



# Subnational finance and investment ten years after the crisis:

Fiscal decentralisation and innovative public finance instruments  
as the way ahead?

## State of Play

# Subnational public finances in the EU and "Making fiscal decentralisation work"

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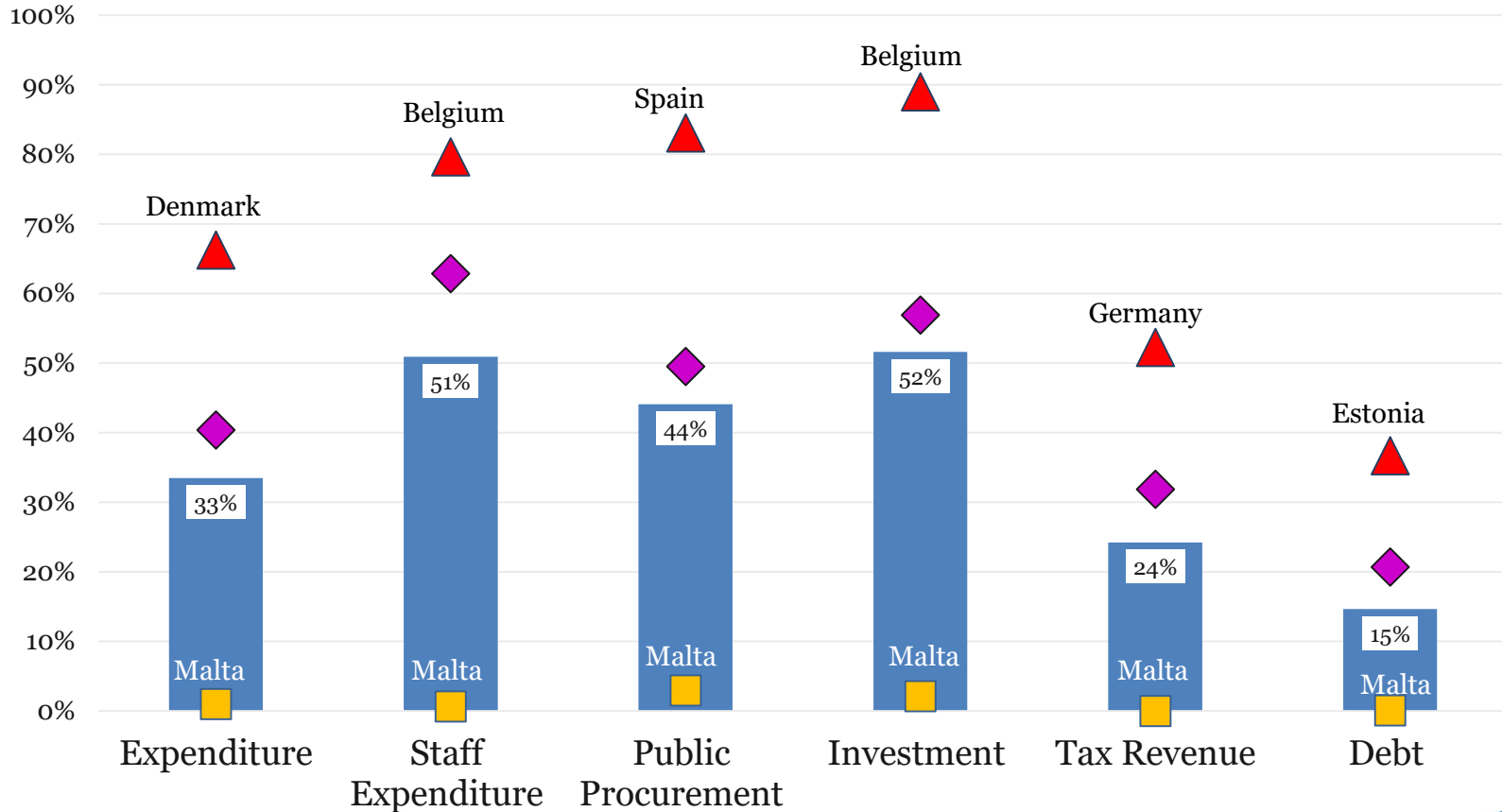
# SNAPSHOT OF SUBNATIONAL GOVERNMENTS IN THE EUROPEAN UNION



# Subnational governments are key social and economic actors in the EU28 (2017)

■ EU average    ■ Minimum    ▲ Maximum    ◆ OECD 2016 average

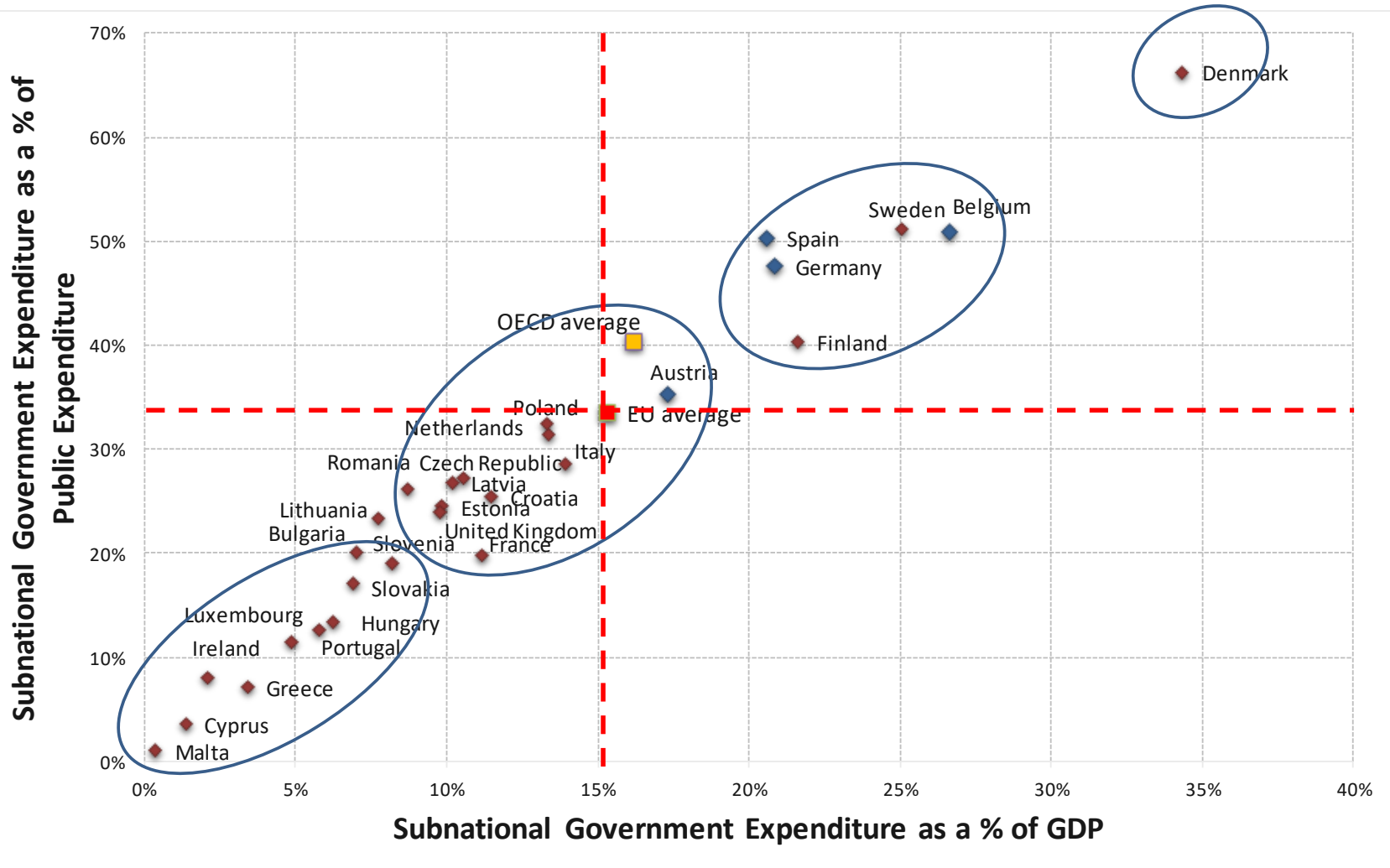
*% General Government – 2017*





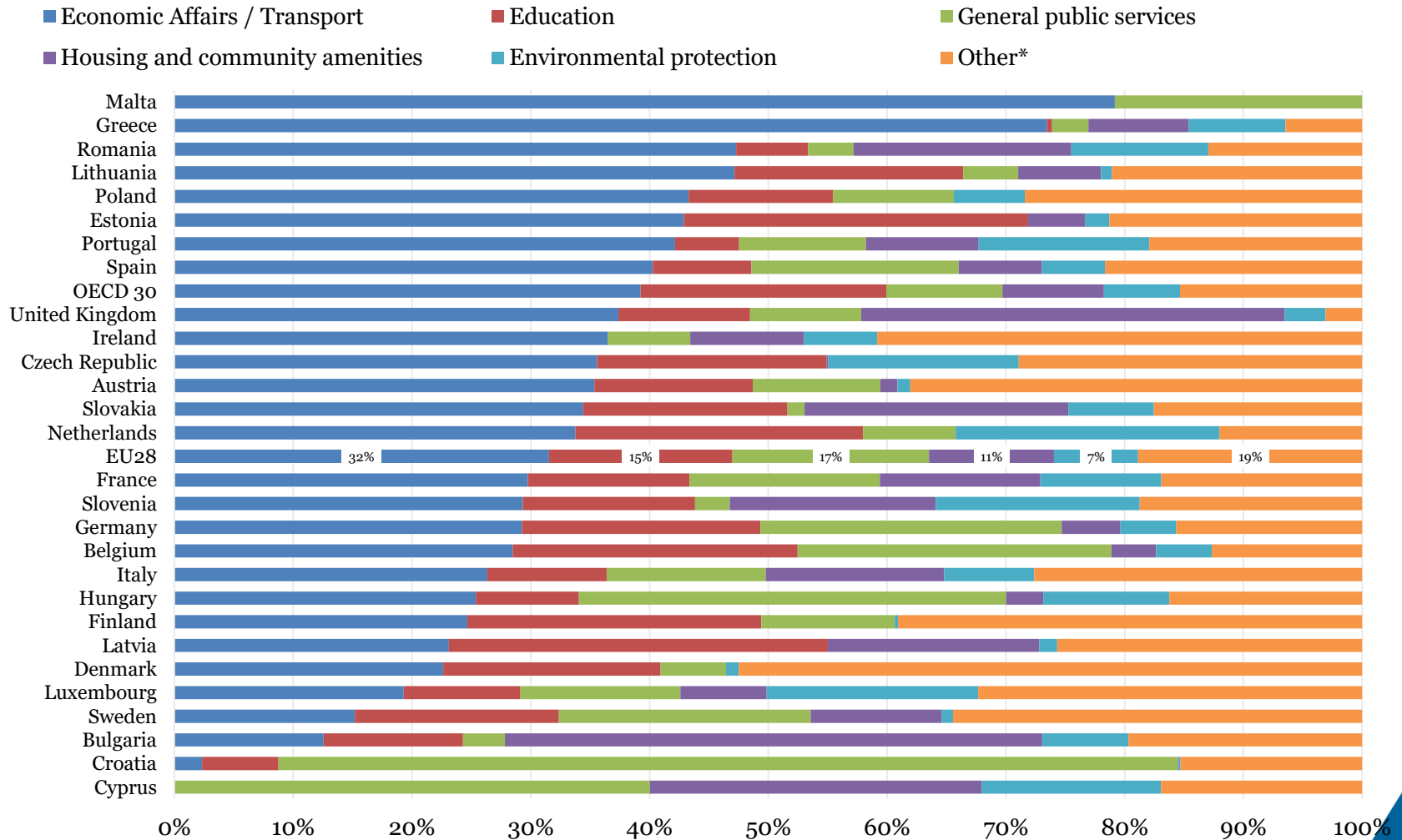
# Large variety in the degree of subnational government expenditure

*SNGs expenditure represent 33.5% of public spending and 15.3% of GDP in 2017*





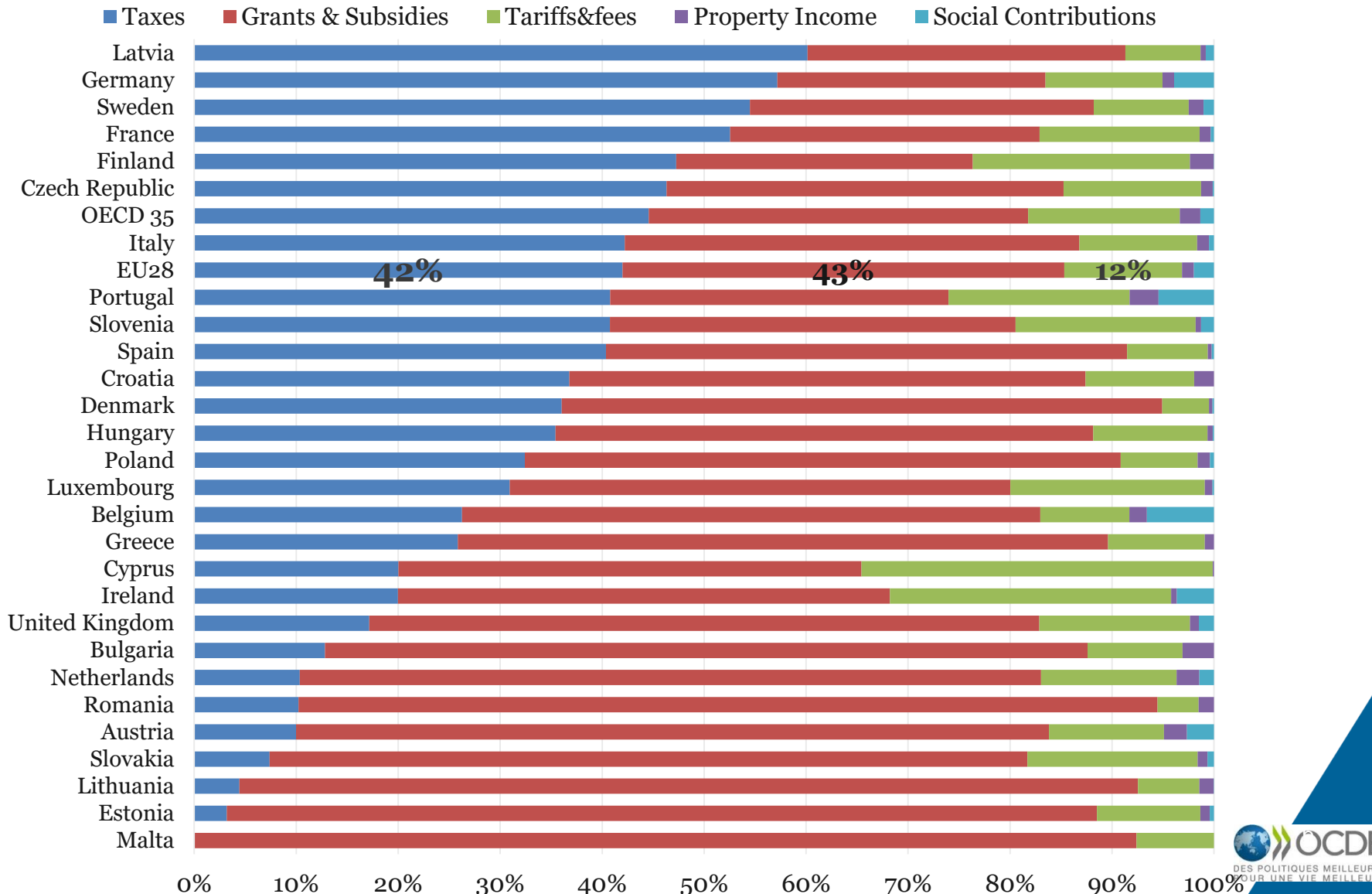
# SNG investment mainly targeted at economic affairs/transport (32%), general public services (17%) and education (15%)



\* Other: defence; public order and safety; health; recreation, culture and religion; social protection.



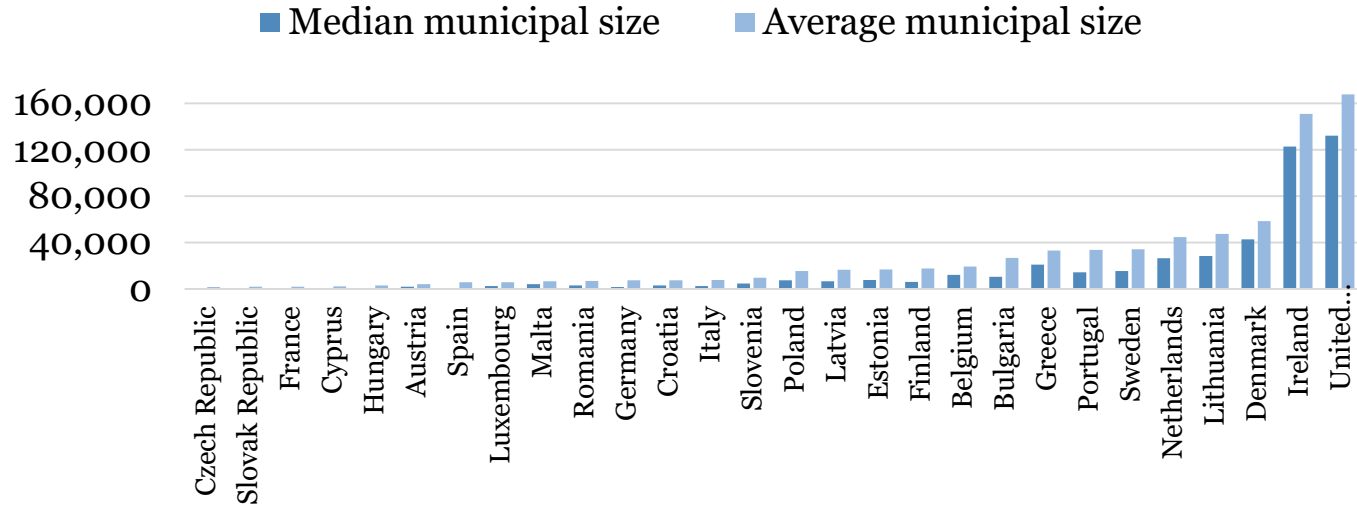
# Tax revenue and grants/subsidies represent respectively 42% and 43% of SNGs revenue in the EU, and 45% and 37% of SNGs revenue in the OECD



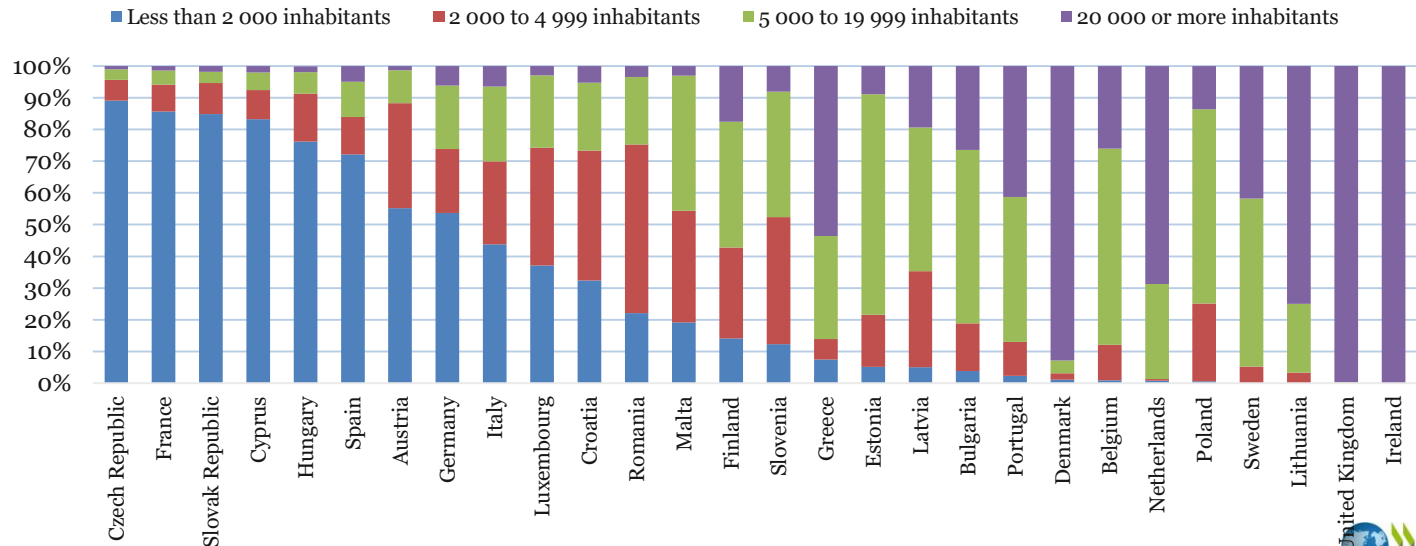


# Large variation in the demographic size of EU municipalities

Average and median municipal size (# of inhabitants)



Municipalities by population size class





# IMPACT OF THE CRISIS, LONG-TERM AND RECENT TRENDS IN MULTI-LEVEL GOVERNANCE





# Impact of the crisis on subnational governments: territorial reforms, decentralisation and recentralisation

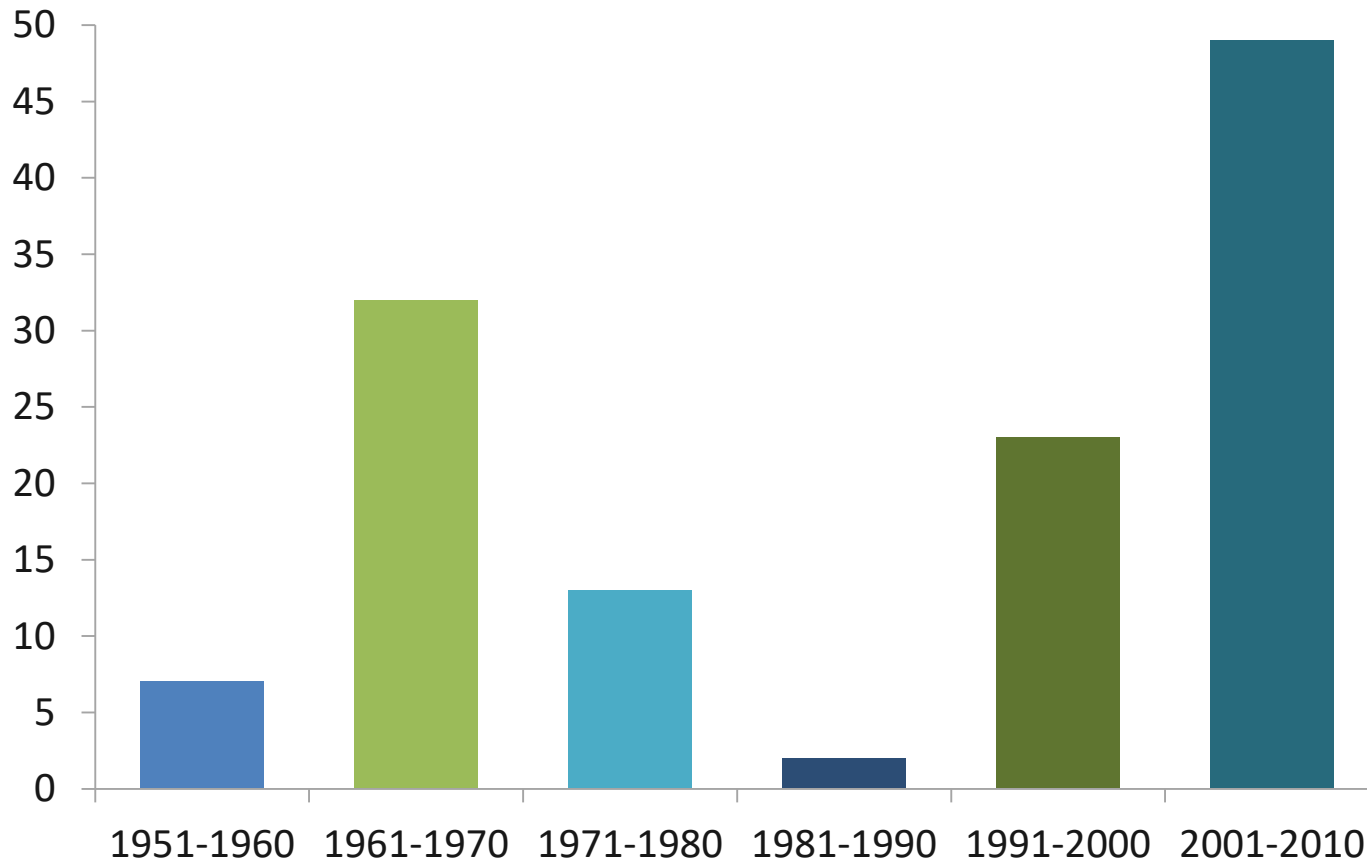
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- ***Scale-up in subnational governance:***
  - Inter-municipal cooperation
  - Metropolitan governance
  - Regionalisation
- **Clarification in assignment of responsibilities**
  - Spain
- ***Mixed impact on decentralisation***
  - Reduced grants
  - Increased tax autonomy
  - Greater control on subnational fiscal stability (fiscal councils, fiscal rules, stability pacts)
  - Re-centralisation in some countries in recent years



# Increase in metropolitan governance in OECD and EU countries

Number of metropolitan bodies created/reformed by decade

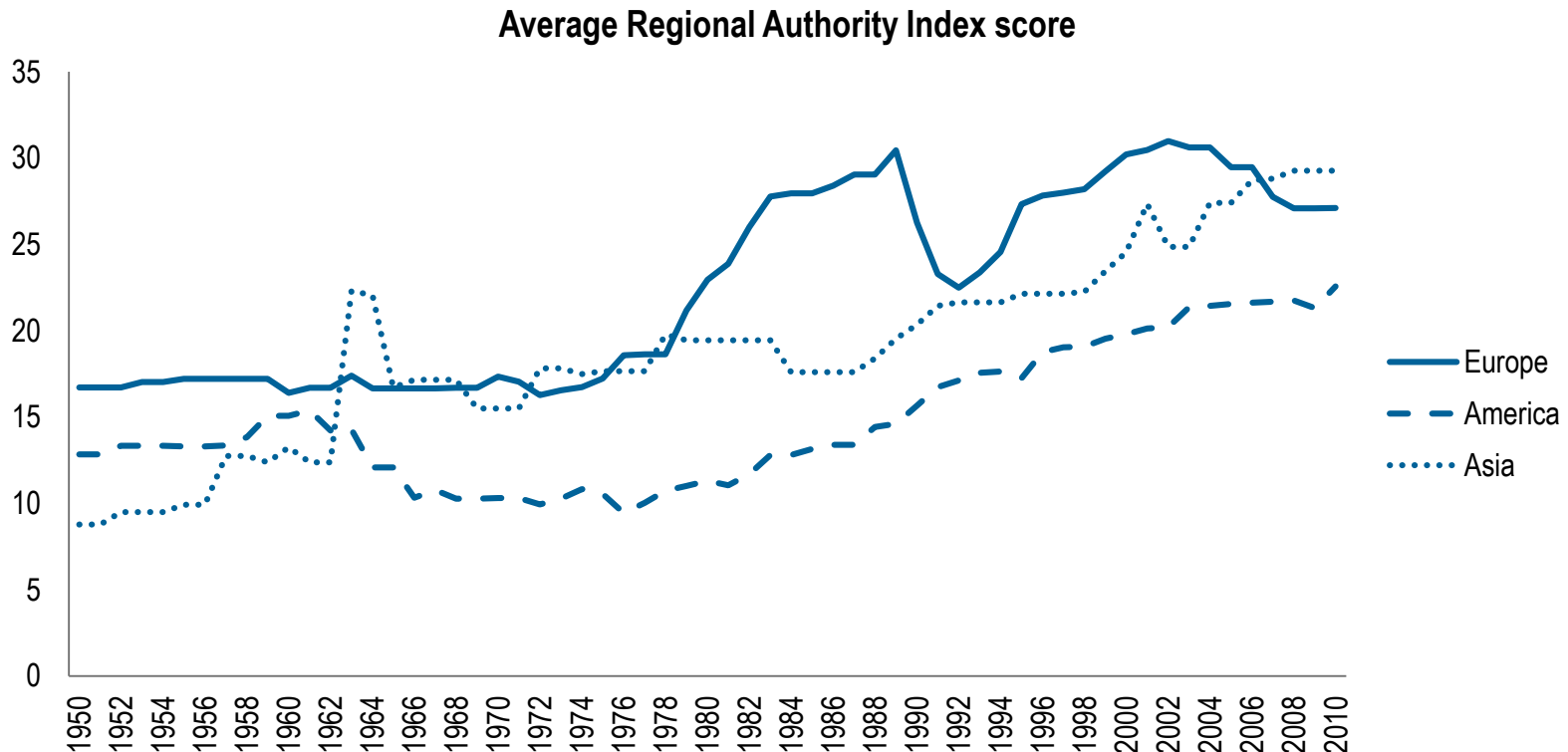


15 new metro structures created between 2011 and 2013



# Scale-up in subnational governance: increase in the authority of regions in European countries until the late 2000s

- Regional Authority Index: of the 81 countries, 52 experienced a net increase in the degree of regional authority

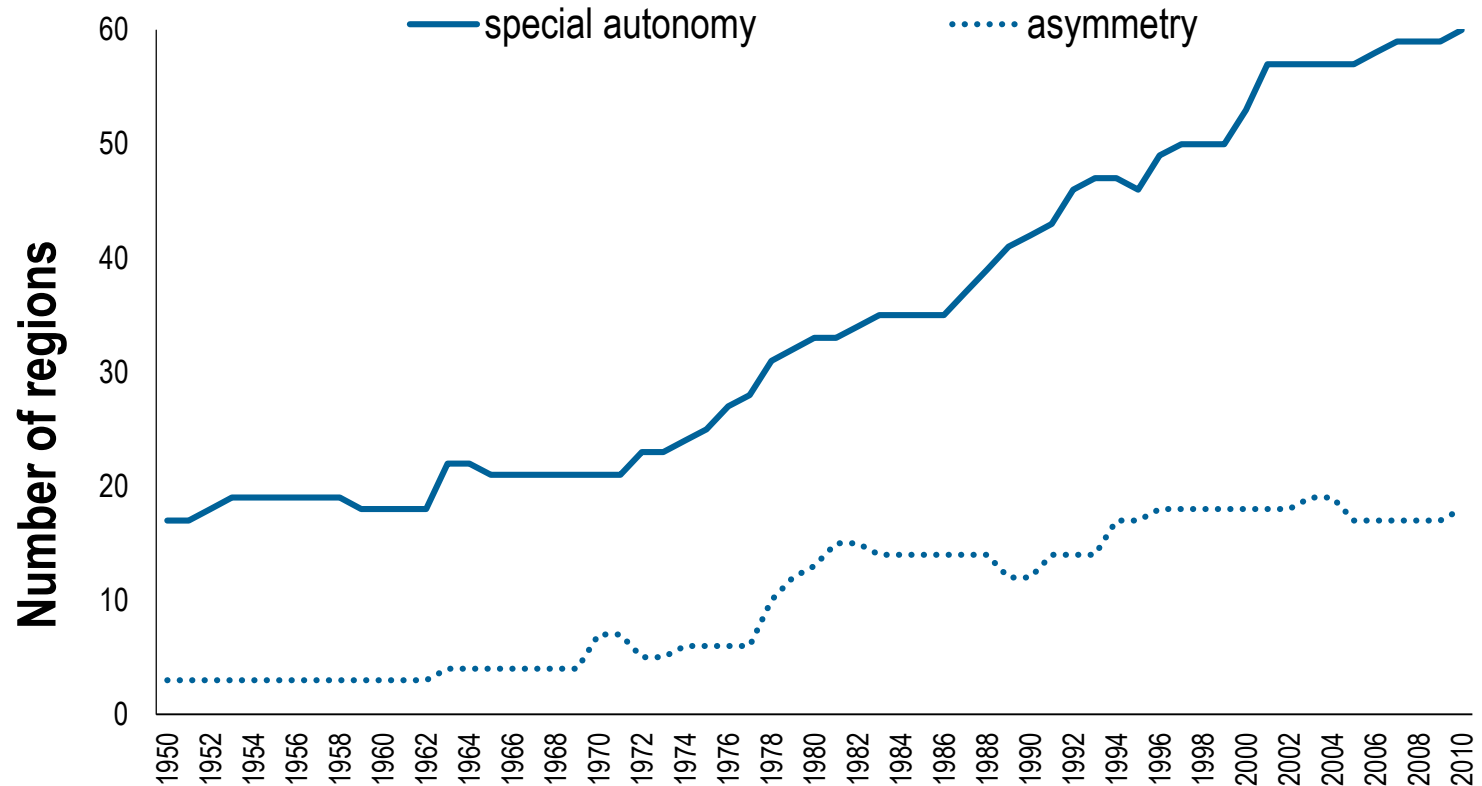


Source: Regional Authority Index in 81 countries (2016)



# Increasing asymmetric decentralisation

## Increased asymmetric decentralisation in 81 countries (RAI index)



⇒ Greater convergence between unitary and federal countries in terms of more *differentiated governance* at the subnational level



# GUIDELINES FOR MAKING MLG & DECENTRALISATION WORK



# Making Decentralisation Work: 10 Guidelines for policy-makers



1. Clarify the responsibilities assigned to different government levels



2. Ensure that all responsibilities are sufficiently funded



3. Strengthen subnational fiscal autonomy to enhance accountability



4. Support subnational capacity building



5. Build adequate coordination mechanisms across levels of government



6. Support cross-jurisdictional cooperation



7. Strengthen innovative and experimental governance, and promote citizens' engagement



8. Allow and make the most of asymmetric decentralisation arrangements



9. Consistently improve transparency, enhance data collection and strengthen performance monitoring



10. Strengthen fiscal equalisation systems and national regional development policies to reduce territorial disparities



# Making (fiscal) decentralisation work

## *Making Decentralisation Work for Regional Development: 10 pre-conditions*

- Clear assignment of responsibilities & functions
- Ensure balance in the way different responsibilities and functions are decentralised
- Subnational governments need own-source revenues beyond shared tax revenues – they need to a balanced basket of revenues.
- Higher own-tax share may contribute to make subnational governments more efficient and accountable
- Decentralisation of revenue raising responsibilities should be accompanied by a system of equalisation of revenue raising capacities to ensure that different SNGs have the potential for financing comparable level of public services at comparable tax rates.

| Checklist  | Yes | Partially | No |
|--|-----|-----------|----|
| SNG have autonomy to: <ul style="list-style-type: none"> <li>• Set revenue bases for own revenues</li> <li>• Set tax rate for own revenues</li> <li>• Establish tax collection, administration and compliance and enforcement organizations and procedures</li> <li>• Have the ability to set supplementary rates on higher order bases</li> <li>• Set user charges/fees for own services</li> </ul> |     |           |    |
| SNG own revenues finance most of SNG expenditures  |     |           |    |
| Higher order transfers are mostly: <ul style="list-style-type: none"> <li>• Formula based</li> <li>• Unconditional</li> <li>• Stable</li> <li>• Predictable</li> </ul>   |     |           |    |
| SNG have the freedom to access capital market finance: <ul style="list-style-type: none"> <li>• Borrowing for long lived infrastructure projects</li> <li>• Issue bonds</li> </ul>   |     |           |    |
| Checklist  | Yes | Partially | No |
| Is the freedom of information legislation guided by the principle of maximum disclosure – all information is accessible subject only to a narrow set of exceptions?  |     |           |    |
| Does the principle of maximum disclosure take precedence in the event of conflict with other legislation?  |     |           |    |
| Are exceptions clearly and narrowly defined and based on the determination that harm to national interest through disclosure outweighs gains in citizens right to know?  |     |           |    |
| Are public entities required to publish key information needed to assess their results-based chain in a timely and reasonable manner to assess integrity, efficiency and equity of their operations?   |     |           |    |
| Are requests for information processed rapidly within defined time frame?  |     |           |    |
| Is a recourse to an independent review available for delays and refusals?  |     |           |    |
| Are the costs of requesting information reasonable and affordable by an average citizen?   |     |           |    |
| Do meetings of government entities open to media and   |     |           |    |



# THANK YOU

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<http://www.oecd.org/cfe/regional-policy/multi-levelgovernance.htm>