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"

Dorothee Allain-Dupré
Head of Unit
Decentralisation, public investment and subnational finance
ESG/CFE, OECD
Dorothee.allain-dupre@oecd.org
SNAPSHOT OF SUBNATIONAL GOVERNMENTS IN THE EUROPEAN UNION
Subnational governments are key social and economic actors in the EU28 (2017)

% General Government – 2017

- EU average
- Minimum
- Maximum
- OECD 2016 average

Expenditure:
- Malta: 33%
- Staff Expenditure:
  - Malta: 51%
  - Denmark
- Public Procurement:
  - Malta: 44%
- Investment:
  - Malta: 52%
- Tax Revenue:
  - Malta: 24%
- Debt:
  - Malta: 15%

Countries:
- Belgium: EU average
- Spain: EU average
- Germany: EU average
- Estonia: EU average
- Denmark: EU average
- Malta: EU average

OECD 2016 average:
- Malta
- Malta
- Malta
- Malta
- Malta
- Malta
Large variety in the degree of subnational government expenditure

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

![Graph showing subnational government expenditure as a % of public expenditure and GDP for various countries.](chart)

- **Austria**, **Belgium**, **Germany**, **Spain**, **Bulgaria**, **Croatia**, **Cyprus**, **Czech Republic**, **Denmark**, and **Estonia** have higher subnational government expenditure as a % of GDP compared to the EU average.
- **Finland**, **Sweden**, and **Belgium** have expenditure that is closer to the OECD average.
- **Austria** and **Finland** have the highest subnational government expenditure as a % of GDP.
- **Malta** has the lowest expenditure as a % of GDP.
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

• **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

Source: OECD Elaboration based on OECD Metropolitan Governance Survey.
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

**Average Regional Authority Index score**

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.

Source: OECD forthcoming Making Decentralisation Work: a Hanbook for Policy-Makers
THANK YOU

Dorothee.allain-dupre@oecd.org