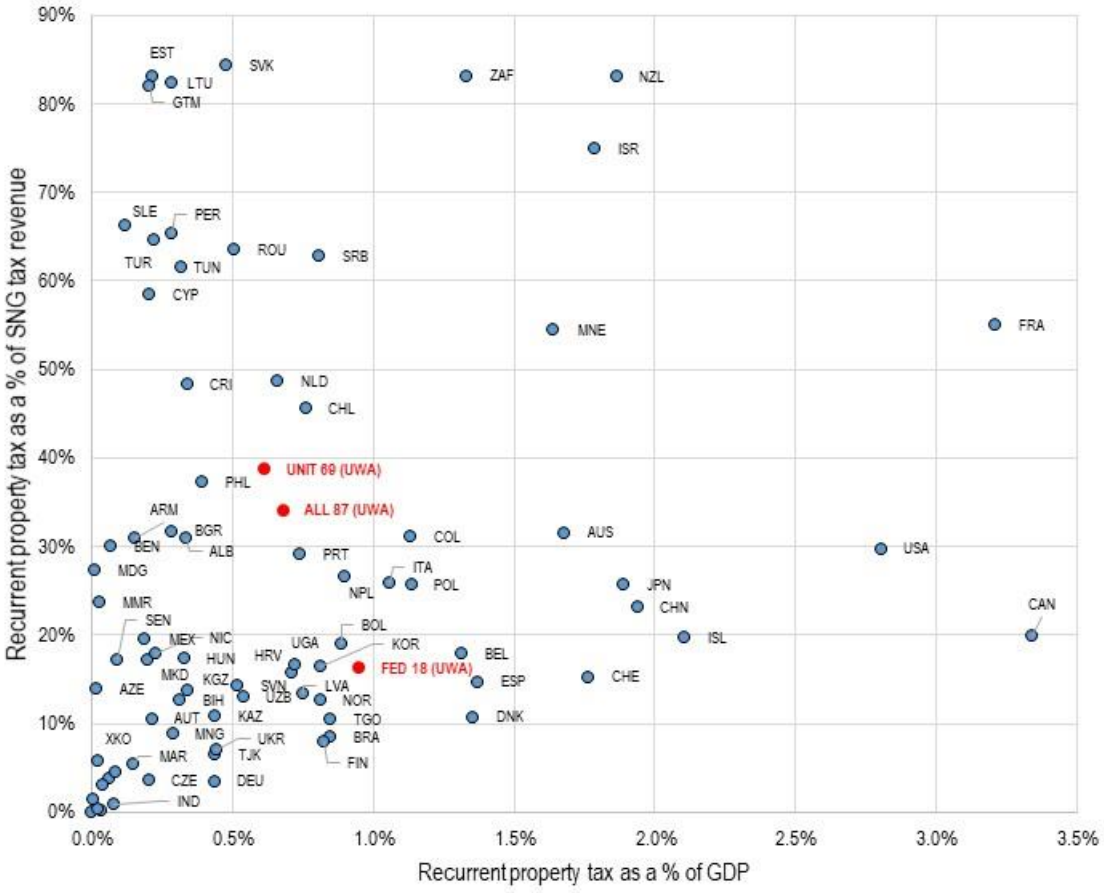
An under-exploited source of revenue at the subnational level

The reasons above explain why the size of the recurrent property tax as a share of GDP and of subnational tax revenue varies tremendously across countries. At the global level (87 countries), the recurrent property tax accounted for 0.7% of GDP, 34.1% of subnational tax revenue and 8.2% of subnational revenue on unweighted average in 2020 (Figure 3.10).

The share of the recurrent property tax in GDP was higher in the 18 federal countries covered (1%), while its share in subnational tax revenue and subnational revenue was almost twice as low in federal countries (16.2% and 4.7% respectively).

In the 69 unitary countries covered, recurrent property tax as a share of GDP was slightly below the global average (0.6%), while it was higher as a percentage of subnational tax revenue and subnational revenue (38.8% and 9.1% respectively), confirming that the tax represents a major source of local tax revenue. Figure 3.10 also shows that in some countries where the recurrent property tax is the only tax at the local level, the tax generated significant revenue (e.g. Canada, Israel and the United States), above the average of 0.7% of GDP in 2020.

Figure 3.10. Recurrent property tax as a percentage of GDP and subnational government tax revenues (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

These disparities also vary depending on the level of income and the different world regions. Figure 3.11 and Figure 3.12 show that the recurrent property tax represents a high share of subnational tax revenue in Latin American and African countries, but it accounts for a very low share of their GDP. By contrast, the tax represents a lower share of subnational tax revenue in Europe, North America and Asia Pacific, but a high share of GDP in 2020.

With respect to the level of income, the recurrent property tax represents a high share of both subnational tax revenue and of GDP in upper middle and high income countries, and low shares in low and lower middle income countries (Figure 3.11 and Figure 3.12). This underlines the need for developing countries and Least Developed Countries (LDCs) to reform their property tax system and/or to diversify their taxes at the local level.

Figure 3.11. Recurrent property tax as a share of subnational tax revenue by income group and world region (2020)

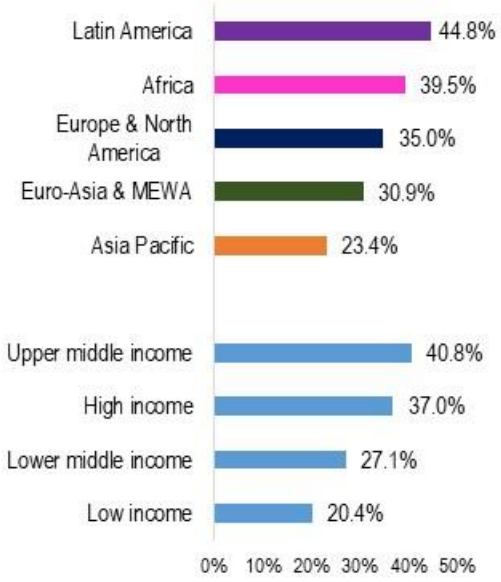
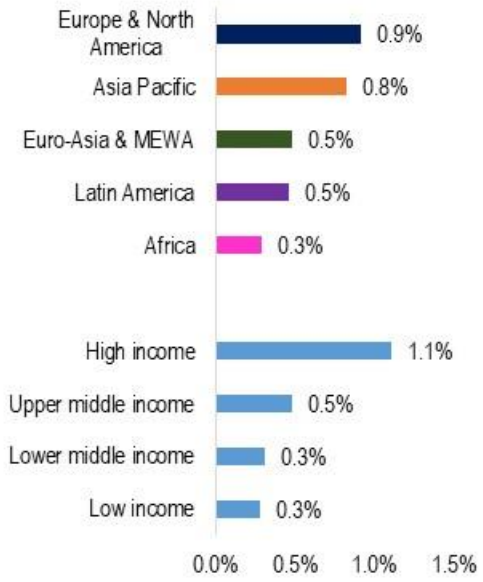


Figure 3.12. Recurrent property tax as a percentage of GDP by income group and world region (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Overview of property taxation reforms across the world

In developing countries and LDCs, attempts to reform the property tax system in a more effective manner have encountered additional obstacles in addition to the ones previously mentioned, including underdeveloped formal land markets, rapid urbanisation, informal settlements, wide income disparities, special vested interests and political and institutional constraints (Asian Development Bank, 2020[53]; OECD/UN ECA/AfDB, 2022[57]). The lack of co-operation between the different levels of government to share data and the lack of data standardisation can be further challenges (Asian Development Bank, 2020[53]).

Despite these difficulties, property tax reforms have become widespread across many OECD countries and worldwide over the last decade (Table 3.1). They have also increased in developing countries and LDCs, although the lack of land reforms in some LDCs can be linked to the very minor improvements of the collection of land revenue. A study from the International Centre for Tax and Development emphasises the five tenets that are helpful in implementing successful property tax reforms in Africa. They include: 1) strengthening subnational governments' autonomy and reinforcing collaboration between central and subnational governments; 2) carefully designing and gradually implementing property identification (e.g. self-explanatory address, possibility to visualise the address in a map, etc.); 3) planning sufficient financial, material and human resources needed to implement a new property tax system; 4) designing and implementing a comprehensive communication strategy tailored to local contexts (e.g. awareness raising, transparency, credibility of enforcement); and enhancing digitalisation to make the property tax system more effective (e.g. Geographic Information Systems for identification, automatic valuation, etc.) (ICTD, 2021[58]). The OECD also developed a set of 10 guiding principles to enact effective reforms of the recurrent property tax (Annex F) (OECD, 2015[55]).

Property tax reforms have come in various shapes and sizes (Table 3.1) from the creation of a new property tax (e.g. Shanghai and Chongqing in China, Thailand), the implementation of a surtax on properties above a certain threshold (e.g. Greece), the establishment of new tax base valuation or revaluation methods (e.g. Denmark, Kenya, the Philippines), the extension of the tax to new categories of owners (persons or individuals) or assets (land or building) (e.g. Angola), a modification of the tax rates or brackets (e.g. Rwanda), a modernisation of technical systems for tax collection (e.g. Ghana, Nigeria), an improvement of the cadastre system (e.g. Romania, Sierra Leone), etc. The main recurrent property tax reforms in the world over the five past years are presented in Table 3.1.

Table 3.1. Main recurrent property tax reforms in the world over the five past years

Countries	Types of recurrent property tax reform	Recurrent property tax reforms
Angola	Extension of the tax to new assets; Improvement of the cadastre system; Digitalisation of the tax system	The law 20/20 of 9 July set up a new property tax code to levy property taxes on both urban and rural buildings and on other forms of real estate (e.g. buildings, land for construction). Recurrent property taxes are levied on the value and on the revenue from buildings. Different rates apply, depending on the value of the property and on the type of property. The Ministry of Finance also created the "*Portal do Munícipe*" to facilitate the digital collection of local taxes, to enhance information sharing across jurisdictions and thus to facilitate co-ordination.
Cambodia	Improvement of the cadastre system; Revaluation of the tax base; Monitoring and evaluation	Under the Revenue Mobilisation Strategy 2014-2018, the country aimed to increase property tax collection by improving the cadastral system from the General Department of Cadastre and Geography of the Ministry of Land Management Urban Planning and Construction (MLMUPC). Properties have also been revaluated as of July 2019, resulting in an increase of 70%-80% of the market value in some areas. Tax exemptions or modification of the tax base are considered by the government to limit the impact of tax increases. Finally, the country developed a set of performance indicators and targets under its Revenue Mobilisation Strategy 2019-2023 to monitor and evaluate the results of the reform.
China	Creation of a new tax (pilot project in two cities)	Several subnational taxes are related to real-estate properties in China (i.e. urban and township land use tax, arable land occupancy tax, the real estate tax, the deed tax and the land appreciation tax). These taxes are based on physical area and transaction values of properties, instead of recurrent assessments based on properties' market value. A scheme for introducing a recurrent property tax is underway in the pilot cities of Shanghai and Chongqing. The scheme, extended until October 2021, applied at purchase to a relatively narrow range of property owners. The new scheme is to include all residential and non-residential properties (excluding farms).
France	Removal of one component of the tax	Until 2021, the property tax comprised (i) the property tax on building (TFPB), the property tax on land (TFPNB) and (iii) the housing tax. The 2021 tax reform has removed the housing tax (by 80% in 2021 and fully in 2023), which was previously received by municipalities and inter-municipal co-operation bodies (EPCI). Municipalities and EPCI will receive, as a compensation, a share of the property tax on building (TFPB) from departments, while departments will receive a share of VAT. Subnational governments have tax-setting power over these taxes, but the rates have to comply with limits established centrally, and they have no autonomy to set the tax base. As a result of the reform, the share of property tax in GDP in France (3.2% in 2020), which was one of the highest in the OECD, will decrease.
Germany	Revaluation of the tax base; Extension of the tax to new assets	The property valuation system has been reformed following a decision of the Federal Constitutional Court, which ruled that the valuation rules of the tax must be revised in line with the provisions of the Basic Law, especially with the principle of equality. The new property valuations will be used to calculate the property tax from 2025 onwards, while the old property valuations of 1964 (West Germany) and 1935 (East Germany) will continue to apply until 2024. The new property calculation is based on a property-value approach, which is calculated with the market value of the property, the tax rate and an assessment rate set by each municipality. The reform also allows most municipalities to levy an additional tax on vacant buildable land from 2025 in order to increase the housing supply in cities.
Ghana	Improvement of the cadastre system; Digitalisation of the tax system	A new property valuation software programme was implemented in 49 local governments across the country in 2020 in collaboration with GIZ, which replaced the manual process that had been in place. By March 2022, digital property valuation was carried out in 5 out of 6 metropolitan assemblies, 54 out of 117 municipal assemblies and 15 out of 138 district

		assemblies, which together constitute the local level in Ghana. The use of a geographic information system (GIS) in some municipalities led to a substantial increase in the number of registered properties.
Italy	Improvement of the cadastre system; Revaluation of the tax base	The recurrent property tax, established in 2013, incorporates three taxes: (i) the IMU (*imposta municipale propria*), which is paid by owners of secondary residences only, (ii) the tax for indivisible services (TASI), which is a supplementary tax to finance local public services and (iii) the waste tax (TARI) to cover the costs of waste management. Both the IMU and the TASI were repealed on primary residences (except luxury homes) in 2014 and 2015. A reform is being discussed to update the land registry in order to better identify properties. To achieve this, the proposal promotes a more efficient sharing of data between municipalities and the Revenue Agency, in charge of land registry. The proposal also includes a change in property valuation methods from 2026, which are based on parameters calculated years ago, so that they are based on market values with periodic adjustment mechanisms.
Ireland	Revaluation of the tax base	Ireland revised its recurrent property tax in July 2021 to make it more equitable. The Local Property Tax (LPT) reform broadened the tax base, by including new properties, that were exempt, in the tax base and by updating the fiscal cadastre, which was previously based on property valuation from May 2013. Residential property values are planned to be updated every four years instead of every three years. The reform has led new residential properties to be regularly added to the tax base in order to maximise tax revenue and increase equity.
Kenya	Revaluation of the tax base; Improvement of the cadastre system; Digitalisation of the tax system	A draft national rating bill was developed in 2021 to replace the Rating and Valuation for Rating Acts, enacted in the 1960s, and thus update property valuations. The country is also implementing the National Land Information Management System (NLIMS), which is an online centralised data system linking land information and transfers between the different levels of government, in order to facilitate co-ordination among jurisdictions.
Luxembourg	Modification of the tax system	A bill to reform the property tax (*impôt foncier*) is planned for end-2022. The reform is related to the revision of the new generation General Development Plans (*Plans d'Aménagement Généraux*, PAG) and will aim to reduce land speculation and address the housing shortage. The reform will replace and simplify the current system of the municipal tax on unoccupied property or property not allocated for the construction of certain buildings.
The Philippines	Revaluation of the tax base	The Parliament adopted the Real Property Valuation and Assessment Reform Act in November 2019 with the aim to broaden the property tax base without increasing the tax rates. The reform includes (i) the establishment of a single market-based property valuation, (ii) the support to subnational governments on property valuation and assessment through the strengthening of the Bureau of Local Government Finance (BLGF) and (iii) the recentralisation of the approval of the schedule of market values to the Department of Finance with a review conducted by the BLGF. The reform is expected to increase the collection of property taxes in the country.
Poland	Extension of the tax to new assets	Municipal taxes on immovable property include a property tax on land and buildings, an agricultural land tax and a forest tax. The property tax levied on buildings and plots of land is levied on a square metre basis, with different rates set for commercial versus residential buildings. Tax rates are capped by thresholds that are determined by the central government. The central government is considering a new tax on unoccupied properties, which represented 11% of dwellings in rural areas and 6% in urban areas in 2020.
Romania	Improvement of the cadastre system; Digitalisation of the tax system	The central government aims to improve the collection of the property tax and the quality of its cadastre system, notably in rural areas, with the completion of the systematic registration with the Integrated System of Cadastre and Land Book (SICCF). In 2020, the online payment services for individuals and businesses to obtain the land book and real-time positioning services were operational. By March 2020, around 37.6% of property units estimated at the national level were registered in the SICCF.
Serbia	Improvement of the cadastre system; Evaluation of the tax base	In November 2020, the parliament adopted the Law on Amendments to the Law on Property Taxes to improve property tax collection. The reform includes a better classification and identification of real estate and ancillary facilities as well as a modification of the threshold for tax exemptions. The reform also specifies how to determine the average price of real estate by municipality and city, which is used to calculate the property tax base. The tax base is the product of average price and a coefficient defined by local governments.
Sierra Leone	Improvement of the cadastre system; Digitalisation of the tax system; Transparency; Evaluation of the tax base	In 2020, the central government required local councils to implement the automation of property cadastre systems to facilitate the collection of the property tax. Additionally, the city of Freetown has implemented forms of participatory budgeting where citizens can participate directly in the allocation of tax revenue, in order to increase transparency and trust among the population. In 2018, the city also developed a point system to assess property valuation based on objective characteristics (e.g. surface area, location, access to

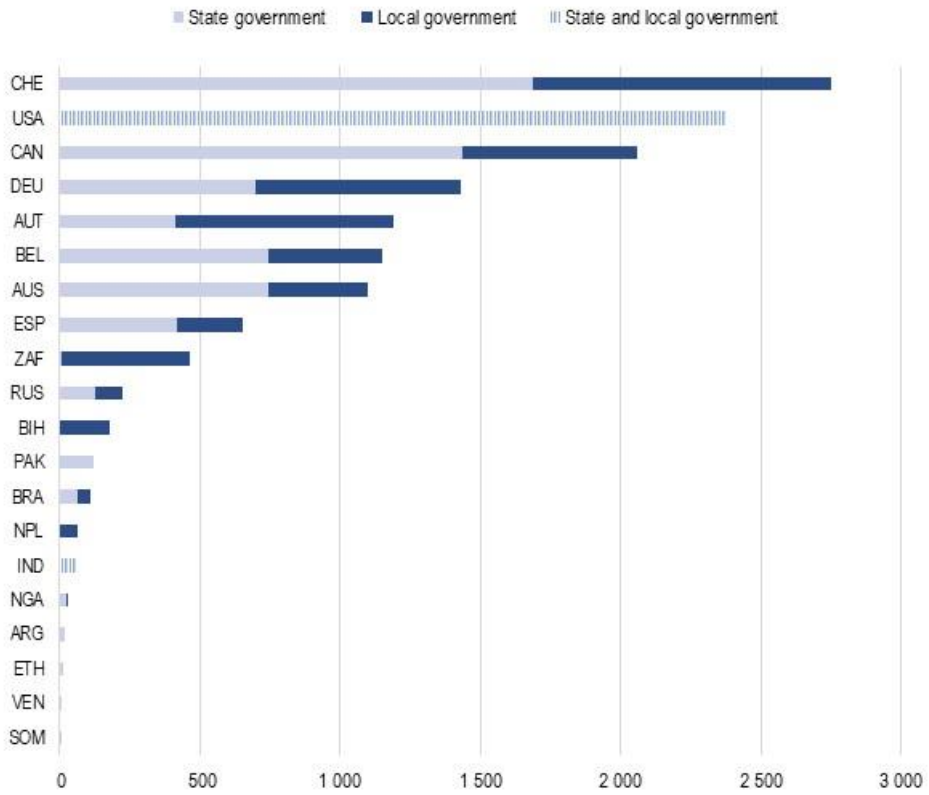
		services, building quality), which resulted in a sharp increase in properties registered (from around 30 100 to over 97 400 in the first year of implementation).
Thailand	Creation of a new tax	The country has adopted the Land and Building Tax Act, which entered into force in January 2020. The reform aims to increase tax revenue, increase land utilisation and strengthen fiscal autonomy of subnational governments. The new land and building tax, which replaces the previous recurrent property tax, notably includes residential properties in the tax base and fully taxes secondary residences. The new tax also has progressive tax rates, with higher rates for unutilised land. The tax base is the total property value for both buildings and land as set by the central government, rather than the rental value. The government is also developing a centralised property database, which will enhance co-operation and sharing of data between the Department of Land (cadastre) and the property valuation from the Treasury Department.

Source: Authors' elaboration based on SNG-WOFI country and territory profiles, www.sng-wofi.org, (Asian Development Bank, 2020[53]; ICTD, 2021[58]; OECD/UN ECA/AfDB, 2022[57]; OECD, 2022[59])

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

The share of user charges and fees in GDP and total subnational government revenues ranges from less than 0.5% of GDP in 63 countries to more than 2% of GDP in 13 countries and more than 15% of subnational revenues in 22 countries. Some countries stand out for both a high share in GDP and subnational revenue, in particular France, Finland, Switzerland and the United States. In this category of revenue, federal and unitary countries do not show significant differences when measured in terms of the share of total subnational revenue, with federal countries on average displaying a share of user charges and fees in subnational revenues amounting to 10.4% compared to 10.3% in unitary countries. There is a more marked difference in terms of GDP on average, with 1.7% for federal countries against 0.5% for unitary countries. In federal countries, the share of user charges and fees collected by local governments ranges from zero (e.g. Argentina, Ethiopia) to 100% (Bosnia and Herzegovina). Nevertheless, only in 5 out of 20 federal countries in the sample do local governments raise 50% or more user charges and fees. These countries are Bosnia and Herzegovina, South Africa, Nepal, Austria and Germany. For the remaining countries, state governments predominantly raise user charges and fees (Figure 3.13).

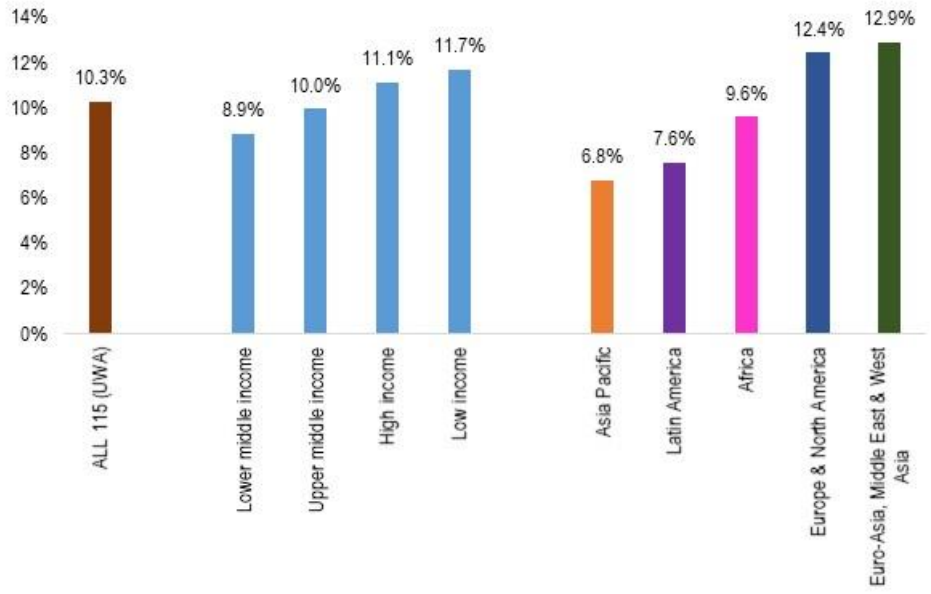
Figure 3.13. User charges and fees at state and local government levels in federal countries (USD PPP per capita, 2016)



Note: In the United States and in India, there is no disaggregated data for state and local governments.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

User charges and fees account for a larger share of subnational government revenue in low income countries, followed by high income countries. They also represent a larger share in Euro-Asia, the Middle East and West Asia as well as Europe and North America than in Africa, Latin America or Asia Pacific (Figure 3.14). This type of revenue depends in large part on the availability of local public services (which depends, in turn, on the allocation of responsibilities and capacity of subnational governments to provide these services), on the capacity of users to pay for these services, and political prerogatives (OECD, 2018[18]).

Figure 3.14. User charges and fees as a share of subnational government revenue by income group and world region (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Property income is particularly important in countries where subnational governments own significant financial and physical assets, including land and subsoil assets. Development fees paid by property developers are also included in this category. Therefore, there are wide disparities across countries in this area, from no revenue to revenue accounting for up to 2% of GDP, in particular in Nigeria, Canada, Australia, Switzerland, Bolivia, Colombia, and Cabo Verde. The share in revenues may be significant, especially in low income and lower middle income countries, such as Nigeria (58.1%), Togo (37.5%) and Bangladesh (33%), but also in other countries such Australia (9%), Colombia (7.4%), Montenegro (6.9%) and Canada (4.8%) in 2020.

Revenue from local public companies (state owned enterprises) may be important in some countries where local public companies are well developed and provide significant dividends to their owners. In New Zealand, as part of granting consent for development, councils require development rights or development contributions from developers so that they bear the costs of new infrastructure (roads, water and wastewater infrastructure, and community facilities). In China, subnational governments, counties and prefectures in particular, receive revenue from the sale of land-use rights for periods of 30 to 70 years. The Land Administration Law provides all levels of governments with the power to control and regulate land use, to convert rural land into urban land, and to sell land rights to real estate developers, within the limits set by the national farmland preservation policy.

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

4. To what extent do subnational governments have access to external financing?

4.1. Fiscal and debt rules have been reinforced over time, but also challenged by the COVID-19 crisis

Over the last 15 years, fiscal and debt rules have been reinforced following several crises of over-indebtedness (e.g. in Latin America) as well as after the 2008 economic crisis in the context of public finance consolidation policies.

Several countries have passed fiscal responsibility laws and created independent authorities for fiscal responsibility to monitor and report on compliance of all levels of government with fiscal rules (e.g. Burundi, Estonia, Eswatini, Mauritius, South Africa).

Nevertheless, whilst reducing fiscal risks often necessitates strict fiscal rules, under exceptional circumstances there may be a need to ensure fiscal rules are sufficiently adapted. In an economic downturn, inflexible rules could, for example, set in motion pro-cyclical trends. This is why many countries decided to allow for flexibility or non-compliance with some of the fiscal rules mentioned above in the face of the COVID-19 crisis (Box 4.1).

The same applies for borrowing frameworks. Borrowing frameworks have also been strengthened in many countries over the last decade, to include: the setting up or increase of caps on debt service (e.g. Brazil, Costa Rica, Indonesia), outstanding debt and new annual borrowing (e.g. Viet Nam, Ireland), prohibitions or restrictions concerning bond issuance (e.g. Ireland, Malaysia, Angola, Armenia), loans with foreign institutions or the use of foreign currency borrowings (e.g. Venezuela, New Zealand), regulation of floating-rate borrowings and the use of swaps (e.g. France, China), etc. These new regulations also reinforced debt monitoring and regular reporting on key fiscal indicators (e.g. Cabo Verde, Viet Nam, Argentina, Chile, Australia).

With COVID-19, subnational finance support measures also included measures related to debt with a view to facilitating the use of debt for short-term needs (liquidity) and longer-term needs to maintain or stimulate investments (Box 4.1). As a result, subnational government debt has increased in many countries, which has also been the result of favourable financing conditions (low interest rates). In 34 OECD countries, total outstanding debt increased on average by 5.4% in real terms between 2019 and 2020 and it rose in 28 out of the 34 OECD countries with data. Total financial debt (including currency deposits, bonds and loans whilst excluding insurance pension and standardised guarantees as well as other accounts payable) also expanded by 6.6% in real terms.

Box 4.1. The impact of COVID-19 on fiscal rules and subnational government debt

Fiscal rules

During an emergency, budget balance rules, spending limits and other similar rules are sometimes relaxed along two lines: either formal escape clauses triggered under specific circumstances, and/or an effective suspension of the rules in practice when it appears unreasonable to expect subnational governments to comply (OECD, 2020[60]).

The COVID-19 pandemic brought many governments to activate these exceptional fiscal provisions. In Denmark, fiscal rules have been temporarily eased for municipalities, lifting expenditure ceilings for coronavirus-related operating expenditure and investment. In Germany, the Parliament has suspended the constitutionally enshrined "debt brake" thereby allowing *Länder* to run deficits to respond to pandemic induced fiscal pressures. Using net-funding pre-approved allowances, the Länder were able to partially cover budget deficits in 2020 and have the flexibility to use any leftover funds from these allowances in the coming years to fund pandemic-related costs and revenue losses. This federal support comes on top of support provided by Länder to local governments. In particular, the Länder decided to loosen the fiscal rules applied to municipalities by suspending the balanced budget rule and the duty for cutback measures as well as spending freezes. In addition, underwriting conditions for short-term loans were loosened. Subnational government debt has increased in many countries, also favoured by good financing conditions (low interest rates). In India, the central government enhanced the borrowing limit of state governments from 3% to 5% of their gross state domestic product, although only the first 0.5% of this increase was unconditional — a further 1% was permitted only if the borrowing was linked to specific reforms such as debt sustainability, job creation, power sector reforms and urban development.

Fiscal rules have in some cases been relaxed after public consultation. In Iceland, the government launched a public consultation relative to a bill on amendments to various laws related to municipalities and COVID-19. It aimed to authorise municipalities to deviate from the debt and balance rule of the Local Government Act until the year 2025, as well as to include temporary provisions in the Act on the Municipal Loan Fund, to facilitate lending to municipalities.

Short-term and long-term borrowing

The COVID-19 pandemic has also forced governments to implement specific measures related to subnational debt. This has been especially the case for subnational governments whose fiscal health prior to the pandemic was already subpar. Most countries around the world have taken measures such as relaxing debt prudential rules (Colombia, Poland, Portugal), reducing debt burden (Brazil, Italy) or establishing municipal liquidity facilities (Italy, United States) (OECD, 2021[4]). In 34 OECD countries, total outstanding debt increased on average by 5.4% in real terms between 2019 and 2020 and it rose in 28 out of the 34 OECD countries with data. Total financial debt (including currency deposits, bonds and loans whilst excluding insurance pensions and standardised guarantees as well as other accounts payable) also expanded by 6.6% in real terms.

Short-term borrowing has served as a means to bridge delays in revenue and cover liquidity shortages. For example, some governments facilitated access to short-term borrowing and credit lines (sometimes with COVID-19 credit lines). Short-term and emergency loans represented more than half of new subnational government borrowing in the European Union in June 2020 (OECD, 2021[4]). The Colombian government made it possible in 2020 for subnational governments to contract short-term borrowing (credit lines) that would not be counted in indebtedness ratios. The Bank of Canada stepped in to ensure the provinces and territories had access to short-term borrowing to fund their respective

pandemic responses by establishing a Provincial Bond Purchase Program and a Provincial Money Market Purchase Program.

As for long-term borrowing, the recovery programmes and public investment stimulus plans all seem to point in the direction of a significant expansion of long-term borrowing. As a result, several governments have relaxed regulatory constraints on subnational long-term borrowing and eased access to long-term borrowing, notably on the capital markets (e.g. Mexico, COVID-19 bonds in China) (OECD, 2021[4]).

Source: (OECD, 2021[4]; OECD/UCLG, 2022[13])

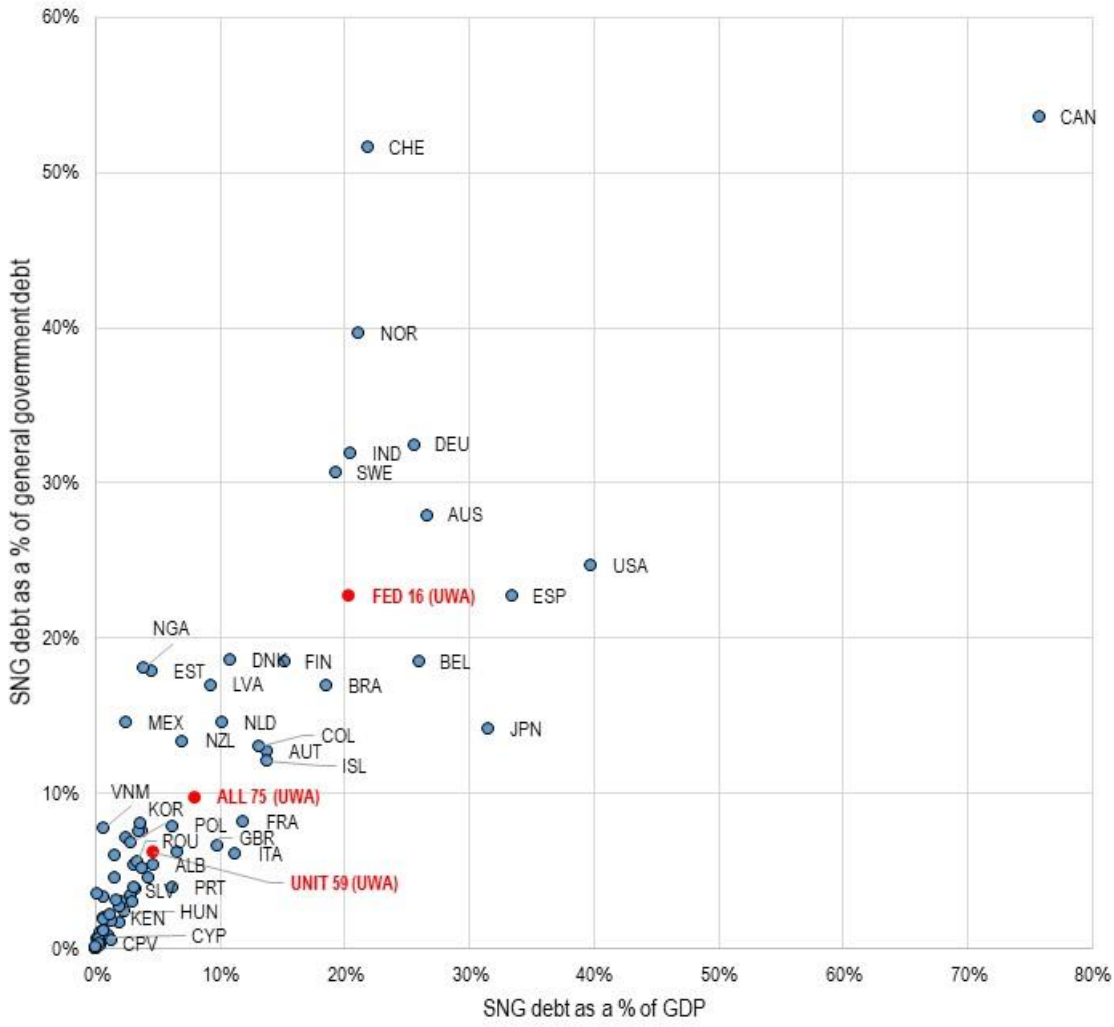
4.2. Overview of subnational debt

Subnational debt amounts to 9.8% of total public debt and 7.9% of GDP as a global average

Subnational outstanding gross debt accounts for 9.8% of total public debt (i.e. 7.9% of GDP) on unweighted average of the 75 countries with data included in the database. Countries show very diverse values for this indicator, ranging from almost no debt up to a debt peak of 53.6% of public debt (i.e. 75.8% of GDP) as in Canada (Figure 4.1).

Over the last four years, subnational outstanding gross debt has increased from 7.5% to 7.9% in terms of GDP from 2016 to 2020, whereas it has decreased from 11.5% to 9.8% in terms of total public debt, when comparing the same sample of the previous edition of this report between 2016 and 2020 data. This indicates that while on average many subnational governments increased debt to address the crisis, national governments have often taken on a larger debt burden.

Figure 4.1. Subnational government debt as a percentage of GDP and general government debt (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Subnational government debt is significantly higher in federal countries than in unitary countries

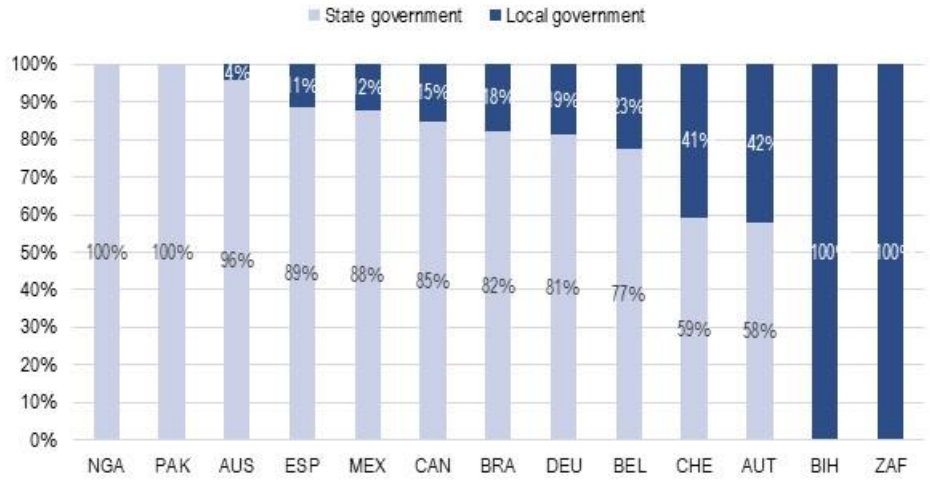
In 2020, in federal countries, subnational debt amounted to 22.7% of public debt (i.e. 20.3% of GDP), while it accounted for 6.2% of public debt (i.e. 4.6% of GDP) on unweighted average in unitary countries (Figure 4.1).

Among federal countries, subnational government debt is higher in OECD countries than in non-OECD countries. In OECD countries, the unweighted average for federal countries (excluding Mexico) amounts to 29.5% of GDP and 28.7% of public debt. In the seven federal non-OECD countries for which data were included in the database, subnational debt accounts for 7.5% of GDP and 13.1% of total public debt on unweighted average.

In general, the debt of state governments represents the bulk of subnational debt, particularly in Nigeria, Pakistan, Australia, Spain, Mexico, Canada, Brazil, Germany and Belgium, but also for other countries for

which disaggregated data by subnational level are not available such as India and United States (Figure 4.2). State government debt in federal countries features in higher levels because states are generally not subject to the so-called 'golden rule', a legal provision that restricts borrowing to finance long-term investment projects, thus limiting the level of indebtedness. Likewise, high state government debt reflects the fact that, in some federal countries, shares of insurance pension and standardised guarantees are large, such as in Australia and the United States. South Africa is a singular case as provinces are not allowed to incur debt – or only in small amounts. Only municipalities are constitutionally empowered to borrow.

Figure 4.2. State and local government debt as a percentage of total subnational outstanding debt in federal countries (2020)



Note: In the United States and in India, there is no disaggregated data between state and local governments.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

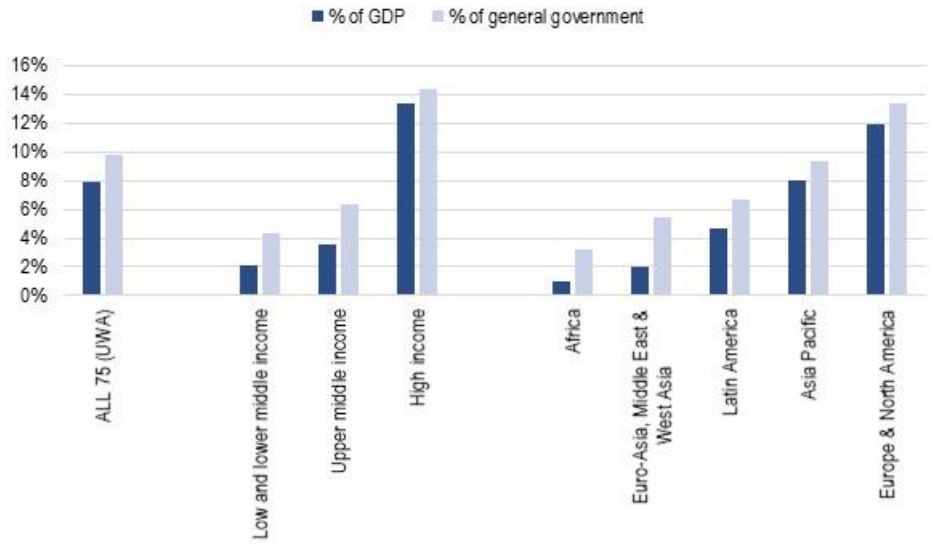
Local government debt, when compared to state or regional government debt, is substantially lower in both federal and unitary countries, accounting for 4.5% of GDP and 6.1% of total public debt in 2020 (unweighted average based on 68 countries). Logically, local government debt levels are lower in countries where subnational governments have fewer spending responsibilities and/or where local borrowing is restricted by the "golden rule" (which is the case in the vast majority of countries) and governed by strict prudential rules defined by central or state governments (e.g. prior approval must be obtained to borrow from a supervisory authority; caps on outstanding debt, service and new annual borrowing; ban on foreign debt, ban on bond financing, conditions attached to borrowing, debt restricted to large cities, etc.). The average is pushed downwards by the developing countries included in the sample, as local borrowing is not allowed in many lower income countries. This ban on local borrowing is, however, not circumscribed to developing economies and also exists in OECD countries, such as Chile. Overall, in 27 countries, local outstanding debt is less than 1.5% of GDP and in 24 countries, less than 2.5% of public debt.

Some unitary countries have, however, a high level of local government debt. Japan, Norway, Sweden, Finland and Iceland stand out for their high level of local government debt, above 12% of GDP. In Japan, local government debt amounted to 31.5% of GDP and 14.1% of public debt in 2020; whereas in Norway local debt reached 21.2% of GDP and 39.6% of public debt (Figure 4.1).

Income level is correlated with the level of subnational debt

As for expenditure (Figure 2.6) and revenue (Figure 3.3 and Figure 3.5), the income level of the different countries is correlated with the level of subnational debt, both as a percentage of GDP and as a percentage of general government debt (Figure 4.3). This reflects the degree of decentralisation in terms of spending responsibilities, in particular for investment. It also reflects subnational government fiscal capacity and creditworthiness, and the fiscal framework (particularly borrowing rules). Finally, access of subnational governments to national and international credit markets can be easier in high income countries.

Figure 4.3. Subnational government debt by income country group and world region as a percentage of GDP and general government debt (2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Subnational government debt is also greater in Europe and North America and Asia Pacific than in other world regions (Figure 4.3). In Asia Pacific in particular, subnational debt is high on average, but it is mainly driven by Japan, Australia and India. The level of debt in other Asian countries remains low.

4.3. Overview of subnational loans and bonds

Subnational government debt stock is made up of both "financial debt" (mainly loans and debt securities resulting from borrowing) and "non-financial debt" i.e. the sum of other accounts payable (arrears, suppliers' debt, etc.), as well as pension liabilities (insurance pensions and standardised guarantees). In 2020, financial and non-financial debt accounted for respectively 67.2% and 32.8% of debt stock of the country sample on unweighted average for 70 countries.

Loans constitute the lion's share of subnational government debt

As an unweighted average, loans constitute the lion's share of subnational government debt (53.4% of debt stock), followed by "other accounts payable" (29.2%) and bonds/securities (11.4%) as shown in Figure 4.4.

Figure 4.4. Subnational government debt by instrument as a share of total outstanding debt (2020)



Note: For South Africa, data on loans, bonds/debt securities and currency deposits are only available in an aggregated total, which is hereby referred to as "Financial debt". All averages are unweighted averages.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

The use of loans is higher in unitary countries than in federal countries (54.6% vs 48.7% of subnational debt), as well as in lower middle income countries than in other income groups.

The accumulation of short-term debt or "commercial debt" with suppliers and arrears may be a concern in some cases. In some countries, the share of "other accounts payable" in total subnational government debt is particularly high, such as in Kenya, Ghana, Malta, South Africa, Peru, Hungary and Uganda (Figure 4.4).

Bond financing is concentrated in some countries and levels of subnational government

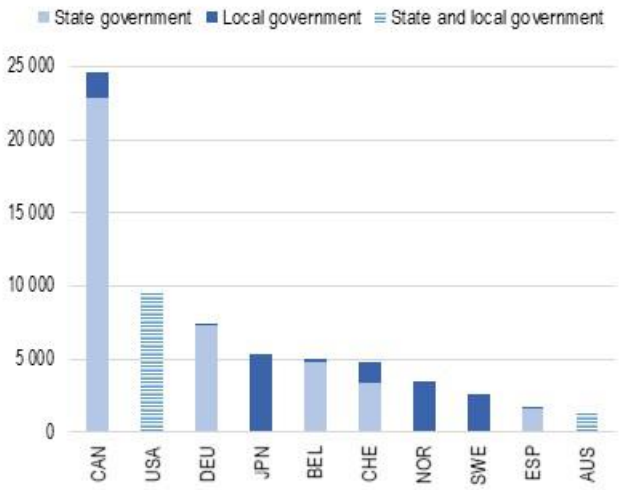
The use of bonds by subnational governments varies significantly across countries and across levels of subnational government

Bond financing is more developed in federal than in unitary countries (20.1% vs 9.3% of debt stock). In federal countries, the issuance of bonds is the preferred source of funding of state governments, while the share for local government remains small or inexistent (Figure 4.5 and Figure 4.6). Canada stands out for the high level of bonds per capita (almost 24 612 USD PPP), followed from afar by the United States.

In many unitary countries, bond financing by local governments is not allowed – or at least not widespread. However, the importance of bonds in debt stock may be significant as in Kazakhstan, Paraguay, Japan, Korea, Portugal, Norway and Sweden.

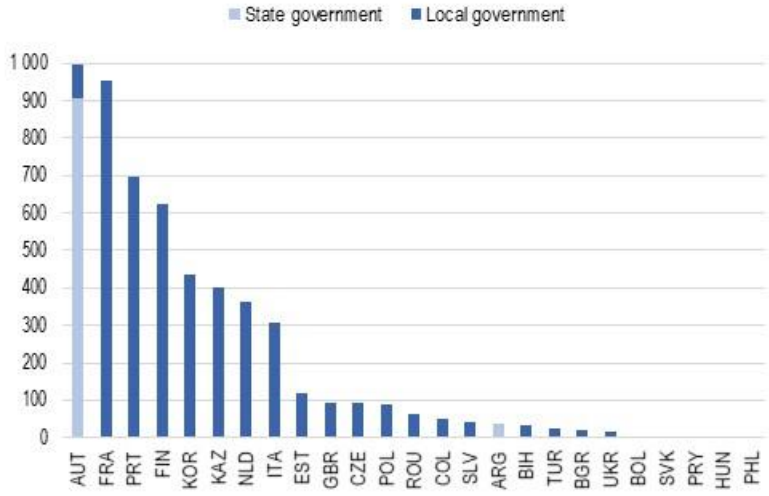
The share of bonds in debt stock is also slightly higher in upper middle income countries than in high income countries (16.2% vs 13.3%), while in low income and lower middle income countries it amounts to 2% only. Finally, the share of bonds across world regions is quite balanced between zero in Africa, through 8.5% in Asia Pacific up to 26.9% in Euro-Asia, Middle East and West Asia.

Figure 4.5. Bonds/securities by level of government (>1 000 USD PPP per capita, 2020)



Note: In the United States and in India, there is no disaggregated data between state and local governments.
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Figure 4.6. Bonds/securities by level of government (<1 000 USD PPP per capita, 2020)



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Bonds are also issued by financial intermediaries on behalf of subnational governments. Their characteristics may sometimes make it easier for them to access financing compared to subnational governments, especially local ones. Financial intermediaries then on-lend to subnational governments. There are different types of financial intermediaries, such as pooled financing mechanisms or development banks.

Green bonds

Green bonds are debt instruments used to finance green projects that deliver environmental benefits. In general, the green bond market is developing at a modest pace as it faces several challenges: the absence of an international definition of green bonds, the uneven requirements for such products, the existence of multiple types of climate-related bonds as well as their complex implementation and costly reporting needs. These roadblocks limit both the use and the interest of subnational governments in this type of financing (OECD, 2022[10]).

Nevertheless, the database includes some countries whose subnational governments have access or are somehow making steps towards using green bonds for financing. For example, Norway's Kommunalbanken (KBN) is a state-owned limited company and the largest provider of debt financing to Norwegian municipalities, commanding a market share of approximately 50%. KBN began lending to green investments in the local government sector in 2010, and in 2013 KBN became one of the first European issuers to launch a public USD green bond earmarked towards green projects. KBN offers green loans to municipalities, county authorities, municipal companies, inter-municipal companies and other types of companies with a municipal guarantee. Eligible borrowers get a discounted interest rate for projects that help reduce greenhouse gas emissions, improve energy efficiency or contribute to climate change adaptation. In Spain, subnational governments at all levels have recently started to access green financing tools, such as green bonds. Municipalities can issue green bonds to finance their debt up to a 2.5% ceiling, but as high as 20% for provincial governments and Autonomous Communities. The Community of Madrid and the City of Barcelona have already issued sustainability bonds, and the Junta of Andalucía has explicitly incorporated green bonds as part of its Sustainable Finance Framework. Mexico City issued USD 50 million worth of green bonds in 2017 to finance its Climate Action Program 2014-2020, which includes investments in new rapid transit lines (bus) and an LED street lighting project.

5. What is the state of multi-level governance and finance in Least Developed Countries?

5.1. Overview of the country sub-sample and difficult access to fiscal data

Least developed countries (LDCs) are defined as low income countries confronting severe structural impediments to sustainable development. LDCs need to fulfil the following three criteria to be classified under such category:

- Low three-year average of per capita gross national income (GNI): USD 1 018 or below as of 2021
- Low level of human assets index (HAI): 60 or below
- High structural vulnerability measured by the economic and environmental vulnerability index (EVI): 36 or above

The third edition of the SNG-WOFI database contains information and data for 31 out of 46 LDCs that exist in the world as of 2022, compared to the 23 LDCs examined in the previous edition of this report.

Box 5.1. Note of caution

Before proceeding to analyse the findings of LDCs, a note of caution is in order. Data quality, reliability and availability is low in LDCs. Subnational finance data for LDCs is less abundant if compared to the rest of the SNG-WOFI sample. To illustrate, out of the 31 LDCs included in this edition, 25 have information for their subnational total expenditure and revenue and a more detailed distribution of said total numbers is available for 22 of them, whereas there are public investment data for 7 LDCs only. Concerning debt, the database contains data for one country only (Uganda). Importantly, many LDCs do not follow systematic data collection processes. The definitions of each category of expenditures, revenues and debt are not standardised among countries. As a result, collecting and classifying subnational data in a non-systematic way significantly hinders the task of drawing comparisons among countries. For all countries, including LDCs, the country and territory profiles rank the quality of data collected. Therefore, any averages calculated including LDCs must therefore be interpreted cautiously.

Nevertheless, data collection for LDCs in the SNG-WOFI database has continued to be enhanced in this edition. Moreover, the qualitative component has also been expanded to include topics related to territorial and fiscal equalisation reforms, property tax, subnational public-private partnerships, and the role of development partners, among others. As will become clear, this allows trends in LDCs to be better examined without necessarily relying on quantitative data. Overall, the SNG-WOFI provides a general picture of the subnational finance situation in these countries and encourages the relevant stakeholders to pursue a path towards increased high-quality data collection.

Table 5.1. 31 LDCs in the 3rd edition of the SNG-WOFI by income group and world region

World region	Country	Income group
Sub-Saharan Africa	Angola	Lower middle income
	Benin	Lower middle income
	Burkina Faso	Low income
	Burundi	Low income
	Chad	Low income
	Djibouti	Lower middle income
	Ethiopia	Low income
	Gambia	Low income
	Guinea	Low income
	Liberia	Low income
	Madagascar	Low income
	Malawi	Low income
	Mali	Low income
	Mauritania	Low income
	Mozambique	Low income
	Niger	Low income
	Rwanda	Low income
	Senegal	Lower middle income
	Sierra Leone	Low income
	Somalia	Low income
	Tanzania	Lower middle income
	Togo	Low income
	Uganda	Low income
	Zambia	Lower middle income
Asia Pacific	Bangladesh	Lower middle income
	Bhutan	Lower middle income
	Cambodia	Lower middle income
	Lao People's Democratic Republic	Lower middle income
	Myanmar	Lower middle income
	Nepal	Lower middle income
Central America	Haiti	Lower middle income

Note: As of October 2022, Angola is scheduled for graduation in 2024, whereas Bangladesh, Lao People's Democratic Republic and Nepal are also predicted to graduate in 2026 (UNCTAD, 2021[61]).
Source: Authors' calculation based on SNG-WOFI database. www.sng-wofi.org.

Despite each LDC having its own particular context, all of them face similar challenges such as widespread poverty, shortages of human and infrastructure capital, high rates of population growth and high dependency rates, as well as significantly high structural vulnerability. Regarding overall economic performance, since the establishment of the LDC category over 50 years ago, growth in LDCs has been, at best, mixed, with only six out of the 53 countries that were initially included in this category reaching graduation. In the current sample, some LDCs such as Somalia or Angola are falling behind (i.e. their long-term GDP per capita growth rates are at least 1% lower than the world's weighted average); some others like Chad or Guinea are muddling through (i.e. their GDP per capita growth rate falls within ±1% of the world's weighted average) and the rest of them such as Bangladesh or Mali are catching up (i.e. their growth rates exceed the world's weighted average by over 1%) (UNCTAD, 2021[61]).

Many LDCs have very large land areas, with countries such as Chad, Niger, Angola and Mali ranked as the 16th, 17th, 18th and 19th largest countries in the 135-country sample for this edition of the SNG-WOFI report. Linked to this, urban population is growing at a higher annual pace for LDCs than for the rest of the

countries in the sample. On average, LDCs have a rate of 3.9% of annual urban population growth against 1.3% in the rest of countries. Yet, the urban population rate in LDCs remains substantially lower than in the rest of the world, with the urban population amounting to 38.5% of the total population in LDCs on average compared to 54.4% in the rest of the world. Larger land extensions and lower urban concentration may render decentralisation frameworks more complex and may make it more challenging for subnational governments to capitalise on economies of scale.

The particularly complex issues that LDCs are confronted with call for specific and tailored decentralisation processes. Local authorities are essential actors to deliver the public goods and services that respond to the needs of their populations. They also have a role to play in conflict resolution, peace agreements, and migration and demographic matters. Importantly, local and regional authorities can act as key local economic development enablers provided that a clear and strong decentralisation framework is in place.

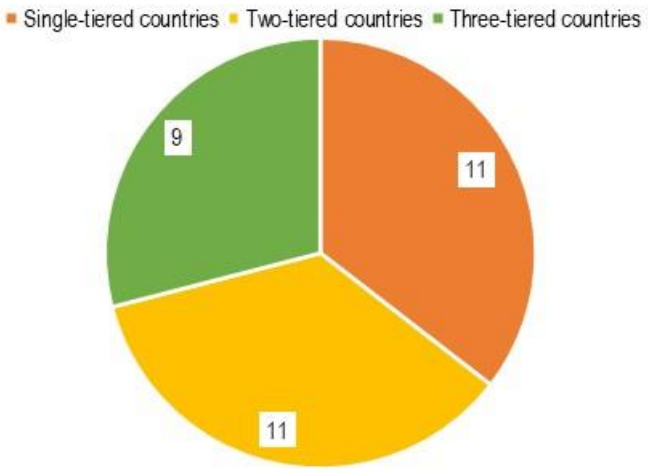
5.2. Multi-level governance framework and territorial organisation

LDCs in the SNG-WOFI database are mainly unitary countries, with the exception of Ethiopia, Nepal and Somalia. Most of them have undergone political democratisation and decentralisation reforms in recent decades, particularly since the 1990s. Democratisation was not the only reason for decentralisation processes in the 90s; improved service delivery mechanisms have also been a key driver. The path followed in several countries is a dual system between decentralisation and deconcentration: elected local government bodies work with deconcentrated bodies representing the central government. For example, in Chad and Madagascar, the transition from deconcentration to devolution started in 2000 and 2004 respectively but the central government is still represented in each municipality today. At the regional level, Madagascar's regions are still administered by governors appointed by the central government despite election rules stipulating, since 2014, that regional representatives must be democratically elected.

In some countries, overlapping responsibilities between levels of government may create confusion. This is the case in Mozambique, where decentralised provincial local governments still have no authority over state entities functioning within its jurisdiction, despite new legislation passed after the constitutional review, which intended to strengthen the decentralisation process in relation to the architecture of the deconcentrated public administration. Similarly, the responsibilities allocated to regions or cities holding a specific status may generate confusion. For instance, despite Djibouti City being entitled to delegate powers to the communes in several areas, sometimes responsibilities in the fields of land-use planning and urban development are recognised and assigned both to Djibouti City and the communes. These overlaps can lead to uncoordinated, inefficient action and wasteful policy duplication. This is also the case in Somalia, where the assignment of functions is unclear, leading to a proliferation of overlaps and service delivery inefficiencies. In contrast, in Rwanda, deconcentrated bodies in the four *intara* (provinces) operate as co-ordinating organs between levels of government and support local government capacity, namely human resources and spatial planning.

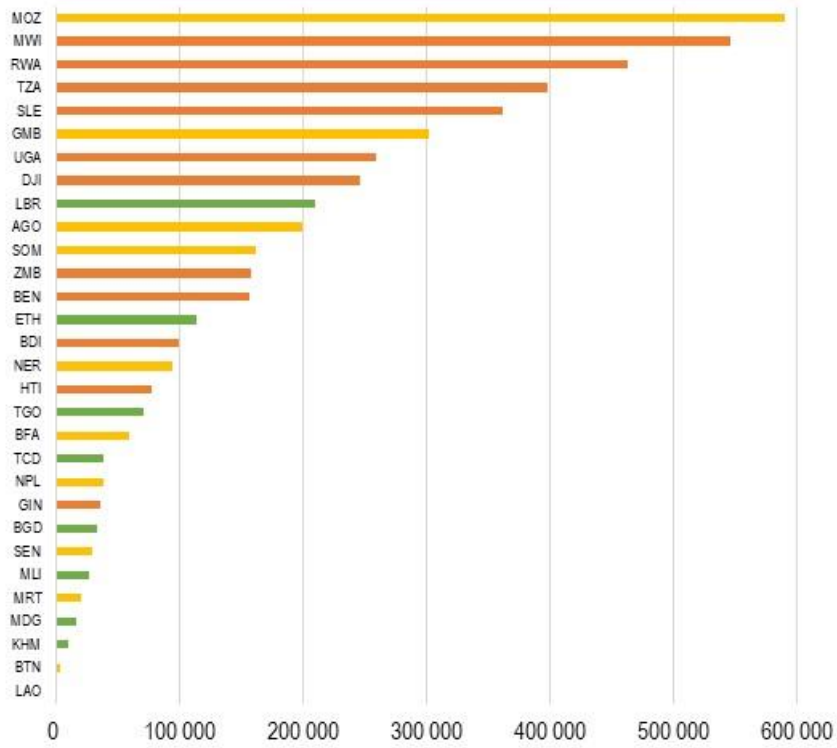
Different historical legacies as well as different geographies and land areas have resulted in a wide diversity of territorial organisation and institutional structures in LDCs. They are almost exactly divided among one-tier, two-tier and three-tier systems (Figure 5.1). Single- and two-tier countries tend to have a higher average municipal size than three-tier ones, and much larger average sizes are reported for Africa compared to Asia or Central America (Figure 5.2). The differences are quite remarkable, from roughly 600 000 inhabitants on average in Mozambique to only 855 in Lao People's Democratic Republic. Many LDCs also have sub-municipal forms of government, such as Haiti, whose sub-communal sections are elected by universal suffrage every four years despite having virtually no financial or organisational autonomy.

Figure 5.1. LDCs by number of subnational government tiers



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Figure 5.2. Average municipal size in LDCs



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

There are three federal countries in the SNG-WOFI database: Ethiopia, Nepal and Somalia. Ethiopia is unique among LDCs as it has developed a federation of multi-ethnic nations to manage ethnic diversity, allowing each region to develop specific provisions. In turn, after a protracted civil war, Somalia took on a federal form in 2012 to accommodate the emerging semi-autonomous states; yet, two Somalian states have still managed to approve their own constitutions which prompted the establishment of the Council of Inter State Co-operation in 2017 for federal states to discuss among themselves and negotiate with the

federal government. Finally, Nepal moved from a unitary to a federal form of government in 2015 with a strong focus on decentralisation based on “co-operative federalism”.

In unitary countries, while the lowest and only decentralised local authority is generally the municipality, traditional authorities often serve as constituencies or places to promote citizen engagement at the sub-municipal level as in Rwanda, Ghana and Zambia.

In contrast to regional representatives, which are either indirectly elected by municipal councillors (e.g. Cambodia, Guinea, Mali) or appointed by the central government (e.g. Madagascar, Niger), municipal councillors are generally directly elected, often by universal suffrage. There are, nevertheless, some exceptions to this rule: in Angola, no local election has taken place (in May 2015, the Parliament approved a plan for the preparation of local elections, which were incorrectly anticipated to occur before the general election in August 2022), and in Chad only 42 municipalities out of 420 have elected mayors and councils. In Togo, after 117 municipalities were created in 2017 on the basis of a grouping of cantons or districts, municipal councillors were finally elected on 30 June 2019 and took up their duties in 2021, thereby dissolving the special delegations established in the prefectures and communes in 2001. In Niger, the renewal of the mandate of local and regional councillors elected in 2011, scheduled for 2016, was postponed but finally took place in December 2020. In Uganda, the last election for district/city, municipality/city division, and town councils was held in 2021, after having organised village council elections in 2018 for the first time in 17 years. In Senegal, mayors and presidents of departmental councils were elected in 2022 for the first time by universal suffrage, following changes to the electoral code.

Table 5.2. Multi-level governance structure in LDCs

	Population	Number of SNGs			
	Average municipal population	*Sub-municipal level*	*Municipal level*	*Intermediate level*	*Regional level*
Angola	200 404	562	164		18
Bangladesh	33 651		4 894	492	64
Benin	157 444		77		
Bhutan	3 692	1 044	209		20
Burkina Faso	59 554	19	351		13
Burundi	99 923		119		
Cambodia	10 157		1 646	203	25
Chad	39 109		420	115	23
Djibouti	247 001		4		5
Ethiopia	113 600	16 223	1 012	68	13
Gambia	302 083		2		5
Guinea	36 278	19 883	362		
Haiti	78 099	571	146		
Lao People’s Democratic Republic	855		8 507	148	18
Liberia	210 737		24	126	15
Madagascar	16 337	19 830	1 695	23	6
Malawi	546 570		35		
Mali	27 001		750	58	11
Mauritania	21 231		219		13
Mozambique	589 725		53		11
Myanmar					14
Nepal	38 694		753		7
Niger	94 928	17 500	255		7
Rwanda	462 579	17 402	28		

Senegal	30 061		557		43
Sierra Leone	362 590	190	22		
Somalia	162 176		98		18
Togo	70 758	387	117	1	5
Uganda	259 892	84 094	176		
United Republic of Tanzania	398 228		150		
Zambia	158 482	1 858	116		

Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Box 5.2. Managing the COVID-19 pandemic in LDCs

As in other world regions, the response of LDCs to the COVID-19 pandemic was different in each country. Most acted in a centralised manner. For instance, in Angola the management of the COVID-19 crisis was highly centralised around the Multi-sectoral Commission, making all provinces dependent on orders from Luanda. Subnational governments were obliged to help enforce not only the provincial quarantine, but also the national one especially in the border provinces. In Djibouti, the crisis management committee, which was set up to deal with COVID-19, was composed solely of sectoral ministries and was in charge of managing, co-ordinating, financing and implementing all measures without involving subnational governments. In these countries where subnational governments played a minor role if any, central governments usually relied upon subnational governments for the implementation of their decisions. In Bangladesh, subnational governments in urban areas played three key roles with regard to COVID-19 response, namely (i) working closely with the central government to provide support to public health activities; (ii) ensuring routine and critical urban services including emergency response; and (iii) co-ordinating and facilitating local sectoral activities to meet citizens' needs.

Other countries involved subnational governments or entities more comprehensively in the decision-making process to respond to the crisis. In Benin, the central government led the response but involved the National Association of Communes of Benin alongside the institutions of the United Nations system, which helped advance the COVID-19 vaccination campaign. In Burkina Faso, the committee set up to manage the crisis had three levels (central, intermediate and peripheral) involving ministers, regional governors and local authorities. In Ethiopia, Public Health Emergency Operations Centres were activated in all regional states in the country while the National Emergency Co-ordination Centre supported and co-ordinated with the Regional Emergency Co-ordination Centres, also set up to respond to the COVID-19 pandemic. The national and regional Public Health Emergency Operations Centres played a pivotal role in co-ordinating resources from different agencies involved in the response to the pandemic and co-ordinating COVID-19 related information through regular meetings and partners' co-ordination forums.

Finally, subnational governments in some countries have been able to set up their own response mechanisms tailored to regional, local and sub-municipal needs. In Bhutan, Dzongkhag COVID-19 Prevention Task Forces have been set up at district level. In addition, the respective districts developed their own Standard Operating Procedures for the distribution of essential items. Some have also implemented their own Disaster Incident Command System, after consultation with local and regional stakeholders. Some districts have been divided into sub-zones for making intra-district management more effective. Each zone encompasses a number of blocks and is administered by a focal contact point and an "incident commander".

Source: (OECD/UCLG, 2022[13])

New legislation and strategic documents on multi-level governance in LDCs

Between 2016 and 2021, several LDCs have carried out reforms to their multi-level governance frameworks. Legislation has been passed to establish and/or better streamline the principles and rules of decentralised governance. Laws in this area have generally been approved with a view to organising or reorganising institutional bodies, redistributing powers, and strengthening accountability. This main objective can be seen, for example, with Mali's Law on the Code of Local and Regional Authorities, adopted in 2017, or in Benin's Code of Local and Regional Government, which came into force in 2022. These

codes establish the characteristics and the prerogatives of local and regional governments and serve as a legal framework that delineates and guarantees local and regional autonomy.

Some countries have enshrined principles of decentralised governance in their constitutions. In 2020, Burundi's communes were recognised as decentralised administrative entities and were attributed legal personality as well as financial autonomy through an additional organic law. Similarly, Guinea's Constitution, which was reviewed in 2020, explicitly recognises local authority and autonomy in its article 136. In Haiti, the government established the Independent Advisory Committee with a mandate to draft a new constitution which would include changes to the subnational government framework to address the inability of local and regional authorities to carry out their role in local development; however, the process comprising a consultation phase and a referendum is currently delayed.

Other countries have adopted national strategies that identify decentralisation and regional development as one of their main priorities. One example is Mauritania, where the national government adopted in 2020 the National Strategy for Decentralisation and Local Development in order to guide national action in this area for the next 10 years. This strategic document aims to empower local and regional authorities as key players in inclusive territorial governance and development, and it deems this objective fundamental to unleash the untapped potential of all territories. It also establishes monitoring and evaluation mechanisms as well as a modified regional fund that has since remained the main source of funding for communes. Similar strategies in the region have been the Ten-Year Decentralisation Strategy (2017-2026) in Burkina Faso or the 8th National Development Plan (2022-2026) together with an additional Plan on updating decentralisation for local government in Zambia. In countries where the decentralisation process had already been initiated, reviews are underway. For instance, Sierra Leone's 2010 National Decentralisation Policy was updated in 2020 with the aim of better aligning the role of local councils with the country's national medium-term development plan for 2019-2024 and the implementation of the SDGs. Recently in 2021, Malawi's central government announced the beginning of a review process of the Local Government Act and the National Decentralisation Policy.

Political instability has hindered progress in furthering decentralisation. For instance, following the events of January 2022 that led to the removal of the President of Burkina Faso, local and regional government councils were dissolved in February 2022 by the new authorities, and it is still unclear how this situation will evolve. In other countries, the application of newly-approved provisions has failed to materialise. For instance, Liberia's Local Government Act, setting the framework to devolve administrative, political and fiscal powers to counties and cities, was signed into law in 2018 but has yet to come into effect. Liberia's Public Financial Management Law, amended in 2020, confirms that county and municipal governments still lack fiscal autonomy to this day. Delays in implementation of decentralisation legislation are visible also in Niger, a gradual transfer of deconcentrated state technical services to local and regional authorities was approved in 2019 but has failed to make progress since then. Delays have also been witnessed concerning electoral legislation as seen above in countries such as Angola or Chad. Somalia also suffers from significant delays, as changes in municipal leadership – particularly those based on clan dynamism – are remarkably frequent.

The importance of decentralised governance and territorial organisation remains pivotal. The adoption or review of many decentralisation policies and strategies (e.g. Prospective Vision of Decentralisation in Burkina Faso, and the Uganda Vision 2040 in Uganda) as well as the creation or modification of decentralised institutions (e.g. the High Council of Autonomous Local and Regional Authorities and Traditional Chieftaincies in Chad, the Council of Inter State Co-operation in Somalia) attest to this fact.

Horizontal co-operation, municipal amalgamation and partition

Similar to the rest of the countries in the SNG-WOFI database, LDCs also resort to municipal amalgamation, disaggregation as well as inter-municipal co-operation, in different forms and frequency.

Decentralisation frameworks in many LDCs encourage inter-municipal co-operation, such as those in Mauritania, Burundi, Senegal, and Sierra Leone. In some countries, inter-municipal co-operation is even mandatory: in Togo, the communes within the same prefecture, as well as those of Greater Lomé, must legally co-operate among themselves.

LDCs typically start by setting in motion legislation regulating inter-municipal co-operation. In this sense, Benin, Burundi and Guinea have all approved legislation in 2020 and 2021 setting out the rules for establishing, organising and operating public bodies for inter-communal co-operation. In Benin, the newly approved Code governing local and regional governments entitles communes to establish EPCIs (*Établissement Public de Co-opération Intercommunale*), i.e. multi-communal bodies responsible for building and managing facilities as well as creating services for member communes. These are legally responsible for contributing to budgetary requirements of EPCIs on a yearly basis through grant allocations. In Burundi, an organic law was passed in February 2020 establishing that the communes may co-operate through a system of inter-communal co-operation with the primary aim of promoting the economic and social development of the communes on an individual as well as collective basis, thus promoting solidarity. Ever since, 50 of these inter-commune systems have been created in the country. Finally, Guinea's rules for establishing horizontal co-operation bodies have engendered a diversity of inter-municipal co-operation. For example, the first inter-communal co-operation scheme in the Boffa region called GRENPAH is a unique structure in the country encompassing 10 paying members and supporting 44 rural and two urban maintenance committees in charge of maintaining rural tracks and urban roads. Another instance of inter-municipal co-operation in Guinea is the "Guinea 44" association in the Kindia region. Previously funded by an external partner in France (Loire-Atlantique General Council), it has now started to diversify its sources of funding in order to continue expanding its area of action in the fields of water sanitation and regional and local development more broadly.

Enhanced co-operation may lead to a proliferation of joint initiatives. Ultimately, existing subnational governments may evince an interest in becoming one single political body. Yet, amalgamations of this kind have not featured prominently so far in LDCs. In Burkina Faso, the General Code of Local and Regional Authorities allows communes to join efforts to provide public services. As a result, three communities of communes have been established so far, with Greater Ouagadougou being the largest one. Yet, these joint endeavours can also be seen as a form of enhanced inter-municipal co-operation since communes do not go as far as becoming one single political entity. Thus, Burkina Faso's case cannot be properly considered an amalgamation to the same extent as some non-LDCs, such as Armenia or Ukraine, have experienced.

By contrast, LDCs have been more prone to engage in municipal partition. The proliferation of new subnational authorities, mostly at tier three level, seems to be a general tendency among LDCs. Comparing the data available for the 20 African LDCs included in the previous report to the updated values for these same countries in this edition, it is found that the total number of subnational governments has increased in only three years by nearly 4%, representing an increase of 270 newly created subnational governments (220 at the local level, 60 at the intermediate level and a reduction of 10 regional governments). The push to better structure a country's multi-level governance system by creating the necessary tiers of government underscores the importance of decentralisation in the development agendas of LDCs. Examples of municipal partition include Zambia, Sierra Leone, Madagascar, Senegal and Ethiopia. Although Zambia's population has risen significantly, such increases have been concentrated in specific regions and cities. Therefore, Zambia created 13 new districts between 2016 and 2018 bringing the total number of districts up to 116 in an effort to align public service delivery at the local level with decentralisation policy. Similarly, Sierra Leone decided to increase the number of chiefdoms, its third tier of government, from 145 to 190 in 2017. In Madagascar, the region of Vatovavy-Fitovinany split into two, whereas the Senegalese district of Keur Massar, once in the Pikine department, also acquired the status of a department on its own. In Ethiopia, the number of cities continues to grow across the 11 regions, from 116 in 2019 to 180 in 2022.

Inter-municipal co-operation may cross national borders. Since criminal activities and security threats affect territories that fall under the jurisdiction of different bordering countries, municipalities under different national jurisdictions can effectively collaborate to address specific security issues. For example, Burkina Faso's Dori region and Niger's Tilabéry department have received significant incoming refugee flows due to the Malian conflict. As in other fields, the challenge that local and regional governments face in the domain of security is to elaborate and implement a clear decentralisation framework and a place-based, spatially-aware approach that allows the specificities of each territory to be taken into consideration. Reaching this goal would ensure that a common vision of affected territories is developed, which would foster coherent and co-ordinated local development policies in areas such as cross-border public infrastructure, land-use planning and services.

5.3. Subnational government responsibilities

Local governments commonly exercise responsibilities tied to local interests, civil administration and spatial planning. Nevertheless, responsibilities are assigned across levels of governments very differently among LDCs, with different degrees of clarity. An unclear allocation of responsibilities across levels of government can create ineffective decentralisation frameworks that result in wasteful policy duplication and poor co-ordination.

Lack of clarity in the division of responsibilities is an issue in certain countries, for different policy areas, and across different levels of governments. For instance, both urban and rural local governments in Bangladesh suffer from overlapping mandates in areas such as health, education and infrastructure planning, and there is often confusion about the functional assignment of responsibilities between subnational governments and deconcentrated administrative agencies. In addition, subnational governments often find themselves unable to deliver all of the services they are supposed to, which reveals the extent to which their mandates are either unfunded or underfunded and threatens the effectiveness and sustainability of their multi-level governance system (OECD, 2019[8]; Rodríguez-Pose and Vidal-Bover, 2022[9]). In Djibouti, the decree on the division of responsibilities lays out the conditions and the modes of power sharing among levels of government, but there is some confusion with powers simultaneously recognised and assigned to Djibouti City and to the communes, especially in the fields of land-use planning, urban development and housing. For federal countries, such as in Ethiopia, the constitution provides a clear division of power between states and local governments, whereas in Nepal, the recent constitution assigns responsibilities to the three levels of governments, namely three exclusive lists addressed to the federal, state and local governments respectively, a federal-state list, and a federal-state-local government list, which are in place simultaneously. In some countries, the transfer of resources corresponding to newly assigned responsibilities is generally slow and subnational governments are not very involved in programme budget processes. This is very clear in Mali despite the Peace and Reconciliation Agreement in 2015. In Bangladesh, the central government sometimes steps in to perform transferred functions when local resources are limited.

Designing a framework that clearly assigns responsibilities to each level of government is challenging, but implementing it is even more so, as it can face opposition and reluctance from different stakeholders. This continues to be the case in Burkina Faso, where since the specific decrees were published in 2009 the process of operationalising the transfers of responsibilities and resources remains, generally, incomplete. There are also instances such as in Malawi, where despite having a clear legal provision in the Local Government Act assigning responsibilities among governments, functions are still performed by all levels of government, leading to inefficient policy duplication. Finally, there are countries that have no legal provisions outlining the responsibilities assigned to the different levels of government, which generates confusion such as in Somalia.

Although in the majority of countries devolution of responsibilities is at least being planned for, there are some exceptions that show a pattern of re-centralisation. In Uganda, re-centralising powers and authority

has been a recurrent trend since 2005. The central government has been more assertive over local affairs, while the administrative powers and financial resources of local governments have gradually eroded. Local governments in Uganda are thus legally devolved but, in practice, they do not receive the financial resources needed to control and manage local affairs adequately. In Mozambique, municipalities exercise their responsibilities under the supervision of local state organs, and entrepreneurial bodies are encouraged to meet collective needs and are granted some administrative and financial autonomy. In Cambodia, the central government is responsible for budget and management duties while communes' responsibilities are limited to civil administration, primary health, pre-school and waste management.

Moreover, local authorities, in certain instances, also play a role in security, conflict resolution and peace agreements. In Benin, one of the shared responsibilities among levels of governments is security. Communes, alongside the national and other local and regional authorities, contribute to the establishment of a co-ordinated public security plan to combat delinquency and crime in the commune and, if necessary, notwithstanding any provisions to the contrary, provide support to the units in charge of security and civil protection. In Somalia, the Constitution of Somaliland assigns said autonomous territory the responsibility of providing internal security to the region. In many peace agreements, local authorities have been considered potential actors to overcome and prevent conflict. Indeed, they are recognised as such in the Peace Agreements with a certain percentage of national budgets to be decentralised (Mali). As mentioned in the previous sub-section, cross-border co-operation is of the utmost importance to better tackle increasing cross-border criminality. This requires effective multi-level co-operation within a country as well as international channels for communication between the levels of government of all countries involved.

5.4. Subnational government finance and debt

Accessing reliable, quality data is generally challenging in most LDCs. This edition of the report has collected basic subnational fiscal data (i.e. at least total subnational expenditure data available) for 24 out of 31 countries (Table 5.3). As can be seen, countries have data available to different degrees. The three federal countries (Ethiopia, Nepal and Somalia) overall provide more information on their expenditures and investments. Some unitary countries also stand out for offering relatively comprehensive data for basic indicators, such as Benin, Mali, Rwanda, Senegal, Togo and Uganda. For other countries, such as Bhutan or Cambodia, detailed, disaggregated data on subnational expenditure were not always found, leaving information on staff expenditure and/or public investment blank. Finally, the only seven LDCs included in this edition for which no data were found on subnational fiscal indicators are Chad, Djibouti, Haiti, Lao's People Democratic Republic, Liberia, Mauritania and Zambia.

Subnational expenditure and investment in LDCs

Table 5.3. Subnational government expenditure in LDCs (2020)

	Expenditure			Staff expenditure			Investment		
	Per capita	% GDP	% GG	Per capita	% GDP	% GG	Per capita	% GDP	% GG
Angola	93.76	1.45	3.65	-	-	-	-	-	-
Bangladesh	48.01	0.93	5.10	-	-	-	-	-	-
Benin	28.84	0.82	3.22	4.61	0.13	2.98	15.13	0.43	10.65
Bhutan	1 313.72	11.81	35.19	-	-	-	-	-	-
Burkina Faso	32.54	1.43	5.83	3.59	0.16	1.82	16.61	0.73	11.16
Burundi	6.47	0.84	3.12	-	-	-	-	-	-
Cambodia	100.16	2.27	9.30	23.49	0.53	6.47	-	-	-
Chad	-	-	-	-	-	-	-	-	-

Djibouti	-	-	-	-	-	-	-	-	-
Ethiopia	168.46	7.82	57.09	82.75	3.84	69.55	37.91	1.76	34.82
Gambia	7.62	0.33	1.98	2.90	0.13	2.99	-	-	-
Guinea	0.80	0.03	0.27	0.26	0.01	0.27	-	-	-
Haiti	-	-	-	-	-	-	-	-	-
Lao People's Democratic Republic	-	-	-	-	-	-	-	-	-
Liberia	-	-	-	-	-	-	-	-	-
Madagascar	3.04	0.12	0.71	2.60	5.63	1.82	-	-	-
Malawi	46.75	2.92	13.58	33.82	2.11	43.51	-	-	-
Mali	61.56	2.62	10.52	40.53	1.73	27.92	8.09	0.34	7.09
Mauritania	-	-	-	-	-	-	-	-	-
Mozambique	60.16	4.64	12.77	28.44	2.19	17.18	-	-	-
Myanmar	149.27	2.91	15.71	14.98	0.29	9.37	-	-	-
Nepal	487.16	12.16	44.24	116.23	2.90	49.07	221.58	5.53	53.38
Niger	5.01	0.20	0.84	-	-	-	-	-	-
Rwanda	140.30	6.34	18.20	51.34	2.32	56.53	35.91	1.62	44.92
Senegal	38.66	1.10	3.64	9.34	0.27	4.89	9.44	0.27	4.46
Sierra Leone	9.23	0.53	2.11	1.88	0.11	1.33	-	-	-
Somalia	3.91	0.31	19.82	2.56	0.21	27.78	0.02	0.00	2.67
Togo	3.39	0.33	1.32	0.59	0.06	1.09	0.50	0.05	1.01
Uganda	76.30	3.35	16.28	52.30	2.30	55.08	8.44	0.37	5.39
United Republic of Tanzania	14.36	0.53	2.87	9.09	0.34	6.88	-	-	-
Zambia	-	-	-	-	-	-	-	-	-

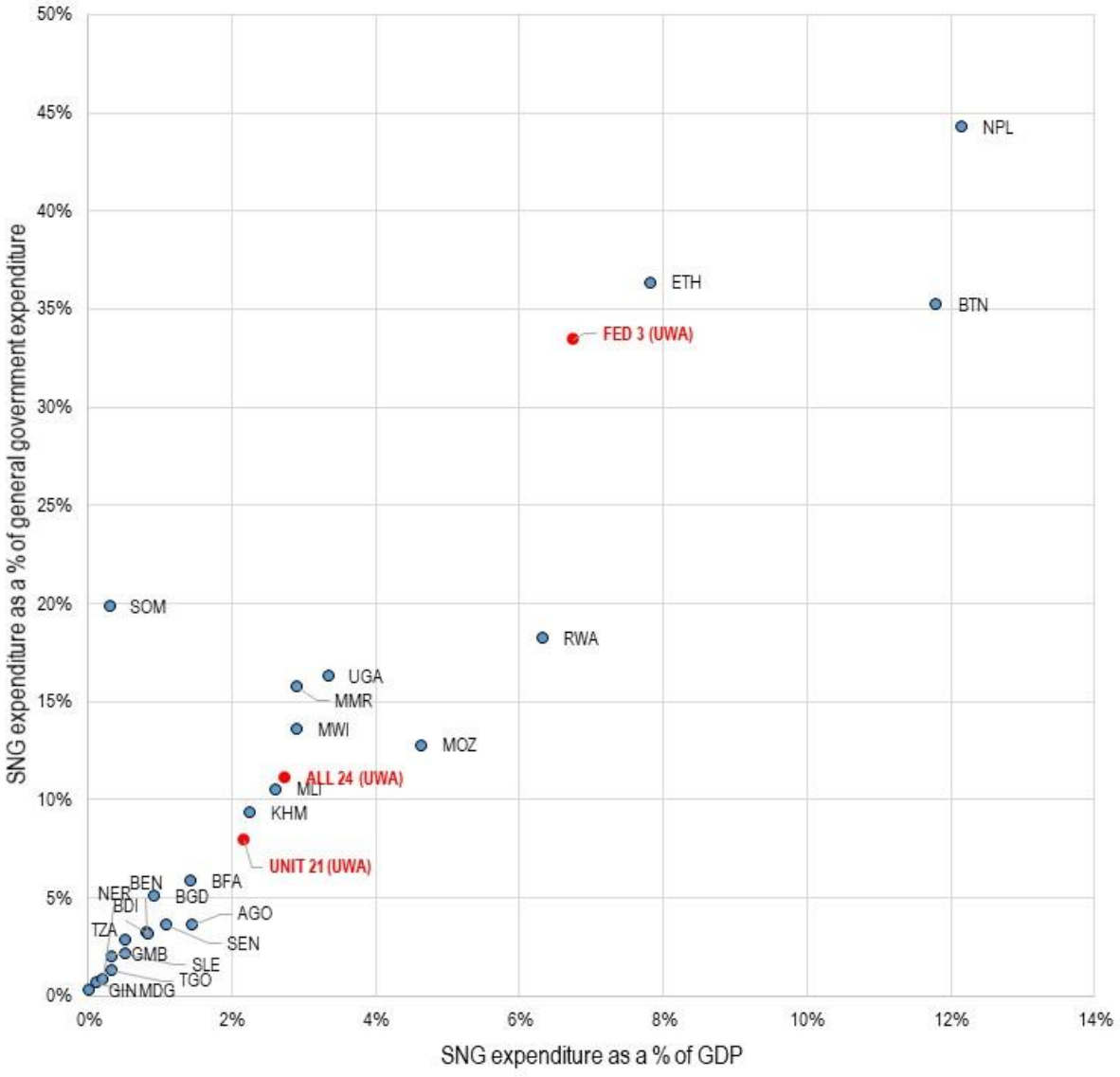
Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

In many countries, total subnational government expenditures account for a low share of GDP, i.e. less than 1% of GDP in 11 countries (Bangladesh, Benin, Burundi, Gambia, Guinea, Madagascar, Niger, Sierra Leone, Somalia, Togo and Tanzania) and between 1% and 3% of GDP for six other countries (Angola, Burkina Faso, Cambodia, Malawi, Mali and Senegal). In the rest of the countries with available data, subnational government expenditures are more sizeable, from the 3.3% in Uganda to the 12.2% in Nepal. Like the other countries in the entire SNG-WOFI database, there seems to be a correlation between the two shares of subnational expenditures (percentage of GDP and percentage of total general government expenditures) (Figure 5.3). Federal countries display remarkably diverse values: while Nepal and Ethiopia have high values of subnational expenditure in both measures, Somalia spends very little at subnational level (0.31% of GDP). As for unitary countries, with the exception of Bhutan, all countries seem to follow a relatively clear linear relationship between the two measures, with the average value for unitary countries coming in at 2.2% of GDP and 8% of general government expenditure.

Nepal stands out as the country with the highest level of subnational spending among LDCs with 44.2% of public expenditures occurring at the subnational level, although heterogeneity across regions remains significant. Ethiopia and Bhutan come next with high levels of subnational expenditure, especially if measured as a percentage of GDP. When considering staff expenditures, they constitute a significant weight in Uganda and in Rwanda, amounting to over 55% of total public expenditure. They are also highly significant in Nepal and Malawi. At the bottom end can be found LDCs such as Guinea, Madagascar, Niger or Togo, whose staff expenditure amounts to less than 1.5% of public spending. In these countries, several issues affect the leeway subnational governments enjoy when it comes to spending resources. In Guinea, the approval of the Code of Local and Regional Authorities in 2017 generated unfunded or underfunded mandates by allocating new responsibilities to subnational governments without providing them with the

necessary administrative and financial resources. Subnational governments in these countries sometimes find themselves with little spending power as most of their expenditures must be devoted to compulsory tasks or to pay local staff. In Madagascar, 85% of current expenditure is spent on staff. Finally, in other countries, a large share of subnational expenditure is dedicated to covering the costs of tasks delegated by the central government. In Bangladesh, local governments mainly act as paying agents, as central government contributions mainly go to paying local staff salaries and holding local elections. Insufficient resources to fulfil responsibilities, the lack of capacity at the local level, compulsory expenditures enshrined in the law or earmarked grants limit local governments' spending power and latitude.

Figure 5.3. Subnational government expenditure in LDCs as a percentage of GDP and as a percentage of general government expenditure

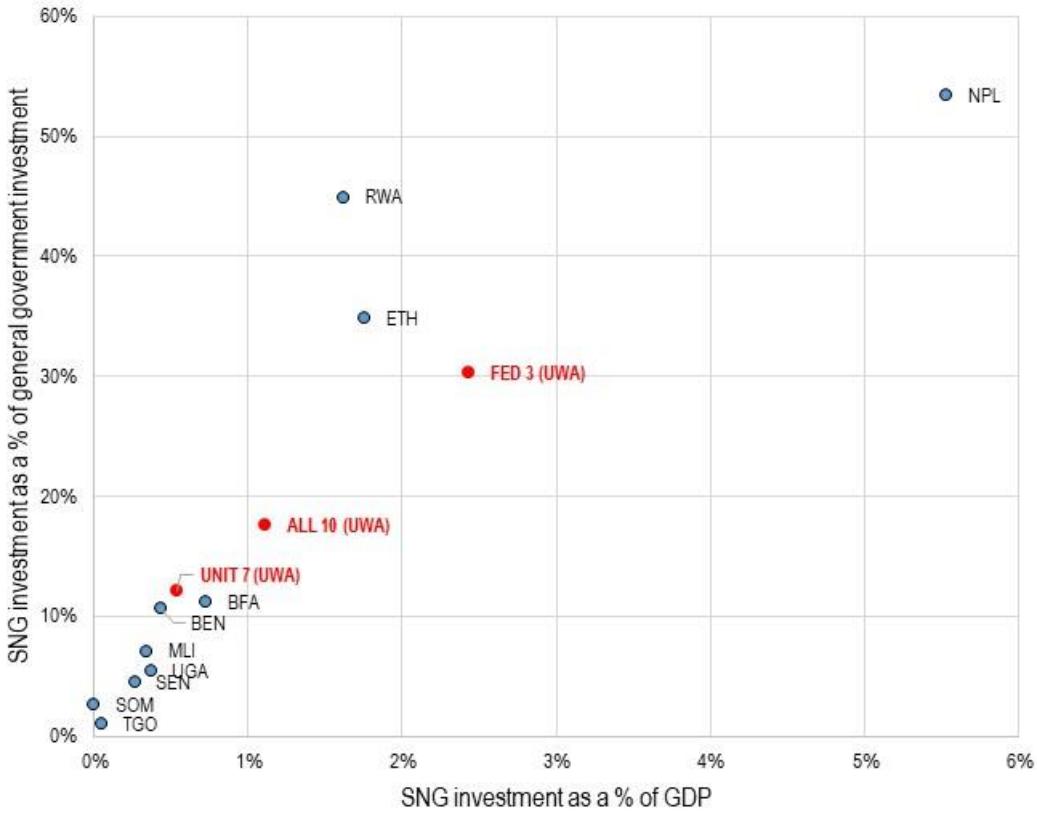


Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

The role of subnational governments in public investment varies markedly across the 10 LDCs for which investment data are available. At the top, Nepal stands out with subnational investment accounting for over

half of total general government investment and over 5.5% of GDP. In Ethiopia, the same figure stands at nearly 35% of total general government investment while Ethiopian subnational governments invest almost 1.8% of its GDP. By contrast, despite being a federal state, Somalia subnational governments do not play a key role in public investment, with the latter amounting only to 2.7% of general government investment. These values are as low as in some unitary countries, in which the share of public investment carried out at the subnational level is more limited than in Ethiopia and Nepal. Indeed, subnational investment accounts for a small share of total public investment in Mali, Uganda, Senegal and Togo, with Benin and Burkina Faso falling around 10%. Among the seven unitary countries, Rwanda stands out as a major exception, with subnational government representing over 1.6% of its GDP and 44.9% of its total public investment. Without sufficient self-financing, access to borrowing as well as adequate, timely and predictable capital transfers from the central government, municipalities remain unable to cope with huge investment needs, and local investment is therefore limited.

Figure 5.4. Subnational government investment in LDCs as a percentage of GDP and as a percentage of general government investment



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Subnational revenue in LDCs

Subnational government revenues in most LDCs are limited, both as a share of GDP and of general government revenue (Table 5.4). Some 15 out of 21 unitary countries have revenues that amount to less than 2% of GDP and 10% of general government (Figure 5.5). With the cases of Malawi, Uganda and in particular Rwanda, the average subnational government revenue in LDCs falls to 1.7% of GDP and 9.7% of general government revenue. There is a stark contrast with federal countries such as Nepal and Ethiopia, each displaying values for subnational government revenue that go beyond half of their total general government revenues and over 14.7% and 8.4% of their respective GDPs. Once again, Somalia distances itself from other federal LDCs in terms of revenues as a share of GDP.

Nevertheless, it remains essential to examine the composition of revenues to better understand the autonomy subnational governments in LDCs enjoy when it comes to their financial resources. Upon closer inspection, a preponderance of intergovernmental transfers (i.e. grants and subsidies) can be clearly identified, which in practice hints at a relatively high dependence on central government transfers. Most low income countries also receive international aid and donations. In Uganda, Malawi, Rwanda, Djibouti and Mali, grants and subsidies from the central government represent 94%, 91%, 89%, 87% and 86% of subnational revenue respectively, with very modest variations when compared to the previous edition of this report. A significant share of subnational revenue in these countries is indirectly provided by donors through grants to the central government, which then on-grants to subnational governments. The large proportion of central government transfers in subnational governments' revenues takes place irrespective of the country's structure, be it federal or unitary. Similar to the aforementioned unitary countries, subnational governments' revenue in federal countries such as Somalia, Nepal and Ethiopia is composed of 68%, 65% and 60% of grants and subsidies, respectively. Given the significance of grants and subsidies, some countries have introduced mechanisms to better co-ordinate among levels of government. For example, in Uganda, the government introduced a Local Government Performance Assessment System aligned with the Intergovernmental Fiscal Transfer Reforms to make local government financing more adequate, equitable and efficient. Similar instruments are in place in countries such as Benin, Burundi and Mali, but they are not always fully applied. Finally, in other countries, such as Tanzania, Mozambique, Madagascar, Guinea, Senegal and Burkina Faso, intergovernmental transfers are less significant and amount to around one-third of total subnational revenue.

Box 5.3. Reforms of local finance systems

Many LDCs have reformed their fiscal systems, by modifying fiscal equalisation transfers either directly or indirectly. For example, in Benin, intergovernmental fiscal transfers will soon no longer be channelled through the Support Fund for the Development of Communes (FADeC), a joint central-local government body set up in 2008; rather, intergovernmental funds will be directed to the Communal Investment Fund (FIC) in an attempt to bridge the gap between the responsibilities and resources attributed to communes. In Senegal, discussions on the reform of the Local Authority Equipment Fund (FECL), established in July 2018, have taken place. The Directorate of Local and Regional Authorities proposed a distribution model based on the principle of territorial equity with a combination of several indicators calculated on the basis of data from the National Agency for Statistics and Demography, leading to "annual territorial equity coefficient per capita" for each commune. The annual territorial equity coefficient is determined on the basis of three weightings: 20% for demography; 40% for poverty, to prioritise local and regional authorities that face the greatest socio-economic challenges; and 40% for rurality, to favour rural territories with municipalities of less than 250 inhabitants per square kilometre. Finally, in Djibouti, regional authorities received fiscal transfers for the first time; however, the City of Djibouti has, thus far, only received grants from the national level.

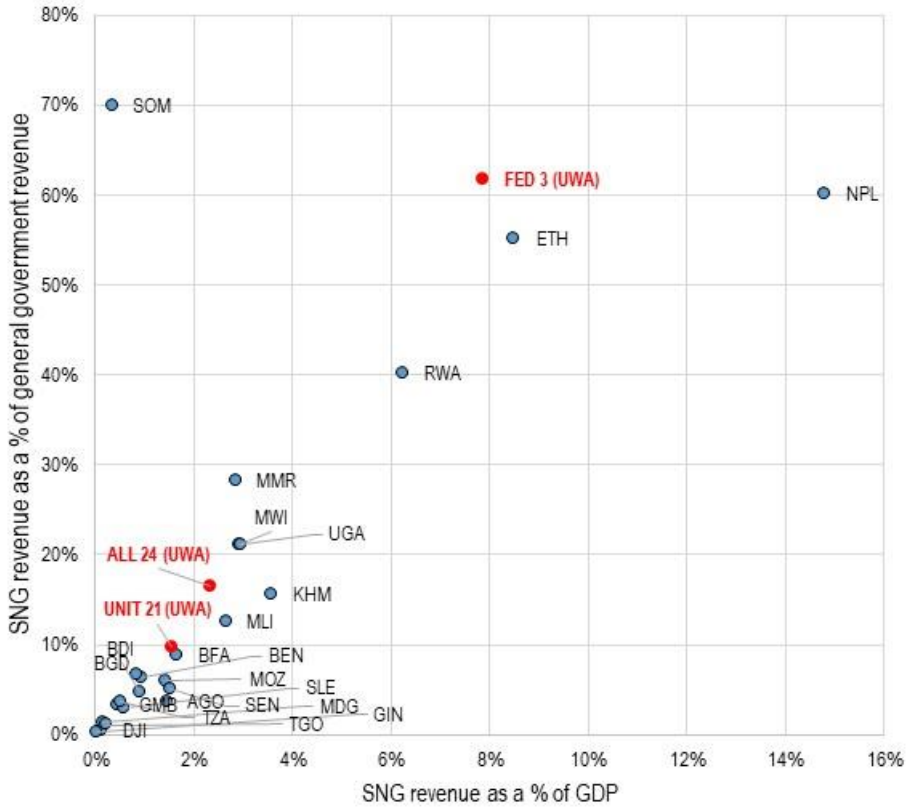
Source: (OECD/UCLG, 2022[13])

Table 5.4. Subnational government revenue in LDCs (2020)

	Total revenue			Tax revenue				Grants and subsidies			
	Per capita	% GDP	% GG	Per capita	% GDP	% SNG	% GG	Per capita	% GDP	% SNG	% GG
Angola	93.76	1.45	3.65	-	-	-	-	-	-	-	-
Bangladesh	43.53	0.85	6.67	26.40	0.51	60.65	-	2.68	0.05	6.15	-
Benin	32.52	0.93	6.31	8.22	0.23	25.29	2.18	19.34	0.55	59.45	-
Bhutan	-	-	-	-	-	-	-	-	-	-	-
Burkina Faso	37.82	1.66	8.86	7.31	0.32	19.32	2.12	9.69	0.43	25.61	-
Burundi	7.04	0.91	4.72	3.57	0.46	50.64	2.53	3.48	0.45	49.36	-
Cambodia	158.39	3.58	15.68	79.34	1.79	50.10	9.15	73.41	1.66	46.35	-
Chad	-	-	-	-	-	-	-	-	-	-	-
Djibouti	8.06	0.14	0.53	1.02	0.02	12.66	0.16	7.04	0.12	87.34	-
Ethiopia	183.01	8.50	55.25	58.21	2.70	31.81	22.30	109.51	5.08	59.84	-
Gambia	10.57	0.46	3.24	6.56	0.29	62.06	2.66	0.85	0.04	8.01	-
Guinea	1.14	0.04	0.34	0.33	0.01	28.85	0.11	0.35	0.01	31.08	-
Haiti	-	-	-	-	-	-	-	-	-	-	-
Lao People's Democratic Republic	-	-	-	-	-	-	-	-	-	-	-
Liberia	-	-	-	-	-	-	-	-	-	-	-
Madagascar	4.31	0.17	1.33	1.08	0.04	25.15	0.43	1.47	0.06	34.04	-
Malawi	46.70	2.91	21.16	-	-	-	-	42.70	2.67	91.44	-
Mali	62.30	2.65	12.59	7.35	0.31	11.79	2.00	53.63	2.28	86.09	-
Mauritania	-	-	-	-	-	-	-	-	-	-	-
Mozambique	18.55	1.43	5.93	6.13	0.47	33.05	2.05	6.44	0.50	34.72	11.83
Myanmar	146.65	2.86	28.31	5.87	0.11	4.00	1.83	113.77	2.22	77.58	-
Nepal	592.22	14.78	60.19	135.97	3.39	22.96	17.80	384.91	9.61	64.99	-
Niger	4.32	-	-	-	-	-	-	-	-	-	-
Rwanda	138.44	6.25	40.25	4.26	0.19	3.08	1.41	122.78	5.55	88.69	-
Senegal	53.81	1.54	5.06	18.20	0.52	33.83	3.01	14.90	0.43	27.69	-
Sierra Leone	10.27	0.59	3.04	3.07	0.18	29.90	1.29	6.64	0.38	64.66	-
Somalia	4.28	0.34	69.95	1.16	0.09	27.13	18.97	2.91	0.23	68.00	-
Togo	2.21	0.21	1.13	0.84	8.18	38.17	0.54	0.07	0.01	3.34	-
Uganda	68.03	2.96	21.08	0.99	0.04	1.46	0.38	65.64	2.86	96.50	-
United Republic of Tanzania	14.36	0.53	3.70	6.03	0.22	42.00	1.85	5.17	0.19	36.00	-
Zambia	19.87	0.57	-	3.76	0.11	18.90	-	9.73	0.28	48.95	-

Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org

Figure 5.5. Subnational government revenue in LDCs as a percentage of GDP and as a percentage of general government revenue

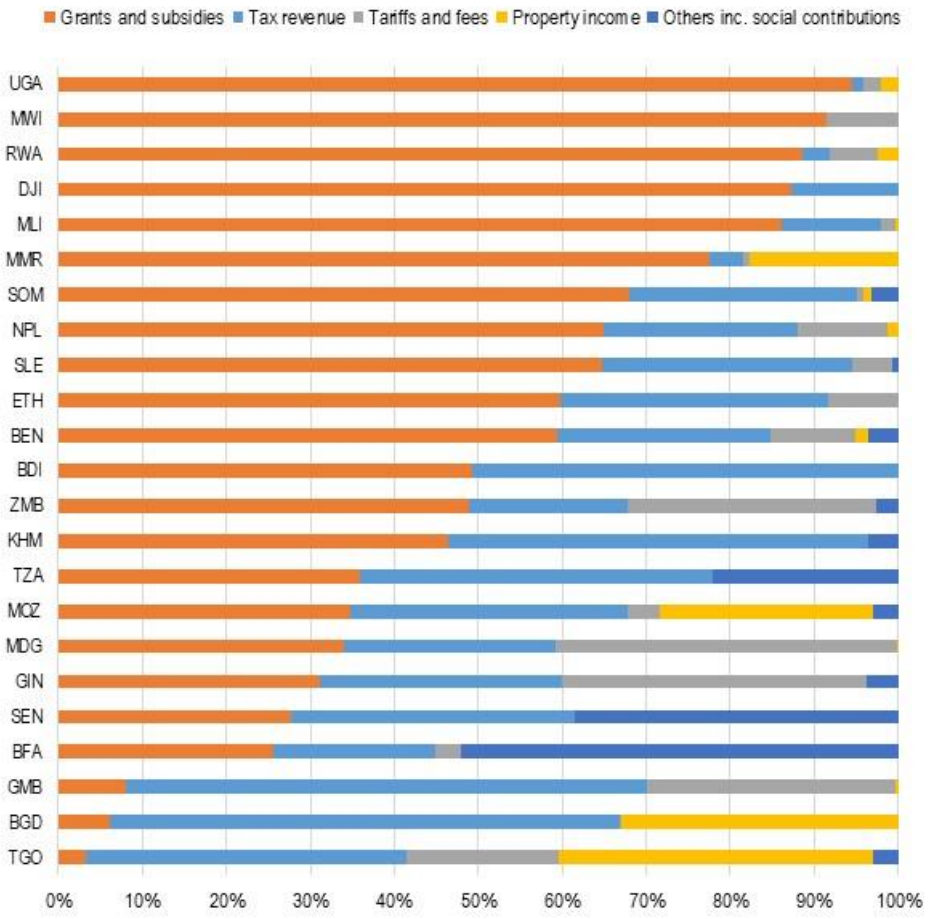


Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org

In comparison, the share of subnational tax revenue in total subnational revenue appears rather limited, with some notable exceptions. For example, 62% and 61% of subnational revenues in Gambia and Bangladesh come from tax revenue, and 51% and 50% in Burundi and Cambodia. However, these data must be put in perspective: for example, in Burundi, tax revenue accounts for 51% indeed, but this percentage actually represents USD 4 per capita PPP and 2.5% of general government tax revenue. Other countries such as Mozambique, Guinea, Madagascar and Senegal show roughly equal sizes of tax revenue and grants and subsidies, at about 30% each.

Moreover, higher levels of tax revenue do not necessarily mean that subnational governments have sufficient leeway to raise and manage them: the category for tax revenue comprises both shared taxes, in which subnational governments have little to no taxing power, and own-source taxes, for which subnational governments have some power over their rates and bases. Own-source taxes are usually comprised primarily of property taxes and vary from country to country. For example, in Bangladesh, the tax base as well as the tax rates of all subnational governments are determined by the national government, despite the provision in the 2009 Local Government Act transferring to all local government bodies the legal authority to do so. Most often, however, subnational governments have some power to set the rates for certain tax revenue items within legal limits. For example, Malawi's subnational governments are legally able to set their own property tax rates, as is also the case in Ethiopia. The degree of subnational autonomy to set tax rates is continually evolving. For example, in Togo the rate of property tax on real estate, which was set at 15% of the rental value of the building, has been reduced to 7.5% since 2020 and the rate of property tax on undeveloped properties has been reduced from 5% of the market value to 0.5%.

Figure 5.6. Subnational government revenue in LDCs by category as a percentage of total subnational government revenue



Source: Authors' calculations based on the SNG-WOFI database. www.sng-wofi.org.

Tariffs and fees constitute a sizeable portion of subnational revenues in countries such as Madagascar (41%), Guinea (36%), Gambia (30%), Zambia (30%) or Togo (18%). By way of illustration, tariffs and fees in Guinea are made up of market stall fees, kiosk and stall rental fees, livestock storage fees, motor vehicle parking fees, impound fees and proceeds, tourist site exploitation fees, quarrying fees, artisanal mining fees, forestry fees, fees for the private occupation of the public domain, topographical fees, burial fees and the withholding tax for housing. Generally, Guinean mayors entrust the collection of most of these non-tax revenues to individuals or persons called "collectors" or to transport unions (bus stations) or market administrators (kiosks and stalls in markets) and sometimes to the finance commissions of communal councils. Some countries have witnessed an increase in this category of revenue like Togo, where the amount collected in 2020 (USD PPP 3.16 million) was 16% higher than in 2019 (USD PPP 2.49 million). This increase was facilitated by the significant rise in the fee for the sanitary inspection of food products (71% of the total) and the fees for shipping, registration of administrative acts and civil status (28%).

As mentioned in Chapter 3, classifying the different sources of revenue does not come without its issues. For example, the delineation between taxes and fees is slightly unclear as the frontier between a taxpayer and a user of a service may be blurry (OECD, 2018[18]). In addition, there is no clear-cut frontiers between the different sources of revenue but more of a continuum with fuzzy delimitations from very little autonomy

(earmarked grants) to high autonomy (own-source taxes for which subnational governments have the power to set rates and bases). Therefore, the analysis of each type of revenue must be put in perspective.

Subnational debt in LDCs

Data for public debt incurred at the subnational level is extremely scarce, with data available for only one country (Uganda). In general terms, borrowing is allowed at the subnational level to finance capital investments (golden rule) and upon prior approval of the Ministry of Finance. This is the case for the vast majority of LDCs, such as Benin, Burkina Faso, Ethiopia, Gambia, Madagascar, Malawi, Mali, Mozambique, Senegal and Sierra Leone. Haiti goes a step further as it requires not only the central government's approval but also the ratification of the commune's inhabitants through a referendum. Other prudential rules can be added to the two main requirements previously mentioned. For example, in Mozambique the use of bank credit must meet two criteria: the amount must not exceed one-fourth of the transfers received from the municipal compensation fund, and the debt must be paid off in full at the end of the respective fiscal year. Lastly, some countries strictly prohibit subnational governments to borrow. This is the case in Angola, Cambodia, Djibouti and Liberia.

In practice, even in those places where borrowing is legally possible, local debt is very limited. In some instances, regulatory dysfunction is an obstacle to borrowing. For example, in Guinea a borrowing scheme for local authorities at the level of the Central Bank is in place but is not operational, leaving subnational governments unable to borrow through this system. Similarly, the required approval to borrow may be time-consuming, which delays the overall process. Togo is one such example. Since the Law on Decentralisation and Local Freedoms was passed, local and regional authorities have been permitted to borrow from domestic banks provided that the relevant ministerial approval is obtained. However, owing to the legal requirement that a joint order of the Minister of Local and Regional Authorities and the Minister of Finance be signed, this delays the process. As a result, subnational governments have not been able to secure said approval order and have not taken on debt.

Importantly, financial intermediaries, such as Mauritania's Deposit and Development Fund (CDD, *Caisse des Dépôts et de Développement*) or Senegal's Municipal Development Agency (ADM or *Agence de développement municipal*), can also intervene and support local and regional authorities in raising financial resources from private partners (through the capital markets and the banking sector, among others), thereby raising the creditworthiness of the relevant subnational government. However, in Mauritania, this has only happened once with a loan made to its Association of Mayors for the acquisition of its headquarters; and in Senegal, the only known experience is that of the City of Dakar where an attempt to issue municipal bonds in 2015 was finally suspended and a loan from the West African Development Bank was used instead. In Nepal, the Town Development Fund (TDF), set up in 1997, is currently the only public sector organisation to act as a financial intermediary institution that applies long-term financing schemes to fund urban infrastructure. However, so far, the TDF has only been mobilised to finance a few urban infrastructure projects.

Therefore, much remains to be done to expand access to external financing at the subnational level in LDCs. Achieving this objective would allow subnational governments to invest further in key infrastructure projects so they can deliver basic public goods and services. This is especially important as subnational governments throughout the world face increased demands for their services while they have seen their fiscal position diminished due to the COVID-19 pandemic (Steffensen, Löffler and Engen, 2020[62]; UNCDF, 2021[63]). To build back better and recover from the COVID-19 pandemic, improving the creditworthiness of subnational governments is of the utmost importance, which implies that their funding should be enhanced. Having sufficient and diversified sources of revenue is a sign of solid funding foundations as well as a precondition for access to finance, be it in the credit or the capital markets. Once this is achieved, creative forms of finance can be envisaged, such as blended finance, which can play a key role mobilising resources for the medium- to long-term recovery, unlock access to public and private capital and thus

provide local fiscal breathing room (OECD/UNCDF, 2020[64]). For blended finance to be effective in the COVID-19 recovery process and attract commercial capital towards projects that contribute to sustainable development, the diverse actors involved (national and subnational governments, local financial institutions, donors, DFIs, multilateral development banks, impact and commercial investors, among others) must all effectively co-ordinate to avoid wasteful duplication and ensure policy effectiveness.

Table 5.5. Debt rules in selected LDCs

	Description
Angola	Subnational governments have no authority to incur debt. In the future, elected local *autarquias* should have greater financial autonomy and be able to issue debt instruments such as municipal bonds, if approved by the central executive authority.
Benin	Borrowing is only allowed when it finances major investment projects. The decision to go to the financial market is made by the local council and approved by the supervisory authority (the prefect). The request for authorisation must be addressed to the Minister of Economy and Finance and if approved, the latter may act as guarantor. The collateral may be a mortgage on a private property of the commune or a guarantee granted by a financial institution such as a bank. To date, only four large municipalities have been able to access a loan from the West African Development Bank.
Bhutan	Subnational governments are entitled to own assets and incur liabilities by borrowing on their own account, subject to limitations including Parliamentary approval. According to the Local Government Act 2009 (Sect. 61-63), Class-A Municipalities are empowered to borrow in accordance with national law.
Burkina Faso	Loans are subject to prior authorisation by the supervisory authority, i.e. the Ministry of Finance. Borrowing conditions are defined by a decree issued by the Council of Ministers upon proposal by the Minister of Finance. The main procedures for LRAs going into debt are as follows: (i) direct borrowing by LRAs with sufficient financial capacity to cover debt repayment; (ii) borrowing by the State and on-lending to the LRA via external or internal financing; (iii) and borrowing by the LRA and guaranteed by the State. Unlike central government borrowing, subnational government borrowing only finances capital investments that must be included in the capital investment section of the local budget. So far, only the cities of Ouagadougou and Bobo-Dioulasso have been able to take out loans, notably from the World Bank, which were on-lent by the State. Ouagadougou has also received non-sovereign loans from AFD.
Burundi	Law 1/04 of 19 February 2020 states that "the commune may, within the limits of its repayment capacity, contract loans under the conditions laid down by the law and the financial regulations" (Article 81). These loans can only be taken out to finance investments.
Cambodia	Currently, no subnational government is allowed to undertake any form of debt financing. The Sub-National Investment Fund (SNIF) is an ADB-supported financing instrument that makes it possible to convert sovereign loans into subnational grants or reimbursable grants.
Chad	According to Article 211 of the Constitution of 4 May 2018, part of the revenues of the autonomous local and regional authorities shall consist of the proceeds of loans contracted by the autonomous LRAs, either on the domestic market or on the external market after approval by the national monetary authorities, with or without a State guarantee. In practice, however, most local governments in Chad do not generally have access to loans.
Djibouti	Local and regional authorities cannot incur debt. There is no legal provision for debt in the current legislation on decentralisation.
Ethiopia	The guiding instrument on debt management is Article 39 of Proclamation No. 156/2010 (as amended by Proclamation No. 209/2018), which grants the authority for the state/regional government to borrow domestically. All borrowings must be approved by the federal government. In most cases, loans are on-lent from the federal government.
Gambia	According to provisions under the Public Finance Act of 2014, with authorisation of the Minister of Local Government and Lands, local government authorities may borrow resources and create debt. The Act empowers said Minister to prescribe annual borrowing limits for local government authorities based on their capacities to repay and any other conditions deemed fit by the Minister. No debt contraction has so far been reported by subnational governments.
Guinea	According to Article 440 of the Code of Local and Regional Authorities, subnational governments may take out loans to cover the capital spending of the budget. The limits and conditions under which local authorities may resort to borrowing are set by the current finance law. Resorting to borrowing is the responsibility of the deliberative body (communal council). However, this responsibility may be delegated to the mayor or to a commission. In addition, there is a borrowing scheme for local authorities at the level of the Central Bank. This is however not operational and local authorities are currently unable to borrow through this system. Nevertheless, some communes borrow informally from individuals to finance some of their activities.
Haiti	According to the framework decree on decentralisation, a commune can take out a loan for an infrastructure investment project or for any other purpose within its remit, but the central government and its inhabitants must

	agree to this. The approval of the population must be sought through a referendum. The servicing of communal debt must be included in the budget of the commune. As there is no compilation of communal budgets, it is impossible to know the extent of this practice.
Lao People's Democratic Republic	A new Public Debt Management Law was passed in 2018 to strengthen debt management policy. Subnational governments may borrow from the Bank of Lao for off-budget infrastructure. Lao PDR has received significant amounts of climate finance, and the domestic Environmental Protection Fund (EPF) is in the process of becoming an Accredited Entity to various international funds. The EPF funded 150 projects between 2005 – 2013, and subnational governments are eligible recipients.
Liberia	County and municipal governments are not allowed to enter into debt contracts, except for temporary liabilities to vendors for contracts executed during each financial year. The Public Financial Management Law reserves such authority exclusively for the Ministry of Finance.
Madagascar	In principle, LRAs can access national and international financial markets to finance investment projects. Borrowing must be debated and authorised by the Council and approved by the Minister of Finance. No borrowing transactions were recorded in the accounts of the LRAs in the sample in 2020.
Malawi	Local governments can only borrow within Malawi, and such amounts, from such sources, in such a manner, for such purposes and upon such conditions as the Minister for local government, in consultation with the Minister responsible for finance, may approve. Local governments do not engage in medium- or long-term borrowing. Their primarily incur debt to obtain goods and services.
Mali	Local and regional authorities have relative autonomy for borrowing. However, for loans of more than one year, deliberations only become effective after approval by the representative of the State in the local or regional authority. The proceeds of authorised borrowings are used exclusively to finance investments. Mali does not yet have a financial rating system for local and regional authorities. The central government does not provide any direct guarantee for the debt of local and regional authorities.
Mauritania	The use of loans and loan guarantees as a means of financing local and regional authorities is an authorised mechanism provided for by the texts in force. However, at present this remains almost non-existent due to the lack of an appropriate institutional or operational framework, both at central and local level. Moreover, in view of their weak financial base, communes do not appear to be creditworthy in the eyes of creditors. The Deposit and Development Fund (CDD, Caisse des Dépôts et de Développement), a public institution with special status created in 2012, can also intervene in the financing of local and regional authorities. However, this has never happened, with the exception of a loan made to the Association of Mayors of Mauritania for the acquisition of its headquarters.
Mozambique	Municipalities may borrow with the approval of the Ministry of Economy and Finance although borrowing is indeed considered an "extraordinary" scenario, which only applies in three cases: a) reproductive investments) and investments of social or cultural character, b) coverage of extraordinary expenses necessary to compensate losses incurred in the event of a public disaster, and c) coverage of the needs of local authorities for financial recovery, following the execution of a previously concluded financial rebalancing agreement. Short-term loans from national financial institutions are authorised when they are used to deal with occasional cash-flow difficulties. However, bank borrowing must meet two criteria: the amount must not exceed one-fourth of the transfers received from the FCA (municipal compensation fund) and the debt must be paid back in full at the end of the respective fiscal year. Loans can also be contracted by autonomous institutions (for example public companies).
Nepal	The framework provided by the National Urban Development Strategy establishes that local governments may borrow funds from two main sources, the Town Development Fund and financial institutions. However, borrowing has not been a major source of municipal financing so far, as there is a lack of regulatory instruments for the financial market mechanisms to be properly leveraged by provinces and local governments. The TDF was set up by the 1997 Town Development Fund Act, which grants the TDF the autonomy to function as a financial intermediary institution for the development of urban infrastructure in Nepal. It is currently the only public sector organisation to finance urban infrastructure and does so by applying long-term financing schemes, However, so far, the TDF has only been mobilised to finance a few urban infrastructure projects and there is still no equivalent institution at the provincial level.
Niger	LRAs may take out loans under the conditions set out in a decree issued by the Council of Ministers, but they make very limited use of them, with few results. They do not have access to capital markets.
Rwanda	The Local Government Councils have the authority to borrow to finance development projects. The regulation on local government bonds has not been established yet. On the basis of Law 75/2018 of 7 September 2018, the city of Kigali and some districts have started to borrow from local banks.
Senegal	Local and regional authorities cannot borrow freely. Law 2013-10 of 28 December 2013 on the General Code of Local and Regional Authorities lists loans and loan guarantees among the acts subject to prior approval by the State representative. There are no restrictions on the choice of lenders. Local authorities may also take on debt from the Municipal Development Agency. The only known experience of bond issuance is that of the City of Dakar where an attempt to issue municipal bonds in 2015 was finally suspended at the request of the State and a loan from the West African Development Bank (BOAD or Banque Ouest Africaine de Développement) was used instead. In 2019, no local or regional authorities took out loans according to the DGCPT.
Sierra Leone	According to the 2004 LGA, the Ministry of Finance (in particular the Local Government Finance Department)

	and Ministry of Local Governments must provide authorisation (policy guidelines) and guarantees for local councils to take on debt. This is possible and allowed, but has never happened in practice. No data are available on subnational government debt.
Somalia	Local governments run cash budgets and some of them borrow money to manage their cash-flows, but they are usually short-term credit lines from suppliers and contractors rather than formal loans. In Puntland, Law No. 7/2003 permits local governments to borrow from international and domestic lenders. However, this is not a common practice and loans are managed differently by each local government because of the lack of regulation. In Somaliland, Article 91 of Law No. 23/2003 prohibits local councils from borrowing money unless it is to respond to emergency issues that were not budgeted for, such as natural disasters. In cases where local governments borrow, the money has to be repaid within a maximum of two years and approval of the executive committee should be sought if the funds are less than 10% of own source revenue.
Togo	The Law on Decentralisation and Local Freedoms authorises local and regional authorities to conclude loan agreements domestically as part of the implementation of their development programme (art. 75). Decree 2020-004/PR of 5 March 2020 (art. 137) adds: "the terms for implementing financing by borrowing... shall be determined by a joint order of the Minister in charge of Local and Regional Authorities and the Minister in charge of Finance". To date, said order has not been issued. This legal vacuum means that local and regional authorities are not able to take on debt.
Uganda	According to the Local Government Act, a local government council may take on loans by way of debenture, issue of bonds, or any other method, in amounts not exceeding 25% of the locally generated revenue provided that a local government council demonstrates that it is capable of meeting its statutory requirements. A cabinet proposal was prepared in 2020 to enhance the borrowing powers of local governments by establishing their annual repayment obligation at a maximum 35% of the total annual locally generated revenue of the previous year, but this has so far not come into force. In addition, the proposal suggested the establishment of a subnational pooled financing mechanism to facilitate the access of local governments to capital markets. The Public Finance Management Act of 2015 allows the Minister of Finance to guarantee the repayment of the principal and interest and other charges on a loan raised within or outside Uganda by a local government council, subject to the approval of Parliament. Currently, no debt or borrowing market exists for local governments. The depth and capitalisation of Ugandan markets are low and there is no regulation on local government shares or bonds. The upside of this situation is that Ugandan local governments have no market loans or debts; their indebtedness consists of outstanding payments to providers of goods and services.
United Republic of Tanzania	Local governments can borrow from financial institutions and pension funds. As per section 11(1) of the Local Government Finance Act of 1982, a local government may only take out a loan domestically pending approval of the Minister responsible for local government, who shall also consult with the Minister of finance.
Zambia	According to the Local Government Act of 2019 the Public Finance Management Act of 2018, a local authority may borrow for the purpose of carrying out its functions by way of a loan, the issue of stock or bonds, a mortgage, a temporary loan or overdraft from a bank or other sources with the written authority of the Secretary of the Treasury. The Government recently launched the 2021-2025 debt management strategy for local authorities, which revealed that as of 30 June 2020, the consolidated debt for all local authorities was estimated at K2.8 billion or 30 billion USD PPP. Among this debt, other accounts payable accounted for the largest share at 29%, including statutory obligations, personnel-related debt and debt to suppliers of goods and services and to other creditors. Financial debt accounted for a small share of 0.4% and stood at 4 million dollars PPP. According to the IFA 2018, local level long-term borrowing is virtually non-existent and certainly linked to the weak financial position of LAs and their inability to repay loans.

Source: (OECD/UCLG, 2022[13])

Box 5.4. The role and work of development partners in LDCs

LDCs are facing severe structural obstacles to achieve sustainable development. These impediments are all the more significant at the subnational level, where local and regional authorities usually face a combination of unclear responsibility allocation and limited administrative capacities, insufficient funding and difficulty to access external financing. Multilateral and bilateral development partners thus play an essential role in supporting LDCs through a range of financial and technical assistance mechanisms. Several projects supported by development partners have been identified in LDCs:

- I**n Cambodia,** the Sub-National Investment Fund (SNIF) is a financing instrument supported by the Asian Development Bank that channels additional funds to subnational governments based on their performance. It is off-budget, and disbursed in parallel to regular grants for subnational governments. The fund was established with the objective of promoting pilot investment projects in rural districts, including civil works in sanitation, health, infrastructure and education. The SNIF works as a facility to convert a sovereign loan to subnational grant or reimbursable grant, since subnational governments are not authorised to contract loans.
- The government of **Haiti** presented in January 2021 the Post-COVID-19 Response Plan (PREPOC) which aims to stabilise Haiti's macro-economic situation, strengthen the response to social needs and create the conditions for renewed economic growth, in particular by supporting the well-being of the population and creating decent jobs. Throughout its implementation period, from 2020 to 2023, the PREPOC plans to invest HTG 157.9 billion (USD 3.8 billion PPP 2020) nearly 90% of which is expected to be financed by international technical partners, including the Inter-American Development Bank, the Caribbean Development Bank and the World Bank.
- **In Lao People's Democratic Republic,** a formula-based allocation for fiscal transfers to provinces is still being developed with assistance from development partners. Yet, subnational governments receive capital transfers to finance investment projects. The District Development Fund mechanism (DDF), created by the United Nations Capital Development Fund (UNCDF), provides districts with capital grants to support village-sponsored activities included in the Provincial and District Socio-Economic Development Plans. It provides financial and technical support to strengthen district-level public financial management processes. It has financed more than 66 local service investments as well as 578 interventions in education, health and agriculture equalling USD 2.8 million.
- **In Djibouti,** several technical assistance programmes provided by partners are ongoing to strengthen the decentralisation process. They are designed to enhance the ability of local and regional authorities to plan, manage and use the budget information system. Since 2020, the EU and Expertise France have been supporting regions to prepare, analyse, manage and implement their budgets through the Support for Decentralisation and Local Initiatives (ADIL or *Appui à la décentralisation et aux initiatives locales*) project. A working group was set up between the MDCD, the Ministry of the Budget and the EU ADIL project officers, to conduct a preliminary reflection on the tools and procedures specific to regional authority budgets. In addition, a project from the French Development Agency (AFD), which started in January 2022, includes a section on reinforcing the financial autonomy of the Djibouti City, improving procedures for implementing the budget and developing control of State and subnational government spending. In the long term, this support should enable Djibouti to put in place a strengthened budgetary and accounting management framework that takes into account the specific characteristics of local and regional authorities.

- **In Somalia,** the Joint Programme on Local Governance (JPLG) has supported the country's decentralisation strategy since 2008. The JPLG is being spearheaded by five United Nations agencies (UNCDF, UNHABITAT, UNDP, UNICEF and ILO). Through the Local Development Fund (LDF), a discretionary grant introduced in Somalia in 2011, UNCDF incentivises fiscal decentralisation reforms such as: the development of fiscal decentralisation policies and regulations; establishing an effective state-to-local government transfer mechanisms; developing local government capacity for planning, budgeting, budget utilisation, monitoring, evaluation, and reporting; developing and enhancing municipal own-revenue mobilisation strategies; promoting good governance and decentralised service delivery; and providing resources for local development and service delivery. Since 2011, the JPLG has disbursed a total of USD 16.5 million through LDF grants. The fund is capitalised by development partners through the JPLG and the different states and districts, stimulating high levels of community ownership.

Source: (OECD/UCLG, 2022[13]; UNCDF, 2022[65])

Annex A. World Observatory country sample

A large sample of countries spread over seven geographical areas

The country sample in the updated database includes 135 countries, distributed across seven different geographical areas as per UCLG's definition: Europe, Africa, North America, Asia Pacific, Euro-Asia, Latin America, and the Middle East & West Asia (Figure A.1). Each country is defined by its name and ISO Code. The detailed list of countries and ISO codes by area is provided in Table A.1. below.

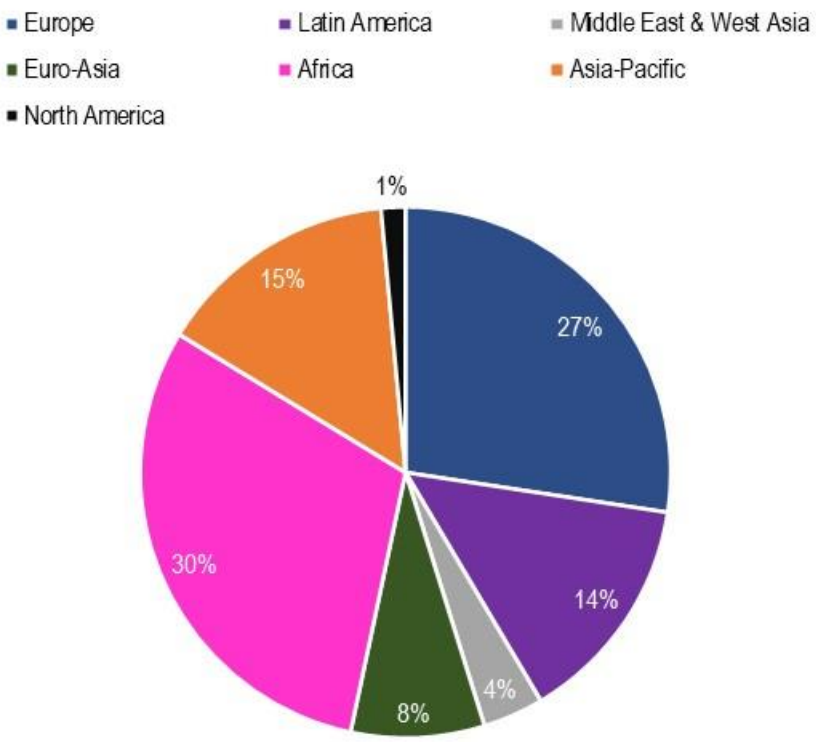
Figure A.1. The seven geographical areas



Source: Countries by geographical area according to UCLG classification

Countries located in Europe and Africa account for 57% of the country sample. They are followed by Asia Pacific (15%), Latin America (14%) and Euro-Asia (8%) (Figure A.2).

Figure A.2. Distribution of countries by geographical area



Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

Fiscal data are not homogenously available across the world. For some countries, some fiscal data (mainly related to expenditure) are missing. For a larger number of countries, fiscal data are incomplete, with debt and/or COFOG data being absent. Some data are more accurate than others, which points to the need for improvement in data collection and management. In this regard, the Observatory provides a system for assessing the quality of data with three levels of reliability of fiscal data: low, medium and high.

For analytical purposes, several geographical areas have often been grouped together to have a minimum number of countries with data in each group so that comparative analysis could be conducted.

The data analysis focuses on five groups of countries:

- Africa: 31 countries, excluding the 10 countries without data[9]
- Asia Pacific: 19 countries, excluding 1 country without data
- Euro-Asia and Middle East & West Asia: 15 countries, excluding 1 country without data
- Latin America and the Caribbean: 19 countries
- Europe and North America: 39 countries

[9] Countries are classified as "without data" when the database does not include the values for total subnational expenditure by economic classification.

22 federations and 113 unitary countries

The sample includes 22 federations and quasi-federations (out of 24 in the world) and 113 unitary countries. The 22 federations together account for over three billion inhabitants (i.e. 44% of the entire population of the country sample). Unitary countries account for more than four billion inhabitants (i.e. 56%). Federations account for 45% of the country sample GDP, compared to 55% for unitary countries.

Overall, the 135 countries of the sample account for 89% of the world's surface area, 93% of the world population (approximately 7.2 billion inhabitants) and 94% of the world GDP (Table A.1.).

Table A.1. Surface area, population and GDP of the 135-country sample

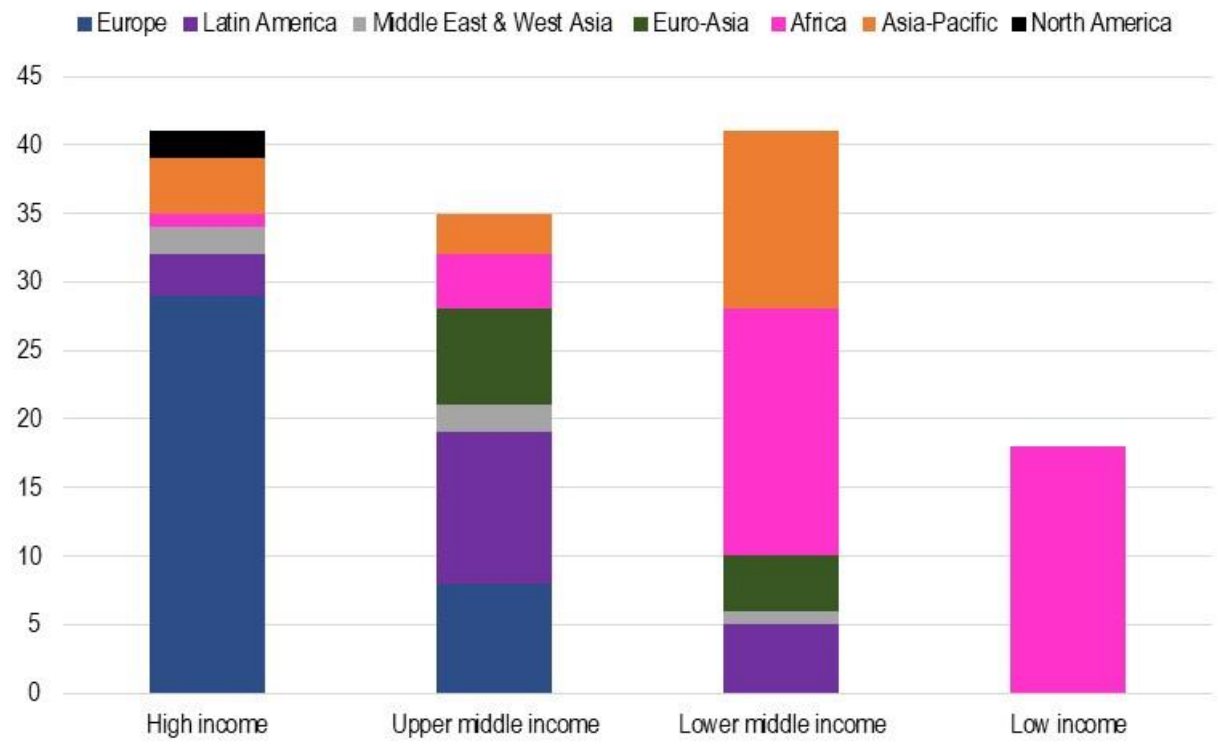
	Sample (135 countries)			World		
	% area	% population	% GDP	% area	% population	% GDP
Federal countries	57%	44%	45%	51%	41%	42%
Unitary countries	43%	56%	55%	39%	52%	52%
All 135 countries	100%	100%	100%	89%	93%	94%

Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org.

Countries by income groups

Countries in this study have been classified into four income groups according to the World Bank's list of countries (as of 2022). The 41 high income countries include 34 OECD countries, three EU countries and two Latin American countries (Panama and Uruguay). In the upper middle income category can be found four OECD members (Colombia, Costa Rica, Republic of Türkiye and Mexico), together with a considerable number of Latin American and European countries (35 countries in total). Lower middle income countries are located particularly in Africa, Asia Pacific and Euro-Asia, totalling 41 countries in the sample. All countries classified as part of the low income group are located in Africa (Figure A.3). Compared to the previous edition of this report, both Nepal and Tajikistan have climbed up from the low to the lower middle income group. In this study, 31 countries belong to the Least Developed Countries group.

Figure A.3. Sample countries by income group and world region



Source: Authors' calculations based on SNG-WOFI database: www.sng-wofi.org.

Out of 22 federal countries, 8 of them enter into the category of high income group and 8 of them into the upper middle income group, amounting to 73% of the federal countries. The rest of countries are classified into the other groups, with 4 and 2 being in the lower middle income group and low income group respectively.

Box A.1. The 31 Least Developed Countries (LDCs) in the country sample

LDCs[10] are classified as such following three criteria: low per capita gross national income (GNI), human assets, as well as economic vulnerability to external shocks. On average, nearly half of the population in LDCs live in extreme poverty, compared to 14% in other developing countries. The population of LDCs is also among the world's fastest growing: recent projections estimate that their population will have doubled by 2050 (UN Department of Economic and Social Affairs, 2019[66]).

As of 2022, there are 46 LDCs in the world, representing 14% of the world's population and an estimated 40% of the world's extreme poor (UNCTAD, 2016[67]). More than two-thirds of LDCs are located in Sub-Saharan Africa (34), while the remaining countries are spread over Asia (8), Oceania (3) and Central America (1).

The SNG-WOFI database comprises 31 LDCs, including 24 from Africa, six from Asia Pacific and one from Central America. 18 countries belong to the group of low income countries and the 13 others to the group of the lower middle income countries.

Among the 31 LDCs in the database, 24 have basic subnational finance data while the remaining seven lack such data, despite the significant efforts made by UNCDF and UCLG to collect data on the LDCs.

Indeed, subnational fiscal data in LDCs is still scarce, making it difficult to track and monitor the consequences of decentralisation processes. The international community, donors and national governments should mobilise further resources to fill in these data gaps, thereby helping to improve budget and reporting frameworks, establish a solid public finance statistical system, as well as collect data at national and subnational levels, in line with international standards.

Table A.2. List of countries, ISO codes and basic socio-economic indicators

World region	Country name	ISO code	Income Group	Form of state	Area (km2)	Population (thousand)	Average n. of inhabitants per municipal.	GDP per capita (in dollars PPP)
Africa	Algeria	ALG	Lower middle income	Unitary	2381741	44616.63	28400.15	11324.24
Africa	Angola*	AGO	Lower middle income	Unitary	1246700	32866.27	200404.1	6445.433
Africa	Benin*	BEN	Lower middle income	Unitary	114760	12123.2	157444.1	3505.424
Africa	Botswana	BWA	Upper middle income	Unitary	581730	2351.625	146976.6	15458.48
Africa	Burkina Faso*	BFA	Low income	Unitary	274220	20903.28	59553.5	2274.017
Africa	Burundi*	BDI	Low income	Unitary	27830	11890.78	99922.53	771.1633
Africa	Cabo Verde	CPV	Lower middle income	Unitary	4030	555.988	25272.18	6376.643
Africa	Cameroon	CMR	Lower	Unitary	475440	26545.86	73738.51	3867.519

[10] See Chapter 5 of this report for a detailed analysis of the data available for LDCs.

World region	Country name	ISO code	Income Group	Form of state	Area (km2)	Population (thousand)	Average n. of inhabitants per municipal.	GDP per capita (in dollars PPP)
			middle income					
Africa	Chad*	TCD	Low income	Unitary	1284000	16425.86	39109.19	1602.358
Africa	Côte d'Ivoire	CIV	Lower middle income	Unitary	322460	26378.28	131235.2	5465.515
Africa	Djibouti*	DJI	Lower middle income	Unitary	23200	988.002	247000.5	5781.763
Africa	Egypt	EGY	Lower middle income	Unitary	1001450	102334.4	21796.46	12607
Africa	Eswatini	SWZ	Lower middle income	Unitary	17360	1160.164	17061.24	8865.74
Africa	Ethiopia*	ETH	Low income	Federal	1136259	114963.6	113600.4	2422.812
Africa	Gambia*	GMB	Low income	Unitary	11300	2416.664	1208332	2275.056
Africa	Ghana	GHA	Lower middle income	Unitary	238540	31072.95	119053.4	5744.432
Africa	Guinea*	GIN	Low income	Unitary	245860	13132.79	36278.43	2817.322
Africa	Kenya	KEN	Lower middle income	Unitary	580370	53771.3	911378	4577.905
Africa	Liberia*	LBR	Low income	Unitary	111370	5057.677	210736.5	1468.359
Africa	Madagascar*	MDG	Low income	Unitary	587295	27691.02	16336.88	1544.16
Africa	Malawi*	MWI	Low income	Unitary	118480	19129.96	546570.1	1591.605
Africa	Mali*	MLI	Low income	Unitary	1240190	20250.83	27001.11	2347.988
Africa	Mauritania*	MRT	Lower middle income	Unitary	1030700	4420.184	20275	3949
Africa	Mauritius	MUS	Upper middle income	Unitary	2040	1265.74	9375.852	20530.51
Africa	Morocco	MAR	Lower middle income	Unitary	446550	36910.56	23999.06	7369.493
Africa	Mozambique*	MOZ	Low income	Unitary	799380	31255.44	589725.2	1297.405
Africa	Namibia	NAM	Upper middle income	Unitary	824290	2540.916	44577.47	9298.087
Africa	Niger*	NER	Low income	Unitary	1267000	24206.64	94927.98	1288.259
Africa	Nigeria	NGA	Lower middle income	Federal	923770	206139.6	266330.2	5186.412
Africa	Rwanda*	RWA	Low income	Unitary	26340	12952.21	462578.9	2213.828
Africa	Senegal*	SEN	Lower middle income	Unitary	196710	16743.93	30060.92	3502.82
Africa	Seychelles	SYC	High income	Unitary	460	98.462	3787	25767.61
Africa	Sierra Leone*	SLE	Low income	Unitary	72300	7976.985	362590.2	1727.105
Africa	Somalia*	SOM	Low income	Federal	637660	15893.22	162175.7	1245.744

World region	Country name	ISO code	Income Group	Form of state	Area (km2)	Population (thousand)	Average n. of inhabitants per municipal.	GDP per capita (in dollars PPP)
Africa	South Africa	ZAF	Upper middle income	Federal	1219090	59308.69	230773.1	13360.57
Africa	Togo*	TGO	Low income	Unitary	56790	8278.737	70758.44	2223.498
Africa	Tunisia	TUN	Lower middle income	Unitary	163610	11818.62	33767.48	10822.85
Africa	Uganda*	UGA	Low income	Unitary	241550	45741	259892	2294.335
Africa	United Republic of Tanzania*	TZA	Lower middle income	Unitary	947300	59734.21	398228.1	2779.91
Africa	Zambia*	ZMB	Lower middle income	Unitary	752610	18383.96	158482.4	3457.61
Africa	Zimbabwe	ZWE	Lower middle income	Unitary	390760	14862.93	161553.6	3537.351
Asia Pacific	Australia	AUS	High income	Federal	7741220	25687.04	47834.34	53329.81
Asia Pacific	Bangladesh*	BGD	Lower middle income	Unitary	147570	164689.4	33651.28	5138.653
Asia Pacific	Bhutan*	BTN	Lower middle income	Unitary	38390	771.612	3691.923	11130.22
Asia Pacific	Cambodia*	KHM	Lower middle income	Unitary	181040	16718.97	10157.33	4421.48
Asia Pacific	India	IND	Lower middle income	Federal	3287259	1380004	5160.284	6503.948
Asia Pacific	Indonesia	IDN	Lower middle income	Unitary	1916862	273523.6	3263.499	12072.74
Asia Pacific	Japan	JPN	High income	Unitary	377974	125836	72029.78	42390.38
Asia Pacific	Korea	KOR	High income	Unitary	100370	51780.58	229117.6	45274.46
Asia Pacific	Lao People's Democratic Republic*	LAO	Lower middle income	Unitary	236800	7275.556	855.2434	8239.167
Asia Pacific	Malaysia	MYS	Upper middle income	Federal	330345	32366	214344.4	27923.69
Asia Pacific	Mongolia	MNG	Lower middle income	Unitary	1564116	3278.292	1917.13	12366.95
Asia Pacific	Myanmar*	MMR	Lower middle income	Unitary	676590	54409.79		5123.826
Asia Pacific	Nepal*	NPL	Lower middle income	Federal	147180	29136.81	38694.3	4008.506
Asia Pacific	New Zealand	NZL	High income	Unitary	267710	5084.3	75885.07	44491.32
Asia Pacific	Pakistan	PAK	Lower middle income	Federal	796100	220892.3	17858.54	4812.89

World region	Country name	ISO code	Income Group	Form of state	Area (km2)	Population (thousand)	Average n. of inhabitants per municipal.	GDP per capita (in dollars PPP)
Asia Pacific	People's Republic of China	CHN	Upper middle income	Unitary	9600013	1410929	496107.4	17210.77
Asia Pacific	Philippines	PHL	Lower middle income	Unitary	300000	109581.1	2606.219	8389.849
Asia Pacific	Sri Lanka	LKA	Lower middle income	Unitary	65610	21919	64278.59	13224.61
Asia Pacific	Thailand	THA	Upper middle income	Unitary	513120	69799.98	28571.42	18232.79
Asia Pacific	Viet Nam	VNM	Lower middle income	Unitary	331230	97338.58	9170.773	8650.134
Euro-Asia	Armenia	ARM	Upper middle income	Unitary	29740	2963.234	6122.384	13312.11
Euro-Asia	Azerbaijan	AZE	Upper middle income	Unitary	86600	10093.12	6284.633	14479.71
Euro-Asia	Georgia	GEO	Upper middle income	Unitary	69700	3714	58031.25	14766.98
Euro-Asia	Kazakhstan	KAZ	Upper middle income	Unitary	2724902	18754.44	2703.148	26754.38
Euro-Asia	Kyrgyzstan	KGZ	Lower middle income	Unitary	199950	6591.6	13619.01	4964.733
Euro-Asia	Republic of Moldova	MDA	Upper middle income	Unitary	33850	2620.495	2918.146	13000.4
Euro-Asia	Tajikistan	TJK	Lower middle income	Unitary	141380	9537.642	25917.51	3858.198
Euro-Asia	Ukraine	UKR	Lower middle income	Unitary	603550	44134.69	30044.04	13054.76
Euro-Asia	Uzbekistan	UZB	Lower middle income	Unitary	448924	34232.05	3733.862	7734.024
Europe	Albania	ALB	Upper middle income	Unitary	28750	2837.743	46520.38	13439.67
Europe	Austria	AUT	High income	Federal	83879	9028	4313.426	55684
Europe	Belgium	BEL	High income	Federal	30530	11556	19889.84	53035
Europe	Bosnia and Herzegovina	BIH	Upper middle income	Federal	51210	3280.815	23268.19	15623.1
Europe	Bulgaria	BGR	Upper middle income	Unitary	111000	6934.015	26166.09	24613.84
Europe	Croatia	HRV	High income	Unitary	56594	23889	43043.24	28841.71
Europe	Cyprus	CYP	High income	Unitary	5695	1207.361	3177.266	39452.87

World region	Country name	ISO code	Income Group	Form of state	Area (km2)	Population (thousand)	Average n. of inhabitants per municipal.	GDP per capita (in dollars PPP)
Europe	Czech Republic	CZE	High income	Unitary	78870	10698.9	1692	41603.99
Europe	Denmark	DNK	High income	Unitary	42924	5831.404	59504.12	60229.91
Europe	Estonia	EST	High income	Unitary	45340	1331.057	16848.82	37600.59
Europe	Finland	FIN	High income	Unitary	338450	5530.719	17898.77	50506.29
Europe	France	FRA	High income	Unitary	549087	67391.58	1927.953	46983.04
Europe	Germany	DEU	High income	Federal	357588	83237	7714.987	54792.07
Europe	Greece	GRC	High income	Unitary	131960	10715.55	33181	27909.54
Europe	Hungary	HUN	High income	Unitary	93030	9749.763	3068.858	33077.23
Europe	Iceland	ISL	High income	Unitary	103000	366.425	5310.507	53622.25
Europe	Ireland	IRL	High income	Unitary	70280	4994.724	161120.1	93180.95
Europe	Italy	ITA	High income	Unitary	302070	59554.02	7534.669	41828.55
Europe	Kosovo	XKO	Upper middle income	Unitary	10887	1775.378	46720.47	11387.65
Europe	Latvia	LVA	High income	Unitary	64570	1901.548	44222.05	31464.48
Europe	Lithuania	LTU	High income	Unitary	65290	2794.7	46578.33	38883.12
Europe	Luxembourg	LUX	High income	Unitary	2590	632.275	6198.775	117500.2
Europe	Malta	MLT	High income	Unitary	320	525.285	7724.779	41740.77
Europe	Montenegro	MNE	Upper middle income	Unitary	13810	621.306	25887.75	20029.91
Europe	Netherlands	NLD	High income	Unitary	41540	17441.14	49548.69	59268.14
Europe	Norway	NOR	High income	Unitary	625221.6	5379.475	15110.88	62644.85
Europe	Poland	POL	High income	Unitary	312690	37950.8	15321.28	34240.25
Europe	Portugal	PRT	High income	Unitary	92225.6	10305.56	33459.62	34148.95
Europe	Republic of North Macedonia	MKD	Upper middle income	Unitary	25710	2072.531	25586.8	16959.67
Europe	Romania	ROU	Upper middle income	Unitary	238400	19329	6078.302	32116.48
Europe	Serbia	SRB	Upper middle income	Unitary	88360	6908.224	47642.92	19107.2
Europe	Slovak Republic	SVK	High income	Unitary	49030	5458.827	1888.867	31356.46
Europe	Slovenia	SVN	High income	Unitary	20480	2100.126	9906.255	39768.63
Europe	Spain	ESP	High income	Federal	505940	47351.57	5823.585	37765.8
Europe	Sweden	SWE	High income	Unitary	447430	10353.44	35701.52	55037.72
Europe	Switzerland	CHE	High income	Federal	41290.39	8636.896	4020.901	71742.52
Europe	United Kingdom	GBR	High income	Unitary	243610	67215.29	179720	46482.86
Latin America	Argentina	ARG	High income	Federal	2780400	44044.82	19340	20784.77
Latin America	Bolivarian Republic of Venezuela	VEN	Upper middle income	Federal	912050	28435.94	84883.41	<Null>
Latin America	Bolivia	BOL	Lower middle income	Unitary	1098580	11673.03	34332.44	8275.491
Latin America	Brazil	BRA	Upper middle income	Federal	8515770	212559.4	38161.47	14835.42

World region	Country name	ISO code	Income Group	Form of state	Area (km2)	Population (thousand)	Average n. of inhabitants per municipal.	GDP per capita (in dollars PPP)
Latin America	Chile	CHL	High income	Unitary	756700	19116.21	55409.3	25110.16
Latin America	Colombia	COL	Upper middle income	Unitary	1141750	50882.88	46131.35	14931.05
Latin America	Costa Rica	CRI	Upper middle income	Unitary	51100	5094.114	62123.34	22132.47
Latin America	Dominican Republic	DOM	Upper middle income	Unitary	48670	10847.9	68657.62	17935.66
Latin America	Ecuador	ECU	Upper middle income	Unitary	256370	17643.06	79832.85	10895.77
Latin America	El Salvador	SLV	Lower middle income	Unitary	21040	6486.201	24756.49	8420.486
Latin America	Guatemala	GTM	Upper middle income	Unitary	108890	16858.33	49583.33	8853.67
Latin America	Haiti*	HTI	Lower middle income	Unitary	27750	11402.53	78099.54	3095.194
Latin America	Honduras	HND	Lower middle income	Unitary	112490	9904.608	33236.94	5420.234
Latin America	Jamaica	JAM	Upper middle income	Unitary	10990	2890.3	206450	8995.4
Latin America	Mexico	MEX	Upper middle income	Federal	1964375	128932.8	51968.06	18444.07
Latin America	Nicaragua	NIC	Lower middle income	Unitary	130370	6624.554	43297.74	5569.722
Latin America	Panama	PAN	High income	Unitary	75320	4314.768	53268.74	26782.48
Latin America	Paraguay	PRY	Upper middle income	Unitary	406752	7132.53	27327.7	13069.18
Latin America	Peru	PER	Upper middle income	Unitary	1285220	32971.85	15936.13	11878.52
Latin America	Uruguay	URY	High income	Unitary	176220	3473.727	27789.82	22793.69
Middle East & West Asia	Israel	ISR	High income	Unitary	22070	9216.9	35724.42	39481.57
Middle East & West Asia	Jordan	JOR	Upper middle income	Unitary	89320	10203.14	101021.2	10355.01
Middle East & West Asia	Palestinian Authority	PSE	Lower middle income	Unitary	6020	4803.269	9903.647	5689.945
Middle East & West Asia	Republic of Türkiye	TUR	Upper middle income	Unitary	785350	84339.07	60675.59	27235.43
Middle East & West Asia	Saudi Arabia	KSA	High income	Unitary	2149690	34813.87	122153.9	46759.66

World region	Country name	ISO code	Income Group	Form of state	Area (km2)	Population (thousand)	Average n. of inhabitants per municipal.	GDP per capita (in dollars PPP)
North America	Canada	CAN	High income	Federal	9879750	38005.24	9732.455	46611.31
North America	United States of America	USA	High income	Federal	9831510	329484.1	9086	63593.45

Note: countries marked with an * are LDCs
Source: SNG-WOFI database. www.sng-wofi.org

Annex B. Basic socio-economic indicators

Socio-economic data used in the country and territory profiles are described in Table B.1 below:

Table B.1. Description of socio-economic indicators used in the country and territory profiles

	Indicators

General	• Income group (2022 classification, as defined by the World Bank):
	  ○ High income
	  ○ Upper Middle Income
	  ○ Lower Middle Income
	  ○ Low Income
	• Local currency

Population and geography	• Geographical area (km²) • Population (thousands inhabitants) • Population growth (% 2015-2020) • Density (inhab./km²) • Urban population (% total population) • Urban population growth (%, 2020 vs 2019) • 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 (%, 2020 vs 2019)
	• 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

Source: (OECD, 2021[68])

In order to facilitate international comparisons, common sources of information were used for most countries (national sources may have been used in some cases).

These sources are:

- OECD
- Eurostat
- World Bank: World development indicators (databank)
- United Nations 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 and territory profile.

Annex C. Summary of methodology on subnational government finance

Scope of government statistics

The SNG-WOFI database hosts data in the field of what is usually referred to as “public administration”, i.e. the general government sector as a whole. In turn, general government includes four sub-sectors:

- “Central government”: this level includes all administrative departments of the central government and other central agencies whose competence normally extends over the whole economic territory.
- “State government”: this refers to the 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”: this 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”: this refers to social security funds and related entities.

Apart from these four sub-sectors, the database also uses the term “subnational government”, which covers two sub-sectors: state governments (in federal countries) and local governments in federal and unitary countries.

Data for general government and data for 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.

In order to better distinguish between state and local government sub-sectors (for federal countries) within the “subnational government” category, tables include data for the subnational subsector in federal countries, as well as separate figures for state governments and local governments, when available. As for unitary countries that are multi-layered at the subnational level (e.g. having regions and municipalities), the database includes disaggregated data and information to assess the specific weight of each subnational level in the qualitative part of the country and territory profiles. Each country profile contains a box at the beginning of the section on subnational government finance defining the precise scope of the subnational government sector for which financial data are provided.

Source of fiscal data

All fiscal data are from 2020, unless specified otherwise. 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 provides 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.

Fiscal data measures

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 as a share of 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 2020, unless specified otherwise.

Averages

As mentioned above, not all countries have data for all indicators. This implies that the number of countries included in country samples may differ across indicators (expenditure, staff expenditure, expenditure by functional classification, tax revenues, debt, etc.). For example, data on total subnational expenditure are available for 117 countries while data on expenditure by functional classification are available for 84 countries. When calculating global or regional averages as well as the averages for federal and unitary countries, the number of countries included in said calculation is systematically indicated.

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

Availability and reliability of data

A system of rating has been established to qualify the level of data availability and data quality/reliability (low, medium, high).

When data come from national accounts that are harmonised using international standards, the availability of fiscal data and their quality/reliability can be considered high, although there are some exceptions. When they come from other sources, they have been assigned a rating.

Unfortunately, fiscal data for subnational governments could not be collected for a number of countries, or only very partially. This was the case in many LDCs. Overall, there are 18 countries without total expenditure data at subnational level for example (out of 135 countries in the sample).

Main transactions and fiscal indicators

Where available, the following data were collected for all countries (Table C.1):

Table C.1. Main financial indicators

Main categories	Transactions
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 the 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 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 the 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 introduced 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[18])

Annex D. Country and territory profiles

The OECD was responsible for collecting data and preparing country profiles for 75 countries: 38 OECD member countries, 5 countries from the European Union (Bulgaria, Croatia, Cyprus, Malta and Romania) and Ukraine, 10 Central, Eastern and South Eastern European Countries[11], 3 countries from Latin America (Argentina, Panama and Peru), 5 countries from the Middle-East and North Africa (Algeria, Egypt, Morocco, Saudi Arabia and Tunisia) and 13 countries from Asia[12].

UCLG was responsible for collecting data and preparing country profiles for 60 countries: 37 countries from Africa[13], 12 countries from Latin America and the Caribbean[14], 5 countries from Euro-Asia (Armenia, Azerbaijan, Kyrgyzstan, Tajikistan, Uzbekistan), 4 countries from Asia Pacific (Bangladesh, Myanmar, Pakistan, Sri Lanka), and 2 countries from the Middle East and West Asia (the Palestinian Authority and Jordan).

The lead responsibility (OECD, UCLG) is indicated at the end of each country profile. Each partner is responsible for the data provided for their respective countries. The OECD has however conducted a preliminary quality control of the quantitative and qualitative information prior to the finalisation of each country profile.

Structure of the country and territory profiles

Country and territory profiles consist of six 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

[11] Albania, Bosnia and Herzegovina, Georgia, Kosovo, Moldova, Montenegro, Serbia, the Republic of North Macedonia, as well as the Russian Federation and Belarus. The Russian Federation and Belarus are included in world averages where data are available. Country profiles for these countries are not published.

[12] Bhutan, Cambodia, Indonesia, India, Kazakhstan, Lao People's Democratic Republic, Malaysia, Mongolia, Nepal, People's Republic of China, Philippines, Thailand, and Viet Nam.

[13] Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cabo Verde, Chad, Côte d'Ivoire, Djibouti, Eswatini, Ethiopia, Ghana, Guinea, Kenya, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Seychelles, Sierra Leone, Somalia, South Africa, Tanzania, The Gambia, Togo, Uganda, Zambia, and Zimbabwe.

[14] Bolivia, Brazil, Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Nicaragua, Paraguay, Uruguay, and Venezuela.

6. The impact of the COVID-19 crisis on the organisation and finance of local and regional authorities

Territorial organisation

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

This structure helps compare countries but it also hides a 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, details have been provided to reflect this diversity of territorial organisation.

Included in the count are only "general purpose subnational governments", 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 or "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 D.1.

Table D.1. Territorial organisation: general purpose subnational governments

Country	1st level: Municipal/Local level	2nd level: Intermediate level	3rd level: Regional/State level	Total number of subnational governments
Albania	61		12	73
Algeria	1571		553	2124
Angola	164		18	182
Argentina	2311		24	2335
Armenia	484			484
Australia	537		8	545
Austria	2093		9	2102
Azerbaijan	1606		1	1607
Bangladesh	4894	492	64	5450
Belgium	581	10	6	597
Benin	77			77
Bhutan	209		20	229
Bolivia	340	1	9	350
Bosnia and Herzegovina	141	10	3	154
Botswana	16			16
Brazil	5570		27	5597
Bulgaria	265			265
Burkina Faso	351		13	364
Burundi	119			119
Cabo Verde	22			22

Country	1st level: Municipal/Local level	2nd level: Intermediate level	3rd level: Regional/State level	Total number of subnational governments
Cambodia	1646	203	25	1874
Cameroon	360	14	10	384
Canada	3905		13	3918
Chad	420	115	23	558
Chile	345		16	361
People's Republic of China	2844	333	31	3208
Colombia	1103		32	1135
Costa Rica	82			82
Croatia	555		21	576
Cyprus	380			380
Czech Republic	6258		14	6272
Denmark	98		5	103
Djibouti	4		5	9
Dominican Republic	158			158
Ecuador	221	24		245
Egypt	4695	225	27	4947
El Salvador	262			262
Estonia	79			79
Eswatini	68			68
Ethiopia	1012	68	13	1093
Finland	309		22	331
France	34955	101	18	35074
Gambia	2		5	7
Georgia	64		3	67
Germany	10789	400	16	11205
Ghana	261			261
Greece	325		13	338
Guatemala	340			340
Guinea	362			362
Haiti	146			146
Honduras	298			298
Hungary	3177		20	3197
Iceland	69			69
India	267428		36	267464
Indonesia	83813	514	34	84361
Ireland	31			31
Israel	258			258
Italy	7904		20	7924
Ivory Coast	201		31	232
Japan	1747		47	1794
Jordan	101		12	113
Kazakhstan	6938	216	17	7171
Kenya	59		47	106
Korea	226		17	243
Kosovo	38			38
Kyrgyzstan	484			484
Lao People's Democratic Republic	8507	148	18	8673

Country	1st level: Municipal/Local level	2nd level: Intermediate level	3rd level: Regional/State level	Total number of subnational governments
Latvia	43			43
Liberia	24	126	15	165
Lithuania	60			60
Luxembourg	102			102
Madagascar	1695	23	6	1724
Malawi	35			35
Malaysia	151		13	164
Mali	750	58	11	819
Malta	68		6	74
Mauritania	219		13	232
Mauritius	135	7	1	143
Mexico	2481		32	2513
Mongolia	1710	339	22	2071
Montenegro	24			24
Morocco	1538	75	12	1625
Mozambique	53		11	64
Myanmar			14	14
Namibia	57		14	71
Nepal	753		7	760
Netherlands	352		12	364
New Zealand	67		11	78
Nicaragua	153		2	155
Niger	255		7	262
Nigeria	774		37	811
Norway	356		11	367
Pakistan	12369		4	12373
Palestinian Authority	485			485
Panama	81			81
Paraguay	261		17	278
Peru	2069		25	2094
Philippines	42046	1634	82	43762
Poland	2477	380	16	2873
Portugal	308		2	310
Republic of Moldova	898		35	933
Republic of North Macedonia	81			81
Romania	3180		42	3222
Rwanda	28			28
Saudi Arabia	285	136	13	434
Senegal	557		43	600
Serbia	145		1	146
Seychelles	26			26
Sierra Leone	22			22
Slovak Republic	2890		8	2898
Slovenia	212			212
Somalia	98		18	116
South Africa	257		9	266
Spain	8131	50	17	8198
Sri Lanka	341		9	350

Country	1st level: Municipal/Local level	2nd level: Intermediate level	3rd level: Regional/State level	Total number of subnational governments
Sweden	290		20	310
Switzerland	2148		26	2174
Tajikistan	368	68	4	440
Thailand	2443		76	2519
Togo	117	1	5	123
Tunisia	350		24	374
Republic of Türkiye	1390		81	1471
Uganda	176			176
Ukraine	1469	136	27	1632
United Kingdom	374	35	3	412
United Republic of Tanzania	150			150
United States of America	35748	3031	50	38829
Uruguay	125		19	144
Uzbekistan	9168	294	14	9476
Venezuela	335		25	360
Viet Nam	10614	707	63	11384
Zambia	116			116
Zimbabwe	92		10	102
Total	**648 741**	**12 385**	**2 513**	**663 639**

Source: Authors' calculations based on the SNG-WOFI database: www.sng-wofi.org

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 co-operation.

Subnational government responsibilities

The same template is proposed for all country and territory profiles based on the definition of nine areas of responsibilities (Table D.2). These areas have been defined to match as closely as possible the classification of functions of government (COFOG), for which fiscal data are provided (expenditure by COFOG). Country and territory profiles present the breakdown by subnational government levels (municipal, intermediate, regional) and by sector, and provide detailed information related to subnational actors.

Table D.2. Subnational government responsibilities: common template

1. General public services (administration)	• Administrative services (marriage, birth, etc.) • Public buildings and facilities (townhalls, 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[18]) (OECD, 2018[18])

Annex E. Defining and measuring decentralisation

Decentralisation is a complex phenomenon that is characterised by a wide diversity of experiences across countries. As a result, seeking to encapsulate the different understandings of decentralisation as well as to reflect the high diversity of multi-level governance systems worldwide is by no means a straightforward task. Yet, for the purposes of this report, the World Observatory defines decentralisation as the transfer of a range of powers, responsibilities and resources from central government to subnational governments, defined as separate legal entities elected by universal suffrage and having some degree of autonomy. Subnational governments are thus governed by political bodies (deliberative assemblies and executive bodies), and have their own assets and administrative staff. Subnational governments are entitled to raise own-source revenues, such as taxes, fees and user charges, and they have the power to manage their own budget. Within the boundaries of the law, subnational governments "have full discretion to exercise their initiative with regard to any matter which is not excluded from their competence nor assigned to any other authority" (European Charter). In particular, they have the right to enact and enforce general or specific resolutions and ordinances. As requested in the international agreements (see below), these principles shall be recognised in domestic legislation, and where practicable in the constitution.

Decentralisation is thus a composite concept comprising three dimensions, which are, in theory, inter-dependent: fiscal, political and administrative. The fiscal dimension is often missing or underestimated. To elaborate, newly devolved responsibilities are not accompanied by the appropriate amount and/or type of resources needed for the new responsibilities to be fulfilled by subnational governments. Mismatches between allocated responsibilities and required resources are referred to as unfunded or underfunded mandates and can generate severe dysfunctionalities in a decentralised institutional system, which can translate into low efficiency and a lack of accountability. Slow reaction and poor co-ordination among levels of government can be particularly dangerous consequences of unfunded mandates in the face of an extreme event such as a pandemic or a natural disaster (Rodríguez-Pose and Vidal-Bover, forthcoming[69]).

Overall, this definition is associated with the concept of Local Self-Government as defined in the European Charter of Local Self Government (1985), in UN-Habitat's International Guidelines on Decentralisation and Strengthening of Local Authorities (2007) and, more recently, in the 2014 African Charter on the Values and Principles of Decentralisation, Local Governance and Local Development (UCLG, 2008[70]; OECD, 2018[71]).

Box E.1. Political, administrative and fiscal decentralisation

In theory, the three dimensions of decentralisation – distribution of powers, responsibilities and resources – are complementary, closely interconnected and interdependent: there can (or should) be no fiscal decentralisation without political and administrative decentralisation. On the other hand, without fiscal decentralisation, political and administrative decentralisation are meaningless, leaving subnational governments deprived of the necessary resources to fulfil their responsibilities properly. Therefore, the linkages between these three dimensions should be carefully considered to maximise the chances of success of a decentralisation process.

- **Political decentralisation** sets the legal basis for decentralisation. It involves a new distribution of powers according to the subsidiarity principle, between different tiers of government, with different objectives, but often with the aim of strengthening democracy. Thus, it refers to the way in which subnational administrators are selected – i.e. by appointment or election. Political decentralisation also implies that local authorities need to be consulted in the planning and decision-making processes for all matters that concern them directly (European Charter).
- **Administrative decentralisation** involves a reorganisation and clear assignment of tasks and functions between territorial levels in order to improve the effectiveness, efficiency and transparency of national territorial administration. It generally relates to the transfer of planning, financing and management decisions for some public functions to lower levels of government, including for the management of their administrative structures and resources. (European Charter).
- **Fiscal decentralisation** involves delegating taxing and spending responsibilities to subnational tiers of government. In this case, the degree of decentralisation depends on both the amount of resources delegated and the autonomy in managing such resources. For instance, autonomy is greater if local governments can make decisions regarding tax bases, tax rates, the allocation of spending and if they can have some level of policy discretion in the use of grants allocated to them. According to the European Charter (article 9), UN Habitat Guidelines and African Charter, fiscal decentralisation involves the devolution or delegation of adequate financial resources – part of which are derived from taxes and charges – and spending responsibilities commensurate with the competences provided for by laws.

Source: (OECD, 2017[72]; OECD, 2019[8]) (OECD, 2019[8])

The World Observatory uses fiscal indicators to provide a macro-economic view of decentralisation. Nevertheless, fiscal indicators by themselves are insufficient to fully comprehend decentralisation, and may result in misleading conclusions being drawn. These indicators should thus be interpreted cautiously and should be examined carefully to understand what lies behind the statistics. For instance, a high share of tax revenues is not necessarily equivalent to a high tax autonomy at subnational level (Box E.2). Fiscal indicators must be complemented by additional quantitative and qualitative approaches to determine the real magnitude of decentralisation, to properly capture the trends at play and accurately assess the impacts and outcomes of decentralisation. More granular analysis and qualitative takeaways for each of the countries in the database is provided in the country and territory profiles of the World Observatory. All cross-country insights derived from the data presented in this report should be double-checked when seeking to study the decentralisation structure of a particular country or group of countries.

Box E.2. Limits of expenditure and revenue indicators

Expenditure ratios cannot automatically be interpreted as the level of spending autonomy of subnational governments. It is well-established that high levels of subnational expenditure may not reflect a high level of decentralisation, as in some cases these expenditures are delegated from the central government. Indeed, it is not because responsibilities are assigned to subnational governments that the latter automatically have full autonomy in exercising them, or independently choose how and where to allocate their funds and resources. In other words, subnational governments may simply act as a "paying agent" with little or no decision-making power or room for manoeuvre. This is often the case for subnational governments that are in charge of paying teachers or healthcare workers on behalf of the central government, without any sort of control over the disbursement of these resources. This also happens when subnational governments share some decision-making authority in their fields of responsibility with other levels of government, functioning sometimes more as agencies funded and regulated by the central government rather than as independent policy makers. Moreover, subnational governments can also be constrained by regulations, norms and standards which can impose compulsory expenditures (environmental norms, security standards, etc.) and budgetary rules. Consequently, the share of subnational government expenditure in general government expenditure or GDP, while providing a valuable macroeconomic overview of the level of decentralisation, is sometimes open to overestimation, in particular in countries where subnational governments have numerous spending obligations on behalf of the central government.

Similarly, fiscal decentralisation cannot be properly analysed by looking exclusively at revenue ratios. Revenue autonomy is also a complex issue that goes beyond simple tax autonomy. Greater reliance of subnational government on central government transfers is an indication of low levels of decentralisation. Nonetheless, autonomy is also contingent upon the extent of discretion in intergovernmental transfers, which can be limited when earmarked and conditional transfers, whereas it can be wider when these are general-purpose grants based on a formula.

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

Source: (OECD, 2017[72]; OECD, 2019[8]; OECD, 2018[18])

Annex F. The recurrent tax on immovable property: OECD's guiding principles for reform

While property tax is a cornerstone of local taxation in many countries in the world, its implementation and management face many obstacles and reforms are particularly difficult to implement. The OECD has developed a set of 10 principles to guide efforts to enact property tax reforms.

1. The taxation of immovable property should be designed so as to be coherent with the overall tax system. In particular, the immovable property tax should be aligned with other forms of capital taxation and with user fees. Taxing immovable property through the income tax system (imputed or actual rent) might reduce the need for a specific immovable property tax, although moving from property taxation to income taxation tends to change overall progressivity of the tax system and the sub-central share of overall tax revenues.
2. Immovable property taxation should cover all types and forms of land use. These include improved and non-improved land for residential and business purposes, agricultural land, forests and land dedicated to special infrastructure purposes. The number of untaxed items should be kept to a minimum. The property tax may be paid by property owners, property occupants or both.
3. The property tax should be based on the market value of immovable property. For that reason the fair assessment of property values is crucial for a property tax system to be widely accepted. Property values should be updated frequently, in order to avoid unequal treatment of properties, and taxable values should be determined by reference to assessed values. The use of housing prices, construction prices or consumption price indices can be used as an auxiliary measure to up-rate properties in between re-evaluations.
4. Sub-central governments can be given some autonomy to set property tax rates, and be assigned the revenues from property taxation. The property tax is closely linked to the benefits taxpayers receive from the consumption of sub-central public services, and moreover it is the least prone to sub-central tax competition and tax base erosion. However, upper-level governments should continue to have a say on the tax base, such as by determining rules for property valuation or tax allowances.
5. Differences in property tax rates between households and businesses should reflect differences in government services provided. While households tend to be the main beneficiaries of subcentral public services, firms also benefit from them. Business property taxation may also act as a backstop against incorporation of households and tax avoidance. On the other hand, the business sector currently faces higher property tax rates than households in most countries.
6. Ideally, land values should be taxed at a higher rate than the values of improvements built on that land (two-tier property tax). On economic grounds, a pure land tax can be justified by the fact that it captures an economic rent and does not affect the work, savings or investment choices of households and firms very much. As such, taxation improvements might discourage investment and infrastructure up-grading, especially for businesses. But as it is hard to separate the land value from that of improvements, a pure land tax might be difficult to implement.
7. Low income households can be entitled to tax allowances and other forms of tax relief and tax liability reductions (means-testing). Also, a lump-sum might be deductible from assessed property

values to allow for the uncertainty around the true value of a property. Both measures would make the property tax progressive without the need to introduce progressive tax rates, and are likely to broaden political support for property tax reform. However, the overall consistency of such allowances with other parts of the tax and transfer system must be carefully checked.

8. Property tax reform may provide an opportunity for wider public finance reforms. Higher property tax revenues help upper-level governments in reducing intergovernmental transfers, thereby making local public finance more accountable to taxpayers. Moreover, property tax reform could go hand-in-hand with reforms aimed at improving the quality of sub-central public services, which again may broaden support for property tax reform.
9. Property tax reform should be phased in, to avoid large jumps in tax liabilities and to ensure long-term political success. During the transition, tax liabilities should gradually converge with those resulting from fair market valuation. If recurrent property taxation is to replace property transaction taxes, former transaction tax payments could be credited against recurrent property tax payments. Liquidity-constrained households could be allowed to postpone property tax payments until a property is sold or bequeathed (deferral, escrow).
10. Property taxation should rely on a solid administrative and judicial framework, and administrative reforms might have to accompany property tax reform. Property taxation should rely on a well-functioning property identification system (cadastre). While the setup costs of a cadastre may be high, the costs tend to diminish once the system is established. Identification, valuation, assessment and enforcement of liabilities should be considered effective and fair by taxpayers. Also, appeal processes should be simple and fast.

Source: (OECD, 2016[73])

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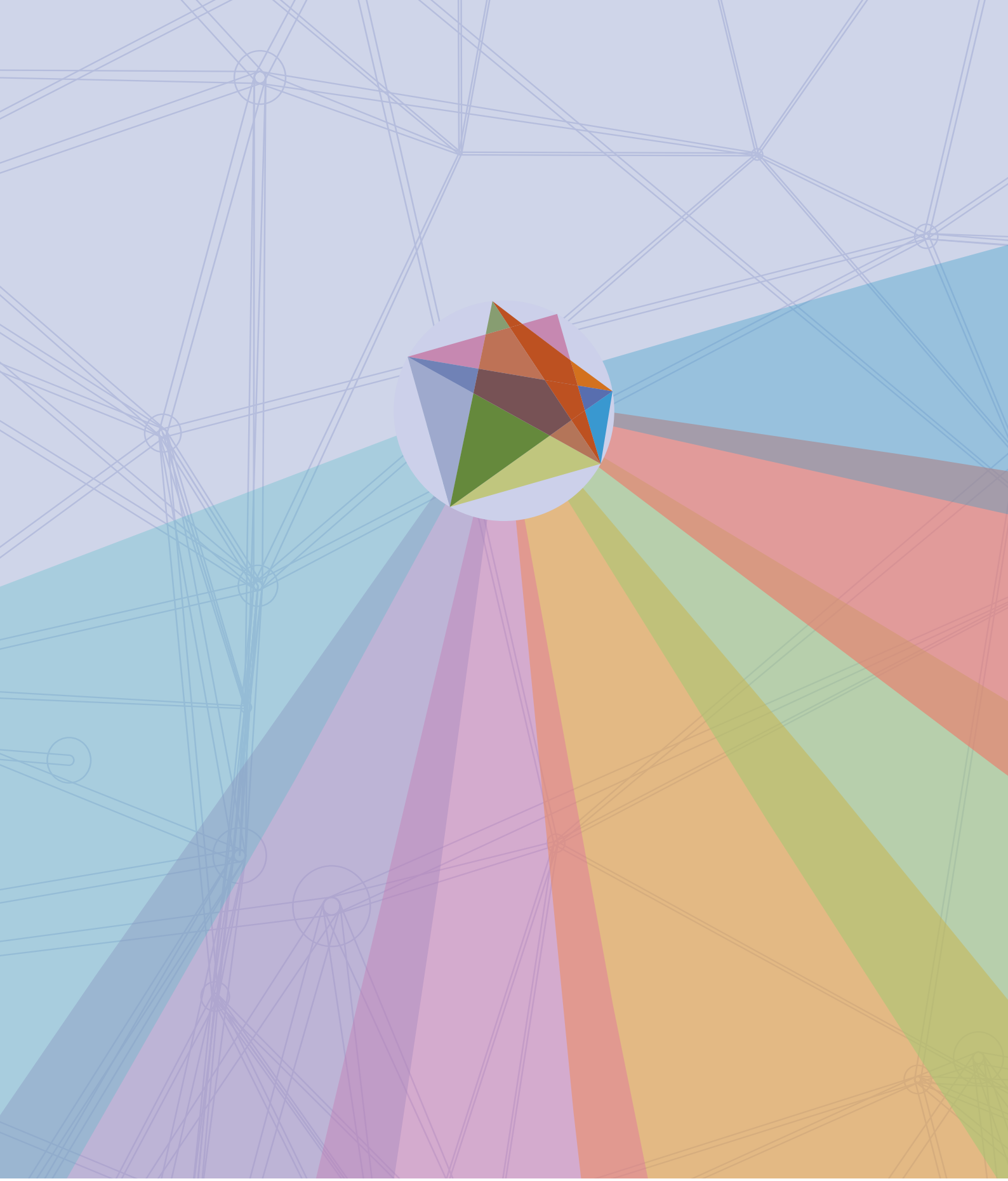
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