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POLICY DIALOGUE
FINANCING THE NEW URBAN AGENDA

Friday, 14 October 6 pm – 7.30 pm

ROOM 1

CORFERIAS CONVENTION CENTER

**A 1st CONTRIBUTION TO THE
GLOBAL OBSERVATORY ON
LOCAL FINANCES:**

LAUNCH OF THE STUDY

**SUBNATIONAL GOVERNMENTS AROUND THE WORLD
STRUCTURE AND FINANCE**





Moderator:

Souad Zaidi, Deputy Mayor on finances, Representative of the Presidency of UCLG Committee on Local Finances, City of Rabat, Morocco

Speakers:

- **Luiz de Mello**
Deputy Director of the Public Governance and Territorial Development Directorate, OECD
- **Rémi Rioux**
Chief Executive Officer, French Development Agency
- **George McCarthy**
President of the Lincoln Institute for Land Policy
- **Marco Kamiya**
Coordinator (a.i.) Urban Economy and Finance Branch
UN-Habitat
- **Luis Revilla Herrero**
Mayor of La Paz and Co-president of UCCI
- **Daria Cibrario**
Policy Officer at Public Services International (PSI)

Open debate



SUBNATIONAL GOVERNMENTS AROUND THE WORLD STRUCTURE AND FINANCE

A first contribution to the global observatory on local finances

Conducted by the OECD and UCLG

EXECUTIVE SUMMARY

This report presents a snapshot of subnational government structure and finances in 101 countries. These countries include 17 federations and 84 unitary countries, and, together, comprise over half a million subnational jurisdictions. A subnational government (SNG) is defined as a decentralised entity whose governance bodies are elected through universal suffrage and which has general responsibilities and some autonomy with respect to budget, staff and assets.

THE STRUCTURE AND SIZE OF SUBNATIONAL GOVERNMENT VARIES ACROSS COUNTRIES

Thirty-one countries of the sample have only one subnational level (municipal), 47 are two-tiered (municipal and regional/federated state levels), and 23 have three layers of SNGs, with an intermediate level between the municipal and regional/federated state levels. The SNG system can be even more complex in some countries, with additional levels or sub-categories within the same layer, such as in China. India also has a singular structure, comprising 250 706 subnational governments, including around 250 000 villages and small towns, which are the cornerstone of local self-government in the country.

The average size of municipalities is 56 000 inhabitants. Municipalities are larger in Africa and Asia-Pacific than in Europe, Eurasia and North America. Similarly, they are smaller on average in three-tiered countries than in two- or single-tiered systems. Where municipalities are large, there is often a structured network of sub-municipal structures, such as villages, civil parishes, communities and wards, that support local governments in service delivery and other functions. Size matters, because it affects the ability of local governments to reap the benefits of scale economies in service provision.

SNGs PLAY AN IMPORTANT ROLE IN SERVICE DELIVERY, ESPECIALLY IN THE SOCIAL AREA...

SNGs account for around one-quarter of total government spending on average, or 9% of GDP. Subnational spending shares are particularly high, exceeding 35% of government spending and 15% of GDP in most federations but also in some unitary countries, such as China, Denmark, Finland, Japan, Korea, Sweden and Vietnam. In any case, spending shares do not necessarily reflect policy-making autonomy: in some cases, spending is “deconcentrated” or “delegated” by the centre to the SNGs, rather than “decentralised”, and SNGs act as an “agent” of the centre, with limited or no policy-making autonomy.

The bulk of SNG spending is on education, general public services and social protection. Education alone amounts to over one-fifth of SNG spending, or about 2.6% of GDP. General public services (administrative and debt related expenses) come second, followed by social protection, health and economic affairs/transportation. SNG spending on housing and community amenities (supply of potable water, public lighting, urban heating and facilities), recreation, culture and religion and environmental protection weight between 0.4% and 0.6% of GDP.

... AND THEY ACCOUNT FOR A LARGE SHARE OF PUBLIC INVESTMENT WORLDWIDE

SNG investment represents almost 40% of public investment, or 22% of SNG expenditure and 1.5% of GDP worldwide. However, national situations are very diverse, and SNG investment is particularly large in the federal countries, accounting for 63.1% of public investment (close to 90% in Belgium and Canada), against about 33.9% in the unitary countries. However, SNGs can also be a driving force for public investment in unitary countries such as France, Japan, Kazakhstan, the Netherlands, Peru and Vietnam. In any case, investment is a shared responsibility across levels of government, making its governance particularly complex, as recognised by the OECD Recommendation on effective public investment across levels of government.

SNGs ARE MAJOR PUBLIC EMPLOYERS

In a number of countries, the lion's share of public sector workers is employed by SNGs, which account for about 35% of government payroll spending. In some unitary countries, such as Japan, the Netherlands, Ukraine, Poland, Vietnam and most of the Nordic countries, SNGs are also major public employers, either directly or on behalf of the central government in sectors such as education, health care, social services or security (local police force). Staff expenditure is usually the top SNG budget item, ahead of the purchase of goods and services, representing around one-third of total SNG expenditure on average.

REVENUE SOURCES VARY ACROSS COUNTRIES, BUT GRANTS AND SUBSIDIES ARE PARTICULARLY IMPORTANT

Grants and subsidies amount to over one-half of SNG revenue, followed by tax revenue, comprising both shared and own-source taxes which account for around one-third of SNG revenue. In federal countries, tax revenue represents a higher share of SNG revenue than in unitary countries, where grants and subsidies are predominant. In some countries, such as Switzerland, Canada and Finland other sources of revenue can be significant, such as property income (e.g. dividends from local public companies and royalties), or local public service charges.

The dependence of SNGs on central government funding through grants and transfers reflects "vertical imbalances" in intergovernmental relations between revenue and expenditure, which drives a wedge between the marginal costs and benefits of the goods and services provided by SNGs.

SNG DEBT IS VERY UNEVEN AMONG COUNTRIES

At the end of 2013, SNGs accounted for 14.0% of outstanding gross government debt, or 9% of GDP. SNG debt is significantly higher in federal countries, particularly in the OECD area, than in unitary countries. In many countries, subnational borrowing is often constrained by central government control, administrative restrictions and/or prudential rules on the level of debt stock or service. SNG fiscal frameworks have been reinforced in recent years in many countries in support of fiscal consolidation.

Loans are the main source of external funding, representing 57.3% of outstanding debt, while debt securities (regional and municipal bonds) accounted for 11%. Bond financing is more developed in federal countries. The share of non-financial debt may be significant in some countries, contributing to a particularly high level of total debt.

WEALTHIER COUNTRIES TEND TO BE MORE DECENTRALISED

SNG spending and revenue shares tend to rise with level of development, as measured by income per capita, although the correlation is less strong for the subnational share of public investment and the composition of revenue between tax and other sources. Of course, correlation does not imply causation, and many other socio-economic, historical and institutional factors are important, not least the federal/unitary structure of a country.

OBJECTIVE AND SCOPE OF THE STUDY

The study was jointly conducted by the OECD and UCLG, with the support of Agence Française de Développement (AFD). It aims at providing reliable and comparable facts and data on the structure, responsibilities and finance of subnational governments around the world. It is a first contribution to the Global Observatory on Local Finances.

The 101 countries of the sample account for 82% of the world's population, or close

to 6 billion people spread over seven main regional areas: Africa, Latin America, Asia-Pacific, Eurasia and Middle East, and West Asia. They total around 88% of the world GDP: 37% of countries are high-income economies on the basis of the World Bank classification, including a majority of OECD countries; 26% and 24% belong to respectively upper and lower-middle income groups while 14% are low income economies, coming all from the African continent.

You can access more information, the full report and country sheets at:
uclg-localfinance.org/observatory